

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

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

Other IFC Activities

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

OUTCOMES: SOME PROGRESS, BUT NO HEADWAY IN CRITICAL AREAS

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

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

¹⁰² USAID is providing US\$250,000 for the project.

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

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

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

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

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

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

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

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

¹⁰⁶ Quoted in Annex V of IMF Article IV Report, 2009.

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

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

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

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

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

Bank Contribution to Outcomes for Private Sector Development

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

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

IFC Contribution to Outcomes for Private Sector Development

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

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

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

Agriculture

THE SETTING

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

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

BANK STRATEGY AND OBJECTIVES IN THE AGRICULTURE SECTOR

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

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

¹¹¹ Source: Second Agri Rehab Project PAD.

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

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

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

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

THE BANK'S PROGRAM

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

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

Bank-Administered Projects

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

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

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

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

Investment Projects

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

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

5.53 The first Agriculture Rehabilitation Project (ARP1) was an emergency recovery operation. The two follow-up projects were designed to move beyond the emergency phase to deal with longer term development challenges in the sector. The three projects spanned a period of almost 9 years: the first ARP project started in FY00, and the third project closed in 2009. Under the projects, a total of US\$29 million were committed and disbursed, about 9 percent of the total commitments in Bank-administered projects during the period.

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

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

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

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

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

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

¹¹⁴ Only one of these centers is still operating.

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

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

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

Other Investment Projects

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

Development Policy Operations

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

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

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

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

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

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

Analytical and Advisory Services

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

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

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

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

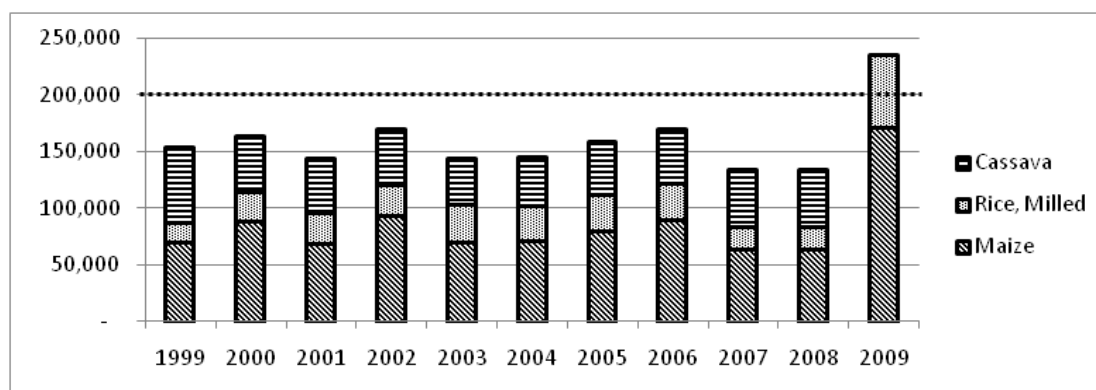
5.69 While agricultural production levels for most crops increased after the crash of 1999, growth has been disappointing since 2000 as shown in Figure 1. According to IMF estimates, between 2000 and 2007, agricultural GDP grew by only 2.9 percent. The food sector, which represents about 75 percent of the agricultural sector's GDP, did not register any real growth over the seven-year period.¹¹⁷ Crop production data confirms that there was no secular increase in production of the three main food crops (maize, cassava and rice) between 2000 and 2008, though there was a significant increase in production of the main food crops in 2009.¹¹⁸ Without agricultural growth of at least 5 percent per year over a sustained period, no appreciable dent on poverty is likely.

¹¹⁶ In 2007, only 5 percent of rural households had access to electricity.

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

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

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



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

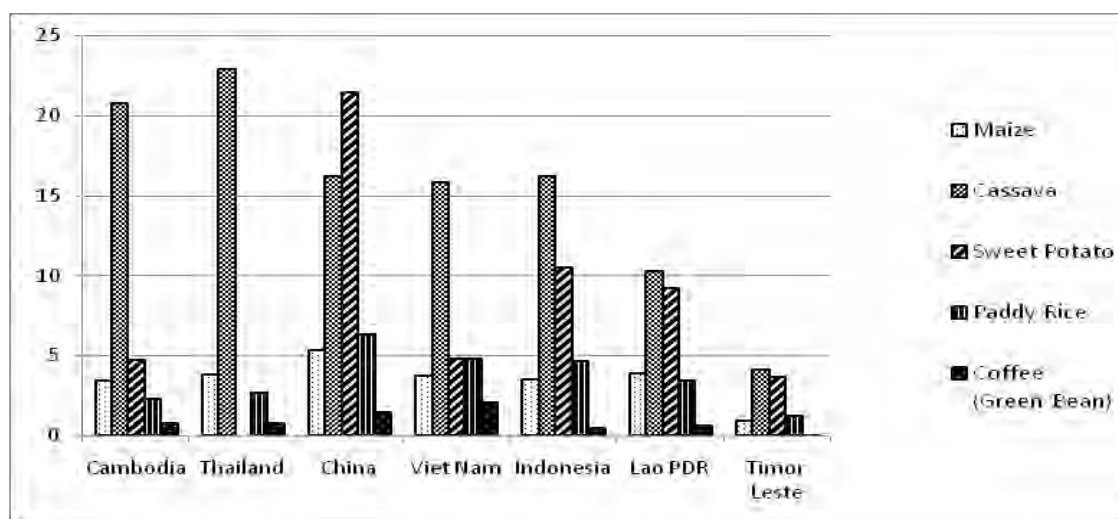
5.70 Food security remains problematic for much of the population, especially in rural areas. Despite large imports of rice, food shortages are a fact of life in rural Timor-Leste. According to the 2007 Survey of Living Standards, during the 12 month period prior to the survey, rural households did not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

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

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

¹²⁰ Source: Raising Agricultural Productivity, World Bank Policy Note, January 2010.

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



Source: Agriculture Productivity Policy Note, World Bank, 2010

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

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

Energy

BANK STRATEGY AND OBJECTIVES IN THE ENERGY SECTOR

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

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

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

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

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

5.77 In the text discussion, the CAS commented that:

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

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

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

THE BANK'S PROGRAM

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

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

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

* S=Satisfactory; MS=Moderately Satisfactory

THE HYDROCARBON SECTOR¹²¹

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

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

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

¹²¹ A brief description of this sector is contained in Annex 2.

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

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

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

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

THE POWER SECTOR

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

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

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

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

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

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

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

OUTCOMES: PROGRESS IN HYDROCARBONS, FEW ACHIEVEMENTS IN POWER

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

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

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

6. DONOR COORDINATION: ALIGNMENT AND HARMONIZATION

6.1 The Bank has played, from the very beginning, a central role within the donor community. This started with the Joint Assessment Mission (JAM) undertaken in October 1999 to identify priority reconstruction needs and estimate the financing requirements - coordinated by the Bank and including experts from five donor countries, four UN agencies, the EC and the ADB, as well as Timorese experts.

6.2 During the transition to independence, the Bank's involvement centered on its role as trustee and co-manager (with ADB)¹²² of the Trust Fund for East Timor (TFET) that was established in 1999. This was at that time a very large multi-donor trust fund for reconstruction purposes, especially in relation to the small population size of the country, and was a major initiative of the Bank and the donors. By funneling core reconstruction funds through a single channel, TFET minimized the number of bilateral funding relationships that needed to be managed at a time when the local capacity for such management was critically limited. It also made it possible for the Bank itself from the beginning to play a leading role in the coordination of development assistance to Timor-Leste.

6.3 Several outside assessments have shared the view that TFET was an efficient funding mechanism as it used uniform procedures for project processing and implementation.¹²³ Thus a 2004 evaluation for the EC concluded that although TFET only represented about half the financing available for Timor-Leste's reconstruction, its efficient and effective donor coordination and good technical project design and preparation seemed to have influenced the allocation of non-TFET resources toward meeting the reconstruction needs identified by the JAM, which had thus been fully funded. However, there was still a fragmentation of funding mechanisms as about half of the funds for aid were provided outside of the TFET framework by donors and aid agencies using their own policies and procedures. This under-utilized one of the mechanism's main advantages, rapid, simpler and more efficient project processing and implementation resulting from using consistent procedures for project preparation, procurement, disbursement and monitoring.

6.4 Under the TFET, donor alignment with government priorities was satisfactory, with the 1999 Joint Needs Assessment, the 2002 National Development Strategy and the 2003

¹²² The Bank focused on projects for the social sectors, agriculture, small enterprises, community development and governance, and capacity building, while ADB administered projects for water, roads, port development and micro-finance.

¹²³ For a fuller discussion of trust funds in Timor-Leste see Annex 3.

CHAPTER 6

DONOR COORDINATION: ALIGNMENT AND HARMONIZATION

Roadmap serving as an effective planning framework.¹²⁴ The annual Development Partners Meeting and multi-donor modalities made a contribution in this regard, with the Bank playing a central convening and policy role.

6.5 Subsequently, the TSP and CSP were the principal means for policy dialogue between the government and its development partners over the period 2003-07. Through these instruments the WBG was able to play a central role in policy dialogue and aid harmonization. While TFET greatly contributed to donor coordination in Timor-Leste, TSP and CSP provided a good anchor for government-influenced and increasingly government-led aid coordination. Close government and donor discussions over the recurrent budget had greatly improved coordination, resulting in TSP becoming an important forum for informal dialogue and coordination between the Timorese Government and donors. (However, as discussed in Chapter 2, it is debatable whether the “cover the waterfront” approach and long and unwieldy matrices was appropriate under these conditions.)

6.6 Throughout, the Bank’s program in Timor-Leste has been heavily dependent on trust funds, first primarily with the TFET, and subsequently with its own operations, most of which were heavily co-financed mostly through trust funds. Overall, taking account of the US\$10 million initial contribution of the Bank to the TFET, Bank resources have accounted for only about 13 percent of the total size of Bank administered projects.¹²⁵ While no good overall numbers are readily available (see Box 4), it is clear that various Bank-executed TFs from participating donors have also been supporting to a significant extent the costs of operating the Bank’s program in Timor-Leste. The use of trust funds as co-financing mechanism meant that the government largely had to deal with only one formal counterpart, but the overall impact on mobilizing development funding has been less prominent, in view of the large sums of off-budget aid and the increasing incomes from hydrocarbons.

Box 4. Information on Trust Funds

Within the Bank’s different reporting systems, information on projects financed through trust funds is difficult to find and, when found, may not be consistent. The diversity in the information posed a challenge for this evaluation, even if differences tend to be smaller for recent projects.

As one example, the First Transition Support Program does not show up in the Bank’s internal database. The Operations Portal shows total resources for US\$56.76 million, US\$5 million of which comes from an IBRD grant and the remainder from a trust fund. Client Connection shows total resources for US\$53.01 million, all from trust fund sources – US\$1.25 million more than in the Operations Portal. SAP and E-Trust both show US\$51.7 million, all from trust fund sources, an amount differing from the Operations Portal by only US\$60,000. The Implementation Completion Report (ICR), however, implicitly states that the total resources for this operation were US\$30 million, with US\$5 million coming from an IBRD grant and US\$25 million from trust fund sources. No explanation could be found for the lower amount reported in the ICR, which is at least US\$25 million less than all the other sources--the Operations Portal, Client Connection, SAP and E-Trust. The task team leader gave more credibility to the information in SAP.

¹²⁴ However, one outside evaluator has commented that the allocation of assistance was not wholly consistent with the initially established priorities, in that there were only small investments in the agriculture sector, rural development, youth and reconciliation, among others activities.

¹²⁵ The share of co-financing is much larger in some projects. A striking case is the on-going Health Sector Strategic Plan Support project where IDA’s contribution of US\$1 million is matched by US\$19 million through trust funds.

6.7 Donors' interest in co-financing with the WBG is a good indication of the WBG's central role in the donor community, and the use of trust funds as a co-financing vehicle has been advantageous to the Government of Timor-Leste since it could for these projects deal almost exclusively with the WBG both formally and administratively, and also for most purposes in the context of the policy dialogue.

6.8 Both the CAS and the ISN noted that the WBG has been only a small player in financial terms, and the documents have touched on donor fragmentation as one of the risks. In the absence of large financial resources, the influence of the WBG must therefore come from high-quality advice, its ability to play a catalytic role among development partners and convene government and donors around priority activities, and its ability to mobilize donor resources through trust funds or other vehicles.

6.9 Various external evaluations and also feedback to the CPE mission from donors in Dili confirmed the central role of the WBG in convening and coordinating the development partners, and facilitating policy dialogue with the government.¹²⁶ These sources have also identified the WBG as playing an influential role in defining the overall assistance program that would be implemented, given the centrality of its position between the different stakeholders and its convening authority. However, in some instances the WBG failed to exercise good leadership.¹²⁷ The TFET, TSP and CSP mechanisms have been seen positively for coordination and policy dialogue. Bank-managed multi-donor trust funds have been seen as having a spill-over effect by working with the government to clarify its policy agenda. However, their actual financial value has decreased as a portion of overall assistance with the scaling down of budget support.

6.10 At present, coordination between donors in Timor-Leste is often informal. The Bank chairs the biweekly donors' meetings and is seen by many other aid representatives as the key convener for coordination and information-sharing purposes, and its sectoral multi-donor trust funds (MDTFs) provide a vehicle for coordination with the participating donors. The Bank's effort for aid coordination and information sharing are therefore well worth the cost and bother for local staff. However, in recent years there are clear signs of aid fatigue on the part of the government and key policy documents of the government (such as the recent strategy paper of the Government of Timor-Leste) have been prepared without inputs from the traditional donors, including the WBG. With the government's growing professional strength and increasing revenues from hydrocarbons, and also access to some support from non-traditional donors, the role of aid and of donor coordination may well need to be readjusted going forward.

¹²⁶ In recent years, China has emerged as an influential development partner in Timor-Leste. However, its engagement with the traditional donors, including the Bank, has been minimal thus far.

¹²⁷ One example of this was the Bank's inability or unwillingness to focus on key priorities in various budget support operations when different government agencies (and some donors) were keen on broadening the policy agenda well beyond the implementation capacity of the government. Another example is the inability of the Bank to ensure priority of donor funding for rural development and agriculture.

7. CONCLUSION

The Evolving Role of the World Bank Group in Timor-Leste

7.1 Timor-Leste is undergoing a complex transition and, as a country, has made considerable progress in creating institutions where there were none and setting up an economic policy framework better than the one it had before becoming an independent country. When the Bank's Transitional Support Strategy was approved in 2000, East Timor was a new state under UN protection, entirely dependent on the international community for political, security and financial support. Indonesian governance and administration systems had collapsed, leaving an institutional vacuum. The Timorese began with strong political will, sense of identity and the commitment of support from the international community, but with little experience or capacity. Ten years later, in 2010, despite its progress and achievements, the country is still challenged by potential instability, limited capacity, mixed development results and limited economic opportunity. However, the state's institutional structure appears better able to manage political competition and tensions. There is a maturing in the attitudes of the political leadership and the expectations of citizens. The Timorese leadership has also been increasingly assertive in defining its development vision and priorities.

7.2 In this context, the relationship between government and donors has also undergone a transition. International support was essential to helping Timor-Leste achieve Independence, recover from post-referendum violence and build the architecture and institutions of state. Grants and technical assistance provided through Bank-managed trust funds, or bilaterally through the donors, were critical to the state for managing its financial resources. The Bank had high credibility and its opinions and policies were valued. However, the dynamics of Timor-Leste's dependence have shifted. While the country still requires significant international technical support, it is less dependent on security guarantees (in the form of the United Nations Integrated Mission in Timor-Leste [UNMIT]), and significantly less dependent on financial assistance. The shift has taken place in the context of rapidly growing revenues from hydrocarbons, and a larger realignment of Timor-Leste's development policy and international alliances, with particular expansion in Asia and the Lusophone community. One result is reduced dependence on the traditional donors.

7.3 The role and influence of the traditional donors, including the World Bank Group and United Nations, has declined since 2007. The government shows frustration with complex, heavy donor mechanisms that it perceives as delivering few tangible benefits relative to investment and effort. It also appears more skeptical towards the advice received from the WBG and donors, and the usefulness of the development models they promote. In particular, the current Government of Timor-Leste has been more focused on a limited set of recovery priorities for stabilizing Timor-Leste, rather than the "whole of government" approach applied under the TSP/CSP. Changes in the relationship are in part the direct result of the disappointing results of international assistance during the past ten years, character-

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alized by rising poverty and unemployment until the civil strife of 2006-07.¹²⁸ The WBG needs to redefine its role and its ways of functioning to remain a useful contributor to Timor-Leste development.

ASSESSING THE WORLD BANK GROUP'S CONTRIBUTION

7.4 This section brings together the assessments of the previous chapters and develops a combined assessment of the WBG's contribution by reviewing relevance, efficacy and efficiency of WBG assistance.

7.5 Most WBG assistance to Timor-Leste was delivered through Bank-administered Multi-Donor Trust Funds, in some cases together with IDA grants. Working through trust funds allowed the Bank to leverage its limited resources over a broad range of activities, as well as play a leading role in convening, coordinating and harmonizing stakeholders and providing substantive inputs and technical support. However, the Bank, albeit being the leader, was still only one of the stakeholders, and the government and other donors had major roles in determining outcomes. The WBG's contribution must be assessed in this context.

RELEVANCE

7.6 Was the WBG pursuing the appropriate strategy and did it address the "right" issues? In the first two to three years following its engagement in Timor-Leste, the answer is yes. The strategy was clear and focused correctly on immediate reconstruction needs, the restoration of basic social services, and alleviation of basic deprivation. Schools and hospitals were rebuilt, and income and employment opportunities were sought to be created even in remote regions of the country. By and large there was a sense of urgency commensurate with the daunting challenges at the time.

7.7 This focus seems to have dissipated as years went by. The strategy became more diffused and all-inclusive, covering a very broad front, perhaps to the detriment of the most critical areas such as agriculture and capacity-building of state institutions. The strategy failed to appreciate critical social challenges arising from youth unemployment, unresolved veterans' claims and rising poverty. The emphasis on quick wins and delivery of tangible benefits to the population that had characterized the Bank's strategy in the initial years was absent. There was much attention devoted to the adoption of laws and creation of institutions, without commensurate attention to the building of human resources and domestic institutional capacities to implement the laws and make the institutions function efficiently.

7.8 **Coverage.** WBG strategies were comprehensive, including the large and unwieldy matrices in the budget support operations. But sometimes this comprehensiveness came at the cost of losing focus. Agriculture did not get the attention it needed, and capacity-building in state institutions was attempted so widely that some key areas such as public financial management did not get concentrated attention. In private sector development there was heavy reliance on the preparation of new laws, while critical constraints, such as lack of finance and poor infrastructure were not part of the WBG's program, but were to be addressed largely by other donors, most notably ADB.

¹²⁸ One manifestation of this was that the WBG and other traditional donors did not play a significant role in defining the government's new national development strategy developed earlier in 2010.

7.9 **Alignment.** The WBG's program was aligned with the Government's priorities as reflected in the National Development Plans, the Stability Program, and the Sector Investment Plans. The pillars of the WBG strategy reflected the main focus areas of the government's plans. However, over much of the period, the government's capacity to develop its own independent plans and priorities was limited and it was highly dependent on the international donor community for articulating these plans and priorities. Advice provided by the World Bank in its role as administrator of successive trust funds, therefore, had an important influence on the overall strategic framework. It is only since 2007-08 that the Government of Timor-Leste has articulated an independent strategic vision without significant inputs from the traditional donors, including the WBG.

7.10 **Realism.** The WBG recognized the very difficult environment in which it was operating, particularly the weaknesses in state institutions, including the shortage of trained and skilled staff at all levels. While the strategy made an explicit commitment to tailoring WBG interventions in light of capacity constraints, this often did not happen in practice. In many instances the project designs were too complex, and well beyond the country's capacity to implement them within the envisaged time frames. The WBG was also not a good learner: despite ample evidence from earlier experience in Timor-Leste (and elsewhere), it continued to persist with complex and over-ambitious projects.

7.11 The WBG was also not sufficiently perceptive about the fragility of the socio-political environment and tended to maintain a sanguine and over-optimistic view of social and political developments.

EFFICACY

7.12 Efficacy measures the extent to which the WBG achieved its objectives. As the discussion in previous chapters has shown, at the broad level, progress in achieving objectives was uneven, better in some areas and less so in others. Quick interventions by the Bank and other donors helped restore a minimum standard of living after the catastrophic breakdown of the economic system in 1999. This was perhaps the biggest achievement.

7.13 In comparison to other areas of WBG intervention, outcomes were better in the social sectors, especially in health but, to a much lesser extent, in education as well. Medical services were restored and schools were rehabilitated and refurbished. Some health indicators have improved, though progress lags behind in others. In the education sector, more children are attending schools, but the quality of learning remains a major challenge.

7.14 Very little was achieved in improving the performance of the private sector, or increasing agricultural growth and productivity. The macro-economic environment was relatively stable, a number of laws were passed, and some market infrastructure in rural areas was created. But overall, the critical constraints to private sector development remain as acute as they were before. These include poor infrastructure, limited access to credit, and a non-congruent and complex regulatory environment. Aside from the petroleum sector, there has been very little private investment, especially until 2007, and the private sector (outside of agriculture) remains a small fraction of the economy. Agricultural productivity still remains one of the lowest in the region for most food crops and livestock.

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7.15 There was mixed progress in state institution building and improving governance. New laws were adopted and many new institutions for a functioning state were created from scratch, but their performance remains weak. Perhaps the stand-out achievement was the state of the art institutional framework created for the management of petroleum resources. Institutional capacity of several ministries has also improved, for example in finance, health, and education. However, overall progress has been limited and key ministries are still too dependent on a large number of foreign advisers. In other areas of governance, such as the development of the public financial management system and the overall legislative framework for governance, progress has been disappointing. So has been the development of the checks and balances, through parliamentary oversight and the judiciary.

7.16 Progress (or lack thereof) in each of these areas cannot be attributed to the WBG's interventions alone. As described in the earlier chapters, the WBG was one of several donors (and a minor one at that in terms of its financial contribution) that provided assistance to the government in achieving its goals. In some areas the WBG was not the lead agent even though it made a positive contribution (for example, in the functioning of the BPA in which the IMF had the lead role; or the development of the framework for use of petroleum resources in which the Norwegian Government played an important role). Nevertheless, on balance, the contribution of the WBG's assistance program to the achievement of objectives may be rated as modest.

EFFICIENCY

7.17 Resources from the Bank including IDA grants, its one-time contribution to the TFET, IDF and DGF grants on Bank-administered projects over FY2000-10 amounted to about US\$ 50 million, about US\$5 per capita per year.¹²⁹ In addition the Bank undertook a large number of analytical and advisory services which cost US\$6.9 million, partly financed by various trust funds. The total administrative budget for the country over this period was about US\$23 million¹³⁰ or about US\$2.3 per capita per year, significantly larger than for other fragile states.¹³¹

7.18 Yet in terms of performance, the Timor-Leste assistance program does not stand out.¹³² Inefficiencies are also reflected in project delays and cost over-runs. While some projects were prepared quickly and efficiently, most of the projects were completed with

¹²⁹ This compares with Bank funding of US\$3.73 to Papua New Guinea, US\$6.24 to Solomon Islands, and US\$4.85 to Kosovo over the same period. The average for fragile states as a whole was US\$2.9 per capita per year and the Bank wide average was US\$3.5 per capita per year.

¹³⁰ During the period 2000-10, the total Bank Executed Trust Funds (BETFs) recognized for Timor-Leste amounted to US\$44.1 million.

¹³¹ This compares with US\$0.29 for Papua New Guinea, US\$0.94 for Comoros, US\$1.04 for Solomon Islands and US\$1.52 for Kosovo during the same period. The average administrative budget for fragile states was US\$0.186 per capita per year.

¹³² During the period FY2000-10, on average about 28 percent of projects (in terms of numbers) in Timor-Leste were considered at risk per year. The corresponding percentage was 11 for Kosovo, 33 in Papua New Guinea, and 21 in Solomon Islands. For fragile states as a whole the corresponding percentage was about 26 percent and the Bank-wide average was 17 percent.

significant delays, sometimes up to or exceeding 2-3 years. These delays, which often reflected complex project designs and unrealistic expectations about implementation capacities, resulted in large cost over-runs and reduced efficiency. Overall, efficiency was modest.

OVERALL ASSESSMENT

7.19 Given the ratings for the different pillars, an overall rating of *Moderately Unsatisfactory* is warranted for the WBG assistance program to Timor-Leste. The details of the ratings are given in the sector chapters. A summary appears in the ratings table at the front of the report.

Findings and Recommendations

KEY FINDINGS OF THE WBG EVALUATION

7.20 From its very beginning, Bank operations in Timor-Leste faced unprecedented challenges. The economy had collapsed and the population faced severe deprivation. Most physical infrastructure was destroyed, there were no state institutions in place, and there was a severe shortage of skilled and trained personnel. But the situation also presented opportunities. A new system could be created from scratch, embodying the best of international experience.

7.21 In these difficult circumstances the Bank moved quickly to address immediate needs of the population, especially the poor. These included the restoration on basic social services and provision of funds to create income and employment opportunities throughout the country. The speed of the Bank's response and the focus of its efforts helped to restore basic living standards among the population even in remote areas. This was an important achievement.

7.22 However, the WBG's interventions were less successful when it came to longer term development challenges, and their effectiveness waned through time. Despite the priority accorded in the strategy documents to agriculture and private sector development, very little was achieved. Progress in improving governance and building state institutions – another priority area for the Bank – was also mixed, with some achievements amidst several missed opportunities for greater impact.

Sector Findings

THE FIRST PILLAR - PROVISION OF BASIC SOCIAL SERVICES, SOCIAL PROTECTION AND ALLEVIATION OF POVERTY AND UNEMPLOYMENT

7.23 Progress was made in improving the population's access to basic **health** services. A large number of health centers were built, mobile clinics were made operational, hospitals rehabilitated and reconstructed and the supply of medical equipment and drugs was improved. However, strict application of Bank procurement rules slowed considerably the purchase of hospital equipment in some cases. These interventions had a positive impact on the delivery of health care. Immunization coverage for children 12-23 months has increased; increasing numbers of births are supervised by health care professionals; and infant

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mortality rates have fallen. However and notwithstanding progress in many health indicators, child malnutrition increased during most of the evaluation period and the health of the population in many respects (life expectancy at birth, maternal mortality, malnutrition among children) remains well below the average in the region and closer to the average for low-income countries.

7.24 In the **education** sector, a large number of existing schools and class rooms were rehabilitated and refurbished with new furniture, and were provided basic teaching and learning materials. Regrettably these materials were in a language in which few teachers, parents or students were fluent. Bank-administered projects also contributed to institutional strengthening and capacity-building in the education system. These interventions have contributed to an overall improvement in enrollment rates at the primary and secondary levels. However, the quality of education remains poor.

7.25 The first pillar also included interventions to alleviate **poverty and unemployment**. In its initial interventions the Bank provided grants and loans to facilitate economic activity in rural and urban areas. These interventions were partially successful in that they did create short-term jobs and employment, as was often the key intention. But many of these jobs were not sustainable and many of the new businesses did not survive the significant UN departures in 2002-03. A major failure of the WBG was not being able to develop a significant and sustainable program for alleviating unemployment, especially of the youth, which remains a potent threat to social and political stability. The Bank also missed an opportunity to make itself useful when it failed to provide hands-on assistance in designing and implementing a program of social assistance in the aftermath of the 2006 civil strife.

7.26 In **youth unemployment and disaffection**, little progress was made until the unrest that shook the country in 2006. The strong economic growth in the last two years, led by high public spending, may have created job opportunities for the youth, but their extent is uncertain given the high capital intensity of the public works. WBG support in this area also came late and has had no significant impact.

7.27 Timor-Leste has made progress with its **veterans' programs**. The government has been able to address the tensions stemming from the claims by different groups demanding recognition and assistance. Veterans have been registered since 2005, and their benefits have been defined and paid since 2008. Albeit late, the Bank provided assistance in developing the database and designing the policies for veterans.

7.28 Overall, the outcome of WBG support for the first pillar is rated *moderately unsatisfactory*.

THE SECOND PILLAR - GOVERNANCE AND DEVELOPMENT OF STATE INSTITUTIONS

7.29 Taken from the starting point of 1999, the state's **capacity** to govern and deliver public goods has increased significantly. The architecture and institutions of government foreseen in the Constitution have been established and are functioning, albeit with uneven efficiency. The Government of Timor-Leste is managing a significantly expanded budget, driven by growth in petroleum revenues. Ministries and agencies of the state are better able to plan and manage their activities and resources. On its side, the legislative branch of gov-

ernment has produced a significant body of legislation and is making efforts to carry out its oversight functions.

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

7.31 Timor-Leste, however, still faces major governance challenges. Institutional capacity is uneven across ministries, and remains weak in many of them. There has been almost no strengthening at the district and local levels. The Judiciary remains a challenge. Overall, the human skills base is still very low and the government remains highly dependent on advisors, many of them foreign, with only limited success in transferring knowledge and skills between the advisors and national staff. The Bank had state capacity building as a key priority from the start. However, the contribution to capacity development has been limited, as noted in the WBG's ISN (2010, p. 14). For the most part of the evaluation period the Bank did not have a clear needs assessment, a strategic vision, or a realistic and monitorable strategy that could have guided its actions to bolster capacity in Timor-Leste in a more effective way. Moreover, efforts to transfer knowledge and skill have been hindered by problems with the mentoring model, in addition to factors such as language and poor education.

7.32 Timor-Leste has also made very significant progress in setting up **systems of fiscal and public financial management**. The stable macroeconomic environment and the improvement in budget execution in recent years are evidence of this progress. The basic institutions for fiscal and public financial management have been set up and are functioning. Fiscal policy in general and expenditure policy in particular, are now planned and with increasing focus on public service delivery. These policies are better grounded, using more reliable estimates of the macroeconomic aggregates and the needs of the population. The utilization of petroleum revenues is governed by a prudent and transparent framework widely regarded as best practice. Institutions of the state outside of the executive, such as Parliament, are also in better condition to discharge their functions. Nevertheless, use of the systems of public financial management needs to be spread evenly across all government agencies and all levels of government, including the local. Parliament, the Judiciary and the other oversight institutions need to be strengthened so that they can fulfill their function as checks and balances adequately. More importantly, the part of the budget that is financed with donor funds must be brought into the overall budget, and the investment budget must catch up with the current budget in execution rates. The Bank's efforts in this area were late to bear fruit, and have faced significant adaptation challenges. Had the systems for fiscal and public financial management been in place when the flow of petroleum revenues started, the government would have been in a better position to tackle the unemployment and the deficiencies that helped brew the civil strife of 2006. Moreover, some of the systems suggested by the Bank, e.g. procurement, turned out to be ill-adapted to Timor-Leste. The successes with the Petroleum Fund and the recent project on public financial management need to be weighed against these shortcomings.

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7.33 On the third leg of governance, the creation of a **legal framework**, Timor-Leste has also made very significant progress. It now has laws that govern taxation and customs, as and the exploitation and use of its petroleum wealth. It also has a public financial management law better adapted to its reality. Procurement legislation has taken several rounds, but also seems to be better adapted now. Rudimentary systems of checks and balances are now in place. However, Timor-Leste still needs to harmonize the different pieces of legislation that come from separate legal traditions, so that they are congruent and adapted to the uses and mores of the country. An additional challenge is to develop the implementing regulations that are needed to bring these laws to life. Yet another one is to fill in the blanks that have been left behind in the haste that seems to have dominated the legislative process until now. The WBG has supported the development of the legislative framework in a wide set of areas. Perhaps the coverage has been too wide for Timor-Leste's capacity—too many draft laws for a new Parliament and for a few lawyers capable of adjusting the drafts to the Timor-Leste's nascent legal system. The capacity challenge is even greater if the capacity to implement the new laws is factored in—no significant effort seems to have been made to adapt the new legislation to the civil service capacity that was actually on the ground. While the urgency is pressing, the need for a structured and strategic vision was all the more relevant in light of the limited resources and capacity. So were the need for a better understanding of the challenges of setting up a new legal system under a civil law tradition, and an acknowledgement of the limitations faced by Timor-Leste.

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

THE THIRD PILLAR - SUSTAINABLE AND DIVERSIFIED NON-PETROLEUM SECTOR FOR JOB CREATION AND ECONOMIC GROWTH

7.35 The **private sector development** agenda of the WBG was largely centered on the framing and adoption of laws to regulate private sector activity. Left aside were the more pressing binding constraints posed by bad infrastructure, and the difficulty of accessing credit. A number of laws meant to facilitate private investment were adopted during this period. These included laws on commercial entities, investment, insurance, bankruptcy, co-operatives, and leasing of government property. It is not clear, though, to what extent the advice received by Timor-Leste from different donors was congruent and adapted to the specific conditions of the country. A land law addressing publicly owned real estate was also passed in 2003. However, a clear sense of priorities or legislative strategy has been missing, and critical laws such as on contract enforcement and for the use of collateral in credits are still pending. Moreover, while a lot of attention was paid to developing laws, less attention was paid to implementation, including the implementing regulations and the compliance and enforcement of these laws. Moreover, there was insufficient focus on strengthening the judicial system, which had done little in resolving conflicts within the existing laws.

7.36 At a different level, IFC helped create the Better Business Initiative, a forum to improve the dialogue between the government and the private sector. This forum was largely responsible for the recent creation of the Chamber of Commerce and Industry. IFC also helped develop an e-booking system to help international travelers and the tourism sector, and has made some efforts in easing microcredit using resources from another donor.

7.37 The WBG's program deliberately did not address two critical constraints to private sector development, poor infrastructure and lack of access to credit where the lead in particular in the early years was to be taken by ADB. However, progress in both these areas has been limited; shortages of electricity allow businesses to operate at only a small fraction of their capacity, and poor roads and other infrastructure increase the cost of operations. Banks remain reluctant to lend in the absence of a credible framework for contract enforcement. The Bank's program also sought to create a framework for controlling corruption. Yet, corruption remains a concern for private business, adding to their costs. In the absence of any improvement in the overall business environment, and the continuing fragility of the socio-political environment, it is doubtful that the observable non-oil private sector growth may be sustainable. Some activity has picked up after the increase in government spending since 2007. However, data on direct foreign investment also suggests that, except in the oil and gas sector, there has been no appreciable increase.

7.38 In **agriculture**, almost 4000 hectares of land were rehabilitated in 46 community-based irrigation schemes covering 2.4 percent of arable land. An extensive program of vaccination of livestock was undertaken through Bank projects early on, which reduced mortality rates. In addition, a sector policy framework was developed, as well as a forestry and watershed management policy and strategy. A fisheries decree law and supporting legislation were also approved.

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

7.40 Considering the entire period 2000-10, the outcomes in the sector have been disappointing. There was no increase in production of the three main food crops (maize, cassava and rice) between 2000 and 2008 – although the production did jump in 2009. Agricultural productivity remains very low, both for food-crops and livestock. The crop yields per hectare are well below world and regional standards. Food security remains problematic for most of the population, especially in rural areas. Despite large imports of rice, the 2007 Survey of Living Standards found that rural households did not have sufficient rice or maize to eat for about four months each year. The sector is still dominated by subsistence farming, which suffers from poor quality of inputs (seeds, fertilizers, pesticides, irrigation) and lack of knowledge regarding new technologies and best practices.

7.41 The **energy** agenda of the WBG included the hydrocarbon sector and power. Timor-Leste has made considerable progress in dealing with the petroleum wealth stemming from the find in the Timor Sea. There is a negotiated treaty with Australia, a set of rules governing taxes and royalties, and a Petroleum Fund to guide revenue use. Evidence of the progress is the recent declaration of Timor-Leste as EITI compatible, only the third member country to reach this stage. The Bank gave significant support to Timor-Leste in its negotiations with Australia, and in setting up the system of taxes and revenues. In collaboration

with the IMF and NORAD, the Bank helped create the Petroleum Fund by helping gather wide support for its approval. The negotiations and the system of taxes and revenues for hydrocarbons are the highlights of the Bank's program in Timor-Leste.

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

7.43 Overall, the outcome for WBG support for the third pillar is rated as *unsatisfactory*.

Broad Program Findings

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

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

7.46 The **program** in Timor-Leste:

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

- Over time, the WBG's program increasingly **lacked a clear focus**. The program also did **not appear sufficiently based on the specific characteristics of Timor-Leste**. The **sense of priorities** that characterized the Bank's early operations **was missing**. In particular, agriculture did not receive the support it deserved, given its importance in the economy and the preponderance of poverty in the rural areas. This lack of focus was evident in the development policy operations, which sought to cover as broad a front as possible without a clear sense of priorities or apparent awareness of institutional capacity constraints. Even within a given area, focus was lacking in some cases and the program was spread thin, as was the case with capacity building. It would have been preferable to focus on a couple of key areas such as strengthening of public financial management (to improve budget execution, which was hampering delivery of basic services) and the key ministries involved with it.
- Institution building **did not pay sufficient attention to human resource development and training**, creating a major lacuna in the WBG's operations. Several new institutions were created (e.g. Ombudsman, Inspector General), but were unable to fulfill their mandates, partly because the mandates and ownership were not clear and partly because they lacked qualified people. The justice system is similarly hamstrung by a severe shortage of trained prosecutors and judges. Foreign advisers, which were to train the Timorese staff and help the new state function, did much better in the latter than in the former function. They have been very useful in enabling the government to perform its routine functions. However, they have largely been unsuccessful in transferring their knowledge and skills to the Timorese staff, and a better system is required to ensure skills are transferred, so that institution building can be sustainable.

7.47 The WBG's **role and instruments**:

- In spite of the emphasis placed by WBG strategy documents on **simplicity of project design and the need to align projects with the weak institutional capacity in the country**, this principle was breached in many cases, especially after the first few years. Evaluations frequently found projects too complicated in design, sometimes involving multiple implementing agencies. Interventions tended to seek to achieve multiple objectives, rather than focus on a well-defined objective. The implementation schedules were often unrealistically optimistic. In spite of some procedural simplifications that were introduced to expedite project preparation and implementation, there was widespread dissatisfaction with the complexity of Bank rules and procedures, especially for procurement. The WBG's incentive system did not help to bring on board the best possible skills and know-how. The WBG did not follow (closely enough) its principles on how to deal with fragile states.
- Within the program itself, the WBG **did not adequately integrate lessons of experience into subsequent projects and programs**. Mistakes kept repeating themselves, like complex project design, over-optimistic and unrealistic assessment of the ground realities, focus on the long-term largely ignoring the short-term, and monitoring outputs instead of outcomes. Stronger management oversight would be desir-

able to ensure that lessons are learnt from earlier operations, and, more importantly, to maintain the focus on what is really needed to strengthen Timor-Leste's state.

- The Bank's early **efforts at building a structure of local governance by supporting the creation of democratically elected village development councils were largely unsuccessful**. The Bank did not have an adequate understanding of the political dynamics in the country, nor did it have the mandate or experience for this difficult endeavor. Mainstreaming of **gender and youth issues** in the Bank's program was not effective. While some measures to this end were included in some Bank projects, there was no serious follow up. These measures slowed project preparation and progress, and there was no evidence that they had any meaningful impact on gender or youth issues.
- Compared to the ambitious agenda that it set for itself, **IFC's actual program was very limited in scope**. Partly because of the difficult and uncertain business environment, it did not approve any of the intended investments. Nor did it provide any of the planned support for public-private infrastructure partnerships, or piloting of SME loan products and risk sharing facilities to increase the private sector's access to finance. Instead, its activities were largely confined to four TA initiatives funded by PEDF Trust Funds. These activities, the most important of which were the hotel e-bookings site and the creation of the Better Business Initiative (which in turn led to the establishment of the Chamber of Commerce and Industry) had some positive impact. Overall, however, IFC's interventions have been too small to address the challenge of creating a private sector, especially domestic, and addressing its real constraints.
- The WBG's program rightly emphasized the importance of **monitoring actual results** of its interventions on the ground. In practice, while a lot of effort was spent in developing indicators to assess progress measuring inputs and outputs, insufficient attention was devoted to acquiring accurate data to make the indicators a reliable guide for monitoring results. Seldom did indicators measure outcomes or impacts on the ground. Moreover, some of the Bank's programs had an over-load of information and monitoring requirements on inputs and outputs that may have diverted scarce government capacity away from implementation of programs. It would perhaps have been better to focus efforts on a few key outcome indicators underpinned by accurate data.

General Lessons

7.48 A few general lessons emerge from the evaluation of WBG operations in Timor-Leste. Although some of them may seem self-evident, they are important to emphasize because they were insufficiently internalized in WBG operations in Timor-Leste and they have resonance beyond Timor-Leste, especially in other fragile states.

- The WBG should resist the temptation of attempting to do too much too fast, especially in fragile states. It is important for the WBG (and other donors) to be realistic

about the situation on the ground and the capacities (and time-frames) for change and development. Interventions that did not factor in these constraints appropriately were significantly less effective than those that did. Examples were the failures in capacity building or teaching materials, which contrast with, say, the assistance given to Timor-Leste in its negotiations on petroleum related issues with neighboring countries.

- It is important that the WBG provide timely and high quality policy and technical advice. In doing so, the WBG needs to find the right balance between interventions for long-term institutional development on the one hand and concrete measures to address short term needs on the other. Without tangible benefits for the population in the short-term, the long-term agenda cannot be pursued. For instance, the Bank's credibility was high in the initial years when it focused on immediate priorities such as the restoration of agricultural assets and the rebuilding of schools and hospital. The Bank lost credibility when its interventions during 2003-06 did not pay sufficient attention to alleviating rising poverty and unemployment which led to social instability.
- Any proposed changes in laws and frameworks should be based on and congruent with the existing legal system, taking into account the language issue. If implemented at all, legislation transplanted from foreign systems, as is the case with the procurement law, has faced major obstacles during implementation.
- It is important to keep interventions, projects and programs simple and focused on key objectives, keeping in mind the very weak institutional capacity and scarcity of skilled people in the country. The Bank's procedures and administrative requirements need to be kept simple. The attempt at strict adherence to Bank procurement rules led to a delay in equipping four hospitals, despite the Bank's call for a flexible application of those rules in fragile states like Timor-Leste. Project implementation arrangements should also be simple. The involvement of multiple governmental agencies, as was the case with the youth employment project, is often too challenging and time-consuming, especially when those agencies have limited capacity.
- Efforts to influence social change should be undertaken based on a good understanding of social and political conditions on the ground. For instance, the early community development projects left little behind aside from the initial cash hand-out, because the social structures of Timor-Leste were not factored in appropriately.
- Efforts to support domestic capacity-building need to be given high priority, and should be structured to take place within a realistic framework. Aside from the obvious issues detailed in Appendix 4 on public financial management, teacher training in Portuguese comes across as a good example where effectiveness could have been greater had this task been given the priority and attention that it deserved.
- The monitoring and evaluation of WBG interventions should not place an excessive burden on government agencies that have limited capacity and skilled staff. Scarce capacities in line ministries, such as Health, were stretched trying to generate the da-

ta to monitor Bank interventions. Instead of tracking a large number of indicators based on poor data, as was generally the case in Timor-Leste, a few key indicators of progress should be tracked, and a greater effort should be made on improving the *quality* of data on which the indicators are based.

- Stronger management oversight is necessary to ensure that lessons of past operations are integrated in a timely way into subsequent operations in concrete and demonstrable ways. On the whole, lessons learnt from earlier operations in Timor-Leste did not seem to be incorporated in subsequent operations, which contributed to a decline in the quality of WBG interventions and loss of credibility.
- The role of the field office in Dili, including strong operational capacities such as in procurement, is important for WBG effectiveness and the results of the WBG's program.¹³³

Recommendations

7.49 The above findings lead to the conclusion that the significance of the WBG's role for Timor-Leste's economic development has been declining over time, and thus also its relevance for the Government of Timor-Leste. The WBG will regain its relevance if it is able to show Timor-Leste that it can be a knowledgeable, responsive and creative development partner, focused on helping the poor through sustainable development.

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

7.51 At this stage, the challenge for Timor-Leste is to use its petroleum regime to make the most of its hydrocarbon wealth in a sustainable way, and to spend effectively and efficiently these resources, with a clear goal of addressing the critical development constraints of the country in order to foster sustainable growth and reduce poverty. Key among these constraints are low capacity within the government; poor quality in education; inadequate infrastructure; unemployment, in particular among the youth; and the backwardness of agriculture.

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

¹³³ The posts of country manager and operations adviser in the Dili office stood vacant since July, although the former position has now been filled from early January. Regardless of the reasons, such a long hiatus sends the wrong message to all development partners.

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

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

- **The WBG set as its key objective going forward to help the Government in its current efforts to promote vigorous and sustainable growth of Timor-Leste's non-petroleum sector, as a means of reducing poverty and unemployment.** With widespread poverty and unemployment, especially among the youth, poor physical infrastructure, and the petroleum revenues, a sustainable public works program to create jobs and build critical infrastructure such as roads, water supply and sanitation infrastructure and rural infrastructure could usefully be a priority area for WBG organizational and financial support. This program would be supported by rural development projects that could help Timor-Leste move from subsistence farming into a surplus-producing sector capable of absorbing the underemployed rural poor.
- **Whatever the choice of direction Timor-Leste makes, the WBG prioritize clearly, after renewed consultations with other development partners, the key goals of its work program and all its interventions, and be realistic with regard to the time-frames required to achieve the institutional and social development objectives.** The situation on the ground needs to be factored in as well, as noted below. Such priority setting will likely entail a stronger focus on a smaller number of key poverty-focused interventions that would address top country priorities and permit substantial input of experienced staff resources. It would also need to be based on a revamped and clear understanding with other external development partners on the roles and responsibilities that each one would play.
- **Within the program agreed with the Government for institutional development, the WBG increase its focus on effective human resource development for institution-building and improved governance, within a clear overall strategy for capacity-building that fosters the transmission of skills and knowledge from foreign advisers to local staff.** The WBG's past emphasis on the supply of skills should give way to a much greater focus on transfer of skills. Examples like what NORAD did with the Petroleum Fund or the IMF did with the Banking and Payments Authority (BPA) are good models to follow.

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

- **The WBG follow more closely its own principles and guidelines on how to deal with fragile states in its program in Timor-Leste.** Projects need to be simple and mindful of the weak institutional capacity of the country. Multiple objectives or implementing agencies ought to be avoided in WBG interventions in Timor-Leste. WBG rules need to be applied with the flexibility called for in fragile states. The WBG incentive system could be brought to bear in order to mobilize the best knowledge and organizational skills to Timor-Leste.
- **The WBG strengthen, to this end, its capacity to provide timely, high-quality policy and technical advice together with enhanced use of its organizing skills and**

know-how. The timeliness, creativity and quality of its advice and organizing skills, based on unparalleled international experience that acknowledges the realities and constraints of Timor-Leste, together with the WBG's financial contribution, will determine the role it will play in Timor-Leste in the future. High quality of staff will be important to this end, together with more active management of the assistance program, including closer oversight of operations.

- **The WBG be realistic with regard to the situation on the ground and what is needed to achieve the institutional and social development objectives in Timor-Leste.** To this end, the WBG needs to have a better understanding of the political dynamics in the country and only intervene when the Government asks it to do so. The WBG also needs to find an effective way of mainstreaming of gender and youth in its interventions so that they do not entail costly delays in the preparation and implementation of projects and programs.
- **IFC's interventions should be sufficient and proportional** to address the objectives of its program and help Timor-Leste face the challenge of creating a viable private sector, especially the domestic one. In doing so, IFC needs to factor in the real constraints to private sector development in Timor-Leste—energy, infrastructure and access to credit, and focus on the rural sector and the small and micro enterprises. These interventions will maximize the impact of the program on employment generation and poverty reduction.
- **The WBG shift its monitoring and evaluation of the program toward a few key results and the improvement of the statistical capacity** to obtain reliable and accurate data on outcomes. The monitoring and evaluation frameworks need to factor in the limited institutional capacity on the ground, and leave aside the emphasis on following inputs and outputs.

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

Appendix 1. Guide to IEG's Country Program Evaluation Methodology

1. This methodological note describes the key elements of IEG's Country Program evaluation (CPE) methodology.¹

CPEs rate the outcomes of WBG assistance programs, not the Clients' overall development progress

2. A WBG assistance program needs to be assessed on how well it met its particular objectives, which are typically a subset of the Client's development objectives. If a WBG assistance program is large in relation to the Client's total development effort, the program outcome will be similar to the Client's overall development progress. However, most WBG assistance programs provide only a fraction of the total resources devoted to a Client's development by development partners, stakeholders, and the government itself. In CPEs, IEG rates only the outcome of the WBG's program, not the Client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

3. The experience gained in CPEs confirms that WBG program outcomes sometimes diverge significantly from the Client's overall development progress. CPEs have identified WBG assistance programs which had:

- satisfactory outcomes matched by good Client development;
- unsatisfactory outcomes in Clients which achieved good overall development results, notwithstanding the weak WBG program; and,
- Satisfactory outcomes in Clients which did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and WBG performance are not the same

4. By the same token, an unsatisfactory WBG assistance program outcome does not always mean that WBG performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the WBG's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the Client; (b) the WBG; (c) partners and other stakeholders; and (d) exogenous forces (e.g., events of nature, international economic shocks, etc.). Under the

¹ In this note, *assistance program* refers to products and services generated in support of the economic development of a Client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

5. IEG measures WBG performance primarily on the basis of contributory actions the WBG directly controlled. Judgments regarding WBG performance typically consider the relevance and implementation of the strategy, the design and supervision of the WBG's lending and financial support interventions, the scope, quality and follow-up of diagnostic work and other analytic and advisory activities (AAA), the consistency of the WBG's lending and financial support with its non-lending work and with its safeguard policies, and the WBG's partnership activities.

Rating Assistance Program Outcome

6. In rating the outcome (expected development impact) of an assistance program, IEG gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. In other words, did the WBG do the right thing, and did it do it right. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The country assistance strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. IEG's task is then to validate whether the intermediate objectives were the right ones and whether they produced satisfactory net benefits, and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence, and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

7. For each of the main objectives, the CPE evaluates the relevance of the objective, the relevance of the WBG's strategy toward meeting the objective, including the balance between lending and non-lending instruments, the efficacy with which the strategy was implemented and the results achieved. This is done in two steps. The first is a top-down review of whether the WBG's program achieved a particular WBG objective or planned outcome and had a substantive impact on the country's development. The second step is a bottom-up review of the WBG's products and services (lending, analytical and advisory services, and aid coordination) used to achieve the objective. Together these two steps test the consistency of findings from the products and services and the development impact dimensions. Subsequently, an assessment is made of the relative contribution to the results achieved by the WBG, other development partners, the government and exogenous factors.

8. Evaluators also assess the degree of Client ownership of international development priorities, such as the Millennium Development Goals, and WBG corporate advocacy priorities, such as safeguards. Ideally, any differences on dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the trade-offs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts, or avoided addressing key Client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of Client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

9. IEG utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

<i>Highly Satisfactory:</i>	The assistance program achieved at least acceptable progress toward all major relevant objectives, and had best practice development impact on one or more of them. No major shortcomings were identified.
<i>Satisfactory:</i>	The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.
<i>Moderately Satisfactory:</i>	The assistance program achieved acceptable progress toward most of its major relevant objectives. No major shortcomings were identified.
<i>Moderately Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, or made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Unsatisfactory:</i>	The assistance program did not make acceptable progress toward most of its major relevant objectives, and either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.
<i>Highly Unsatisfactory:</i>	The assistance program did not make acceptable progress toward any of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

10. The **institutional development impact (IDI)** can be rated at the project level as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the Client's ability to make more efficient, equitable and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- the soundness of economic management;
- the structure of the public sector, and, in particular, the civil service;
- the institutional soundness of the financial sector;
- the soundness of legal, regulatory, and judicial systems;
- the extent of monitoring and evaluation systems;

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- the effectiveness of aid coordination;
- the degree of financial accountability;
- the extent of building capacity in nongovernmental organizations; and,
- The level of social and environmental capital.

11. IEG is, however, increasingly factoring IDI impact ratings into program outcome ratings, rather than rating them separately.

12. **Sustainability** can be rated at the project level as *highly likely, likely, unlikely, highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country program over time, taking into account eight factors:

- technical resilience;
- financial resilience (including policies on cost recovery);
- economic resilience;
- social support (including conditions subject to safeguard policies);
- environmental resilience;
- ownership by governments and other key stakeholders;
- Institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness); and, resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

13. At the program level, IEG is increasingly factoring sustainability into program outcome ratings, rather than rating them separately.

14. **Risk to Development Outcome.** According to the 2006 harmonized guidelines, sustainability has been replaced with a “risk to development outcome,” defined as the risk, at the time of evaluation, that development outcomes (or expected outcomes) of a project or program will not be maintained (or realized). The risk to development outcome can be rated at the project level as *high, significant, moderate, negligible to low, non-evaluable*.

Appendix 2. The Petroleum Sector

1. Timor-Leste has considerable proven and possible hydrocarbon reserves. These are modest by international standards, but massive compared to the country's small and underdeveloped economy. Petroleum is by far Timor-Leste's largest source of income.
2. To date, commercial hydrocarbon extraction has been limited to the offshore Joint Petroleum Development Area (JDPA) with Australia, where revenues are split 90:10 between Timor-Leste and Australia. The largest field there and the only one currently in production is Bayu-Undan, which became operational in 2004. The next field to be developed is the smaller Kitan field. The Greater Sunrise field straddles the eastern boundary of the JDPA and is subject to a separate treaty with Australia with a 50:50 revenue split. A development plan has yet to be agreed, including location of the processing plant.
3. In Timor-Leste's exclusive jurisdiction, offshore exploration is ongoing. There is also potential for onshore discoveries although this still has to be explored.
4. Timor-Leste has adopted a state-of-the-art legal framework for the management of its petroleum assets, with its Petroleum Fund, established in mid-2005, as the center-piece. The Petroleum Fund Law was approved unanimously by Parliament in June 2005 after thorough public consultations.
5. The Fund is essentially a government account with the Banking and Payments Authority (BPA) to which the country's petroleum receipts are credited and from which debits can be made to finance the state budget. It operates according to the following principles that are in accordance with good international practice:
 - Management: The fund is to be managed prudently in accordance with the principle of good governance for the benefit of current and future generations. The government is responsible for the overall management and the BPA is responsible for the operational management.
 - Income: All Timor-Leste's revenue from petroleum operations is paid into the fund, which also retains all investment income (net of management expenses).
 - Investment: All assets are invested abroad in established financial markets, with for now at least 90 percent in U.S. dollar-denominated fixed income instruments.
 - Withdrawals: Transfers from the fund can only be made to the single state budget account. The amount transferred in any fiscal year can only take place after the publication of the budget law and cannot exceed the appropriation specified therein. Transfers are also contingent on the government providing Parliament with a report

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specifying the estimated sustainable income (ESI) and a certification of that amount by an independent auditor.

- Savings policy: To preserve the real value of the country's petroleum wealth, withdrawals from the fund are guided by the concept of sustainable income. For each year, ESI is calculated as 3 percent of the sum of the fund balance and the present value of expected future petroleum receipts—the same percentage used by Norway.¹ Withdrawing more than ESI requires the government to provide Parliament with a detailed explanation of why it is in the long-term interests of the country, and also a report certified by the independent auditor estimating the impact on future ESI.
- Reporting: The BPA publishes quarterly reports on the performance and activities of the fund. The government submits an annual report with an audited financial statement. Details on revenue and composition of the investment portfolio are fully disclosed.
- Oversight: An Investment Advisory Board advises the Minister of Finance on the overall investment strategy and management of the fund. An independent Consultative Council advises Parliament on the performance and operation of the fund and also on budget appropriations and whether these are being used effectively to the benefit of current and future generations.

6. Timor-Leste's policy until now has also been consistent with EITI, for which Timor-Leste has been a pilot country, having embraced transparency principles even before EITI existed. The country was accepted as an EITI Candidate Country on February 22, 2008, and the first EITI Report was issued on December 21 2009, covering financial data for 2008. Recently, Timor-Leste was declared "EITI-compliant" as the third participating country reaching this status.

7. Timor-Leste hopes to attract industry associated with petroleum production. Timor-Leste would in this regard like to see Greater Sunrise developed by routing a pipeline from the field to the southern coast of Timor-Leste, rather than to Australia's northern coast. This routing might result in the development of port facilities, a liquefied natural gas (LNG) processing plant, and power-generating infrastructure on Timorese soil, and could bring about additional tax benefits from these downstream activities. It is hoped in the country that such a development would also make Timor-Leste an attractive location for methanol and fertilizer production. The construction activities associated with this option could generate substantial short-term employment. Yet neither the petroleum exploitation nor any such associated chemical industry would be significant long-term sources of employment, as both are intensive in technology and capital rather than labor.

8. The government reportedly also wishes to utilize more of the country's petroleum revenues for development purposes, and to change somewhat the investment regime for its fi-

¹ While the simplicity of the rule is commendable, the macroeconomic principles behind it are not. The rule ignores the significant deficit faced by Timor-Leste in terms of human and physical capital, as well as its lower level of income.

nancial assets held abroad. There is also talk of other changes such as the establishment of a national petroleum company. The exact nature of any policy changes in this regard is not yet clear.

Appendix 3. Trust Funds in Timor-Leste¹

A. Overall Trust Fund Usage

1. **The Bank's program in Timor-Leste has been heavily dependent on trust funds.** Overall, trust fund contribution since inception of the Bank's program has totaled over US\$405 million, of which US\$361 million have been executed by the government (RETFs) and US\$44 million (11 percent) by the Bank (BETFs). This compares to total Bank approvals over the same period of US\$39.1 million (all IDA grants plus US\$5 million Development Grant Facility allocation for the Post-Conflict Fund). In addition, IBRD made an initial contribution of US\$10 million to the Trust Fund for East Timor (TFET). Taking this into account, Bank resources have accounted for about 12 percent of commitments on its projects (measured as Bank resources plus RETFs). An EAP review in early 2008 showed an active TF portfolio at that time (exclusive of TFET and Co-financing grants) of 23 grants for a total value of US\$13.7 million.²

2. Overall, the Bank has accessed trust funds through six vehicles:

- The major Trust Fund for East Timor (TFET);
- Co-financing trust funds for the TSP and CSP budget support operations;
- Co-financing trust funds for IDA investment projects;
- The Education for All- Fast Track Initiative (EFA-TFI) facility;
- Other trust funds in part executed by the Bank in support of a variety of activities – most prominently the grants from the Post-Conflict Fund and the related LICUS Fund;
- Some mostly smaller child trust funds drawn on for a variety of Bank activities in the country and including BETFs in support of the implementation of Bank co-financed operations. (This last set of trust funds does not raise any general issues apart from the lack of comprehensive data, and will not be discussed further in this annex.)

3. **Trust Funds have been important for the costs of the Bank's work.** Conversational evidence indicates that activities such as under the Post-Conflict Fund (PCF) and the Fast-Track Initiative (FTI) have provided reasonable funding of implementation and supervision expenditures, in part because of connections to work under Bank-funded activities or because task management was carried out from the Dili office. While no good overall numbers

¹ This Annex is extracted from a country case study prepared for IEG's ongoing evaluation of Trust Funds in the World Bank's Support for Development.

² That review – based on a sample of ten grants – found that the trust fund portfolio appeared to be in “pretty good shape”. However, the Recipient's capacity was still quite low, which demanded a great deal of support from Bank staff.

are readily available, it is clear that BETFs have been supporting to a significant extent the costs of operating the Bank's program in Timor-Leste.

4. **During the transition to independence, the Bank's involvement centered on its role as trustee and co-manager of the Trust Fund for East Timor (TFET).** This fund (discussed in some more detail later in this annex) was established in late 1999 as a vehicle to provide grant assistance for reconstruction activities and economic development in Timor-Leste. As of 2008, its total project commitments amounted to US\$177.5 million for Bank and ADB projects.

5. **Subsequently to the TFET, IDA mounted its own operations, most of which were heavily co-financed mostly through trust funds.** This is shown for the most important operations:

- The Transition Support Program (TSP) consisted of three budget support operations FY03-05. The TSP was the key aspect of the Bank's work with the government in that period. For the program as a whole IDA provided about US\$14.1 million including US\$5 million for the first operation as a grant from the Post-Conflict Fund funded by the Bank's Development Grant Facility. Other donors provided US\$76 million through Bank trust funds and another US\$9 million through parallel co-financing. For the whole program other donors thus financed about 85 percent.
- For the subsequent Consolidation Support Program (CSP) the Bank mobilized US\$9.5 million through trust funds, against US\$0.5 million from IDA.
- Subsequent Bank projects have also often been very highly leveraged through trust funds: Planning and Financial Management Capacity Building (ongoing): IDA US\$7 million and US\$27 million through trust funds. Education Sector Support (ongoing): IDA US\$6 million (original) and US\$5 million (additional financing) with US\$6 million through trust funds (there have also been two EFA-TFI operations discussed below). Health Sector Strategic Plan Support (ongoing): IDA US\$1 million and US\$19 million through trust funds.

B. The Trust Fund for East Timor (TFET)

6. During the transition to independence, the Bank's involvement centered on its role as trustee and co-manager of the Trust Fund for East Timor (TFET) which was established on December 9, 1999. US\$10 million from the Bank's net income was transferred to the TFET for use in East Timor. At the subsequent Tokyo conference on December 17, 1999 donors pledged US\$520 million over three years for East Timor, of which US\$148 million was initially earmarked for TFET, to serve as a vehicle to provide grant assistance for reconstruction activities and economic development. The TFET was at that time a very large multi-donor trust fund for reconstruction purposes, especially in relation to the small population size of the country, but a number of donors also proceeded with their own bilateral aid activities.

7. As of January 31, 2008, 28 grant agreements, including supplements, had been signed, with a value of US\$167 million for a total of 23 projects. Of the total of 23 projects the Bank

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had undertaken 17 and ADB six. In accordance with the TFET resolution, six percent of total donor contribution funds committed either through cash or promissory notes had been provisioned for project preparation, supervision, and administrative costs, bringing total commitments to US\$177 million. In addition, commitments for grant agreements then under preparation totaled US\$0.12 million, bringing total project commitments for the current work program to US\$177.5 million, against a total accumulated commitment authority, including investment income, of US\$178.8 million as that time.

8. The TFET was a major initiative of the Bank and the donors. With their agreement, the Bank undertook the role as trustee for TFET. The management of the proceeds was shared between the Bank and ADB within an agreed division of labor. The Bank focused on projects for the social sectors, agriculture, small enterprises, community development and governance, and capacity-building, while ADB administered projects for water, roads, port development and micro-finance. One Bank project (Oil Seeps) is still ongoing. TFET remains active, with a single outstanding project grant (Timor-Leste Gas Seep Harvesting Project schedule to close on 12/31/2011).

9. The design of TFET projects was to be guided by three overarching principles: (i) maximize East Timorese leadership and participation; (ii) encourage effective donor coordination; and (iii) achieve a balance between short-term and longer term needs. TFET was seen as complementing the trust fund for UNTAET for recurrent expenditure, equipping the civil service and capacity-building. There was at the onset some expectation from UNTAET that UN entities would also be eligible for administering TFET projects, but neither the donors nor the two MDBs favored such an approach, both because UNTAET had very significant donor resources on its own, and to avoid complicating the relationship to UNTAET which until independence was the legal government authority in Timor-Leste.

10. TFET financing of Timor-Leste's reconstruction was guided by the findings of the earlier Joint Assessment Mission (JAM) undertaken in October 1999 to identify priority reconstruction needs and estimate the financing requirements. The JAM had been coordinated by the Bank and included experts from five donor countries, four UN agencies, the EC and the ADB, and also Timorese experts. The TFET portfolio was evenly distributed between social sectors, infrastructure reconstruction and economic activities, including rural development. The projects were relevant to the reconstruction of Timor-Leste. The sequencing and the intra-sectoral allocation of funds were adequate.

11. IEG has evaluated 16 of the 19 Bank projects under the TFET. The Outcome ratings are symmetrical around the middle: Satisfactory (3), Moderately Satisfactory (5), Moderately Unsatisfactory (5), and Unsatisfactory (3). All the last three projects - rated Unsatisfactory - were for Community Empowerment, where the Bank overstretched by trying to help create local authority structures that went against the long-established lines of authority in the communities, and therefore did not work. The other Outcome ratings indicate a quite respectable range of results, especially when taking into account the very difficult conditions and rapid preparation for many of the projects.

12. Overall, TFET projects were prepared expeditiously. In this regard, in 2007, the Norwegian consulting firm Scanteam carried out a review for the Bank and Norway of post-crisis

multi-donor trust funds (MDTFs).³ As a follow-up, the consultants carried out further analysis on the speed with which projects financed by Bank-administered MDTFs were launched.⁴ The analysis covered a selection of projects from seven Bank-administered MDTFs working across a diverse geographic scope, all but one of these post-crisis programs operating in a post-conflict setting. Within the limitations of the analysis, the work showed that the TFET was one of the MDTFs with the most timely project launch, with elapsed time for RETFs from concept review to first disbursement of 8.2 months.⁵

13. Earlier, an EC evaluation had also found the processing of Bank projects under TFET to be very fast by Bank standards, in particular for the first wave of projects (approvals in CY2000).

14. Disbursements rose at a somewhat slower pace than originally expected, and there was a significant “tail” for a number of projects. Cumulative disbursements had reached US\$83.7 million by June 2002 – less than three years after the decision to establish the TFET. Given that projects were to be implemented by government entities in a situation of very weak institutional capacity, the pace of implementation was quite respectable.

15. However, three questions could deserve more consideration:

- The subprojects followed the “Bank model” – being implemented by the government as recipient. That approach has in general several important advantages (such as helping to ensure ownership and to strengthen over time domestic administrative and project implementation capacity). However, in Timor-Leste the administrative capacity was very weak – in parts virtually non-existent. *It is therefore possible that in the interest of speed of implementation the Bank should have considered in the early stages more direct Bank-execution of subprojects.*
- Given the lack of administrative capacity, all of the subprojects needed their own project implementation units (PIUs), which created a need for consultants and subsequently issues of integrating the PIU members into the government apparatus. (The EC evaluation reported that PIU integration into the ministries (at that time with the exceptions of agriculture and health) was difficult as they were seen as being controlled by the implementing agencies.) *It is possible that alternative mechanisms*

³ Review of Post-Crisis Multi-Donor Trust Funds. Final Report, February 2007. The report was commissioned by the World Bank, Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation (NORAD).

⁴ Speed of Delivery: Analysis of Projects under Bank-Administered Multi-Donor Trust Funds (MDTFs). October 2007.

⁵ The analysis also showed that the data on project milestones provided generally by the Bank information systems (SAP and the My Trust Fund portal) were often outdated or inconsistent with actual milestone information once verified from country teams. This was partially caused by legacy effects of two important changes in institutional data systems, and partially influenced by an inconsistent approach to coding and tracking MDTF projects. It was noted at the time that the Bank was investing in updating these systems so that they would in the future provide correct and directly comparable data.

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should have been considered – the EC evaluation has in this respect suggested that the Bank could have considered one central PIU to carry out project implementation activities across sectoral boundaries.

- A very considerable portion of the TFET funds were used to finance consultants, mostly expatriates paid at much higher rates than could be available for any Timorese National. Significant use of consultants will always create some administrative issues, but was probably inevitable in the case of Timor-Leste given the lack of domestic capacity and perhaps the use of the “Bank model”. However, mission observations and conversational evidence indicate that *the institution-building impact of many consultants has been very small, and that domestic capacity therefore has increased only slowly in many areas.*

16. Overall Assessment of the TFET: The TFET was an appropriate tool at the time for channeling donor resources to reconstruction and development projects in Timor-Leste, it was carried out quickly and with considerable – even exemplary – individual efforts. The projects were implemented under appropriate fiduciary standards, although there were some issues from time to time. Thus, the Bank’s 2008 report to the donors⁶ noted that the quality of procurement in the TFET portfolio had been downgraded for that reporting period from satisfactory to moderately unsatisfactory, as “all remaining projects experienced setbacks in terms of procurement”.

17. TFET also broke considerable new ground in several respects:

- By funneling core reconstruction funds through a single channel, TFET minimized the number of bilateral funding relationships that needed to be managed at a time when the local capacity for such management was critically limited.
- It also made it possible for the Bank itself from the beginning to play a leading role in the coordination of development assistance to Timor-Leste.
- TFET was innovative both with respect to its size, and for making possible the channeling of resources to both the Bank and ADB under one formal framework, without prejudice to the World Bank’s responsibility as the Trustee.

18. At the same time, it has taken a very considerable time to complete all of the TFET projects, the very heavy dependence on consultants has been worrisome, and the institution-building benefits have by all appearances been quite modest and slow in coming.

19. A Supporting View: These conclusions are supported by a 2004 evaluation of the TFET carried out in 2004 for the EC.⁷ That evaluation found that the Bank had put into place special procedures to accelerate the processing of TFET projects, that the Bank and ADB supervised regularly their projects, and also satisfactorily fulfilled their fiduciary obligations. Al-

⁶ Trust Fund for East Timor (TFET); Report of the Trustee. August 2008.

⁷ European Commission; Europe Aid co-operation office Asia Latin America: Evaluation Report. Timor-Leste; Interim Evaluation of the Trust fund for East Timor (TFET).

though TFET only represented about half the financing available for Timor-Leste's reconstruction, its efficient and effective donor coordination and good technical project design and preparation seemed to have influenced the allocation of non-TFET resources toward meeting the identified reconstruction needs. As per the evaluation, donors gave as the reasons for participating in TFET (i) better donor coordination; (ii) higher efficiency resulting from the use of uniform procedures (particularly in financial matters such as procurement and disbursement) and the elimination of the administrative burden to have a large ground capacity in Timor-Leste; and (iii) to have a voice in the mechanism in which most donors participate.

20. However, the evaluators considered the pace of reconstruction as only a relative success because the mechanism did not significantly improve the country's low institutional capacity and failed to develop Timorese ownership of the reconstruction program. The evaluators were also concerned about the sustainability of some of the reconstruction work. In spite of the weaknesses, the evaluators believed that TFET was superior to the other alternatives (UN, NGOs, bilateral donors).

C. The Transition and Consolidation Support Programs

21. The TSP and CSP were conceived as multi-donor, medium-term programs of balance of payments and budgetary support, with the rationale to provide bridging finance that would allow the government to implement a priority development program in the years before substantial oil and gas revenues would come on stream. Balance of payments and budgetary support would address both external and fiscal gaps, allowing the country to sustain a level of imports and public expenditures that would not otherwise be possible.

22. The thrust of the programs was to establish solid economic structures, good governance and sound financial and budgetary systems and procedures to achieve macro-economic stability and growth, thus allowing the government to address poverty reduction. Central to the programs was the setting of an appropriate level of expenditure that could be used productively and was sustainable when taking into account future revenue streams. These budget support operations were the principal means for policy dialogue between the government and its development partners over the period 2003-07.

23. **Assessment:** The TSP/CSP framework was a useful device to bring together a large number of donors for providing valuable budget support to the government. This additional financing allowed the government to maintain its essential developmental expenditures in the critical early years after independence when petroleum revenues were not yet available. The framework with the associated action matrices was also the principal instrument for policy dialogue between the Government of Timor-Leste and its development partners. Through these instruments the Bank was able to play a central role in policy dialogue and aid harmonization. The use of trust funds as co-financing mechanism meant that the government largely had to deal with only one formal counterpart. The framework was also useful to the government in its own efforts at monitoring and implementing its policy agenda.

D. Project Co-Financings

24. Following the CSP Bank projects have also often been very highly leveraged through trust funds. This is the case for three out of four ongoing operations – the Bank projects for Planning and Financial Management Capacity Building, Education Sector Support, and Health Sector Strategic Plan Support. Overall for these three projects IDA grants finance 21 percent of project costs (excluding any small government participations) while other donors finance 79 percent through multi-donor trust funds.

25. The three projects have all suffered from delays from original schedules, and donors have expressed concern at such delays. The delays are at least in part associated with issues of weak government implementing capacity, but there have also been delays at times on the Bank side, associated with busy and changing task managers located largely in Washington, tight supervision budgets, and an approach to procurement that seems at times to have been lacking in its ability to find solutions rather than enforcing the Bank's rules.⁸

26. Doing projects in a country like Timor-Leste is expensive – given the weak government implementing capacity and the long distances for staff working from e.g. Washington or Sydney. Donors by and large recognize this, and have been quite open to helping finance the cost of IDA's operations. In particular, young expatriate staff has been hired by the Bank under trust fund financing to be resident in Dili for the purpose of helping to manage the three co-financed operations on a day-to-day basis. Without such services it is likely that the pace and quality of implementation would have slowed down very significantly for most or all of the operations in question. However, such welcome staff resources will not be fully effective unless they will have access to experienced operational support preferably in the country office itself – since the expatriate staff (or promoted local staff) may in many cases not have the required Bank institutional knowledge to master the Bank's rules and procedures and to get things done appropriately and efficiently within the organization and thus also in support of the government's implementation.

E. Some Other Trust Funds

27. **Post-Conflict Fund (PCF):** The Post-Conflict Fund (PCF) got engaged in Timor-Leste already in FY00, and through FY05 it extended a total of 11 grants for a total of US\$3.8 million. This was followed by a grant in FY07 out of the LICUS Fund for almost US\$1.1 million for a project for Communication and Leadership Capacity for National Renewal.⁹

28. The files provide some evaluations of the PCF activities in Timor-Leste. Thus, the PCF FY04 annual report¹⁰ stated that an evaluation report “was undertaken by a representative of the World Bank's Development Grant Facility (DGF)”. The review had concluded that:

⁸ A local staff has recently qualified to be the local procurement officer. Over some time, this should help improve the procurement aspects of project implementation.

⁹ The PCF and LICUS Fund have now been subsumed into the State and Peace-Building Fund.

¹⁰ *The Post-Conflict Fund in Timor-Leste: Portfolio Performance and Review of Experience*, June 2004. It was not possible to find the report itself.

- Activities financed by the PCF ranged from needs assessment, capacity-building for leadership, demobilization, veterans' issues and opportunities for youth.
- PCF grants offered a "roadmap" for key and strategic interventions responding to longstanding needs as well as unforeseen issues.
- The PCF played a decisive role at a key juncture in Timor reconstruction by providing quick funding and allowing the Bank to engage rapidly in the country.
- However, the review also found that even if PCF grants catalyzed some co-financing, "they didn't mobilize the expected level of resources for longer-term reconstruction". This comment is a bit surprising. The PCF in the early years financed short-term tasks addressing immediate issues in a post-conflict environment (post-conflict reconstruction through an NGO, ex-combatants' reinsertion, social assessment of post-conflict rural communities), but such activities would not seem easy to scale up significantly even if donor co-financing would have been available, and any linkages to longer-term reconstruction should have been expected to have been tenuous.

29. There have also been some other evaluations by individual consultants. These have dealt with the programs supported by the PCF, and at best only very tangentially with the specific support extended by the PCF itself:

- 2004: On the two commissions dealing with the identification of former combatants and veterans: The two commissions had been largely successful in identifying former combatants and veterans, but with major shortcomings. Donors did not interfere "exceedingly" with the work of the commissions and essentially provided technical assistance in specific areas. Bank missions also provided support at critical times.
- 2006: On the Commission on Cadres of the Resistance (CAQR) – recipient of a US\$500,000 PCF grant: The evaluation found that the CAQR had been largely successful in achieving its goals, but that its effectiveness had been constrained by several factors including an unrealistic time frame and limited effectiveness in influencing the policy development process on the veterans issues. Despite these limiting factors, in comparison to many other nations the registration process in Timor-Leste had been "exemplary".

30. The FY07 grant – executed by the Bank – under the LICUS Fund provided sub-grants to local and international NGOs for work in the field of strengthening communication and leadership, and "transformative leadership and communication workshops for formal and non-formal leaders". The funding (reduced to about US\$800,000) ended June 30, 2008, although it was felt that "the success of this program can only be maximized if it continues for several years".¹¹ The program was therefore continued under bilateral funding.

¹¹ *Final Report. Leadership and Communication Capacity for National Renewal Program (LCCNR) – Year One.*

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31. Overall, the tasks under the PCF and LICUS Fund programs seem to have been timely and directed at important post-conflict issues. However, their identification and implementation may at times have diverted the attention of Bank staff, and it is not always easy to discern any systematic relationships between the PCF activities and the projects financed under the TFET and later under IDA grants.

32. **Education for All – Fast Track Initiative (EFA-FTI):** Over the past years, the Bank has supported education through two vehicles:

- The Education Sector Support Project (ESSP): A SIL for US\$6 million (FY07) with AusAID co-financing through a TF of US\$6 million plus an additional IDA financing of US\$5 million (FY10).
- EFA-FTI: The Primary Education Support Project (PESP), funded with US\$3 million for use in FY07 and US\$5.2 million in FY08 – for goods, consultant services, operating costs and training activities. These two tranches of the PESP were spent on consultant services (US\$4 million), goods (US\$2.6 million), civil works, training and operating costs. A third FTI tranche for FY09 – still being completed – for US\$2.8 million was meant to be “bridge financing” pending a longer term funding arrangement, but with a shifting focus from a focus on enrollment and retention to improving the quality of teaching and learning. All FTI tranches in the country have been in the form of “traditional investment project”.

33. The Bank has thus been a major support for education in Timor-Leste, and the various projects have been implemented by the same Bank education staff members, including now one staff member resident in Dili. It is however noticeable that documents for one of the two financing streams tend to give but modest attention to activities under the other. Thus, one document described as “Application [from the government] to the FTI-CF for a one-year Bridge Financing for 2009” is virtually silent on the role of the IDA-funded ESSP. The internal reviewing documents for the ESSP do not mention PESP. The recent project paper on the ESSP additional financing mentions the FTI funding in a few places, but there are no clear discussions of any complementarities or respective roles and responsibilities.¹² It is unlikely that readers of these documents would get a clear sense of the total Bank/FTI support for education in the country.

34. While the two funding streams appear difficult to separate in principle and have probably from the government been seen largely as one package of activities, there have been two important differences:

- Until now, FTI funding has been under annual allocations and largely document-free in comparison with Bank projects. In the words of one Bank staff member: “No PAD, no internal reviewing documents, no ICR”, although an ICR may possibly now be prepared for the third FTI tranche.

¹² The paper also states that further funding from the FTI was not expected because Timor-Leste’s IDA category now disqualified it from further applications to the FTI Catalytic Fund. Since then, the country has apparently been reinstated as an island state.

- FTI has been more flexible in its origination. As one example, it was possible to initiate FTI funding at a time when Bank projects were difficult to prepare because of the domestic unrest. This made it possible to extend funding to the Ministry of Education at a difficult time and for the Bank thus to stay engaged.

35. It is difficult to assess the impact of the FTI financing. It is likely that it will have helped contribute to improved educational enrollments and to capacity-building in the sector. However, care should be taken to avoid overstating the impact. Thus in one relatively recent (undated) note disbursements from the Consolidated Fund (CF) FY07-09 are given as US\$8.2 million (as of the time of the note), with other donors providing US\$70.3 million. The CF thus provided by these numbers about 13 percent of total donor disbursements. Over this period the note shows significant improvement in gross and net enrollment rates, and on this basis it proceeds to state that “As can be seen from the indicators above, FTI-CF funding has had a measurable impact increasing participation and retention in basic education in Timor-Leste”. A more appropriate statement could have been that FTI-CF had contributed a modest percentage of total donor funding and on this basis could be said to have been plausibly associated with a share of the enrollment growth.

36. **Extractive Industries Transparency Initiative (EITI):** The EITI is a free-standing initiative operating under Norwegian law and with a secretariat in Oslo. Timor-Leste has recently been declared “EITI compliant” – the third country reaching this stage. The Bank is one of several international organizations supporting this initiative. The EITI Multi-Donor Trust Fund is managed by the Bank in support of the EITI. A RETF grant (US\$230,000) for Timor-Leste out of this TF has been operating since February 2009. It was supposed to end October 2010 but an extension was possible. The grant finances activities within the EITI work plan – meaning issues related to financial transparency pertaining to the petroleum sector. Utilization has been satisfactory.

F. Conclusions

37. The Bank’s program in Timor-Leste has been heavily dependent on trust funds. Since inception, Bank resources have accounted for about 12 percent of commitments on its projects. Trust Funds have also been important to help cover the costs of the Bank’s work. The availability of these funds is a strong indication of donors’ interest in working with the Bank and their respect for the Bank’s capacity in the areas of policy dialogue, project preparation and project implementation.

38. In summary regarding the very substantial co-financings through trust funds:

39. First, they have been advantageous to all parties:

- For the government, the trust fund vehicle has clearly been advantageous as it can deal just with the Bank formally and administratively, and largely also regarding sector policies.
- For the Bank, massive co-financings have been essential for it to have a “seat at the table” – to bring its capabilities to bear in a situation with very little IDA resources

APPENDIX 3

TRUST FUNDS IN TIMOR-LESTE

available. Without these co-financings the Bank would have been able to engage in fewer sectors and with much less weight.

- For the participating donors, the co-financings through trust funds have permitted them to “piggy-back” on the Bank’s professional expertise and administrative capacity.
- For the donor community, the co-financings have been useful tools for donor coordination, even for donors not participating directly.

40. Second, they have helped provide the Bank with additional administrative resources:

- Doing projects in a country like Timor-Leste is expensive. Donors by and large recognize this, and have been quite open to helping finance the cost of WBG operations.
- In particular, expatriate staff has been hired by the Bank under trust fund financing to be resident in Dili for the purpose of helping to manage these often complex operations on a day-to-day basis. Without such services it is likely that the pace and quality of implementation would have slowed down very significantly for most or all of the operations in question.
- However, such welcome staff resources can add to the need for operational support in the country office.

41. Third, close donor relations are important but come at a cost:

- The heavy reliance on trust fund financing involves a need for the Bank to maintain donors closely informed and to engage them actively (should they wish to be so engaged) at key implementation points such as mid-term reviews. Such engagements can be time-consuming.
- More importantly, there will be times when donors will be in disagreement concerning important aspects of project progress; e.g. because of slow implementation and/or due to changing priorities on the part of donors.

42. Fourth, there are potential risks for the Bank in being heavily dependent on trust fund financing, although for Timor-Leste these risks have not so far materialized to any major extent:

- One aspect of such risks is that the Bank could increasingly be seen by some donors as their contractor more than their development partner.¹³
- Slow project implementation has been a fact of life in the Bank’s Timor-Leste program. However, such delays may especially involve reputational risks when there are trust fund resources – given donors’ separate priorities and requirements.

¹³ It was in this regard noticeable with some donors in Dili how freely they volunteered views on the organization of the Bank’s Dili office and on the capacities and responsibilities of individual staff members.

43. Fifth, the trust funds need to be integrated more explicitly in the Bank's planning and reporting of its program in Timor-Leste:

- The information on past and present trust funded activities is scattered between files and individuals, and there is no overall and easily accessible record or systematic reporting. Institutional memory is less reliable than for Bank-funded activities.
- The country planning documents give inadequate attention to trust funded activities or to any issues and risks arising from heavy dependence on trust funds.

Appendix 4. Note on Public Financial Management Capacity Building Efforts in Timor-Leste

1. While a sound and transparent Public Financial Management (PFM) system is fundamental in any country, it is of particular importance in Timor-Leste where institutions responsible for budget planning and execution are still not fully able to support efficient allocation and execution of public resources. The need for strengthening the still fragile PFM institutions is particularly critical given the high demands for increasing public expenditure and the increasing revenue from the petroleum sectors. A solid legal framework and good systems that ensure accountability and transparency are very important, but equally critical is the need for skilled human resources to manage the systems and processes and perform their responsibilities.

2. This note compares and assesses the different types of capacity building efforts in Timor-Leste between FY2000 and FY2010 to strengthen human resources to manage PFM systems. The key objective in this area was to strengthen capacity of Timorese national staff to undertake all PFM functions and reduce reliance on foreign advisors for these functions. This note is based on a desk review supplemented by a brief mission to Timor-Leste and interviews with Bank, government and other donor stakeholders. It focuses predominantly on Bank support provided jointly in collaboration with other donors, some of which is under the Trust Fund for East Timor (TFET).

Nature of Support

3. The total staff in the Ministry of Planning and Finance was estimated at about 700 in 2006 (Public Financial Management and Capacity Building (PFMCB) PAD). While the amounts other donors spent on capacity building are unavailable, a rough calculation of spending in selected Bank-supported projects (based on procurement data available in Bank data base) suggests that consultant services in general were a big part of Bank support. The Bank spent at least 48 percent of its total project funding on consultant services, which covers costs of international advisors, training, as well as staff of Project Implementation Units (PIUs).

Table 21: Investment Cost by Projects in Selected Sectors

<i>Project</i>	<i>Total US\$ m</i>	<i>Consultant Services</i>	<i>Goods Works</i>	<i>CS as % of total costs</i>	<i>Rating for Project Outcome</i>	<i>Rating for Capacity Building component</i>
HSRDP I	12.7	3.7	6.8	29%	S	Not rated ⁴
HSRDP II	12.6	7.5	42.4	59%	MS	Substantial ³
Education Readiness	13.2	0.6	6.2	5%	MS	Not rated
TL Petroleum TA SF	0.2	0.2	0.0	100%	S	Not available
Second Petroleum TL	1.6	1.0	0.3	60%	S	S
Fundamental School Quality	13.9	3.7	12.9	26%	MU	Not available
Education Sector Support	14.9	6.5	0.0	43%	S ¹	MS
PFMCB	7.0	12.6	0.0	100%	MS ²	See below
Economic Institutions CB	0.5	0.9	0.0	100%	MS	MS
Total	76.6	36.6	68.5	48%		

1. Project does not have an ICR. Internal reviewing document ratings for PDO and IP are S; 2. Project is still active. Internal reviewing document ratings for PDO and IP are MS; 3. IEG Rating; 4. IEG rating for component was Substantial. However, capacity building is a subcomponent and review states that: "Gains in capacity building and manpower planning for health were less than expected and development of a long-term human resources strategy has been deferred to be supported subsequently by AUSAID." 5. ICR Page 4 rates it as MS and while page 1 rates it as S; 6. IEG rating for objective-- Strengthening capacity of MAF and its key development partners to assist rural communities.

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4. Separately, information provided by the government also validates that a large portion of total Bank support were allocated for consulting services (see Table 22).

Table 22: Bank Disbursement by Cost Category

	<i>Consulting services*</i>	<i>Goods & service</i>	<i>Minor capital</i>	<i>Capital dev.</i>	<i>Disbursement</i>
2009	12,219,600.71	1,569,618.28	1,839,497.54	1,418,000.00	17,046,716.53
Percentage	72%	9%	11%	8%	100%
2010 (first 6 months)	5,087,138.00	2,124,731.57	2,270,232.00	478,480.00	9,960,581.57
Percentage	51%	21%	23%	5%	100%
Total	17,306,738.71	3,694,349.85	4,109,729.54	1,896,480.00	27,007,298.10
Percentage Total	64%	14%	15%	7%	100%

Source: Aid Effectiveness Secretariat, Ministry of Finance.

* Noted as Salaries and Wages in the government's statistics.

Approaches to PFM Capacity Building in Timor-Leste

5. Notwithstanding several diagnostic pieces by different donors, there was no single strategic vision or a comprehensive and well-defined plan of action for human resource capacity building for the first six years of the evaluation period, despite the urgent need to deliver basic services and the clear prospects of increased revenue.¹⁴⁸

6. In 2006, the PFMCB project provided an ambitious (and perhaps unrealistic and complex) vision within a results framework agreed with the Government of Timor-Leste and key development partners such as AUSAID and NORAD. The overall program framework, content, and sequencing were discussed and endorsed at the ministerial level. The 2006 conflict and the subsequent change of government in 2007 led to a lack of client ownership of this program. The project was restructured in 2009, revising the program consistent with the priorities of the current government. Implementation has just been bolstered. However, the restructured program narrows its focus to the Ministry of Finance, shifting attention from other line agencies. Not all donors view this narrowing of scope favorably; a key donor representative suggested that the sole focus on strengthening MOF capacity would create an imbalance among the key ministries.

¹⁴⁸ The diagnostic pieces include: UNDP, "Priority Human Resources Needs for the East Timorese Government at Independence (October 2001)," which was a ten-year program endorsed by the Cabinet for capacity development across the government; World Bank, "Country Economic Memorandum (2002)," which included an analysis of public expenditure management encompassing approaches to capacity development specifically on PFM; Government of Timor-Leste, "National Development Plan (May 2002)" that includes sections on capacity building, defining priorities; and World Bank "Public Expenditure Review (July 2004)" covering PFM capacity-related issues. AusAID was an active development partner in the area of PFM, with a program that started in 2004.

7. **Commonly used approaches for building capacity in Timor-Leste were through the use of PIUs, the appointment of international advisors to support PFM reform, and training of individuals.** Less frequent were the other forms of capacity building such as training of trainers or strengthening of organizational capacity and training institutes. Each method is discussed below, reviewing what worked and what did not (summarized in Table 23).

Table 23: Comparison of Capacity Building Efforts

<i>Type of CB</i>	<i>What Worked in Strengthening PFM?</i>	<i>What Did Not Work?</i>
Project Implementation Unit	Built capacity in the PIUs and for the country, particularly on project financial management (FM) and procurement (related to donor guidelines) Also built capacity of local advisors attached to the PIU.	Did not translate into capacity for the government
Appointment of Advisors	Helped to reform systems and processes	Did not transfer skills to national staff to run the systems and processes
Individual Training	Where focused with a clear objective such as in the Petroleum Fund, appears to have worked	Training was fragmented and was not followed up; incentives were not right for obtaining results; and did not develop the needed PFM capacity
Training of Trainers	Some capacity has been built in specific sectors	Language constraints and lack of any follow-up training has limited benefits
Organizational Capacity Building	Recent efforts in 2009	Appears to be focused on the Ministry of Finance and there will be need to ensure more broad-based strengthening including of training institutes such as the Civil Service Institute and other civil society organizations
Individual Scholarships	Builds private goods in terms of capacity of individuals	Takes time and no guarantee that beneficiaries will return to the country, or if they do, will work for the government

PROJECT IMPLEMENTING UNITS

8. **PIUs were helpful in substituting weak local capacity, moving projects forward and in ring-fencing project finances, but were not successful in strengthening government capacity to manage public resources.** While PIUs managed by international consultants gave comfort to the donors that funds were being managed prudently, such capacity was also ring-fenced and not transferred to the finance units of their respective ministries.

9. Sector PIU staff, such as those in Bank-supported health and education projects, note that they focused on use of project funds, and were not charged with building FM or procurement skills of line ministry staff.¹⁵⁰ Most PIUs hired only international staff, resulting in little transfer of capacity to national staff. When international advisors in PIUs, such as the one for PFMCB, were twinned with competent local staff, the latter were invariably absorbed into management positions in the government, leaving little time for them to focus on capacity building dimensions under the project. When local staff were hired to PMUs,

¹⁵⁰ See ICR of *Health Sector and Development Project* (2005), Borrower's Comments, Pg. 14: "There were no counterparts posted in the PMU to transfer procurement skills in the entire life of Health I. Ministry of Health was not able to identify suitable person with English language skills to post in the PMU as Procurement Assistant. At present the Central Procurement handles entire procurement of government. Hence in the long term it will not affect the Ministry of Health."

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they received higher salaries than other government staff of equivalent ranks; the majority of such staff then sought higher paying jobs outside the government.¹⁵¹

INTERNATIONAL ADVISORS

10. **A large number of international consultants were financed by donors to help the government reform and strengthen its PFM systems and processes, but such support did not help to transfer requisite capacity to local counterparts to manage the systems.** The PFMCB project in 2006 foresaw the need to hire 52 long-term consultants along with other short-term consultants.¹⁵² Support provided by these consultants has been successful in helping to establish and strengthen policies, systems and processes in PFM (such as establishing the legal basis for reform, ensuring better accounting and reporting systems, and improving asset management) (see Appendix 5), but has so far been unsuccessful for the most part in transferring skills to local staff to independently manage these systems and processes.¹⁵³ In most cases, PFM systems continue to be operated predominantly by international advisors, in some cases, even after a decade of support for capacity building. A variety of reasons contributed to the ineffectiveness of this approach.

11. **The failure to clearly distinguish between the different kinds of capacity building needs in Timor-Leste meant that generally advisers were expected to perform three different types of functions (policy formulation, performance of line functions, and training).** Each function required distinct forms for expertise and implied distinct incentives. Often, consultants who were hired for policy support were also required to perform line functions, which did not always need the same levels of expertise. TORs did not make this distinction and required consultants to perform multiple functions where capacity-building often ended up the loser.

12. **Language further inhibited performance of advisors.** Most advisors did not speak Portuguese or Tetum (or Bahasa), thus making communication with their immediate counterparts challenging. Also, exacerbated by the weak capacity of their immediate counterparts, advisors often tended to perform critical line functions themselves. Since this ensured timely delivery of services, it was encouraged by high-level managers.

¹⁵¹ Only one local advisor was identified who preferred to join the government relinquishing his higher-paid position of a local advisor as well as job offers from the private sector.

¹⁵² TIMOR LESTE: TP-Planning & Financial Management Capacity Building (P092484): Quality Assessment of the Lending Portfolio (QALP) - Final Report, Context Section A ii.

¹⁵³ While the number of foreign advisors paid by the Bank's project may have declined, the government and other donors have hired those advisors to satisfy the operating needs of the MoF. What has helped to bolster capacity has been the decision by the Minister of Finance to use a cadre of Timorese advisors to act as a buffer between the foreign (mostly) English-speaking advisors and the Tetum-speaking staff of the MoF.

Box 5. The Petroleum Fund

In the case of the Petroleum Fund, better capacity appears to have been built up than in other areas. This was a smaller organization with clearly defined responsibilities and roles, did not involve capacity-building at different levels, and there were clearly known techniques which were considered good practice and worthy of emulation. This said, the support was also well designed. A needs assessment was undertaken, an organizational strategy for capacity-building was developed, and a variety of approaches were supported (classroom-based training, appointment of advisors with clear path for when Timorese needed to take over, scholarships, as well as on-the job training abroad (support for staff to travel to Perth to conduct tax assessments and audits of petroleum companies)). Timorese staff were also trained in English and Portuguese. The project also supported training of parliamentarians to better appreciate the petroleum laws and regulations. The ICR of the Bank-supported Second Petroleum Project notes that local staff have apparently taken over the work of some of the international advisors. However, other international advisors remain and it has been difficult to find a local person to head the Fund.

13. The presence of highly-paid consultants for long periods did not promote the right incentives for transfer of skills to local staff. Although the consulting fees appear to have been aligned with international rates paid by the Bank for similar work,¹⁵⁴ the practice of highly-paid advisors coming from high-income countries (charged primarily for policy advice) performing line functions (that ought to be responsibilities of local, permanent staff) for long periods of time distorted incentives for efficient and effective capacity transfer. government staff and other local advisors, receiving a fraction of a foreign advisor's remuneration per month, observed that they felt they should "let the foreign advisor do the work, he gets paid more for it." Almost all Timorese staff interviewed questioned the incentive for the international advisor to build and transfer capacity to local counterparts, because successful transfer "would result in eliminating his or her position." While these are universal issues and not limited to Timor-Leste, the lack of clarity in functions, the lack of a clear exit strategy for international advisors, and lack of clear guidelines on fees resulted in distorted incentives.

14. The twining of international project management unit (PMU) staff with Timorese counterparts turned out to be challenging to implement. Inadequate numbers of reasonably skilled local staff to match the large numbers of international advisors constrained transfer of capacity by international consultants. Some Timorese also suggested that merit-based appointments in some ministries, namely the Ministry of Health, helped to augment local capacity, and these ministries benefitted more than others. Language difficulties inhibited effective communication, and delays in appointment and turnover of Timorese staff exacerbated the problem.¹⁵⁵

¹⁵⁴ Until late 2009, the Bank had no standard matrix to determine the remuneration paid to consultants hired by the government and funded by the Bank. Projects financed by AusAID had a matrix that limited the extent of fees that could be paid to consultants working for more than 3 months. Moreover, projects could have used more intensively advisors coming from Bahasa- or Portuguese-speaking countries, with less expensive labor markets.

¹⁵⁵ See also HSDP I ICR.

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15. The accountability of international advisors was unclear, including for those funded by the Bank, due to existing practices.¹⁵⁶ As is the long-standing practice in other countries, consultants are hired by the government, after the terms of reference (TOR) and process of selection are cleared by the Bank. The contractual agreement is between the government and the consultant, and therefore only the government can hire or fire a consultant. The Bank can recommend such an action to the government, but cannot enforce it. Yet at the same time, the Bank is also responsible under its Articles of Agreement for ensuring that its funds are spent for the purposes they were provided. This raises a challenge in that the Bank needs to ensure that a consultant performs his/her tasks as required by the TOR cleared with the Bank, but without a direct contractual relationship with the consultant. This can confuse the accountability of the consultant and the role of the Bank, particularly in contexts where the consultant is not appointed to work on a project but to directly provide advice to the government. The confusion is bound to exist whenever there are two different accountability lines, and would be similar if the Bank were the one hiring and the consultant would have to work for the government. These risks were perhaps higher in Timor-Leste, given the low capacity of the government as the counterpart to monitor the work of international consultants related to systems that were being introduced to the country. The risks were further heightened by the precarious development of Timor-Leste's supreme audit institutions. These two factors seem to have obfuscated more than usual the accountability of the consultants to perform according to their TORs.

16. The absence of systematic performance monitoring further contributed to weak accountability on the part of international consultants. The results focus was on whether the PFM systems were working. Although appropriate in normal cases, this indicator was inadequate on its own to assess whether skills had been transferred to national staff, as functioning systems and good PFM outcomes could merely reflect satisfactory maintenance of on-line functions by international advisors. A simple but effective (according to the Timorese interviewed) system of performance monitoring existed under the AusAID-supported project PFM that preceded PFMCB.¹⁵⁷ The system allowed grading advisors on their progress in transferring skills in specific functions on a four scale rating, assessing the local staff's ability to perform a task independently. A monitoring system was integrated into the PFMCB project, but was never implemented under the project.¹⁵⁸ Thus, accountability was diffused. As a result, for example, according to a senior Timorese manager, several consultants left behind sophisticated reports (that often remained unused because of a lack of understanding) but not user-friendly guidelines or checklists for local staff to perform their work. Or, it was possible for a procurement advisor, for example, to stay in a PIU for 8

¹⁵⁶ See also: "Sending in the consultants: development agencies, the private sector and the reform of public finance in low-income countries", Sarah Fyson, Development Cooperation Directorate, OECD, 2009.

¹⁵⁷ This evaluation understands that AusAID-financed consultants are hired directly by AusAID. Using the feedback of the client is an appropriate way of gauging the effectiveness of the consultancy.

¹⁵⁸ This issue was noted in the PFMCB PAD (pg. 21): "Capacity building through the placement of qualified international advisers has to be carefully monitored. In Timor-Leste and other countries, international advisory assistance has not had much success with sustainable skills transfer. Under the PFMCBP, recruitment of advisers will be based on the "ideal adviser" standard, with advisers expected to have a strong track record in client capacity building as well as technical competencies. Emphasis on all three pillars will be part of advisers' terms of reference, and performance monitoring benchmarks for advisers will be developed against all three pillars."

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years, performing line functions to keep the work going, but to leave with little capacity built in the ministry.

17. The lack of a mechanism to coordinate the many advisors in the Ministry of Finance further reduced both efficiency and efficacy of their efforts. Guidance provided for strengthening the PFM system by individual consultants was fragmented without a clearly articulated overall framework for PFM reform, because advice was provided in silos. Timorese staff also expressed the view that when consultants unfamiliar with the systems introduced in Timor-Leste were appointed, the first six months of a one-year assignment became a learning and familiarization period for the consultant. As soon as they had learned how the systems and process work and how to communicate with locals, their term was sometimes over. This also led to inconsistent advice. One senior official noted how he received advice on implementing a law related to health practitioners in a manner consistent with a common law approach, while the law itself was based on a civil law system. More recently in 2009, the PFMCB project was restructured under a revised results framework and regular meetings are now being held at the ministerial level to attempt to ensure some coordination and consistency between the work and guidance provided by different advisors.

18. Until recently, Timorese counterparts were rarely surveyed about the quality or performance of the advisors, even though they were the ones most affected and knowledgeable about the latter's performance. The absence of systematic feedback helped to reduce the accountability of the advisors to the counterparts. Some counterparts noted that the lack of accountability of advisors to their immediate counterparts whom they were supposed to train resulted in many advisors focusing on building direct reporting systems to the senior managers. More recently in February 2009, a system to assess the performance of all PFMCB-appointed advisors was initiated, but appears to have been discontinued. Instead, monthly progress reports by advisors (which are required by consultant TORs) are expected to feed into regular monitoring of outputs and outcomes against their individual TORs.

TRAINING

19. Training was a common approach, but generated little sustainable results because it was focused on individuals and was opportunistic, fragmented, project-specific, and not followed up. The absence of a proper needs assessment, a strategic capacity building plan, and the failure to set up the planned training data base to monitor training outputs and outcomes appear to have reduced the effectiveness of training components.¹⁵⁹

20. Most training efforts focused on developing individual competencies, and not strengthening training institutions or organizational capacity to select, train, and sustain quality staff or in building linkages and partnerships between different actors. Although there was some support for training of trainers, such support should have also simultaneously strengthened institutional linkages between the government ministries and other training agencies whether they be from the government (Civil Service Institute), from the non-government sectors (such as NGOs and civil society organizations), from other public sector organizations (such as universities and polytechnics) or from the private sector (such as accounting and auditing agencies, contractors, and business groups).

¹⁵⁹ See PFMCB PAD (pg 68), which had proposed to create a training record database to support management and monitoring of training delivery and outcomes for MOF.

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21. Little support was also provided to MOF or other line ministries for strategic human resource planning and training. Recently with the appointment of a HR advisor under the PFMCB, such support is available for the MOF to develop its organizational capacity for strategic human resource planning in PFM. While it is important to strengthen PFM in the MOF, it is also important to simultaneously strengthen capacity in other line ministries. In some cases, developing strategic capacity building plans was part of project design, but was not followed through. One project, for example, included a covenant that stated that a Ministry-led Capacity Building Steering Group would be appointed within one month of project effectiveness (August 2007) and a strategic plan for capacity building would be developed by the Ministry within six months of project effectiveness. Although a draft CB strategy was apparently developed, this lost relevance with the reorganization of the ministry. Despite the covenant, it was only at the time of the IEG mission in August 2010 that a strategic plan for capacity building was being prepared.

22. Training components were often unrealistic. This led to components having to be re-designed midway because the skill level and capacity of public servants was materially different from that originally envisaged. Or again, project design did not adequately understand capacity needs, and the significant efforts and resources, that followed delivered weak results.

23. Language and numeracy barriers to effective training were not addressed. Timorese who were interviewed suggested that learning in languages in which they were not proficient was tedious and ineffective, even when there was simultaneous interpretation. Low familiarity of interpreters with technical terms further reduced efficacy. The levels of absorption in these technical areas have also proven to be challenging. The Government's Financial Information and Monitoring System, introduced by the UN, is in English. Ten years after its introduction, national staff are reportedly only somewhat fluent with the basic system and are still unfamiliar with the underlying conceptual framework. All procurement documents are in English and this severely constrains the ability of nationals to acquire satisfactory skills and competency.

24. Short-term and irregular training programs were highly inadequate to create sustained capacity, especially given that PFM formats and systems were constantly in flux. The weak levels of skills of government servants meant that significant and concerted long-term efforts were needed to ensure the building of requisite skills. Results of individual training, even when successful, were often not sustained. Well-trained people appear to move away because of inadequate incentives in the government. Poorly trained people needed further training to strengthen acquired learning and skills, but such follow-up was not available. There is also no evidence of the use of Global Development Network (GDLN) facilities to supplement and sustain face-to-face training, although some international training was planned for district participants through the Dili Distance Learning Center.

25. Individual scholarships have been awarded under a few projects - this is an appropriate approach given the capacity needs in the country, but has been underutilized so far. Graduating university students have been sent outside for training in different aspects of PFM, and are expected to be returning to TL in the near future. While the numbers are small, they will nevertheless add some much-needed capacity in Timor. However, there is

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no guarantee that these beneficiaries will come back to Timor-Leste and, if they do, that they will opt to take up government jobs as against higher-paid private sector jobs.¹⁶⁰

26. Timorese also speak about the lack of support for local educational institutions¹⁶¹ to develop relevant courses that would be offered in a manner convenient for them to attend. Given the limited availability of scholarships for longer-term overseas training, supporting short-term courses to teach government servants numeracy and English skills relevant for PFM could have gone a considerable way in building essential capacity. Timorese, who were interviewed, feel they would have availed of such courses if opportunities had been offered over the weekends or in the evenings.

Findings

27. Capacity building is a long-term investment and process, and there are few quick fixes. This is especially true when technical capacity to understand and manage modern (and imported) PFM systems is low. However, the failure on the part of the donors to support a comprehensive needs assessment, a strategic vision, and a realistic and monitorable strategy as early as possible constrained effective capacity building for PFM.

28. Without such a strategic approach, efforts were fragmented, ad hoc at the project-level, and supply-driven; results were weak.¹⁶² A rapid survey of 24 Timorese government staff in a variety of ministries conducted during the IEG mission indicated that more than 85 percent thought that transfer of PFM-related skills to national staff was unsatisfactory. Other development partners have come to similar conclusions. A recent audit by the European Commission¹⁶³ of the PFMCB project concluded that the presence of many highly qualified advisors (about 40 long-term consultants in the field at the time of its mission) appears to have led to a situation of “advisor saturation” actually “inhibiting capacity building” more than supporting it. An ADB report on capacity building concluded: “Public sector capacity-building initiatives in Timor-Leste have been a major focus of the international community. However, much of this effort has been limited in coverage, project-based, donor-driven, fragmented, and discontinuous. Results have been uneven, and the overall progress of efforts has been slow.”

29. The absence of a strategic approach led to the lack of a judicious balance between importing readymade capacity and initiating the building of local capacity to handle PFM tasks. Donors relied predominantly on international advisors to substitute as well as to

¹⁶⁰ A new approach is under consideration in which the government would hire international consultants to substitute local staff to perform line ministry functions and simultaneously give scholarships to the substituted local staff to improve their capacity overseas. Once local staff complete their courses, they would be required to take over the functions maintained by the international consultants in their absence.

¹⁶¹ A university was established in Dili in 1986, under Indonesian rule, largely to train middle-level administrators, agricultural extension workers and secondary school teachers. According to some reports, the study of English was carefully controlled and international contacts discouraged. Computers were made available only to a few, and Indonesian history was taught, but little about other countries in the region. The majority of the educational buildings were razed to the ground during the conflict in 1999. (see http://en.wikipedia.org/wiki/Universidade_Nacional_de_Timor-Leste)

¹⁶² *Democratic Republic of Timor-Leste: Capacity Building to Strengthen Public Sector Management and Governance Skills, Phase III* (ADB, September 2008), Para 4.

¹⁶³ Reference to EC to be deleted before disclosure. Would read “external audit.”

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build local capacity, which proved to be over optimistic. At the same time, weakly designed and fragmented project-level training efforts also did not help to strengthen local capacity for PFM.

Table 24. Ratings by National Government Staff on Capacity/Skills Transfer of Bank Support

	<i>Government Advisors</i>	<i>Local</i>
# surveyed	4	21
Ratings	%	
HS (6)		
S (5)	50%	5%
MS (4)		10%
MU (3)		24%
U (2)	25%	29%
HU (1)	25%	33%
Average Rating	2.8	2.3

30. **An overall results framework was non-existent for many years, and weak when formulated.** Although the PFMCB project included a results framework for capacity building, its highly ambitious objectives, a complicated design involving 51 long-term consultants in addition to other short-term consultants, and more than 100 indicators needed a total overhaul in 2009 before implementation could begin in earnest.

31. **Over-ambitious objectives and weak project designs based on unrealistic assumptions further constrained results.** For example, the Economic Institutions and Capacity Building project, which preceded the PFMCB project, needed five extensions of its closing date. As the ICR notes, “in hindsight, the original closing date which was established as two years after project approval was ambitious -- given the difficult environment -- for a TA project focusing on jump-starting government capacity.”

32. **Capacity, to the extent it was built, was often not sustained.** First, individual capacity building was not adequately complemented with institutional and organizational strengthening. Second, the lack of refresher training to sustain individual capacity built, coupled with insufficient incentives, made it challenging to retain capacity in the public sector.

33. **Language has been a major constraint to effective capacity enhancement that was recognized, but not addressed, in hiring international consultants or in conducting training.** Except for a handful of advisors who spoke Portuguese (the national language) or Tetum (the language most widely spoken), the majority of the consultants spoke English.¹⁶⁴ This was, and continues to be, a major constraint to capacity building efforts in a country where nationals speak other languages, although a number have picked up English over the last decade.

34. **Monitoring and evaluation of capacity building results was inadequate.** ICRs provide little or no focus on the outcomes of training, with the focus almost entirely on outputs in

¹⁶⁴ This may have been driven by the fact that many government staff were not conversant in Portuguese, although many more have picked it up over the last decade.

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terms of training sessions held and number of participants trained.¹⁶⁵ PFM outcomes such as timely production of budget reports, percent of budget spent, and so on were monitored. Such indicators, however, were not necessarily relevant in assessing the results of capacity transfer, since international advisors were regularly performing day-to-day functions. It is also important to assess periodically whether the advisors were contributing towards management techniques, analytical tools, incentives, and organizational structures that suit the available capacity and are responsive to the desired outcomes

35. Efforts focused on Dili, with little attention to building relevant institutions and human resource capacity at the district level. The Bank focused on community empowerment at the local level during the first many years, by-passing traditional forms of established governance institutions. In 2006, the PFMCB project focused on strengthening 'two' critical PFM functions at the district level. These planned activities have not yet fully materialized. Weak capacity at the local levels will continue to be a significant constraint to effective functioning of PFM systems, especially as the 2009 decentralization strategy is implemented.

36. Donor coordination in supporting capacity enhancement was weak for several years. After 2006, support for PFM capacity building provided through the PFMCB project was better coordinated among key development partners, better aligned with government priorities, and more consistent with the spirit of the Paris Agreement.

Lessons

37. A needs assessment to understand capacity weaknesses as well as strengths is a necessary beginning point, particularly in fragile states. Based on such an assessment, a flexible, strategic, and prioritized action plan that builds on the strengths, with a clear results framework, should be developed and supported.

38. Appropriate consultants need to be appointed to build capacity for each function where enhancement is desired. Senior and experienced consultants should be appointed for limited periods to provide policy guidance. Consultants from countries with similar PFM systems such as those being introduced in Timor should be hired to perform line functions for as long as it takes to build capacity. At the same time, consultants with requisite pedagogical and language skills should be hired to strengthen local competencies including language and numerical competencies.

39. Short-term capacity enhancement may have to take the form of international advisors, but this approach should be accompanied by a clear exit strategy for international advisors. In addition, where a number of consultants are hired for building PFM capacity, there should be a mechanism to coordinate the different efforts by individual consultants and a third-party performance audit of the results, which should involve feedback from beneficiaries of capacity building efforts.

¹⁶⁵ See ICR for the Economic Institutions Capacity Building Project (2007), Pg. 5: "The Training Component of the project was successfully concluded in 2003. The formal training program, which was concluded in February 2003, included four two-week courses covering nine topics on financial management and procurement. The total number of participants for these courses was 57 officials, (approximately one-third of whom were women)... Participants reported a high degree of satisfaction and indicated a desire for further training and support related to their actual functions."

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40. **A monitoring and evaluation system is essential to understand progress in capacity strengthening, and also to assess the performance of individual advisers.** The associated indicators must, however, assess both transfer of capacity through various capacity building effort as well as PFM outcomes.

41. **Appropriate incentives are needed to sustain the results of capacity building for PFM.** These include: i) transparent and competitive appointment of civil servants, as well as competitive remuneration; and ii) attractive and relevant courses tailored to staff needs.

42. **Individual training is important, but strengthening institutional capacity to provide PFM training is even more important.** Investment in strengthening training organizations such as the civil service institutes and other such agencies is essential to provide and sustain relevant and much-needed training for civil servants.

Appendix 5. Money Path – From Budget Preparation to Budget Execution

1. This annex focuses on budget planning and implementation process, outlining the problems in public financial management and how development partners addressed the issues. The note is based on a desk review supplemented by a brief mission to Timor-Leste and interviews with Bank staff, government officials, donors and other stakeholders.

2. **The Ministry of Finance has a strengthened institutional organization that enables a better public financial management process.** Budget preparation and budget execution are improving as was shown last year when, for the first time, the Government of Timor-Leste presented the FY2010 Budget for discussions with Parliament on time and with budget execution rates increasing. Two laws are giving support to it. The 2008 Organic Law of the Ministry of Finance built an organizational structure assigning responsibilities to create an environment that should effectively support a sound public financial management across the government. In October 2009, Parliament enacted the Budget and Financial Management Law, which gave the new legal basis for the budgetary framework. The FY2011 Budget is expected to follow this new framework.

3. **Budget preparation and budget execution are following a clear sequence of steps and a fixed calendar.** At the beginning of the fiscal year, in preparation for the budget's next fiscal year, a timetable is defined for all budgetary activities for line ministries and agencies and, within the Ministry of Finance, for the budget and treasury areas (the fiscal year coincides with the calendar year). By the 15th of October each year the government should submit the draft budget to Parliament. The Budget needs to be approved before the end of the year.

4. Before the Circular that sets budget ceilings for each agency and ministry goes to the government agencies for preparation of the budget, **the Ministry of Finance estimates the resources available for the following fiscal year, taking a medium term perspective.** These resources include domestic taxes and resources from the Petroleum Fund. Domestic taxes represent a small fraction of the overall budget (for 2011, US\$112 m out of a total budget of US\$714 m). In preparation for next year's budget, the Ministry of Finance issued the Circular by early August 2010, with the macroeconomic framework for the fiscal year's 2011 budget. It sets the national priorities for the budget (among others, basic infrastructure, rural development, human development and access to justice).

5. The Circular sets the fiscal envelope for each government agency and for five main budgetary items (wages and salaries, goods and services, minor capital, capital and development expenditures and transfers). The capital budget includes an identification of investment projects. All this information is given under a medium term fiscal framework and is the basis for each line ministry to prepare its budget. The final approval before going to the Parliament includes a discussion in the Budgetary Committee, chaired by the Prime Minister, with approval needing to be confirmed by the Council of Ministers.

6. This said, **the fiscal framework lacks a reconciliation process between development programs and priorities and the budgetary process.** Line ministries do not have the capacity to make a good connection between long-term development projects and the actual capital budget for the FY under discussion. Although the fiscal framework sets an overall target for “capital investment for development” with a 5 years perspective, it is not clear how those numbers are related to the long-term needs of development projects. Even more, when going into the concrete numbers for capital expenditures of the FY under discussion, there is a lack of connection with the overall medium-term perspective. In addition, there is no link between investment projects and the recurrent expenditures that they eventually would imply.

7. An additional source of concern is that **the budget document that goes for discussion to Parliament does not include donor-funded projects.** In addition, this information is not included in the financial government reports. The Ministry of Finance collects information on commitments and execution but it is not easily publicly available, nor is it combined with the nationally funded budget. In other words, public expenditure financed by donors needs more transparency and a more open discussion with Parliament and with stakeholders.

8. On the income side of the budget, **taxes are projected taking into account macroeconomic variables.** Although in previous years collection has been good with respect to targets, the tax administration office lacks human and technical resources to support the need to increase tax collections, and reduce reliance on income coming from non-renewable energy.

9. **The main source of budget resources is the Petroleum Fund.** The Fund needs to balance development financing against public finance sustainability and the need to be generationally equitable. All petroleum revenues flow into the Fund, including returns from investments. The Fund is integrated with the Budget and resources spent domestically are subject to decisions approved by Parliament. The Fund management has a high level of transparency. The Estimated Sustainable Income (ESI) is calculated at the General Directorate of Policy Analysis & Research, Petroleum Fund Directorate in the MoF and is a benchmark for long-term sustainable withdrawals. However, the government may transfer resources above the ESI level provided it submits a justification and Parliament approves.

10. After the approval by Parliament of the budget, and with a forecast of revenues, **the Treasury prepares a cash flow plan at the beginning of the year for line ministries and agencies, allowing the execution of appropriations.** The Treasury Director issues a notice (the “Expenditure Authorization Notice”). This gives line ministries the legal base to begin to execute. It contains the information for quarterly appropriations by budgetary category, except for capital expenditure where the amount authorized covers the full year.

11. **Line Ministries and government agencies begin executing their appropriations and depending on the amount and the type of expenditure, they have to follow different procurement rules.** For goods and services, under the recurrent expenditures item, line ministries just need to submit the request for payments. For total costs of minor capital and capital expenditures of up to US\$1 million, the final responsibility for authorization falls into the hands of the Procurement office of each line Ministry. For expenditures between US\$1 and US\$3 million, the authorization goes to the office of the Vice Prime Minister and for con-

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tracts above US\$3 million the decision is taken by the Council of Ministers.¹⁶⁵ In every case, the Ministry responsible for the execution is the one signing the contracts. This new decentralized procurement process has helped move budget execution, overcoming the very centralized authority in the MoF that was in place until recently.

12. Budget execution, measured as payments actually made with respect to its original plan in the Budget Law, has improved. In 2007, actual expenditure was almost 45 percent lower than the original budget, while in 2009 the gap was only 11 percent. However, this last number hides the fact that capital expenditure was under-executed by 17 percent, while transfers (pensions, public grants and personal benefit payments) deviated from its programmed budget by only 2 percent. **The Ministry of Finance makes a quarterly report of budget execution, within two months of the end of the quarter. For the first quarter of fiscal year 2010, domestic revenues accounted for 25 percent of total domestic revenues expected.** On the expenditure side, current expenditures for the quarter accounted for 17 percent of planned expenditures for the whole year, while capital expenditures accounted for only 1 percent of planned expenditures for the whole year. Although it is not uncommon in other countries that capital expenditure has a lower execution performance, in this particular case it might suggest capacity weaknesses of ministries and agencies.

13. Finally, payments are authorized when the vendor submit invoices. Each Ministry is responsible for the delivery of goods and services and has to follow a verification process. The Finance Unit of each Ministry sends payment requests to the Treasury that either issues a check or makes an electronic transfer.

14. This process has recently benefited from the upgrade of the accounting and reporting system. Since 2001, the country has been using FreeBalance¹⁶⁶ as the system that supports public financial management. Through all these years the system has gone through step-by-step upgrades, **including payroll and pensions and reconciliation and cash management** in the Treasury. In 2008 the system was further extended to include a reporting software and the implementation of the Performance Budgeting Module. Migration to the system has been slow and it was in operation for the budgetary process for the first time in 2009 for the preparation of the 2010 budget. Since last year, line ministries are able to input data directly into the system, which improved the consistency of the budget, and enabled better budget preparation and presentation.

15. Payroll has migrated to the Free Balance system. Salaries are paid to personal accounts in the banking system in Dili, while civil servants in the Districts still get cash. However, there is no reconciliation of the information of civil servants in the Treasury with the information of the Civil Service Commission.

¹⁶⁵ The institutional set-up is the one in place at the close of this evaluation. IEG understand that institutional changes have taken place, and that line ministries are responsible for procurement above US\$1 million, while the Council of Ministers is still responsible for procurement above US\$3 million.

¹⁶⁶ FreeBalance is an electronic financial management system based on government accounting principles. It should allow a good commitment accounting and budget management following public sector laws and regulations. It should also allow budgetary and commitment controls during budget execution.

16. **Overall, fiscal transparency has increased.** The 2010 budget books have detailed information of the budget by entity and by expenditure item. Moreover, it includes analysis on growth, inflation and exchange rate of the dollar with respect to Timor-Leste's main commercial partners. Information on revenues includes a detailed analysis on each source of income coming from domestic taxes, revenues from autonomous agencies, customs, funding from partners and petroleum revenues. On the expenditure side, the information includes current and capital expenditures, with further sub-items. All information is framed in a historic perspective (from 2002) and with a medium term perspective (until 2013).

17. **Procurement¹⁶⁷ procedures, however, have been a key constraint to development effectiveness and to effective service delivery¹⁶⁸.** The Bank has focused on its own procurement guidelines and the ring-fencing of its own funds, but has not devoted sufficient attention to helping improve government procurement requirements and practices. It has therefore not contributed much to the development of a strong procurement system or requisite national capacity in the government. Overall, this has weakened the results of the development effort in Timor-Leste.

18. **The 2005 Procurement Law, a condition of the Bank-supported Transition Support Program (TSP II),¹⁶⁹ is complex piece of legislation that severely constrains the government's ability to spend.¹⁷⁰** A number of decrees set out the procurement framework. They state the detailed steps such as prequalification processes, bid opening and comparison, addressing bidder's complaints etc., which are typically found in regulations or procurement guidelines. This severely constrains flexibility or the ability to revise processes that do not work, since it requires an amendment of the decree.¹⁷¹ Tender documents are also overly

¹⁶⁷ The Bank conducted a Country Procurement Assessment Review (CPAR) in 2002, which concluded that procurement risk was high and institutional capacity was weak. It recommended: (i) modification of the Procurement Regulations and Manuals and, as an interim measure, deletion of provision for obtaining telephone quotations and reduction in the threshold for purchases through shopping (quotations) to US\$15,000; institution of procurement planning procedures, including greater coordination between budget, planning and procurement processes; establishment of the Procurement Policy Committee; and installation of the procurement module of FreeBalance, in the Procurement Unit and Treasury. The Transition Support Program PAD notes that the Government of Timor-Leste has endorsed these proposals and is already taking steps to implement the preliminary report's recommendations.

¹⁶⁸ See independent review undertaken for the Government of Timor-Leste by Deloitte and Touch in 2007.

¹⁶⁹ Some key policy actions proposed in the TSP II included: Improvement in timeliness of procurement; development of procurement strategy; training of procurement staff; and submission of revised Procurement Law

¹⁷⁰ "The Ministry has made a concerted effort to improve budget execution capacity, but its ability to meet expenditure targets has been constrained by procurement backlogs due to weak capacity at the ministry and the limited number of central procurement staff." TSP ICR III, Pg. 10.

¹⁷¹ Typically, the broad principles and authority for procurement should be stated in a law, and detailed steps be provided through administrative orders administered by a procurement authority with responsibility for implementation the rules in an economic and efficient manner. The Timorese law is unique in that it details out the procedures.

complex, with centralized ex-ante clearances for most parts of the bid evaluations that lead to delays in procurement. Exacerbating the situation is the fact that most bidding documents are only in English, which make it difficult for government staff or contractors to effectively understand, use, or complete bidding documents.

19. Procurement institutions are weak.¹⁷² A Technical Secretariat under the Vice Prime Minister's office was established early in FY10 (replacing the Procurement Unit in MOF) to provide guidance and support to line ministry procurement implementation. A Procurement Commission comprised of civil servants, business representatives and NGOs has also been set up. The central authority for procurement has, thus, been shifted to the Vice-Prime Minister's Office, and this newly created Secretariat is in need of rapid strengthening as it starts functioning. The Directorate of Procurement in MOF continues to be responsible for functions related to policy formulation, regulation, capacity-building and data management. However, this work is still managed by an international advisor, with national capacity for such functions not having been adequately strengthened.

20. National staff still need to gain capacity to manage day-to-day procurement processes in line ministries. While there is capacity in ring-fenced PIUs, there has been little indigenous procurement capacity in government agencies, except in the Ministry of Finance, which is the strongest entity within the government in terms of local procurement capacity. However, with the recent organizational changes, the skills built up in MOF have to some extent become less important since the MOF is doing relatively little transactional procurement. With the decentralization of procurement authority to line ministries (para 12), the government's procurement capacity has in effect become somewhat lopsided, since there is little indigenous capacity in line agencies where the procurement authority of up to US\$ 1 million now vests. Both in the Ministry of Health and the Ministry of Education, international advisors manage procurement. In the MOE, at the time of the IEG visit, there appears to be adequate capacity to manage national shopping, and the threshold for this has now also been increased to US\$250,000.

21. Procurement training provided by the Bank has been weak, and its focus has been on Bank guidelines and PIU staff. Such training is not particularly relevant for staff wishing to implement the current government procedures, where bidding processes are different. There is still no overall strategy for building the government's procurement capacity, although in 2009, regular procurement courses were being planned and implemented by the MOF. There were some questions regarding the quality of this training, in particular because of the difficulty of training when the language of communication and the bidding documents are in a language unfamiliar to participants.

22. There is little transparency in procurement processes. The ROSC (July 2010) confirms that basic state processes such as "procurement suffer from a lack of transparency, integrity, process control and appeal options." Commonly followed steps such as advertisements of

¹⁷² The institutional set-up described in this paragraph is the one in place at the close of this evaluation. IEG understand that institutional changes have taken place, that the Office of the Vice Prime Minister is no longer involved, and that line ministries are responsible for procurement above US\$1 million, while the Council of Ministers is still responsible for procurement above US\$3 million.

bids, systematic and transparent collection of tenders, documenting minutes of public opening of bids, notifying unsuccessful bidders do not appear to be consistently followed. The mission could collect little or no information on procurement from the MOF, which had coordinated procurement so far. The 2010 draft ROSC reports that in MOF in 2009, “an amount of US\$72 million was exempted from normal procurement procedures” because these resources involved funds for capital projects that faced implementation delays.¹⁷³ The procurement module of Free Balance, discussed in the 2003 CPAR, has still not been established. It was expected to be installed and updated to suit Timorese needs by the end of the year. If this happens, subsequent procurement will become more transparent.

23. Oversight of procurement continues to be poor. The Technical Secretariat (para 19) has not effectively initiated its oversight functions. The lack of any information on contracts (even if one asks for it, according to civil society representatives) leaves no oversight or monitoring at any level, external to the procuring authorities. Previously, line agencies had not regularly reported to the MOF as required; these processes will have to be initiated so that they provide regular procurement reports once the Technical Secretariat is up and running. The absence of an internal auditing process further heightens procurement risks. The lack of an external audit institution is also not helpful. Although there is a dispute resolution mechanism on paper to settle any procurement-related disputes, there is little or no recording of information on any complaints filed, and the mission understood that the system was not effective. This makes the government very vulnerable to the perception that there is bad governance (irrespective of whether there is or there is not.)

24. Thus risks to development effectiveness in this quarter remain high. This is especially true since day-to-day procurement responsibility now lies entirely with the line agencies (see para 11) who do not have the requisite capacity, and coordination and oversight responsibilities are still almost non-existent.

25. The challenge for the future is enormous. Support is needed urgently to revise the law to bring in sound legal framework appropriate for Timor-Leste including its civil law system, enhance transparency of the procurement process, establish necessary oversight and regulation, and ensure adequate reporting. The task becomes more daunting because any attempts at narrowing authority will now be seen as cumbersome and unnecessary, given that less competitive and more rapid bidding processes (such as national shopping) have been established. The problem of effective capacity will also remain until the language constraint has been resolved. Intensive training and sustained enhancement of capacity is required as well as institutional strengthening of the recently established procurement entity. These needs should preferably be addressed within an overall procurement strategy and action plan, which is still not available in Timor-Leste. The Bank should support the strengthening of this capacity, while at the same time trying to support sustainable reform for a more competitive procurement system, while firmly keeping in mind Timor-Leste’s urgent need for effective service delivery.

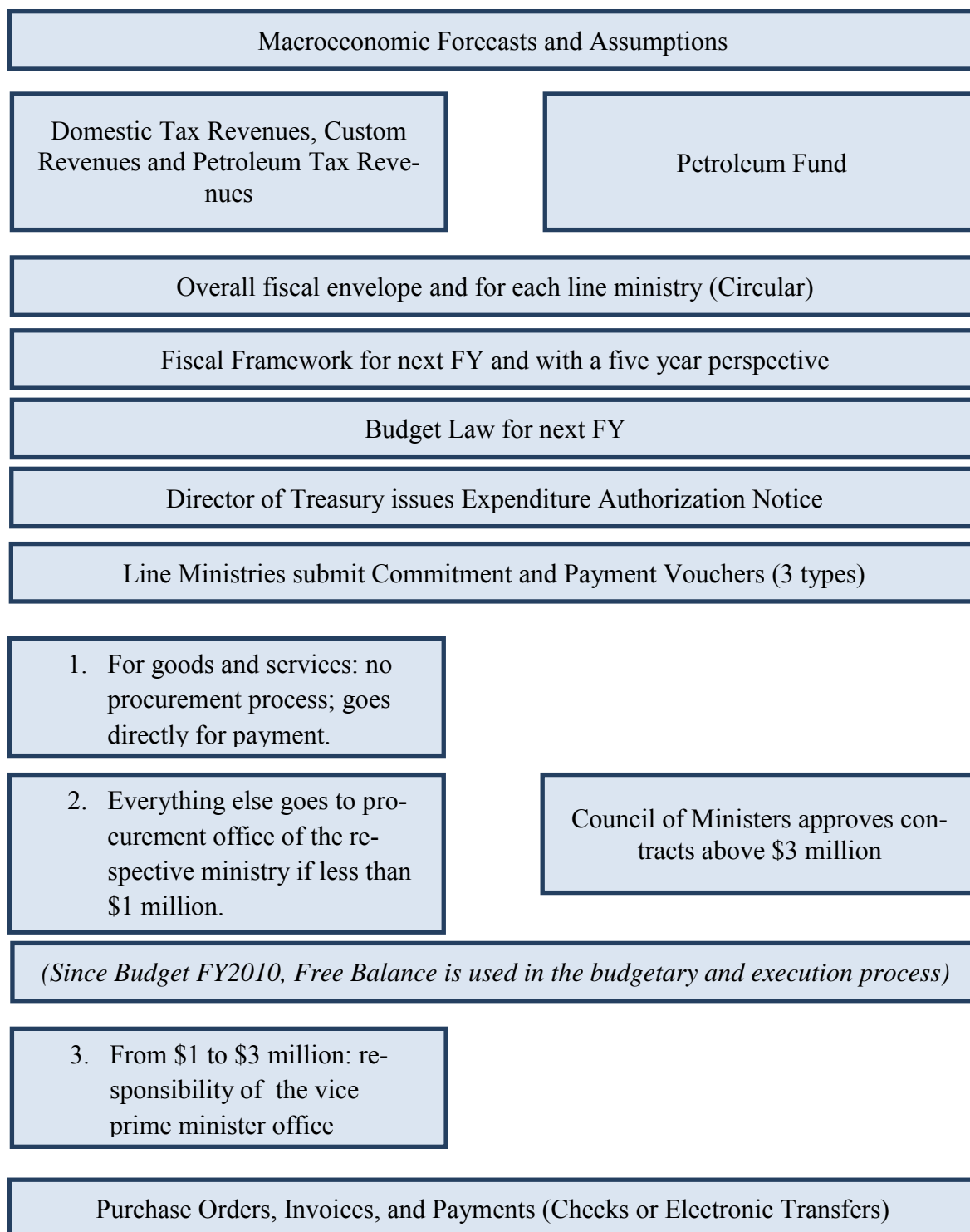
¹⁷³ 2010 International Monetary Fund November 2010, IMF Country Report No. 10/341 Democratic Republic of Timor-Leste: Public Financial Management – Performance Report, p 40

Appendix 5. Box 1.

Some Weaknesses Continue:

- The Timorese budgetary process is flexible, perhaps too much. Each agency and ministry can move expenditures within the four major economic expenditure items. In addition, each year the government presents to Parliament a supplementary budget. Such flexibility of the budget process is an improvement with respect to the previous tight control exercised by the Ministry of Finance, but also runs the risk that the budget loses its original sense. This flexibility may not encourage serious efforts at planning from line ministries and reduces the credibility of the budget. In fact, the 2010 budget, by mid-year, was already increased by almost 27 percent from the original plan.
- The process as described above, beginning with the fiscal framework and ending with budget execution and payment of vendors and public servant's salaries sounds good on paper and is an improvement that has taken place slowly during the past five years. However, at every step, the process has much room for improvement. The fiscal framework lacks a macroeconomic consistency analysis to support a sound fiscal policy stance. During the phase of budget preparation, line ministries do not have the capacity to link budget allocation with budget requirements and policy objectives. In addition, an effort should be done to improve multi-year investment programs and to have costing and impact of projected investments. Line ministries now have access to the Free Balance system however big connectivity problems persist. During the execution phase, the Treasury needs to improve the reconciliation and purchase modules of the Free Balance System.
- A big problem with budget preparation is the involvement of the Ministry of Finance as the entity in charge of measurement of the economic performance and at the same time of economic forecast. Actually, it is not wrong to say that its estimates for expected economic growth are not the result of some analysis of future dynamics of different economic activities but are government desires and expectations. It's just that there is no independent validation and evaluation of those numbers.

Budgetary Process



APPENDIX 5

MONEY PATH – FROM BUDGET PREPARATION TO BUDGET EXECUTION

Appendix 5 – Table 1

<i>Budget Planning and Execution</i>	<i>Key Issues That Constrained Development Effectiveness</i>	<i>Results of Donor Support</i>
Budget Planning	Coordination between Budget and Statistics Directorates, line ministries and districts	FY2011 budget planning is been built on macroeconomic assumptions. A Circular with budget ceilings for line ministries and the whole government has been issued. High reliance on external advisors.
Budget Allocation	Implementation of combined sources of budgeting; improved timeliness and efficiency of the budget formulation processes; greater coordination between the Budget Directorate, Planning Directorate, line ministries and districts in budget formulation, implementation and monitoring; improved access to understanding of budget by citizens	A law on Budget underlies the budgetary process (including timetable within MoF and line ministries). High reliance on advisors.
Treasury Commitments Expenditure Authorization Notices Transaction Commitments	Improve internal systems; reliable financial information; strengthened budget execution	Systems have improved and execution has increased. Financial information is still weak.
Internal Audits	Well-functioning department established and performing internal audits	A one-person unit has been established, but no audits are being conducted as of now.
Procurement	Economic and Efficient Procurement	Significant constraint to development effectiveness until recent decentralization of procurement responsibilities. Current situation poses high fiduciary risks with procurement decentralized to sector ministries but no oversight and audit systems in place and no procurement-related information available.
Budget Execution Reports	Delayed reports and lack of information	The Budget Directorate is issuing a quarterly report on budget execution with the support of a full time advisor. Reports are published in English and Portuguese.
External Audits	None existed	Still continues to be undertaken by an external contractor.
Parliament Scrutiny	No scrutiny by Parliament	No results except in the area of the Petroleum Funds where parliamentarians were trained on the Petroleum law and analysis.

Appendix 6. Timor-Leste - List of Approved Projects, 2000-2010^{1/}

Project Name	Approval FY	Project Cost ^{2/}	IDA Grant Amt	TFET Amt	Bilateral	Other Grant Amt ^{3/}	Latest DO	Latest IP	IEG Outcome	Rev Closing
TFET Projects										
Gas Seep Harvesting Project	2007	1.85		0.85			MS	MS		12/31/2011
Power Sector Priority Investments	2005	2.02		1.35					MS	3/31/2008
Third Agriculture Rehabilitation Project ^{4/}	2004	13		3	8.5				MU	12/31/2008
Petroleum (EASEG)	2003	0.24		0.24			HS	S		12/31/2003
Second Timor-Leste Petroleum Project	2003	1.61		1.61					S	12/31/2006
TFET funded ADB Water & San. II project	2003	4.5		4.5						12/31/2003
Second Agriculture Rehabilitation Project.	2002	8.73		8					MU	6/15/2005
Fundamental School Quality Project ^{5/}	2002	20.7		20.5					MU	12/31/2006
Small Enterprises Project II	2002	7.42		7.42					MU	12/31/2007
Third Community Empowerment and Local	2002	1.5		1.5					U	1/30/2006
TFET funded ADB EIRP II project	2002	9.0		9.0						2/28/2007
TFET funded ADB Microfinance project	2001	4.0		4.0						7/8/2005
2nd Health Rehabilitation Project ^{6/}	2001	34.1		12.6	19.5				MS	7/31/2008
Economic Institutions for Capacity Building ^{7/}	2001	0.92		0.92					MS	6/30/2006
Second Community Empowerment and Local	2001	8.5		8.5					U	1/30/2006
Agriculture Rehabilitation Project	2000	7.5		6.8					MS	3/15/2003
Emergency School Readiness Project	2000	13.9		13.9					MS	6/30/2002
Small Enterprises Project Phase I	2000	4.85		4.85					MU	12/31/2002
Health Sector Rehab. & Dev. Project	2000	12.98		12.67					S	12/30/2004
First Community Empowerment and Local ^{8/}	2000	8.55		7	1.55				U	6/30/2002
TFET funded ADB Roads (EIRP) project	2000	29.8		29.8						12/31/2004
Dili Community Employment Generation	2000	0.5		0.5					S	12/31/2000
IDA Grant Projects										
Edu sector support Addnl Financing	2010	5	5							
Youth Development Project	2009	2.1	2.1				MU	MU		12/31/2011
Health Sector Strategic Plan Support ^{9/}	2008	20.3	1		19.3		MS	U		6/30/2013
Education Sector Support ^{10/}	2007	14.9	6		6		S	S		1/31/2013
Energy Services Delivery Project ^{11/}	2007	2.8	2.5				MS	MU		12/31/2011
Planning & Fin Mgt Capacity Building ^{12/}	2006	44.5	7		37		MS	MS		7/10/2011
Consolidation Support Program (CSP) ^{13/}	2006	12	0.5		11.51				MU	10/31/2006
Third Transition Support Program ^{14/}	2005	29.16	4.96		24.2				MU	10/31/2005
Transition Support Program II ^{15/}	2004	4.17	4.17						MU	10/31/2004
Transition Support Program	2003	56.8			51.76	5			MU	6/30/2005
Others										
Timor-Leste-Ext. Ind. Trans. Initiative	2009	0.23			0.23					12/31/2010
Primary Education Support	2009	8.5				8.5				6/30/2009
Health sector support prog	2006	4.4			4.4					10/31/2010
FTI Program 2009	2006	4.9				4.9	S	S		6/30/2010
Enhanced Poverty Monitoring and Analysis	2005	0.3				0.3	HS	HS		9/15/2008
T-L Inst. Bdg. for Veterans Policy Impl.	2005	0.15				0.15	S	S		5/30/2008
Institutional Development of Ombudsman	2004	0.22				0.22	S	S		12/16/2007
Institution Bldg of Inspector General	2004	0.13				0.13	MU	MU		6/13/2008
Public Expenditure Management and Procur	2003	0.31				0.312	MU	MU		1/5/2007
Strengthening Capacity for Pov. Analysis	2002	0.2				0.2				8/28/2005
Strengthening Public Expenditure Mgmt.	2002	0.35				0.35	MU	MU		12/31/2006
Supporting the Trans. to Adm. Independen	2001	0.13				0.13				1/20/2004

Notes: The Bilateral column includes countries co financing and bilateral country contribution for a trust fund granted only for Timor-Leste. The other grant amount column includes IDFs, DGF and multi country and/or multi-donor trust funds, such as Fast Track Initiative (FTI). - The Transition Support Program did not receive an IDA Grant, but received a grant from IBRD (DGF)

^{1/} Bank Database does not report the grant amount for IDFs.

APPENDIX 6

TIMOR-LESTE LIST OF APPROVED PROJECTS, 2000-2010

^{2/} Project cost includes the government contribution to the project

^{3/} Other Grant include IDFs and multi-country or/and multi-donor Trust Funds.

^{4/} Bank Database reports the TFET grant of US\$ 3.0 million. This table reports the TFET grant combined with the EC grant for this project of US\$ 8.83million.

^{5/} Bank Database reports the planned TFET grant of US\$ 13.9 million. This table reports the actual TFET grant for this project.

^{6/} Bank Database reports the TFET grant of US\$ 12.6 million. This table reports the TFET grant combined with the EC grant for this project of US\$19.5 million.

^{7/} Bank Database reports the planned grant of US\$ 0.5 million. This table shows the actual grant.

^{8/} Bank Database reports the planned grant of US\$ 21 million. This table reports the actual grant for this project.

^{9/} Bank Database does not report any grant for the Health Sector Strategic Plan Support. The value reported in this table corresponds to the multidonor cofinancing to this project through Trust Funds administrated by the World Bank.

^{10/} Bank Database does not report any grant for ESSP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds

^{11/} Bank Database does not report any grant for ESDP. The value reported in this table corresponds to the Japanese support to this project through Trust Funds

^{12/} Bank Database does not report any grant for PFMCBP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds administrated by the World Bank.

^{13/} Bank Database does not report any grant amount for CSP I. The value reported in this table corresponds to the co-financing provided to this project through Trust Funds administrated by the World Bank.

^{14/} Bank Database does not report any grant amount for TSP III. The value reported in this table corresponds to the multilateral support, funded through Trust Funds administrated by the World Bank, to this project.

^{15/} Bank Database does not report any grant for TSP II. However, operations portal shows a grant disbursement of US\$15,344.00

Source: World Bank internal database, Tables 2b.1 and 4a.6 as of 9/15/2010. Operations and TF reports

Appendix 7. Timor-Leste - Analytical and Advisory Work, FY00-FY10

	PROPOSED FY	DELIVERED TO CLIENT FY	OUTPUT TYPE	PROJECT ID
AAA				
<i>I. Programmed and Delivered</i>				
Policy Note on Population Growth	FY07	FY09	Policy Note	P097675
Poverty Reduction Note	FY00	FY03	Report	P072483
Post Independence Education System Study	FY00	FY03	Report	P075490
Household Fuel Study	FY06	FY07	Report	P096807
Country Economic Memorandum (CEM)	FY02	FY02	Report	P072463
First Credit and Collateral Registry	FY07	FY08	"How-To" Guidance	P100778
Civil Society Capacity Bldg	FY00		Knowledge-Sharing Forum	P072316
PPIAF Phase II Power Regulatory Framework	FY07		Knowledge-Sharing Forum	P096729
<i>II. Programmed and not delivered</i>				
Service Delivery for the Poor	Dropped			
Budget and Expenditure Analysis	not found			
TA: Governance	no information			P091766
Rural Growth Strategy	not found			
Strengthening Capacity for Poverty Monitoring	not found			
Business Environment	not found			
PMO Planning TA Project	not found			
Capacity Building Review	not found			
<i>III. Non-Programmed and Delivered</i>				
Social Development National Dialogue		FY01	TA/Not assigned	P072389
Village Governance Options		FY01	Report	P072387
Policy Notes		FY01	Policy Note	P072466
Gender Networking & Local Governance		FY02	Institutional Development Plan	P072388
Strategy for Housing		FY02	Policy Note	P071116
Background Paper for Donor's Meeting		FY02	Policy Note	P078340
Poverty Monitoring		FY02	Institutional Development Plan	P072481
FALINTIL Reinsertion Assistance (FRAP)		FY02	"How-To" Guidance	P073852
Public Expenditure Mgmt & Accountability		FY02	Report	P078338
ADB Water Supply & Sanitation Rehabilitation project		FY02	"How-To" Guidance	P072563
East Timor: Policy Challenges for a New Nation		FY02	Report	P072463
East Timor Policy Notes/TA		FY03		P079811
ADB Hera Port Rehabilitation Project		FY03	"How-To" Guidance	P081786
Urban Strategy for Dili		FY03	Client Document Review	P079701
Country Procurement Assessment Report		FY03	Report	P075389
Veterans Policy Preparation		FY04	"How-To" Guidance	P082139
Timor-Leste Youth Development		FY04	Knowledge-Sharing Forum	P089990
Energy Sector Review (EASEG)		FY04	Institutional Development Plan	P088016
GDNL Training Needs Assessment		FY04	"How-To" Guidance	P075432
Public Expenditure Review (PER)		FY04	Report	P079803
Institutional Development of the Provedor de Direitos Humanos e da Justica		FY04		P082580
Governance Issues Paper		FY04	Policy Note	P089096
Feasibility Study for Concessional Borrowing		FY05	Policy Note	P096364
Infrastructure Sector Review		FY05	Report	P067999
Social Protection and Labor Market		FY06		P079630
Timor-Leste - Governance		FY06		P091766
Private and Financial Sector Assessment		FY06		P093700
Administrative Services Capacity Building (PCF Project)		FY06	"How-To" Guidance	P079747
Clandestino Survey		FY06		P091455

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

	PROPOSED FY	DELIVERED TO CLIENT FY	OUTPUT TYPE	PROJECT ID
Leadership for Economic Development		FY07	Knowledge-Sharing Forum	P083224
Health Sector Review		FY07		P079725
Supervision of ESMAP RE Planning Study		FY07		P092000
ESMAP Timor-Leste RE Master plan		FY07		P094085
Advice on Budget Execution		FY07		P102149
ASTAE Rural Electrification master plan & manual		FY07		P094390
Telecomms Reform		FY07		P103351
Defining a Policy for Veterans		FY08		P085287
FIRST #397: Strategy for credit registry		FY08		P105485
Commun. & Leadership Capacity -LICUS		FY08		P104081
Briefing the New Government		FY08		P106947
Youth Policy Development		FY08	Report	P101021
Policy Note on Population and Growth		FY09	Policy Note	P097675
Poverty Assessment		FY09	Report	P092261
Doing Business in East Asia		FY09		
Youth sector support		FY09	Client Document Review	P109376
Timor-Leste Country Environmental Analysis		FY09		
Timor-Leste National Priority Program		FY09	Client Document Review	P112298
Timor-Leste Country Environmental Analysis		FY09	Report	P099514
PFM/PEM Diagnostic and Review		FY10		P118860
Raising Agricultural Productivity		FY10		P115539
TFESSD Vulnerability (LSMS Survey)		FY10	Knowledge-Sharing Forum	P108647
EAP Justice for the Poor (WB & AusAID)		FY10	Knowledge-Sharing Forum	P111360
<i>IV. Ongoing and Forecast</i>				
Social Accountability in Participatory Transfer and Grant Programs	FY10			P117303
Using CDD to provide infrastructure	FY10			P112159
HD Policy Notes (Health Financing)	FY10			P120467
Trade Diagnostic Study (DTIS)	FY10			P109417
Telecommunications Sector Reform	FY10			P113353
Poverty Analysis	FY10			P118637
Rural Energy Access and Efficiency	FY10			P116306
Civil Service Review	FY10			P114147
PFM/PER	FY10			P119433
AMI Activities related to PFMCBP	FY10			
Timor-Leste Social Protection	FY10			P116531
East Timor Petroleum Sector Support	FY10			P096348
Timor-Leste - Customary Systems of Land Management and Rural Dev.	FY10			P118554
Timor-Leste Trade Diagnostics (UN003805)	FY10			P109417
HIV/AIDS Behavioral Survey	FY10			P119657
<i>Publication and Research</i>				
East Timor : a survey of the coffee sector				
United Nations transitional administration in East Timor and the World Bank		FY01	Working paper	
Drug donations in post-emergency situations		FY01	Working paper	
The 2001 survey of sucos : initial analysis and implications for poverty reduction		FY02	Working paper	
United Nations transitional administration in East Timor, East Timor transitional government and the World Bank.		FY02	Working paper	
Timor-Leste : poverty in a new nation - analysis for action		FY02	Working paper	
The East Timor reconstruction program : successes, problems and tradeoffs		FY03	Working paper	
The East Timor reconstruction program : successes, problems and tradeoffs		FY03	Working paper	
Financing and aid management arrangements in post-conflict situations		FY03	Working paper	

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

	PROPOSED FY	DELIVERED TO CLIENT FY	OUTPUT TYPE	PROJECT ID
The East Timor reconstruction program : successes, problems and tradeoffs		FY03	Working paper	
Timor-Leste education : the way forward		FY03	Working paper	
Community-driven reconstruction as an instrument in war-to-peace transitions		FY04	Working paper	
The labor market impact of minimum wage policy : the case of Timor-Leste in comparative perspective		FY04	Working paper	
Timor-Leste Leadership Workshops 2001-2002 : summary note		FY04	Working paper	
Community-driven reconstruction as an instrument in war-to-peace transitions		FY04	Working paper	
Well-being during a time of change : Timor-Leste on the path to independence		FY04	Working paper	
Timor-Leste transport sector outline of priorities and proposed sector investment program		FY05	Policy Research Working paper	
International companies and post-conflict reconstruction - cross-sectoral comparisons		FY05	Working paper	
International companies and post-conflict reconstruction - cross-sectoral comparisons		FY05	Working paper	
Timor-Leste - the business regulatory environment		FY05	Working paper	
Timor-Leste : access to finance for investment and working capital		FY06	Working paper	
Strengthening the institutions of governance in Timor-Leste		FY06	Working paper	
Strengthening accountability and transparency in Timor-Leste : report of the Alkatiri initiative review		FY06	Working paper	
Doing Business in Timor-Leste		FY06	Working paper	
Youth: Challenges and Options	FY07	FY07	Working paper	
Doing business 2008 Timor-Leste	FY07	FY08	Working paper	
Enterprises, workers, and skills in Urban Timor-Leste		FY07	Working paper	
Aid that works : successful development in fragile states		FY07	Policy Research Working paper	
Timor-Leste - Economic and social development brief		FY07	Publication	
Youth development and the labor market		FY08	Working paper	
Timor-Leste's youth in crisis : situational analysis and policy options		FY08	Working paper	
Timor-Leste - Economic and social development brief		FY08	Working paper	
The missing link fostering positive citizen-state relations in post-conflict environments		FY08	Working paper	
Starting from scratch in Timor-Leste : establishing a pharmaceutical and medical supplies system in a post-conflict context		FY08	Working paper	
Program framework document : East Asia and the Pacific justice for the poor initiative 2008-2012		FY09	Working paper	
Doing business 2010 : Timor-Leste - comparing regulation in 183 economies		FY09	Working paper	
		FY09	Working paper	

Appendix 8. List of People Met

GOVERNMENT

Abrao de Vasco Conselho	BPA
Allan Marlin	Financial Senior Advisor - Private Sector Policy Development Unit
D. Savio	International Affairs - Office of the Deputy Prime Minister for Social Affairs
H.E. Fernanda Borges	Member of Parliament (Budget Committee), and former Minister of Finance
H.E. Emilia Pires	Minister of Finance
H.E. Joao Cancio Frietas	Minister of Education
H.E. Joao Mendes Goncalves	Minister of Economy & Development
H.E. Jose Ramos Horta	President
H.E. Mario Viegas Carrascalao	Vice Prime Minister for Management and State Administration
Hernani Viterbo C. Soares	Director - Instituto de Apoio ao Desenvolvimento Empresarial
H.E. Jose Luis Gutierrez	Vice-Prime Minister for Social Affairs
Jose Maria de Jesus Luis Guterres	Principal Advisor & IF Focal Point - Ministry of Economy and Development
Maria Domingas Fernandes Alves	Ministry of Social Solidarity
Mariano Assanami Sabino	Ministry of Agriculture and Fisheries
Miguel Manetelo	Secretary of State for Youth and Sports
Rui Hajam	Deputy Vice Minister of Finance
Virgilio F. Guterres	Director General - Ministry of Infrastructure - Electricity of Timor-Leste
Antonio Freitas	Director-General of the Department of Policy, Analysis and Research (DGAP) of the Ministry of Finance

DEVELOPMENT PARTNERS

Ali Gillies	Minister Counselor, Australian Agency for International Development (AusAID)
Alvaro Ribeiro	Program Officer, Australian Agency for International Development (AusAID)
Chana Opaskornkul	Emergency Programme Officer, Food and Agriculture Organization of the United Nations
Costas Tsilogiannis	Minister-Counselor - Head of Policy Operations, European Commission
Dr. Heinz Loos	International Programme Manager, GTZ
Dr. Mathias Braun	Policy Advisor, GTZ
Enomoto Hiroshi	Chief Representative, JICA
Finn Reske-Nielsen	Assistant Secretary-General, United Nations Integrated Mission in Timor-Leste
Ge Lambiza	Adida para a Cooperacao Multilateral Cooperation Atache, Cooperacao Portuguesa
Hans Peter Christopherson	Head of Mission, Royal Norwegian Embassy
Juan Carlos Rey	Ambassador - Head of Delegation, European Commission
Laurence Pochard	ADB
Mark Anthony White	USAID Representative, USAid
Masaru Todoroki	Aid Coordination Advisor, JICA
Narendra Singru	Senior Evaluation Specialist, ADB
Paul Keogh	PFM & Governance Advisor, Australian Agency for International Development (AusAID)
Robert Wihtol	Director General - Pacific Department, ADB

PRIVATE SECTOR

Abel Ximenes	Director, Kilbur Mata Dalan
Bill Tan Tjo Tek	Manager, Timor Global (TL) PTE LTD
Bobby Lay Ni Sing	Manager, Timor Global (TL) PTE LTD
Chris Durman	Chief Executive Officer, ANZ
Cosme Fatima Baptsta da Silva	Executive Director - Ministry of Economy and Development, Business Development Support Institute
Fernando Torrao Alves	Director Geral, Caixa Geral de Depositos
Kathleen Gonclaves	President, United Co. Ltd
Vicente Ximenes	Coordinating VP, Chamber of Commerce and Industry

WORLD BANK AND IFC

Adrian Fozzard	Lead Public Sector Specialist
Allison Berg	Sr. Strategy and Operations Officer
Aniruddha Dasgupta	Advisor
Antonio S. Franco	Country Manager
Anwar B. Ravat	Program Manager
Charles P. McPherson	Consultant
Cyrus P. Talati	Sr. Economist
David John Hook	Governance Specialist
Eduardo Velez Bustillo	Sector Director
Elizabeth Huybens*	2002-2006 (Country Mgr)
Emmanuel Y. Jimenez	Sector Director
Enrique Aldaz-Carroll	Sr. Economist
Ferid Belhaj	Due to take up CD position in Apr 10
Frederic Asseline	Sr. Energy Specialist
Gaurav Datt	Sr. Economist
H. Dean Nielsen	Sr. Manager Education
Habib Nasser Rab	2008-present (Country Economist)
Homa-Zahra Fotouhi	Sr. Operations Officer
Ingo Wiederhofer	Sr. Operations Officer
James A. Stevens	Sr. Operations Officer
Jane Sansbury	2010-present (CPC)
Jeeva A. Perumalpillai-Essex	Sust. Dev't Leader
Jerry G. Strudwick	Sr. Education Specialist
Jerry Lebo	2007-2010 (CPC)
Joao Gomes	Procurement Specialist
Joel Maweni	Lead Energy Specialist
John A. Roome	Sector Director
John Victor Bottini	Sr. Social Development Specialist
Jose Mousaco	Consultant
Juan Pablo Uribe	Sector Manager
Kanthan Shankar (Acting)	2009-present (CD)
Klaus Rohland	2000-2002 (CD)
Leigh H. Mitchell	Country Officer National Priorities Secretariat
Leiping Wang	Sr. Energy Specialist
Lene Ostergaard Jensen	E T Consultant
Luc-Charles Gacougnolle	E T Consultant
Magdolna Lovei	Sector Manager
Milissa Day	Associate Operations Officer, IFC - Better Business Initiative
Narasimham Vijay Jagannathan	Sector Manager
Natasha Beschorner	2000-2004 (CPC)

APPENDIX 8

LIST OF PEOPLE MET

Nigel Roberts	2007-2009 (CD)
Oliver Braedt	Sr. Natural Resources Mgt Specialist
Piers E. Merrick	Country Officer
Rainer Venghaus	Country Coordinator, IFC
Rosa Alonso Terme	Sr. Public Sector Specialist
Sarah Cliffe	2000-2002 (Country Mgr)
Sarbani Chakraborty	Sr. Health Specialist
Scott Guggenheim	Lead Social Devt Specialist
Sofia U. Bettencourt	Lead Operations Officer
Stefanie Stallmeister	Sr. Country Officer
Tanya Dawn Wells-Brown	E T Consultant
Timothy A. Johnston	Sr. Health Specialist
Vikram Nehru	Sector Director
Zhu Xian	2002-2007 (CD)

OTHERS

Arsenio Bano	Former Min of Labour & Solidarity
Bishop Gunnar J. Stalsett	Special Envoy to Timor-Leste, Ministry of Foreign Affairs, Norway
Dr. Rui Maria de Araujo	Former Min. of Health / Senior Management Advisor, Directorate-General Corporate Services, Ministry of Finance
Fr. Apolinario Gutierrez	Auxiliary Bishop of the Catholic Dioceses of Timor-Leste
Jose Assalino	Chief Technical Advisor & Liason Officer, International Labour Organization
Joselito P. Supangco	Monitoring and Evaluation Specialist
Mari Alkatiri	Former Prime Minister
Samuel Mendonca	Acting President, Democratic Party

NGO

Charles Scheiner	Representative, Lao Hamutuk
Paul Joyce	Representative, Oxfam

Appendix 9. Statistical Supplement

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APPENDIX TABLE 1 TIMOR-LESTE AT A GLANCE

POVERTY and SOCIAL	Timor-Leste	East Asia & Pacific	Lower-middle-income
2008			
Population, mid-year (millions)	1.1	1931	3,702
GNI per capita (Atlas method, US\$)	2,460	2,631	2,078
GNI (Atlas method, US\$ billions)	2.7	5,081	7,692
Average annual growth, 2002-08			
Population (%)	3.9	0.8	12
Labor force (%)	5.6	12	16
Most recent estimate (latest year available, 2002-08)			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	26	44	41
Life expectancy at birth (years)	61	72	68
Infant mortality (per 1,000 live births)	75	22	46
Child malnutrition (% of children under 5)	41	13	26
Access to an improved water source (% of population)	62	87	86
Literacy (% of population age 15+)	..	93	83
Gross primary enrollment (% of school-age population)	107	111	109
Male	110	112	112
Female	103	110	106

Development diamond*

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

Timor-Leste

Lower-middle-income group

KEY ECONOMIC RATIOS and LONG-TERM TRENDS	1988	1998	2007	2008	
GDP (US\$ billions)	0.40	0.50	
Gross capital formation/GDP	
Exports of goods and services/GDP	
Gross domestic savings/GDP	
Gross national savings/GDP	
Current account balance/GDP	173.1	172.5	
Interest payments/GDP	
Total debt/GDP	
Total debt service/exports	
Present value of debt/GDP	
Present value of debt/exports	
	1988-98	1998-08	2007	2008	2008-12
(average annual growth)					
GDP	..	19	7.8	13.2	-2.6
GDP per capita	..	-18	4.2	9.6	-5.7
Exports of goods and services

Economic ratios*

Trade

Domestic savings

Capital formation

Indebtedness

Timor-Leste

Lower-middle-income group

STRUCTURE of the ECONOMY	1988	1998	2007	2008
(% of GDP)				
Agriculture
Industry
Manufacturing
Services
Household final consumption expenditure
General gov't final consumption expenditure
Imports of goods and services
	1988-98	1998-08	2007	2008
(average annual growth)				
Agriculture
Industry
Manufacturing
Services
Household final consumption expenditure
General gov't final consumption expenditure
Gross capital formation
Imports of goods and services

Growth of capital and GDP (%)

GCF

GDP

Note: 2008 data are preliminary estimates.
This table was produced from the Development Economics LDB database.
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

APPENDIX 9
STATISTICAL SUPPLEMENT

APPENDIX TABLE 2: TIMOR-LESTE ECONOMIC AND SOCIAL INDICATORS, 2000-2008

Series Name	Timor-Leste								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Growth and inflation¹									
GNI at current prices (US\$ million) ²			300.4	318.0	460.0	695.0	972.0	1728.0	2915.0
Non-Oil GDP at current prices (US\$ million) ²			284.1	297.8	309.0	332.0	327.0	398.0	499.0
Petroleum Revenue ²			16.3	20.2	151.0	363.0	645.0	1330.0	2416.0
Real Non-Oil GDP growth (annual %) ¹	-8.1	18.9	2.4	0.1	4.2	6.2	-5.8	8.4	12.8
Real Non-Oil GDP per capita growth (annual %) ¹	..	14.4	-1.5	-3.6	0.6	3.0	-8.4	5.7	10.3
Non-Oil GDP per capita at current prices (US\$ million) ¹	282.7	323.8	319.0	322.1	323.2	336.2	321.9	381.9	468.8
GDP per capita, PPP (current international \$) ¹	1608.0	1880.6	1882.0	1853.8	1925.1	2044.2	1934.0	2103.0	2368.4
Inflation (CPI, percentage change, period average) ¹	63.6	3.6	4.7	7.2	3.2	1.8	4.1	8.9	7.6
Composition of GDP (%)									
Agriculture, value added (% of GDP at factor cost) ³	..	..	32.1	32.7	33.6	33.5	35.7	31.3	..
Industry, value added (% of GDP at factor cost) ³	..	..	18.5	15.4	14.0	14.5	12.4	14.3	..
Services, etc., value added (% of GDP at factor cost) ³	..	..	49.4	51.9	52.4	52.0	52.0	54.4	..
Gross fixed capital formation (% GDP) ³	..	..	33.8	25.8	18.6	18.6	18.7	25.9	..
Gross national savings (% of Non-Oil GDP) ³	..	..	19.4	21.5	29.1	103.1	183.1	323.3	..
External Accounts^{1/2}									
Exports of goods and services (% of GDP) ²	..	..	11.4	12.0	17.8	13.6	13.1	17.6	15.0
Imports of goods and services (% of GDP) ²	..	..	106.5	102.5	114.9	84.3	102.1	125.9	164.5
Current account balance (% of non-oil GDP) ¹	-7.1	-12.6	-15.9	-15.4	20.7	78.4	165.2	296.1	404.8
External debt, total (% of GNI) ²	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service (% of GNI) ²	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total reserves in months of imports ²	0.8	1.0	2.0	3.3	18	56	131	158	150
Fiscal Accounts^{2/3}									
Central Government Budget									
Total Revenue (% of non-oil GDP)	17	15	24	31	67	128	205	343	490
of which Oil/Gas Revenue (% of non-oil GDP)	4	3	9	12	46	107	195	330	481
Total Expenditure-cash basis (% of non-oil GDP)	15	15	21	21	20	26	32	59	106
Overall Balance (% of non-oil GDP)	2	0	3	10	46	102	174	284	384
Non-oil fiscal balance (% of non-oil GDP)	-2	-3	-6	-2	1	-5	-21	-46	-97
Social Indicators									
Health									
Life expectancy at birth, total (years)	56.5	..	58.2	..	..	59.8	60.3	60.8	61.3
Immunization, DPT (% of children ages 12-23 months)	..	..	44.0	57.0	57.0	55.0	67.0	70.0	..
Improved sanitation facilities (% of population with access)	40.0	..	..	..	..	..	41.0	..	..
Improved water source (% of population with access)	61.0	..	..	..	..	..	62.0	..	..
Mortality rate, infant (per 1,000 live births)	100.0	..	..	..	..	83.1	80.1	77.3	..

Series Name	Timor-Leste								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population									
Population, total (in millions)	0.8	0.8	0.9	0.9	1.0	1.0	1.0	1.1	1.1
Population growth (annual %)	0.5	2.3	3.8	4.6	4.7	4.2	3.7	3.4	3.2
Urban population (% of total)	24.3	24.7	25.0	25.4	25.7	26.1	26.5	26.9	27.3
Education									
School enrollment, preprimary (% gross)	..	..	6.4	..	9.6	10.2	..	..	..
School enrollment, primary (% gross)	..	125.9	117.2	111.8	106.4	98.9	..	90.9	..
School enrollment, secondary (% gross)	..	34.7	38.5	..	54.8	53.4	..	..	..

Sources: WB DDP Database as of April 5, 2010 and IMF 2005, 2008 and 2009 Article IV Consultation. * 2008 data are estimated

1/ International Monetary Fund, World Economic Outlook Database, April 2010

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

3/ Fiscal Accounts for years 2002-2003 are from IMF Timor-Leste Statistical Appendix

4/ Data from 2000-2003 are fiscal year basis (July-June); for example, 2000 refers to FY2000/01.

5/ Derived from IMF, World Economic Outlook; Asian Development Bank

6/ Including International Assistance

Data from 2004-2008 are calendar years.

APPENDIX 9
STATISTICAL SUPPLEMENT

APPENDIX TABLE 3: TIMOR-LESTE AND COMPARATORS: KEY ECONOMIC AND SOCIAL INDICATORS, AVERAGE 2000-2008

Series Name	Timor-Leste	Cambodia	Indonesia	Lao PDR	Mongolia	Vietnam	Low Income	Lower middle income	East Asia and Pacific
Average 2000-2008									
Growth and inflation									
GDP growth (annual %)	4.4	2.1	5.2	6.7	6.7	7.5	5.6	7.8	8.7
GDP per capita growth (annual %) ¹	6.9	-1.6	3.8	4.9	5.5	6.2	3.3	6.5	7.8
GNI per capita, PPP (current international \$)	...	1781.4	2938.9	1521.1	2461.1	1976.7	1082.8	3217.4	3645.2
GNI per capita, Atlas method (current US\$)	...	978.6	1165.6	440.0	818.9	578.9	366.4	1244.0	1538.9
Inflation, consumer prices (annual %)	11.6	5.8	8.9	11.0	9.3	6.6	..	..	..
Composition of GDP (%)									
Agriculture, value added (% of GDP)	33.1	33.4	14.6	47.1	25.6	22.1	29.2	15.0	13.0
Industry, value added (% of GDP)	14.8	25.8	46.3	27.4	29.5	39.6	25.7	39.9	45.4
Services, etc., value added (% of GDP)	52.0	40.8	39.1	25.6	44.9	38.3	45.1	45.1	41.6
Gross fixed capital formation (% GDP)	23.6	18.5	22.4	30.5	29.2	32.2	22.7	30.8	34.3
Gross domestic savings (% of GDP)	113.3	10.0	30.1	19.0	23.3	28.8	14.5	34.3	41.0
External Accounts									
Exports of goods and services (% of GDP)	14.9	59.5	33.3	31.2	60.6	63.9	28.7	31.9	40.2
Imports of goods and services (% of GDP)	115.7	68.3	27.5	42.7	70.3	70.0	37.3	30.2	35.3
Current account balance (% of GDP)	101.6	-4.7	2.5	-2.3	-1.8	-1.8	..	..	..
External debt, total (% of GNI)	0.0	63.0	61.0	118.9	67.2	38.7	53.9	25.0	23.3
Total debt service (% of GNI)	0.0	0.5	7.8	4.8	4.7	2.6	2.4	3.4	3.4
Total reserves in months of imports	57.8	3.3	5.2	4.4	3.7	2.7	4.9	10.1	10.2
Social Indicators									
Health									
Life expectancy at birth, total (years)	59.5	58.0	69.1	63.6	65.6	73.2	57.2	67.1	71.2
Immunization, DPT (% of children ages 12-23 months)	58.3	71.4	73.6	49.9	97.3	92.9	72.9	72.2	85.2
Improved sanitation facilities (% of population with access)	40.5	22.0	52.0	35.0	49.0	58.0	36.1	50.1	62.6
Improved water source (% of population with access)	61.5	51.5	78.5	53.0	70.0	84.5	64.6	83.4	83.8
Mortality rate, infant (per 1,000 live births)	85.1	73.5	28.8	63.5	39.9	16.8	81.9	50.4	26.5
Population									
Population, total (in millions)	1.0	13.7	217.4	5.8	2.5	82.0	895.0	3532.9	1871.0
Population growth (annual %)	3.4	1.8	1.3	1.8	1.1	1.2	2.2	1.2	0.8
Urban population (% of total)	25.8	19.2	46.8	26.4	56.8	26.0	27.2	38.9	40.6
Education									
School enrollment, preprimary (% gross)	8.7	8.7	30.9	9.3	40.1	39.9	14.4	33.0	39.2
School enrollment, primary (% gross)	108.5	119.6	113.6	112.2	100.3	104.6	90.4	105.2	112.3
School enrollment, secondary (% gross)	45.4	27.7	61.9	41.0	81.7	65.5	39.2	57.9	68.1

Source: WB World Development Indicators (April 5, 2010 Update), International Monetary Fund, World Economic Outlook Database, April 2010 and IMF Timor-Leste 2009 Article IV Consultation-Staff Report.

1/ Timor-Leste Average is from 2001 to 2008.

APPENDIX TABLE 4: TIMOR-LESTE: AGRICULTURE PRODUCTION 2000-2008

Average of Annual Growth Rate			
	2000-2005	2006-2008	2000-2008
PRODUCTION (THOUSAND METRIC TONS)			
Beans, dry	1%	0%	0%
Cassava	-6%	2%	-4%
Coconuts	3%	0%	2%
Coffee, green	0.3%	0.0%	0.2%
Groundnuts, with shell	-2%	0%	-1%
Maize	8%	-6%	4%
Rice, paddy	18%	2%	14%
Roots and Tubers, nes	2%	0%	2%
Sweet potatoes	13%	-2%	9%
Vegetables fresh nes	1%	0%	1%
Indigenous Pigmeat	7%	4%	6%

APPENDIX TABLE 5: TIMOR-LESTE: POVERTY TRENDS 2001-2007

	2001	2007	Change
Poverty			
Poverty headcount ratio (% of population)	39.7		
International poverty line			
Poverty gap at \$1.25 a day (PPP) (%)	19.13	8.73	-10.4
Poverty gap at \$2 a day (PPP) (%)	37.06	27.02	-10.04
Inequality			
GINI index	39.52	31.919	-7.601
Per-capita expenditure distribution			
Income share held by highest 10%	31.32	26.97993	-4.34007
Income share held by lowest 20%	6.7	8.937741	2.237741
Income share held by second 20%	10.44	12.52705	2.087052
Income share held by third 20%	14.78	16.01287	1.232874
Income share held by fourth 20%	21.29	21.23138	-0.05862
Income share held by highest 20%	46.79	41.29095	-5.49905

Source: CBS and the World Bank staff calculations using LSMS and TLSLS

APPENDIX 9
STATISTICAL SUPPLEMENT

APPENDIX TABLE 6: TIMOR-LESTE: SOCIAL INDICATORS SUMMARY, 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average 2000- 2008
EDUCATION										
School enrollment, primary (% gross)		126.7	118.0	112.7	107.4	100.1		93.2	106.6	109.2
Ratio of female to male primary enrollment (%)					92.9	92.2		94.4	93.9	93.3
Repeaters, primary, total (% of total enrollment)								14.5	12.5	13.5
Public spending on education, total (% of GDP)									7.1	7.1
HEALTH										
Life expectancy at birth, female (years)	57	58	59	59	60	61	61	62	62	60
Life expectancy at birth, total (years)	56	57	58	59	59	60	60	61	61	59
Mortality rate, infant (per 1,000 live births)	100					83	80	77	75	83
Mortality rate, under-5 (per 1,000)	129					105	101	97	93	105
Fertility rate, total (births per woman)	7	7	7	7	7	7	7	7	6	7
Adolescent fertility rate (births per 1,000 women ages 15-19)	89	79	69	63	61	59	57	55	53	65
Births attended by skilled health staff (% of total)			23.6	18.4						21.00
Low-birthweight babies (% of births)			10	12						11.00
Malnutrition prevalence, height for age (% of children under 5)			55.7							55.70
Malnutrition prevalence, weight for age (% of children under 5)			40.6							40.60
Health expenditure, public (% of government expenditure)				33.65	13.79	19.50	20.92	14.95		20.56
POPULATION										
Population, total (in Millions)	0.82	0.83	0.87	0.91	0.95	0.99	1.03	1.06	1.10	0.95
Population growth (annual %)	0.49	2.33	3.78	4.61	4.65	4.21	3.69	3.37	3.17	3.37

Source: WB World Development Indicators

APPENDIX TABLE 7: TIMOR-LESTE: ASSETS AND ACCESS TO BASIC INFRASTRUCTURE, 2003-2009

Asset	National		Rural		Urban	
	2003	2009	2003	2009	2003	2009
Has radio	30.8		24.1		51.9	
Has Television	8.6		1.6		32	
Has telephone	1.9		0.3		7.3	
Mobile telephone						
Non-mobile telephone						
Has bicycle	7.1		3.7		15.7	
Access to Basic Infrastructure Services						
	National		Rural		Urban	
	2003	2009	2003	2009	2003	2009
Electricity	26.1		11.16		73.3	
Source of drinking water						
Piped water	38.4		33.43		49.6	
Time to water sources						
On premises	28.9		20.4		57.7	
Sanitation Facility						
private toilet	29.1		19.7		58.3	

Source: 2003 and 2009 DHS Reports

APPENDIX TABLE 8: TIMOR-LESTE: SELECTED GENDER INDICATORS SUMMARY, 2000-2009

(period averages)

Indicators	Timor-Leste		EAP	
	2000-2005	2006-2009	2000-2005	2006-2009
Fertility rate, total (births per woman)	7	7	2	2
Maternal mortality ratio (modeled estimate, per 100,000 live births)	380	...	150	...
Life expectancy at birth, total (years)	58	61	71	72
Female	59	62	73	74
Male	57	60	69	70
School enrollment, primary (% gross)	113.0	99.9	110.9	111.5
Female	99.6	96.8	111.3	112.0
Male	107.6	102.9	110.5	111.0
Ratio of girls to boys in primary and secondary education (%)	94.8	...	98.7	101.6
Proportion of seats held by women in national parliaments (%)	25.8	27.9	17.7	18.1

Source: WB World Development Indicators

APPENDIX 9
STATISTICAL SUPPLEMENT

APPENDIX TABLE 9: TOTAL NET DISBURSEMENTS OF OFFICIAL DEVELOPMENT ASSISTANCE AND OFFICIAL AID, 2000- 2009
(IN US\$ MILLION)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Bilaterals	229.82	181.77	209.55	163.02	153.44	170.41	199.88	267.17	257.73	193.47	2,026.26
Australia	82.44	37.25	37.52	28.87	35.25	38.02	46.08	83.35	74.48	60.71	523.97
Austria	5.78	5.54	2.66	2.25	..	0.07	0.06	0.05	0.15	0.08	16.64
Belgium	7.22	7.26	2.89	2.18	0.39	0.02	..	..	..	..	19.96
Canada	0.52	2.78	3.09	4.99	2.77	3.49	1.81	3.24	1.75	2.02	26.46
Denmark	..	0.33	0.25	0.09	0.71	0.08	0.27	0.21	..	..	1.94
Finland	2.76	3.61	1.90	1.97	1.87	1.78	2.39	0.56	0.62	0.52	17.98
France	0.53	0.10	..	0.16	0.15	0.19	0.08	0.50	0.52	0.13	2.36
Germany	1.73	1.97	1.34	3.10	3.38	4.79	5.38	6.24	6.66	5.63	40.22
Greece	..	..	..	..	..	..	0.01	0.05	..	..	0.06
Ireland	1.60	2.03	3.25	3.96	5.33	5.62	9.32	8.35	10.81	7.37	57.64
Italy	..	0.01	..	0.56	0.37	..	..	..	1.65	..	2.59
Japan	29.07	8.93	5.74	8.93	9.88	33.41	21.83	13.07	26.45	11.88	169.19
Korea	..	0.30	1.31	0.27	0.10	0.30	0.57	1.36	2.18	1.77	8.16
Luxembourg	0.49	0.98	..	0.21	0.04	..	..	..	..	..	1.72
Netherlands	..	2.62	0.57	0.62	1.40	1.12	0.23	..	..	..	6.56
New Zealand	1.81	1.57	1.14	2.93	3.32	2.52	5.20	3.15	5.10	5.10	31.84
Norway	3.51	4.64	7.78	7.10	8.71	9.08	14.52	13.45	7.67	8.51	84.97
Portugal	52.62	57.95	75.85	42.69	25.55	34.69	38.50	46.64	38.99	34.64	448.12
Spain	0.72	0.86	1.05	1.03	0.69	1.58	0.79	11.41	13.96	10.82	42.91
Sweden	3.33	2.43	3.88	5.44	5.71	2.62	1.61	6.43	6.03	4.59	42.07
Switzerland	0.33	0.05	0.08	0.17	0.09	0.06	0.75	0.44	0.26	0.04	2.27
United Kingdom	16.43	8.74	10.58	7.38	8.45	1.09	4.21	4.00	0.23	0.11	61.22
United States	1.40	4.27	27.45	22.72	27.19	19.90	20.64	25.06	32.74	29.07	210.44
EU Institutions	17.53	27.49	21.17	15.32	12.08	9.97	25.59	39.58	27.37	10.26	206.36
Czech Republic	..	..	..	..	..	..	..	..	0.04	0.03	0.07
Iceland	..	0.06	..	..	..	..	..	..	..	..	0.06
Israel	..	..	..	..	0.01	0.01	..	..	..	..	0.02
Slovak Republic	..	..	0.05	0.08	..	..	..	..	..	..	0.13
Thailand	..	..	..	..	..	..	0.04	0.03	0.07	0.08	0.22
Turkey	..	..	..	..	..	..	..	..	..	0.11	0.11

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Multilaterals	1.45	12.40	9.50	12.01	7.80	14.35	9.19	11.10	19.81	23.27	120.88
AsDF (Asian Dev. Fund)	..	..	..	..	..	..	..	..	6.35	4.20	10.55
GEF	..	..	..	..	..	0.23	..	..	..	..	0.23
Global Fund	..	..	..	0.38	0.98	0.69	1.34	1.53	0.98	7.60	13.50
IBRD	..	..	..	..	..	..	..	..	..	..	-
IDA	..	..	..	4.17	..	5.22	1.21	1.63	4.78	3.81	20.82
UNAIDS	..	..	..	..	..	0.08	..	0.13	..	0.06	0.27
UNDP	0.27	1.48	2.21	2.15	1.51	2.78	2.51	1.93	2.51	2.59	19.94
UNFPA	0.33	0.28	1.42	1.24	3.15	1.49	1.42	1.73	1.97	2.67	15.70
UNHCR	..	8.44	4.16	1.14	..	0.20	..	0.56	0.11	0.09	14.70
UNICEF	0.68	1.61	0.93	2.03	1.21	1.73	1.60	2.15	1.12	1.12	14.18
UNTA	..	0.57	0.77	0.84	0.90	1.85	0.92	1.37	0.51	0.51	8.24
WFP	0.17	0.02	0.01	0.06	0.05	0.08	0.19	0.07	1.48	0.62	2.75
Total Aid	231.27	194.17	219.05	175.03	161.24	184.76	209.07	278.27	277.54	216.74	2,147.14

Source: OECD-DAC

APPENDIX 9
STATISTICAL SUPPLEMENT

APPENDIX TABLE 10: TIMOR-LESTE - TFET BY SECTOR BOARD, FY00-FY07*
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>Total</i>
Agriculture and Rural Development	6.8	-	8.0	-	3.0	-	-	-	17.78
Education	13.9	-	20.5	-	-	-	-	-	34.36
Energy and Mining	-	-	-	1.8	-	1.3	-	0.1	3.34
Environment	-	-	-	-	1.0	-	-	-	1.00
Financial and Private Sector Development	4.8	4.0	7.4	-	-	-	-	-	16.20
Health, Nutrition and Population	12.5	12.6	-	-	-	-	-	-	25.12
Public Sector Governance	-	0.9	-	-	-	-	-	-	0.89
Social Protection	7.0	8.5	1.5	-	-	-	-	-	16.97
Transport*	29.8	-	9.0	-	-	-	-	-	38.76
Urban Development	0.5	-	-	-	-	-	-	-	0.49
Water*	-	4.5	-	4.5	-	-	-	-	9.00
Total	75.27	30.45	46.35	6.35	3.99	1.35	0.00	0.15	163.91

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

APPENDIX TABLE 11: TIMOR-LESTE - WORLD BANK IDA GRANT BY SECTOR BOARD, FY00-FY10*
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Education	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.00	0.00	0.00	5.00	11.00
Energy and Mining	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.50	0.00	0.00	0.00	2.50
Financial and Private Sector Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Health, Nutrition and Population	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00	0.00	0.00	1.00
Poverty Reduction	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public Sector Governance	0.00	0.00	0.00	0.00	4.00	4.96	7.50	0.00	0.00	0.00	0.00	16.46
Social Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.12	0.00	2.12
Social Protection	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Transport*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Urban Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Water*	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00	0.00	0.00	0.00	4.00	4.96	7.50	8.50	1.00	2.12	5.00	33.08

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

APPENDIX TABLE 12: TIMOR-LESTE - WORLD BANK IDA GRANT BY SECTOR BOARD, FY00-FY10*
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	0	0	0	0	0	0	0	0	0	0	0	0
Education	0	0	0	0	0	0	0	1	0	0	1	2
Energy and Mining	0	0	0	0	0	0	0	1	0	0	0	1
Financial and Private Sector Development	0	0	0	0	0	0	0	0	0	0	0	0
Health, Nutrition and Population	0	0	0	0	0	0	0	0	1	0	0	1
Poverty Reduction	0	0	0	0	0	0	0	0	0	0	0	0
Public Sector Governance	0	0	0	0	1	1	2	0	0	0	0	4
Social Development	0	0	0	0	0	0	0	0	0	1	0	1
Social Protection	0	0	0	0	0	0	0	0	0	0	0	0
Transport*	0	0	0	0	0	0	0	0	0	0	0	0
Urban Development	0	0	0	0	0	0	0	0	0	0	0	0
Water*	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	1	1	2	2	1	1	1	9

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

APPENDIX TABLE 13: TIMOR-LESTE - WORLD BANK TRUST FUNDS BY SECTOR BOARD, FY00-FY10*
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	6.84	0.00	8.04	0.00	11.82	0.00	0.00	0.00	0.00	0.00	0.00	26.70
Education	13.99	0.00	20.47	0.00	0.00	0.00	4.97	6.15	0.00	8.44	0.00	54.02
Energy and Mining	0.00	0.00	0.00	1.85	0.00	1.35	0.00	1.70	0.00	0.23	0.00	5.12
Financial and Private Sector Development	4.92	4.00	7.41	50.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	66.41
Health, Nutrition and Population	12.58	33.68	0.00	0.00	0.00	0.00	4.50	0.00	15.70	0.00	0.00	66.47
Poverty Reduction	0.00	0.00	0.17	0.00	0.00	0.30	0.00	0.00	0.00	0.00	0.00	0.47
Public Sector Governance	0.00	1.02	0.32	0.14	0.31	25.00	21.51	0.00	0.00	0.00	0.00	48.29
Social Protection	8.99	8.48	1.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18.96
Transport*	29.76	0.00	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	38.76
Urban Development	0.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.49
Water*	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Total	77.57	47.19	46.88	56.57	12.13	26.64	30.98	7.85	15.70	8.67	0.00	330.19

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

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APPENDIX TABLE 14: TIMOR-LESTE - WORLD BANK TRUST FUNDS BY SECTOR BOARD, FY00-FY10*
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	1	0	1	0	1	0	0	0	0	0	0	3
Education	1	0	1	0	0	0	1	1	0	1	0	5
Energy and Mining	0	0	0	2	0	1	0	2	0	1	0	6
Financial and Private Sector Development	1	1	1	1	0	0	0	0	0	0	0	4
Health, Nutrition and Population	1	1	0	0	0	0	1	0	1	0	0	4
Poverty Reduction	0	0	1	0	0	1	0	0	0	0	0	2
Public Sector Governance	0	2	1	1	3	2	2	0	0	0	0	11
Social Development	0	0	0	0	0	0	0	0	0	0	0	0
Social Protection	1	1	1	0	0	0	0	0	0	0	0	3
Transport*	1	0	1	0	0	0	0	0	0	0	0	2
Urban Development	1	0	0	0	0	0	0	0	0	0	0	1
Water*	0	0	0	1	0	0	0	0	0	0	0	1
Total	7	5	7	5	4	4	4	3	1	2	0	42

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

APPENDIX TABLE 15: TIMOR-LESTE - WORLD BANK IDA GRANT AND TRUST FUNDS BY SECTOR BOARD, FY00-FY10*
(COMMITMENT AMOUNTS IN US\$ MILLION)

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	6.84	0.00	8.04	0.00	11.82	0.00	0.00	0.00	0.00	0.00	0.00	26.70
Education	13.99	0.00	20.47	0.00	0.00	0.00	4.97	12.15	0.00	8.44	5.00	65.02
Energy and Mining	0.00	0.00	0.00	1.85	0.00	1.35	0.00	4.20	0.00	0.23	0.00	7.62
Financial and Private Sector Development	4.92	4.00	7.41	50.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	66.41
Health, Nutrition and Population	12.58	33.68	0.00	0.00	0.00	0.00	4.50	0.00	16.70	0.00	0.00	67.47
Poverty Reduction	0.00	0.00	0.17	0.00	0.00	0.30	0.00	0.00	0.00	0.00	0.00	0.47
Public Sector Governance	0.00	1.02	0.32	0.14	4.31	29.96	29.01	0.00	0.00	0.00	0.00	64.75
Social Development	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.12	0.00	2.12
Social Protection	8.99	8.48	1.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	18.96
Transport*	29.76	0.00	9.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	38.76
Urban Development	0.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.49
Water*	0.00	0.00	0.00	4.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50
Total	77.57	47.19	46.88	56.57	16.13	31.60	38.48	16.35	16.70	10.78	5.00	363.27

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

APPENDIX TABLE 16: TIMOR-LESTE - WORLD BANK IDA GRANTS AND TRUST FUNDS BY SECTOR BOARD, FY00-FY10*

<i>Sector Board</i>	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Total</i>
Agriculture and Rural Development	1		1		1							3
Education	1		1				1	1		1	1	6
Energy and Mining				2		1		2		1		6
Financial and Private Sector Development	1	1	1	1								4
Health, Nutrition and Population	1	1					1		1			4
Poverty Reduction			1			1						2
Public Sector Governance		2	1	1	3	2	2					11
Social Development										1		1
Social Protection	1	1	1									3
Transport	1		1									2
Urban Development	1											1
Water				1								1
Total	7	5	7	5	4	4	4	3	1	3	1	44

Source: Operations & World Bank internal database Table 2a.1 as of 9/17/10 (includes Supplements).

* ADB Projects

1/ Bank Database does not report the grant amount for IDFs.

2/ Bank Database does not report any grant for ESSP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds

3/ Bank Database does not report any grant for ESDP. The value reported in this table corresponds to the Japanese support to this project through Trust Funds

4/ Bank Database does not report any grant for the Health Sector Strategic Plan Support. The value reported in this table corresponds to the multi-donor cofinancing to this project through Trust Funds administrated by the World Bank.

5/ Bank Database does not report any grant for PFMCBP. The value reported in this table corresponds to the AusAID support to this project through Trust Funds administrated by the World Bank.

6/ Bank Database reports the TFET grant of US\$ 3.0 million. This table reports the TFET grant combined with the EC grant for this project of US\$ 8.83million.

7/ Bank Database reports the planned TFET grant of US\$ 13.9 million. This table reports the actual TFET grant for this project.

8/ Bank Database reports the TFET grant of US\$ 12.6 million. This table reports the TFET grant combined with the EC grant for this project of US\$21 million.

9/ Bank Database reports the planned grant of US\$ 0.5 million. This table shows the actual grant.

10/ Bank Database does not report any grant for TSP II. However, operations portal shows a grant disbursement of US\$ 15,344.00

11/ Bank Database does not report any grant amount for TSP III. The value reported in this table corresponds to the multilateral support, funded through Trust Funds administrated by the World Bank, to this project.

12/ Bank Database does not report any grant amount for CSP I. The value reported in this table corresponds to the co-financing provided to this project through Trust Funds administrated by the World Bank.

13/ Bank Database reports the planned grant of US\$ 21 million. This table reports the actual grant for this project.

Source: World Bank internal database, Tables 2b.1 and 4a.6 as of 9/15/2010. Operations and TF reports

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APPENDIX TABLE 17: PROJECT RATINGS FOR TIMOR-LESTE AND COMPARATORS, EXIT FY00-FY10

<i>Country/Region</i>	<i>Total Evaluated</i>		<i>Outcome % Sat</i>		<i>Inst Dev Impact % Subst</i>		<i>Sustainability % Likely</i>	
	<i>\$M</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>
Timor-Leste ^{1/}	9.89	19	0.00	42.11	0.00	11.11	0.00	37.50
Cambodia	309.57	16	85.63	62.50	58.79	55.56	86.90	66.67
Indonesia	8073.83	86	85.76	64.71	39.59	39.13	55.80	50.85
Lao PDR	294.53	16	92.58	87.50	60.38	40.00	76.99	55.56
Mongolia	205.26	13	100.00	100.00	84.17	62.50	100.00	100.00
Vietnam	2851.65	32	100.00	100.00	47.83	58.33	100.00	100.00
EAP	36,242.0	392	90.2	80.9	67.7	57.4	84.9	75.9
World Bank	177,704.5	2605	82.0	76.5	54.9	50.9	81.2	75.4

1/ The % in \$ Satisfactory project is 0 because all the projects with IDA financing received Unsatisfactory outcome ratings

Source: World Bank internal database Table 4a.5 as of 09/16/10

APPENDIX TABLE 18. TIMOR-LESTE AND COMPARATORS - PORTFOLIO STATUS INDICATORS, FY00-10
(US\$ MILLION)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Timor-Leste											
# Proj	5	8	10	11	8	7	7	8	7	9	8
Net Comm Amt	19	54	75	70	60	48	54	41	24	29	29
# Proj At Risk	0	1	3	6	1	0	0	2	2	4	4
% At Risk	0	13	30	55	13	0	0	25	29	44	50
Comm At Risk	0	14	20	52	8	0	0	15	8	18	13
% Commit at Risk	0	26	26	75	13	0	0	36	32	61	44
Cambodia											
# Proj	11	12	14	16	14	13	12	11	16	21	18
Net Comm Amt	222	270	301	340	317	279	265	235	396	434	409
# Proj At Risk	2	2	3	4	3	2	3	5	3	4	11
% At Risk	18	17	21	25	21	15	25	45	19	19	61
Comm At Risk	52	47	79	80	22	27	63	80	86	122	221
% Commit at Risk	23	18	26	24	7	10	24	34	22	28	54
Indonesia											
# Proj	63	52	47	40	32	31	26	26	45	60	58
Net Comm Amt	5,576	4,345	3,572	3,037	2,654	2,646	2,344	2,786	3,535	7,243	8,137
# Proj At Risk	12	7	14	7	6	4	2	4	13	14	9
% At Risk	19	13	30	18	19	13	8	15	29	23	16
Comm At Risk	803	425	1,392	377	534	261	106	305	558	861	400
% Commit at Risk	14	10	39	12	20	10	5	11	16	12	5
Lao											
# Proj	10	10	12	12	12	11	13	13	17	15	22
Net Comm Amt	225	234	249	216	232	167	178	170	205	182	266
# Proj At Risk	4	3	0	1	0	2	1	1	0	0	3
% At Risk	40	30	0	8	0	18	8	8	0	0	14
Comm At Risk	83	102	0	35	0	18	17	4	0	0	16
% Commit at Risk	37	44	0	16	0	11	9	2	0	0	6

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Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Mongolia											
# Proj	8	8	9	10	10	9	12	14	18	17	17
Net Comm Amt	143	195	158	166	167	137	163	203	175	205	207
# Proj At Risk	2	1	0	1	0	0	0	0	1	0	2
% At Risk	25	13	0	10	0	0	0	0	6	0	12
Comm At Risk	40	5	0	5	0	0	0	0	18	0	13
% Commit at Risk	28	3	0	3	0	0	0	0	10	0	6
Vietnam											
# Proj	21	25	27	27	28	35	39	38	47	51	55
Net Comm Amt	1,954	2,557	2,814	2,484	2,993	3,539	3,975	3,957	4,643	5,498	6,392
# Proj At Risk	0	2	3	4	2	0	3	4	4	5	4
% At Risk	0	8	11	15	7	0	8	11	9	10	7
Comm At Risk	0	140	96	306	220	0	285	662	388	611	431
% Commit at Risk	0	5	3	12	7	0	7	17	8	11	7
EAP											
# Proj	292	280	267	252	235	230	229	223	283	308	319
Net Comm Amt	31,786	28,769	25,940	23,413	21,253	20,218	19,453	18,927	20,559	25,727	28,449
# Proj At Risk	30	26	35	25	21	14	14	24	34	46	55
% At Risk	10	9	13	10	9	6	6	11	12	15	17
Comm At Risk	1,934	1,990	2,271	892	1,473	842	804	1,626	1,767	2,386	2,785
% Commit at Risk	6	7	9	4	7	4	4	9	9	9	10
World Bank											
# Proj	1,594	1,562	1,544	1,519	1,469	1,463	1,468	1,485	1,832	1,925	1,990
Net Comm Amt	117,589	108,261	104,617	97,263	95,195	96,084	95,194	100,357	110,836	135,706	162,975
# Proj At Risk	238	192	289	234	238	235	199	243	312	386	410
% At Risk	15	12	19	15	16	16	14	16	17	20	21
Comm At Risk	18,943	12,654	17,542	14,372	14,869	12,758	11,000	15,354	18,968	20,858	28,963
% Commit at Risk	16	12	17	15	16	13	12	15	17	15	18

Source: World Bank internal database Table 3a.4 as of 9/16/10

APPENDIX TABLE 19: BANK BUDGET BY COST CATEGORY, FY00-FY10
(IN US\$ THOUSANDS)

	<i>FY00</i>	<i>FY01</i>	<i>FY02</i>	<i>FY03</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>Average</i>	<i>Total FY00-10</i>	<i>Budget Distrib. %</i>
Timor-Leste														
Supervision	89	656	734	541	692	524	789	731	1,051	684	501	636	6,993	30.4
Lending	399	496	336	334	376	705	889	592	413	378	119	458	5,039	21.9
AAA	762	686	953	670	573	681	774	764	394	1,196	1,065	774	8,517	37.1
Other	125	29	329	157	295	251	256	302	367	200	125	221	2,436	10.6
Total	1,375	1,866	2,351	1,702	1,937	2,161	2,709	2,390	2,226	2,458	1,810	2,090	22,986	100.0
EAP														
Supervision	24,386	20,736	23,979	22,721	24,262	22,317	25,331	27,504	27,715	30,536	33,005	25,681	282,490	32.7
Lending	16,412	14,533	18,443	17,896	25,051	25,549	26,097	24,658	24,476	23,646	24,977	21,976	241,738	27.9
AAA	18,647	14,500	19,019	20,489	22,124	23,461	26,411	22,791	23,826	27,771	30,161	22,655	249,201	28.8
Other	5,414	6,734	8,601	10,537	14,933	8,514	7,942	7,763	7,633	7,519	5,997	8,326	91,588	10.6
Total	64,859	56,502	70,043	71,643	86,370	79,841	85,780	82,717	83,650	89,472	94,140	78,638	865,017	100.0
WORLD BANK														
Supervision	158,831	136,397	152,338	160,295	167,000	178,459	190,444	199,270	217,739	230,865	252,044	185,789	2,043,682	32.2
Lending	124,422	102,528	123,494	120,910	157,035	151,417	155,675	149,646	147,977	151,646	156,947	140,154	1,541,699	24.3
AAA	107,754	88,308	130,026	150,800	154,879	157,072	169,431	162,827	187,311	198,125	206,714	155,750	1,713,248	27.0
Other	65,114	74,645	85,053	91,238	106,091	100,456	103,789	105,175	105,656	105,691	110,201	95,737	1,053,108	16.6
Total	456,121	401,877	490,912	523,244	585,006	587,404	619,339	616,917	658,683	686,327	725,906	577,431	6,351,737	100.0

Source: Bank Database Resource Management Report 4.1 as of 9/17/10.

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APPENDIX TABLE 20: BANK BUDGET FOR TIMOR-LESTE BY COST CATEGORY, FY00-FY08
(IN US\$ THOUSANDS)

Sector Board	Total	Supervision	Lending	AAA	Other
Agriculture and Rural Development	\$ 1,883	\$ 1,140	\$ 439	\$ 304	\$ 0
Education	\$ 1,622	\$ 646	\$ 767	\$ 210	\$ 0
Energy and Mining	\$ 1,616	\$ 702	\$ 561	\$ 353	\$ 0
Environment	\$ 170	\$ 0	\$ 0	\$ 170	\$ 0
Economic Policy	\$ 746	\$ 0	\$ 0	\$ 746	\$ 0
Financial and Private Sector Development	\$ 1,220	\$ 676	\$ 357	\$ 187	\$ 0
Global Information/Communications Technology	\$ 227	\$ 0	\$ 0	\$ 227	\$ 0
Health, Nutrition and Population	\$ 1,352	\$ 644	\$ 245	\$ 463	\$ 0
Poverty Reduction	\$ 1,222	\$ 0	\$ 0	\$ 1,222	\$ 0
Procurement	\$ 98	\$ 0	\$ 0	\$ 98	\$ 0
Public Sector Governance	\$ 3,135	\$ 1,064	\$ 1,298	\$ 773	\$ 0
Social Development	\$ 1,957	\$ 208	\$ 721	\$ 1,029	\$ 0
Social Protection	\$ 1,764	\$ 725	\$ 366	\$ 673	\$ 0
Transport	\$ 65	\$ 0	\$ 0	\$ 65	\$ 0
Urban Development	\$ 45	\$ 9	\$ 4	\$ 32	\$ 0
Sector Board not Applicable (I)	\$ 773	\$ 0	\$ 0	\$ 773	\$ 0
Not assigned	\$ 5,089	\$ 1,180	\$ 281	\$ 1,193	\$ 2,436
Total	\$ 22,985	\$ 6,993	\$ 5,039	\$ 8,517	\$ 2,436

Cost Structure by percentage

Sector Board	Total	Supervision	Lending	AAA	Other
Agriculture and Rural Development	100	61	23	16	0
Education	100	40	47	13	0
Energy and Mining	100	43	35	22	0
Environment	100	0	0	100	0
Economic Policy	100	0	0	100	0
Financial and Private Sector Development	100	55	29	15	0
Global Information/Communications Technology	100	0	0	100	0
Health, Nutrition and Population	100	48	18	34	0
Poverty Reduction	100	0	0	100	0
Procurement	100	0	0	100	0
Public Sector Governance	100	34	41	25	0
Social Development	100	11	37	53	0
Social Protection	100	41	21	38	0
Transport	100	0	0	100	0
Urban Development	100	21	9	70	0
Sector Board not Applicable (I)	100	0	0	100	0
Not assigned	100	23	6	23	48
Total	100	30	22	37	11

Source: Bank Database Resource Management Report 4.1 as of 9/17/10.

APPENDIX TABLE 21: TIMOR-LESTE: GOVERNANCE INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1. Improving Implementation Capacity											
Integrity indicators Scorecard¹											
Administration and Civil Service								Very Weak (Score: 46)			
Civil Service Regulations								Very Weak (Score: 38)			
Whistle-blowing Measures								Weak (Score: 63)			
Procurement								Strong (Score: 82)			
CPIA²											
Quality of Budget. & Finan. Mgt.							3	3	3		
Effic.of Revenue Mobil.							3	3	3		
Quality of Public Admin.							2.5	2.5	2.5		
Worldwide Governance Indicators³											
Government Effectiveness			-0.92	-0.94	-0.65	-1.06	-0.97	-1.12	-1		
2. Tackling corruption											
Integrity indicators Scorecard¹											
Anti-Corruption Law								Very Strong (Score: 100)			
Anti-Corruption Agency								Moderate (Score: 71)			
CPIA²											
Transpar., Account. & Corrup.in Pub. Sec.							3	3	3		
Worldwide Governance Indicators³											
Control of Corruption			-0.53	-0.52	-0.53	-0.79	-0.88	-0.93	-0.89		
Index of Economic Freedom⁴											
Freedom From Corruption										26	22
3. Legal and judicial reform											
Integrity indicators Scorecard¹											
Rule of Law								Moderate (Score: 74)			
Law Enforcement								Very Weak (Score: 54)			
National Ombudsman								Very Strong (Score: 91)			
Supreme Audit Institution								Very Weak (Score: 4)			
CPIA²											
Property Rights & Rule-based Govern.							1.5	1.5	2		
Worldwide Governance Indicators³											
Rule of Law			-1.17	-0.74	-0.83	-0.58	-1.18	-1.3	-1.15		
4. Voice / Empowerment / Participation											
Integrity indicators Scorecard¹											
Civil Society, Public Information and Media								Strong (Score: 80)			
Civil Society Organizations								Strong (Score: 82)			

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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Media								Strong (Score: 86)			
Public Access to Information								Moderate (Score:73)			
Worldwide Governance Indicators³											
Voice and Accountability	0.15		0.07	-0.36	-0.19	0.08	0.19	0.28	0.07		
Freedom in the World⁵											
Civil Liberties	3	3	3	3	3	3	4	4	4		
Cigranelli and Richards (CIRI) Human Rights⁶											
Empowerment index		7		8	8	8	6				
World Press Freedom Index⁷											
Ranking				30	57	58	83	94	65	72	
Total Number of Countries Included				166	167	167	168	169	173	175	
Percentile				0.82	0.66	0.65	0.51	0.44	0.62	0.59	
5. Political Governance											
Integrity indicators Scorecard¹											
Elections								Weak (Score: 63)			
Voting & Citizen Participation								Strong (Score: 85)			
Election Integrity								Strong (Score: 81)			
Political Financing								Very Weak (Score: 24)			
Freedom in the World⁵											
Political Rights	6	5	3	3	3	3	3	3	3		
Polity IV/ Democracy and Autocratic index⁸			6	6	6	6	7	7	7		

Notes:

1. Scores are assigned from 0 to 100. The higher the rating the better it ranks on integrity. Countries are classified according to the following scale: Very Strong (90+), Strong (80+), Moderate (70+), Weak (60+), Very Weak (<60). Source: Global Integrity Report.

2. CPIA rates the quality of a country's policies and institutional framework on a scale from 1 (low quality) to 6 (high quality). CPIA ratings before 2005 are confidential. Source: World Bank

3. Governance Score: Measured on a scale from -2.5 to 2.5. Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2008: Governance Matters VII: Governance Indicators for 1996-2007

4. Each of the 10 freedoms is graded using a 0 to 100 scale, where 100 represents the maximum freedom. Overall rating results from a simple average of 10 subtracting. Scores for each year refer to the Heritage Foundation report of the following year. The index of Economic Freedom categories are defined as: "free": 80-100%, "mostly free":70-79.9%; "moderately free": 60-69.9%; "mostly unfree":50-59.9%; "repressed":0-49.9%. Source: The Heritage Foundation.

5. Political Rights and Civil Liberties are measured on a one-to-seven scale, with one representing the highest degree of Freedom and seven the lowest. Status categories are Free, Party free, Not free. Source: Freedom House

6. Constructed from the Freedom of Movement, Freedom of Speech, Workers' Rights, Political Participation, and Freedom of Religion indicators. It ranges from 0 (no government respect for these five rights) to 10 (full government respect for these five rights). Source: <http://www.humanrightsdata.org>.

7. Ranking based on a questionnaire sent to freedom of expression groups, correspondents, journalists, researchers, jurists and human rights activists. Source: Reporters without Borders (RSF).

8. Scale -10 (hereditary monarchy) to +10 (consolidated democracy). Three-part categorization of "autocracies" (-10 to -6), "anocracies" (-5 to +5 and the three special values: -66, -77, and -88), and "democracies" (+6 to +10). Source: University of Maryland - Center for International Development and Conflict Management. Monty Marshall and Keity Jaggers. <http://www.systemicpeace.org/polity/polity4.htm>

APPENDIX TABLE 22: MILLENNIUM DEVELOPMENT GOALS

	1990	1995	2000	2005	2007
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	64	64	65	65	67
Employment to population ratio, ages 15-24, total (%)	51	51	51	55	58
GDP per person employed (constant 1990 PPP \$)
Income share held by lowest 20%	7	9	9
Malnutrition prevalence, weight for age (% of children under 5)	41	..	..
Poverty gap at \$1.25 a day (PPP) (%)	19	9	9
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	53	37	37
Vulnerable employment, total (% of total employment)
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)
Literacy rate, youth male (% of males ages 15-24)
Persistence to last grade of primary, total (% of cohort)
Primary completion rate, total (% of relevant age group)	70	80
Total enrollment, primary (% net)	69	77
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	25	29
Ratio of female to male primary enrollment (%)	92	94
Ratio of female to male secondary enrollment (%)	100	..
Ratio of female to male tertiary enrollment (%)	127	..	71
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	35	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)
Mortality rate, infant (per 1,000 live births)	138	116	100	83	75
Mortality rate, under-5 (per 1,000)	184	153	129	105	93
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	89	59	53
Births attended by skilled health staff (% of total)	..	26	24	18	..
Contraceptive prevalence (% of women ages 15-49)	8	20	20
Maternal mortality ratio (modeled estimate, per 100,000 live births)	380	..
Pregnant women receiving prenatal care (%)	43	61	..
Unmet need for contraception (% of married women ages 15-49)
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	47	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)
Condom use, population ages 15-24, male (% of males ages 15-24)
Incidence of tuberculosis (per 100,000 people)	498	498	498	498	498
Prevalence of HIV, female (% ages 15-24)
Prevalence of HIV, male (% ages 15-24)
Prevalence of HIV, total (% of population ages 15-49)
Tuberculosis case detection rate (all forms)	52	43	33
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	0	0	0
CO2 emissions (metric tons per capita)	0	0	0
Forest area (% of land area)	65	61.2	57.4	53.7	52.2
Improved sanitation facilities (% of population with access)	40	41	41
Improved water source (% of population with access)	61	62	62
Marine protected areas (% of total surface area)	0
Terrestrial protected areas (% of total surface area)	15
Goal 8: Develop a global partnership for development					
Net ODA received per capita (current US\$)	0	0	284	186	253
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)
Internet users (per 100 people)
Mobile cellular subscriptions (per 100 people)
Telephone lines (per 100 people)
Other					
Fertility rate, total (births per woman)	5	6	7	7	6
GNI per capita, Atlas method (current US\$)	330	740	2460
GNI, Atlas method (current US\$) (billions)	0.3	0.7	2.7
Gross capital formation (% of GDP)	25.6	..	..
Life expectancy at birth, total (years)	46	51	56	60	61
Literacy rate, adult total (% of people ages 15 and above)
Population, total (billions)	0	0	0	0	0
Trade (% of GDP)

Source: World Development Indicators database as of 5/27/10.

Figures in italics refer to periods other than those specified.

Attachment 1: Comments from Government



República Democrática de Timor-Leste
Ministério das Finanças

Gabinete da Ministra



"Adeus Conflito, Bem-vindo Desenvolvimento"

No: 177/ GMF / 2011

26 May 2011

Mr. Jaime Jaramillo-Vallejo

Lead Economist, IEGCR

World Bank Group

Dear Mr. Jaramillo-Vallejo:

The Government of Timor-Leste welcomes the opportunity to respond to the submission of the Timor-Leste Country Program Evaluation, 2000-2010 produced by the Independent Evaluation Group (IEG). It was considered by the Government of Timor-Leste that our most appropriate response would be to comment on the general nature of the report rather than delve into the specific details of what is clearly a comprehensive and substantial document.

The Government of Timor-Leste would like to commend the IEG and its Staff, The World Bank Group and its Staff, the International Finance Corporation and its Staff for participating in an honest, transparent, "frank and fearless" account, review and appraisal of the decade-long Timor-Leste Country Program.

It should be noted that many of the issues and challenges presented in the Report are not specific to the World Bank Group Country Program but symptomatic of all international actors navigating the difficulties and challenges of development in a post-conflict and fragile environment. The content of the Report and its findings should be utilized by all international actors as a thought provoking and insightful document, in retrospect of the Nation's advancements in 2011. With this in mind, the exercise will no doubt lend to better development outcomes within the context of fragile and conflict affected States and regions, with enhanced international engagement and cooperation from all international actors that choose to take note of the formative "lessons learnt" shared by the World Bank Group.

The World Bank Group is the first to take ownership by producing such a seminal document with a comprehensive internal monitoring and evaluation process demonstrating not only prodigious leadership within the international donor community but an uncompromised willingness to reflect and reform for not only the benefit of Timor-Leste's national development in the second decade of engagement; but all country-led programs for better outcome-based solutions.

Background

1. The IEG is charged with evaluating the activities of the International Bank of Reconstruction and Development (IBRD), the International Development Agencies (IDA) of the World Bank, the work of the International Finance Corporation (IFC) in private sector

development, and the Multilateral Investment Guarantee Agency (MIGA) projects and services. The Director-General of IEG reports directly to the World Bank Group's Board of Directors. The goals of evaluation are to provide an objective assessment of the results of the Bank Group's work and to identify and disseminate lessons learned from experience.¹

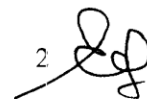
2. In 2009, the Government of Timor-Leste assembled a Reports Review Team (RRT) to work in tandem with members of Government, members of the civil service and national and international advisors to evaluate, monitor and provide analysis on seminal international reports. The RRT was asked to **A}** to review The IEG Timor-Leste Country Program Evaluation, 2000-2010 on the merit of compilation and **B}** to add value where appropriate to contribute to good international engagement in the pursuit of identifying "lessons learnt from experience" and provide brief general comment where applicable to add value. It was clearly mandated in the brief to refrain from intervention on the internal appraisal of World Bank Monitoring and Evaluation conclusions and recommendations which would be considered contravention to best practice.

3. The Timor-Leste Country Program Evaluation, 2000-2010 begins with an Executive Summary and is presented in seven chapters. **1}** Context; **2}** World Bank Group Strategy and Program; **3}** **Pillar I.** Provision of Basic Social Services, Social Protection and Alleviation of Poverty and Unemployment; **4}** **Pillar II.** Governance and Development of State Institutions; **5}** **Pillar III.** Sustainable and Diversified Non-Petroleum Sector for Job Creation and Economic Growth; **6}** Donor Coordination: Alignment and Harmonization and **7}** Conclusion

Merit of Compilation; Findings

1. The methodology of compilation is thorough and based on best practice international principles of collation with examination using qualitative, quantitative and evidentiary based research where available.
2. In depth research with transparent methodologies are evident, where data and material cannot be sourced, transparency is consistent with best practice, with accurate citing and honest assessments inclusive as to the reasons data cannot be sourced.
3. The examiners have conducted un- biased and relative interviews (total cited:105) with honest feedback from a cross sector of stakeholders; providing fair and unhindered assessment with varying viewpoints from which to draw recommendations and conclusions.
4. World Bank Staff and leadership have, by all accounts within the documents, provided an honest and true assessment without hesitation and in good faith as to the overall objective to contribute to better international engagement and interventions. This was considered a most notable achievement in transparency and accountability; rarely displayed in an international reporting mechanism; particularly within a monitoring and evaluation process. The willingness to contribute was a demonstration of a renewed culture of accountability within World Bank systems
5. Sourcing is consistent with best practice and applicable to the overall review process with detailed footnotes providing transparency and clarity for readers.

¹ <http://ieg.worldbankgroup.org/content/ieg/en/home.html>

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6. Report details are consistent with best practice in detail and research to support conclusions and recommendations.
7. The report as an international document should be used as an example for international actors as best practice in methodology and report mechanisms; to contribute to independent and non-biased conclusions and recommendations while adding value to in-country review of aid effectiveness through genuine partnership for both Government and the World Bank Systems.
8. The report will add value to best practice in international M and E and should be used as an example for international actors to follow suit with equal commitment to “lessons learnt”.

Adding Value Through Lessons Learnt, the Timorese Experience

1. Data

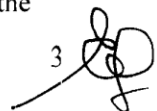
This document, like all documents produced by international actors, does display a lack of detailed data or qualified analysis to contribute to some conclusions. Given the length (ten years) of the coverage of the document, it would be impossible to access accurately the information or the contribution necessary to respond to the entirety of the IEG findings or to fairly provide a Government response to one period of time at the exclusion of the other periods which is why this Government response provided is under the guidance considered ‘general in nature.’

However; a continued theme throughout the report was the lack of data available to international actors from which to devise actions and intervention. Data is a necessity for both international actors and the Government to guide intervention and public policy. Without qualitative and quantitative, timely and evidentiary data; it is near impossible to accurately determine intervention or the necessity and impact of an intervention in the short, medium or long term. Timor-Leste has consistently debated reports which have used outdated data and statistics to represent real time status of the Nation; the World Bank has responded by making a concerted effort to contribute to meaningful and up to date reporting to inform decision makers.

Indeed, the World Bank in 2009 contributed to data enhancement with the following example: the most recent World Bank Poverty Assessment in response to identify the effect on the economy and poverty levels as a result of newly exercised social and expansionary fiscal policies in Timor-Leste demonstrated a 9% reduction in poverty. These findings were instrumental in monitoring and evaluating public policy for the Government and an immediate response to identify social investment returns for the Government. Such data proves invaluable for all international partners. The Government considers the support of accurate data collection one of the single most important contributions that international actors can make at any stage in development in order to determine intervention and budget accordingly.

2. Cross Sector Analysis

Whilst immediate intervention with a minimum of constraints is necessary in post conflict scenarios, to date, there has never been a comprehensive cross sector analysis on the mandatory needs of the Nation in order to achieve the key performance indicators necessary to build the

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non-oil economy and emerge from fragility and conflict. All sectors are inter-related and with intervention to one without attention to another; fragmentation results in little progress as demonstrated in the 2007 Timor-Leste Standard of Living Survey which showed poverty had increased significantly. In mid 2007, the Government of Timor-Leste began the process of long term Strategic Planning with one of the largest obstacles; the challenges of cross sector analyses planning and prioritization. One of the most astonishing aspects was the lack of research from international partners available in this area of cross sector analysis which could be evaluated. The World Bank has proven to be most successful in this area of high level expert advice and might consider concentrating efforts on such endeavors which would provide short, medium and long term results.

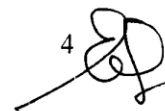
An example: in 2010 at the request of the Minister of Finance, the World Bank responded to a direct request with two high level short term advisors engaged to provide very specific high level advice. The World Bank acted without hesitation. The advice provided within a small, high level forum of delegated Government officials and advisors was instrumental to assisting country-led devised strategies, providing various development options to consider based on the Nation's set key performance indicators and provided examples to contemplate with economic modeling in concert with national experts to lend to internal debate on strategic direction. The conclusion was the World Bank could be most effective at this high level of advice and should consider pursuing this model with a cross sector analysis team to evaluate the needs of post conflict and fragile nations before interventions are created and implemented.

3. Infrastructure

Another theme throughout the report was the lack of infrastructure after the decade long intervention. The interventions and programs by international actors which ultimately aim to ensure, amongst other things, poverty reduction, employment opportunities, food security, private sector growth, good governance; all rely on the provision and upkeep of sound infrastructure and connectivity allowing national integration. Without addressing the core elements that drive the social and fiscal economy of any State, a State cannot evolve to meet essential key performance indicators. Intervention if complimented by a cross sector analyses, can inform country-led strategies; the rate, pace and cost of infrastructure aligned to the Governments country-led strategy would aid in designing both country-led strategy and international intervention. World Bank has the expertise and experts to form a team that can assist post conflict and fragile states in immediate analyses of infrastructure needs cross sectors. Timor-Leste has been the beneficiary of this expertise in sector isolation but not in a formalized cross sector strategy led advisory environment. For a young nation, fragile in institutions the breadth of the process is both a huge cost and a huge process secondary to the immediate mission of governing a country from fragility, establishing institutions and managing day to day operations of service delivery. For international actors to expect a fragile Nation to undergo this process in 2011; when they themselves had not adequately addressed this challenge in a harmonized way before designing intervention over a decade with 26 donors to share the assignment; it is fair to say; international actors did not provide either a fair or reasonable best practice example for strategic planning or implementation for the Government.

4. Country Context

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There is no doubt that over the last decade and with the creation of the Paris Declaration of 2005, The Accra Agenda of 2008, the Dili Declaration of 2009 and the creation of the g7+ which Timor-Leste leads, 17 conflict affected and fragile States that have come together to share experiences, influence global policy and help reform international intervention which the World Bank has supported at the highest level; the paradigm has shifted, with international actors striving to understand and adapt to the country context. However; there are still barriers. Organizations continue to expect Nations to operate within their own complex systems adding a significant workload to national staff.

In the experience of Timor-Leste, urgent requests are still met with unreasonable bureaucratic restrictions often considered by the Government and international advisors as unreasonable and insignificant to transparency, accountability or best practice. In effect; the World Bank systems must be adaptable to Government requests; especially when requests are reasonable for all stakeholders but not executed because of World Bank bureaucratic systems which restricts progress on integral aspects of nation building or state building functions. Often direct requests from leadership for simple but integral interventions are ignored or labeled “not within a program brief”; but alternative programs are proposed. This causes frustration and a seemingly considerable lack of communications or understanding of the “country context” with shifting and at time urgent needs.

It is not surprising as the Government has strengthened institutional capacity and systems, country-led agendas with national staff clearly aligned and able to identify in-country needs; the State has engaged other means to provide what traditionally international actors would have provided; avoiding the extended delays and parallel workloads to ensure the National needs are met with country-led strategies and within country led systems that are navigable.

World Bank can re-engage within a rapidly transitioning environment but should do so by responding equally to the transition with better country context and engagement based on Government led strategies. Trust must be rebuilt as the advice has not always provided results; and advice should be driven to enhance and support the Government agenda as mentioned in the example discussed in part 2. Less focus should be on programming and more on the core business of the World Bank which is providing high level advice from international experts relevant to the country agenda and supporting the Government to deliver core services to further reduce poverty and improve the livelihood of citizens.

5. Communication

International actors must focus on communications to advance better in-country engagement and harmonization. Often the communication structures are not conducive to enhanced development outcomes simply because language, tone and intent can be construed as demeaning in advocacy of agendas and condescending in the assessments used to deliver key messages in reporting mechanisms. Combined, this often leaves a lasting impression that the organizational vehicles of international actors are providing oversight rather than insight and overriding their trusted capacity to harmonize with country-led strategies.

In the case of Timor-Leste, country-led agendas have, in many instances, provided successes, averting further crises and reducing poverty. Many of the country-led strategies were both

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publicly and privately strongly advised against by many international actors; those same organizations now praise the efforts and successes. Reform at the most basic level of communications, would enhance relations and provide long lasting benefits.

World Bank Staff must be diligent in communications to international advisors, Government and their own staff in-country as the system is inner-related and often compounds misunderstandings and mistrust. In-country teams and headquarters must be closely aligned and systems and departments cannot be designated or presented as independent to one another.

If the organizational chart within World Banks system necessitates this for their own institutional framework it is understandable; however, it is unreasonable to expect a fragile Nation and its People to navigate or understand the complex institutional framework for in-country development and outcome based solutions; especially when they sometimes fail to deliver; or worse cause deep division and political tensions as occurred in 2008.

In discussing communication, when international actors advocate transparency, accountability and measures of reporting, auditing and good governance, they should also apply these principles internally, practiced and exercised in good faith. An example is the transparency portal which the Government recently launched to provide all budget execution and information on-line, in real-time. Disbursement and fiscal activity should be equally as transparent for international actors.

6. Success

There is no doubt there have been successes to international engagement. The Public Management Capacity Building Program under the Ministry of Finance has been a highly successful program, managed by the Ministry with ownership, accountability and technical support from the World Bank. The program shifts as to the needs of the Ministry and the institutional reforms. Huge institutional gains have been made with capacity building and all the public finance indicators have improved year on year since the program has been adapted in 2007. The success was based on trust, continual evaluation as to the needs of the Ministry and ownership of the program to implement Government reforms.

Conclusion

Nation building is, on average, a thirty-year process which needs consistency, commitment, and genuine rules which should be followed to avoid the difficult lessons learned by all countries emerging from conflict and fragility. Expectations should be re-evaluated with time and patience within the country context required for long-term plans, whilst agility is required when short-term interventions need to be activated urgently to avoid the disparaging ravages of poverty and war from affecting the People and leading to a return to conflict. Action should be unhindered but not independent; supporting the Government to enhance service delivery and reinstate trust in the State. Short-term action should not; however, preclude international actors from rebuilding and engaging in interventions that are absolutely necessary; with the provision of quality cross sector analyses and data being two of the most essential statebuilding resources to contribute to better interventions. Infrastructure is a mandatory precursor to any long term

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