CPS Final Review Validation

Timor-Leste

Country Partnership Strategy Final Review Validation, 2011–2015

Independent Evaluation ADB

Validation Report
July 2015

Timor-Leste: Country Partnership Strategy Final Review Validation, 2011–2015

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NOTES

(i) The fiscal year (FY) of the government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2012 ends on 31 December 2012.

(ii) In this report, "$" refers to US dollars.

(iii) For an explanation of rating descriptions used in ADB evaluation reports, see: ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations.* Manila.

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Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
CPS	–	country partnership strategy
CPSFR	–	country partnership strategy final review
DCWSP	–	District Capitals Water Supply Project
DFAT	–	Department of Foreign Affairs and Trade (of Australia)
DUWSSP	–	Dili Urban Water Supply Sector Project
ESI	–	estimated sustainable income
FCAS	–	fragile and conflict-affected situation
GDP	–	gross domestic product
IED	–	Independent Evaluation Department
MDG	–	Millennium Development Goal
MPS	–	Major Project Secretariat
MPW	–	Ministry of Public Works
ODA	–	official development assistance
O&M	–	operations and maintenance
PMU	–	project management unit
PPP	–	public–private partnership
PSDI	–	Private Sector Development Initiative
RNDSP	–	Road Network Development Sector Project
SDP	–	strategic development plan for 2011–2030
TA	–	technical assistance

Currency Equivalent

The currency of Timor-Leste is the United States dollar.

Contents

Acknowledgements

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Executive Summary

Background

This validation report provides an independent evaluation of the Asian Development Bank (ADB) country partnership strategy (CPS) for Timor-Leste for 2011–2015 (the CPS period). The validation is primarily based on the self-assessment prepared by ADB's Pacific Department, the country partnership strategy final review (CPSFR) that assessed progress on the CPS implementation up to December 2013. The validation's findings were supplemented with information gained from a desk review of relevant documents, and from interviews held with (i) ADB staff, (ii) representatives of the government, (iii) civil society, (iv) beneficiaries of ADB's interventions, and (v) other development partners during the Independent Evaluation Department's 2014 mission to Timor-Leste. Lessons and recommendations are provided to inform the new CPS proposed for 2016–2020.

Country Development Context

Timor-Leste joined ADB in 2002. During its initial years since independence, the country experienced political insecurity and high levels of poverty that culminated in social and political unrest in 2006. Since then, the country experienced a relatively long period of political stability. The discovery of oil and gas reserves in 2004 provided the country with resources that enabled the economy to grow rapidly at an average annual rate of 12% in the years leading up to the start of the CPS period. By 2011, Timor-Leste had achieved the status of a lower middle-income country. Subsequently, growth slowed but still averaged 8% per annum. The oil sector is very dominant in the economy, accounting for around 80% of total gross domestic product, making Timor-Leste one of the world's most oil dependent economies.

Despite a relatively long period of high growth, poverty continues to be a serious problem, with the proportion of people living below the national poverty line hovering persistently at around 40% of the population. Low physical and absorptive capacity has meant the challenges of ensuring that growth is inclusive and sustainable have taken longer to address than anticipated. In 2011, Timor-Leste was assessed to be in a fragile and conflict-affected situation. The government sought to address these issues during the CPS period by releasing a long-term strategic development plan for 2011–2030. The strategic development plan was formulated with broad bipartisan support with the key long-term objectives for Timor-Leste to join the ranks of upper middle-income countries by 2030, eradicate extreme poverty, and establish a sustainable, diversified non-oil economy.

Government expenditure is funded through a sovereign wealth fund—the Petroleum Fund—established to manage the oil revenues. Following Timor-Leste's change in status to a lower middle-income country, bilateral development partners have continued to provide grant support, whereas multilateral development partners such as ADB shifted from providing grant financing to a combination of market-based and concessional loans. The 2014 state budget estimated a balance in the Petroleum Fund of approximately $17 billion by the end of 2015 indicating that, in the medium term, finance is not a binding constraint to development, and debt sustainability is not a significant concern. As part of sound fiscal management, the government's policy is to utilize external funding only when the latter's cost is less than the returns generated from the investments of the Petroleum Fund.

Current conservative forecasts are projecting that existing oil reserves could be exhausted by 2021. In the absence of the discovery of new gas fields to top up the capital of the Petroleum Fund, growth in the fund will be limited to rates of return on investment income. These returns may not be sufficient to sustain the size of the fund under current fiscal practices, as it is largely used to finance the governments recurrent and development budget which is increasing every year. With a private sector that is currently immature and underdeveloped, this has put increasing pressure on the government, as the major player in the economy, to look at alleviating the potential longer term financing constraints that are likely to arise and to pursue investments that deliver productive and sustainable growth for a non-oil dependent economy.

To achieve these longer term objectives, the government in the immediate term has to work within a responsible and non-inflationary fiscal framework, to address the binding constraints of (i) poor physical infrastructure necessary for an enabling environment for private sector growth, (ii) a lagging agriculture sector necessary for food security and increased diversification of the economy, and (iii) the limited capacity of the country's institutions to manage the development process.

Assessment of ADB Support

The CPS responded to the country context by defining the strategic objectives of sustained economic growth and shared economic opportunities. To realize these objectives, it maintained a primary focus on road infrastructure development and management, with a secondary focus on other transport infrastructure and water and sanitation. Complementary support was planned for education, financial sector development, and regional cooperation and integration. The private sector was identified as a key driver of change that would be supported with more selective programs for other ADB Strategy 2020 drivers of change such as good governance and capacity development. During the CPS period, ADB's country portfolio allocation increased from an initial $69 million, comprised entirely of grants, to $272 million comprised largely of market-based loans.

The CPSFR rated the CPS successful overall and recommended that ADB should (i) continue the engagement in infrastructure, (ii) put stronger emphasis on the capacity impacts of technical assistance and the closer alignment of technical assistance and investment project outcomes, (iii) mainstream inclusive growth considerations into program design with a focus on economic diversification and employment generation, (iv) improve sustainability through strengthened capacity of counterpart agencies and the establishment of effective operations and maintenance (O&M) systems, (v) enhance coordination with government and development partners, (vi) support diversification through nonsovereign operations including public–private partnerships, and (vii) ensure closer portfolio monitoring and regular country programming review meetings.

The validation evaluated the CPSFR's analysis of the CPS and provides the following key observations, assessments, and recommendations.

Relevance. The CPSFR assessed the CPS *highly relevant*. The validation partly concurred with this positive assessment as the CPS's higher level objectives were aligned to the broader development priorities of the country and the design of the sector and project outcomes were aligned to these stated CPS objectives. However, relevance was diluted as the (i) project outputs were not designed to contribute significantly to their stated outcomes, and (ii) balance of portfolio between the various sectors changed during the CPS period and the country program narrowed to focus almost entirely on infrastructure and then mainly on national roads with smaller emphasis on water infrastructure. While appreciating the need to optimally leverage limited resources in areas of ADB's perceived strength and country experience, the dominance of infrastructure, representing 95% of the portfolio, has mitigated consideration of equally important sectors such as education and agriculture where ADB also had a successful track record.

The CPSFR partly justified this sector narrowing on the grounds of continuity with past support in infrastructure, and the complementary initiatives of other development partners in sectors and subsectors where ADB had not been engaged. However, the reliance on other development partners should have been complemented by closer harmonization with their specific initiatives to ensure that the combined efforts would indeed contribute to the targeted sector outcomes. The sharp increase in the size of the portfolio by 400% did not consider the low absorptive capacity in the economy at a time when the government was struggling to meet its own expenditure targets. Given these weaknesses in the design of the CPS, the validation assesses it *relevant* to the needs of Timor-Leste.

Effectiveness. The CPSFR assessed the CPS *effective* on the basis of a small set of outputs achieved by certain projects brought forward from the previous CPS period, and on the basis of staff estimates that in the longer term targeted outcomes were likely to be achieved based on these deliverables. The validation noted that due to late approvals, the projects approved during the CPS did not deliver any outputs. Further, not all the outputs from the projects approved in the previous CPS period were delivered, and where outputs were produced they did not deliver on their targets. On the basis of few delivered outputs on a limited number of projects, the validation concluded that the proposed CPS project and sector outcomes cannot be achieved. As a result, the CPS is assessed *less than effective*.

Efficiency. The CPSFR acknowledged the efficiency challenges and the validation concurs with the CPSFR in assessing the CPS implementation performance *less than efficient*. The portfolio of projects brought forward into the CPS period experienced delays and cost overruns, and monitoring of the project and sector results frameworks was poor. The pace and scale of the increase in the size of the portfolio further reduced efficiency as it increased the volume of projects that needed to be implemented in an already slow moving portfolio. These problems were compounded by the structure of the project implementation units which were staffed mainly by consultants and not effectively integrated within the government administrative system. As a result, the capacity development of the government systems and processes was limited. As of June 2014, disbursements for the total ongoing portfolio of approved loans had reached only 30%, including projects from the earlier 2006–2010 CPS period. For projects approved during the CPS 2011–2015 period, disbursement was only 12% as projects were approved late. As a consequence, for the projects that have not met their disbursement targets the government has incurred almost $130,000 in commitment fees. These delays in implementation will negatively impact on project economic internal rates of return.

Sustainability. The validation concurs with the CPSFR in assessing the CPS portfolio *less than likely sustainable.* Sustainability of the program is threatened by three broad risks that affect the output and outcome targets for ADB interventions in different sectors to varying degrees. The first risk is insufficient allocation of resources for asset management and routine O&M for infrastructure assets in general, and the investments in the road and water supply infrastructure in particular. Second, outputs and outcomes are at risk because of low administrative and technical expertise in the executing agencies. This risk cuts across most ADB interventions. Both these risks were identified in the CPS. A third risk affecting all ADB interventions arises from the possibility of social and political instability due to growing disaffection arising from the non-inclusive nature of growth.

Development impact. The CPSFR assessed development impact *satisfactory*. The validation noted the pilot initiatives, presently being implemented at the project level to strengthen O&M funding and capacity development have some potential to realize sector impacts that have not been identified in the project framework. ADB has also dedicated additional resources to the Timor-Leste Resident Mission, and this will further support the effectiveness, efficiency, and sustainability of program outputs and outcomes. Nevertheless, the validation also noted that the CPSFR's assessment is based largely on the limited outputs from the one road project nearing completion which is unlikely to deliver on the broader sector outcomes or the intended impacts. In addition, the validation concluded that the remaining projects will also have difficulty to achieve the targeted project and sector contributions. Finally, the current portfolio, even if implemented successfully is unlikely to contribute to the broader development effectiveness objectives of diversified and inclusive growth as presented in the CPS. On balance, the validation provides an assessment of *less than satisfactory* impact, with a view that existing achievements need to be built on to achieve inclusion and diversity objectives.

Overall assessment. Given the individual assessments of relevant, less than effective, less than efficient, less than likely sustainable, and less than satisfactory impact, the overall assessment for the CPS is *less than successful.* Notwithstanding the overall assessment, the performance of the government and ADB is assessed *satisfactory* given the various initiatives that have been implemented to improve contributions to development effectiveness.

Recommendations

The recommendations build on past experience and lessons learned and reflect the expected needs of the country. It is noted the current CPS period is not synchronized with the government's election cycle, making it difficult to align ADB's programs with the government's objectives. Given depleting oil resources, there will be a greater expectation in the future for ADB and development partners to be innovative and more effectively leverage their interventions to achieve targeted impacts in areas such as inclusivity and provide benefits for the poorer sections of society. Similar to earlier evaluation findings, this report notes that Timor-Leste's goals of non-oil diversification and inclusive growth remain a challenge. ADB's decision to focus on national road infrastructure has excluded opportunities for it to consider providing support to other critical sectors of the economy such as agriculture and education. This approach was justified on the assumption the efforts of other development partners would be sufficient to meet development objectives, but evidence does not support this view. There is room for ADB's programs to further strengthen local institutions to manage ADB-financed projects. Sustainability of infrastructure assets continues to be a critical issue and it is very dependent on the implementation of a comprehensive strategy for asset management, O&M, and its funding.

In the light of these findings, the following recommendations are provided as guidance for the preparation of the future CPS.

(i) ADB needs to develop options to broaden its sector focus beyond national roads and create opportunities to build synergies with other sectors, such as agriculture or education, where it has a history of engagement and which are critical to the development of the economy. The diversification and inclusive growth agenda must be more effectively mainstreamed into the design of program and project initiatives. There is a need to avoid the mismatch between project level outputs and outcomes and their contribution to these broader sector and national level outcomes. Further, monitoring and evaluation must be made a more serious exercise and a future CPS must incorporate a results framework that has clear and monitorable targets. Targets at the country, sector, and program and project level need to be aligned, and realistic about what is expected to be achieved. Mechanisms must be put in place to collect the necessary information to measure progress according to the indicators.

(ii) The focus on capacity development and government-led implementation must be strengthened to ensure effectiveness and greater efficiency on implementation. Project management units should be mainstreamed with the government's administrative structure. Any improvements related to implementation of ADB projects should directly engage government staff and systems as this would help in highlighting the gaps in systems. Through its own projects, ADB can support the strengthening of the monitoring and evaluation capability of the executing agencies and this can have wider positive ramifications for non-ADB projects as well. Technical assistance need to be focused around the core areas of ADB support so that complementary capacity development initiatives can be implemented.

(iii) Asset management and O&M funding has to be a priority in project design and in the policy dialogue with the government in order to ensure sustainability of project outputs and outcomes. One of the key outputs of the next CPS period needs to be a government-led and development partner-supported asset management and O&M strategy that includes a credible financing plan. Given the level of infrastructure investments a dedicated fund for O&M should be considered following a government assessment of its O&M requirements and the necessary financing. As the lead donor in infrastructure, ADB can support greater and more focused development partner discussions in this important area and highlight policy initiatives for the government.

CHAPTER 1

Background Information

A. Validation Purposes and Procedures

1. Timor-Leste joined Asian Development Bank (ADB) in 2002. ADB is proposing a new country partnership strategy (CPS) for Timor-Leste covering the period 2016–2020 to follow the existing CPS for 2011–2015. ADB's Operations Manual mandates that it has to have a CPS for any member country where lending or nonlending activities are planned. Further, the Operations Manual states that evaluation of the existing CPS is an essential requirement before preparing the next CPS.[1] If a full country assistance program evaluation is not being undertaken by the Independent Evaluation Department (IED), then a limited evaluation is undertaken. The latter is based on the regional department undertaking first a self-evaluation exercise to produce a country partnership strategy final review (CPSFR) report. The CPSFR is then validated by IED to provide an independent evaluation of the CPS. The Pacific Department submitted the CPSFR for the CPS 2011–2015 to IED on 28 July 2014.[2]

2. The IED guidelines require the CPSFR validation to (i) provide an independent assessment of the country program based on defined criteria, (ii) identify lessons and recommendations to improve the design and implementation of the next CPS, and (iii) assess the quality of the CPSFR. The CPSFR and the subsequent validation use similar criteria to assess the CPS results framework. The five defined criteria are relevance, efficiency, effectiveness, sustainability, and impact. The assessments for the criteria are weighted equally to provide an average assessment for the CPS.[3]

3. This CPSFR validation assesses the performance of the CPS 2011–2015 primarily based on the information provided in the CPSFR and the associated four country operations business plans (COBPs) that guided ADB operations.[4] At the outset, the evaluation approach paper noted that the CPSFR was prepared with 2 years of the CPS implementation period remaining and noted the self-evaluation of the implementation performance of the current CPS portfolio was possibly premature. On a related issue, the new planned CPS 2016–2020 is not likely to be coterminous with the future elected

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1 ADB. 2013. Country Partnership Strategy. *Operations Manual.* OM A2/BP. Manila.

2 Country Partnership Strategy Final Review: Timor-Leste, 2011–2015 (accessible from the list of linked documents in Appendix 2).

3 IED's validation of the CPSFR is guided primarily by the 2011 guidelines on the preparation of the CPSFR validation reports, though in anticipation of future changes that were circulated in a 2014 draft revised guideline, strategic positioning and the relevance criteria in the 2011 guideline are now considered under the one heading of relevance that now shares the combined weighting of the two criteria. The latter change was flagged in the Evaluation Approach Paper for this CPS validation that was finalized in August 2014 after consultation with the Pacific Department. The 2014 Draft Guidelines for the Preparation of Country Assistance Program Evaluations and the CPS Final Review Validations was circulated for interdepartmental comments on 2 July 2014 (prior to the issuance of the CPS Final Review report) and became effective in March 2015.

4 ADB. 2011. *Country Partnership Strategy: Timor-Leste, 2011–2015.* Manila; ADB. 2011. *Country Operations Business Plan: Timor-Leste, 2011–2014.* Manila; ADB. 2013. *Country Operations Business Plan: Timor-Leste, 2013–2015.* Manila; ADB. 2014. *Country Operations Business Plan: Timor-Leste, 2014–2016.* Manila; ADB. 2014. *Country Operations Business Plan: Timor-Leste, 2015–2017.* Manila.

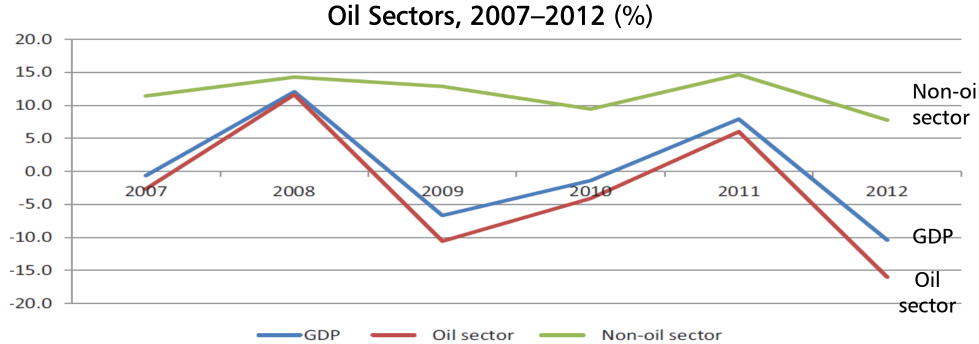
government's term in office that is scheduled in mid-2017 and this approach is not consistent with ADB's own internal guidelines.[5] The validation recommends a CPS update for 2015–2016 based on the existing CPS 2011–2015 results framework. This would allow better consideration of the performance of the existing CPS that would inform the new CPS 2016–2020.

4. As part of the validation process, IED undertook a desk review of the country planning and programming documents. An evaluation approach paper was prepared and finalized in August 2014, identifying key issues prior to in-country consultations. The IED mission was undertaken from 22 September to 3 October 2014. The mission interviewed focal persons in executing and implementing agencies, central agencies, civil society, parliamentarians, and other development partners. In addition, interviews were held with ADB country and sector staff based in ADB headquarters. A back-to-office report, circulated to the Pacific Department, discussed the key evaluation issues that would be reflected in this CPSFR validation report.

B. Country Context and Government Development Plans

5. **Country development context.** In the initial years as an independent country, Timor-Leste experienced an extended period of political turmoil. By 2012, the situation had stabilized and, with the election of Timor-Leste's Fifth Constitutional Government for a period of 5 years, there was the prospect of a relatively long period of political stability. Leading up to the CPS period of 2011–2015, the country experienced strong and steady non-oil gross domestic product (GDP) growth averaging around 12% per annum (Figure 1).[6] This growth resulted in a steady increase in average per capita income, and by 2011, Timor-Leste had achieved the status of a lower middle-income country.[7] However, this positive macro statistic masked a number of fundamental development challenges, and this new country of approximately 1.2 million people was classified as, and remains a fragile and conflict-affected situation (FCAS). The 2011 United Nations Development Programme human development index ranked Timor-Leste 147th out of 187 countries. Although the ranking improved to 128 by 2013, the development challenges persisted during the CPS period 2011–2015.[8]

Figure 1: Growth Rates in Constant Price Gross Domestic Product, Oil and Non-Oil Sectors, 2007–2012 (%)



GDP = gross domestic product.
Source: Government of Timor-Leste, Ministry of Finance. 2014. *Timor-Leste National Accounts 2000–2012.* Dili.

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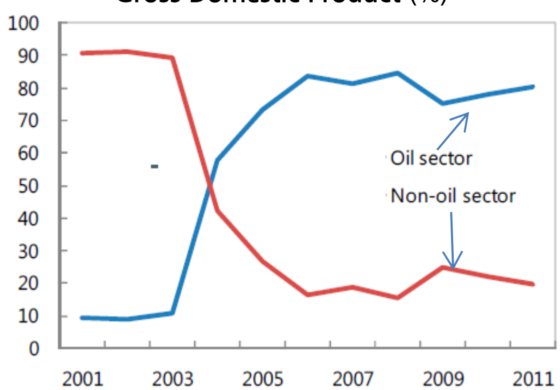
5 ADB. 2013. Country Partnership Strategy. *Operations Manual.* OM A2/OP. Manila.
6 Country Economic Indicators (accessible from the list of linked documents in the Appendix).
7 International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.
8 United Nations Development Programme (UNDP). 2011. *Human Development Report 2011.* New York; UNDP. 2013. *Human Development Report 2013.* New York.

6. The discovery of oil and gas reserves in the maritime area between Timor-Leste and Australia in 2004 resulted in the increased dominance of the oil sector in the economy over the period 2004–2012. By 2011, the sector comprised around 80% of total GDP, making Timor-Leste one of the world's most oil dependent economies (Figure 2).[9] Timor-Leste has no maritime boundaries with Australia, but it has treaties that cover the Joint Petroleum Development Area between the two countries. Production is located offshore and the natural gas is piped to Australia for processing, which means the reserves do not directly contribute to employment generation.

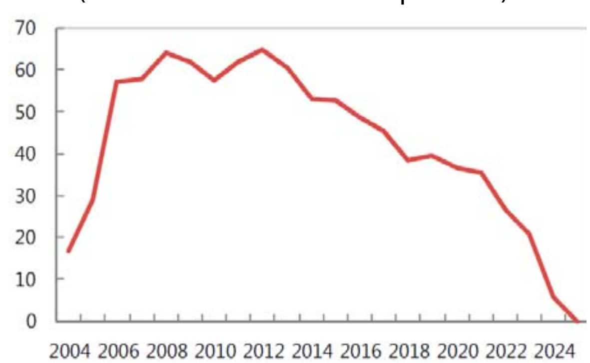
7. Government expenditure is funded through a sovereign wealth fund—the Petroleum Fund—that was established in 2005 to capture revenue from the sale of oil reserves. Petroleum Fund withdrawals are limited by law to the estimated sustainable income (ESI), with any excess expenditure having to be approved by parliament.[10] Production in the Joint Petroleum Development Area is expected to end in 2024 with more conservative assessment suggesting it could end as early as 2021. In the absence of the discovery of new gas fields, the growth in the Petroleum Fund will be increasingly dependent on investment income (Figure 3). This situation puts increasing pressure on the government to ensure that current expenditure delivers long-term sustainable growth from a non-oil dependent economy. Diversification of the economy beyond the oil and gas sector remains one of the government's most significant challenges.

Figure 2: Share of Oil and Non-Oil Sectors in Gross Domestic Product (%)



Source: International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.

Figure 3: Oil Production
(millions of barrels of oil equivalent)[a]



[a] Does not take into account new fields.
Source: International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.

8. Economic activity remains dependent on government expenditure. Domestic demand has been driven by increases in the government's recurrent and capital expenditure. Recurrent expenditure is comprised largely of transfers, subsidies, wages and salaries, and goods and services that have been steadily rising over time. Capital expenditure has been dominated by large infrastructure projects, and a critical issue is

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[9] Government of Timor-Leste, Ministry of Finance. 2014. *State Budget 2014, Budget Overview, Book 1.* Dili. p. 17. The non-oil sector as a percent of total GDP is expected to rise to approximately 50% by 2017.

[10] Oil revenues are solely channeled through the Petroleum Fund, which is well-managed and compliant with the Extractive Industries Transparency Initiative and the Santiago Principles. Based on the Norwegian model, the Petroleum Fund's purpose is to protect public finances from income volatility and strike the appropriate balance between current spending and future savings. The ESI is an actuarial based figure calculated as 3% of estimated oil wealth, though excess withdrawals are allowed under certain circumstances and with Parliament's approval.

the lack of an asset management and operations and maintenance (O&M) plan at a national or a sector level. Supply side growth has been led by sectors dependent on government expenditure such as construction. With insufficient internal productive capacity to meet its basic requirements, GDP growth has been accompanied by high levels of import growth and inflation, as the economy is subject to both internal supply bottlenecks and high international commodity prices. In 2013, the government reduced spending projections by recognizing (i) the inflationary pressures from higher recurrent budgets, (ii) the economy's limited absorptive capacity for capital expenditure, and (iii) the potential threat to the Petroleum Fund of spending in excess of the ESI. Known as the "Yellow Road process," government expenditure is now expected to follow a lower non-inflationary growth trajectory, while still being consistent with Timor-Leste's national development plans.

9. To reduce the dependence of the economy on government expenditure, an increased emphasis has been placed on developing an enabling environment for the private sector. In addition to combatting poor quality basic infrastructure, there is a focus on addressing the issues of lack of export diversity, low human capacity, rent seeking behavior, an underdeveloped financial sector, and an unfavorable business environment. During the CPS period, with ADB's support, some headway was made with private sector development through the establishment of a one stop shop for business registration, the drafting of a law that expands the collateral options that banks can accept, and a public–private partnership (PPP) law. However, the private sector remains immature and underdeveloped.

10. Timor-Leste has been the beneficiary of significant grant support since independence, although its economic importance has been declining over time. Following the creation of the Petroleum Fund, the government is no longer dependent on external support to finance development needs. With the growth of its per capita GDP and its classification as a lower middle-income country, support from multilateral development partners such as ADB and the World Bank shifted towards the provision of market-based and concessional loans supported by smaller amounts of technical assistance (TA). In comparison, bilateral development partners are still providing grant support. For the government, debt is justified when the opportunity cost of using the Petroleum Fund is greater than the cost of the debt.[11] At the same time, the government needs to avoid a situation where it builds up a large volume of external debt for future generations to repay—particularly as the oil revenue is projected to decline in the next 10 years.[12] As a result, the level of debt is closely scrutinized by the government. To maintain the viability of the Petroleum Fund, there is pressure to ensure that expenditure, particularly if it is exceeding the ESI, provides greater returns than the Petroleum Fund investments.

11. In the medium term, with a balance of approximately $16 billion in 2014, the Petroleum Fund provides a stable source of revenue for the government. The International Monetary Fund's 2013 debt sustainability analysis suggested that, provided the government pursues a responsible fiscal policy including taking on new debt on concessionary terms, there is a low risk of debt distress (footnote 7).

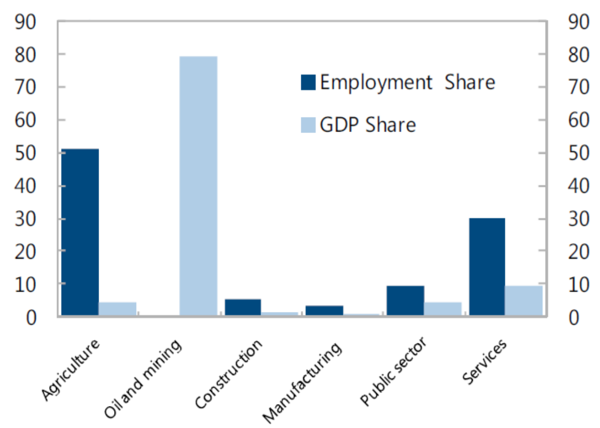
12. Inclusive growth remains a significant challenge and the government remains sensitive to the potential repeat of the social and political unrest that occurred in 2006. ADB's 2014 *Asian Development Outlook* states that, "an enduring challenge for policy

[11] Footnote 9, p. 71.
[12] The mission discussed these issues with local nongovernment organizations who pushed the point that Timor-Leste should not spend beyond its means.

makers in Timor-Leste is to translate the country's petroleum wealth into sustainable and inclusive growth that will reduce poverty and provide jobs for the country's young population."[13] At the start of the CPS period, over 50% of the population was dependent on agriculture, with livelihoods centered mainly on subsistence agriculture (Figure 4). Timor-Leste still has to import staple products such as rice which is heavily subsidized by the government, making it difficult for domestic farmers to be competitive. The country only produces a few products (such as coffee) that are of export quality, and export growth for these products is stagnant (Figure 5). Although there is a gradual shift in employment away from agriculture into public sector employment and private sector businesses, the latter are dominated by and dependent on the government-driven construction program.

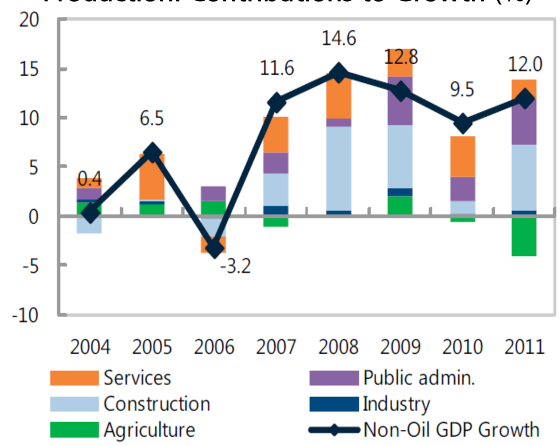
13. As the government itself has acknowledged, more effort is required to provide a sustainable means of diversification of the sector composition of Timor-Leste's employment.[14] The government has recognized that a stronger focus on developing the agriculture and manufacturing sectors is imperative to ensure food security and employment. The International Monetary Fund Article IV report supported the government's decision, as part of the "Yellow Road process," to improve the quality of expenditure that is consistent with promoting efficiency and inclusive poverty reducing growth.[15]

Figure 4: Employment and Gross Domestic Product Share (%)



GDP = gross domestic product.
Source: International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.

Figure 5: Non-Oil Gross Domestic Product Production: Contributions to Growth (%)



GDP = gross domestic product.
Source: International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.

14. The importance of inclusive growth is further highlighted by the human development figures. Less than 50% of the Millennium Development Goal (MDG) targets are on track for 2015. Timor-Leste has a persistent poverty rate as measured by those living below the national poverty line that has hovered consistently between 40% and 50%.[16] Poverty is unlikely to decrease significantly in the near future and it is

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[13] ADB. 2014. *Asian Development Outlook*. Manila. p. 250.
[14] Footnote 9, p. 30.
[15] Footnote 7, p. 7.
[16] Government of Timor-Leste, Ministry of Finance. 2014. *Timor-Leste Millennium Development Goals Report*. Dili. The last poverty census was in 2010 with the government undertaking a new Timor-Leste Living Standards Survey scheduled for 2015.

occurring against a backdrop of a population that is growing at over 2% a year.[17] Unemployment remains high, especially among the under 25 age group, who form over 60% of the population, and they have a labor force participation rate of 14% (women are only 10%). Most development continues to be focused on Dili, resulting in a large income disparity between the urban rich and the rural poor.[18] The latest 2009–2010 Demographic and Health Survey did not measure poverty, but it found little improvement in childhood nutrition since 2007. For example, 45% of children under 5 years old were underweight and 58% stunted, and within this total 33% were severely stunted. Increases in the school enrollment rate have not been accompanied by improvements in educational outcomes, with low literacy rates persisting especially among women and girls. Although the under-5 child mortality rate has fallen, maternal mortality is high. More than 80% of the population is at risk of malaria and there is an increasing number of reported cases of HIV. As a consequence, even though Timor-Leste has achieved lower middle-income country status based on per capita income, the indicators of basic living conditions reflect conditions that are closer to lower income countries.

15. **Government development plans**. In the light of the above, the key long-term objectives agreed by the government, civil society, and development partners are diversification of the economy and increased inclusiveness of economic development. Binding constraints that have been identified are poor physical infrastructure and the low capacity of the country's human resources and institutions. Adequacy of O&M funding is a key issue for the infrastructure sector. Notwithstanding finite natural resources for the medium term, finance is not a binding constraint.

16. The Government of Timor-Leste articulated its vision in a strategic development plan (SDP) 2011–2030—a long-term development plan targeting the achievement of upper middle-income status by 2030. The SDP is built on three pillars (i) social capital, covering human development, gender, and social inclusion; (ii) infrastructure developments; and (iii) economic development for a non-oil economy. A fourth cross-cutting pillar addresses institutions and macroeconomic foundations that underpin implementation. The plan identifies progressive reforms to (i) develop social capital and infrastructure, (ii) diversify and grow the economy (in particular the non-oil sector), and (iii) develop the legal and institutional framework of government. The government's current agenda of using oil wealth to front load capital expenditure and exceed the withdrawals beyond the ESI, can be justified provided the returns from the expenditure lift the non-oil economy onto a higher growth path, with more equitable and inclusive growth for sustained development and reduced poverty.[19]

17. In 2012, the government prepared a fragility assessment that reviewed development progress against the five peace-building and state-building goals agreed as part of the New Deal for Engagement in Fragile States.[20] This assessment concluded the government had done well on the goals of legitimate politics and security, but the revenues and services had risks associated with budget execution and dependence on oil. Corruption and access to a fair judicial process under justice was a concern. The

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[17] Footnote 6; United Nations Development Programme. 2011. *Human Development Report.* New York; World Bank. 2011. *Timor-Leste Country Program Evaluation, 2000–2010.* Washington, DC; World Bank. 2013. *Country Partnership Strategy for Timor-Leste for the Period FY2013–2017.* Washington, DC.

[18] Footnote 9, p. 34.

[19] Government of Timor-Leste. 2011. *Timor-Leste Strategic Development Plan, 2011–2030.* Dili.

[20] The New Deal for Engagement in Fragile States is a compact championed by the g7+ group of fragile and conflict-affected states made up of 18 countries across the world. Forty countries and organizations endorsed the deal, which calls for new ways of working that better respond to the needs and challenges faced by fragile nations.

attainment of the objectives for economic foundations remained weak given high youth unemployment, poor human development outcomes, regional inequities, food vulnerability, perceptions of food insecurity, grievances on land issues, and reductions in cash transfers from government. Timor-Leste is a leading participant in the group of 18 countries that have proposed the New Deal for Engagement in Fragile States, issued in Busan, Korea in 2011. This group calls for new ways of working that respond better to the needs and challenges faced by fragile nations.

18. The validation mission found an overall consensus on the SDP goals which are comprehensive and address the range of development challenges. Debates have centered primarily on the prioritization within and between the four pillars, as fiscal responsibility dictates that expenditure, in particular, expenditure in excess of the ESI, needs to generate returns (financial and economic) greater than the returns from the Petroleum Fund's earnings. While there is an agreement that infrastructure needs to be developed, there is an increased recognition by government, civil society, and development partners that greater emphasis is required to develop basic infrastructure particularly in rural and remote areas. Government programs need to be more effective at directly targeting the disadvantaged, and increase the focus on agriculture, health, and education. This shift in priorities would lessen income disparity and ensure that the living conditions of all Timorese families improve, providing a sound basis for social harmony and political stability.[21]

C. Country Partnership Strategy Priorities and Development Partner Roles

19. **Country partnership strategy, 2011–2015.** ADB's CPS responded to the country context by defining the strategic objectives of sustained economic growth and shared economic opportunities. It maintained a primary focus on road infrastructure development and management, with a secondary focus on other transport infrastructure and water and sanitation. Complementary support was planned for education, financial sector development, and regional cooperation and integration. The private sector was identified as a key driver of change that would be supported with more selective programs for the other ADB Strategy 2020 drivers of change.[22] ADB's interventions in the various sectors are presented in Appendix 1.[23]

20. **Country program.** At the start of the CPS period, Timor-Leste was a group A country with access to Asian Development Fund (ADF) grants and concessional loans.[24] By 2012, it was reclassified as a group B country with access to a blend of ADF and ADB's ordinary capital resources (OCR). Figure 6 shows that initially, it was intended that 100% of the investment portfolio would be funded by ADF grants, whereas the final allocation for the CPS period shows funding of 71% from OCR loans, 21% from ADF loans, and 8% from ADF grants. The CPS allocation for loans and grants increased by approximately 400% during the CPS period from $69.0 million to $272.0 million. ADB programmed seven loans and grants ($272.0 million) and 14 TA projects ($7.7 million) for the CPS period.

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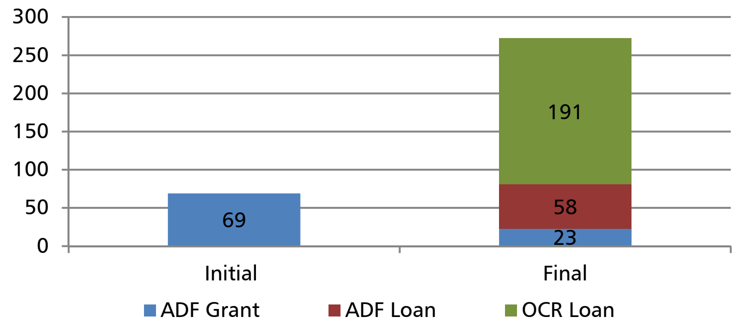
[21] Footnote 9, Prime Minister's Speech.

[22] These drivers of change consisted of (i) private sector development and private sector operations, (ii) good governance and capacity development, (iii) gender equity, (iv) knowledge solutions, and (v) partnerships.

[23] Further information on Areas of ADB Support in Priority Sectors is accessible from the linked document in Appendix 2.

[24] ADF was created in 1973 as a source of concessional support. It is designed to provide loans on concessional terms and grants to member countries with low per capita incomes and limited debt repayment capacity.

Figure 6: Changes in Funding Source from Initial to Final Programmed Allocation
($ million)



ADF = Asian Development Fund, m = million, OCR = ordinary capital resources.
Source: Asian Development Bank.

21. **Evaluations of previous ADB interventions.** As of 2014, IED had conducted one CPSFR validation for the CPS, 2006–2010[25] and one project completion report validation covering the Road Sector Improvement Project.[26] The CPSFR validation recommended (i) adopting a programmatic approach to projects and TA, and (ii) promoting innovation in capacity development. It also recommended a sector-wide engagement with linked projects aligned to agreed long-term sector outcomes, highlighting ADB's catalytic role and value addition. Because of weak institutional capacity, the validation proposed ring fenced capacity substitution in the short term, and strongly emphasized innovative approaches for the longer term to ensure knowledge transfer and enhanced country capacity.

22. The Road Sector Improvement project completion report validation recommended (i) expanding investments beyond national road coverage, (ii) adopting a sustainable sector-wide approach to O&M as opposed to a project specific piecemeal approach, (iii) making comprehensive assessments of the coverage and quality of the adequacy of O&M prior to future initiatives, and (iv) expanding the successful community empowerment initiative. The CPS 2006–2010 and the CPSFR did not discuss the extent these IED recommendations were incorporated in the formulation of the CPS—or the rationale for excluding them.

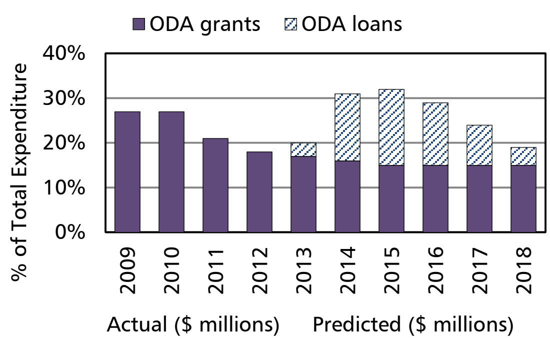
23. **Key development partner strategies and programs.** Eighteen multilateral and 21 bilateral development partners are providing official development assistance (ODA). In 2012, Australia, Japan, the United States, the European Union, and ADB were the top five development partners providing 70% of the ODA support. Development partner engagement has occurred across all sectors.[27] The government has attempted to harmonize development partner support through the development policy coordination mechanism established in 2013. Under the oversight of the Prime Minister, four secretariats were established for each of the SDP's pillars, and a specific development partner was requested to coordinate with other development partners under their pillar. Given ADB's early engagement in Timor-Leste in the infrastructure sector, it was requested to coordinate the infrastructure pillar. Development partner coordination

[25] IED. 2011. *Validation Report: Country Partnership Strategy Final Review: Timor-Leste, 2006–2010.* Manila: ADB.
[26] IED. 2011. *Validation Report: Road Sector Improvement Project in Timor-Leste.* Manila: ADB.
[27] Development Partner Involvement in Timor-Leste (accessible from the list of linked documents in the Appendix).

continues to evolve. During the course of the CPS, the informal fortnightly meetings with an annual meeting with government became formal monthly meetings in which government is invited to, and quarterly meetings that are led by government. These national meetings are supplemented by further donor coordination meetings at the sector level, and for strategic sector groups such as infrastructure.

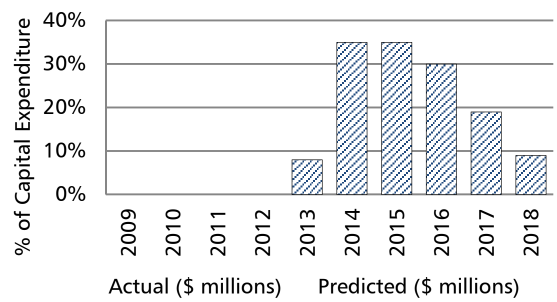
24. Grants remain the major ODA funding modality which in contrast to loans are not reflected in the national accounts, and are declared as part of the consolidated state budget presented annually to parliament.[28] Since 2012, the government has been borrowing from ADB and the World Bank to develop infrastructure. In Figures 7 and 8, disbursements from development partner loans and grants are projected to reach 30% of annual expenditure and loan disbursements (primarily infrastructure) are projected to be 30% of capital expenditure. Given the slow pace of disbursement, these loan disbursement figures are optimistic. Nevertheless, they indicate that development partner support is significant but still small compared to overall government expenditure.

Figure 7: Official Development Assistance Grants and Loans as % of Total Annual Expenditure including Capex



ODA = official development assistance.
Source: International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.

Figure 8: Official Development Assistance Loans as % of Annual Capital Expenditure



Source: International Monetary Fund. 2013. *Democratic Republic of Timor-Leste: 2013 Article IV Consultation.* Washington, DC.

25. In 2011, the World Bank undertook a comprehensive review of its engagement in the country for the period 2000–2010, which was evaluated by their Independent Evaluation Group. The evaluation report recommended, among others, (i) prioritization of programs with realistic guidelines; (ii) monitoring of progress against key results; (iii) increased focus on agriculture, human resource building, and institution building; (iv) enhanced support for private sector development; (v) simple project designs; and (vi) intensive fiduciary support and partnership with government, civil society, and other development partners.

[28] Footnote 9. The State Budget 2014 documents are a consolidated budget that shows all ODA.

CHAPTER 2

Validation of the Country Partnership Strategy Final Review

A. Relevance

26. The CPSFR rated the CPS *highly relevant*.[29] In justifying this assessment, the CPSFR highlighted the (i) alignment of the CPS's strategic objectives with the government's SDP and ADB's Strategy 2020 and its consistency with ADB's strategy for FCAS countries; (ii) appropriateness of the sector choices, in particular, the focus on infrastructure and private sector development; and (iii) relevance of the CPS design through the effective utilization of loans and TA, and in ensuring development partner coordination and harmonization.

27. At the level of broad objectives, the validation concurs with the CPSFR that the CPS objectives of sustaining economic growth and sharing economic opportunities were aligned with the SDP's vision for Timor-Leste.[30] Under the SDP, Timor-Leste is aiming to join the ranks of upper middle-income countries by 2030, with extreme poverty eradicated and a sustainable and diversified non-oil economy established. However, the validation notes that relevance is reduced by the program and project design as the outputs and outcomes at the program and project level do not effectively contribute to the stated objectives of diversity and inclusive growth. Further, the CPSFR provides justification for the contribution to ADB's Strategy 2020 agenda which is not backed up by the design of the specific project initiatives.

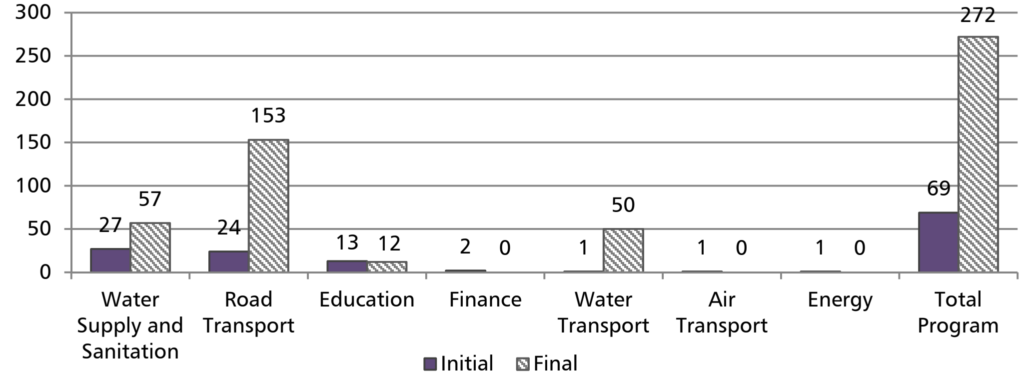
28. **The narrowing of the CPS focus during implementation constrained the ability of ADB to deliver the CPS outcomes.** The CPSFR stresses sector continuity to explain the focus of interventions on infrastructure, while at the same time stating that complementary support for education, finance, and regional cooperation and integration was an appropriate application of the Strategy 2020 framework. Figure 9 shows that at the start of the CPS, the two infrastructure sectors of water supply and sanitation and road transport were evenly balanced. In addition, the education sector had been allocated 50% of the amount allocated to transport and water. However, in the course of CPS implementation, the emphasis shifted almost completely to transport and water. Table 1 shows that transport and water infrastructure represented 96% of the investment portfolio, compared to 78% at the start of the CPS period, and within this total, the road sector dominates, accounting for 56% of the resources. Meanwhile,

[29] Under the 2015 CPS final review validation guidelines, the strategic positioning and relevance criteria of the earlier 2011 guidelines are now combined under one single heading of relevance; this would equate to a combined highly relevant assessment by this CPSFR.

[30] ADB. 2011. *Country Partnership Strategy: Timor-Leste, 2011–2015.* Manila. para. 23.

ADB's support narrowed from seven subsectors to four, of which three were in the transport and water sectors. As a result, the complementary support for achieving CPS objectives became insignificant. The CPSFR did not provide any analyses on how these changes impacted on the ability of ADB to deliver on the stated CPS objectives.

Figure 9: Original and Final Programmed Allocation by Subsector, 2011–2015 ($ million)



Source: Asian Development Bank.

Table 1: Country Partnership Strategy Sector Allocations on Lending Products Compared to Strategic Development Plan Pillars

SDP Pillars	CPS 2011–2015 Subsectors	Initial CPS Allocation (%)	Final CPS Allocation (%)
Pillar 1: Social Capital	**Education**	19	4
Pillar 2: Infrastructure Development		**78**	**96**
	Road transport	35	56
	Water supply and sanitation	39	22
	Water transport	1	18
	Air transport	1	0
	Energy	1	0
Pillar 3: Economic Development	**Finance**	3	0
Pillar 4: Institutional Framework			
Total		**100**	**100**

CPS = country partnership strategy, SDP = strategic development plan.
Sources: Asian Development Bank (ADB). 2011. *Country Partnership Strategy: Timor-Leste, 2011–2015.* Manila; ADB. 2011. *Country Operations Business Plan: Timor-Leste, 2011–2013.* Manila; ADB. 2013. *Country Operations Business Plan: Timor-Leste, 2013–2015.* Manila; ADB. 2014. *Country Operations Business Plan: Timor-Leste, 2014–2016.* Manila.

29. Given the scarcity of ADB resources, coupled with the extensive needs of the country, the validation concurs with the CPSFR rationale on the need to stay focused in areas where ADB has a comparative historical advantage. Continuity is consistent with best practices for the delivery of development support to FCAS countries, which state that support should be based on a deep understanding of the sectors in the country context.[31] However, neither the CPS nor the CPSFR provided any evidence to show that ADB's interventions in the roads subsector were more successful than its interventions in other sectors or other transport subsectors. During the earlier CPS (2006–2010), only two substantive grant projects were approved—one for road network development ($46 million) and one for Dili Urban Water supply ($6 million). As at August 2014, the

[31] ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries: The Asian Development Bank's Approach to Engaging with Weakly Performing Countries*. Manila. The two pillars of the 2007 approach are selectivity and strategic partnerships.

road project was still only 50% disbursed after a major restructuring and 7 years of implementation.[32]

30. The decision to focus on national roads in itself would not have delivered on the CPS claim that the program's support will emphasize the provision of tangible benefits to make a direct contribution to lifting living standards (footnote 30). The CPSFR could have better explained (i) the non-engagement in key sectors such as agriculture, either directly or indirectly, especially given that the majority of the population is dependent on the rural sector; and (ii) why other infrastructure sectors such as water and sanitation did not increase proportionately to transport. The validation concludes that continuity is a weak justification for the emphasis on national road infrastructure, and is not sufficient justification for not engaging in other significant sectors of the economy more directly related to inclusive growth and poverty reduction. Finally, the targeted sector outcomes in the CPS results framework should have been more realistic and in proportion to the size and nature of the support being provided.

31. **Limited support to ADB Strategy 2020's five drivers for change.** Of the five drivers for change (footnote 22), the CPS stated it would primarily be supporting private sector development with complementary activities in capacity development and governance, gender equity, knowledge solutions, and partnerships. Private sector development is a key element of the third pillar of the government's SDP. The CPS stated that ADB's contribution to water and air transport and the energy sector would focus on facilitating the long-term engagement of the private sector as a source of investment and as operators of facilities. However, the private sector in Timor-Leste is comprised mainly of small and medium enterprises (SMEs), and support for their development was limited and indirect.

32. This indirect support to the development of SME's was provided through the provision of a regional TA to develop options for secure transactions for the banking sector, and through the embedding of private sector initiatives (such as maintenance contracts) in infrastructure projects. Given the limited scale of ADB's support for SMEs, the potential impact of this support is insignificant and the sector remains immature. Support for PPPs was also an important initiative that was aided by a viability gap finance loan designed to attract foreign investors. However, it is too early to determine the extent to which the PPP investment will then spill over to provide opportunities for domestic SMEs.

33. Human resource development and institution building represent two of the four SDP pillars. The CPSFR notes the CPS (i) may have underestimated the importance of governance and capacity development as a means of supporting effective implementation of large increases in public investment, and (ii) had failed to anticipate the challenges the government would face scaling up the investment.[33] The lack of strategic support for governance and capacity development was a weakness in the CPS design. Support for the other Strategy 2020 drivers of change, namely gender equity, knowledge solutions, and partnerships, was also limited. Some progress was made in the area of regional cooperation and support for Association of Southeast Asian Nations membership. However, the cross-border infrastructure component that would have supported trade with Indonesia was dropped from the transport program. The validation concludes the CPSFR did not show that the drivers of change in Strategy

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[32] At the time of finalizing the report, IED was advised that the project disbursements have picked up and the project is due to be completed in 2015.

[33] Footnote 2, para. 6.

2020 were supported in the manner presented in the CPS, and the level of support for private sector development was overstated.

34. **Sector initiatives could have been better designed to support the agenda of inclusive growth.** Strategy 2020 identifies the three core areas of inclusive growth, sustainable growth, and regional cooperation. The CPS refers in many instances to targeting inclusive growth, although in practice, this objective was not demonstrated by the stated outcomes or design of projects.

35. For example, in the road subsector, the CPS stated that by concentrating primarily on infrastructure development and management, poverty would be alleviated through the benefits of economic growth as agriculture sectors and rural areas would be key beneficiaries and by connecting the poor to markets. Further, the investment projects would provide an inclusive pattern of economic growth, particularly by improving the transport links needed by agriculture and the rural economy.[34] The COBP, 2013–2015, re-emphasized the large allocation to roads that was required to support growth in the rural economy, and COBP, 2014–2016, talked of the transformative role that connectivity plays in fostering diversified sources of economic growth.

36. Table 2 presents a comparative analysis of the outcomes at the sector and project levels for the road infrastructure sector. The CPS results framework and the project results frameworks stated that targeting the outcome of decreased travel time at a project level, would at the sector level, benefit at least 25% of the total population in the surrounding sub-districts. These benefits would be derived from increased and more efficient movement of people and goods. While the rehabilitation of a national road will reduce travel time for the population living between the two connected cities, it is less clear how it improves connectivity of the sub-district population without the necessary complementary links with subnational, district, and rural roads.

37. The rehabilitation of rural roads is an equal priority of the government's 2015 SDP target, as more than 70% of Timor-Leste's population and 94% of the population in villages depend on the agricultural sector as the main source of income.[35] Rural–urban disparities are substantial with regard to access to public infrastructure, employment opportunities, and social services.[36] Further, travel time in isolation does not provide much information and needs to be valued and weighted by the volume of traffic to determine whether the intervention enhanced economic activity. In practice, no monitoring framework was put in place to establish a baseline or measure progress on the achievement of these indicators.

38. In regard to water and sanitation, the CPS stated that ADB would address priority needs in rural areas when resources were not available from other development partners and that an emphasis on the provision of services outside the capital city will support growth of agriculture and the rural economy. Poverty would be alleviated by increasing the availability of basic public services to the poor. Yet the evaluation mission saw little support by development partners for the rural areas and all the ADB project level interventions were in the urban sector (Dili and other large urban centers) with little interface with any rural programs. The CPSFR itself acknowledged the potential concentration of growth and opportunities in the capital, Dili, was a threat to inclusive growth (footnote 2).

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[34] Footnote 30, paras. 23–25, and 28.
[35] Government of Timor-Leste. 2010. *Population and Housing Census.* Dili.
[36] United Nations Development Programme. 2014. *Assessment of Development Results*. New York. p. 14.

Table 2: Country Partnership Strategy Sector Outcomes vs. ADB Project Interventions

Item	Outcomes and Indicators
CPS Sector Infrastructure (road transport)	Increased and more efficient movement of people and goods— (i) at least 25% of the total population (in sub-districts with rehabilitated or upgraded roads) benefits by 2015, and (ii) a minimum of 800 rural poor and vulnerable people (at least 30% of them women) receive training on and participate in community-based road rehabilitation and maintenance by 2015.
CPS Project Grant 0180: Road Network Development	Improved access to social and economic facilities in project areas. By 2014, (i) 10% reduction in average travel time to primary schools in project areas for both men and women, (ii) 10% reduction in average travel time to clinics in project areas, for both men and women, (iii) 10% reduction in average travel time to bus terminals or stop in project areas, for both men and women; (iv) reduction in road closures due to severe weather, and (v) more efficient land border crossing (crossing the land border takes about 1 hour).
Grant 9142: Our Roads Our Future	Increased access to social services and economic activities through improvements in the capacity of local government and roadside communities to jointly maintain rural roads and small-scale infrastructure by 2015—(i) travel time to schools and health clinics reduced in the project areas by 10% relative to 2007 baseline data, (ii) rates of receiving antenatal care and assistance during delivery increased in the project areas by 10% relative to 2008 baseline, and (iii) labor force participation (for both men and women) increased in the project areas by 5% relative to 2007 baseline data.
Loans 2857/2858: Road Network Upgrading	A more reliable and safer road network—(i) 15% reduction in travel time on project roads, and (ii) 20% reduction in road accidents on project roads.

ADB = Asian Development Bank, CPS = country partnership strategy.
Source: ADB.

39. The validation notes that the outcome of inclusive growth would have been achievable if ADB's support had been underpinned by a broader sector-wide approach that identified differing responsibilities for the government and development partners, and harmonized the deliverables with the broader sector outcome on inclusivity. In the absence of these initiatives, more realistic targeted sector outcomes for CPS projects were warranted. For example, the outcomes for the support to core national roads could realistically have provided either greater regional integration through cross-border infrastructure and associated trade services with Indonesia[37] or the enabling infrastructure for private sector growth. Given the limited evidence on how the CPS's design contributed to broad-based economic growth or inclusive development, the validation concludes the CPSFR's claim that the CPS effectively addresses the inclusive growth agenda, as required by ADB's Strategy 2020 and its inclusive growth strategy, is overstated.

40. **Sustainability of investments was not effectively incorporated into project design.** Capital expenditure needs to be supported with credible asset management plans and adequate and timely O&M funding. The CPS noted that best practice models for sustainable asset management will be established through investment and TA and that support of road maintenance will remain priorities.[38] Therefore, it is surprising the CPS did not highlight indicators or targets for O&M at the outcome level for any of the infrastructure projects, especially given that ADB's first road project, introduced in the earlier CPS period, was severely impacted by the rapid deterioration of the

[37] Footnote 30, para. 32.
[38] Footnote 30, paras. 26 and 28.

unmaintained target roads, and the project had to be significantly re-designed.[39] The validation notes the ongoing road project incorporates a pilot initiative for 2-year performance-based maintenance contracts for the international contractor including the recommendation to engage local maintenance contractors. This project specific initiative had merit in initiating the government's familiarization with performance-based maintenance contracts. However, it falls short in strengthening the long-term capacity of the government in managing O&M or enhancing the government's asset management systems.

41. The validation notes that community-led infrastructure maintenance which had proven a success in a prior CPS project[40] was not continued and the CPSFR has further commented that mechanisms for funding and contracting road maintenance needed strengthening. The validation concludes the CPS should have targeted O&M and asset management in a more robust manner and under a broader strategic framework supported by policies, investment, and financing, preferably from a sector-wide perspective. This approach was a recommendation of earlier IED evaluations. By not addressing asset management and O&M funding upfront, the sustainability of the government's and in particular, ADB's interventions has been compromised.

42. **Development partner harmonization and the role of ADB.** The CPSFR highlighted the government-appointed lead role for ADB in infrastructure.[41] The validation mission noted that both the government and other development partners acknowledged ADB's positive role in Timor-Leste's development and the positive impact of the increased delegation of responsibilities to ADB's Timor-Leste Resident Mission, accompanied by a corresponding increase in staff with the appropriate expertise. However, there were differing accounts on how ADB's role was perceived. The government saw ADB as supporting the provision of donor information to government and coordinating sector meetings in infrastructure as ADB was the first development partner for infrastructure. Other development partners and civil society organizations saw the need for ADB to lead more proactively on advocacy to the government on key infrastructure sector issues.[42]

43. The mission noted there were opportunities to improve development partner coordination. For example, Australia's Department of Foreign Affairs and Trade (DFAT) and the European Union are major supporters of rural roads. But, their programs were not linked to the national road program supported by ADB, the Japan International Cooperation Agency, and the World Bank, and it is unclear how the district road program was being funded. Had these initiatives been more effectively harmonized upfront, then ADB's support to national roads would have had greater leverage to deliver on an inclusive growth agenda.

44. Similar issues were highlighted by the Pacific Private Sector Development Initiative (PSDI), where effective coordination and interaction between ADB and DFAT could have yielded better results. The importance of harmonization was even more critical for ADB following the reclassification of Timor-Leste's borrowing status, which now prevents the government from accessing ADB's grant resources for social sector initiatives. ADB's limited TA resources could have been better leveraged through

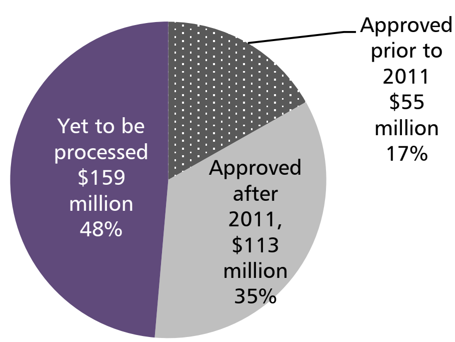
[39] ADB. 2009. *Proposed Grant Assistance to Timor-Leste for the Road Network Development Sector Project.* Manila (Grant 0180).
[40] IED. 2011. *Validation Report: Road Sector Improvement Project in Timor-Leste*. Manila: ADB; Footnote 32, para. 10.
[41] Footnote 5, para. 22.
[42] IED was advised of these perspectives during the validation mission.

enhanced dialogue with development partners who are providing substantial amounts of grant support. Although development partners are "exchanging notes," as one development partner put it, greater communication and harmonization was required to present a more united donor perspective on key sector issues.

45. **Increasing lending, learning by doing, and limited absorptive capacity within the government.** During the CPS period, the ADB resource envelope increased by about 400% from $69 million to $272.0 million (Figure 6). The CPS noted the $69.0 million placed a tight limit on the development results that could be achieved and this increase would allow ADB to have more development impact.[43] However, the $272.0 million remains small relative to the $3.8 billion the government planned to spend on infrastructure during the period 2011–2015, and the CPSFR, CPS, and the COBPs fell short in explaining the value addition from ADB's additional engagement. The CPSFR did not highlight any pent-up demand for ADB funds, and the statement in the CPSFR that the increased allocation to infrastructure was due to the "capital intensive nature of the upgrades" does not provide a justification for the rate of increase in lending volumes.

46. This raises a key question as to why investments were increased when the absorptive and implementation capacity of the government indicated that a slower pace of lending was warranted. As Figure 10 shows, at the time of the final review, almost 50% of the $272 million CPS allocation had not been turned into approved loans.[44] Approved OCR loans incur a commitment fee and implementation delays are costly to the government.[45] Furthermore, these delays make it difficult for ADB to achieve its economic and financial performance targets. The validation concludes that less ambitious lending targets would have allowed for more learning by doing and a greater focus on the appropriate sequencing and design needed to ensure achievement of results on the ground.

Figure 10: Total Programmed Loans and Grants Approved and yet to be Processed as at June 2014



Source: Asian Development Bank.

47. Notwithstanding these challenges, this assessment recognizes the CPS broadly responded and aligned itself in its intentions to the development priorities of the country. Nevertheless, the challenge for Timor-Leste's development is not arising from the limited availability of finance. In the course of the implementation of the CPS, ADB's efforts lost focus in supporting Timor-Leste to ensure a sustainable non-oil dependent economy with shared prosperity for all its citizens. ADB's engagement should have (i) been more innovative and inclusive by encompassing broader sector outcomes including institution building, (ii) incorporated effectively sequenced

[43] Footnote 30, para. 25.

[44] The outstanding approvals included substantial additional financing on the existing road projects, a large water and sanitation project, and the PPP viability financing for the new Tibar Bay port.

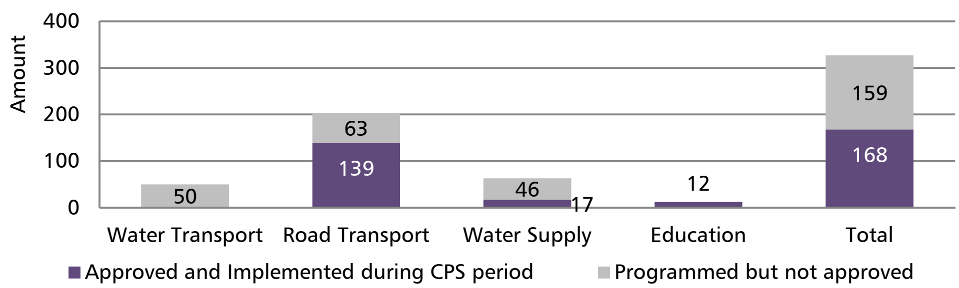
[45] As at the end of October 2014, the government had been charged commitment fees of approximately $130,000.

interventions for better implementation, (iii) involved coordinated policy dialogue in the key sectors of engagement, and (iv) considered asset management and O&M more overtly. Given these considerations, the validation does not support the highly relevant assessment of the CPSFR and assesses the CPS *relevant.*

B. Effectiveness

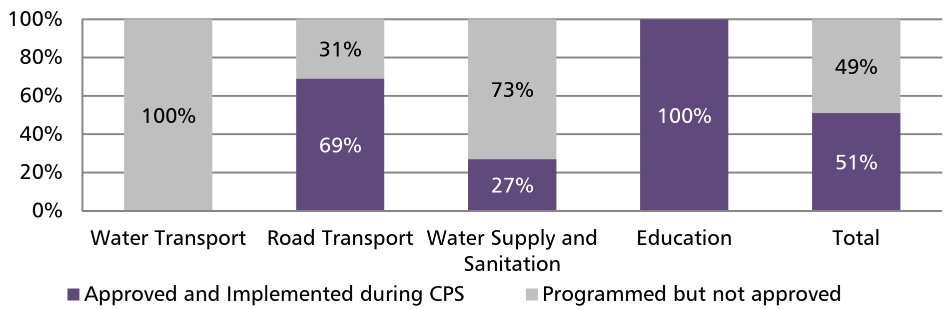
48. The CPSFR rated the CPS *effective.*[46] The CPSFR stated that although most projects were at an early stage of implementation, they were on track to deliver the targeted outputs that would contribute to the achievement of project and sector outcomes. Effectiveness refers to the extent ADB outputs have led to the achievement of outcome targets defined in CPS sector results frameworks and the design and monitoring frameworks of key projects and programs, as updated through scope changes. The status of approvals for CPS program is shown in Figure 11 by absolute value and then in Figure 12 by percent of total portfolio of $327 million ($272 million for the CPS, 2011–2015, and $55 million carried forward from CPS, 2006–2010).

Figure 11: Programmed vs Implemented Projects ($ million)



CPS = country partnership strategy.
Note: Approved and implemented figures include the projects ongoing from the earlier country partnership strategy 2006–2010.
Sources: Asian Development Bank database on loans and grants; Asian Development Bank Loan and Grant Financial Information.

Figure 12: Programmed vs. Implemented Projects (%)



CPS = country partnership strategy.
Note: Approved and implemented figures include the projects ongoing from the earlier Country Partnership Strategy 2006–2010.
Sources: Asian Development Bank (ADB) database on loans and grants; ADB Loan and Grant Financial Information.

[46] Under the 2015 guidelines for validation of the CPSFR, the categories for effectiveness are highly effective, effective, less than effective, and ineffective. Hence, the CPSFR rating of likely effective has been translated effective.

49. During implementation, the following factors reduced the effectiveness of the CPS portfolio:

(i) Out of the seven targeted subsectors identified in the CPS, three (energy, finance, and air transport) were dropped, while road transport, water transport, water and sanitation, and education sectors were retained.

(ii) In the targeted sectors, as of June 2014, only four out of six proposed projects had been approved, representing just 51% of the total program. Outstanding approvals for two projects, representing the balance of 49% of the portfolio, are likely to take place towards the end of the CPS period.

(iii) In total, and including projects from the earlier CPS period, seven out of nine projects were implemented—four for road transport, two for water and sanitation, and one for education. None of the projects however, were completed at the time of submission of the CPSFR or the conduct of the validation mission. This low completion rate did not provide sufficient evidence to suggest the CPS outcomes would be effectively delivered in the forecasted time frame.

50. Neither the CPSFR nor the COBPs discussed adjustments to the CPS results framework as a consequence of this low level of approval or low level of progress in implementation. As a result, the validation assessed the effectiveness on the basis of projects that are substantially completed with an assessment on the likelihood of the outputs being delivered and outcomes being achieved. A summary of the validation findings on the investment and TA portfolio is summarized in Table 3, with achievements discussed by sector outcomes and project outcomes and outputs.[47]

Table 3: Summary of Achievement of Outcomes and Outputs by Sector

Sector/Program	Achievement of Outcomes and Outputs
Road Transport (2 grants and 2 loans) Road Network Development Sector Project (RNDSP, Grant 0180) Our Roads Our Future—Supporting Governance and Community-Based Infrastructure Works (Grant 9142) Road Network Upgrading Project (Loans 2857–2858) Road Network Upgrading Sector Project (Loans 3020–3021)	(i) Sector outcome—both sector outcome targets were not likely to be achieved. (ii) Project outcomes—only two grants are in mature stages of implementation. Project outcome targets were not achieved. (iii) Project outputs (only one project had recorded outputs)—on the RNDSP, the two physical output targets were not achieved—only 70 kilometers of the original target of 232 kilometer of rehabilitated national roads will be completed by 2015, and the border post output was dropped. Only 20% of the combined 10 non-physical outputs of the two grants were achieved. No outputs delivered on the two loans.

[47] Achievement of Sector and Project Outcomes and Outputs and Achievement of Technical Assistance Outcomes (accessible from the list of linked documents in the Appendix).

Sector/Program	Achievement of Outcomes and Outputs
Water supply (2 grants) Dili Urban Water Supply Sector Project (DUWSSP, Grant 0100) District Capitals Water Supply Project (Grant 0258)	(i) Sector outcome—main sector outcome target was achieved. No data available to assess achievement of non-physical outcome target. (ii) Project outcomes—only DUWSSP is in an advanced stage of completion. Project outcome targets were not achieved. (iii) Project outputs—all nine physical output targets of DUWSSP were not achieved, while 75% of non-physical output targets were not achieved.
Education (1 grant) Mid-Level Skills Training Project (Grant 0274)	(i) Sector outcome—no data available. (ii) Project outcomes—not yet achieved (due in 2016) (iii) Project outputs—the physical target for the Mid-Level Skills Training Project was achieved but non-physical targets were only partly achieved.
Advisory and capacity building technical assistance (TA) grants (11)	TA outcomes—the achievement of TA outcomes is mixed—4 achieved, 2 partly achieved, 3 not achieved, and 2 no assessment.

Source: Asian Development Bank Independent Evaluation Department.

51. **Transport sector.** For the road transport subsector, there were two sector outcome targets. The first outcome stated that by 2015, at least 25% of the total population would benefit from rehabilitated or upgraded roads. The CPSFR stated that the proportion of the total population in the project areas that was benefiting had risen to 22% in 2013, and concluded that based on staff estimates, the CPS was on track to meet the target of 25%. However, these estimates were not empirically substantiated and the project management unit (PMU) advised the mission that this target was not monitored during implementation.

52. The second outcome targeted a minimum of 800 rural poor and vulnerable people (at least 30% of them being women) to receive training on and participate in community-based road rehabilitation and maintenance by 2015. The CPSFR stated that although ADB's contribution was lower than expected, the target has likely been surpassed because of the strong support for community-based construction and maintenance by the government and other development partners. Again, the validation mission found this statement was not empirically supported. Given the lack of any monitoring, there is little evidence to show when the CPS sector outcome targets are likely to be reached. Therefore, the validation finds the statement in the CPSFR that the transport sector outcomes were achieved remains unsubstantiated, and the basis for making a positive assessment on the likelihood of achievement is very small.

53. At the project level, three out of the four transport projects produce physical outputs with a fourth grant project focusing on capacity development. The three projects were initially designed to improve a combined 408 kilometers (km) or 29% of the country's 1,400 km national road network. However, only one of the four projects implemented, the Road Network Development Sector Project (RNDSP), showed any progress on the delivery of outputs.

54. The CPSFR did not provide updates on RNDSP outcomes, and achievement of the project outputs was mixed. The validation mission was advised that the outcome target of a 10% reduction in travel time was exceeded, though the claimed reduction in travel time of 30%–50% was not substantiated. RNDSP's main output, the rehabilitation of 232 km of road, was reduced to 70 km, greatly diminishing the total contribution to project outcomes. Further, the completed sections of road were not

adjacent to each other, so the claimed reduction in time only occurs on limited stretches. No evidence was presented that proved any significant improvement in road traffic or economic activity, although there is potential if the stretch to the Indonesian border is completed. The validation mission noted this result was possibly due to the small number of connections to district and rural roads and the small proportion of the population owning cars. Nevertheless, the completed road sections are considered high quality by the government and other development partners and met the national standards, setting a good benchmark for future work on other national roads.

55. On the second output of improved safety awareness and traffic measures, the validation mission noted that many school children were playing and walking home on the roads, as there were no sidewalks. This design created significant risks of accidents occurring. For the third output, the completed roads were not long enough to establish a road maintenance program, though the project was piloting the outsourcing of maintenance on a small section of the road to private sector contractors with the potential for future scaling-up. The achievement of other non-physical output targets was mixed. Climate proofing and traffic safety measures were incorporated into engineering designs and work contracts. However, only 25% of the targeted national contractors were provided with the requisite training. The number of PMU personnel for the road projects was not increased as envisaged. Just over 30% of the targeted number of individuals was trained in community road maintenance under the grant project. Overall, the limited substantiated achievements of the outputs and outcomes of one road project is not sufficient to justify the conclusion that there has been an effective contribution to the CPS's transport sector level outcomes.

56. **Water supply and sanitation sector.** The water supply sector outcome targets were (i) improved drinking water access for at least 95% of the urban population; and (ii) a reduced percentage of urban households where adult females (aged 15 years or more) fetch water. The CPSFR stated that the first outcome was achieved as the proportion of the urban population with access to an improved water source increased to 94.5% in 2014. The 2014 Joint Monitoring Report prepared by World Health Organization and United Nations Children's Fund (UNICEF) confirmed a similar figure. On the second outcome target, the CPSFR stated there was no monitoring data to track progress on the reduction of the percentage of urban households where adult females fetch water from 13% in 2010 to 10% by 2015.

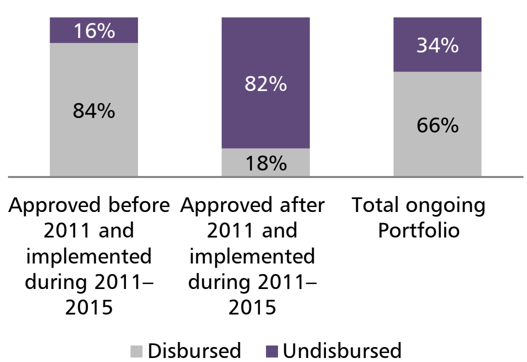
57. Of the two water and sanitation projects implemented, only the Dili Urban Water Supply Sector Project (DUWSSP), approved in the prior CPS period will be completed within the CPS period. The District Capitals Water Supply Project (DCWSP) is still at a very early stage of implementation. Notwithstanding the achievement of sector outcomes, the DUWSSP did not achieve its target project outcomes and in one of the three sub-districts targeted, the water supply was not potable. The output targets on the rehabilitation of pipes, the connection of meters, the disconnection of unauthorized users, and replacement of pipes were not achieved. Overall, the CPSFR noted that ADB's project interventions in the water and sanitation sector have contributed modestly to the sector outcome targets.

58. **Education sector.** The CPSFR stated that the sector outcome target on ADB's sole intervention—the Mid-Level Skills Training Project—was on target, and may be surpassed, though limited evidence was presented. Given that only two main outputs were achieved—the upgrading of three training facilities and the implementation of a new scholarship program for technical and vocational education and training—the validation finds it premature to assess effectiveness.

59. **Financial sector.** The CPSFR did not assess the achievement or likelihood of the achievement of sector outcomes. On outputs, the CPSFR simply mentioned that the support to the Banco Nacional de Comercio de Timor-Leste was provided through the PSDI regional TA program.

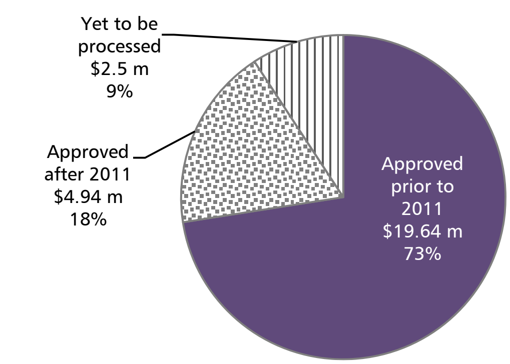
60. **Technical assistance grants.** The CPSFR did not provide a comprehensive assessment of the effectiveness of the TA grants implemented during the CPS period. The progress of TA grants can be seen in Figures 13 and 14, and the rate of disbursement was slow. Of the 22 TA grants programmed, largely from those brought forward from the earlier CPS (2006–2010), 8 were completed, 4 are yet to be approved, 1 was cancelled, and 9 are ongoing. Of the total portfolio of $27 million programmed, the single largest TA for $15 million which supported infrastructure management largely through capacity substitution was rated only partially successful.[48] Completion reports have not been completed for the other TA grants, but the validation mission noted the support for statistical capacity and Timor-Leste's membership in the Association of Southeast Asian Nations was well appreciated by the government. However, the TA program would have been more effective if it had been coordinated under a strategic capacity development framework.

Figure 13: Disbursement on Technical Assistance Projects as at June 2014



Source: Asian Development Bank.

Figure 14: Programmed Technical Assistance approved and yet to be processed as at June 2014



m = million.
Source: Asian Development Bank.

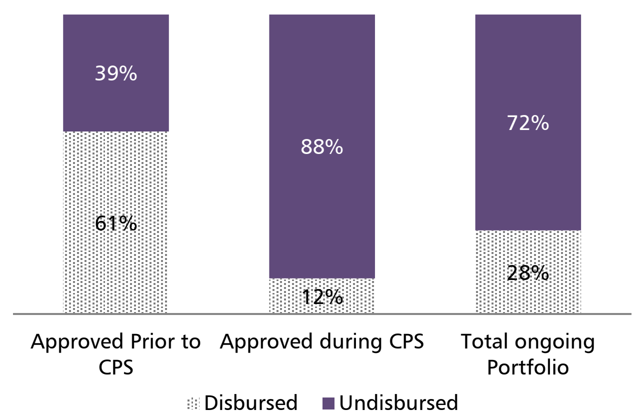
61. In conclusion, the validation does not concur with the CPSFR's view that the interventions were effective or substantially likely to be effective. First, there were very few mature projects to assess, mainly because the CPSFR was prepared prematurely when approximately 50% of the portfolio had not yet been approved. Second, even those projects implemented experienced delays with few targeted outputs and outcomes being achieved. Third, the CPSFR view on the likelihood of achievement was not empirically justified. Project results frameworks and the CPS results frameworks were not adjusted to reflect new targets, something which should have been undertaken during review missions. The validation assesses the CPS *less than effective*.

[48] Australia's DFAT undertook an Independent Completion Report on their support, and assessed its intervention successful, but was critical of a number of the TA grant's deliverables.

C. Efficiency

62. The CPSFR rated the implementation of projects *less than efficient* with scope for upwards adjustment if recent improvements are sustained. Efficiency refers to the extent the projects and programs in the CPS were implemented in a cost effective and time efficient manner in each sector and overall. When evaluating efficiency, one criterion is a quantitative analysis of actual economic costs and benefits relative to planned costs and benefits. Underpinning this criterion, it is important to assess implementation efficiency of completed and ongoing operations in terms of the extent of delays, cost overruns, and cancellations. The CPSFR did not provide these analyses and the monitoring of project outcomes during implementation was poor. Further, the pace and scale of the increase in the volume of projects that had to be implemented, in an environment of low implementation and absorptive capacity, was not assessed. Figure 15 shows that disbursement of the ongoing portfolio at June 2014 was only 28%. This figure falls to 12% for projects approved during the CPS period. The validation mission was advised these achievements were lower than the implementation targets that had been set. This CPSFR validation concurs with the *less than efficient* assessment, and the following paragraphs highlight additional observations on efficiency.

Figure 15: Percent of Ongoing Portfolio Disbursed



CPS = country partnership strategy.
Source: Asian Development Bank database on Loan, Technical Assistance, Grant and Equity Approvals.

63. **Implementation modalities for the loan and grant projects differed.** The mission noted the government took a different view on the implementation of loan and grant projects, as loan projects are provided with counterpart financing from the Infrastructure Fund—a fund dedicated to supporting large infrastructure projects under the SDP. The Infrastructure Fund is managed by the Major Project Secretariat (MPS) in the Ministry of Finance. Thus, although both grants and loans are implemented through dedicated PMUs in the line ministries, the loan PMUs comprising mainly consultants working closely with the development partners, are more accountable to the MPS than to the management in the Ministry of Public Works (MPW). In the longer term, this arrangement will reduce the efficiency of implementation as there will be little knowledge exchange between the PMU and the MPW—a concern that the MPW staff raised with the validation mission.

64. **The efficiency of road projects was not demonstrated.** The CPSFR stated that the road sector projects progressed well during the CPS period, but that major scope reduction changes were made on two of the four projects (RNDSP and Our Roads Our Future Project). These changes resulted in the extension of the completion date by 1 year for the RNDSP. No formal economic and financial analyses were prepared for the RNDSP (the Our Roads Our Future Project does not have an investment component). For the RNDSP, the economic internal rate of return estimated at project design was

25%, which is above the ADB benchmark of 12%. The validation mission discussed the RNDSP with the PMU, and concluded it was uncertain whether this target will be achieved because of the higher cost per kilometer of the completed roads and the lack of data to substantiate any increase in traffic. The two other road projects (Road Network Upgrading Project and Road Network Upgrading Sector Project) are in the early stages of implementation. Although no major cost overruns are expected, extensions are envisaged because of the processing of additional financing and an expansion of scope.

65. **The efficiency of the water supply and sanitation projects was not demonstrated.** The CPSFR stated that implementation of the DUWSSP was hindered by difficulties in establishing an effective project implementation unit within the line ministry. The recruitment of consultants was delayed by 2 years and the project was substantially redesigned. This change resulted in large cost overruns. Similarly, implementation of the DCWSP was considerably delayed. Tendering works were still underway 2.5 years after the effective date of the grant. Cost overruns are anticipated due to higher than expected work requirements, and a project extension is likely to be required if the current scope of the project is to be delivered in full. At project design, the economic internal rate of return for the DUWSSP was estimated to be 20% and for the DCWSP, 17%. Again, it is unlikely these targets will be achieved given the long delays, actual and anticipated cost overruns, and reduced number of beneficiaries.

66. **The education project is efficient.** According to the CPSFR, the Mid-Level Skills Training Project initially experienced implementation delays due to the executing agency's limited capacity and lack of familiarity with ADB procedures. Most project components are now on track and no cost overruns are anticipated.

67. **Expansion of the implementation capacity of the Timor-Leste Resident Mission enhanced efficiency.** The validation mission noted that additional staff had been assigned to the resident mission to prepare economic analyses and oversee implementation of road and water and sanitation projects. This increase in capacity will potentially improve implementation efficiency, given that the resident mission will be able to more closely monitor progress and adapt to changing demands.

D. Sustainability

68. The CPSFR rated project outputs *less than likely sustainable* and the validation concurs with this assessment. Sustainability is threatened by three broad factors that affect the targeted outputs and outcomes of ADB interventions in different sectors to varying degrees. The first risk is the inadequate allocation of resources by the government to support the outputs and outcomes of the CPS deliverables. The problem is not so much a lack of resources per se, but the insufficient allocation of funds for routine O&M of infrastructure assets in general, and road and water supply infrastructure in particular. Second, outputs and outcomes are at risk because of the low implementation and management capacity in the executing agencies of the government. This risk cuts across most ADB interventions. Both these risks were identified in the CPS. A third risk affecting all ADB interventions arises from the possibility of social and political instability due to growing disaffection with the non-inclusive nature of growth. Public disaffection has not surfaced yet, but this risk may become significant over the medium term if the present pattern of growth continues.[49]

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[49] World Bank. 2013. *Country Partnership Strategy for Timor-Leste for the Period FY2013–2017.* Washington, DC. p. 22, Table 2. This risk from political instability caused by public disaffection was also noted in the

69. **Insufficient allocation of resources for routine operation and maintenance.** Currently, the government has sufficient resources (in the order of $16 billion) in the Petroleum Fund to develop, operate, and maintain assets. If these funds are prudently managed, the economy can maintain strong growth in the medium term without undermining fiscal sustainability.[50] Therefore, the challenge is not so much a lack of resources, as the quality of spending. The challenge is to strike the correct balance between different sectors and subsectors, and within a subsector, between spending for capital formation and routine O&M. The relative neglect of O&M threatens the sustainability of ADB operations in the roads and water supply subsectors.

70. Currently, it is estimated only a fraction (less than 2%) of the annual expenditures needed for routine O&M are actually allocated for this purpose.[51] As noted in the CPSFR, in the roads subsector the problem is further compounded by the fact that since 2011, the MPW has reallocated funds budgeted for road maintenance to fund emergency works contracts that were procured on a non-competitive sole-source basis and are subject to weak control and oversight. For several years now, assessments by IED have pointed to insufficient priority being accorded to routine O&M expenditures for the road subsector in the budget allocation process.[52] This assessment is widely shared by the donor community and acknowledged by the MPW.

71. In recent projects, ADB has sought to address this funding problem by incorporating funding for 2 years of post-construction maintenance into all road upgrading contracts. While this provision ensures adequate maintenance for the initial years, and buys time to build and test local contractor capacity for maintenance, it is not a viable solution for the medium term. A clear government commitment to provide routine O&M services, backed by a clear asset management plan and sufficient funding, should be a requirement for future ADB involvement in the road sector. Policies to generate revenues for road maintenance through mechanisms such as road user charges should be an important part of the sector policy dialogue between the government and donor partners.

72. The same problem is faced in the water and sanitation subsector. According to the CPSFR, since 2011 the recurrent budget for the Directorate for Water Supply and Sanitation has averaged $2.3 million per year in nominal terms and remains far below the level required to fund effective O&M. This assessment is accepted by the authorities, who are equally concerned at their inability to maintain the water and sanitation assets that have been created. Efforts to generate revenues by billing households that were beneficiaries of upgraded facilities under ADB projects have largely failed because of poor tariff enforcement.[53]

World Bank's Country Partnership Strategy (2013). Among country level risks, it refers to "elite bargains, patterns of wealth distribution, unmet expectations, perceptions of corruption, and entrenched poverty leading to instability (particularly among frustrated youth)."

[50] The IMF's sustainability exercise demonstrated that if reforms are carried out, real non-oil GDP growth could reach double digits, inflation lowered to single digits, and the non-oil deficit and public debt maintained within sustainable limits by 2018. Footnote 7, Table 5.

[51] World Bank. Public Expenditure Review of Infrastructure Spending in Timor-Leste (2014). Unpublished. The report estimates that out of a requirement of $80 million for routine O&M, only about $1 million is actually allocated.

[52] See for example, footnote 25, para. 34 and footnote 26, para. 20 for concerns regarding sustainability arising from inadequate allocations for routine O&M.

[53] Footnote 2, para. 56. Field visits to two subzones of the DUWSSP confirmed the CPSFR's assessment. Though new water connections came with metering, there appeared to be little interest either in making payments on the part of the households or in receiving them on the part of the authorities. It seemed to

73. **Lack of capacity.** Lack of sufficient capacity in the government agencies to prioritize and design projects and implement them effectively and efficiently remains a high risk to sustainability. Apparently, some progress has been made over the years, but lack of capacity remains a serious impediment. The lack of capacity affects almost all sectors, but it is particularly serious where large infrastructure projects are concerned.[54] The CPSFR notes the lack of a robust road maintenance system and the poor capacity within the MPW to manage and oversee routine O&M of the national road network (let alone rural and district roads). The same problem affects the water supply and sanitation subsector. As indicated in the CPSFR, the water sector assessment for the CPS found the Directorate did not have the institutional capacity needed to plan, manage, operate, and maintain water supply systems in the urban areas, let alone in the rural areas.

74. ADB-funded projects in roads and water supply and sanitation have sought to address some of these capacity problems, but their impact is still to be felt. For example, the Infrastructure Management TA is helping to ensure that requirements for asset maintenance are reflected in the MPW's strategic planning and capacity development programs. The piloting of performance-based maintenance contracts in recent road construction projects should help to build public and private sector familiarity with this modality. The ADB-supported Transport Master Plan will help the government clarify its priorities for the sector and integrate forward planning for maintenance into its investment and financing decisions. In the water supply sector, ADB is providing TA to the Directorate and it is considering the efficacy of outsourcing O&M to private contractors. However, more effort and innovative methods of building government capacity in these sectors is warranted if risks to sustainability are to be mitigated.

75. **Social and political instability**. The country has experienced rapid economic growth in recent years, led by a huge increase in public spending. However, a large part of the population especially in rural areas remains poor, and the modest progress achieved towards meeting the MDGs indicates that overall living standards have not yet improved.[55] A number of analyses have noted that inequalities have widened between Dili and the rest of the country, and between the rich and poor. Continuing high levels of poverty in rural areas and growing inequalities as noted in the 2014 State Budget Document could seriously undermine the present social cohesion. The government-led fragility assessment in mid-2012 noted persistently high youth unemployment, poor human development outcomes, regional inequities, food vulnerability, and perceptions of unfairness in the distribution of oil as potential stressors that could undermine Timor-Leste's stability and derail the development process.

E. Development Impacts

76. The CPSFR rated development impacts under the CPS *satisfactory*, as the ADB's CPS was able to contribute to (i) the overall development goals, (ii) the goals of key ADB sectors, and (iii) some cross-sector impacts. The validation assesses ADB's contribution to development impacts in all three dimensions, taking into account country objectives and the effectiveness, efficiency, and sustainability of what has been delivered by ADB to date.

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be taken for granted that payments were to be voluntary and no serious penalty was to be implemented in case of non-payment.

[54] These risks were identified in the previous CPSFR validation report as well. Footnote 25, para. 34.

[55] Footnote 7, p. 20, and Box 3.

77. **Progress on achievement of country objectives.** The SDP laid out a blueprint and agenda to eradicate poverty, create a diversified economy, and transform Timor-Leste into an upper middle-income country by 2030. During the review period, there was mixed evidence on progress meeting these objectives. There was strong growth in non-oil GDP per capita, but it was concentrated in construction. Agriculture (which is a source of livelihood for a majority of the population) and labor intensive manufacturing performed weakly. Government surveys found limited evidence to show this growth supported inclusivity through employment generation, and this conclusion has been supported by other independent analyses.[56] While the most recent poverty estimates extend only until 2009, other surveys have shown that human development indicators (such as child malnutrition) remain poor. Progress improving other social indicators has been slow and the country is unlikely to meet several of the MDGs (such as primary school enrolment, child malnutrition, and maternal mortality) by 2015 (footnote 16). Persistent and high rates of inflation are likely to have hurt the poor more.

78. According to the World Bank, not much progress was made between 2010 and 2012 creating a diversified non-petroleum based private sector. Most of the private sector economic activity was driven by construction that was largely funded by the government contracts for public works. The conditions for private businesses remained difficult and organic private sector development was miniscule. There was no improvement in the private sector's access to credit.[57] The continuing poor business environment for the private sector was confirmed in field interviews.

79. **Contribution of impacts of ADB's program.** The ADB's program is largely focused on infrastructure (mainly national roads and urban water and sanitation), although it has made some interventions to support mid-level skills training in the education sector and the state-owned commercial bank. The program of loans and grants is supplemented by a TA program for capacity building in various parts of the government. In principle, ADB's program is well aligned to support the government's overall development objectives, including inclusive growth and the creation of a diversified non-oil economy led by the private sector. However, in practice, many of these potential benefits have not yet been realized for two major reasons. First, ADB projects did not present evidence of particularly innovative designs or implementation dimensions that would have spillover or catalytic benefits on the government's own agenda through mechanisms such as scalability and replicability. Second, most of ADB's program is at an early stage of implementation with low disbursements, making it difficult to assess the program's delivery on the ground.

80. In regard to inclusive growth, the bulk of ADB's program was allocated for building national roads with the expectation that it will translate into benefits for the rural community in the project area by providing them with access to markets in urban areas and lowering the cost of the products they consume. No evidence was presented in the CPSFR to indicate there had been any positive impact yet on the rural communities through which national roads are being constructed. No complementary data was presented to the mission to suggest that economic activity was being measured, and field visits by the mission did not suggest much new economic activity in the project area. From discussions with staff and other interested parties, the mission

[56] Footnote 7, para. 4, and Box 3.
[57] Between 2010 and 2012, the number of registered new businesses fell from 4445 to 1686. Timor-Leste's ranking in terms of ease of doing business improved marginally from 174 out of 183 countries to 172 out of 189 countries in this period. The share of domestic credit going to the private sector remained virtually flat at 11.7%. Source: World Bank, World Development Indicators. 2014. http://data.worldbank.org/data-catalog/world-development-indicators

noted this result could be for several reasons: (i) agricultural activity remains relatively underdeveloped despite economic growth, (ii) feeder roads linking the hinterland to the national road network remain in very poor condition, and (iii) only a small stretch of the national road network has been rehabilitated and restored to good condition. The rest of the road network is in poor condition, negating the benefits from the completed section of the road. Inclusion is unlikely to happen merely because a stretch of the national road network is in good condition. Other interventions are necessary to realize the potential contribution to inclusive growth.

81. There are several ADB projects that are designed to improve water supply in urban areas, but their impact so far has been limited to some areas of Dili where access to good water has improved and benefited the intended beneficiaries. This improvement may have had the unintended consequence of increasing the existing gap in access to water between Dili and the rest of the country, and between urban and rural areas. The widening gap in access to water and sanitation between rural and urban areas is confirmed by national data.[58] At the project level, the objective of inclusion was limited to the urban population whereas the original CPS design also included the rural population.

82. In regard to private sector development and diversification, ADB's direct support for this objective was limited, mainly being provided in the form of TA for developing a framework for PPPs and supporting the financial sector through the PSDI initiative on banking. With ADB TA, a law governing PPPs was approved and it provides the framework for the Tibar port development project to be developed as a PPP. It is still too early to assess its impact in enabling more efficient infrastructure services and in attracting private sector investment into the economy. ADB projects in the road and water supply sectors included pilots for outsourcing O&M to the private sector. However, no evidence was presented in the CPSFR to demonstrate what impact these pilots have had in developing local private sector capability.

83. **Development impacts in key country partnership strategy sectors.** Infrastructure in the transport and water sectors was the most important priority in ADB's country program. The CPS results framework lists various outcome indicators for road transport and water supply against which actual outcomes were to be assessed. However, in most cases it is premature to be evaluating the impacts of these projects.

84. ADB's contribution to the financial sector was expected to support financial inclusion (by improving access to finance for women and the poor) and improve access to credit for SMEs. These interventions were funded through the PSDI regional TA program which focused on strengthening the capacity of the state-owned commercial bank. No evidence was presented in the CPSFR to indicate how the PSDI interventions supported progress achieving the sector outcome targets.[59] Anecdotal evidence suggests that people in rural areas have virtually no access to banks and lack of credit remains one of the primary reasons for low private sector activity.[60] Macro evidence shows the share of credit allocated to the private sector as a percentage of GDP has not

[58] At the macro level, according to the World Development Indicators (2014), while access to improved water and sanitation improved for both rural and urban areas during 2010–2012, the gap widened.

[59] The targets included the number and value of outstanding loans by micro and small financial institutions should increase by at least 50% by 2015 (2010 baseline 25,600 borrowers and $12 million in loans); at least 50% increase in the number of women with active savings account in micro and small financial institutions by 2015 (2010 baseline 20,100).

[60] Other constraints are a weak land law that makes land ownership rights problematic, lack of infrastructure including rural and district roads, bureaucratic red tape that makes it hard to start and operate a business, and corruption especially in customs, which increases the cost of doing business.

improved in recent years. ADB's intervention in the education sector is designed to increase the government's capacity to provide vocational training to help the labor force acquire skills over time that are useful in a modern economy. This project is still at a very early stage of implementation.

85. **Cross-sector impacts.** Through TA activities, ADB continued to support initiatives to strengthen the state's capacity to manage its financial resources and implement its projects in key sectors, especially in infrastructure. The cumulative positive impact of this activity on the capacity of the government is not clear. The CPSFR presents no hard evidence to demonstrate cross-sector impacts. Clearly though, capacity is still severely limited as only about 70% of the 2013 budget was executed. Government and development partner reports point to the poor delivery of essential public services especially in rural areas.

86. In conclusion, most projects are at a very early stage of implementation and the CPSFR presents limited evidence to show ADB projects have furthered the objectives of inclusion or diversification in the economy. Even when the projects are completed, their development impact on inclusiveness and diversification are limited by their design. As several studies have indicated, investment in national roads promotes growth but not necessarily inclusive growth, for which complementary investments and policies are required.[61] More efforts are needed to ensure coordinated donor and government interventions in complementary areas of infrastructure (e.g., rural roads and water supply). Unless coordination is achieved, the gap between rural and urban areas and between the poor and others is likely to widen.

87. The same line of argument applies to the goal of diversification and private sector development. Unless specific policy interventions are implemented to promote diversification and private sector development, these benefits are unlikely to flow from the investment in national roads. As a result, while there is potential for greater impact from some of the initiatives introduced during the CPS period, such as improvements to O&M, the validation rates development impact *less than satisfactory.*

F. ADB and Borrower Performance

88. **ADB and government performance**. Notwithstanding the overall assessment of the CPS, the validation concurs with the CPSFR in assessing the ADB and government performance *satisfactory*. ADB responded constructively to the changing environment in Timor-Leste with increased resources being allocated to the resident mission to support the scaling-up of the lending program. ADB is also supporting government initiatives to strengthen government capacity.

89. The mission noted that ADB is considered a valued partner by the government and other development partners. Some development partners commented that ADB can better leverage its lead position in infrastructure to facilitate stronger harmonization among development partners to ensure a consensus on key issues can be presented to the government. This consensus is not limited to implementation issues on development partner projects, but includes the broader policy framework the government needs to address at a national and sector level. Closer harmonization on sector issues will encourage synergies in development partners' programs. For example, there is potential to coordinate with the European Union and Australia's DFAT on rural

[61] For example: ADB. 2014. *Inclusive Development: Two Papers on Conceptualization, Application, and the ADB Perspective.* Manila; L. Winters. 2014. Globalization, Infrastructure, and Inclusive Growth. *Working Paper 464*. Tokyo: ADB Institute.

roads that can be connected to the national road program. A similar approach can be taken on water and sanitation services in rural and urban areas.

90. The CPSFR validation has highlighted the importance of monitoring progress on the implementation of the CPS. The mission stresses that—a stronger and more robust monitoring and evaluation framework, followed by regular monitoring of the CPS and individual projects, as well as the updating of the respective results frameworks—will strengthen progress on implementation and better inform decision making.

91. Although progress on implementation has been variable owing to the government's capacity constraints, it has been keen to cooperate with development partners and encourage harmonization among donors. The Ministry of Finance is playing a key role in this coordination process, although it has experienced resistance from line ministries who guard their independence.

92. The government has attempted to absorb PMUs into the line ministry structure by encouraging sector level PMUs that can manage multiple development partner projects, thus avoiding a PMU per development partner or a PMU per development partner project. The eventual aim is to merge this PMU framework with the line ministry structure. Starting in 2015, the budget for loan project monitoring and implementation will be sourced from the recurrent budget of line ministries and not be funded by the loan, with loan project financing being limited to funding design and supervision consultants. This will be a challenge, as the implementation consultants will report to MPS and the line ministry, and they will be recruited in accordance with the internal contracting rules of the government rather than of development partners. Provided this change is implemented effectively, it will enhance the capacity of the government, notwithstanding the fact that the dual reporting to MPS and the line ministry may hamper efficiency in the short term.

93. In regard to O&M, the government still has to ensure that sufficient budget is allocated and the amounts are not fungible for other expenditure. This action will be critical to ensure investments in assets provide value for money.

G. Overall Assessment

94. The CPSFR assessed the ADB-supported country program during 2011–2015 *successful.* This result is based on the evaluation methodology that weights the assessment of relevance, effectiveness, efficiency, sustainability, and impact. The comparative evaluation of the CPSFR assessment and the CPSFR validation is detailed in Table 4.

95. The validation found the CPS to be relevant, given that its higher level objectives were aligned to the broader development priorities of the country. However, it was deficient in design in addressing the key issues of inclusive growth and sustainability. The increase in the size of the portfolio impacted on effectiveness and efficiency due to the low level of implementation and reduced expectations about results. Impact was affected by design and sustainability and it could have been enhanced if O&M and asset management had been better embedded in project design. This validation assesses the CPS *less than successful.* However, as the lessons learned show, the next CPS can build on the experiences of the current CPS to enhance the delivery of future programs.

Table 4: Ratings Comparison between Country Partnership Strategy Final Review and Independent Evaluation Department Validation Report

Evaluation Criteria	CPSFR Rating	Validation Rating	Reasons for Rating Deviations
Program relevance	Highly relevant	Relevant	The design neither provided balanced sector support, nor considered inclusive growth effectively, and the program was scaled up too fast. Nevertheless, the program's broader objectives were broadly aligned to the Government's long-term development goals
Effectiveness	Effective	Less than effective	Project outputs and outcomes did not contribute to the targeted sector outcomes as presented in the CPS.
Efficiency	Less than efficient	Less than efficient	
Sustainability	Less than likely sustainable	Less than likely sustainable	.
Development impacts	Satisfactory	Less than satisfactory	Linked to relevance, there was limited innovation and at the project level design, the key issues of diversification, inclusion, and sustainability were not effectively addressed.
Overall assessment	**Successful**	**Less than successful**	
ADB performance	Satisfactory	Satisfactory	
Borrower performance	Satisfactory	Satisfactory	
Quality of the CPSFR		Satisfactory	More attention needed to be placed on ensuring the ratings were supported empirically.

ADB = Asian Development Bank, CPS = country partnership strategy, CPSFR = country partnership strategy final review.
Source: ADB Independent Evaluation Department.

H. Lessons

96. **Lessons**. To date, ADB's funding has largely been allocated to transport and water infrastructure development, particularly national roads and urban water supply. Quality national roads are necessary (but not sufficient) for faster economic growth, and good quality water supply is scarce. ADB has built up some institutional experience financing and managing national road projects. However, there is little evidence suggesting that building national roads by itself, will promote the objective of inclusive growth or private sector development. Similarly, providing good quality water to some urban pockets may worsen the gap between rural and urban areas (and rich and poor) in their ability to access good quality water.

97. Diversification of the economy has proven to be elusive, with the private sector remaining underdeveloped. Lack of an effective private sector that is engaged beyond infrastructure and is not dependent on government contracts is hampering this process and not enough emphasis has been given to nurture a private sector that works autonomously from the government. At the same time, traditional sectors such as agriculture have suffered from little investment and remain stagnant. The development of agriculture is essential for ensuring food security and providing employment opportunities. The infrastructure sector however, is not geared to directly support agriculture and linkages need to be strengthened.

98. Development partners' support has been provided in traditional areas and through traditional means, but these have not delivered on the development outcomes of inclusive and sustained economic growth. Given the challenges the government faces, development partners will be under increasing pressure to show the value addition of their support brings through innovations in capacity development and investment in addition to supporting long-term and sustainable benefits.

99. The government is cognizant of the importance of regularly reviewing its external debt situation as the current oil fields deplete. The rapid increase in the size of the loan portfolio coupled with relatively slow disbursements has reduced efficiency in project implementation given the low absorption capacity in project implementation. Further, establishing separate development partner PMUs has not led to an increase in the capacity of line ministries to support the implementation process, improve government systems, and create synergies with existing government programs. Projects will need to be paced to deliver intended outputs in a timely manner in order to contribute more effectively to sector outcomes.

100. The insufficient funding for routine maintenance coupled with the insufficient capacity within government agencies to implement an effective system for maintenance threatens the economic life of infrastructure assets. This has been identified in the CPSFR and more recently in the World Bank's draft infrastructure expenditure review. O&M must be addressed more forcefully and explicitly in the design and implementation of projects, with a view to strengthening government capability. It is clear that, after many years of infrastructure spending, the government has not paid sufficient attention to the key cross-sector issues of asset management and the funding of O&M.

101. **Country partnership strategy final review recommendations.** The CPSFR recommended that ADB should (i) continue the engagement in infrastructure, (ii) put stronger emphasis on the capacity impacts of TA and the closer alignment of TA and investment project outcomes, (iii) mainstream inclusive growth considerations into program design with a focus on economic diversification and employment generation, (iv) improve sustainability through strengthened capacity of counterpart agencies and the establishment of effective O&M systems, (v) enhance coordination with government and development partners, (vi) support diversification through nonsovereign operations including PPPs, and (vii) ensure closer portfolio monitoring and regular country programming review meetings. The validation's recommendations complement the above and are included in the Executive Summary.

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CHAPTER 3

Assessment of the Quality of the Country Partnership Strategy Final Review

102. The validation considers the CPSFR was prepared prematurely with 2 full years of implementation still remaining. Further, in a number of cases the CPSFR was too casual in using staff estimates to make assessments on outcomes when no evidence was presented. Even though evaluative assessments have an element of subjectivity, they must be grounded in empirical facts and this should be noted for future reviews.

103. The CPSFR could also have prepared more comprehensive tables of project and sector achievements, as the validation mission spent a considerable amount of time sourcing basic data on project outputs. Consequently, the value of the CPSFR as a learning document was considerably diluted. Should the new CPS be delayed, as recommended by the validation, then an updated final review should be prepared. Nevertheless, the CPSFR did ensure the key features of the CPS's success were highlighted and in some cases provided candid assessments of achievements.

104. The section on lessons learned and recommendations was very pertinent. The quality of the CPSFR is assessed *satisfactory*.

Appendixes

APPENDIX 1: ADB PROJECTS AND TECHNICAL ASSISTANCE TO TIMOR-LESTE, 2000–2014

Table A1.1: ADB Grants and Loans Approved or Implemented, 2005–2014

Number	Project Name	Date Approved	ADB Funding Fund Type	ADB Funding Amount ($ million)	Cofinancing Other Source	Cofinancing Amount ($ million)	Total Financing ($ million)	Gov't Counterpart ($ million)	Total Project Cost ($ million)
Projects Approved Prior to Current CPS									
Grant 0017	Road Sector Improvement Project	27 Sep 2005	ADF	10.00		0	10.00	2.50	12.50
Grant 0100	Dili Urban Water Supply Sector Project	18 Dec 2007	ADF	6.00		0	6.00	1.50	7.50
Grant 0180	Road Network Development Sector Project	20 Nov 2009	ADF	46.00		0	46.00	6.90	52.90
Grant 9142	Our Roads Our Future	20 Nov 2009	JFPR	3.00		0	3.00	0.47	3.47
	Subtotal			**65.00**		**0**	**65.00**	**11.37**	**76.37**
Projects Approved During Current CPS, 2011–2013									
Grant 0258	District Capitals Water Supply Project	23 Sep 2011	SF	11.00		0	11.00	3.32	14.32
Grant 0274	Mid-Level Skills Training Project	7 Dec 2011	ADF	12.00		0	12.00	1.00	13.00
Loans 2857/ 2858	Road Network Upgrading Project	30 Mar 2012	ADF, OCR	40.00	JICA	68.70	108.70	37.96	146.66
Loans 3020/ 3021	Road Network Upgrading Sector Project	19 Sep 2013	ADF, OCR	50.00		0	50.00	73.25	123.25
Loan 3181	Road Network Upgrading Sector Project (additional financing)	30 Oct 2014	OCR, SF	40.00		0	40.00	13.66	53.66
	Subtotal			**153.00**		**68.70**	**221.70**	**129.19**	**350.89**
	Total			**218.00**		**68.70**	**286.70**	**140.56**	**427.26**

ADF = Asian Development Fund, CPS = country partnership strategy, JFPR = Japan Fund for Poverty Reduction, JICA = Japan International Cooperation Agency, OCR = ordinary capital resources, SF = Special Funds.

Sources: Asian Development Bank database on Loan, Technical Assistance, Grant and Equity Approvals database; ADB Loan and Grant Financial Information Services; ADB. 2014. *Country Operations Business Plan: Timor-Leste, 2015–2017*. Manila.

Table A1.2: ADB Approved Nonlending Assistance, 2000–2014

TA Number		TA Name	Type of TA	Date Approved	ADB Funding ($ million)			Other Source	Total Financing ($ million)
					TASF	JSF	Others		
Agriculture and Natural Resources									**0.2500**
1.	3501	Environmental Assessment Capacity Improvement	AD	15 Sep 2000	0.2500				0.2500
Education									**0.5000**
2.	7120	Capacity Building to Strengthen Public Sector Management and Governance Skills (Phase 3)	AD	3 Sep 2008		0.5000			0.5000
Energy									**0.6250**
3.	3748	Power Sector Development Plan (Phase 1)	AD	22 Oct 2001	0.4000				0.4000
4.	7824	District Capital Power Distribution	PP (SS)	23 May 2011	0.2250				0.2250
Finance									**1.8000**
5.	3435	Microfinance	AD (SS)	10 May 2000	0.1500				0.1500
6.	3556	Strengthening the Microfinance Policy and Legal Framework	AD	6 Dec 2000		0.2500			0.2500
7.	3743	Microfinance Information Technology Systems Development	AD (SS)	17 Oct 2001	0.1500				0.1500
8.	4509	Strengthening Microfinance Operations	AD	20 Dec 2004		0.5000			0.5000
9.	8762	Expansion of Financial Services	CD	20 Nov 2014	0.7500				0.7500
Public Sector Management									**7.9609**
10.	3400	Community Empowerment Program	AD	9 Feb 2000	0.9900				0.9900
11.	3412	Capacity Building for Governance and Public Sector Management	AD	9 Mar 2000	1.0000				1.0000
12.	3425	Poverty Assessment and Statistics in East Timor (Phase 1)	AD (SS)	8 Apr 2000	0.0529				0.0529
13.	3512	Formulating Strategies for Economic and Social Development	AD	4 Oct 2000		0.6500			0.6500
14.	3515	Capacity Building for Local Government	AD	10 Oct 2000	0.1500				0.1500
15.	3592	Economic Policy Forum	AD (SS)	18 Dec 2000	0.1500				0.1500
16.	3654	Exclusive Economic Zone Demarcation	AD (SS)	17 May 2001	0.1200				0.1200
17.	3803	Economic Policies and Strategies for Development Planning	AD	14 Dec 2001		0.9500			0.9500
18.	3839	Capacity Building to Develop Public Sector Management and Governance Skills	AD	5 Mar 2002	0.3380	0.3500			0.6880
19.	4272	Capacity Building to Strengthen Public Sector Management and Governance Skills (Phase 2)	AD	18 Dec 2003	0.5500				0.5500
20.	4329	Capacity Building in the Ministry of Planning and Finance to Monitor the National Development Plan	AD (SS)	22 Apr 2004	0.1500				0.1500
21.	4519	Strengthening Financial Management Capacity	AD	21 Dec 2004	0.2500				0.2500
22.	7712	Strengthening Major Public Investments	CD	15 Dec 2010	0.2500				0.2500
23.	7741	Support for Effective Aid Management	CD	14 Dec 2010			0.6000	JFPR	0.6000
24.	7401	Statistical and Macroeconomic Capacity Building	CD	1 Dec 2009	0.5600				0.5600

TA Number		TA Name	Type of TA	Date Approved	ADB Funding ($ million) TASF	JSF	Others	Other Source	Total Financing ($ million)
25.	8256	Preparing for Regional Economic Integration	CD	10 Dec 2012			0.8500	JFPR	0.8500
Transport and Information and Communication Technology									**3.3750**
26.	3401	Transport Sector Restoration	AD	10 Feb 2000	1.0000				1.0000
27.	3428	Rehabilitation of the Telecommunications Sector	AD (SS)	17 Apr 2000	0.1500				0.1500
28.	3504	Rehabilitation of the Telecommunications Sector (Phase 2)	AD (SS)	26 Sep 2000	0.1500				0.1500
29.	3731	Transport Sector Improvement	AD	1 Oct 2001	0.5000				0.5000
30.	3819	Postal Services Development	AD	19 Dec 2001		0.2500			0.2500
31.	7100	Road Network Development	PP	23 Jul 2008		0.8000			0.8000
32.	7698	Supporting Road Network Development	PA (SS)	13 Dec 2010			0.2250	JFPR	0.2250
33.	8146	Road Network Upgrading (Sector)	PP	29 Aug 2012	0.3000				0.3000
Water and Other Municipal Infrastructure and Services									**5.0620**
34.	3986	Integrated Water Resources Management	AD	15 Nov 2002	0.6000				0.6000
35.	4646	Urban Water Supply and Sanitation	PP	15 Sep 2005		0.6000			0.6000
36.	4869	Dili Water Supply Performance Improvement	AD	17 Nov 2006		1.0000			1.0000
37.	7981	Strengthening Water Sector Management and Service Delivery	CD	14 Dec 2011	1.2000				1.2000
38.	7981	Strengthening Water Sector Management and Service Delivery (Supplementary)	CD	19 Dec 2013	0.1120				0.1120
39.	8064	Second District Capitals Water Supply	CD	26 Mar 2012	0.5500				0.5500
40.	8064	Second District Capitals Water Supply (Supplementary)	CD	19 Jun 2013			0.2000	MDTF-WFPF	0.2000
41.	8750	Urban Services Improvement Sector	PP	7 Nov 2014	0.8000				0.8000
Multisector									**17.8000**
42.	4609	Infrastructure Sectors Capacity Development	AD	14 Jul 2005	0.6000				0.6000
43.	4942	Infrastructure Project Management	AD	21 Jun 2007	3.0000		12.0000	AUS	15.0000
44.	7649	Oecussi and Ermera Water Rehabilitation	PP	17 Nov 2010	0.7000				0.7000
45.	8278	Infrastructure Management	CD	11 Dec 2012	0.5000				0.5000
46.	8278	Infrastructure Management (Supplementary)	CD	17 Dec 2013	1.0000				1.0000
	Total				**17.6479**	**5.8500**	**13.8750**		**37.3729**

AD = advisory, ADB = Asian Development Bank, AUS = Australia, CD = capacity development, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, MDTF-WFPF = Multi-Donor Trust Fund under the Water Financing Partnership Facility, PA = policy and advisory, PP = project preparatory, SS = small-scale, TA = technical assistance, TASF = Technical Assistance Special Fund.

Note: The list includes TA provided to East Timor from 2000 to 2002.

Source: ADB database.

APPENDIX 2: LIST OF LINKED DOCUMENTS

1. Country Partnership Strategy Final Review: Timor-Leste, 2011–2015
http://www.adb.org/sites/default/files/linked-documents/1-TIM-CPS-Final-Review.pdf

2. Country Economic Indicators
http://www.adb.org/sites/default/files/linked-documents/2-Timor-Leste-Country-Economic-Indicators.pdf

3. Areas of ADB Support in Priority Sectors, 2011–2015
http://www.adb.org/sites/default/files/linked-documents/3-Areas-of-ADB-Support-in-Priority-Sectors-2011-2015.pdf

4. ADB Support to Timor-Leste, 2011–2015
http://www.adb.org/sites/default/files/linked-documents/4-ADB-Support-to-Timor-Leste-2011-2015.pdf

5. Development Partner Involvement in Timor-Leste as at 2012
http://www.adb.org/sites/default/files/linked-documents/5-Development-Partner-Involvement-in-Timor-Leste-2012.pdf

6. Achievement of Sector and Project Outcomes and Outputs
http://www.adb.org/sites/default/files/linked-documents/6-Achievement-of-Sector-and-Project-Outcomes-and-Outputs.pdf

7. Achievement of Technical Assistance Outcomes
http://www.adb.org/sites/default/files/linked-documents/7-Achievement-of-Technical-Assistance-Outcomes.pdf