Validation Report

Reference Number: FRV: TIM 2011-18
August 2011

Final Review Validation

Independent Evaluation Department

Asian Development Bank
ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
COBP – country operations business plan
CPS – country partnership strategy
CSFR – country strategy final review
CSPU – country strategy and program update
EIRR – economic internal rate of return
IED – Independent Evaluation Department
IEM – independent evaluation mission
SDP – strategic development plan
SOTL – Special Office in Timor-Leste
TA – technical assistance
TFET – Trust Fund for East Timor
TIM – Timor-Leste
UNDP – United Nations Development Programme

NOTE

In this report, “$” refers to US dollars.

Key Words

adb, asian development bank, country strategy, country partnership strategy, timor-leste

Director General  H. Hettige, Officer-in-Charge, Independent Evaluation Department (IED)
Director  H. Hettige, Independent Evaluation Division 2, IED
Team leader  N. Singru, Senior Evaluation Specialist, IED
Team members  R. Lumain, Senior Evaluation Officer, IED
               C. Roldan, Associate Evaluation Analyst, IED

Independent Evaluation Department, VR-4

In preparing any evaluation report, or by making any designation of or reference to a particular territory or geographic area in this document, the Independent Evaluation Department does not intend to make any judgments as to the legal or other status of any territory or area.
CONTENTS

I. BACKGROUND INFORMATION 1
   A. Validation Purposes and Procedures 1
   B. Country’s Development Context and Government Plans 1
   C. ADB Country Strategy Coverage and Priorities 3

II. VALIDATION OF THE COUNTRY STRATEGY, 2006–2010 FINAL REVIEW 3
   A. Strategic Positioning 3
   B. Program Relevance 5
   C. Efficiency 6
   D. Effectiveness 6
   E. Sustainability 7
   F. Development Impacts 8
   G. ADB and Borrower Performance 9
   H. Overall Assessment 10
   J. Recommendations for Subsequent Country Partnership Strategy 13
   K. Comments on the Quality of Final Review 14

APPENDIXES

1. List of Linked Documents 15
2. Achievement of Pipeline of Lending and Nonlending Products 16

The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of IED, the people preparing, reviewing, or approving this report had no conflicts of interest.
I. BACKGROUND INFORMATION

A. Validation Purposes and Procedures

1. The Asian Development Bank (ADB) has implemented its country strategy and program update (CSPU), 2006–2008 and the country operations business plan (COBP), 2008–2010.1 A country strategy, 2006–2010 final review (CSFR) was prepared in February 2011 to assess the performance of the CSPU and COBP (Appendix 1).2 ADB’s Independent Evaluation Department (IED) prepared this validation report to validate the findings and assess the self-evaluation of the CSFR.3 It confirms the self-evaluation findings and identifies lessons and recommendations for improving the quality of the design and implementation of the subsequent country partnership strategy (CPS).

2. This validation report is based on (i) a desk review; (ii) the findings of the recently completed project performance evaluation report;4 and (iii) consultations in Dili, Timor-Leste, by an independent evaluation mission (IEM) to obtain feedback in relation to this validation. The performance of the CSPU and the COBP was evaluated in the context of the post-conflict nature of the country since 2000. It acknowledges the constraints faced by the Government of Timor-Leste during this period and identifies areas for future improvement now that the country has entered into a more stable development phase.

B. Country’s Development Context and Government Plans

3. During the review period, Timor-Leste emerged from a period of post-conflict rehabilitation, during which it had to rebuild institutions and set up a new administrative system. Its first national development plan identified two strategic pillars: (i) poverty reduction and (ii) equitable and sustainable economic growth. Development efforts in the country have been largely supported by bilateral and multilateral development partners. With the increase in public revenues from petroleum exports, the government has been able to deploy more funding for public expenditure as shown in the Figure 1 below.

Figure 1: Public Expenditure


---

3 The draft validation report was provided to the country team prior to the Management Committee Meeting in April 2011.
4. Timor-Leste became a member of ADB in 2002. Economic activity picked up considerably after formally becoming an independent state, albeit from a very low base, owing to the presence of United Nations peacekeeping personnel and their operations. Timor-Leste witnessed an escalation of civil unrest in 2006 that slowed economic growth. Since 2007, the security environment has improved, allowing development efforts to restart and improved agriculture, which also benefited from productivity-enhancement.

5. The United Nations Development Programme (UNDP) Human Development Index ranked Timor-Leste 120 of 162 countries in 2010, which was an improvement over the 2005 ranking of 150. Despite this achievement, one of the key challenges the country faces post-conflict is limited capacity to plan and implement projects. This has caused several internationally funded programs such as those of the European Commission and the World Bank to have little development effectiveness. The presence of large number of international development partners (currently numbering 41) has increased the government's transaction costs in managing development efforts.

6. The gross national income has increased since 2005 mainly on account of revenues from the hydrocarbon sector, which have had a major impact on the balance of payments and fiscal management. Timor-Leste became a lower-middle-income country in 2007. In the past 4 years, the economy has grown rapidly, with petroleum revenues providing most national income and government revenues. The government's outlook for 2010 indicates 9.5% growth, which is even higher than the International Monetary Fund estimate of 6%. It is expected that non-petroleum and non-United Nations gross domestic product growth will continue to be high in the medium term. The balance-of-payment position has been supported by current account surpluses, which have been driven largely by sizeable petroleum income. Similarly, the central government's fiscal spending has been supported by petroleum-financed revenue.

7. While the outlook for Timor-Leste's petroleum-dependent economy seems positive in the short term, uncertainties threaten the future, notably risks to critical petroleum benefits (i.e., price and production); the magnitude and quality of public spending; and uncertain commitment to structural reforms toward an enabling environment for business. Timor-Leste will need to ensure the prudent use of its petroleum revenues and strive to develop a strong non-petroleum economy. It needs to raise people's living standards by reducing poverty and achieving progress in social indicators. Since 2007, the government has drawn revenues from the petroleum fund. It remains to be seen whether carefully selected infrastructure investment can provide returns good enough to justify withdrawals from the petroleum fund. Meanwhile, the central government's fiscal position appears to allow some room for additional capital expenditure. However, such spending needs to be consistent with the absorptive capacity of the economy to improve the chances of developing sustainable projects that support private sector development.

8. In its efforts to attract investment, the government will need to improve its ability to plan, evaluate, and implement programs so that any expansion in public works does not overwhelm administrative capacity. The country will need structural reforms to enhance productivity and efforts to build labor skills toward improving non-petroleum industries and services.

---

C. ADB Country Strategy Coverage and Priorities

9. ADB’s country strategy in Timor-Leste has focused support on two thematic areas: infrastructure and financial sector development. ADB assistance during 2006–2010 aimed to provide (i) efficient, cost-effective, and financially sustainable transport infrastructure to strengthen connectivity and thus support social and economic development; (ii) water supply for homes and businesses in urban areas; and (iii) access to credit for private investment and working capital.

10. Infrastructure accounted for all of the $74.0 million in grants approved or implemented during 2006–2010 and for $19.7 million of the $23.3 million in technical assistance (TA) approved or implemented during the period. TA for $0.5 million was approved to improve access to finance and was supplemented by support under a regional facility for private sector development. Most resources were allocated to road infrastructure, followed by water supply.

II. VALIDATION OF THE COUNTRY STRATEGY, 2006–2010 FINAL REVIEW

A. Strategic Positioning

11. The CSFR rated the strategic positioning of ADB under the CSPU and COBP highly satisfactory. The CSFR based this rating on the country strategy, 2006–2010 being appropriately focused on the government’s development priorities and selecting two core sectors: infrastructure and financial sector development. This is in line with the country’s national development plans and ADB’s Strategy 2020. ADB’s program was planned to support the economy and basic service delivery, indirectly addressing the development priorities of employment and income generation, rural development, and food security. This assessment of the CSFR is appropriate and contributes to the evaluation of strategic positioning.

12. IED downgraded the rating for strategic positioning to satisfactory owing to the overly ambitious results framework targeted by the CSPU (para. 14). In addition, regional cooperation did not receive adequate attention in the CSPU despite being a thrust area for ADB in Timor-Leste. Notwithstanding these shortcomings, the country strategy was relevant to the needs of the country, especially in the transition period after the conflict. ADB’s strategies were appropriately positioned to serve its needs. As planned, ADB’s program focused on infrastructure (transport and water) and finance sector development. Taking into account macroeconomic growth in the country, it would appear that this positioning was in the correct direction. However, growth has been stimulated mainly by petroleum revenues. Potential government revenues mean government finances appear likely to be strong in the short-to-medium term. This raises the need for ADB to position its assistance in areas that will add value in the changed scenario.

13. The CSPU, 2006–2008 made the case for infrastructure investment in Timor-Leste based on the country’s first national development plan, which assigned a key role to infrastructure development in the poverty reduction strategy to facilitate the movement of people.

---


9 ADB has focused on infrastructure development investments with the understating that International Monetary Fund and the World Bank will focus macroeconomic management issues.
and goods, orderly and efficient functioning of markets, and sustainable development of the
country.\textsuperscript{10} The CSPU appropriately allowed for completing ongoing road projects and
programmed a new water project grant.

14. The CPS results framework was included in the CSPU, 2006–2008 and updated in the
subsequent COBP, 2008–2010. However, several milestones and indicators in the results
framework proved overly ambitious given the state of institutional development in the country
post-conflict. These milestones include the government adopting a comprehensive infrastructure
capacity development road map, developing additional technical capacity in the Ministry of
Infrastructure, adopting more efficient small-scale domestic contracting, establishing an
equipment-leasing company, injecting private equity into the Institute of Microfinance in Timor-
Leste, and establishing a water and sanitation regulatory framework and credible regulator, etc.
These milestones are more appropriate for a country that has enjoyed several years of political
stability and has the institutional framework for implementing reforms. In the case of Timor-
Leste, the first democratically elected government was established in 2002. With new public
sector administrative functions being set up and only a limited private sector, the expectation of
the government implementing such reforms was unrealistic.

15. The national development plan highlighted regional cooperation as a key area for
development, and the CSPU programmed it as a multisector strategy for implementation in
Timor-Leste. The CSPU specifically mentioned enhanced cooperation with Indonesia as
important for revitalizing the private sector. However, ADB has yet to develop any regional
cooperation program in the country. This is an issue with most Pacific countries, as regional
cooperation has not been actively pursued. The CPS results framework included the milestone
of a regional cooperation program in place by 2008, which has been partially achieved.

16. Table 1 shows Asian Development Fund (ADF) allocations for Timor-Leste and grant
approvals. It shows that grant approvals generally made use of the ADF allocations from 2006
to 2010 but understandably not exactly in line with ADF allocation periods due to the
uncertainties involved with project preparation.

<table>
<thead>
<tr>
<th>ADF Periods</th>
<th>ADF Allocations ($ million)</th>
<th>Grant Approvals ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005–2006</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>2007–2008</td>
<td>20</td>
<td>6</td>
</tr>
<tr>
<td>2009–2010</td>
<td>25</td>
<td>49</td>
</tr>
</tbody>
</table>

ADF = Asian Development Fund.
Source: Asian Development Bank information database.

17. The CSPU was prepared appropriately to ensure no overlap with the planned activities
of other development partners, which the development coordination matrix took into account.
The CSFR mentions that ADB’s infrastructure focus was widely understood by other
development partners, facilitating the harmonization of ADB operations with those of others. It
stated that harmonization was further assisted by operational understandings reached within
subsectors case by case. Yet areas for improving the subsequent implementation of
development partner coordination remained (para. 41).

18. The government intends to produce a national strategic development plan (SDP), 2011–2030, which will serve as a guiding document for the country’s development over the next 20 years. A summary of the SDP was released in April 2010, and key elements of it were included in the 2011 budget. The SDP continues the focus on infrastructure development, which will require ADB to develop its own CPS in line with the SDP.

B. Program Relevance

19. The CSFR rated the country assistance relevant. The CSFR justified this rating as the designs of key grant and TA projects were highly relevant and technically adequate for addressing key sector issues. The assistance was progressively reoriented to address key national issues: weak transport and water infrastructure and inadequate access to finance. ADB has followed a sector approach in its transport assistance, which is appropriate. These justifications are appropriate for the evaluation rating.

20. IED validates the relevance rating. While country assistance has been relevant to the needs of the country, it has not been able to address the key development constraint, which is limited skilled human resource capacity in the government. ADB’s future assistance will need to address this issue more comprehensively.

21. The program was implemented generally as originally planned (Appendix 2). The main difference was that some capacity development TA projects were dropped in light of developments.11 This reduced the relevance of the program, though some of the TA designs were adapted in response.

22. The TA projects were designed to plug specific gaps in government capacity, especially in the Ministry of Infrastructure. The TA for Infrastructure Project Management was designed to provide substitute capacity in project preparation, procurement, contract management, and other areas.12 However, TA projects for infrastructure have suffered a lack of clear planning over the years. The exception to this is the TA for Strengthening Microfinance Operations, which consistently built on earlier work and succeeded in setting up a microfinance institution in Timor-Leste.13 This indicates that TA projects need to follow a consistent approach toward achieving a common goal. ADB must develop a programmatic approach in which TA and other projects are designed in a stepped manner to target specific outcomes and develop synergies toward achieving a common goal.

23. The design of grant projects left room for improvement, with the country emerging from its post-conflict phase and entering its long-term development phase. In the past, projects were designed as post-conflict rehabilitation: repairing and restoring road, energy, and water infrastructure. In the future, projects will need to be planned appropriately taking into account forecasts of demand in urban and rural areas. Moreover, there is a need for solutions that are led by the local context with adequate consultations with the community. In the case of the Dili Urban Water Supply Project, the project design looks mainly at improving water supply in

---

11 ADB’s Pacific Department stated that the scope of TA 4942-TIM (i.e., Infrastructure Project Management) was much larger than originally anticipated, owing to $12 million in cofinancing from the Government of Australia. This large TA obviated the need for some of the planned TA projects.


13 ADB. 2004. *Technical Assistance to the Democratic Republic of Timor-Leste for Strengthening Microfinance Operations*. Manila (TA 4509-TIM, $0.5 million, approved on 20 December, financed by the Japan Special Fund).
selected areas of Dili without any planning for differential in water demand in these urban areas.\textsuperscript{14}

24. ADB has provided grants for projects in Timor-Leste in consideration of its fragility.\textsuperscript{15} Revenues from the hydrocarbon sector have changed the fiscal position of the country since the start of the offshore petroleum production in 2004. By 2009, petroleum revenues provided almost 80% of the gross national income. Petroleum Fund assets reached $6.5 billion in 2010. With the strengthening of the Timor-Leste economy, ADB will need to rethink its strategy and ensure that its subsequent program reflects the country’s needs and capabilities.

C. Efficiency

25. The CSFR rated the country program \textit{less efficient}. The CSFR stated that the economic internal rate of return (EIRR) on the portfolio is above the 12% threshold, and most TA projects were successful. ADB’s program is, however, subject to delays, and EIRRs have been below initial estimates.

26. This \textit{less efficient} rating is validated by IED, taking into account the past and current performance of projects. For example, the Dili Urban Water Supply Sector Project has been delayed by more than 2 years, with the contracts for civil works yet to be awarded. This delay is likely to cause cost overruns. Similar problems have affected other projects.

27. IED evaluated four key projects that were approved during 2000–2002.\textsuperscript{16} All of them, costing in aggregate $48 million, were rated \textit{less efficient} owing to low EIRRs. Taking into account low demand for transport infrastructure as indicated by traffic levels on roads, the EIRR is on the low side, below the 12% threshold. A separate evaluation conducted by the European Commission also rated its projects \textit{less efficient} owing to findings similar to those of IED (footnote 6).

28. Implementation delays are widespread among projects funded internationally and by the government. Discussions with other development partners attributed these delays to limited capacity in the implementing line ministries. The CSFR assessment of the performance of the CSPU’s results framework found several of the indicators either partly achieved or not achieved. The following section discusses the results framework in more detail. In view of this, the rating of \textit{less efficient} is justified.

D. Effectiveness

29. The CSFR rated the country program \textit{effective}, achieving several key outcome targets of

\textsuperscript{14} ADB. 2007. \textit{Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Democratic Republic of Timor-Leste for the Dili Urban Water Supply Sector Project}. Manila (Grant 0100-TIM, $6 million, approved on 18 Dec).


\textsuperscript{16} ADB. 2000. \textit{Report on a Project Grant from the Trust Fund for East Timor to the United Nations Transitional Administration in East Timor for the Emergency Infrastructure Rehabilitation Project}. Manila (Grant 8181-TIM, $29.8 million, approved on 13 April); ADB. 2000. \textit{Report on a Project Grant from the Trust Fund for East Timor to the United Nations Transitional Administration on East Timor for the Water Supply and Sanitation Project}. Manila (Grant 8185-TIM [TF], $4.5 million approved on 31 July); ADB. 2001. \textit{Report on a Project Grant from the Trust Fund for East Timor to East Timor for the Water Supply and Sanitation Rehabilitation Project–Phase 2}. Manila (Grant 8189-TIM [TF], $4.5 million, approved on 13 July); ADB. 2002. \textit{Report on Supplementary Funding from the Trust Fund for East Timor to East Timor for the Emergency Infrastructure Rehabilitation Project – Phase 2}. Manila (Grant 8198-TIM, $9 million, approved on 25 July).
the country strategy results framework. Analysis of the indicators in the country results framework shows mixed success. Some indicators such as travel time reduction, expanded water infrastructure network, and increased access to credit have been achieved. Other indicators such as the length of roads rehabilitated have not yet been achieved. As mentioned in para. 14, the milestones in the results framework were overly ambitious and did not appropriately reflect low institutional development in the country. In view of this, the CSFR has provided a candid assessment of the achievements.

30. This effectiveness rating is validated, considering the mixed performance in the context of the post-conflict period. The CSPU had identified three broad outcomes:
   (i) Efficient, cost-effective, and financially sustainable transport infrastructure is more broadly available, improving connectivity and thus supporting social and economic development. This outcome has been achieved well enough to reduce vehicle operating costs. However, road rehabilitation has not been completed as expected.
   (ii) Access to credit for private investment and working capital has improved, largely achieved as expected.
   (iii) Water supply and sanitation for homes and businesses in urban areas has improved, though several urban areas continue to lack reliable access to clean water.

31. In addition to the outcomes mentioned above, ADB has contributed to public sector management and governance skills development through TA projects, which have generated benefits across various sectors. In general, the government has found the TA program to be beneficial. On the other hand, capacity development milestones have not been achieved in all the sectors of ADB engagement. This can be attributed to the lack of strong institutions. This is a countrywide issue that has affected the performance of all the projects, funded either internationally or by the government.

32. The effectiveness of ADB’s program needs to be viewed against the backdrop of the post-conflict period. The program from 2000 to 2010 was designed to help the country emerge from conflict. It was affected by renewed civil unrest in 2006. Only now that the country has enjoyed a degree of stability can projects be designed to achieve development outcomes wider than just post-conflict rehabilitation. Limited technical capacity has further inhibited broader development effectiveness. ADB’s TA projects have helped to set up the basic framework for project implementation in the Ministry of Infrastructure and establish a microfinance institution in the country. Taking into account the post-conflict situation, ADB’s assistance can be credited with adding value.

33. As part of the Trust Fund for East Timor (TFET), ADB’s initial projects were intended to provide immediate benefits by facilitating the provision of humanitarian aid and the movement of security forces. These energy, transport, and water projects effectively restored basic services during the post-conflict period.

E. Sustainability

34. The CSFR rated the country program’s sustainability less likely owing to the lack of assurance of recurrent cost financing, gaps in operation and maintenance practices and capacity, and uncertainty in the development of institutions. These are nationwide problems that have faced many other internationally funded projects. While the transport and water sectors have suffered from them, finance project achievements are likely to be sustainable, given support provided by
the Ministry of Economy and Development, Ministry of Finance, and Banking and Payments Authority toward setting up suitable institutions for microfinance and development financing.

35. The sustainability rating of less likely is validated. IED rated road projects unlikely to be sustainable in the recently completed project performance evaluation report (footnote 4). The lack of technical equipment and management capacity for roads and power utilities, combined with low budgetary allocations, provide strong reasoning for this rating. Energy projects faced similar issues, compounded by low consumer tariffs that have required heavy subsidies from the government. Similarly, the port project suffers from low port tariffs that have not been changed since 2003. Water projects are less likely to be sustainable owing to the poor collection of user charges.

36. The TA for institutional development, including microfinance, is likely to be sustainable, as the Institute for Microfinance for Timor-Leste is now well established and possesses a loan portfolio. Disbursements by the Institute for Microfinance for Timor-Leste have grown at an average annual rate of 53%. This indicates sound sustainability for the outcomes of the finance TA.

F. Development Impacts

37. The CSFR rated development impacts less likely. This rating is corrected to partly satisfactory. ADB’s assistance to the road and water sectors has contributed to development efforts, but their impact has been less than expected. ADB’s assistance is only a small percentage of public expenditure or international development aid. In view of this, the development impact of ADB’s assistance is likely to be in line with broader development across the country. Taking into account Timor-Leste’s slow pace of development, the IEM noted secondary data indicating that the portion of population below the national poverty line increased from 36% in 2001 to 50% in 2007, then decreased to 41% in 2009. This indicates only marginal impact on poverty reduction. Between 2007 and 2010, Timor-Leste witnessed renewed economic growth with emerging evidence of poverty reduction. The gross domestic product growth rate has exceeded 9.5% per annum, and agricultural productivity has improved. For example, the increase in coffee production in 2008 indicates some poverty relief, as coffee growers are among the poorest people in the country (footnote 5).

38. The inconsistency of data from varied sources leads to different conclusions on the amount of development assistance Timor-Leste has received. Data collected by IEM indicates that, between 2001 and 2007, international development partners spent $8 billion on development in Timor-Leste (footnote 17). Despite this, poverty in some areas of the country has almost doubled in the review period, with rural and regional subdistricts the worst affected. This indicates the need for better rural development programs that will enable economic growth in rural areas. Community development initiatives with the participation of local people can be included in infrastructure projects funded by ADB by, for example, including in routine road maintenance the participation of the local communities, which would provide new livelihoods in rural areas.18

18 ADB 2009. Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Democratic Republic of Timor-Leste for the Our Roads Our Future. Supporting Local Governance and Community-based Infrastructure Works. Manila (Grant 9142-TIM, $3 million approved on 20 November). This ADB grant is related to Grant 0180 for the Road Network Development Sector Project and it includes participation of local communities which is a step in the right direction.
G. ADB and Borrower Performance

39. The CSFR rated the performance of ADB and the borrower satisfactory. The CSFR justified ADB’s rating on the basis of aid coordination and the strengthening of ADB’s Special Office in Timor-Leste (SOTL). The government’s performance was satisfactory in terms of actively leading development partner coordination and commitment to the international agenda.

40. IED has downgraded ADB’s performance to partly satisfactory based on the limited impact of its capacity development program, as well as on the overall performance of the CSPU and COBP. Room for improvement remains in ADB’s coordination with other development partners. The SOTL has been seen as positive for administering projects, but it could have used its physical presence in Timor-Leste to carry out a more effective policy dialogue in areas such as energy pricing, water charges and collection, and road maintenance.

41. ADB is acknowledged as the lead development partner for infrastructure in Timor-Leste. In this role, ADB must ensure better communication among the development partners active in the sector. Discussions with other development partners indicated that coordination is mainly informal. The government conducts coordination meetings every 6 months, but they have only limited impact as they do not provide a sufficient platform for development partners to communicate and discuss common implementation issues. Moreover, these meetings have not developed a common approach to tackling capacity limitations in the country. In recent years, the government has shown indications of being overwhelmed by the increase in the number of international agencies working in Timor-Leste. This has placed additional burdens on its limited resources.

42. ADB’s performance could have been stronger with a more proactive role in development planning. ADB approved a grant for the Dili Urban Water Supply Project parallel with similar projects funded by other partners, such as the governments of Japan and Australia. However, no urban master plan guides these activities. Although ADB and the Japan International Cooperation Agency both focused on urban water supply, coordinated planning is lacking. Moreover, discussions with government officials and other development partners indicated that awareness of ADB’s programs and strategies in the country is low and that further efforts to derive synergies with other development partners is needed.

43. Despite substantial assistance from ADB, Timor-Leste continues to suffer limited capacity to plan and implement projects funded by the government or development partners. In the past, the capacity gap has been plugged by external consultants, with capacity substitution being the norm. This situation existed at the start of the CSPU in 2005 and has not improved substantially since then. Knowing of it, ADB should have designed a better capacity-development strategy for Timor-Leste.

44. Taking into account these issues, ADB’s performance is rated partly satisfactory in light of limited impact on development effectiveness. The absence of public institutions has been a major constraint on ensuring consistency in planning and implementing projects. In light of this, it is acknowledged that ADB’s tasks have been made more difficult. Although the SOTL has been effective in supervising TA and other projects, more resources will need to be deployed if ADB intends to scale up its assistance in the future or if it delegates more projects to the SOTL.

45. The borrower’s performance is validated as satisfactory but on the lower side, taking into consideration the transitional nature of the administration and the post-conflict context. Despite capacity constraints, the government has set up basic institutions to administer development efforts. However, these institutions have limited effectiveness, as development partners channel
funds directly to consultants and contractors, bypassing the state budget. This limits the government’s control of development efforts. On the other hand, limited capacity in the government constrains the administration of these efforts.

46. While the performance of the borrower could be assessed more favorably owing to the post-conflict nature of the country, issues remain relating to insufficient allocations for maintenance under the national budget and delays in enforcing water charges across the country. As petroleum revenues were available during 2006–2010, they could have been deployed appropriately toward improving the sustainability of infrastructure.

47. Room for improvement exists in the borrower’s performance in ensuring accountability, which has been a major hurdle for development effectiveness. The government is only in the process of establishing an administrative tax and audit court, and other institutions, such as the Anticorruption Commission and the Office of the Inspector General, have overlapping functions. Such overlap encourages avoiding difficult cases by passing responsibility for them to other institutions. In addition, the country has witnessed unilateral decisions that lack accountability to parliament or a similar body, such as the “referendum package” in 2009 in which the government approved $70 million of rapid public works projects without parliamentary approval or an accountability mechanism.19

48. These issues of borrower performance can be excused considering the post-conflict nature of the country in the review period. With gradual improvement in institutional capacity, they can be expected to be resolved in the future.

H. Overall Assessment

49. The CSFR rated the overall performance of the country program partly successful, citing two key factors contributing to shortfalls in performance: (i) the political, humanitarian, and security crisis of 2006 and its aftermath, which slowed the implementation of existing activities and the preparation of new assistance, and (ii) underestimation of the complexity of the transition from providing emergency assistance and, in particular, of building capacity in agencies and individuals. This overall rating is validated by the IEM. Table 2 provides a summary of the ratings.

---

### Table 2: Ratings of the Country Strategy Final Review and its Validation Compared

<table>
<thead>
<tr>
<th>Evaluation Criteria and CSFR Quality</th>
<th>CSFR Rating</th>
<th>Validation Rating</th>
<th>Reasons for Rating Deviations and for CSFR Quality Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic positioning</td>
<td>Highly satisfactory</td>
<td>Satisfactory</td>
<td>The rating was downgraded owing to overly ambitious milestones in the CSPU and COBP and to room for improvement existing in other areas mentioned in paras. 11–18.</td>
</tr>
<tr>
<td>Program relevance</td>
<td>Relevant</td>
<td>Relevant</td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td>Less efficient</td>
<td>Less efficient</td>
<td></td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Effective</td>
<td>Effective</td>
<td>Taking into account the post-conflict nature of the country, ADB’s program enabled several positive outcomes.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Less likely</td>
<td>Less likely</td>
<td></td>
</tr>
<tr>
<td>Development impacts</td>
<td>Less likely</td>
<td>Partly satisfactory</td>
<td>The rating has been modified to bring it in line with the terminology used in ADB Independent Evaluation Department guidelines.</td>
</tr>
<tr>
<td>Overall rating</td>
<td>Partly successful</td>
<td>Partly successful</td>
<td></td>
</tr>
<tr>
<td>ADB performance</td>
<td>Satisfactory</td>
<td>Partly Satisfactory</td>
<td>Development partner coordination and capacity development could be improved.</td>
</tr>
<tr>
<td>Borrower performance</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>Accountability and capacity development could be improved.</td>
</tr>
<tr>
<td>CSFR quality</td>
<td>…</td>
<td>Satisfactory</td>
<td></td>
</tr>
</tbody>
</table>

… = not applicable, ADB = Asian Development Bank, COBP = country operations business plan, CSFR = country strategy final review, CSPU = country strategy and program update.

Source: ADB Independent Evaluation Department.

50. The CSFR did not assess the performance of the TFET, which included projects administered by ADB. The last project under the TFET umbrella was completed in 2007, within the period of the CSPU, 2006–2008. IED’s findings based on the data collected during the IEM for validating the CSFR are as follows:

(i) The TFET was an appropriate channel for pooling development partner resources to implement reconstruction projects in the post-conflict period. It was innovative in both size and design, as it enabled the use of resources from both ADB and the World Bank under one framework.

(ii) The efficiency of TFET projects was low, indicated by the time taken to complete all of them, which can be attributed to the lack of institutional capacity.

(iii) The benefits of the TFET in terms of institution building have been modest, and the dependence on consultants continued owing to the lack of technically trained personnel in the country.

(iv) The sustainability of the outcomes of TFET projects is a matter of concern, owing to inadequate project allocations for operations and maintenance.


51. Recent IED evaluations yield several lessons applicable at the strategic and project levels. Appendix 3 of the CSFR provides a list of the lessons from the two project performance evaluation reports. Several of them are applicable in the post-conflict situation prevailing in the review period. The country has since entered its development phase, but the following lessons continue to be applicable:
(i) During the transition phase immediately after independence, development partners had an opportunity to conduct policy dialogue with the emerging government on issues that create long-term sustainability, especially infrastructure development and maintenance and ensuring basic services in rural areas. This opportunity could have been better used.

(ii) Capacity development in the public and private sector is important for ensuring development effectiveness. Trained personnel for planning and implementing projects across all sectors is a crucial need.

(iii) The government’s failure to re-imposed charges for water when urban services were rehabilitated made doing so now politically difficult, particularly as service delivery standards have slipped in many instances.

(iv) Before urban water supply and sanitation projects were approved, ADB should have initiated the development of an urban master plan and a national water supply and sanitation strategy.

(v) The community-led operation and maintenance of energy and power utilities has not worked in Timor-Leste. ADB has initiated a new project, the Our Roads Our Future Project (footnote 18), to which lessons from previous projects can be applied.

52. The CSFR has taken on board the lesson on capacity development but is silent on other issues. The lessons and recommendations identified in the CSFR are linked to the factors that have affected the performance of the CPS such as the efficiency and sustainability of projects. The CSFR does not have specific recommendations that can be monitored using time-bound and quantified indicators. However, the lessons identified by previous IED reports (para. 51) can be considered by the next CPS and contribute to identifying ADB’s policy dialogue agenda.

53. International assistance to Timor-Leste has been considerable since independence in 1999. However, this has not immediately translated into poverty reduction. The continued participation of many international consultants in ADB projects has strengthened a perception that assistance has not sufficiently contributed to poverty reduction in general or to capacity development in particular. While the need for international consultants is inevitable, given limited domestic capacity, the transfer of knowledge and skills has still been slow. Correcting this requires an innovative approach to capacity development (para. 56).

54. Since 2000, development needs have exceeded the supply of international aid and state budget allocations. However, since 2006, international aid as percentage of public expenditures has been declining (Figure 1). With the entry of new development partners such as the People’s Republic of China and rising government revenues from the petroleum industry, it will be crucial for ADB to demonstrate value addition in areas that are relevant for the country. In other words, as the government gains access to larger revenues, ADB will need to ensure that its assistance is channeled appropriately to ensure high development effectiveness.

---

20 A parallel evaluation mission in Timor-Leste by the World Bank’s Independent Evaluation Group identified the need for more focus on effective human resource development toward institution building and improved governance, within a clear strategy for capacity building that fosters the transmission of skills and knowledge from foreign advisers to local staff.

21 ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant to the Democratic Republic of Timor-Leste for the Road Sector Improvement Project*. Manila (Grant 0017-TIM, $10 million, approved on 27 September).
J. Recommendations for Subsequent Country Partnership Strategy

55. **Programmatic approach to projects and technical assistance.** ADB and other development partners have typically provided grants and TA projects to address specific gaps in capacity development or project management. This validation of the CSFR has shown that ADB’s assistance has been partly effective in developing capacity but has had limited impact on economic growth. To address this issue, ADB can adopt a programmatic approach for TA and other projects, wherein ADB and the government identify a long-term strategic target that will be achieved through linked projects funded by ADB. In other words, this will be a stepped approach toward achieving impact. It will need to be designed in a way to ensure that the programmatic approach does the following:

(i) Identify a clear goal with measurable, time-bound indicators.
(ii) Encourage ownership by the government built on the national priorities identified in the SDP.
(iii) Emphasize ADB’s catalytic role and identify its value addition in Timor-Leste.
(iv) Encourage sector-wide planning to enable a better focus on the sustainability of project outcomes.
(v) Make the approach specific for each sector but able to derive synergies across all sectors to ensure broader development effectiveness. ADB and the government can together adopt separate programmatic approaches for the transport and water sectors, for example, but both approaches will need to contribute to achieving broader national goals, including private sector development and poverty reduction.

56. **Innovation in capacity development.** Capacity development continues to be difficult for ADB and the wider development community in Timor-Leste. Taking into account the limited human resources available, it would be unreasonable to expect major capacity-building results in the near future, despite substantial investment by the development partners and the government. This means that, unless the country has sufficient numbers of people educated and trained in required disciplines, sustainable capacity development in the public and private sectors will be difficult to achieve. In view of this, ADB can instill innovation in its assistance by (i) exploring ways to develop public sector supervision and monitoring capability in the short-to-medium term such that skills and knowledge are transferred from international consultants and firms to Timorese nationals and (ii) helping the government outsource noncore activities such as procurement, project management, technical supervision, and construction. This can ensure that the broader development agenda is achieved despite limited in-house capability within the public sector. The following points need to be considered while implementing this recommendation:

(i) ADB has made a start in this direction through the TA for Infrastructure Project Management (footnote 12). However, this TA is structured to plug specific gaps as requested by the government. The TA provides lessons for future assistance that will need to be planned in consultation with the government to ensure full ownership. This will require assessing which activities can be outsourced before designing TA projects that will provide capacity substitution in the short-to-medium term.

(ii) This recommendation does not exclude capacity development and skills transfer, which need to progress in parallel. To build domestic capacity, the country will need to have sufficient numbers of technically trained personnel capable of taking over tasks currently handled by consultants. This will require improving basic education in the country. As this is a long-term solution, ADB should continue to provide capacity substitution TA in the short-to-medium term to enable skills transfer from international advisers to Timorese staff. Measurable
outcome and impact targets will need to be established to assess the success of these efforts.

K. Comments on the Quality of Final Review

57. The quality of the CSFR is rated _satisfactory_. It was prepared using IED guidelines for preparing CPS final review validation reports.\(^{22}\) The CSFR is based on the outputs of ADB’s assistance. It applied evaluation criteria appropriately and provided logical analysis. Lack of consistent data is a major issue in Timor-Leste. Despite this, the CSFR provided a reasonably good update of the results framework. The CSFR is candid in noting the shortcomings of the CPS, and the overall rating reflects this candor.

58. Yet the CSFR could have been better in certain areas. It could have better analyzed how the changing economic situation in the country will alter the appropriate role for ADB. The new CPS provides an opportunity to elaborate on this point. The rapid increase in petroleum revenues since 2006 has meant significant income growth and the country’s graduation to lower-middle-income status. It is clear that finance will no longer be a constraint with the future build-up of the Petroleum Fund. However, as the CSFR makes clear that domestic institutional development and human resource capacity are weak, ADB’s future role is likely to be to provide strategic policy advice, guiding sector development and expanding domestic human capacity rather than providing project finance. The need for capacity development is stressed in the CSFR, as is the need for sector-focused TA projects. Taking into account the lessons from the past, the CSFR could have provided clearer recommendations for realigning priorities in light of the country’s emerging macroeconomic situation.

LIST OF LINKED DOCUMENTS

http://www.adb.org/Documents/CPS/FRV/?id=TIM-2006

## ACHIEVEMENT OF PIPELINE OF LENDING AND NONLENDING PRODUCTS

<table>
<thead>
<tr>
<th>CSPU/COBP</th>
<th>Status of Implementation of Projects Planned</th>
</tr>
</thead>
</table>
| **CSPU, 2006–2008**     | **Grant Project**<br>The Urban Water Supply and Sanitation Project, the only grant project programmed in 2006, was actually approved in December 2007. The expected outcomes from the Dili Urban Water Supply Sector Project (Grant 0100-TIM) included contributions in the capital city of Dili, as initially envisaged under the project firmly slated for 2006.  
**Technical Assistance**<br>Only two of five programmed technical assistance (TA) projects from 2006 to 2008 actually resulted in approved TA grants. These relate to TA in the water sector (water supply service organization development in 2006) and road sector (phase 2 of the Road Sector Improvement Project in 2008). Advisory TA for Dili Water Supply Performance Improvement (TA 4869-TIM) was approved in 2006, and project preparatory TA for Road Network Development (TA 7100-TIM) was approved in 2008. A series of infrastructure capacity development TA projects, one each in 2006, 2007, and 2008, did not materialize. The first phase was intended to cover the transport sector. The TA for Infrastructure Project Management (TA 4942-TIM, mentioned below) covered infrastructure capacity development. |
| **COBP, 2008–2010**     | **Grant Project**<br>The grant for the Road Network Development Project was approved in 2009 as programmed.  
**Technical Assistance**<br>TA for Infrastructure Project Management was approved in June 2007 as programmed. Advisory TA for Capacity Building to Strengthen Public Sector Management and Governance Phase 3 (TA 7120-TIM) was approved in September 2008. The remaining two of five proposed TA projects programmed for 2007–2010 were not processed to approval. These were the TA for road sector technical capacity building (programmed for 2009) and the second TA for infrastructure project management (2010). The TA for Infrastructure Project Management has continued to date, lasting longer than originally expected. As a result, the second TA for infrastructure project management programmed for 2010 has been deferred. |
| **Assistance Outside the CSPU or COBP** | Four TA projects approved in late 2010 do not form part of the country program as documented in the COBP, 2008–2010. These are  
(i) project preparatory TA for Oecussui and Eermera Water Rehabilitation approved in November 2010 (TA 7649-TIM),  
(ii) policy and advisory TA for Supporting Road Network Development approved in December 2010 (TA 7698-TIM),  
(iii) capacity development TA for Strengthening Major Public Investments approved in December 2010 (TA 7712-TIM), and  
(iv) capacity development TA for Support Effective Aid Management approved in December 2010 (TA 7741-TIM). As some of the TA projects originally programmed in the COBP were modified, this list shows the revised versions. |

COBP = country operations business plan, CSPU = country strategy and program update, TA = technical assistance, TIM = Timor-Leste.

LESSONS FROM EVALUATION STUDIES IN TIMOR-LESTE

A. Lessons from Emergency Infrastructure Rehabilitation Project (Phases 1 and 2)

1. Lessons identified by the project performance evaluation report are as follows:  
   (i) Project designs could have included softer elements to complement parallel efforts, such as developing a strategic menu of interventions that addressed post-conflict tensions like encouraging cross-group stakeholder meetings, developing subprojects that enable stronger exchanges between conflicting communities, and encouraging contractors to include cross-community working groups in construction.
   (ii) During the transition phase immediately after independence, development partners had an opportunity to conduct policy dialogue with the emerging government on issues that create long-term sustainability, especially infrastructure development and maintenance and ensuring basic services in rural areas. This opportunity could have been better used.
   (iii) Post-conflict situations require that flexibility be built into project design to enable a series of interventions that are customized to requirements, rather than impose project designs from other countries. Such interventions need to take into account the sustainability of outcomes.
   (iv) Capacity development in the public and private sector is important for ensuring development effectiveness.
   (v) Post-conflict situations require simple, realistic projects with balanced expectations.
   (vi) In a post-conflict context, it is important to prioritize the areas of intervention so that funds are used judiciously. Phase 1 and phase 2 are good examples of such prioritization.
   (vii) Phase 1 and phase 2 showed that early and frequent supervision is crucial to ensuring efficient project implementation. Despite frequent review missions, areas for improvement remained.
   (viii) The experience of phase 1 shows that village management committees are not effective at maintaining and operating power plants, as these tasks require technical resources and sufficient revenues.

B. Lessons from Water Supply and Sanitation Rehabilitation Projects (Phase 1 and Phase 2)

2. The community management model for water supply and sanitation in Timor-Leste has not been sustainable because it did not take into account actual social relations, in which household and kinship ties overshadow community ties. This lack of sustainability was not a result of poor implementation (though community preparation was limited in this case) but a consequence of incorrect assumptions about the nature of communities.

3. Improving water supply and sanitation systems was not especially urgent when the water supply and sanitation rehabilitation project got under way. While the needs of the people remained great, adopting an “emergency mentality” had several undesirable consequences:

---

(i) Focus was excessive—with insufficient thought to the new context—on rehabilitating systems designed before independence in 1999, which constrained the consideration of options.

(ii) The project mindset centered on results being achieved quickly to address the emergency, which contributed to the lack of consideration of options and the hasty delivery of outputs with scant attention given to whether they were sufficient to achieve development results or meet sustainability requirements.

(iii) The failure to re-impose charges for water when urban services were rehabilitated made doing so now politically difficult, particularly as service delivery standards have slipped in many instances.

(iv) The atomization of available funds across many subprojects imposed strong budget constraints on each subproject, which limited the choice of options and contributed to outputs being insufficient to produce development results. It also imposed high transaction costs that limited funding actually available for development. A strong political desire to see funds widely distributed needs to be recognized, but the costs and undesirable consequences of doing this need to be made clear.

(v) An emphasis on delivering results to address the emergency meant action took precedence over building local capacity, though the achievements in terms of building capacity building in water supply and sanitation were significant.

4. In light of the experience with the water supply and sanitation rehabilitation project funded by the Trust Fund for East Timor, the Asian Development Bank (ADB) should be careful when designing projects under the provisions of its emergency assistance policy. It may not be realistic to address both emergency-response and development objectives with a single intervention. Designing projects to achieve development objectives needs sound analysis. This is complicated by the changed circumstances brought about by the emergency. Therefore, a response that is too hasty may be counterproductive.

5. ADB made valuable contributions in terms of providing (i) road access to remote areas, (ii) electricity in selected rural areas, and (iii) water supply. These contributions were achieved under admittedly difficult conditions during the post-conflict transition period. The lack of institutions or of capacity in the government was a major hurdle during this period. ADB’s assistance was intended to help the country emerge from its post-conflict period. ADB provided appropriate support toward enabling Timor-Leste to do this. However, the lack of efficiency in ADB-assisted projects or of outcome sustainability has limited the success of this assistance.

6. A national strategy is needed to improve rural sanitation and provide materials subsidized by development partners for building household latrines using self-help and economies of scale. Many appropriate technologies exist, and a study is needed to collect information on local habits and associated environmental and health issues. The study should evaluate the different latrine systems that were introduced and propose a suitable model or models. Environmental sanitation should be promoted through local government as it strengthens with the formation of village women’s committees, wherever this is feasible, and through primary school curricula. However, household sanitation development is more appropriately carried out by agencies other than ADB.

7. Much of the policy work and master plans produced under the water supply and sanitation rehabilitation project were not immediately used and are in danger of being lost. To avoid this, ADB should catalogue the information and make it available on a website established for water supply and sanitation.