



# 2011 REPORT ON INTERNATIONAL ENGAGEMENT IN FRAGILE STATES

## DEMOCRATIC REPUBLIC OF TIMOR-LESTE





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DEMOCRATIC REPUBLIC  
OF TIMOR-LESTE



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# FOREWORD

SINCE THE PUBLICATION OF TIMOR-LESTE'S FRAGILE STATES REPORT IN 2009, Timor-Leste has continued to establish itself as a model for post-conflict development. Weathering crises that would challenge even the most stable of governments, we have achieved unprecedented development gains and emerged as a global voice for fragile states around the world.

As the Paris Declaration and Accra Agenda have stated, a new paradigm in aid organisation and distribution is essential to aid effectiveness and here in Timor-Leste we have fully embraced this shift. Confident that our experiences are relevant to this dialogue, our country has spearheaded the g7+ in an effort to give a voice to fragile states based on their experiences.

Central to Timor-Leste's success has been our recent wealth as a result of oil and gas deposits and the initial approach to development focused on achieving realisable short-term objectives in partnership with Development Partners. As these objectives have been achieved over time our country is now preparing to transition to a more long term Strategic Development Plan (SDP).

Short-term objectives have been achieved through a mechanism known as the National Priorities Process (NPP). The NPP has encouraged dialogue between the government, development partners and civil society, which has resulted in priorities that more adequately meet the needs and concerns of all stakeholders. This close collaboration has helped Timor-Leste achieve unprecedented double digit growth since 2008, a 9% decrease in poverty, and significant improvements in the health and education sectors.

Oil and gas revenues have provided Timor-Leste with monetary resources that have allowed for accelerated growth, but also required accountability to citizens. History has shown that fragile states continually struggle with corruption that undermines institutions and government legitimacy. Consequently, the government of Timor-Leste has attempted to combat this by actively adopting tools that encourage transparency. Currently, the country is one of eleven fully compliant countries in the Extractive Industries Transparency Initiative (EITI), which subscribes to a global standard of transparency in administering natural resource revenues in a transparent way.

As Timor-Leste transitions to the long term SDP the need for concrete adherence to the principles of the Paris Declaration and Accra agenda has grown more acute. Harmony between governments and development partners is necessary to achieve goals that meet the needs identified by host governments. We hope that the 2011 Survey for Monitoring Implementation of the Fragile States Principles will elaborate further on how the international community can promote national ownership and improved accountability for aid.

H.E. Emilia Pires  
*Minister of Finance*  
*Democratic Republic of Timor-Leste*



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# ACKNOWLEDGEMENTS

**THIS COUNTRY CHAPTER** summarises the findings of the 2011 Fragile States Principles Monitoring Survey and the 2011 Survey on Monitoring the Paris Declaration in Timor-Leste, which are supported by the Organisation for Economic Co-operation and Development (OECD).

This chapter was prepared by Mr. Gregory Wilson, under the responsibility of the National Co-ordinator, Mr. Helder da Costa and Mr. Leigh Mitchell (National Directorate for Aid Effectiveness, Ministry of Finance), and with support from the International Contact Points for the Survey, Ms. Jemal Sharah (Counsellor, AusAID) and Ms. Cao Lin (Assistant Country Director, Poverty Reduction and Environment Unit, United Nations Development Programme). The Country Chapter was independently peer reviewed by Mr. Luis Constantino (Country Manager, World Bank Timor-Leste), Mr. Cillian Nolan (International Crisis Group) and the OECD, which also contributed to the data and statistical annex. This chapter, originally drafted in English, was edited by Ms. Sally Hinchcliffe (consultant) under the guidance of Mr. James Eberlein and Mr. Nezar Tamime (OECD). The executive summary, which is also available in French, was translated by Ms. Juliette Lindsay (consultant). The layout was designed by Mr. James Eberlein.

This chapter draws on the multi-stakeholder consultation held on 17 March 2011 in Dili, Timor-Leste, which was facilitated by Mr. Rui Gomes (Assistant Country Director, Pro-poor Policy Unit, UNDP); and interviews and focus group discussions conducted by Mr. Gregory Wilson (consultant). This incorporates the analysis of development partner questionnaires, and comments received on the first draft. As such, it reflects the views of key stakeholders in Timor-Leste rather than those of the author or the OECD.

The Government of Timor-Leste and the OECD wish to thank all the national and international stakeholders who have contributed to the survey process. In particular the National Directorate for Aid Effectiveness would like to thank Sr. Jose Abilio, Felicia Carvalho, Felix Piedade, Mena Savio, Lisette Fatima Soares, Arlindo Monteiro, Jose Abilio, Anabella Magno, Gaudencio Soares, Bonifacio Belo, Dinorah Granadeiro and FONGTIL, Luis Ximenes and Sarah Dewhurst, Edward Rees, Jenny Chao, Gabriel Schickel, Matthias Leitner, Masaru Todoroki, Charlie Scheiner and the staff at OECD for their assistance in compiling this report. This report could not have been prepared without the leadership and valuable inputs and views contributed by government, the international community, civil society and other stakeholders in Timor-Leste.

The second round of the Fragile States Principles Monitoring Survey (2011) measures progress of on the application of the FSP over time. The 2011 Survey on Monitoring the Paris Declaration follows previous surveys conducted in 2006 and 2008,<sup>1</sup> and is critical in determining whether the targets set for 2010 in the Paris Declaration on Aid Effectiveness have been met. The results of both surveys will be presented at the Fourth High Level Forum on Aid Effectiveness in Busan, Korea, 30 November to 1 December 2011. It is hoped that the findings summarised in this report will help strengthen international engagement and aid effectiveness in Timor-Leste and could serve to strengthen existing dialogue or ongoing processes in-country over the next several years. ■

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<sup>1</sup> 2011 was the first year Timor-Leste participated in the Survey on Monitoring the Paris Declaration.





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# ACRONYMS AND ABBREVIATIONS

AAA	Accra Agenda for Action
ADB	Asian Development Bank
AIMS	Aid information management system
ASEAN	Association of Southeast Asian Nations
CSB	Combined Source Budget
DP	Development Partner
EITI	Extractive Industries Transparency Initiative
EU	European Union
EWER	Early warning and early response
GBS	General budget support
GDP	Gross domestic product
GNI	Gross national income
GOTL	Government of Timor-Leste
F-FDTL	Timor-Leste Defence Forces
IDP	Internally displaced persons
IDPBSB	International Dialogue on Peacebuilding and Statebuilding
IMF	International Monetary Fund
JP	Joint programming
MAG	Martial Arts Groups
MDG	Millennium Development Goals
MOE	Ministry of Education
MOF	Ministry of Finance

MOH	Ministry of Health
MOI	Ministry of Infrastructure
MTEF	Medium term expenditure framework
NDAE	National Directorate for Aid Effectiveness
NDP	National Development Plan
NGO	Non-governmental organisation
NPP	National Priorities Process
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PDD	Pakote de Desenvolvimento Descentralizado
PFM	Public financial management
PFMCBP	Planning and Financial Management Capacity Building Programme
PIU	Parallel implementation unit
PNTL	Timor-Leste National Police
PR	Pakote Referendum
QDPM	Quarterly Development Partners Meeting
REA	Registry of External Assistance
SDP	Strategic Development Plan
SIP	Sector Investment Programmes
TA	Technical assistance
TLDPM	Timor-Leste Annual Development Partners Meeting
UNDP	United Nations Development Programme

UNDAF	United Nations Development Assistance Framework
UNMIT	United Nations Integrated Mission in Timor-Leste
UNPOL	United Nations Police
WGA	Whole-of-government approach





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# EXECUTIVE SUMMARY

THE TIMOR-LESTE COUNTRY CHAPTER reflects the findings from dialogues with national and international institutions, complemented by interviews and data collection through a development partner<sup>1</sup> questionnaire, focus group discussions, and individual interviews with over 150 stakeholders

In 2008, the Accra Agenda for Action built on the Paris Declaration on Aid Effectiveness (2005) to emphasise the importance of applying and adapting aid effectiveness principles to situations of fragility. It also committed development partners and developing countries to monitor the implementation of the Principles for Good International Engagement in Fragile States and Situations on a voluntary basis and at the country level.

This chapter reviews progress in the implementation of the principles in Timor-Leste five years after their endorsement by members of the OECD Development Assistance Committee, and identifies priority areas to improve the collective impact of international engagement in country.

This chapter also analyses and draws on the results of the 2011 Survey on Monitoring the Paris Declaration, bringing together evidence on progress and challenges in implementing international commitments on aid effectiveness in Timor-Leste.

Since the last survey in 2009, the Government of Timor-Leste (GoTL) has developed its capacity to co-ordinate and manage international support. As Timor-Leste moves towards a medium- to long-term planning framework the government and development partners now should aim to further strengthen this capacity and to further encourage the government to take full leadership of the development process. Such a shift will require the strengthening of existing co-ordination mechanisms and bodies, both at the centre and periphery, and a carefully considered incremental approach to improving the capacity of country systems.

Progress on improving application of the FSPs since 2009 has not been as fast as the government would have liked. Many of the actions points that were identified in the 2009 Country Chapter have not been followed up upon. Where progress has been made it has been because of general progress on aid effectiveness issues rather than a specific focus on addressing the priority actions that emerged from the 2009 survey. The National Directorate for Aid Effectiveness (NDAE) in the Ministry of Finance has suggested that in hindsight it would have been better to assign specific responsibilities for the priority actions. Timor-Leste's progress in taking forward recommendations made in the 2009 Fragile States Survey has therefore been mixed. While there has been some progress made in some areas (FSP 5, 6 and 7), many others have suffered from a lack of attention or a lack of focused and co-ordinated actions on the 2009 report recommendations.

However, there has been and continues to be numerous steps taken in the right direction. With the release and impending implementation of the Strategic Development Plan (SDP) and the use of an Aid Management Information System (AIMS), there will soon be the increased capacity and an improved framework to enable rapid progress in several areas (*e.g.* FSP 7, 8 and 10).

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<sup>1</sup> Throughout this report the term “development partners” refers to providers of development co-operation; the term “partner countries” refers to those countries managing the development co-operation provided to them by development partners.

For several recommendations (*i.e.* those related to FSP 2, 3 and 4) there were clear recommendations made to development partners (DPs) where progress could not be demonstrated to the required level expected of both parties. GoTL initiated several processes with regard to the 2009 FSP Survey, such as the increased hiring of local consultants, establishing Timor-Leste appropriate financial oversight and governance mechanisms and rural development initiatives in order to move quickly toward ensuring the more equitable distribution of development dividends amongst rural and urban populations. Despite this, issues of urban-rural divides were again a focus of the 2011 FSP survey indicating that more needs to be done.

In the near future NDAE intends to adopt the priority actions outlined below, working with other government departments to identify owners and champions with specific responsibilities. It is intended that certain actions could be included as standing agenda items for regular policy dialogue between GoTL and DPs at the Quarterly Development Partners Meeting (QDPM), the Timor-Leste Development Partners Meeting (TLDPM), or in emerging sectorally focused working groups. Benchmarks for implementation and monitoring should be agreed, which would enhance the government's leadership in development partner co-ordination. Lastly, DPs have now recognised the costs that development partner co-ordination imposes on GoTL and are considering financing/strengthening existing aid co-ordination and effectiveness structures, such as improved support to the NDAE, as part of their future engagement with the GoTL. This is already a very positive early outcome of the 2011 FSP survey.

The results from Timor-Leste's participation in the 2011 Paris Declaration Monitoring Survey are also mixed. However, several domestic and international events throughout 2010 and 2011, indicate that changes are afoot. These events

include the emergence of the g7+<sup>2</sup> as an articulate voice to promote aid effectiveness in fragile states and the continuation of the International Dialogue on Peacebuilding and Statebuilding in the lead-up to the 4th High Level Forum on Aid Effectiveness (Korea, November 2011). These events will all have a positive effect on Paris Declaration adherence specifically and aid effectiveness more generally in Timor-Leste.

## MAIN FINDINGS FSP

### ■ Principle 1: Take context as the starting point

Development partners claim their engagement with Timor-Leste is based upon comprehensive analysis of context and consideration of political and social issues, but there is room for a significant expansion of political and social analysis. Timor-Leste is rapidly moving towards a more regular sustainable development trajectory. The speed, sustainability and economic forecasting that underpin this is the subject of much discussion amongst development partners.

### ■ Principle 2: Do no harm

Development partners are pursuing different models of government and governance with little thought to how the systems can be reconciled with the Timor-Leste context. Competition for competent staff continues between all stakeholders. Resolution is hampered by the lack of appropriate human resource policies within both government and development partner agencies.

<sup>2</sup> The g7+ is a group of 17 of the world's most fragile states that have come together to share experiences and lobby international actors to engage more effectively in fragile and conflict-affected countries and regions. Its aim is to support state-led transitions from fragility to agility, building improved aid and aid mechanisms. Established in April 2010 in Dili, Timor-Leste, the group has grown from its original membership of 7 states to include countries across Asia, Africa and the Pacific, representing 350 million people globally.

### ■ Principle 3: Focus on statebuilding as the central objective

Whilst some significant progress has been made in some areas such as education, health and rural water supply and sanitation, government and development partners still have much to do to improve support to service delivery especially in the rural areas. However, a lack of clarity from the government on the nature and scope of decentralisation may hamper progress on improving service delivery.

Both DPs and the government continue to be concerned about the type and scale of capacity building that will be necessary to meet future development expectations. In response, a new government Human Capital Development Fund hopes to address the issue with a comprehensive longer-term strategy. As Timor-Leste matures, questions are being raised about the nature of the statebuilding project, and the future for political dialogue around what sort of a state Timor-Leste wants to be.

### ■ Principle 4: Prioritise prevention

Risks to instability exist from a wide variety of sources. Current approaches to conflict prevention overlap and a number of agencies are involved in conflict prevention. Co-ordination remains a challenge and DPs need to take the initiative to improve inter-agency co-ordination and to support further government-development partner co-ordination efforts.

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

DPs all claim to address the linkages between political, security and development objectives in their country strategies but it is less clear how these linkages were researched, defined, assessed, shared, discussed, and incorporated into policy. Some progress has been made on security sector reform and the United Nations Mission now looks set to depart toward the end of 2012. However, there are still a number of key tasks yet to be completed

by the various uniformed forces. DPs feel the need to promote a more inclusive policy dialogue with government with the aim of consolidating a sustainable peace.

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

GoTL has taken concrete steps to develop a social security system that is supported by citizens, thus enhancing its legitimacy. However, youth issues still remain, unemployment remains high and both government and DPs recognise that the development effort will have to focus more outside of Dili.

### ■ Principle 7: Align with local priorities in different ways in different contexts

The new SDP offers a concrete opportunity to realign DPs assistance behind the GoTL and improve development partner division of labour. Strengthening and increasing the use of country systems in collaboration with development partners remains a critical element of the government's efforts to become ever more capable of managing and leading Timor-Leste's development.

### ■ Principle 8: Agree on practical co-ordination mechanisms

DPs could co-ordinate themselves better to reduce the burden on government caused by a multitude of different interventions. DPs expressed a strong preference for stronger co-ordination from government. A lack of investment in, and support for, NDAE has resulted in problems with aid data collection and management, though this situation is now being addressed.

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

Both development partners and government state they can act fast in a crisis, although development partners experience some problems with divisions between the field and their headquarters. Current levels of funding commitments to Timor-Leste

are not encouraging. With the upcoming United Nations Integrated Mission in Timor-Leste (UNMIT) drawdown, and with sparse data available regarding future aid commitments, estimating future ODA to Timor-Leste has proven difficult.

#### ■ Principle 10: Avoid pockets of exclusion

Both the DPs and government are aware of the dangers of being too Dili-centric and are making some efforts to improve access to basic services and generate jobs outside of the capital despite the difficulties with improving service delivery. DPs and government both need to seek a greater understanding of exclusion and its possible consequences.

### MAIN FINDINGS: PARIS DECLARATION

#### ■ Ownership: Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption

Timor-Leste has without doubt exercised increased ownership over its development agenda in recent years and particularly through the writing of its own Strategic Development Plan (SDP). The plan has taken a considerable amount of time to come together which has caused discontent amongst some development partners who viewed the need for consultation in the drafting of such medium-longer term plans as a vital part of their engagement in post-conflict recovery. The government has demonstrated its clear intention to lead and own its post-conflict development planning process in consultation with citizens and in line with PD principles. They see the development partners' role shifting to one of a "supporting player".

The government has also exercised strong ownership of the "National Priorities Process" which, while involving the UN and World Bank in overall co-ordination functions, has also been very much led by government. The government has made solid progress in the implementation of the Accra Agenda for Action, in terms of leading the planning and de-

velopment agenda at the country level. With 41 development partners operating in Timor-Leste,<sup>3</sup> the government has been successful in taking ownership of its development agenda through the leadership of Quarterly Development Partners Meetings (QDPM) in Dili along with annual Timor-Leste Development Partners Meetings (TLDPM). These forums, organised and funded by the government, provide the government and development partners with the opportunity to jointly review progress in meeting national development goals and objectives and enabling development partners to align their development assistance and increasing their aid predictability to Timor-Leste based up the current context. Recent assessments by both government and development partners alike indicate that government leadership in this area is both welcomed and appreciated by all.

#### ■ Alignment: Development partner countries align behind these objectives and use local systems

To a large extent development partners have been able to align with the priorities outlined in the National Priorities Process, though use of local systems has been very low. With the SDP there will be greater scope and clarity for development partners to align with government plans. The government is also close to finalising a new aid policy and has plans in place to upgrade its aid effectiveness directorate's physical and human capacity, which will further contribute to the Directorate's ability to promote alignment in the near future.

#### ■ Harmonisation: Development partner countries co-ordinate, simplify procedures and share information to avoid duplication.

Co-ordination between development partners is making mixed progress. There has been some progress towards harmonising aid by joint efforts to prevent aid fragmentation, proliferation and duplication of programmes, and increasing attention to joint analytic work. Less progress has been made in strengthening co-ordination at the sectoral

3 24 bilateral partners, 4 multilaterals and 13 UN agencies.

level, with varying approaches being implemented by development partners and non-governmental organisations (NGOs) although recent work in education does show promise. With the 2011 Paris Declaration Survey Round there is a fresh focus on the need for development partners to take practical measures to engage in more joint mission planning, and joint analytic and programming work.

■ **Managing for results: Developing countries and development partners shift focus to development results and results get measured**

The National Directorate for Aid Effectiveness (NDAE) has been making progress in strengthening data collection and analysis capacity to allow for more results-focused development programming. However, without development partner disbursement and programme reports including outcome based results, the analytical and reporting mechanisms are restricted in their effectiveness. Some development partners have responded well to these efforts with several development partners demonstrating their commitment to managing for results by supporting NDAE to improve its AIMS capacity. Whilst the National Priorities Process did have a clear results focus with the use of quarterly targets and monitoring mechanisms to help measure progress, the SDP potentially can support an increased focus on a results framework to drive the work of both the DPs and government.

■ **Mutual accountability: Development partners and developing countries are accountable for development results**

More limited progress has been made in this respect however this does not reflect a lack of interest on behalf of development partners or government. With a stronger focus on managing for results will come an increased focus on the need for mutual accountability. Steps toward the use of Timor-Leste country systems as they become stronger will no doubt help sustain the focus on mutual accountability into the near future. The GoTL has launched its transparency portal ([www.transparency.gov.tl](http://www.transparency.gov.tl)) as a means to promote transparency and mutual accountability from the government side. It also has plans to launch an Aid Management Information System, as part of its effort to strengthen mutual accountability between the government and development partners. Development partners will need to provide improved information on their activities, expenditures and programmes necessary to inform better policy making and decisions. ■

TABLE 1. SUMMARY TABLE: FRAGILE STATES PRINCIPLES

PRINCIPLE	FINDINGS	SELECTED PRIORITIES
Take context as the starting point	Development partner engagement with Timor-Leste needs to be based upon deeper analysis of the context backed up by evidence and statistics to inform policy development in real time.	Increased focus on joint analysis and assessments, with in-country independent verification as an input into discussions regarding policy development and support for SDP implementation.
Do no harm	Development partners are pursuing different models of government and governance with little thought to how these systems would work in the Timor-Leste context, compromising ownership of the governance agenda.	DPs to respect country-led processes and systems, improve induction of their staff and more partner them more carefully with counterparts. DPs and government need to agree on broad remuneration and management policies for local advisers.
Focus on statebuilding as the central objective	Government and DPs still have much to do to improve support to service delivery especially in the rural and remote areas.	Government and DPs to strengthen institutions which support accountability between state and citizens, such as parliament, civil society and the media, and continue to support innovative mechanisms for increasing political dialogue around statebuilding issues.
Prioritise prevention	Current approaches to conflict prevention overlap and a number of agencies are involved, making co-ordination problematic. DPs need to take the initiative to improve co-ordination amongst themselves in concert with the authorities.	Government and DPs to promote a clear, integrated long-term strategy between relevant state and civil society actors to help reduce the potential for conflict.
Recognise the links between political, security and development objectives	DPs would like to see a more inclusive policy dialogue with government to support the establishment of a sustainable peace.	DPs to be clearer about how they recognise and address the links between political, security and development objectives, supporting government at the strategic level to focus on accountability at all levels of government but particularly within the security sector.
Promote non-discrimination as a basis for inclusive and stable societies	GoTL has taken concrete steps to develop a social security system that is supported by citizens, thus enhancing its credibility and legitimacy with citizens. However, youth issues still remain, unemployment remains high and both Government and DPs recognise that development has to focus more on rural areas.	Government and DPs to reduce the concentration of resources and efforts in Dili and seek a more united effort to address discrimination. Government to systematise and deepen the dialogue with civil society and other stakeholders about more equitable benefit sharing.
Align with local priorities in different ways in different contexts	The new SDP offers a concrete opportunity to realign DPs assistance behind the GoTL and improve development partner division of labour.	DPs to consider increasing use of country systems, and move towards general budget support while aligning their programmes with the SDP.
Agree on practical co-ordination mechanisms	DPs could co-ordinate themselves better to reduce the burden on government caused by a multitude of different projects. DPs expressed a strong preference for stronger co-ordination from government.	The National Directorate for Aid Effectiveness to implement AIMS project, coupled with a new Aid Policy to clarify roles, co-ordination and communication processes.
Act fast... but stay engaged	Both DPs and government claim they can act fast in a crisis, but there are problems in the field/HQ divide. Current levels of funding commitments to Timor-Leste are not encouraging and predicting future levels of ODA remains difficult.	Development partners should maintain rapid response capability whilst also ensuring aid flows are reliably and transparently provided to the government to enable better government planning and budgeting.
Avoid pockets of exclusion	Both the DPs and government are aware of the dangers of being too Dili-centric and are making some efforts to improve access to basic services and generate jobs outside of the capital, despite natural obstacles to improving service delivery.	Government and DPs to address problems of accessibility, connectivity and national integration which create pockets of exclusion in rural and remote areas, and design appropriate interventions. DPs and government to seek a greater understanding of exclusion and its possible consequences.

TABLE 2. SUMMARY TABLE: PARIS DECLARATION

DIMENSION	ACHIEVEMENTS OR CHALLENGES	LESSONS OR PRIORITY ACTIONS
Ownership	Timor-Leste has without a doubt exercised increased ownership over its development agenda in recent years.	The priority is to translate this increased ownership into the writing and implementation of its own Strategic Development Plan (SDP) with development partners moving to a supporting role.
Alignment	To a large extent development partners have been able to align with the priorities outlined in the National Priorities Process though use of local systems has been very low.	With the SDP there will be even greater scope for development partners to align with government plans. Taking alignment forward, the Government is close to finalising a new aid policy and has plans in place to upgrade physical and human capacity of the NDAE, which will further contribute to alignment in the near future. Development partners must be more willing to provide information on their activities recognising this information is fundamental to policy development.
Harmonisation	Co-ordination between development partners is making mixed progress. Recently there has been some progress towards harmonising aid by calling for joint efforts to prevent aid fragmentation, and increasing attention to joint analytic work.	DPs need to engage in more joint mission planning, and joint analytic and programming work to reduce costs, duplication and promote alignment with government policy.
Managing for results	The National Directorate for Aid Effectiveness (NDAE) has been making progress in strengthening data collection and analysis capacity to allow for more results focused development programming.	Development partners need to align with the current results framework at each stage of the development of Timor-Leste. The new SDP should provide an improved results framework to drive the work of both the DPs and government.
Mutual accountability	The government has launched its transparency portal ( <a href="http://www.transparency.gov.tl">www.transparency.gov.tl</a> ) to promote transparency and mutual accountability from the government side. The government plans to launch the Aid Management Platform as part of its effort to strengthen mutual accountability between it and DPs.	With a stronger focus on managing for results will come an increased focus on the need for mutual accountability. Steps towards the use of Timor-Leste country systems as they become stronger will no doubt help sustain the focus on mutual accountability. Development partners can contribute to development of the government's transparency portal and align with developing systems of government, work with government on the shared management of risks.



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# INTRODUCTION

## BACKGROUND TO THE SURVEY

The Fragile States Monitoring Survey consultations in Dili on 17 March 2011, brought together government officials, development partners and civil society for a review of international engagement and support to Timor-Leste. The meeting concluded that, while development assistance has made significant contributions to peacebuilding and statebuilding, more is required to improve the effectiveness and impact of development partner engagement. In particular, the government has identified a new national vision and prepared a longer term Strategic Development Plan (SDP) to address the changing nature of development challenges in Timor-Leste.

## PURPOSE OF THE SURVEY

The Government of Timor-Leste (GoTL) and development partners both consider this is an appropriate time to revise the current partnership model to ensure that aid can be configured to support longer-term development objectives. This report examines a number of ways in which this can be achieved, as well as providing useful information on progress, or lack thereof, since the last survey in 2009. The report is therefore targeted at, and of interest to both government ministries and agencies, development partners and other stakeholders who all have an interest in making aid more effective. In summary, the survey is an opportunity to:

- improve the design and implementation of development assistance to support longer-term development objectives;
- raise the level of understanding by government and development partners of the Fragile State Principles and their degree of implementation in recent years;
- identify the priority actions required for both the development partners and government to improve development outcomes; and,
- help advance the adoption of a new national aid strategy.

TABLE 3. GNI AND ODA (2004-10) (IN USD)

YEAR	ODA	GNI	STATE BUDGET
2004/05	275 300 000	n/a	87 000 000
2005/06	335 200 000	n/a	142 300 000
2007	186 100 000	n/a	328 600 000
2008	282 800 000	2 860	116 400 000
2009	287 400 000	2 410	773 000 000
2010	198 900 000	2 730	637 000 000

## BACKGROUND DATA

Timor-Leste has a gross domestic product (GDP) of around USD 610 *per capita*<sup>1</sup> (in non-oil terms), which has grown by 4.6% a year in real terms since 2004. It has a population of 1 066 582 according to the 2010 census.

Significant improvements have been made in budget execution in recent years. In 2006/2007 the Government had a budget execution rate of 48.9% on a budget of USD 328.6 million. In 2008 the rate rose to 79%, an increase of 30%. In 2009, results again improved in line with administrative reforms. The budget execution rate across government as of January 29, 2010 was 89%. Most importantly, budget ex-

1 Preliminary figures from the Ministry of Finance (MoF).

ecution improved in those areas most critical to the reduction of poverty: the Ministry for Social Solidarity (98%), Ministry of Economic Development (97%), Ministry for Education (96%), Ministry for Agriculture (98%), Ministry for State Administration (94%) and Ministry for Health (88%). Latest figures suggest a budget execution rate of 91% is possible (GoTL, 2010a).

Official development assistance (ODA) to Timor-Leste in 2010 totalled USD 267,100,000.<sup>2</sup> Since 2005, ODA has averaged 74.0% of gross national income (GNI) – see Table 3.

The vast majority of Timor-Leste's ODA is contributed by Australia, Portugal, United States, Japan and the EC. Key sectors for aid delivery are health, education, physical infrastructure and security sector reform. Of the USD 256.8 million<sup>3</sup> originally planned to be disbursed to the government sector in 2010, the three largest recipients are the Ministry of Infrastructure (MoI) with USD 41.3 million, Ministry of Health (MoH) with USD 40.0 million and Ministry of Education (MoE) with USD 31.0 million. They are followed by the Ministry of Security and Defence with USD 22.5 million and USD 20.3 million for the Ministry of Justice (GoTL, 2010b, p. 5). Because of the concentration of aid through “traditional” aid partners, and limitations in the consultation process, this report does not consider non-traditional aid approaches such as those of Cuba and China.

Until recently, the history of Timor-Leste had been marked by civil war and violence resulting in high levels of poverty and insecurity. In 2006 general unrest flared following the dismissal of 400 soldiers from the Timor-Leste Defence Force (F-FDTL). Soldiers and civilian supporters carried out protests

throughout the city that soon descended into rioting. There was a general consensus amongst stakeholders that the public's confidence in state institutions had been lost. The government had inherited an economy contracting at a rate of 5.8%. Some political scientists went as far as to label Timor-Leste a “failed state” while referencing what seemed like an endless catalogue of challenges and obstacles that the young nation would have to overcome before a solid platform of security and development could be established upon which to base further, longer-term peacebuilding and statebuilding programmes.

However, since the “crisis” of 2006, the country has made significant strides in security and development demonstrating the potential of fragile states to recover as quickly as they may deteriorate. Central to Timor-Leste's success has been the revenue generated from offshore oil and gas deposits along with nationally defined development priorities. These priorities have engaged the government and development partners in dialogue resulting in agreement on priorities that meet the needs and concerns of all stakeholders. On the basis of this collaboration Timor-Leste has achieved unprecedented double-digit growth in recent years, as well as a 9% decrease in poverty, and improvements in the health and education sectors. Additionally, the country has encouraged transparency in administering oil revenue by becoming one of eleven countries fully compliant with the Extractive Industries Transparency Initiative (EITI).

As in any emerging fragile state, Timor-Leste still faces uncertainty that threatens stability and future development. The country is scheduled to hold elections in the first semester of 2012 with the United Nations Integrated Mission in Timor-Leste (UNMIT) scheduled to draw down its mission towards the end of that year. While continuing issues of aid partitioning persist, as the country continues to co-ordinate with development partners in focusing the National Priorities, pursuing transparency and focusing on aid effectiveness, Timor-Leste's future trajectory is looking generally positive. ■

2 This figure comes from the National Directorate for Aid Effectiveness (NDAE) and is based on 2010 estimated disbursement figures for calendar year 2010, data collected in August 2010.

3 These ODA figures are inclusive of all ODA data collected by NDAE, not just those development partners that responded to the survey.

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# 1. TAKE CONTEXT AS THE STARTING POINT

## PRINCIPLE 1: KEY FINDINGS

- Development partner engagement with Timor-Leste is based upon analysis of context although it could be deeper, backed up by qualitative and quantitative evidence and statistics to inform policy development in real time.
- Timor-Leste is rapidly moving towards a more regular development trajectory. The speed and sustainability and the economic forecasting that underpins this is the subject of much discussion with development partners.

## EVOLVING CONTEXT

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All stakeholders recognise the importance of taking context as a starting point. However, Timor-Leste, as a young nation, continues to evolve very quickly. Since the crisis of 2006, Timor-Leste has weathered the global financial crisis well and has experienced healthy economic growth rates exceeding 12% a year (IMF, 2010a). Growth has brought relative prosperity to the streets of Dili and a sense of optimism in the air, suggesting things are moving in the right direction. However, approximately 41% of the population still continues to live in poverty (World Bank, 2009a). The period since 2006 has not been interrupted by new episodes of crisis and instability (see Figure 2). This recent relative stability presents new challenges for both the government and development partners alike. Is Timor-Leste about to take its place as a peaceful member of the international community?

In 2009, the year marking the 10th anniversary since Timor-Leste's referendum on independence, the government issued a new motto: "Goodbye Conflict, Welcome Development", announcing its arrival as a peaceful developing nation in the Association of Southeast Asian Nations (ASEAN) region. Indeed, Timor-Leste has recently submitted its formal application to join ASEAN during the Indonesian presidency, an act that will have great symbolism not only for Timor-Leste and Indonesia, but for all ASEAN members.

At the same time, the world faces increasing uncertainty including climate change, the world economic recession and oil prices at a 27-month high and remaining volatile.<sup>1</sup> Development partners are thinking about how to make aid more effective, as many western government budgets experience serious fiscal deficits. Surging food and commodity prices are again undermining efforts to tackle global poverty and hunger and threaten regional and global economic growth. Timor-Leste is not immune to this changing context and the success of the much-heralded SDP, to be launched in July 2011, depends in part upon a satisfactory global economic and geopolitical environment, as well as on the sound management of the natural resources of the country and notably the petroleum and gas revenues.

## CURRENT OPERATIONAL STRATEGIES

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GoTL has an operational medium-term expenditure framework (MTEF) covering 2011-15. In recent years it has produced a National Development Plan (2002-7) and a National Recovery Strategy (2007 - present).

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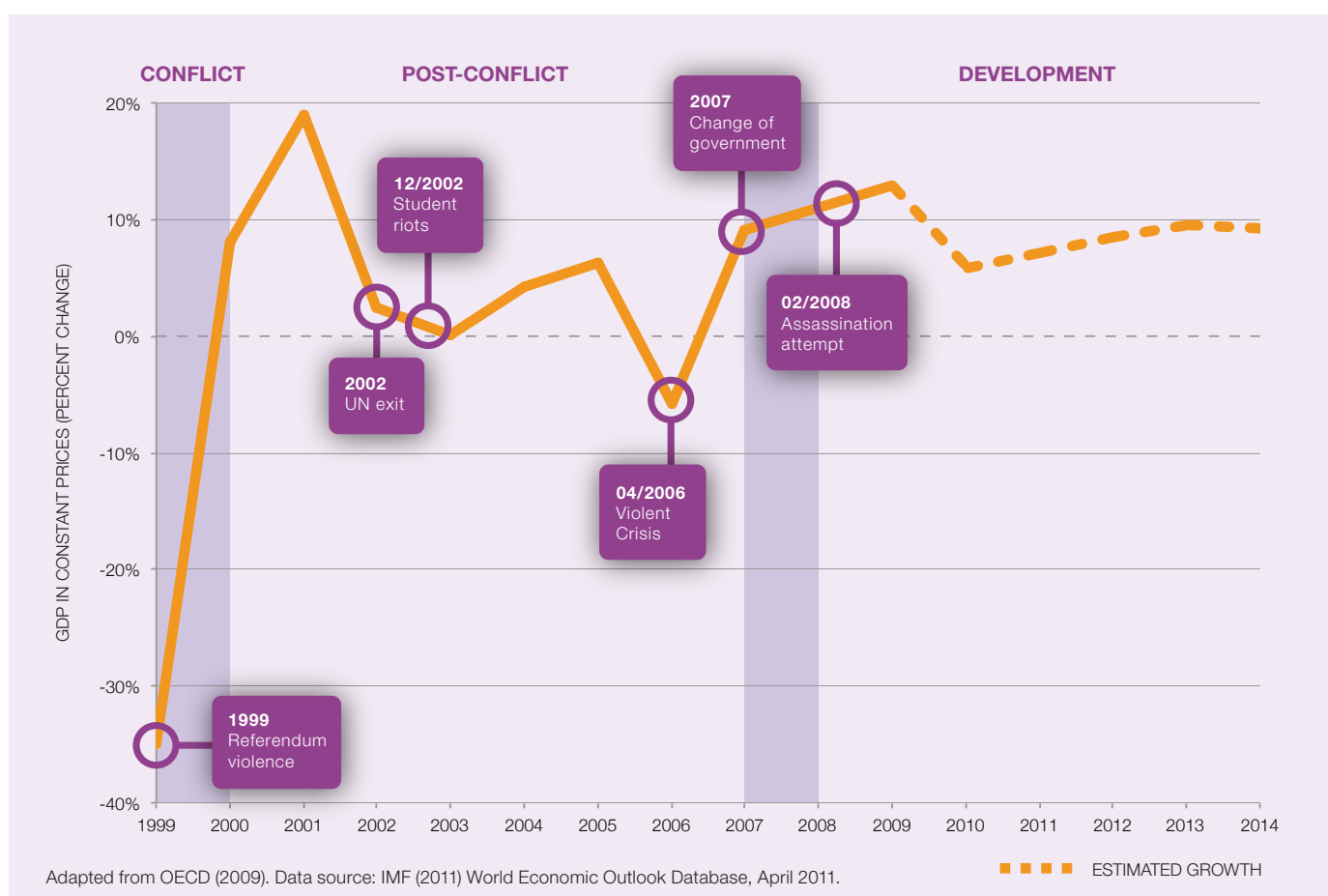
1 Brent crude oil peaked at USD 119.79 per barrel and US oil prices were as high as USD 103.41 on March 22 2011.

National priorities have been identified since 2008 as set out in Table 4. The new SDP, underpinned by the national vision document “Vision 2020: Our Nation, Our Future (2002-2020)” (GoTL, 2002a) will address the central question of how to effectively use the Petroleum Fund to promote the non-oil economy, focusing particularly on infrastructure and other public goods. These investments, and the parallel strengthening of administration and governance, are intended to propel the country forward. However, it is a sobering fact that Timor-Leste’s ranking in the Global Competitiveness Report 2010 is only 133rd out of a total of 139

(WEF, 2010).<sup>2</sup> The International Monetary Fund (IMF) suggests that future competitiveness depends on business-enabling reforms, raising labour skills, and a slower pace of government spending to contain inflationary pressures (IMF, 2011). The development partners will need to consider how they will incorporate the SDP into their planning.

<sup>2</sup> The World Economic Forum has published “The Global Competitiveness Report 2010-2011.” The report ranks 139 nations by evaluating the “twelve pillars of competitiveness” grouped into (i) basic requirements, (ii) efficiency enhancers and (iii) innovation and sophistication.

FIGURE 2  
Timeline of significant events since the 1999 referendum



## SHARED UNDERSTANDINGS?

The government's international partners still feel that the government is being overly optimistic in its economic outlook, which underpins much of its forward planning. The IMF notes that macroeconomic projections are not extended to the medium term and there is currently no medium-term fiscal framework that could act as an agreed framework for medium-term expenditure plans (IMF, 2011). Yet, as Timor-Leste continues to reach its growth targets, it could be argued the government understates its own interventions better than outsiders. Government and international partners will no doubt wish to improve co-ordination, and continue the current debate on the appropriate macroeconomic outlook. In particular, the government feels that development partners should support it in strengthening all aspects of forecasting, policy analysis and management. There is a need to develop and sustain a national macroeconomic model that enables national institutions to undertake economic analysis and policy formulation. Such an approach would include capability to measure the impact of macroeconomic policies on the quality of life of the people. Better understanding of its economic performance will enable updates to the medium- and long-term macroeconomic projections for the country.

Timor-Leste has made significant progress on security sector reform in recent years with all 65 internally displaced persons (IDP) camps now being closed, but some observers claim that the government has overestimated the sustainability of the current period of post-conflict peace. It remains a huge challenge to ensure that the current transition toward longer-term development and inclusive growth be sustained without a reversion to conflict.

The government budget has increased dramatically and it has been difficult for new and emerging administration systems to keep pace with the speed of change. New challenges are around the corner. The elections set to take place in the first half of 2012, will, it is hoped, run smoothly with the assistance of the United Nations Police (UNPOL) alongside

## BOX 1

### The changing context of international development policy

Some observers suggest that international development policy is changing. There will be many less poor countries in the future and countries such as Brazil, China, India, the Arab nations in the Gulf, are breaking up the traditional aid landscape. As a result different aid “models” linked to commerce may begin to emerge. Already major private foundations such as the Gates Foundation<sup>1</sup> now have considerable size and influence. Private sources of capital—hedge funds, sovereign wealth funds, and other investment vehicles—are a growing source of accessible capital for poorer regions and countries. Private capital flows into Africa hit USD 55 billion last year, almost double the level of aid flows.<sup>2</sup> There is likely to be less aid money around and increasing demand for value-for-money from foreign taxpayers through focusing on investing resources in more cost-effective ways. Timor-Leste is aware of this changing context

<sup>1</sup> The Gates Foundation now distributes about USD3 billion per year, roughly the same as the median OECD development partner or roughly equal to the global aid programme of Australia

<sup>2</sup> Noted by Todd Moss from the Center for Global Development at a February 10th talk hosted by the Development Policy Centre at the Australian National University's Crawford School.

the National Police of Timor-Leste (PNTL) in the maintenance of public order in the country.

Given that the government is the main source of employment, civil service numbers give rise to some concern as the public service has expanded rapidly since 2002. The numbers of temporary and permanent employees in 2010 has now exceeded 27 000, as shown in Table 5.

The government says that it is all too aware of the possibility the country could revert back into conflict. However, it is eager to present a “positive face” both domestically and internationally, in order to break what it calls the “post-conflict mindset” that many of its citizens still carry as a result of years of colonialism, occupation and cyclical post-independence conflict. It feels strongly that fragile states need to be encouraged but that in many cases the international community is unnecessarily and unhelpfully negative in its reporting and analysis. This then transfers into the minds of those reading the reports.

**TABLE 4. NUMBER OF GOVERNMENT EMPLOYEES (2010)**

GRADE	PERMANENT	TEMPORARY
A	54	27
B	580	170
C	1 377	815
D	4 307	3 195
E	5 683	5 539
F	1 105	1 901
G	728	2 087
TOTAL	13 834	13 734

Some development partners noted the lack of training for their staff in programming for fragile states, echoing a sentiment seen in other similar contexts.

### PRIORITY ACTIONS

- Government and DPs to focus on development of a mutually accountable results framework within the context of the objectives of the SDP.
- Begin implementation of the Dili Development Pact as endorsed at the 2011 Timor-Leste Development Partners Meeting (TLDPM)
- Increased dialogue on the context for the implications of the new SDP based upon independent analysis.
- The government may task a lead DP to identify two or three areas where joint fiduciary assessments could be undertaken by a number of development partners

### ILLUSTRATIVE INDICATORS

**Indicator 1a. Are the international actors' country strategies based on sound political and social analysis (i.e. taking into account the situation in terms of national capacity, state-society relations and societal divisions?)**

*Yes, while recognising that some disagreement remains with the government on the macroeconomic outlook.*

**Indicator 1b. Is there a process through which national and international actors conduct contextual analysis together when deciding priority actions, appropriate division of responsibilities, aid modalities etc.?**

*There is evidence of increasing joint contextual analysis and analytic work.*

**Indicator 1c. Have the development partners agreed on joint strategic objectives?**

*Nearly all development partners in Timor-Leste believe they have shared strategic objectives.*

TABLE 5. CHANGING NATIONAL PRIORITIES (2008-12)

	2008	2009	2010	2011*	2012
1	Public safety and security	Food security and agriculture	Infrastructure (roads, drinking water)	Infrastructure	Infrastructure (roads, drinking water)
2	Social protection and solidarity	Rural development	Food security (focus on productivity)	Rural development	Enhanced local production (food security and livestock)
3	Addressing the needs of youth	Human resources development	Human resources development	Accelerated development of human resources	Services for the public (including local procurement and project monitoring)
4	Employment and income generation	Social services and social protection	Access to justice	Access to justice	Human resources development
5	Improving social service delivery	Public safety and security	Social services and decentralised services delivery	Public service delivery	2012 Special Year Preparations (national elections, youth and cultural events in a secure environment)
6	Clean and effective government	Clean and effective government	Good governance	Good governance	
7		Access to justice	Safety and security	Public safety and stability	

\* Based on 7 July Council of Ministers Press Release

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## 2. DO NO HARM

### PRINCIPLE 2: KEY FINDINGS

- Development partners are pursuing different models of government and governance with little thought to how the systems can be reconciled to the Timor-Leste context
- Competition for competent staff continues between all stakeholders. Resolving this is hampered by the lack of an appropriate HR policy by both government and development partners

“DO NO HARM” ESSENTIALLY MEANS THAT DEVELOPMENT PARTNER INTERVENTION SHOULD NOT UNDERMINE statebuilding processes. Whilst no DP would wish to cause harm, some felt that they need to understand local people and the depth and breadth of local politics better if their programmes are to remain relevant and thus do no harm. As one local participant noted “Some development partners and stakeholders come from far away and do not have sufficient knowledge about local lives and livelihoods. How can we be a partner with these stakeholders?”

Some participants also highlighted the importance of key advisers having appropriate language skills and, in some cases, familiarity with civil law and other “local” systems. As the government extends its presence further into rural areas, greater attention will have to be paid to ensuring international personnel understand the sociology and political economy of the civil service at the local level – for example, what it means to be a civil servant and the attitudes and expectations affecting those involved in local service delivery.

### DIFFERENT MODELS OF GOVERNANCE AND DIFFERENT STANDARDS OF DEVELOPMENT

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Some participants felt it was important to discuss the impact of the simultaneous pursuit of different governance systems that the development partners brought with them. Anglo-Saxon management systems and legal process are markedly different from Portuguese ones, with Timor-Leste’s context further complicated by its Indonesian legacy. Timor-Leste has made some headway towards creating a suitable framework for its context with the president’s lecture series on security sector reform. These were a series of lectures organised under the auspices of the president in an effort to enhance leadership and broaden policy dialogue, and introduce relevant international practices and inform national debate on the security sector. They provided a forum for discussion among key international experts and representatives from various security institutions, academia and civil society. Topics included gendarmerie models, maritime security, democratic oversight for police, and strategic planning and management of the security sector.

The government could do more to articulate the standards it wishes to set for development, such as construction standards, sanitation standards or urban development guidelines. Otherwise, criticising development partners and implementing partners for filling the administrative vacuum without them is unhelpful.

### WAGE INFLATION

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In 2009 the Minister of Finance identified the inflationary impact on local wages of competition from international agencies for a limited pool of skilled labour, and suggested that the international community



must act more responsibly in setting wages for local staff. Government salaries have also risen in real terms recent years. The Civil Service Commission is a young institution and as such is only now developing relevant policies on pay and grading. Most development partners do not appear to have reacted to one of the key recommendations from the 2009 Survey although Australia has unilaterally introduced a standard remuneration framework for advisers and other development partners are contemplating a similar approach.

### THE FUTURE USE OF TECHNICAL ADVISERS AND BUILDING CAPACITY

Development partners have also tended to draw talented Timorese away from the public service by paying higher salaries. Although this was identified as an issue in the 2009 Country Report (OECD, 2009), few initiatives have been taken by development partners to reduce this “poaching”. In response, the government has begun hiring back these individuals on local advisor salaries. Many development partners have criticised this approach as potentially distorting wages and creating resentment among public servants, and indeed this has started to cause additional problems. Neither party seems to have considered the option of building up a Timorese consulting sector that could also build partnerships with overseas consulting companies. Such consulting companies would also create more transparent transactions between government and in the longer term create a supply of readily available technical specialists.

A number of participants thought it was time to think differently as Timor-Leste graduates from a post-conflict to a development state. Attaining the best use of international advisers has been discussed in Timor-Leste at length in recent years and many participants suggest that it has been hard to strike the right balance especially with some advisers still undertaking line management positions. Many advisers also have experience rooted in the early transitional administration and perhaps need to adapt to new ways of working.

Many technical assistance initiatives to date have been unsustainable at best, targeted at increasing the capacity of individual civil servants rather than focusing on strengthening institutional capacity in the longer term. Timor-Leste’s experience suggests that development partners have been slow to fully acknowledge the particular challenges inherent in capacity building for fragile states. These are:

- Imported models and international best practice are less likely to be relevant. Responding to the contextual conditions in a particular country becomes crucial.
- The “time and timing” of development interventions are different. A greater variety of strategies and aid instruments must be used.
- Risks must be more flexibly managed and DPs less formulaic and prescriptive.
- Development partners and government need to experiment more, be more adaptable and use their imagination
- Development partners need to build their own capabilities for working in fragile states.

Timor-Leste has now decided to implement a new strategy for technical assistance (TA) referred to as a “three pillar approach”: strategy/policy advice, in-line support and capacity building of counterparts. In this model, TA should be used primarily to support one of these three pillars rather than to spread support across all three.

DPs such as Australia have taken the lead recently in seeking to identify when it is appropriate to use advisers and when it is not, considering a full range of suitable, costed options and setting clearer, more realistic objectives for adviser positions including identifying expected results. This has resulted in improved use of advisers although there is still room for a more consistent approach across government.



Existing training and development strategies in administration and management have usually been short-term, ministry-specific, unrelated to job competencies and often funded or directed by development partners (CSC, 2010). DPs add that budget allocation for training and development varies across ministries and usually only targets higher level staff. Participants felt that one way to improve capacity building would be to improve ministries' procurement of appropriate training programmes by strengthening human resource training through the newly created Human Capital Development Fund.

### DILEMMAS FOR DEVELOPMENT PARTNERS

DPs are often faced with the difficult task of reconciling their governments' immediate strategic objectives with longer-term statebuilding and development objectives. This has been exacerbated by the absence of a government multiannual strategy. Understanding these dilemmas is arguably the first step in undertaking an assessment of the impact of development partner intervention on statebuilding (OECD, 2010a). Interventions that may cause harm in Timor-Leste fall into a number of broad areas:

- Projects that inadvertently increase class divisions, including that between a rich urban elite and alienated urban poor.
- Too little support to help build a sustainable non-oil economy.
- Focusing too much on short-term projects, incurring an “opportunity cost” when essential actions are not taken to underpin longer-term, sustainable development.

### INVESTING IN THE LOCAL ECONOMY

DPs can inadvertently cause harm by not investing in the local economy. When local people see “rich” foreigners in town, they suspect that the cost of operations all goes overseas. Supporting the local economy and sourcing goods and services locally is thus a good way for DPs to “do no harm”, use coun-

try systems and improve aid effectiveness. The g7+ group of fragile states acknowledged this in the Dili Declaration when they suggested a priority action towards accelerating implementation of the Paris Declaration, the Accra Agenda for Action (AAA) and the Principles for Good International Engagement by initiating “...joint in-country reviews of the impact of development partners’...procurement procedures on the local economy and labour market...” This reflects the group’s understanding that aid can be made even more effective by maximising the impact of the aid dollar.

Increasing local spending through procurement can also be positive for private sector development, economic recovery and promoting stability. Research has shown that there is a direct link between increased local spending and increased GDP in post-conflict/crisis economies. Moreover, expanding local procurement supports peacebuilding and statebuilding goals by leveraging local capacity rather than relying on capacity and resources from outside the country. The survey participants all supported and emphasised the importance of local investment.

### PRIORITY ACTIONS

- DPs to improve staff induction and more careful partnering with counterparts including non-state actors.
- DPs to agree broad remuneration frameworks with government for local advisers. A government policy is required on the appropriate use of consultants in the public service.
- Government and DPs to initiate joint in-country reviews of the impact of development partners’ procurement procedures on the local economy and labour market.

## ILLUSTRATIVE INDICATORS

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Indicator 2a. Have the development partners performed previous assessments of the negative impacts their intervention could cause?

*Yes, development partners are concerned with the possible negative impacts of their interventions and have carried out appropriate studies to investigate further.*

Indicator 2b. Do the development partners have an institutional mechanism for integrating lessons learned from past assessments into strategy and/or programming?

*Most claim they assess trade-offs through analytical work, dialogue with the government, and consultations with development partners, civil society, and others thus enabling them to address issues of concern. Some DPs also mention that a whole-of-government approach (WGA) is a useful institutional mechanism to support this.*

Indicator 2c. Do the development partners individually or jointly monitor wages and recruitment of national staff, or have they set up any other actions to avoid a brain drain from the national public sector?

*Most DPs claim to monitor salary developments in Timor-Leste but the majority do not have a policy on recruiting staff from the government.*

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## 3. FOCUS ON STATEBUILDING AS THE CENTRAL OBJECTIVE

### PRINCIPLE 3: KEY FINDINGS

- The government has made significant progress in developing core state functions in some areas such as education, health and rural water. Development partners still have much to do to improve support to service delivery especially in the rural areas
- A lack of clarity from the government on the nature and scope of decentralisation hampers progress on improving service delivery
- Both DPs and the government have continued concerns with the type and scale of capacity building. A new government Human Capital Development Fund hopes to address the issue with a comprehensive longer term strategy
- As Timor-Leste matures, questions are being raised about the nature of the statebuilding project and the need for political dialogue about what sort of a state it wants to be.

THE CONSULTATIONS THAT TOOK PLACE AS PART OF THE FIRST INTERNATIONAL DIALOGUE ON Peacebuilding and Statebuilding (IDPSB) in April 2010 confirmed that the peacebuilding and statebuilding agenda in Timor-Leste should be considered critical to lasting peace and development. The event was seen by many to be an important occasion for all stakeholders to take stock of Timor-Leste's development progress and challenges to date. It also helped to direct government attention towards the aims of peacebuilding and statebuilding as critical, cross-cutting processes that should be integrated into whole-of-government development approaches. The Dialogue recognised that the evolution of Timor-Leste's relationship with civil society must maintain a place at the heart of its statebuilding agenda. For the most part, survey participants agreed that international actors continue to provide support to the government's efforts to maintain stability and have made substantial investments in strengthening state institutions and human capacity. Most aid given to Timor-Leste is untied (70%), though recent years have seen a small decline in the percentage.

### QUALITY OF NATIONAL SYSTEMS

With the exception of Australia,<sup>1</sup> there is currently no general budget support (GBS) provided to Timor-Leste. The use of country systems (*e.g.* public financial management and procurement) has also been relatively limited and continues to be limited by perceived capacity constraints and associated limited capacity to absorb substantial aid funds. Much of this view is in turn based upon relatively low budget execution capacity at the ministerial level.

The situation with procurement is regarded as particularly problematic.<sup>2</sup> Because of a perceived lack of capacity, development partner project budgets tend not to allow for local procurement, contracting, fi-

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<sup>1</sup> Australia provides USD 7.2 million in budget support to the Banking Payment Authority each year

<sup>2</sup> In January/February 2010, the Asia Foundation conducted an Assessment of Service Quality based on client perceptions. 45% of respondents rated satisfaction with the government procurement system at "fair" or "poor" (Asia Foundation, 2010).

nancial management or implementation by national staff. DPs feel that procurement performance leaves significant room for improvement and have asked for greater clarity on roles in procurement. They themselves need to be clearer about what aspects of the procurement performance must be improved. There is pent-up frustration on all sides, deteriorating dialogue and resulting slow progress in terms of systems reform. The SDP may offer an opportunity to discuss a long-term plan to improve government procurement, and work underway through the World Bank Planning and Financial Management Capacity Building Programme (PFMCBP) is helping to clarify legislation. Acknowledging the weaknesses of the Timorese private sector, efforts have been made in recovery projects under the Ministry of Social Solidarity to train the private sector in contract bidding and in some cases community contracting has been applied. In both cases, international technical assistance supervised over quality standards and Timorese implementation of small community infrastructure was achieved, although problems remained in the areas of targeting and field supervision.

GoTL has made significant progress on fiscal transparency over the last few years, as a result of a wide range of reforms in line with international good practice. However, the IMF notes a lack of capacity in PFM. There is still no independent State Auditor, though one is required by the constitution, internal audit is very weak, basic state processes such as tax administration and procurement suffer from a lack of transparency, integrity, process control and appeal options. Planning and budgeting are largely unconnected, and a medium-term framework is just starting to be developed (IMF, 2010b).

The government recognises that strengthening these institutions will be a long-term process, taking years or even decades to become resilient. In the interim period, Timor-Leste has developed a unique Transparency Model that complements wider institutional reforms. This model has five components:

**The Timor-Leste Transparency Portal:** Launched in March 2011, the transparency portal ([www.transparency.gov.tl](http://www.transparency.gov.tl))

will eventually cover three fields: budget, procurement and results

**The Extractive Industries Transparency Initiative (EITI):** EITI is the global standard for promoting transparency and accountability in countries rich in oil, gas, or mineral resources. Timor-Leste was one of the first countries to commit to becoming EITI-compliant in June 2003.

**Petroleum Fund management:** The Fund was set up in 2005 to monitor and receive petroleum revenues. The Fund is intended to guarantee sustainable income for the country by saving the vast majority of revenues for the benefit of both current and future generations.

**Public Parliamentary budget debate:** Each year, the Minister of Finance presents a proposed budget to Parliament, with each minister then proposing departmental budgets that are discussed in the relevant Parliamentary Committees.

**Council of Ministers decisions published:** The Council of Ministers is the highest decision-making body in Timor-Leste. Its decisions are published online within two days of its weekly meeting in English, Portuguese and Tetum.

The Transparency Model constitutes a unique and committed approach to transparency, tailored to the challenges of an oil-reliant economy and a fragile state context. The model, however, is not yet complete and continues to evolve to fit the needs of the country.

### STRENGTHENING CORE STATE FUNCTIONS

Almost all DPs claimed their strategies supported strengthening of core state functions and institutions, and most claimed to support strengthening political processes and supporting or facilitating dialogue between state and non-state actors. GoTL has established some important core state functions, particularly the Civil Service Commission and the Anti-Corruption Commission

The 2009 FSP survey called for strengthening the roles of parliament, the media and civil society but little progress in these areas has been made. Some participants felt that improved checks and balances to provide accountability had not been addressed adequately. Table 6 demonstrates that support to parliament has not risen in recent years.

### STATEBUILDING AND SERVICE DELIVERY

Half of technical co-operation in 2011 is co-ordinated with country programmes thus helping to tie support to building capacity and deliver services. Despite this, all stakeholders noted that a focused effort was needed to improve access to service delivery. Whilst participants recognised it was a key duty of the state, lack of capacity still hampers it from meeting expectations. This is demonstrated by the continued use of over 20 parallel implementation units (PIUs) and the relatively low levels of nationally executed projects; government systems, such as procurement, are still regarded as weak.

There is a general feeling therefore that both the government and the DPs need to be more focused on the detail. There are too many studies targeted only at the strategic level. One influential participant noted, “The Government is too focused at the macro level. But you don’t just manage with Ministers and at that level. You need to use middle managers and lower level staff to look at micro issues”. Some noted progress was hampered by the lack of instructions filtering down through government. This lack of capacity at middle management levels caused some ministries to restrict decision-making and policy implementation to the top. Some participants also note people don’t seem to know what a ministry is there to do, how it receives and processes the public’s requests for services and how they go about making the life of individuals better. A disconnect exists between the good intentions of all stakeholders and what the government and development partners are doing to make it a reality.

The justice sector and the security sector have received increasingly targeted, co-ordinated and effective assistance and there are recent improved out-

comes. For example, between 2009 and 2010, the Minister of Justice of Timor-Leste, the President of the Court of Appeal, the Public Defender and the Prosecutor General and Commander of the Police, supported by DPs, reached a consensus on a unified approach to managing the information within each institution and exchanging it between them.

TABLE 6. DEVELOPMENT ASSISTANCE SUPPORT TO PARLIAMENT

YEAR	ODA TO NATIONAL PARLIAMENT (USD)	TOTAL ODA	% OF TOTAL ODA TO NATIONAL PARLIAMENT
2008	4 200 000	211 500 000	1.99%
2009	4 523 000	242 100 000	1.87%
2010	4 662 000	256 819 000	1.82%
2008	282 800 000	2 860	116 400 000
2009	287 400 000	2 410	773 000 000
2010	198 900 000	2 730	637 000 000

### DECENTRALISATION

Once the government adopts a clear decentralisation policy, DPs could work closely with national and local authorities on implementation. Developing such a policy will take time and patience is required to enable the government to get it right. Experience elsewhere suggests that decentralisation alone does not automatically lead to more responsive and effective service delivery, and can itself lead to increased risk of conflict. The government needs to engage further with stakeholders, particularly those outside Dili, to get a better understanding of how local people expect the government to engage with them, what services they expect and what services the government is currently able to provide.

The prospect of decentralisation means that much of the responsibility for the organisation and delivery of services could soon shift to as-yet-undetermined sub-national levels of government. The government and opposition have not yet agreed with citizens what sort of government Timor-Leste wants at the sub-national level. This discussion will be affected

by the proposals for rapid economic growth as set out in the SDP. The lack of clarity makes it challenging for development partners to design programmes, especially at decentralised levels.

### EMPHASISING TIMORESE IDENTITY AND WAYS OF DOING THINGS

A number of participants mentioned the importance of understanding Timorese identity and how this relates to nation building and the links to statebuilding. This included the need for clarity concerning past histories of resistance and occupation, as well as Timorese aspirations for a “state of their own”. However, the Timorese are the first to admit that exactly what sort of state they want is still under discussion. A group of stakeholders noted “... we are still at the beginning of our statehood and still trying to nation build our own country with our own values and culture and aspirations and our own understanding of what our needs are and how best to deliver them”.

### INCREASING POLITICAL DIALOGUE ON STATEBUILDING ISSUES

Participants suggested further national dialogue could help bridge the strong political divisions emerging around this theme. One survey participant noted “I think the international community have their own agendas. They have their own models, which they want us to implement, but if we implement these models then the international community will have a deeper hold on Timor-Leste”.

At the IDPBSB, Timor-Leste noted that progress has been constrained because political actors have been unable to agree on statebuilding and peacebuilding goals for the country. Political parties operate on allegiance and historical affiliation rather than the political platforms, ideology and policies which define parties in modern democracies. A more inclusive political dialogue would enable parties to strengthen their democratic structures and engage their constituencies in discussion about the country’s future priorities and vision. While both the church and civil society have supported

the development of political dialogue mechanisms, some feel that this dialogue is targeted at only the highest-level political elite, when in fact, instability in the lead up to elections is likely to be triggered at lower levels, by those outside Dili.

International experience and research could help define the evolving Timor-Leste state, translating knowledge into relevant policy. This does not simply mean disseminating lessons learned elsewhere but rather, DPs supporting Timor-Leste in defining the right sort of model for longer, coherent and more comprehensive theories of change processes and long-term strategic planning.

### PRIORITY ACTIONS

- DPs need to focus on strengthening parliament, civil society and the media to serve as checks and balances in the system and to help support dialogue on state-building issues.
- DPs can support the government and other stakeholders in facilitating dialogue on statebuilding and nationbuilding through the use of improved communications, public opinion surveys, appropriate research, civic education, and amplifying citizens’ voices and discussions through local and national meetings.

### ILLUSTRATIVE INDICATORS

Indicator 3a. Percent of ODA disbursed focused on governance and security between 2004 and 2011

*No data available.*

Indicator 3b. On the whole, has international engagement sufficiently strengthened strategic state functions?

*Yes, international assistance has helped strengthened strategic state functions.*

Indicator 3c. On the whole, has international engagement contributed to strengthening political processes and supported dialogue between the state and society?

*Yes, international engagement has contributed to strengthening political processes and dialogue though there is more to be done to support parliament and the media.*

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## 4. PRIORITISE PREVENTION

### PRINCIPLE 4: KEY FINDINGS

- There is no single agreed set of goals and objectives to address conflict prevention.
- Risks to instability come from a wide variety of sources and early warning and early response (EWER) initiatives are crucial.
- Current approaches to conflict prevention overlap and a number of agencies are involved in conflict prevention. Co-ordination is problematic and DPs need to take the initiative to improve it.

### RISKS TO STABILITY

The suggested definition of conflict prevention is “Conflict prevention and peacebuilding interventions are efforts that adopt goals and objectives aimed at preventing conflict or building peace; they are usually (but not always) focused on a particular conflict zone – an area threatened by, in the midst of, or recovering from serious intergroup violence” (OECD, 2007, p.8). There is no single agreed set of goals and objectives to address conflict prevention and peacebuilding.

Risks to stability are set out in the matrix in Annex F, based on responses from stakeholders. These risks come from many quarters including the tendency to shift too swiftly from “post-conflict” to “development” state when a sustained period of relative peace is experienced. Awareness of and continuing dialogue about these risks is important in order to focus DP attention on agreed strategies to mitigate future problems. This would also complement long-term strategies regarding prevention.

The withdrawal of UNMIT will pose some challenges to the government. The withdrawal is, in a sense, the end of an era. The government rightly intends to work closely with UNMIT at a high level to study the implications of the “post-UNMIT” period, *i.e.* the period after the 2012 elections when UNPOL may start to withdraw. The withdrawal of the UN Mission could potentially have a destabilising influence and certainly a negative economic impact. The state, DPs and civil society actors should share reports discussing the potential impact of the withdrawal of the UN mission, in order to begin planning to mitigate some of the direct impact of the UN departure. Of particular importance are issues relating to employment and security sector support. In addition the 2012 elections offer development partners a key opportunity to support the government through an important confidence-building opportunity as well as addressing a key risk to stability.

### EARLY WARNING AND EARLY RESPONSE SYSTEMS

Early warning and early response (EWER) initiatives are crucial as Timor-Leste moves towards broader development objectives. These initiatives serve to monitor the changeable conditions and factors that could contribute to potential instability. Local and national actors can then plan their response to any issues identified, according to their current resources, expertise and roles. Referral pathways include linking to and strengthening traditional and community processes and structures for managing conflict, as well as aligning to formal security structures.



A judicious mix of peacebuilding and security approaches can contribute to a multi-faceted approach to responding to the complex issues that characterise the Timorese context. EWER systems provide a platform to co-ordinate these activities by providing data on areas where interventions are most needed. They can also help to provide ways to mobilise responses to problems through networks at the national and local levels. The GoTL takes prevention seriously and has established the Conflict Prevention Directorate within the Secretariat of State for Security and Peacebuilding Unit in MSS and the government (SES, MSS) is working on strategy to co-ordinate efforts.

External actors involved in peace and security initiatives should consider building on existing early warning structures in order to avoid the duplication of effort. One example is the EWER system conducted by the non-governmental organisation (NGO) Belun and Columbia University's Center for International Conflict Resolution. They have established an extensive monitoring presence and community Conflict Prevention and Response Networks at the sub-district level, which are designed to co-ordinate with all stakeholders in providing effective warning and response. In the medium to longer term, a system such as this could become locally owned and managed if they are supported by DPS and better disseminated to the relevant state institutions and local authorities.

In order to prevent the escalation of conflict and violence, it is important to outline clear co-ordinated strategies for response to incidents and trends at the national level, linked to contingency planning for the protection of civilians in the case of crisis. At the local level, responses to threats should be a community-driven process, where local actors design appropriate response activities that have a chance for longevity given their particular context. State and civil society actors can integrate their local-level initiatives to support response plans designed by the existing Conflict Prevention and Response Networks, coached in the interim by the EWER system. This will provide monitoring of the longer-term impacts of one-off peacebuild-

ing initiatives, recommending follow-up activities where needed. Integrated network responses consolidate traditional and community processes and structures for analysing and responding to conflict, ensuring that initiatives are complementary and mutually reinforcing.

Increased dialogue, particularly between DPs working to promote peace and security, and with state and civil society actors, would improve opportunities to work towards a more strategic approach to early warning and response. This should ensure that early warnings can be heard and effectively assessed; that communities are supported in increasing preparedness for conflict; and that embedded referral pathways are able to reach the most appropriate actors to respond to prevent the escalation of violence at local or national levels.

#### THE NEED FOR IMPROVED CO-ORDINATION

Most DPs state they provide support to conflict and crisis prevention and conflict resolution mechanisms, for example by strengthening local, including women's, and/or regional capacity to manage conflict. In recent years the government has invested in building specific institutions for conflict prevention and peacebuilding alongside work in security-sector development. The government has also invested considerable time and effort, sometimes controversially, in training up its police and security organs to work together. Against the advice of some DPs, the merger of the security and defence institutions within one ministry was as symbolic as it was pragmatic, but also a long-term investment in improved co-ordination and understanding. The government intended that with this reform the institutional divisions that had once been left to fester were to be eliminated through oversight and good management. The first reforms restored merit and ability as key criteria for career advancement.

In the wake of this reform, as early as January 2008, UNMIT announced a decrease in crime and sporadic acts of violence. The UN Acting Police Commissioner remarked that the improvements were a reflection of the stability of the new govern-



ment and credited local forces with the restoration of peace. The first real test of these reforms was in response to the 2008 attempted assassinations of the Prime Minister and President, H.E. José Ramos-Horta. An exclusively Timorese military and police operation was formed and tasked with ensuring stability. This highlights the importance of identifying local solutions to political issues, creating clear mandates for defence and security forces, and for the officers to understand them well enough to create synergies. Improved dialogue between the government and DPs around key issues such as this is imperative to promote joint understanding of the challenges faced and the best solutions to them.

As a result of the large number of external stakeholders now supporting emergency response, humanitarian assistance, disaster relief and peacebuilding, the co-ordination burden for government has increased significantly. The impression on the government side is that DPs are not co-ordinating their efforts with the result that there is some duplicated effort. This, coupled with the small number of government staff working in these areas has made it difficult for government to absorb the additional workloads associated with development partner project implementation.

## PRIORITY ACTIONS

- State and civil society actors should develop a clear, integrated long-term strategy, led by government. The immediate focus is to prepare effective strategies to deter the use of violence through the next electoral period.
- Government and DPs should recommit to specific policies that help reduce the potential for conflict, increasing investment in rural development, including infrastructure, the private sector, employment and livelihoods, and civil education.

## ILLUSTRATIVE INDICATORS

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

*The international community has invested heavily in preventing future conflict and fragility.*



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## 5. RECOGNISE THE LINKS BETWEEN POLITICAL, SECURITY AND DEVELOPMENT OBJECTIVES

### PRINCIPLE 5: KEY FINDINGS

- DPs all claim to address the linkages between political, security and development objectives in their country strategies but it is less clear how these linkages were assessed and incorporated into their strategies, policies and programmes. DPs feel there is room for a more inclusive policy dialogue with government on establishing a sustainable peace.
- Sustained progress has been made on security sector reform. With the United Nations Mission looking set to depart, however, all the uniformed forces need to be strengthened, particularly community policing of the PNTL.

NEARLY ALL DPS SURVEYED CLAIM TO ADDRESS THE LINKAGES BETWEEN POLITICAL, SECURITY AND development objectives in their country strategies and that these are shared with other ministries or agencies within their governments. For example, DPs such as Australia share their strategy with their government agencies covering security, defence, police, foreign affairs, trade, health, immigration and finance. However, there was no consistency to how these linkages were researched, assessed, shared and discussed, and incorporated into policy. In reality it seems that most co-operation on the integration of these objectives takes place at project level.

The survey suggested that the link between security and development is indeed reflected in the National Priorities Process which continues to help ensure that the political, diplomatic, security, defence and development actors work together to ensure the sustainability of peace. Co-ordination of the three issues has improved considerably through the National Priorities Process. The government has sought to increase co-operation and co-ordination within these various sectors with the Working Group on Public Safety and Security including representatives of both national and international security institutions, as well as various DPs with programmes or interest in the security sector. The work of the group, coupled with the current climate of relative peace, has contributed to the gradual downgrading of safety and security though it remains a government priority.

The government recognises that two of the most pressing priorities continue to be security reform and economic development. It also recognises the links to social justice, welfare and service delivery, particularly for rural populations, and the potential negative impact of poverty on peace and stability. Various DPs emphasise the importance of understanding links at the community level.<sup>1</sup>

Whilst there is undoubtedly progress in many aspects of security and the PNTL is becoming more professional, outside Dili many informal traditional community systems still maintain order. Newer community-style policing initiatives have been welcomed by civil society, but the impression is that

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<sup>1</sup> For example the “Justice for the Poor” programme includes a Community Feedback System and a Land Access component that seek to ensure the views of vulnerable and marginalised groups are reflected in policy making and programme decision making. The GoTL Poverty Survey and the Social Protection Survey also seek to raise the visibility of poor and marginalised groups in society and emphasise the inter-linkages between security, politics and development.

there is much more to be done by the PNTL to develop policing techniques other than force, and to improve accountability. In the short term the focus is on ensuring the elections do not cause the gains in politics, security and development to falter. Many of the challenges can be met by the PNTL reinforcing its community policing capacity to strengthen its relationship with the population, and enhance people's trust in security forces.

Small-scale violent conflict continues to take place although increasingly these conflicts are described as being intra-communal or familial or related to issues such as land or resources, rather than between martial arts groups (MAGs) or related to organised crime. There has been no reported increase in crimes in districts handed over to local control, which could be indication of the success of the collaboration between UNPOL and PNTL. However, because violent conflict in Dili is often linked to earlier conflict at the district level, there is still a concern that these small, localised, acts of violence could end up being played out in the suburbs of Dili (Muggah, 2010).

In the longer term, continued stability will be crucial to encourage growth in domestic, private and foreign investment. DPs can support implementation of the SDP by staying engaged in supporting security and stability to give the best chance for the growth policies of Timor-Leste to take hold.

Some government participants felt that DPs needed to be more honest about the subjective motivations for their prioritisation of support to core government functions. Historical ties, security concerns and trade interests all play a part in development aid and it would be better for all concerned if there was mutual understanding and accountability at the strategic level about the development outcomes being sought.

## PRIORITY ACTIONS

- DPs to demonstrate greater clarity on how they recognise and address the links between political, security and development objectives with a renewed focus at the strategic level, taking advantage of good project level co-operation.
- Government, with support from DPs, to focus on accountability at all levels of government but particularly within the security sector. DPs can help to reinforce links between disciplinary mechanisms within the Security Sector, the Provedor for Human Rights and Justice and other judicial procedures.

## ILLUSTRATIVE INDICATORS

Indicator 5a. Do the development partners have a whole-of-government (or, in the case of the EU and UN, whole-of-system) country strategy (i.e. one joint strategy for the partner country, including political, development, security and other objectives) or at least joint strategic objectives?

*All DPs claim to undertake a "joined up" or whole-of-government approach where their country strategy is shared across ministries and encompassing political, development, security and other objectives. The EU is currently working on developing a single strategy for all member states.*

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## 6. PROMOTE NON-DISCRIMINATION AS A BASIS FOR INCLUSIVE AND STABLE SOCIETIES

### PRINCIPLE 6: KEY FINDINGS

- GoTL has taken concrete steps to develop a social security system that is supported by citizens, thus enhancing its legitimacy.
- Youth issues still remain, unemployment remains high and women have special needs to be addressed.
- Both government and DPs recognise that the development focus is still too Dili-centric.

THE SURVEY FOUND THAT THE NEEDS OF YOUTH, WOMEN, CHILDREN, UNEMPLOYED, THE RURAL POOR and others all require addressing. Survey participants suggested that the government should, with the support of the international community, help amplify the voice of citizens in development planning and improve their responsiveness to those voices (see also FSP 3). With the maturing of the National Priorities Process towards a more long-term SDP, new ways of engagement will be identified and further expanded upon. The Prime Minister's SDP consultation road show was a specific attempt to reach out to citizens and engage them in the plan preparation. The Prime Minister began visiting Timorese people across the country, beginning in the far eastern sub-district of Tutuala, and going to every sub-district. The final consultation was held in Laulara, Aileu district.

The perceived continued focus upon Dili is still a source of concern. Participants felt strongly that development focus and implementation of government services should be more equitable across the rural-urban divide, otherwise the perception that rural areas are discriminated against will remain. The same points were noted in the 2009 survey. Its recommendation of the need for further analysis to understand the causes of exclusion (see FSP 10) in order for government and development partners to overcome these challenges, seems not to have been taken up. NGOs suggested that better engagement with local NGOs can improve understanding of discrimination and inadvertent project bias.

### YOUTH

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Current government and international support is still largely focused on primary education. Investment in the tertiary education sector, polytechnics and universities would help in the longer term to do more in addressing unemployment. Capacity development to manage public services is a frequently mentioned problem, but the university offers no courses in public administration.

### SOCIAL JUSTICE FOR THE ELDERLY, VULNERABLE AND DISABLED

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The government has taken steps toward introducing “social justice policies” to provide pensions to the vulnerable, the disabled and the elderly. This has been a cornerstone of the government's social contract commitments, and demonstrates the government's attempts to gain credibility and legitimacy with its citizens. However, a more comprehensive longer term strategy to develop a longer-term and sustainable social security system is required. It is unclear whether the current support is a “rights based” approach.

The development partners claim that they support the government and address non-discrimination through many mechanisms including access to basic services, access to microcredit, specific support for women and children, human rights and empowerment projects, and poverty reduction and social exclusion projects. However, the impression is one of an uncoordinated strategy to support a miscellaneous array of non-state actors.

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## WOMEN

It is widely acknowledged that domestic violence is prevalent in this newly independent country still reeling from the trauma of occupation, repression and forced resettlement. Previously tolerated in the nation's culture, domestic violence has now been elevated as a category of public crimes with the passing of the Law Against Domestic Violence in July 2010. Women have also been marginalised in the past with limited participation of women in community dialogues for conflict resolution. Traditionally only men participated in mechanisms for conflict resolution in communities. New projects supported by the United Nations Development Programme (UNDP) focus on conflict prevention and promoting social cohesion in communities that are prone to conflict. Women community leaders have been trained in conflict mediation and special efforts were made to involve them in community decision making.

In May 2011, the National Parliament approved amendments to the Electoral Law for the National Parliament. This included approval of an increase in the women's quota in the candidate lists for the parliamentary election. In 2012, one in every three candidates must be a woman as opposed to one in every four candidates as in earlier elections. Progress was achieved as a result of lobbying led by women's groups including the national network of women's NGOs. The amendment is expected to further improve women's representation in the National Parliament, which now stands at 30%.

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## PRIORITY ACTIONS

- Government and DPs to avoid the continuing concentration of resources and efforts on Dili and seek greater unity of effort to address discrimination.
- Government and DPs to systematise and deepen the dialogue with civil society, including representatives from women and youth groups and the private sector to discuss how the benefits of future development can be shared more equitably.

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## ILLUSTRATIVE INDICATORS

Indicator 6a. Percentage of ODA earmarked for human rights over the period 2004-2009.

*After 2008 there has been less than 1% allocated to human rights – no data for before 2008 .*

Indicator 6b. Does the international community explicitly promote inclusion of women, youth, the poor, minority or marginalised groups, through dialogue, programmes and/or capacity strengthening?

*The international community state they support the government and address non-discrimination through many mechanisms however, the impression is one of an uncoordinated strategy to support a miscellaneous array of non-state actors.*

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## 7. ALIGN WITH LOCAL PRIORITIES IN DIFFERENT WAYS IN DIFFERENT CONTEXTS

### PRINCIPLE 7: KEY FINDINGS

- The new SDP offers a concrete opportunity to realign DP assistance behind the GoTL and improve development partner division of labour.
- Strengthening and increasing the use of country systems in collaboration with development partners remains a critical element of the government's efforts to strengthen the management and leadership of Timor-Leste's development.

THE GOVERNMENT HAS STATED PUBLICLY THAT IT PLANS TO RELEASE THE COUNTRY'S FIRST STRATEGIC Development Plan in July 2011. The SDP will present all stakeholders with the first multi-year planning document since emerging from the crisis of 2006, although some sectors, such as Education and Health, have elaborated Strategic Plans. While the SDP was welcomed, the consensus was that the government had taken a long time to produce the plan. In 2007, facing many challenges and a contracting economy, the government had announced that medium- to long-term strategic planning must wait until the immediate conflict instigators could be dealt with.<sup>1</sup> The previous government had spent significant time and effort on devising a multi-year sectoral plan only to have it rendered irrelevant with the outbreak of conflict and this time the government would identify and address the most urgent and destabilising challenges before starting longer-term planning (GoTL, 2010c). The government remains confident it has the timing right and hopes for development partner alignment with the SDP.

### THE NATIONAL PRIORITIES PROCESS 2008-11

The National Priorities Process currently serves as Timor-Leste's primary annual strategic planning mechanism. Priorities are currently determined each year allowing them to reflect the rapidly evolving national context. While priorities have shifted, there has remained a clear focus on establishing security, agricultural and rural development, and human resources development and in more recent years, infrastructure (see Table 4 under FSP 1).

Both government and the international community agree, that at least in its initial years, the National Priorities Process offered a successful mechanism to bridge the gap left while awaiting the release of a longer-term strategy. However, both the MoF National Directorate for Aid Effectiveness (NDAE), and the 2009 survey have noted that there is now an increased need for longer-term development activities extending over a three- to five-year time frame. This shift, increasingly reflected in National Priority (NP) matrices, has left some DPs unintentionally out of step with government priorities. If the NPs for different sectors had been identified earlier in the planning and budgeting cycle, they could have had a stronger impact on

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<sup>1</sup> When the government came into power in 2007, there were both tangible and intangible reminders of the 2006 crisis, with 65 IDP camps and 400 ex-Timor-Leste Defence Forces (F-FDTL), known as "the Petitioners", campaigning for reintegration back into the military. Law and order was threatened by Major Alfredo Reinado and rebel associates, and martial arts gangs made up of disaffected youth engaged in random acts of violence and civil disobedience. These issues presented immediate, short-term threats to public safety and security.

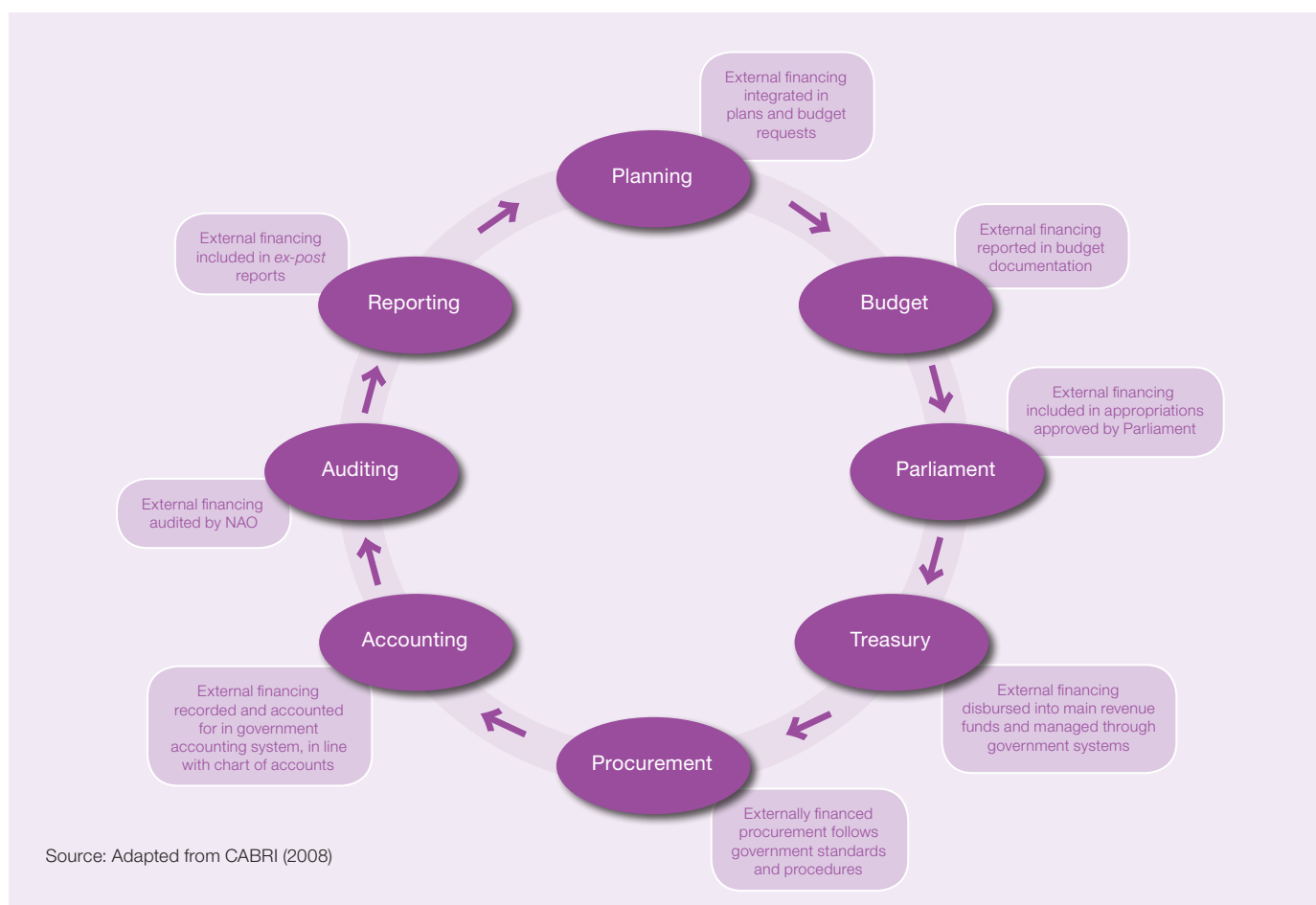
resource allocation. Instead they have functioned more as a monitoring tool to ensure implementation of defined priorities. While the release of the SDP should remedy this, Timor-Leste's experience offers a lesson for other countries coming out of conflict.

DPs say that it will be much easier to align with government priorities once the plan is in place, but, as noted under Principle One, there is still some discussion needed to reach a common understanding of the plan's key political, economic and social planning assumptions. DPs can enhance their engagement with the strategic planning process by en-

couraging reference to evidence-based research on appropriate development strategies and practices. In the meantime a creditable 50% of partners' technical co-operation is still aligned and co-ordinated with country programmes. Seventy percent of current ODA is classified as untied, down from 89% in 2005.

Because the NPs are fairly broad, almost every development partner claims they are aligned with them but only 24% of ODA is programme based. This may in part depend on the energy of ministerial leadership and the frequency of meetings in

FIGURE 3  
Country system components





## BOX 2

## Public procurement in Timor-Leste

The OECD observes that “good public procurement systems are central to the effectiveness of expenditure” and that public procurement is a fundamental and integrated part of the governance and public financial management system in a country. In Timor-Leste public procurement totals 70% of all government expenditure and it is the mechanism by which all government projects are delivered. Public procurement currently amounts to over USD 550 million, with over 2 500 separate purchases.

Public procurement occurs at national and local levels. At national level, all ministries, secretaries of state, commissions and agencies are actively involved in procurement with some ministries expending approximately 90% of their budget through public procurement. While national-level procurement is bigger in terms of value per contract, local government contracting is significant in terms of the number of procurement activities and their impact. The new Infrastructure and Human Capital Funds recently approved by the Council of Ministers, taken together with decentralisation will demand improved public procurement systems and practices, better regulations, development of the key procurement institutions, capacity building, operational support and on-the-job training for local staff. The need has never been greater for the public procurement system to be staffed by a professional cadre of well-trained and experienced procurement professionals.

A disproportionate number of private-sector companies are dependent on public-sector business in Timor-Leste, where the state is the largest economic actor, and where the private sector is relatively underdeveloped. A combination of high public expenditure and dependent private-sector contractors creates a ready market for corruption in public procurement. Generally, the less capacity a country has to prevent, detect, and punish corruption, the greater the likelihood of corruption. In Asia, the Asian Development Bank has noted that corrupt public procurement has led countries to pay 20-100% more for goods and services than they would have otherwise. Corruption can also exacerbate fragility.

In January/February 2010, the Asia Foundation conducted an assessment of service quality based on client perceptions. The assessment was designed as a periodic feedback mechanism to augment the Ministry of Finance existing service improvement processes and measures. In it, 45% of respondents rated satisfaction with the government procurement system as “fair” or “poor” (Asia Foundation, 2010).

specific sectors. Where NPs are strongly led, both government and DPs benefit from lively dialogue, leading to greater alignment. Given DP planning timeframes it is fair to say that they align with the National Priorities to the degree that could be expected. However, as the IMF noted “While development partners provide estimates of commitments and expenditures for the budget, there is no joint evaluation and approval of state and development partner funded expenditure, and in-year reporting by the government on development partner funded expenditure is lacking. Development partner funded expenditure is not reported on in the financial statements.” (IMF, 2010)

The SDP will challenge development partners to agree a relatively robust division of labour between themselves and with the government. Given the

broad scope of the SDP, there is a risk that development partners will seek to demonstrate alignment by engaging in a number of areas prioritised by the SDP but instead they should consider in which areas they have a competitive/comparative advantage and seek to concentrate their support there. A functional Aid Information Management System (AIMS) will be needed to achieve an adequate division of labour.

### INCREASED USE OF COUNTRY SYSTEMS

The government would like to achieve a common understanding with DPs on the use of its country systems. Figure 3 depicts the various country system components of the budget cycle. Different development partners feel able to use different components of the country system: Australia and the

UN noted they could use all eight, the EU can use three, the World Bank six. Currently, 18% of aid for the government sector uses country systems and 22 PIUs remain in operation, so there is still a way to go.

Strengthening and increasing the use of country systems in collaboration with development partners remains a critical element of the government's efforts to become more capable of managing and leading Timor-Leste's development. In particular the government seeks to work with DPs to:

- Identify current opportunities and constraints in the strengthening and using of country systems;
- Define joint actionable government-DP recommendations for achieving progress;
- Ensure high-level support and momentum from DP headquarters for this initiative;
- Take concrete steps towards fulfilling those recommendations, including joint government and multi-donor fiduciary risk assessments; and action plans for harmonising development partner audits and pre-award assessment of the Government's Supreme Audit Institution practices.

A few DPs have expressed a willingness to start preparations for a GBS programme, identifying the amounts under consideration, the purpose of support and the conditions necessary for implementing it. Generally speaking, most development partners apply similar eligibility criteria, in accordance with international standards. These include consideration of the national policy planning framework, economic strategy and agreement on the macroeconomic framework, and satisfactory public finance management, as well as an independent accounting system that is missing today. Eventual agreement on support tends to include performance criteria and indicators for disbursement of support, performance indicators for government and some measure of co-ordination between development partners.

## PRIORITY ACTIONS

- DPs to consider increasing use of country systems (irrespective of aid modality) to enable more transparency of aid flows, aid on budget, and aid on plan and to improve capacity of country systems. In the spirit of mutual accountability the government can:
- Task a lead development partner to assemble recent assessments on aspects of country systems and institutional capacity building to share with other development partners and government
- Task a lead development partner to map the minimum number of country systems components that two to three major development partners can use
- Government and DPs to assess options to move towards budget support (including agreeing necessary measures to strengthen underlying systems *e.g.* procurement, audit, supervision, reporting).
- Alignment of DP programmes with the SDP, adjusting programme design as necessary. Further discussions with government should take place on future support for those existing and emerging priorities not covered by the SDP.

## ILLUSTRATIVE INDICATORS

**Indicator 7a. Percentage of aid flows to the government sector that is reported on partners' national budgets**

*Zero - at present all development partner funding is accounted for using parallel systems.*

**Indicator 7c. If there are joint strategic objectives among international actors, are they also shared by the national government?**

*All DPs report that they are aligned with the government's peace-building and statebuilding strategic objectives.*

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## 8. AGREE ON PRACTICAL CO-ORDINATION MECHANISMS

### PRINCIPLE 8: KEY FINDINGS

- DPs could co-ordinate better amongst themselves to reduce the burden on government caused by a multitude different projects.
- DPs expressed a strong preference for stronger co-ordination from government.
- A lack of investment in, and support to the NDAE has resulted in problems with aid data collection and management, though this situation is now being addressed.

### CURRENT ARRANGEMENTS AND LEVEL OF SATISFACTION

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Figure 4 shows how DPs fit into the government system. It has been suggested that the framework for development partner co-ordination does not yet enable the government to adequately negotiate with individual DPs on issues of national importance. DPs agree that they could co-ordinate more amongst themselves to reduce the burden on government: joint missions still form only 16% of the total. A number of DPs were unhappy with existing development partner co-ordination amongst themselves. Various reasons were cited:

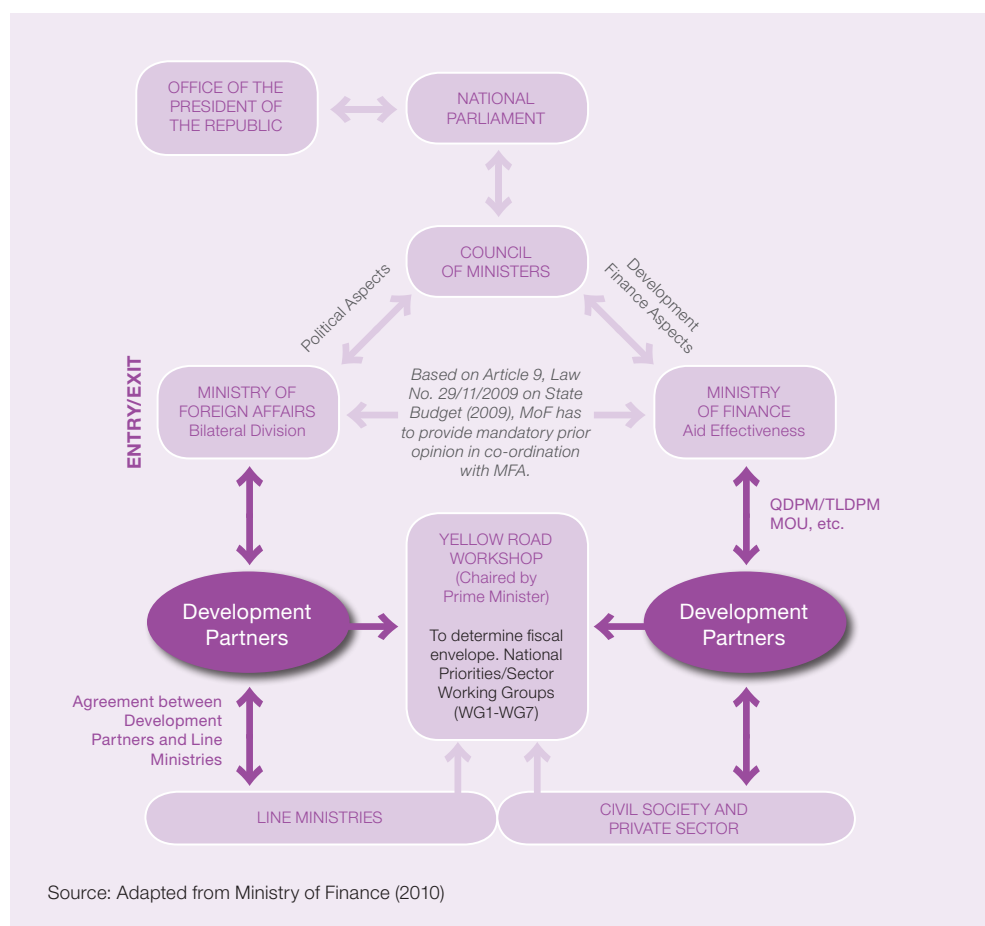
- Some development partners, because of their historic relationship with Timor-Leste, wanted to be seen to be everywhere
- Some appear to have no wish to co-ordinate
- Some have low familiarity with aid co-ordination and effectiveness issues
- There is poor co-ordination above the sector level

Understandably, at the National Consultation Meeting, DPs confirmed they would be happy with stronger direction on co-ordination from the government. The NDAE is the mandated government department to take the lead on this.

Figures for joint analysis are better with 47% of analysis shared, including sector and social analysis. DPs are committed to raising this figure. However, these figures need to be approached with caution as there remains a sense that the fragmentation of development partner-funded projects does not actively encourage shared analysis, leading in turn to duplication of efforts. The situation therefore cannot be said to have improved significantly in the last two years. DP harmonisation and improved co-ordination could save resources but the experience with “joint” strategies is that they can take a long time to complete, cost a lot of money and may not necessarily lead to a change in the way business is done.

FIGURE 4

Current framework for development partner co-ordination



### CO-ORDINATION AT PROJECT LEVEL

Co-ordination among of implementation with national authorities is even more critical. A successful example of a co-ordinated effort to develop systems is the IT-based case management system for the justice sector. This included learning from a previous failed attempt, and using UN-facilitated informal development partner discussions.

Government respondents suggested that there are still too many projects running. In 2009 there were 416 projects for which disbursement information

was available. Only three had annual expenditure exceeding USD 8 million a year; 169 projects had annual expenditure of less than USD 100 000 and the average annual disbursement was only around USD 500 000 per project. In 2010 the situation had improved marginally, with only 376 projects (see Table 7). The government would also like to see a number of smaller development partners pool their resources and work together on shared priorities: beside the main 5 development partners there are some 35+ other DPs with hundreds of projects.

All these projects have an impact on the government's capacity to manage. Project reporting, usually through steering committees that senior civil servants are expected to chair/co-chair as evidence of national ownership, cause a significant drain on government resources. They also create the need for separate systems, formats, structures and monitoring requirements. The point was made, and also noted in the 2010 IDPBSB, that individual ministries often develop their own programming directly with

development partners, instead of working through a co-ordinated platform across government. As a result, development partners and government miss opportunities and the result is development programmes that can seem disjointed and have less of an impact overall.

Some in government also feel that development partners cause problems by supporting NGOs directly without requiring NGOs to inform the government. This raises questions as to whether the NGO activities are aligned with government policy and strategies. It may also hinder the government

from learning from good implementation by NGOs, reduce feedback from beneficiaries, and reduce the scope for scalability and replication. NGOs may also raise unrealistic and unsustainable expectations in local communities.

### MANAGING DEVELOPMENT PARTNER INFORMATION FOR IMPROVING CO-ORDINATION

DPs do not think the current aid data collection system is adequate. Data about DP activities in Timor-Leste was first compiled in 2002 through the Registry of External Assistance (REA) database. The REA informed the first series of Sector Investment Programs (SIPs) which made up a key component of the first National Development Plan (NDP) 2002-7. During the 2006 crisis, data collection stopped and only restarted in 2008 with the establishment of the NDAE. Only data concerning programmes and projects that provide development, humanitarian and emergency assistance go into the database. Military and security-related assistance are not included.

Timor-Leste's two primary strategic planning tools have been the annual State Budget and the NP process. Current data collection systems are generally perceived as adequate to provide data on development partner activities within the government sector. However, as the country moves towards multi-year, sectoral planning mechanisms, there is increased pressure being placed on NDAE which has too many roles and not enough resources. Both the government and DPs are pushing to improve the breadth data of collection, and its analysis but this alone will not solve all problems; there needs to be a strong co-ordination point between DPs and the government in order to deliver effective aid.

### DATA COLLECTION AND PRESENTATION – PROBLEMS, ISSUES AND CHALLENGES

Aid data collection is now aligned with the national budgeting process as part of the Combined Source Budget (CSB). Currently, data is requested from development partners twice-yearly on aid commitments and disbursements at the project level, in accordance with the four categories used within the state budget. Many development partners struggle to provide this information in a timely, accurate and useable manner. There are plans to improve the situation and NDAE is currently working with the Asian Development Bank (ADB) to develop an AIMS, which it expects to roll out in Q4 of 2011.

TABLE 7. DEVELOPMENT PARTNER PROJECTS (AUGUST 2010)\*

BILATERAL		MULTILATERAL		UN	
Australia	47	ADB	7	FAO	9
Brazil	6	Global Fund	3	ILO	3
Canada	5	World Bank	9	IOM	8
EU	55			UNDP	24
Finland	3			UNESCO	13
Ireland	12			UNFPA	12
Japan	39			UNICEF	17
New Zealand	9			UNIFEM	4
Norway	10			WFP	7
Portugal	47				
Sweden	5				
USA	31				
<b>TOTAL</b>	<b>269</b>		<b>19</b>		<b>88</b>

\*The NDAE recognises the possibility of some double counting

## NEW WAYS OF CO-ORDINATING

With the new SDP, improved development partner co-ordination mechanisms will need to be developed at both policy and implementation levels. Existing co-ordination mechanisms, such as the National Priorities Working Groups, are currently only focused on annual priorities. Evidence of improving alignment is emerging. For example, the EU and those of its member states active in Timor-Leste intend to put in place an internal planning process that should result in joint programming (JP) by member states by the beginning of 2014. Nearly all bilateral aid programmes are due to be complete by January 2014. Joint analytical work on the political/security, economic, social and environmental situations will start in 2012 and intensify in early 2013. This will enable the European Commission to lead a joint response strategy. Implementation will be done through separate aid programmes implemented by the member states based on comparative advantage.

A number of other DPs have country strategies that will be coming to an end around the same time, offering an opportunity for increased development partner co-ordination and harmonisation with government. The timing will provide enough time for the government to fully articulate and modify the SDP as necessary. More importantly, it will allow time for interim dialogue to take place, to identify priority areas between development partners and government, informing future division of labour.

## PRIORITY ACTIONS

- The NDAE to implement the AIMS project and share data on aid programmes with DPs and line ministries to support improved alignment. In the meantime development partners can use existing systems better.
- Government should establish appropriate processes for development partner engagement, including greater clarity around the respective roles of the various government bodies responsible for aid co-ordination and engagement
- DPs to improve communications by ensuring that their written communications, research and reports are up to date; integrating real time information rather than using outdated. In addition, DPs in co-ordination with government can ensure that information is shared.

## ILLUSTRATIVE INDICATORS

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

*Division of labour between development partners is recognised as still requiring improvement.*

### Indicator 8b. Is there a pooled funding mechanism, and what percentage of ODA flows through it (fiscal year 2010)?

*There are no pooled funding mechanisms.*

### Indicator 8c. Has practical co-ordination resulted in better analysis, greater agreement on strategic objectives and improved implementation of international programmes?

*Co-ordination is improving and there is increased joint analytic work (47%), however there is scope to improve high-level policy dialogue on strategic issues and objectives.*

### Indicator 8d. Percentage of technical co-operation disbursed through co-ordinated programmes in line with country development strategies

*50% of technical co-operation is co-ordinated with country programmes.*

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## 9. ACT FAST... BUT STAY ENGAGED LONG ENOUGH TO GIVE SUCCESS A CHANCE

### PRINCIPLE 9: KEY FINDINGS

- DPs claim that they can act fast but there are familiar problems with divisions between the field and headquarters in some cases. The government has demonstrated its ability and readiness to act fast in a crisis.
- Current levels of funding commitments to Timor-Leste are not encouraging and it is not easy to predicting future levels of ODA.

### ACTING FAST

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Development partners feel that their ability to act quickly in a crisis has improved since 2009, not just through availability of funds through their support of the government's ability to act quickly, though some noted that headquarters may not always respond so consistently and swiftly. The government has also demonstrated its capacity to respond rapidly to a range of short-term needs and potential instigators of conflict, which has left DPs able to focus on longer-term development. In 2011 the GoTL allocated USD 9.2 million for contingencies and also established the Department of Peace and Social Cohesion under the Secretary of State for Social Assistance. This department aims to strengthen conflict prevention, peacebuilding and social cohesion capacities both at the national and community levels. It will also help to address potential risk factors and to promote greater women's participation in peacebuilding, as well as to bring conflict-sensitive development processes into the mainstream.

Clearly, in cases of national humanitarian emergency, development partners are still regarded as an invaluable component of Timor-Leste's overall response. International actors have demonstrated their willingness to respond flexibly to changing circumstances but it was recognised that some DPs do not always have sufficient flexibility within their budgets and procedures to respond effectively to crisis. Some respondents commented that even when development partners are able to make funds available quickly, they are often earmarked for certain projects that are outside government recovery strategies or are restricted to funding certain aspects of the government strategy. One example is the government's decision to provide cash grants directly to eligible IDPs in order to convince them to return home. Some development partners doubted the sustainability and effectiveness of the initiative. Those whose systems did allow them to support the government strategy were restricted from providing cash grants, as the government had decided the recipient could exercise his or her own discretion over how to spend the money. The perceived lack of oversight prevented many development partners from supporting what turned out to be, in the view of the government, a successful initiative.

The government believes that DPs should retain their flexibility for the foreseeable future, despite Timor-Leste moving toward a full development agenda. Some respondents indicated that the government is declaring itself to be free from conflict yet still possibly "fragile".



## STAYING ENGAGED

Much support to fragile and conflict-affected countries naturally tends to focus on quickly reducing “fragility” and preventing further conflict. When the conflict is over development partners may leave the scene and governments are usually keen to move quickly to a longer-term development agenda. Strategies to achieve this can place pressure on the government and DPs to deliver a 30-year development and reform agenda to ever more demanding time scales, encouraging the preparation of unrealistic national programmes. The deadlines create pressure to “reverse engineer” the development agenda to meet predefined political objectives. This contributes to the general sense that government, DPs and other stakeholders expect too much too soon. Timor-Leste remains almost entirely dependent on public expenditure for stability and growth. DPs need to look beyond a five-year time frame to see results and begin to discuss with government what development aid will look like in the longer term, based upon agreed analysis and plans (see also Principle One). Development partners have remained committed to Timor-Leste over the years and far from being an aid orphan, Timor-Leste may best be described as an “aid darling”. This has created the problem of too many DPs, implementing a relatively low level of ODA, needing strong guidance for co-ordination if they are to remain engaged.

Some government respondents suggested that project design should not unwittingly burden the government with ongoing maintenance and other operational costs. This would include longer-term provisions for handing over assets, including vehicles, providing insurance and appropriate and certified driver training for government staff. Original software licences should be provided for all computers, and service contracts for maintenance of assets to be funded for three to five years after completion of the project.

## FUTURE AID FLOWS

From 2012, DP funding is projected to reduce significantly: by USD 82.2 million (42.2%) between 2011 and 2012, USD 47.4 million (42.0%) between 2012 and 2013, and USD 42.5 million (56.5%) between 2013 and 2014, although these figures may just reflect a lack of information provided to the government rather than a lack of international support or commitment. Even so, the absence of information on medium-term funding expectations limits the government’s ability to conduct medium term planning and macroeconomic analysis on a consolidated basis (GoTL, 2011a). The 2010 Disbursement Report notes that many development partners have simply not provided disbursement information to the government (GoTL, 2010d, p16).

As of March 2011, the Ministry of Finance estimates that only USD 32.8 million of development assistance is committed beyond a three-year timeframe (*i.e.* 2014 and beyond). Overall aid flows show a decrease of 4% over the period 2005-11. The forecasts in Figure 5 are based upon a number of assumptions including the expected drawdown of the UN Mission, and the withdrawal of funding for some of the programmes that the integrated mission once shared. Development partners’ increased perception of peace and stability may lead them to put money into other more needy areas of the world. An MTEF for the SDP would help to identify the government’s funding needs and gaps; DPs could then be invited to discuss priorities with the government.

DPs tend to increase their aid commitments towards the end of the year, as their planned spending becomes clearer. In 2008, actual disbursement was 11.5% more than had been committed and 42.1% in 2009.

Development partner responses to requests from the NDAE have reduced significantly in recent years. Development partner response ratios have decreased from 95% in 2008 to 71% in 2009 to just 66% in 2010.



The new SDP will shift the government to more stable multi-year, sectoral planning and resource allocation and it will need more certainty about funding of major development projects. Currently the overall funding commitment picture is not very encouraging and emphasises further the sharply declining proportion of aid to overall government spending. Most DPs suggest that these figures do not adequately reflect their level of ongoing commitment to Timor-Leste. Rather, it is a reflection of the cyclical nature of programmes, contractual arrangements and budget processes. Some development partners will only report future commitments, when they have a formal approval from their respective governments. This will result in under reporting of funding. Clear guidance should be given on the need for reporting both formally approved and expected funding.

## PRIORITY ACTIONS

- International partners should maintain their rapid response capacity as they adjust their aid programmes to support development.
- Development partners should ensure aid flows are reliably and transparently provided to the government to enable better government planning and budgeting. The government will require all DPs to provide reliable, timely and accessible information on planned aid flows for the AIMS.

## ILLUSTRATIVE INDICATORS

### Indicator 9a. Are there rapid response mechanisms?

*Both government and DPs have rapid response mechanisms.*

### Indicator 9b. Amount of aid committed at a given time (February 2011) beyond a three-year timeframe

*Only USD 32.8 million of ODA is committed beyond a three-year time frame.*

### Indicator 9c. Aid fluctuations to average GDP over 2004-09

*Aid to Timor-Leste has fluctuated significantly over this time period.*



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# 10. AVOID POCKETS OF EXCLUSION

## PRINCIPLE 10: KEY FINDINGS

- Both the DPs and government are aware of the dangers of being too Dili-centric and are making some significant efforts to improve access to basic services and generate jobs outside of the capital.
- The government has taken calculated risks in promoting development in the rural areas and initiated activities to support the private sector, involve communities in development and generate a peace dividend. The government is aware that these projects have suffered from lack of supervision, poor targeting and may suffer sustainability problems but see the answer as improving interventions over time.

THE ALMOST UNIFORM EXPERIENCE OF PARTICIPANTS IS THAT THE “DILI-CENTRIC” FOCUSES OF development efforts may contribute to societal divisions and widen the rural-urban divide (see also FSP 6). The government recognises the natural obstacles to development in rural areas including remoteness, poor access and lack of connectivity. It is expected that significant infrastructure improvements will gradually reduce the lack of access.

The concentration of investment in the capital seems understandable when the international focus is on statebuilding of institutions and government policy on decentralisation is yet to be approved. The vast majority of international advisers and DPs live and work in Dili and, being outside rural areas, may not focus on them as much as they could. Some civil society and NGO participants felt that project design sometimes excluded rural beneficiaries. DPs suggest that the lack of clarity about the government plans for decentralisation impedes progress. Conversely, some government officials felt that one reason why decentralisation efforts have been slow to gain traction is due to the limited support from DPs to help understand the various decentralisation models. Whatever model is eventually adopted, both government and DPs recognise the importance of investment in the local economy, supporting development of local products, local banking facilities and promoting community services.

## INVESTMENT IN RURAL AREAS

The investments made in rural water supplies have shown that a thoughtful intervention in rural areas can pay dividends. The GoTL, supported by development partners such as Australia, has significantly increased investment in the rural water sector – USD 5.5 million in 2010, with USD 8.9 million planned for 2011. DPs and NGOs are involved in the delivery (construction and rehabilitation) of rural water supplies. The GoTL has developed Rural Water Supply Guidelines that include a community planning and management approach and provide technical standards to improve quality. Ongoing maintenance is a challenge, affecting the sustainability of this increased investment in rural water systems.

The GoTL has recruited and trained facilitators in each sub-district (within the Sub-District Administration office). They provide an opportunity for increased co-ordination with sub-district and *suco* (village) level co-ordinated development activities and are crucial to strategies to increase the sustainability of the increased investment.

The government points to a series of initiatives which have made a significant impact in rural areas, pumping some USD 90.5 million into rural areas, while relying on the nascent private sector to implement the projects. Government schemes like the Intensive Labour Projects at the district, sub-district and *suco* level have benefitted some 40 000 Timorese a year since 2007. The Pakote Referendum (PR) in 2009 allocated funds to each district for building works and as a result 720 new and existing Timorese companies executed 808 local community projects. USD 44 million was spent with local Timorese companies, using only Timorese employees, in the rural areas to undertake infrastructure projects creating over 64 000 jobs.

A similar programme, *Pakote de Desenvolvimento Descentralizado* (PDD), worth around USD 31 million, took place in 2010, with another USD 5.5 million invested in the cash for work scheme; the former targeting over 20 000 jobs and the latter targeting another 16 000 jobs over a 3 to 6 month period. In all 13 districts, 91 training centres have been registered, providing training in bread making, agriculture, woodwork, carpentry, electricity, mechanics, welding and construction. Furthermore, 110 trainers were given advanced training to ensure the standard and quality of teaching and 2 429 Timorese were trained to administer the centres. The priority was to send resources to rural areas and this was more than achieved. Development partners felt that the lack of minimum procurement standards allowed corruption to occur, and the overall quality of projects and value of money were poor. The government assesses these “risks” as a price worth paying although some leakages would necessarily happen given the weakness of systems. The expansion of district projects has attempted to tackle the notion that the government only cares about Dili but questions persist over the sustainability of these initiatives and the direct impact for communities.

The construction of five professional training and employment centres has supported communities in pursuing career development while 5 018 young people in five districts have participated in the

Youth Employment Program.<sup>1</sup> Apprenticeships and trainee programmes have given 519 young people jobs with major companies in Dili, resulting in a 50% retention rate for full-time employment.<sup>2</sup>

The government acknowledges that it has been difficult to deploy national professional staff to remote areas, especially in the health and education sectors. The recent Government Decree Law giving staff in remote areas an extra allowance, is a step in the right direction. It is also difficult to raise levels of access to services and encourage economic development when rural roads are so poor.

The International Dialogue on Peacebuilding and Statebuilding Monitoring Survey in Timor-Leste found that there were mixed views on the concept of “buying peace”, for example, the schemes mentioned above, the *suco* transfers and the government provision of cash transfers to help IDPs reintegrate into the community following the crisis. While there was general agreement that this was a successful short-term intervention and likely to be a long-term investment in peace, participants also highlighted the importance of respect for inclusion in order to build a lasting peace. There was general agreement that if the government could continue to manage the transition to a more equal and sustainable distribution of economic growth and service delivery programmes to help support these efforts.

## YOUTH

Many participants underlined the growing danger presented by the exclusion of youth. One member of parliament noted “...when we look at problem of youth unemployment – there are no jobs – the Government spends money to take them to Australia... that means we are all dependent on scholarships – but this doesn’t solve the problems they will face when they return”.

1 Financed with the support of Australian aid.

2 Timor-Leste MDG booklet 2010.

## EDUCATION AND RURAL DEVELOPMENT

One sector that appears to suffer particularly acutely from this divide is the education sector. It is claimed that 1 000 rural schools are waiting to be refurbished. Increased investment in rural areas could have multiplier effects for the developmental potential of these areas and the nation as a whole. International and state attention should provide a broader focus than just institution building and look at the key sectors that can benefit from investment in rural areas and will contribute towards long term stability and development goals.

## PRIORITY ACTIONS

- Government and DPs need to investigate exclusion and its possible consequences. Clearer monitoring and better targeting of assistance to rural areas would be aided by specific government leadership and strategies that are complemented by a better division of labour among international actors. This would include improved data and statistics on both actual and perceived inequality and income disparity.
- DPs, in partnership with government, to increase support for civil society organisations, particularly those engaged in service delivery in rural areas.
- DPs and government to focus on actions to remove the obstacles to better services and economic development in rural areas including improved rural roads.

## ILLUSTRATIVE INDICATORS

**Indicator 10a. Is the country under-aided with regard to its needs and the quality of its institutions and policies?**

*Development partners feel that there are provinces, sectors, or population groups in Timor-Leste that receive insufficient development assistance and there is broad agreement that institutions and policies have some way to go before being totally fit for purpose.*

**Indicator 10b. All things being equal, does international engagement have a positive or a negative impact on social divides?**

*Whilst development partners claim to disaggregate resource flows and results e.g. by geographic location, by gender, and across social groups, they admit that exclusion occurs and thus they may inadvertently contribute to social divides.*

**Indicator 10c. What percentage of ODA is disbursed at country-level beyond the capital city in calendar year 2010?**

*About 43% of ODA was disbursed to regional projects including the capital. If the projects covering the capital are excluded, 33% was disbursed.*



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# ANNEX A.

## THE PRINCIPLES FOR GOOD INTERNATIONAL ENGAGEMENT IN FRAGILE STATES AND SITUATIONS

### PREAMBLE

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

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

#### 1. TAKE CONTEXT AS THE STARTING POINT

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

#### 2. DO NO HARM

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International interventions can inadvertently create societal divisions and worsen corruption and abuse, if they are not based on strong conflict and governance analysis, and designed with appropriate safeguards. In each case, international decisions to suspend or continue aid-financed activities following serious cases of corruption or human rights violations must be carefully judged for their impact on domestic reform, conflict, poverty and insecurity. Harmonised and graduated responses should be agreed, taking into account overall governance trends and the potential to adjust aid modalities as well as levels of aid. Aid budget cuts in-year should only be considered as a last resort for the most serious situations. Donor countries also have specific responsibilities at home in addressing corruption, in areas such as asset recovery, anti-money laundering measures and banking transparency. Increased transparency concerning transactions between partner governments and companies, often based in OECD countries, in the extractive industries sector is a priority.

### 3. FOCUS ON STATEBUILDING AS THE CENTRAL OBJECTIVE

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States are fragile when state<sup>1</sup> structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations. International engagement will need to be concerted, sustained, and focused on building the relationship between state and society, through engagement in two main areas. Firstly, supporting the legitimacy and accountability of states by addressing issues of democratic governance, human rights, civil society engagement and peacebuilding. Secondly, strengthening the capability of states to fulfil their core functions is essential in order to reduce poverty. Priority functions include: ensuring security and justice; mobilizing revenue; establishing an enabling environment for basic service delivery, strong economic performance and employment generation. Support to these areas will in turn strengthen citizens' confidence, trust and engagement with state institutions. Civil society has a key role both in demanding good governance and in service delivery.

### 4. PRIORITISE PREVENTION

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

### 5. RECOGNISE THE LINKS BETWEEN POLITICAL, SECURITY AND DEVELOPMENT OBJECTIVES

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

### 6. PROMOTE NON-DISCRIMINATION AS A BASIS FOR INCLUSIVE AND STABLE SOCIETIES

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

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



## 7. ALIGN WITH LOCAL PRIORITIES IN DIFFERENT WAYS IN DIFFERENT CONTEXTS

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

## 8. AGREE ON PRACTICAL CO-ORDINATION MECHANISMS BETWEEN INTERNATIONAL ACTORS

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

## 9. ACT FAST... BUT STAY ENGAGED LONG ENOUGH TO GIVE SUCCESS A CHANCE

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

## 10. AVOID POCKETS OF EXCLUSION

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



# ANNEX B.

## SUMMARY TABLE OF FSP INDICATORS

TABLE B.1. INDICATORS FOR THE FRAGILE STATES PRINCIPLES SURVEY

PRINCIPLE 1. TAKE CONTEXT AS THE STARTING POINT	2009	2011
1a. Are the international actors' country strategies based on sound political and social analysis ( <i>i.e.</i> taking into account the situation in terms of national capacity, state-society relations and societal divisions?)	Yes, overall, but more analysis needed on rural/urban divide	Yes, while recognising that some disagreement remains with the government on the macroeconomic outlook.
1b. Is there a process through which national and international actors conduct contextual analysis together when deciding priority actions, appropriate division of responsibilities, aid modalities etc.?	N/A	There is evidence of increasing joint contextual analysis and analytic work.
1c. Have the development partners agreed on joint strategic objectives?	N/A	Nearly all development partners in Timor-Leste believe they have shared strategic objectives.

### PRINCIPLE 2. DO NO HARM

2a. Have the development partners performed previous assessments of the negative impacts their intervention could cause?	N/A	Yes, development partners are concerned with the possible negative impacts of their interventions and have carried out appropriate studies to investigate further.
2b. Do the development partners have an institutional mechanism for integrating lessons learned from past assessments into strategy and/or programming?	N/A	Most DPs claim they assess trade-offs through analytical work, dialogue with the government, and consultations with development partners, civil society, and others thus enabling them to address issues of concern. Some DPs also mention that a whole-of-government approach (WGA) is a useful institutional mechanism to support this.
2c. Do the development partners individually or jointly monitor wages and recruitment of national staff, or have they set up any other actions to avoid a brain drain from the national public sector?	N/A	Most DPs claim to monitor salary developments in Timor-Leste but the majority do not have a policy on recruiting staff from the government.

### PRINCIPLE 3. FOCUS ON STATEBUILDING AS THE CENTRAL OBJECTIVE

3a. Percent of ODA disbursed focused on governance and security between 2004 and 2009	8.4% (2002-2007)	No data available.
3b. On the whole, has international engagement sufficiently strengthened strategic state functions?	N/A	Yes.
3c. On the whole, has international engagement contributed to strengthening political processes and supported dialogue between the state and society?	N/A	Yes, although there is more to be done to support parliament and the media.

### PRINCIPLE 4. PRIORITISE PREVENTION

4a. Over the past 5 years, has the international community invested in preventing future conflict and fragility?	Most people said prevention is integral to most programming	Yes, heavily.
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## PRINCIPLE 5. RECOGNISE THE LINKS BETWEEN POLITICAL, SECURITY AND DEVELOPMENT OBJECTIVES

5a. Do the development partners have a whole-of-government (or, in the case of the EU and UN, whole-of-system) country strategy (i.e. one joint strategy for the partner country, including political, development, security and other objectives) or at least joint strategic objectives?	N/A	All DPs claim to undertake a “joined up” or whole-of-government approach where their country strategy is shared across ministries and encompassing political, development, security and other objectives. The EU is currently working on developing a single strategy for all member states.
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## PRINCIPLE 6. PROMOTE NON-DISCRIMINATION AS A BASIS FOR INCLUSIVE AND STABLE SOCIETIES

6a. Percentage of ODA earmarked for human rights over the period 2004-2009.	N/A	After 2008 there has been less than 1% allocated to human rights – no data for before 2008.
6b. Does the international community explicitly promote inclusion of women, youth, the poor, minority or marginalized groups, through dialogue, programmes and/or capacity strengthening?	N/A	The international community state they support the government and address non-discrimination through many mechanisms but the impression is one of an uncoordinated strategy to support a miscellaneous array of non state actors.

## PRINCIPLE 7. ALIGN WITH LOCAL PRIORITIES IN DIFFERENT WAYS IN DIFFERENT CONTEXTS

7a. Percentage of aid flows to the government sector that is reported on partners' national budgets	N/A	Zero - at present all development partner funding is accounted for using parallel systems.
7c. If there are joint strategic objectives among international actors, are they also shared by the national government?	N/A	All DPs report that they are aligned with the government's peacebuilding and statebuilding strategic objectives.

## PRINCIPLE 8. AGREE ON PRACTICAL COORDINATION MECHANISMS

8a. Is there an agreed division of labour?	No	Division of labour still requires improvement.
8b. Is there a pooled funding mechanism, and what percentage of ODA flows through it (fiscal year 2010)?	N/A	There are no pooled funding mechanisms.
8c. Has practical coordination resulted in better analysis, greater agreement on strategic objectives and improved implementation of international programmes?	N/A	Co-ordination is improving and there is increased joint analytic work (47%), however there is scope to improve high-level policy dialogue on strategic issues and objectives.
8d. Percentage of technical cooperation disbursed through coordinated programmes in line with country development strategies	N/A	50% of technical co-operation is co-ordinated with country programmes.

## PRINCIPLE 9. ACT FAST... BUT STAY ENGAGED LONG ENOUGH TO GIVE SUCCESS A CHANCE

9a. Are there rapid response mechanisms?	Relatively limited (e.g. emergency)	Both government and DPs have rapid response mechanisms.
9b. Amount of aid committed at a given time (February 2011) beyond a three-year time frame	USD 34 million	Only USD 32.8 million of ODA is committed beyond a three-year time frame.
9c. Aid fluctuations to average GDP over 2004-2009	2.9% (1990-2005)	Aid has fluctuated significantly over this time period.

## PRINCIPLE 10. AVOID POCKETS OF EXCLUSION

10a. Is the country under-aided with regard to its needs and the quality of its institutions and policies?	ODA: USD 278 million (2007) GDP: USD 0.5 billion (2008) CPIA: 2.8	Development partner feel that there are provinces, sectors, or population groups in Timor-Leste that receive insufficient development assistance and there is broad agreement that institutions and policies have some way to go before being totally fit for purpose.
10b. All things being equal, does international engagement have a positive or a negative impact on social divides?	N/A	DPs admit that exclusion does occur and thus they may inadvertently contribute to social divides.
10c. What percentage of ODA is disbursed at country-level beyond the capital city in calendar year 2010?	N/A	43% of ODA was disbursed to regional projects including the capital. If the projects covering the capital are excluded, the figure is 33%.



# ANNEX C.

## SUMMARY OF PARIS DECLARATION INDICATORS

TABLE C.1. ARE GOVERNMENT BUDGET ESTIMATES COMPREHENSIVE AND REALISTIC?

	Government's budget estimates of aid flows in 2010*	Aid disbursed by donors for government sector in 2010*	2005  (for reference)	2007  (for reference)	2010 **  c = a/b    c = b/a	Total aid disbursed through other donors*
	a	b				
Asian Dev.Bank	2	5	--	--	38%	0
Australia	57	74	--	--	77%	30
EU Institutions	9	0	--	--	0%	2
Germany	4	7	--	--	50%	0
Global Fund	3	5	--	--	73%	0
Ireland	0	1	--	--	16%	5
Japan	19	23	--	--	83%	0
Korea	0	3	--	--	0%	0
New Zealand	2	4	--	--	55%	0
Portugal	11	35	--	--	31%	0
Spain	1	2	--	--	39%	0
United Nations	32	40	--	--	79%	0
United States	17	0	--	--	0%	0
World Bank	23	21	--	--	89%	0
Average donor ratio			--	--	45%	
<b>TOTAL</b>	<b>180</b>	<b>220</b>	<b>--</b>	<b>--</b>	<b>82%</b>	<b>37</b>

\* In USD millions

\*\* Ratio is  $c = a/b$  except where government's budget estimates are greater than disbursements ( $c = b/a$ ).

TABLE C.2. HOW MUCH TECHNICAL CO-OPERATION IS CO-ORDINATED WITH COUNTRY PROGRAMMES?

	Co-ordinated technical co-operation*	Total technical co-operation*	2005  (for reference)	2007  (for reference)	2010  $c = a/b$
	a	b			
Asian Dev.Bank	4	4	--	--	100%
Australia	10	10	--	--	100%
EU Institutions	3	3	--	--	100%
Germany	7	7	--	--	100%
Global Fund	0	0	--	--	--
Ireland	2	2	--	--	100%
Japan	6	6	--	--	100%
Korea	3	3	--	--	100%
New Zealand	0	4	--	--	3%
Portugal	11	19	--	--	61%
Spain	0	1	--	--	70%
United Nations	20	30	--	--	67%
United States	0	55	--	--	0%
World Bank	10	11	--	--	91%
<b>TOTAL</b>	<b>76</b>	<b>154</b>	<b>--</b>	<b>--</b>	<b>50%</b>

\* In USD millions



TABLE C.3. HOW MUCH AID FOR THE GOVERNMENT SECTOR USES COUNTRY SYSTEMS?

	Aid disbursed by donors for government sector*	Public financial management						Procurement			
		Budget execution	Financial reporting	Auditing	2005*	2007*	2010 avg(b,c,d) / a	Procurement systems	2005*	2007*	2010 e / a
	a	b	c	d				e			
Asian Dev.Bank	5	0	0	2	--	--	10%	2	--	--	30%
Australia	74	16	16	16	--	--	21%	16	--	--	22%
EU Institutions	0	0	0	0	--	--	--	0	--	--	--
Germany	7	0	7	0	--	--	33%	0	--	--	0%
Global Fund	5	0	0	0	--	--	0%	0	--	--	0%
Ireland	1	0	0	0	--	--	36%	0	--	--	54%
Japan	23	1	1	1	--	--	4%	1	--	--	4%
Korea	3	0	0	0	--	--	0%	0	--	--	0%
New Zealand	4	0	0	0	--	--	0%	0	--	--	0%
Portugal	35	0	0	0	--	--	0%	12	--	--	35%
Spain	2	0	0	0	--	--	0%	0	--	--	0%
United Nations	40	10	8	0	--	--	15%	0	--	--	1%
United States	0	0	0	0	--	--	--	0	--	--	--
World Bank	21	19	0	19	--	--	61%	0	--	--	0%
<b>TOTAL</b>	<b>220</b>	<b>46</b>	<b>32</b>	<b>38</b>	<b>--</b>	<b>--</b>	<b>18%</b>	<b>32</b>	<b>--</b>	<b>--</b>	<b>14%</b>

\* In USD millions

TABLE C.4. HOW MANY PIUS ARE PARALLEL TO COUNTRY STRUCTURES?

	2005 (for reference)	2007 (for reference)	2010 (units)
Asian Dev.Bank	--	--	0
Australia	--	--	6
EU Institutions	--	--	0
Germany	--	--	0
Global Fund	--	--	0
Ireland	--	--	0
Japan	--	--	0
Korea	--	--	0
New Zealand	--	--	1
Portugal	--	--	0
Spain	--	--	1
United Nations	--	--	14
United States	--	--	0
World Bank	--	--	0
<b>TOTAL</b>	--	--	<b>22</b>

TABLE C.5. ARE DISBURSEMENTS ON SCHEDULE AND RECORDED BY GOVERNMENT?

	Disbursements recorded by government in 2010*	Aid scheduled by donors for disbursement in 2010*	2005		2007		2010 **		For reference: Aid disbursed by donors for government sector in 2010*	For reference: % of scheduled aid disbursements reported as disbursed by donors in 2010***	
	a	b					c = a / b	c = b / a	d	e = d / b	e = b / d
Asian Dev.Bank	0	6	--		--		0%		5	85%	
Australia	8	91	--		--		9%		74	82%	
EU Institutions	0	0	--		--		--		0	--	
Germany	0	9	--		--		0%		7	81%	
Global Fund	0	4	--		--		0%		5		90%
Ireland	0	0	--		--		0%		1		62%
Japan	0	26	--		--		0%		23	89%	
Korea	0	9	--		--		0%		3	31%	
New Zealand	0	4	--		--		0%		4		93%
Portugal	0	17	--		--		0%		35		48%
Spain	0	3	--		--		0%		2	80%	
United Nations	0	63	--		--		0%		40	64%	
United States	0	19	--		--		0%		0	0%	
World Bank	0	27	--		--		0%	72%	21	77%	
Average donor ratio	0	0		--	--			1%			68%
<b>TOTAL</b>	<b>8</b>	<b>278</b>		--	--		<b>3%</b>		<b>220</b>		<b>79%</b>

\* In USD millions

\*\* Ratio is c=a/b except where disbursements recorded by government are greater than aid scheduled for disbursement (c=b/a)

\*\*\* Ratio is e=d/b except where disbursements recorded by donors are greater than aid scheduled for disbursement (e=b/d)

TABLE C.6. HOW MUCH BILATERAL AID IS UNTIED?

	Total bilateral aid as reported to the DAC in 2009	Untied aid	2005 (reference)	2007 (reference)	Share of untied aid
Australia	14.4	14.3	91%	100%	100%
Austria	0.0	0.0	--	--	--
Belgium	0.0	0.0	100%	--	--
Canada	0.0	0.0	100%	100%	--
Finland	1.1	1.1	100%	--	100%
France	0.0	0.0	--	54%	--
Germany	2.8	2.8	75%	90%	100%
Greece	0.0	0.0	--	100%	--
Ireland	7.3	7.3	100%	100%	100%
Italy	0.0	0.0	--	--	--
Japan	8.4	8.4	100%	100%	100%
Korea	0.3	0.3	--	0%	100%
Netherlands	0.0	0.0	100%	--	--
New Zealand	3.5	1.0	90%	100%	28%
Norway	15.7	15.7	100%	100%	100%
Portugal	17.8	15.0	76%	86%	84%
Spain	9.2	4.5	100%	88%	48%
Sweden	0.0	0.0	100%	100%	100%
Switzerland	0.0	0.0	100%	100%	100%
United Kingdom	0.0	0.0	--	100%	100%
United States	31.8	8.7	100%	53%	27%
<b>TOTAL</b>	<b>112</b>	<b>79</b>	<b>89%</b>	<b>85%</b>	<b>70%</b>

TABLE C.7. HOW MUCH AID IS PROGRAMME BASED?

	Programme-based approaches			Total aid disbursed d	2005 (reference)	2007 (reference)	2010 e = c / d
	Budget support	Other PBAs	Total				
	a	b	c = a+b				
Asian Dev.Bank	0	0	0	5	--	--	0%
Australia	16	0	16	108	--	--	15%
EU Institutions	0	2	2	14	--	--	12%
Germany	0	0	0	7	--	--	0%
Global Fund	0	0	0	5	--	--	0%
Ireland	0	0	0	2	--	--	0%
Japan	0	23	23	23	--	--	98%
Korea	0	0	0	3	--	--	0%
New Zealand	0	0	0	6	--	--	0%
Portugal	0	12	12	36	--	--	32%
Spain	0	0	0	12	--	--	0%
United Nations	3	8	12	44	--	--	27%
United States	0	0	0	55	--	--	0%
World Bank	0	20	20	21	--	--	95%
<b>TOTAL</b>	<b>19</b>	<b>64</b>	<b>83</b>	<b>341</b>	<b>--</b>	<b>--</b>	<b>24%</b>

TABLE C.8. HOW MANY DEVELOPMENT PARTNER MISSIONS ARE CO-ORDINATED?

	Co-ordinated development partner missions* (units)  a	Total development partner missions (units)  b	2005*  (for reference)	2007*  (for reference)	2010*  c = a/b
Asian Dev.Bank	15	100	--	--	15%
Australia	7	9	--	--	78%
EU Institutions	2	9	--	--	22%
Germany	3	4	--	--	75%
Global Fund	0	0	--	--	--
Ireland	3	3	--	--	100%
Japan	0	4	--	--	0%
Korea	0	8	--	--	0%
New Zealand	2	9	--	--	22%
Portugal	1	19	--	--	5%
Spain	0	0	--	--	--
United Nations	26	45	--	--	58%
United States	0	62	--	--	0%
World Bank	12	24	--	--	50%
<b>TOTAL</b>	<b>46</b>	<b>296</b>	<b>--</b>	<b>--</b>	<b>16%</b>

\* The total of co-ordinated missions has been adjusted to avoid double counting. A discount factor of 35% is applied.

TABLE C.9. HOW MUCH COUNTRY ANALYTIC WORK IS CO-ORDINATED?

	Co-ordinated development partner analytic work* (units)	Total development partner analytic work (units)	2005*	2007*	2010*
	a	b	(for reference)	(for reference)	c = a/b
Asian Dev.Bank	5	15	--	--	33%
Australia	3	6	--	--	50%
EU Institutions	1	3	--	--	33%
Germany	9	9	--	--	100%
Global Fund	0	2	--	--	0%
Ireland	2	3	--	--	67%
Japan	0	0	--	--	--
Korea	0	0	--	--	--
New Zealand	0	1	--	--	0%
Portugal	5	6	--	--	83%
Spain	0	0	--	--	--
United Nations	15	20	--	--	75%
United States	1	2	--	--	50%
World Bank	4	5	--	--	80%
<b>TOTAL</b>	<b>34</b>	<b>72</b>	<b>--</b>	<b>--</b>	<b>47%</b>

\* The total of co-ordinated missions has been adjusted to avoid double counting. A discount factor of 25% is applied.

TABLE C.10. SOUTH SUDAN BASELINES AND TARGETS FOR 2010

	Indicators	2005 (for reference)	2007 (for reference)	2010 Actual	2010 Target
1	Operational Development Strategies	--	--	C	B or A
2a	Reliable Public Financial Management (PFM) systems	--	3.0	3.0	No Target
2b	Reliable Procurement systems	Not available	Not available	Not available	No Target
3	Aid flows are aligned on national priorities	--	--	82%	85%
4	Strengthen capacity by co-ordinated support	--	--	50%	50%
5a	Use of country PFM systems	--	--	18%	No target
5b	Use of country procurement systems	--	--	14%	No Target
6	Strengthen capacity by avoiding Parallel PIUs	--	--	22	No Target
7	Aid is more predictable	--	--	3%	No Target
8	Aid is untied	89%	85%	70%	More than 89%
9	Use of common arrangements or procedures	--	--	24%	66%
10a	Joint missions	--	--	16%	40%
10b	Joint country analytic work	--	--	47%	66%
11	Results-oriented frameworks	--	--	D	B or A
12	Mutual accountability	Not available	Not available	N	Y



TABLE C.11. WHICH DEVELOPMENT PARTNERS RESPONDED TO THE SURVEY?

	Top 15 development partners	2009 Core ODA* (USD millions)	Survey responses
1	Australia	\$59.91	✓
2	Portugal	\$34.64	✓
3	United States	\$28.61	✓
4	Japan	\$11.88	✓
5	EU Institutions	\$9.68	✓
6	Norway	\$8.51	
7	Spain	\$8.21	✓
8	Global Fund	\$7.60	✓
9	Ireland	\$7.37	✓
10	United Nations	\$7.21	✓
11	Germany	\$5.63	✓
12	New Zealand	\$5.10	✓
13	Sweden	\$4.59	
14	Asian Dev. Bank	\$4.20	✓
15	World Bank	\$3.81	✓
	All other development partners	\$4.89	
<b>TOTAL ODA</b>		<b>\$211.84</b>	
<b>Estimated coverage of ODA</b>			<b>92%</b>

\* Core ODA is gross ODA less debt relief and humanitarian aid



# ANNEX D.

## FUTURE RISKS TO STABILITY MATRIX

RISK	POTENTIAL IMPACT ON STABILITY	LIKELIHOOD
As the UN Mission comes closer to an end, which could also be the case for the International Stabilisation Force (ISF), there is a risk of an increase in minor conflicts	If certain parties see the UN leaving they may be tempted to disrupt Timor.	Likely – the UN Transition Strategy will address this.
Increasing food, commodity and shipping prices	One concrete example can be seen in rice prices. In some sub-districts, subsidised rice prices have risen to USD 28 in February 2011* and continue to rise. Many who cannot afford these prices have turned to other staples but these are limited in supply especially in areas experiencing unseasonal weather patterns and flooding. There have been demonstrations in the past over rising food prices, which could reoccur.	Currently high.
Unbalanced development	Development in rural areas has taken place but many of the decentralisation projects initiated by government are only short term. They run for a few years but then they leave and impact is lost. This can create instability in rural areas. If we can't make sure everyone develops together we may see a risk in conflict visiting once again. In terms of income access, there are totally different classes being created – even in Dili. A lack of equitable access means that some people – even those with a small income have a totally different quality of life. When you have a situation where people count gains based on whether they can still buy a bag of rice – there is a problem.	High – if no action taken by the government.
Immunity: from prosecution, from bad construction, from corruption, not paying for past misdemeanours	Others will see that they can profit from the same behaviour.	Strong if no action taken.
Religious Conflict: rise of evangelical churches.	Local impacts and concerns for safety from members of minority religious groups.	High – these conflicts have already been occurring in a number of sub-districts particularly during the last two years.
Youth and martial arts groups involvement in violence	While involvement of youth and martial arts group members in violence appeared to be reducing during the second half of 2010, there were an increased numbers of incidents over the Christmas period.* The increased involvement of youth/martial arts groups in violence leaves them vulnerable to mobilisation to political ends.	Medium.
Elections	Potentially could cause instability all over Timor. Children and youth may be exploited for political purposes which may expose them to harm.	Very high if security is not maintained.
Unemployment of ex-UN staff	A large number of young people seeking out employment may cause resentment towards government (who many assume will absorb ex-UN staff) or other international institutions.	Low - The UN has identified that many of its staff have skills and ability unsuited to local job markets. There are preliminary plans for a large training scheme to assist local staff acquire work after the UN withdraws. However this may be insufficient.

\* NGO Belun and Columbia University's Center for International Conflict Resolution, Early Warning and Early Response (EWER) program monitoring data, March 2011

<b>Youth unemployment</b>	<p>Although youth unemployment has been on the decline, with an increasing services sector (6% of the economy according to GoTL, 2011a) much of this is based upon a non-sustainable, expatriate clientele. In addition, there has been a decrease in the number of those engaged in subsistence agriculture. This is likely to be linked to more people moving to capital centres which may place additional pressure on local communities and government to find employment solutions for these groups.</p>	<p>Medium. There are many programmes being targeted to out-of-work and at-risk youth, however many worry that these are insufficient. There is a considerable amount of time and effort targeting children and education but for those who have already left school or those attending tertiary institutions within Timor-Leste, there exists a large gap between what they expect to achieve and the options available to them and reality. This is a destabilising factor that can be addressed through a macroeconomic policy framework that encourages foreign investment.</p>
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# ANNEX E.

## METHODOLOGY FOR THE FRAGILE STATES PRINCIPLES MONITORING SURVEY

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### APPROACH TO THE SURVEY AND PURPOSE

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The general methodology is common to all participating countries/territories, although it has been slightly altered to take into account Timor-Leste specifics.

It is intended that the survey will link to existing dialogues in Timor-Leste between international actors, the government and civil society. The survey also seeks to identify key areas where dialogue may not exist or where existing dialogue could be improved. It is also intended that the survey findings will improve existing country planning and aid management processes, and help advance the adoption of a national aid policy. Crucially, it also offers a lens through which to consider the new Strategic Development Plan and its implementation, fostering and strengthening consensus amongst development partners and other stakeholders around the vision, detailed plans and financing.

The ultimate objective of the survey is thus not simply the production of the Country Chapter as an input to the Global Report by OECD, but real behaviour change and impact at country-level, right here in Timor-Leste.

As such, the starting point for the survey in each country should be: “How can the survey contribute to strategic objectives that we’ve already identified, or to certain ongoing processes?”

The survey ultimately rests on a multi-stakeholder, multi-sector, mixed-methods approach (quantitative and qualitative data), building on data collection and a national consultation.

The survey consisted of three phases and is a multi-stakeholder process. The three phases of the survey were:

1. Data collection (literature review; data search; interviews; focus group discussions; development partner questionnaire) before the national consultation meeting
2. A national consultation meeting
3. Validation of the Country Chapter.

Initial consultations brought together multiple stakeholders:

- National actors including members of government, members of parliament and of civil society organisations
- International actors working in the fields of development, diplomacy and security

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### PHASE I. DATA COLLECTION

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Phase I was completed March-April 2011. The data collection phase drew from the combined FSP-Paris Declaration Monitoring Survey development partner questionnaire, statistical data gathered by the

consultant, stakeholder interviews, focus group discussions conducted by the consultant and direct observation. Focus group discussions and interviews included a wide variety of questions about the application of the FSPs and a series of open-ended questions.

The data collected inform the scoring of indicators. These aim at measuring progress towards good practices usually associated with each of the FSPs. The indicators are only a part of the survey and were used in the context of the other data collected. In other words, indicators are not meant as a perfect or comprehensive measure of how well a given principle is implemented. The indicators are common to all participating countries in order to assess existing trends in all countries.

#### PHASE II. THE NATIONAL CONSULTATION (17 MARCH 2011)

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The consultation meeting began with a presentation of the initial findings in order to frame the discussion. The consultation allowed for a qualitative dialogue about whether international support accords with each principle, and with what impact. Examining the specifics of Timor-Leste helped explain why certain approaches and options have been preferred over others. The consultations were an opportunity to foster consensus on these issues, although as was expected some diverging viewpoints remain.

#### PHASE III. VALIDATION (APRIL - JULY 2011)

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The data collected and the discussions at the national consultation have been summarised in the Country Chapter, and submitted to the different stakeholders by the National Co-ordinator for validation. The first step in this exercise was a peer review undertaken locally by two participating organisations. This was followed by a presentation of findings at a dedicated workshop held in June 2011. The final draft country chapter was passed to the OECD on 19 June 2011.

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# 2011 Report on International Engagement in Fragile States

## DEMOCRATIC REPUBLIC OF TIMOR-LESTE

The second Monitoring Survey of the Fragile States Principles provides evidence of the quality of international engagement based on national consultations with Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Guinea-Bissau, Haiti, Liberia, Sierra Leone, Somalia, South Sudan, Timor-Leste and Togo across the areas of diplomacy, development and security.

For each participating country, a chapter is drafted on the basis of a national consultation and complementary interviews. These 13 country chapters provide a picture of areas of progress and bottlenecks in each participating country to feed into country-level planning. Each country chapter is drafted and validated under the joint responsibility of a national co-ordinator and an international focal point.

The Monitoring Survey of the Fragile States Principles involves two rounds of consultations, in 2009 and 2011. The results are compiled by the OECD DAC Secretariat in two Monitoring Reports that draw on findings from the country chapters to provide global recommendations for consideration by the international community. The reports will be presented at the Fourth High Level Forum on Aid Effectiveness (Busan, 2011).

Readers can also find more information at [www.fsprinciples.org](http://www.fsprinciples.org).