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**AND**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**AND**

**INTERNATIONAL FINANCE CORPORATION**

**COUNTRY PARTNERSHIP STRATEGY**

**FOR THE**

**DEMOCRATIC REPUBLIC OF TIMOR-LESTE**

**FOR THE PERIOD FY2013-FY2017**

**February 19, 2013**

**Timor-Leste, Papua New Guinea, and Pacific Islands Country Management Unit  
East Asia and Pacific Region**

**The International Finance Corporation  
East Asia and Pacific Region**

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## Last Country Assistance Strategy: June 22, 2005 (Report No. 32700-TP)

### CURRENCY EQUIVALENT

Currency Unit = US Dollar

### Fiscal Year

(January 1 to December 31)

### ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Work	Information System	
ADB	Asian Development Bank	ESDP	Energy Services Delivery Project
AF	Additional Financing	ESI	Estimated Sustainable Income
APIP	Agriculture Productivity Improvement Project	ESMAP	Energy Sector Management Assistance Program
ARP	Agriculture Rehabilitation Program	ESW	Economic and Sector Work
ASTAE	Asia Sustainable and Alternative Energy Program	EU	European Union
BETF	Bank-Executed Trust Fund	FAO	Food and Agriculture Organization of the United Nations
BNPP	Bank-Netherlands Partnership Program	FDI	Foreign Direct Investment
CAS	Country Assistance Strategy	FIRST	Financial Reform and Strengthening Initiative
CASCR	Country Assistance Strategy Completion Report	FM	Financial Management
CASPR	Country Assistance Strategy Progress Report	FTI	Fast Track Initiative
CGAP	Country Gender Action Plan	GAFSP	Global Agriculture and Food Security Program
CCI	Chamber of Commerce and Industry	GDP	Gross Domestic Product
CCSD	Center for Conflict, Security and Development	GEF	Global Environment Facility
CEDAW	Convention to End All Forms of Discrimination against Women	GER	Gross Enrollment Rate
CPE	Country Program Evaluation	GNI	Gross National Income
CPI	Consumer Price Index	GoTL	Government of Timor-Leste
CPS	Country Partnership Strategy	HDI	Human Development Index
CSC	Civil Service Commission	HIES	Household Income and Expenditure Survey
CSO	Civil Society Organization	HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
CSP	Consolidation Support Program	HMIS	Health Management Information System
DfID	Department for International Development	IBRD	International Bank for Reconstruction and Development
DHS	Demographic and Health Survey	ICR	Implementation Completion Report
DSA	Debt Sustainability Analysis	ICT	Information and Communication Technology
DTIS	Diagnostic Trade Integration Study	IDA	International Development Association
EAP	East Asia and the Pacific	IDF	Institutional Development Fund
EC	European Commission	IEG	Independent Evaluation Group
EDF	European Development Fund	IFC	International Finance Corporation
EDTL	Electricidade de Timor-Leste	ILO	International Labour Organization
EGRA	Early Grade Reading Assessment	IMF	International Monetary Fund
EITI	Extractive Industries Transparency Initiative	IMfTL	Instituicao de Microfinancas de Timor-Leste
EMIS	Education Management		

IRI	International Roughness Index	PMO	Prime Minister's Office
ISF	International Stabilization Force	PPP	Public-Private Partnership
ISN	Interim Strategy Note	PROST	Pension Reform Options Simulation Toolkit
J4P	Justice for the Poor		
JICA	Japan International Cooperation Agency	PSG	Peacebuilding and Statebuilding Goal
LICUS	Low Income Countries under Stress	PSIA	Poverty and Social Impact Analysis
LNG	Liquefied Natural Gas	QAG	Quality Assurance Group
MAF	Ministry of Agriculture and Fisheries	QER	Quality Enhancement Review
		RD&E	Research, Development and Extension
MDG	Millennium Development Goal	RETF	Recipient-Executed Trust Fund
M&E	Monitoring and Evaluation	SAMES	Autonomous Service of Medicines and Health Equipment
MIGA	Multilateral Investment Guarantee Agency		
MIS	Management Information System	SDP	Strategic Development Plan
MOE	Ministry of Education	SIL	Specific Investment Loan
MOF	Ministry of Finance	SME	Small and Medium Enterprises
MOH	Ministry of Health	STD	Sexually Transmitted Disease
MSS	Ministry of Social Solidarity	SWAps	Sector Wide Approaches
MTEF	Mid-Term Expenditure Framework	TA	Technical Assistance
		TF	Trust Fund
NESP	National Education Strategy Plan	TFET	Trust Fund for East Timor
NGO	Non-Governmental Organization	TLAAC	Timor-Leste Agricultural Advisory Committee
NHSSP- SP	National Health Sector Strategic Plan Support Program	TLARDI	Timor-Leste Research and Development Institute
NLTA	Non-Lending Technical Assistance		
NPs	National Priorities	UN	United Nations
ODA	Official Development Assistance	UNDP	United Nations Development Programme
OIG	Office of the Inspector General	UNICEF	United Nations Children's Fund
PforR	Program for Results	UNMIT	United Nations Integration Mission in Timor-Leste
PEFA	Public Expenditure and Financial Accountability		
PER	Public Expenditure Review	USAID	United States Agency for International Development
PF	Petroleum Fund		
PFM	Planning and Financial Management	WBG	World Bank Group
		WBI	World Bank Institute
PFMCBP	Planning and Financial Management Capacity Building Program	WDR	World Development Report

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**FY2013 – 2017 COUNTRY PARTNERSHIP STRATEGY  
THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE**

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Map of Timor-Leste: IBRD No. 33496R

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## EXECUTIVE SUMMARY

**Over the past decade, Timor-Leste has created the preconditions for successful development.** It has credibly emerged from a crisis of internal violence and political instability in 2006/7, built an “inclusive enough” coalition, and increased tangible services for the population, creating a hard-won political stability, absence of conflict and a new confidence in the state. Reflecting these achievements, it underwent largely peaceful democratic elections for President (March and May 2012) and Parliament (June 2012), and an orderly transition to the Fifth Constitutional Government. The United Nations Integrated Mission for Timor-Leste (UNMIT) and the International Stabilization Force (ISF), both deployed following the 2006 crisis, completed their missions in December 2012 and have withdrawn from the country upon request from the government. The United Nations Security Council, applauding Timor-Leste’s political and security achievements, ended its tutelage over the country at the end of 2012.

**Educating, keeping healthy, and productively employing its young population are the biggest development challenges facing Timor-Leste in the next decade.** With 60 percent of the population under 25 years of age, the demographics are daunting. Reaping the benefits of high global oil prices, Timor-Leste achieved lower middle-income status in 2011, but poverty remains persistently high, particularly in the rural areas where the majority of the population lives. Oil revenues have funded an expansion of social services to improve human development performance, but with limited capacity in the public and private sector service providers. The job market struggles to provide for a population growing at 2.41 percent per year. Important development indicators, such as infant and maternal mortality, have improved, but indicators of child nutritional status have deteriorated. The impressive increases in school enrollment have not been accompanied by improvements in educational outcomes and low literacy rates persist, particularly for women and girls. Over 70 percent of total employment is vulnerable. Most of the rural poor rely upon low productivity subsistence agriculture for livelihoods, and experience periods of food insecurity.

**The Government is candid about the huge challenges the country faces and is looking for solutions.** Timor-Leste recently completed a fragility assessment to identify successes, as well as remaining stressors that could derail stability. It is a leader in transparency (including compliance with the Extractive Industries Transparency Initiative, or EITI), and is leveraging its accomplishments through leadership of the g7+ platform for engagement in fragile states. However, the government recognizes that Timor-Leste remains the second most oil dependent economy in the world, and known reserves are finite. With public spending funded almost entirely from the wealth accumulated in its Petroleum Fund, medium-term fiscal sustainability is a concern. Government also recognizes the limitations of the public sector, not atypical of a very young nation emerging from conflict, and puts capacity building of people and institutions at the forefront of its priorities. To create job opportunities for youth, sustain inclusive growth, and prepare for a future of potentially declining natural resource returns, Timor-Leste needs to diversify its economy and sources of revenue, elevate the quality of health and education services, and equip the population with viable skills. In order for these efforts to be successful, they must be underpinned by capable institutions with a strong and consistent focus on quality of spending and policies that nurture private investment.

**Recognizing this imperative, the government has laid out its vision for private sector-led growth to create jobs and income, and tackle persistent poverty.** It conducted a participatory planning process to design a Strategic Development Plan (SDP) for the 2011-2030 period. The SDP offers a vision, targets and indicators, phased over the next two decades. It is built around four pillars: (i) Social capital, which is comprised of health, education and social protection, and aims to improve human development outcomes, create a labor force with marketable skills, and protect the

vulnerable; (ii) Infrastructure, including transport, telecommunication, power, and water supply and sanitation, to increase connectivity, reduce transaction costs and attract private investment, and facilitate access to services; (iii) Economic foundations, which targets three sectors for development – agriculture, tourism and petrochemicals – to bring about non-oil growth, jobs, and new sources of public revenues; and (iv) a cross-cutting theme, Institutions, for sound macroeconomic management, to improve the capacity and effectiveness of state institutions through civil service reform and good public financial management, and to strengthen mechanisms of oversight, including the transparency of public decision-making.

**The Bank Group's Country Partnership Strategy (CPS) is fully aligned with the Government of Timor-Leste's (GoTL) SDP and sets out a focused program of lending, analytical and advisory work (AAA), trust funds (TFs) and convening services grouped around the four pillars in the SDP.** The World Bank Group (WBG) will assist the 5<sup>th</sup> constitutional government to establish the building blocks for a non-oil economy through catalytic investments in priority sectors and demonstrable improvements in institutional quality and in the quality of public spending. In particular, the WBG will help the government to (i) invest in the quality of health and education services and the effectiveness of social protection programs; (ii) build core infrastructure to connect communities to services and markets and reduce transaction costs; and (iii) support the development of a non-oil economy that creates jobs by improving the enabling environment for private sector investment and augmenting the productivity and value-added of agriculture. Underpinning each of these activities will be a focus on leveraging knowledge to strengthen the capacity of public sector institutions to improve the quality of spending of the country's finite oil wealth. Each activity planned during the CPS period is designed to increase the government's capacity to deliver core services, by putting in place essential institutional building blocks – including systems and policies and a well-equipped civil service. Stronger institutions will not only contribute to better and more transparent service delivery over the long-term, but will also ensure that Timor-Leste's time-limited natural resource wealth is used productively.

**The CPS marks a number of transitions.** *First*, it reflects the lessons learned from the Bank Group's previous Country Assistance Strategy (CAS, 2005) and Interim Strategy Note (ISN, 2009), which in hindsight were overly ambitious and broad for a fragile, post-conflict development context. As a result, the CPS recognizes both the need to be more selective and flexible in order to meet development priorities as they evolve. *Second*, after a decade in which the Bank's financial instruments involved only International Development Association (IDA) grants (with substantial donor co-financing through trust funds), the present CPS marks a transition to a program of IDA credits and International Bank for Reconstruction and Development (IBRD) loans that reflects both Timor-Leste's economic growth and its capacity to finance its own development through oil revenues and limited debt. *Finally*, the CPS period (FY13-17) is fully aligned with the GoTL's term in office and fully consistent with the transition from post-conflict stabilization to a carefully calibrated program of national development.

## I. COUNTRY CONTEXT

1. **The WBG’s FY2010-2011 Interim Strategy Note was developed in the aftermath of violence that left one-tenth of the population displaced and highlighted remaining political and social divisions in the young nation.** The 2006-7 crisis was the product of institutional weaknesses of the security forces, elite political tensions, and the massive social and economic disruptions remaining from the post-referendum violence of 1999. Following a deterioration of public order and the breakdown of basic government functions, the 4<sup>th</sup> constitutional government, which came to power in 2007, concentrated on resolving grievances, rebuilding public trust, and securing internal peace. Long-term strategic planning and efforts to shore up and diversify the petroleum-dominated economy commenced, but substantial uncertainty remained about both government priorities and the operating environment. In this environment of uncertainty, an ISN was chosen to provide greater flexibility and responsiveness to emerging priorities.

2. **Since the crisis, Timor-Leste has become increasingly economically independent, with own-resources far surpassing Official Development Assistance (ODA), and has provided a country-led direction for development with the issuance of a Strategic Development Plan (SDP).** In support of this plan, and cognizant that a weak public sector is the main impediment to development, the government requested that the WBG provide: (i) discrete analytical and technical assistance for capacity-building linked to development priorities; and (ii) operations in critical areas that offer demonstration effects and high potential for replication in government investments. Though challenges remain on the pathway out of fragility, and there are substantial risks in the current development trajectory, there will be a clear evolution for the WBG from assistance to partnership, reflected in the shift to a Country Partnership Strategy for fiscal years 2013-2017.<sup>1</sup>

### A. EMERGING FROM FRAGILITY

3. **At independence in 2002, the new Democratic Republic of Timor-Leste inherited the daunting task of rebuilding a state from the ground up<sup>2</sup>.** Occupation and conflict left behind poorly functioning and understaffed government institutions, and destroyed basic infrastructure. Over 95 percent of schools and 80 percent of health centers had been destroyed, and human resources depleted as teachers and professionals fled the country. More than one in ten children were dying before they reached their fifth birthday.

4. **Development achievements over the past decade are substantial, but the 2006/07 internal violence was a sobering call to leaders that many stressors remained.** The government that came into power in 2007 focused on creating an inclusive coalition with a stake in stability and in generating confidence that the state was prepared to respond to the needs of its people. It established a system of cash transfers to address demands of the veterans of the resistance, as well as the elderly and poor families, funded through the oil revenue windfall. It rapidly increased expenditures in highly visible areas such as power supply and distributed funds in districts and sub districts for smaller scale infrastructure, to create jobs and support the nascent private sector through contracts that spread rewards across party lines and affiliations.

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<sup>1</sup> The CPS duration is designed to coincide with the mandate of the 5<sup>th</sup> constitutional government.

<sup>2</sup> After the departure of the Portuguese colonial administration in 1975 and a brief but violent internal conflict for power, the Indonesian army occupied the territory, triggering an armed resistance that fought the occupation until 1999 when a referendum confirmed that the vast majority of the Timorese wanted independence. This was followed again by a violent conflict until 2002 when independence was formally recognized.

5. **After five years of hard won stability and absence of conflict, Timor-Leste is looking towards the next five years as an opportunity to sustain growth, accelerate development and reduce poverty.** The United Nations Integrated Mission in Timor-Leste and International Stabilization Force (ISF), both of which were deployed to Timor-Leste following the 2006 crisis, ended their mandates in December of 2012 and the United Nations (UN) Security Council terminated its oversight of Timor-Leste upon request of the government. While confident in continued stability, the government is also candid about risks, recognizing that decisions made to reduce fragility in the short term, for example cash payments and procurement practices, could spawn or deepen political fractures, undermine institutional effectiveness, and endanger fiscal sustainability over the long term.

6. **The government led a Fragility Assessment in mid-2012 to identify remaining stressors that could undermine Timor-Leste's stability and derail the development process.** The Fragility Assessment reviewed Timor-Leste's progress against five Peacebuilding and Statebuilding Goals (PSGs) agreed as part of the New Deal for Engagement in Fragile States.<sup>3</sup> The assessment concluded that Timor-Leste has made substantial progress in **Legitimate Politics** and **Security**, reflecting the recent stability, a functioning parliament, and a sense of political inclusion across different groups. The assessment also identified some progress on **Revenues and Services**, although overdependence upon oil and inadequate budget execution were identified as risks. **Justice** still faced severe shortfalls; some participants in the consultations characterized it to be at "crisis" level given limited access to formal justice and the degree of impunity prevailing in the country, in particular with the perceived increase in corruption. **Economic Foundations** remain weak, as demonstrated by persistently high youth unemployment, poor human development outcomes, regional inequities and food vulnerability. Other potential stressors include perceptions of unfairness in the distribution of oil revenues, eventual reductions of cash transfers due to fiscal constraints, the return of refugees, and latent land disputes and grievances.

## **B. SUPPORTING MACROECONOMIC STABILITY AND THE NON-OIL ECONOMY**

7. **Timor-Leste remains the second most oil-dependent country in the world, yet known reserves are limited.** Timor-Leste's oil wealth, which is collected in the Petroleum Fund (PF) and drawn into the state budget, provides fiscal space and supports imports essential for development. But reserves from fields currently under production may not last beyond 2025 at current rates of extraction, and revenues are estimated to have peaked at US\$2.8 billion in 2011. The Greater Sunrise gas fields could extend the natural resource windfall, and other discoveries may yet be made, but for such an oil-dependent economy, caution is necessary in the face of uncertainty. Future generations will only benefit from this wealth if it is well invested. Finite petroleum wealth provides only a window of opportunity to build a non-oil economy and the foundation for inclusive and sustainable growth. The choices made over the CPS period will thus shape Timor-Leste's economic future.

8. **The government is drawing double the estimated sustainable income (ESI) from the PF to address pressing development needs, but could risk fiscal sustainability, especially if it does not maintain a high quality of public investments.** The PF is the reservoir for Timor-Leste's petroleum revenues, and is currently worth nearly US\$11 billion, or around ten times non-oil gross domestic product (GDP). It is EITI compliant, and shields the budget from increasingly volatile oil

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<sup>3</sup> The New Deal for Engagement in Fragile States is a compact championed by the g7+ group of fragile and conflict affected countries and regions, a multi-government advocacy and policy body made up of 18 countries across Africa, Asia, and the Pacific. Forty countries and international organizations, including the World Bank, endorsed the New Deal at the Fourth High Level Forum on Aid Effectiveness in Busan (November 2011). The New Deal establishes new principles for development architecture (outlined in Annex 3) and calls for new ways of working that better respond to the needs and challenges faced by fragile countries.

prices. The non-oil deficit (total public spending less domestic revenue) was 130 percent of non-oil GDP in 2011, and was financed by PF withdrawals. These excess withdrawals will, on present assumptions, slow the growth in the value of the PF and ESI, but may also spur non-oil growth and generate partially compensating domestic revenues. Fiscal sustainability is heavily dependent on improving the quality of public spending and selecting and implementing projects that build a sufficient non-oil revenue base. This revenue rebalancing, together with planned medium-term cuts to public spending, is designed to protect fiscal sustainability and ensure appropriate consideration and weight is given to the long-term needs of the country. But cuts, especially to recurrent spending, could prove difficult, and would require limited or no nominal increases in salaries and benefits for civil servants, public transfers and capital expenditure. The government is also considering deficit financing, and contracted foreign debt for the first time in 2012. It is also exploring public-private partnerships (PPPs) with, among others, the International Finance Corporation (IFC).

#### **Box 1: Timor-Leste's Petroleum Fund<sup>4</sup>**

The design of Timor-Leste's Petroleum Fund is widely considered international best practice. It was established by the Petroleum Fund Law of 2005, revised in 2011. With a design drawing from the Norwegian experience, it is intended to provide transparency and accountability on the use of public revenues, protect public finances from income volatility, and help strike the appropriate balance between current spending and savings for future generations.

**Management.** The Fund is an account with the Central Bank which has been designated the Operational Manager of the Petroleum Fund. External investment managers can be contracted to manage investments. The Petroleum Fund Law requires that all assets are invested abroad, with at least 50 percent invested in investment grade bank deposits and debt instruments; up to 50 percent invested in equities in regulated financial markets; and up to 5 percent invested in other asset classes.

**Withdrawals.** Transfers from the Fund can only be made to the single state treasury account. Transfers are contingent upon the government providing parliament with a report specifying the Estimated Sustainable Income (ESI), calculated each year as 3 percent of the sum of the Fund balance and the present value of expected future petroleum receipts. The ESI is certified by an independent auditor.

**Savings.** To preserve the real value of the country's petroleum wealth, withdrawals from the Fund are guided by the ESI. Withdrawing more than ESI requires the government to provide parliament with a detailed explanation of why it is in the long-term interests of the country, and also a report certified by the independent auditor estimating the impact on future ESI.

**Transparency.** Revenues and transfers into the government budget are publicly disclosed. All petroleum revenue and investment income goes into the Fund. Withdrawals can only be used to finance expenditures of the state budget. The Central Bank publishes quarterly reports on the performance and activities of the Fund. The government submits an annual report with an audited financial statement. Details on revenue and composition of the investment portfolio are also fully disclosed.

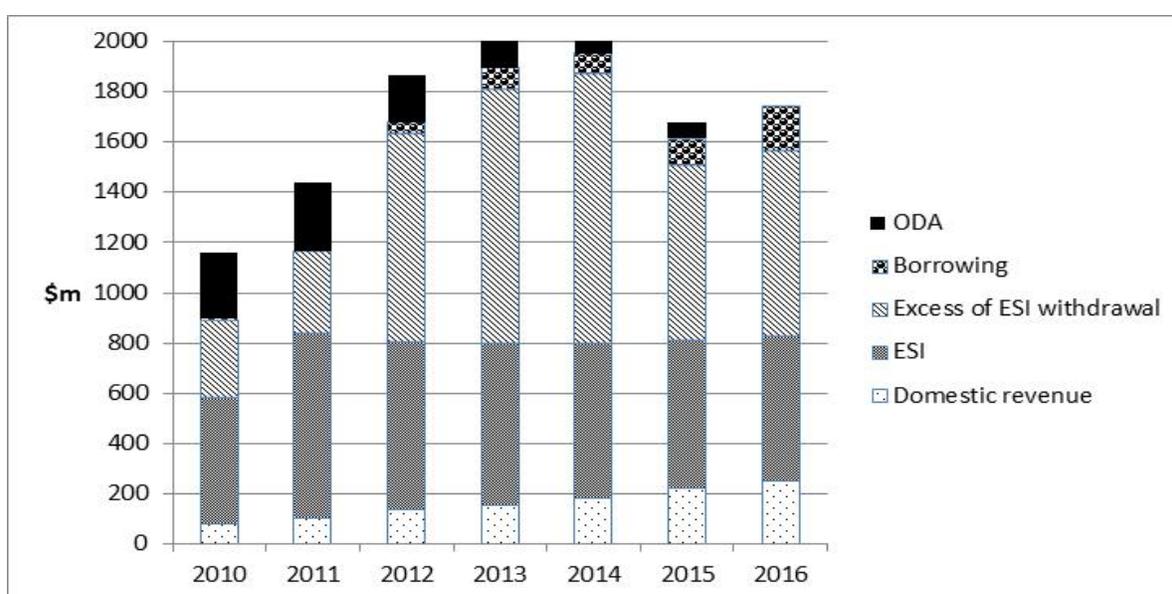
**Performance.** The Petroleum Fund is currently valued at about US\$11 billion. It has grown in value above expectations due to soaring oil prices. The present value of petroleum wealth including the Petroleum Fund is estimated at \$26 billion. The ESI is estimated to be about \$750 million. Since 2008, government spending has exceeded the ESI.

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<sup>4</sup> Box 1 was derived, with minor edits, from the IMF 2009 Country Report No. 09/220.

9. **Timor-Leste’s economy has performed admirably, but is sensitive to global oil prices, and subject to fiscal risks and inflation.** The economy is officially dollarized, which helps to mitigate, though does not fully prevent, the Dutch Disease that can afflict resource rich economies. Annual non-oil economic growth averaged nearly 12 percent over the past five years and is projected to remain at double-digit levels during the CPS period, outpacing the rest of the East Asia and Pacific region, though from a very low base. Growth is largely driven by public spending, 90 percent of which is petroleum-financed. Services related to trade and transport also contribute to growth, as does agriculture, which together with tourism and a downstream petro-chemical industry underpin the government’s hopes for economic diversification. However, agriculture in particular is underdeveloped and characterized by low productivity, contributing to persistent poverty and food insecurity in rural areas.

**Figure 1: Funding Sources for Public Spending, 2010-2016 (projected)**



10. **Medium-term inflation is forecast to remain near double digits, as public spending adds to aggregate demand, and supply bottlenecks persist.** Despite easing to 11 percent in July 2012, inflation (as measured by the Consumer Price Index (CPI) in Dili) has been on the rise, peaking at 17.7 percent in January 2012. Other major determinants of inflation are global food prices (food constitutes 60 percent of the CPI basket and half of all food is imported) and the depreciation of the US dollar relative to Timor-Leste’s major trading partners, both of which constitute upside risk factors. Higher-quality public spending would ease pressures by enhancing the economy’s supply side and absorptive capacity. Persistently high inflation, while common in high-growth situations, exacerbates poverty and compromises competitiveness and economic diversification in the longer term. This concern is fuelled by a recently agreed minimum wage of US\$115/month, one of the highest relative-to-average wages in the world.

### C. REDUCING POVERTY AND PROMOTING OPPORTUNITY

11. **Poverty was measured at 49.9 percent in 2007 and preliminary analysis in advance of a planned household survey and poverty assessment suggests there may be some persistence.** The assessment will need to consider the inclusiveness of Timor-Leste's economic growth and the poverty impacts of the increasing public spending on basic services and social protection.

12. **Low agricultural production and persistent food insecurity remain pressing concerns, and are priorities for growth and poverty reduction.** Agriculture remains an important buffer that absorbs excess labor, albeit with low value-added and salaries. Over 70 percent of the population, and over 80 percent of the female workforce, is engaged in subsistence agriculture, where low crop yields persist. Annual rice and periodic maize deficits contribute to malnutrition rates that are among the highest in the world. Shortfalls in agricultural production are driven by poor agricultural management practices, liquidity constraints which limit access to commercial inputs, poor infrastructure and high market access costs, and insufficient agricultural investment, both public and private. Improving agricultural yields and expanding income opportunities in rural upland and highland areas, including through production of coffee, other cash crops, and high-value hardwoods for the export market, will be essential to reduce rural poverty. These expanded income opportunities, coupled with enhanced access for the poor to better basic services, will help tackle inequality, which is shown to have widened slightly since 2007.

13. **Though Timor-Leste is very minor emitter of greenhouse gases, it is vulnerable to the effects of climate change and natural disasters.** Timor-Leste is prone to frequent landslides, destructive winds, and droughts. Also faces a substantial risk of earthquakes and potentially tsunamis in a few points on the southern coast. Its mountainous terrain makes it particularly prone to floods, which often destroy infrastructure and homes and further endanger crops. 63.7 percent of households in Timor-Leste reported a natural or biological shock in 2010<sup>5</sup> and a majority reported spending savings or selling productive assets to cope with the impacts.

14. **The private sector has substantial growth potential, and is expected to drive growth in the priority sectors identified in the SDP, but faces significant constraints in the investment environment, and infrastructure bottlenecks.** The Government of Timor-Leste made some progress in 2012 toward improving the investment climate by passing regulation for a One Stop Shop for business entry to reduce the time required to start a business. It also passed a law on collateral, and approved a PPP Law. Access to credit, including microcredit, has improved in the past year, but large unmet demand for finance for micro, small, and medium enterprises remains, with 270,000 unbanked citizens (even not counting people outside the cash economy) and the potential for 80,000 new borrowers. Small and medium enterprise linkages, essential to growth, are underdeveloped. Commercial credit is constrained by weak institutions for contract enforcement, a significant barrier to foreign direct investment. The persistent lack of legal clarity around land ownership and usage rights and the potential for conflict around land expropriations and evictions from state land are also substantial impediments. Infrastructure constraints—including poorly-maintained roads, airports with low passenger and freight capacity, the high cost and low usage rates of telecommunications, and slow operation of ports—continue to impede business development, raising the cost of inputs and limiting market access.

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<sup>5</sup> Data derived from the 2010 HIES.

15. **Timor-Leste enjoys a substantial demographic dividend, but capitalizing on this requires investments in skills development to meet the needs of the labor market.** An estimated 61.5 percent of the population is under 25 years of age; this proportion is expected to decrease only slightly to 59.2 percent by 2025.<sup>6</sup> At 14 percent, the labor force participation rate of young people (aged 15-24) is low by regional standards and a serious education and skills gap, as well as the limited development of the non-oil private sector, hinders their ability to find productive employment.<sup>7</sup> Young women in particular are underrepresented in the labor force, with a participation rate of just 10 percent. The demographics feed the urgency of promoting growth that can absorb the labor supply materializing in the coming years, and to public education, health, and training services to build a productive, qualified, and skilled population.

#### **D. INVESTING IN THE QUALITY OF HUMAN CAPITAL**

16. **Though it has made progress towards its Millennium Development Goal (MDG) targets in critical areas, including reductions in under-5 and infant mortality rates and literacy gains for some groups, Timor-Leste is unlikely to reach its MDG targets by 2015.**<sup>8</sup> Timor-Leste ranks 147<sup>th</sup> out of 187 countries on the UN's Human Development Index (HDI 2011); HDI has been increasing slowly since a post-crisis decline in 2007. Despite increased access to education, primary school completion rates remain low. Education quality is a concern; a 2009 Early Grade Reading Assessment (EGRA) found that 70 percent of students were unable to read a single word of a simple text by the end of grade one, decreasing to 20 percent by the end of grade three. Childhood malnutrition likely contributes to low school achievement rates, poor health outcomes, and low productivity, and remains a significant concern. Levels of both stunting and wasting *increased* between 2003 and 2009. The maternal mortality ratio is also among the highest in the world (557/100,000 live births), reflecting weak health systems, poor infrastructure, and insufficient care for mothers during pregnancy and delivery.<sup>9</sup>

17. **Achievements in gender equality have been mixed, and gender disparities remain within households, markets, and institutions.** Gender equality is enshrined in the Constitution and international conventions to which Timor-Leste is a signatory; however, enforcement of legislation is weak in areas such as protection from gender-based violence.<sup>10</sup> Violence outside the household disproportionately impacts men, as both perpetrators and victims of crime. The gender gap in education has shrunk at the primary and pre-secondary levels, but girls' school enrollment declines substantially at the secondary and tertiary levels. Child mortality and undernutrition rates are high for

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<sup>6</sup> Data derived from World Bank Pension Reform Options Simulation Toolkit (PROST) modeling, based on 2010 census figures.

<sup>7</sup> Labor force participation statistics sourced through the 2010 Timor-Leste Labor Force Survey.

<sup>8</sup> The g7+ argue that MDGs should not be their immediate target as consolidating peace and ensuring stability are their foremost priorities; very few fragile countries will meet any of the MDGs by 2015. The g7+ are developing PSG indicators as part of the New Deal to monitor performance as a short-term alternative to MDGs.

<sup>9</sup> Timor-Leste is unlikely to achieve MDG5 on improved maternal health. Poor performance on maternal health has a variety of causes, including poor quality and coverage in rural areas, lack of information on family planning and reproductive health, and low prevalence and quality of antenatal care.

<sup>10</sup> The latest demographic and health survey (2010) finds that approximately one-third of women (38 percent) have experienced physical violence since age 15. One percent of women experienced physical violence often, while 28 percent experienced physical violence sometimes in the past 12 months (National Statistics Directorate, et al, 2010. Timor-Leste Demographic and Health Survey 2009-2010. Dili: National Statistics Directorate). The police Vulnerable Persons Unit reports over 1,000 cases of domestic violence per year in Dili alone, and calculates that for every reported case, at least ten are unreported.

both genders, but affect boys disproportionately.<sup>11</sup> Labor force participation rates and wages are lower for women. According to an IFC report on *Economic Opportunities for Women in the Pacific*, women are heavily represented in work in subsistence agriculture, and make up over 40 percent of microentrepreneurs. However, just 16 percent of formalized businesses in Timor-Leste are owned by women. While formalization is challenging for both genders, women face additional barriers due to lower literacy rates, poor financial literacy, and lack of collateral due in part to limited access to land ownership. Adjusted for household size, female-headed households are poorer than male-headed households. On the positive side, women's representation in senior decision-making positions, including parliamentary positions and ministerial appointments, is high by regional standards.

18. **Timor-Leste's social protection programs are among the most generous in the developing world, but were designed to consolidate peace, not to address poverty.** Cash transfers commenced in 2008 for veterans of the resistance and their survivors, the elderly, people with disabilities, and vulnerable children. School feeding, cash-for-work, rice importation and subsidy programs, and most recently a civil service pension complement these programs. At 9 percent, Timor-Leste is a leader in the region in the proportion of the government budget allocated to social protection spending. However, recent data suggest that the poverty impact of these programs is not commensurate with the level of spending, reflecting implementation challenges and the lack of poverty-focused targeting.<sup>12</sup> There are also growing concerns that the substantial entitlements, particularly those for veterans and their survivors, are fiscally unsustainable, and the distribution of subsidized rice may have a negative impact on domestic staple food production.

#### **E. STRENGTHENING INSTITUTIONS, SPENDING, AND GOVERNANCE**

19. **Timor-Leste has made progress in establishing the institutions of the state.** The architecture of the state is in place, and institutional credibility is growing. Yet, capacity remains weak and the government has identified the strengthening of institutions as a priority area of assistance to improve service delivery and outcomes. A recent report on Timor-Leste by the World Bank's Independent Evaluation Group (IEG) noted that the development of state institutions from 2000 to 2010 had proved especially challenging in this new country due to the low human skills base, language barriers, and the absence of effective capacity building strategies. Furthermore, achieving basic governance transformations takes time. For example, bringing corruption under control took the fastest reformers an average of 27 years.

20. **Rapidly increasing public spending in face of still weak institutions raises concerns over corruption.** Timor-Leste has taken some high profile measures to counter corruption, such as participation in the Extractive Industry Transparency Initiative, and it made substantial improvement in the Transparency International Corruption Perceptions Index between 2011 and 2012.<sup>13</sup> However, the government's audit reports presented to Parliament have observed that control of underlying corruption at a time of rapidly increasing public spending is proving extremely challenging. The government needs to address the increasing concerns over corruption and send strong signals that corruption will not be tolerated, in particular by addressing the impunity resulting from weaknesses in the justice system. The transparency of government actions on budgeting, spending and procurement through on-line platforms are an important step in this direction, as they make

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<sup>11</sup> The disproportional rate of malnutrition and child mortality among boys could be due to biological differences between boys and girls, or cultural practices such as child feeding. Research on this topic is ongoing.

<sup>12</sup> With the exception of a conditional cash transfer for children in poor households, none of the cash transfers implemented by the government are explicitly poverty targeted.

<sup>13</sup> Timor-Leste's was ranked 143 out of 182 countries in the 2011 index, and moved to 113 of 176 countries in 2012.

information available in a timely fashion to the public at large, but more needs to be done to empower citizens to interpret and act on this information.

21. **The WBG will help the government to strengthen institutions that have a significant impact on achievement of the Strategic Development Plan.** This institutional strengthening will support a gradual transition away from the current heavy reliance on external advisors for line Ministry functions. Increased institutional performance over the budget and project cycles has the potential to contribute significantly to economic growth.

## II. TIMOR-LESTE'S STRATEGIC DEVELOPMENT PLAN

22. **The SDP (2011-2030) lays out an ambitious agenda aimed at propelling Timor-Leste to upper middle income country status, eradicating extreme poverty, and establishing a diversified economy by 2030.** Growth projections in the strategy assume high oil prices and substantial government expenditure<sup>14</sup> over the first decade to build the foundations for increased private sector investment and economic diversification. The SDP is built on three pillars: (i) social capital, covering human development, gender, and social inclusion; (ii) infrastructure development; and (iii) economic development for a non-oil economy. A fourth cross-cutting pillar addresses institutions and macroeconomic foundations that underpin implementation. The essence of the SDP can be summarized as:

- **Continue investing in human capital through improved access and quality of health, education and skills development while protecting the vulnerable.** Private sector investment, productivity, and economic growth require a healthy, well-educated population, with skills matched to the job market. The SDP outlines a strategy of investments in education and health infrastructure and facilities to keep up with the growing population, as well as increased investments in human resources development, and developing education and health standards to improve service quality. Vocational training and investments through the Human Capital Development Fund are expected to build the appropriate skills to employ the population in planned growth sectors (e.g., agriculture, petroleum, tourism, construction). The SDP prioritizes social inclusion, with specific targets for women's access to education and health services, and commitments to provide assistance for vulnerable families, youth, and other at-risk populations.
- **Use natural resource wealth to fund catalytic infrastructure.** Inadequate, costly, and poorly-maintained infrastructure (e.g., roads, telecommunications) is a critical binding constraint both for private sector development and access to services, namely health and education. The SDP proposes constructing or upgrading national, regional, and rural roads in a climate-resilient manner; improving access to clean water and adequate sanitation; establishing new seaports to contend with an increasing port volume; upgrading airports to meet growing passenger numbers; and further liberalizing the telecommunications market to increase the availability of bandwidth.
- **Encourage private sector investment, and diversify the economy to sustain growth and employment.** Due to the finite nature of natural resource wealth and the need to create jobs, petroleum wealth should be used to support economic diversification, particularly in the downstream petrochemical industry, tourism, and agriculture. A major public investment in the "Tasi Mane" development project—a supply base, liquefied natural gas (LNG) plant, and

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<sup>14</sup> The SDP 2011 and 2015 expenditure targets are \$758.2 million and \$1,375.7 million, respectively. At \$1,093 million, 2011 budget execution surpassed this target expenditure in the first SDP year; the 2012 budget contains \$1,674.1 million in planned expenditures.

petrochemicals and refinery site—is at the center of the SDP growth strategy, although analysis of the pros and cons of this investment needs to be completed. The SDP identified three areas for tourism development, with some of the planned infrastructure designed to service tourism. Investments in agriculture include improved seeds and fertilizers, better storage, and expanded agricultural extension services. The SDP emphasizes investments in food crops, including rice, maize, and tubers, to contribute to food security and nutrition, and in cash crops (e.g. coffee, hardwoods), livestock, and fisheries to augment value-added and rural incomes.

- **Expand the foundations of good governance and institutional effectiveness.** Currently, the public sector is Timor-Leste’s dominant employer and vehicle for economic growth. To improve its effectiveness, the SDP prioritizes civil service reforms, public financial management (particularly budget planning and execution), and public sector service delivery, including through decentralization, building on some success and experience with subnational spending modalities. In light of the large investments to be financed by the petroleum fund, the SDP recognizes the need for robust ex-ante scrutiny of projects to avoid wastage and strengthen implementation capacity, including in the design and management of PPPs. Institutions of oversight and anti-corruption will also be strengthened, as will notable instruments already in place to ensure transparency and accountability of government processes, including EITI.

23. **The SDP provides a clear direction for development, but needs costing, sector-level planning, prioritization, and implementation support to be actionable.** Some sectors produced sector plans as inputs to the SDP. Agriculture and public works have recently finalized their sector plans. The SDP provides a sufficiently precise set of results and outcomes for the short, medium, and long term against which to measure progress. Government strategy is thus reflected in the SDP, sector plans of the 5<sup>th</sup> government, and in the Fragility Assessment with a considerable degree of consistency, and these will be an important guide for the CPS.

### III. REVIEW OF PAST WORLD BANK GROUP ENGAGEMENT

#### A. LESSONS FROM CAS/ISN COMPLETION REPORT

24. **The WBG in Timor-Leste had a mixed record of success in the previous CAS (FY2006-08) and ISN (FY2010-11) periods.** The CAS/ISN Completion Report (Attachment 2) assesses WBG performance in the engagement period as Moderately Unsatisfactory. While progress was made towards achieving most major expected outcomes, the program was overly ambitious and insufficiently focused given the nation’s capacity challenges in the immediate post-Independence period. The following lessons from the CAS/ISN Completion Report have informed the development of the FY2013-17 CPS:

- **Set appropriate objectives** for what can be achieved in a four-year timeframe, and **guide resources to key priorities.** Fragile and post-conflict states are inherently dynamic environments, and their development trajectory is not linear. Setbacks should be expected, and the results framework should temper ambition with pragmatism. The CPS must retain maximum flexibility to respond to emerging priorities. The CPS Progress Report provides a timely opportunity to reevaluate and update the CPS.
- Achieving the government’s development vision and CPS objectives requires a **continued effort to strengthen Timor-Leste’s institutions and build implementation capacity.** The growth in Timor-Leste’s budget and development ambitions has outpaced gains in civil

service capacity. In the CPS period, Timor-Leste's priority development need will not be in financing, but rather support to institutional development and technical know-how. Operational investments will continue to be just one facet of a multidimensional program, buttressed by high-quality, creatively disseminated analytical work; just-in-time advice; convening power; organizational support; and sustained policy dialogue.

- In keeping with the institution-building focus, implementation in Timor-Leste requires **intensive, hands-on support through a sustained engagement**. Successful approaches, whether for analytical inputs or project implementation, are process-intensive, time-consuming, and gain more traction when accompanied by dialogue, technical assistance, and intensive supervision. WBG's human resources must be allocated accordingly.

#### **B. FINDINGS FROM THE IEG COUNTRY PROGRAM EVALUATION**

25. **IEG's Country Program Evaluation (CPE) of WBG efforts (2000-2010) also provided several recommendations** that have been taken into account during CPS preparation, as follows:

- **Prioritize** programs and accompany them with **realistic timelines**. Progress should be monitored against a small number of measurable key results.
- Increase the focus on **agriculture, human resource development and institution building**, areas in which the previous CAS and ISN underinvested and performed poorly.
- Scale up the IFC's engagement, in partnership with the IBRD, to enable it to help address the remaining constraints to **private sector development**.
- Aim for **simplicity in project design, intensive fiduciary support, and partnerships** with government, civil society, and other development actors.

#### **C. FEEDBACK FROM STAKEHOLDER CONSULTATIONS**

26. **The strategic areas and activities proposed in the FY2013-17 CPS reflect the priorities identified during stakeholder consultations.** Community consultations were held in eight districts and with Dili youth in 2011 and 2012, and proved a useful testing ground for the WBG strategy in the conceptualization phase. Women were well-represented in the consultations, which were planned in partnership with local nongovernmental organizations that were tasked to recruit community leaders both within and outside of local power structures, and of varying age and gender. A series of small group discussions with influential thinkers, business leaders, and civil society representatives helped to further refine the approach and better situate the WBG program within Timor-Leste's wider development agenda, and expand the WBG role as a knowledge leader. The WBG timed the final development of the CPS to allow for alignment with the program of the Fifth Constitutional Government, which was formed in August 2012.

#### **D. INTEGRATING LESSONS LEARNED FOR THE NEW CPS**

27. **Going forward, the World Bank Group will assist the government of Timor-Leste by: (i) engaging in highly visible priority areas that have a strong potential to demonstrate impact; (ii) providing assistance in a timely and digestible manner; and (iii) ensuring adequate staffing for consistent engagement.** This new strategy of engagement will enable the WBG to address stakeholder demands, focus its program and resources while ensuring flexibility to meet emerging needs, and show clear, monitorable results within the CPS timeframe.

#### IV. COUNTRY PARTNERSHIP STRATEGY, FY2013-2017

##### A. IMPLEMENTATION PRINCIPLES

28. **The CPS will reflect the activities of the entire WBG, as well as corporate priorities.** The CPS combines the strategies and instruments of IDA, IBRD, and IFC. If the Multilateral Investment Guarantee Agency (MIGA) becomes active in Timor-Leste, it will also be brought under the framework of the CPS. The CPS will strive to address corporate priorities such as gender and climate change, as well as World Bank Global Programs, which are currently receiving insufficient attention at the country level.

29. **In face of considerable uncertainty, the CPS will be flexible.** Timor-Leste is a dynamic country, undergoing a process of learning and experimentation, and traversing a non-linear path out of fragility. It recently contracted its first debt, and it has yet to develop a borrowing relationship with the WBG. This contributes to a level of uncertainty and unpredictability in the operating environment, and mandates that the CPS maximize flexibility to accommodate internal and external change affecting Timor-Leste, and its changing development needs. The approach of the CPS is *first*, to allocate resources only for activities that are already on-going or about to commence, and leave open the focus of assistance for outer CPS years; and *second*, to concentrate the IDA and IBRD lending envelopes on a very small number of operations, releasing administrative budgets and staff resources to support knowledge products and hands-on dialogue and technical assistance. Knowledge products will be managed flexibly and will be identified on the basis of periodic discussions with the government.

30. **In line with the WBG's overall commitment, the CPS will assist the Government of Timor-Leste (GoTL) to implement the New Deal for Engagement in Fragile States.** Timor-Leste has been a vocal advocate of the New Deal (Box 2) through its leadership of the g7+ group of fragile states, and it is one of seven New Deal pilot countries. It is now defining priorities for country level implementation of the New Deal, including use of country systems, and the WBG has been a strong partner in this process. The government's Fragility Assessment also identified priorities for assistance, several of which the WBG will support.

### **Box 2: Alignment of the CPS with the New Deal for Engagement with Fragile States**

*Peacebuilding and Statebuilding Goals:* The WBG will focus on the PSGs of Economic Foundations, by helping create the building blocks for a non-oil economy, Revenues and Services, through improved services in health an education and the development of revenue sources other than oil, and within the critical Justice sector by supporting the design and implementation of a land policy, identified as one of the potential stressors of further conflict and a key constraint to private sector investment.

*One Vision, One Plan:* The WBG will support implementation of the SDP and the government's program, and will coincide with the country's democratic cycle.

*Compact:* The WBG is aligned to country-led national priorities and will harmonize interventions with other donors, to the extent possible.

*Using PSGs to Monitor:* The WBG will incorporate the PSGs, once completed, in its results matrix to monitor progress against CPS outcomes.

*Support Political Dialogue and Leadership:* The CPS has been developed consultatively with the government, civil society, women, and youth, and its implementation and monitoring will continue to rely on ongoing consultations with these groups.

*Transparency:* The WBG program will be reflected in and make use of the government's Aid Management System.

*Risk-Sharing:* The WBG will monitor and review risks of implementation together with implementing agencies.

*Use of Country Systems:* The WBG will strive towards the use of country systems, particularly in financial management, and will assist the government in strengthening those systems.

*Capacity Building:* The WBG will continue to focus on national capacity building in its sectoral engagements and knowledge exchange.

*Timely and Predictable Aid:* The WBG will agree up front with the government on the timing and level of planned financial assistance.

31. **The CPS will be selective, prioritizing: (i) discrete analytical and technical assistance linked to development priorities and major investments; and (ii) operations in critical areas that offer demonstration effects and high potential for replication in future government investments.** The share of international aid in public spending is declining rapidly as the government budget expands, financed by withdrawals from the Petroleum Fund. The WBG's resources are modest in Timor-Leste; and the consolidated trust funds through which bilateral agencies previously channeled resources through the Bank are declining. Most requests for assistance from the government are for support for the quality of its own spending, and given the sizeable and expanding government budget, this is how the WBG can maximize its impact. Recent experience supports this approach. Previous economic and sector work (ESW), such as advice on the PF and social protection and technical assistance in public management, responded directly to government demand for targeted advice in priority areas, and contributed to important results. Most operations, including health, education and social protection, also focus on strengthening systems and capacity within line ministries. Even more traditional investment projects, such as road rehabilitation, are small relative to needs, and aim to demonstrate good practices, develop implementation capacity, and establish

standards that can be replicated in the government's own programs. Similarly, the IFC is involved primarily in the provision of Advisory Services, for example on PPPs.

32. **In addition to its partnership with government, the WBG will maintain the strong working relationships that exist with development partners.** (See Attachment 7 for an overview of development partner focal areas in Timor-Leste.) Total ODA is estimated at US\$169 million in 2012.<sup>15</sup> Of this, Australia contributed by far the largest share, about US\$74.7 million, followed by UN agencies, the Asian Development Bank (ADB), the European Union (EU), and others. Foreign aid is concentrated in governance, health, education, agriculture, and public works, which are also areas of focus of the WBG. In addition to informal frequent meetings, complementarity and comparative advantage are ensured in two ways. *First*, in asserting its leadership of the development process, the government chairs periodic meetings with development partners on national priorities and pillars of the SDP and requires that all foreign assistance support the SDP. The Aid Effectiveness Portal, an online information tool, contains detailed data on development partner activities. *Second*, a significant portion of the WBG portfolio is funded or co-financed by development partners; between FY10 and FY12, the country program disbursed US\$38.46 million in recipient-executed trust funds and an additional US\$7.6 million under Bank-executed trust funds, compared to US\$12.61 in IDA disbursements and US\$3.6 million in Bank budget resources. In the CPS period, the World Bank is pursuing two additional Bank-executed multi-sector TFs with AusAid and the European Union, as well as continuing to implement existing World Bank TFs to support a knowledge-oriented CPS. In addition to helping extend the limited Bank administrative budget and allowing the deployment of staff with the right skills, these funds strengthen critical coordination in a small donor space.

33. **In recognition of the urgent gender-related needs in Timor-Leste, gender will be mainstreamed throughout the WBG program.** Early in the CPS period, the World Bank will conduct a gender assessment to identify areas where gaps in development partner support might be filled by WBG interventions, and will develop a Country Gender Action Plan (CGAP) based on this assessment. This will be supplemented by a Public Expenditure Review (PER) examining gender-focused public spending, as well as data disaggregation within projects, to the extent possible. Gender issues will also be addressed through components of existing operations: For example, the WBG will address equal access to endowments through programs in health, education and social protection which support improved expenditure practices to increase quality of services for both genders. Planned programs in skills development and nutrition have a clear gender dimension. The WBG education activities also include support for girls' bathrooms in schools, an intervention with proven impact on adolescent girls' school attendance. Equal access to economic opportunities will be supported through planned work in the areas of agriculture, land, and private sector development. Business Registration and Licensing will include outreach to women business owners to increase the number of women entering formality. Greater clarity in land ownership and access rights has the potential to increase women's access to collateral, an important stepping stone for business development and support to entrepreneurship. Given the predominance of women in subsistence agriculture activities, interventions designed to increase the productivity of agriculture will ensure higher incomes for women in this sector. The WBG will also work to amplify women's voices in the policy sphere. In this regard, access to high-quality data is essential, and the WBG will conduct a gender-sensitive public expenditure review and ensure gender disaggregation of data. Given persistently high rates of domestic violence, the World Bank will also partner with the government on a National Gender Workshop, which will facilitate broad consultations on domestic violence,

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<sup>15</sup> Unofficial numbers, derived from donor reported figures on the government Transparency Portal. Not all donors have reported ODA.

women's engagement in the private sector, and other priority national gender concerns, to help focus and coordinate resources across many stakeholders.<sup>16</sup>

34. **The WBG will assist the GoTL to prepare for climate and disaster risks.** The Bank is helping the government to incorporate climate resilience into infrastructure design, and the roads program will include a component on disaster risk management. Because non-irrigated agriculture (such as corn and tubers) is particularly prone to droughts, WBG programs will support agriculture systems that can help poor farmers cope with these effects. Policy work on social protection will improve the system for addressing the vulnerabilities of the very poor, many of whom are vulnerable to weather-related shocks.

35. **The WBG will ramp up staffing and “face time” in its areas of support.** The standard World Bank staffing model is not appropriate to a fragile country with the capacity weaknesses of Timor-Leste. The country team needs capable staff on the ground with global experience to engage with the client in ensuring learning and full ownership of analytical work and on all aspects of implementation. A portfolio review makes clear that the best-performing programs were those that were supervised by an experienced staff member in the field or with considerable “face time”. The proposed trust funds will finance international staff in the field in critical areas.

## B. INSTRUMENTS

36. **Timor-Leste's per-capita gross national income (GNI) is in excess of US\$3,000, and it has been declared creditworthy to borrow from the IBRD, facilitating the country's graduation from IDA to Blend eligibility status.** The transition to Blend status reflects Timor-Leste's strong fiscal performance and development progress. In this CPS period, Timor-Leste can access IDA credits and IBRD financing.<sup>17</sup> The Bank will encourage a tailoring of IDA and IBRD assistance volumes to help achieve a smooth eventual transition to IBRD-only status and the efficient use of other financing resources. Given the risks associated with managing public debt, the World Bank and International Monetary Fund (IMF) will provide continued support to the government in this area. Timor-Leste's first loans, from ADB and Japan International Cooperation Agency (JICA), were approved in 2012. The CPS assumes an indicative IDA envelope of US\$25 million each for IDA16 and IDA17, for a total of US\$50 million<sup>18</sup> and an indicative IBRD envelope of US\$54-60 million, subject to country performance, IBRD's lending capacity, demand by other Bank borrowers, and global economic developments. In addition, the Bank will work with the authorities to fully explore the flexibility in IDA financing, including the potential use of the Immediate Response Mechanism<sup>19</sup> and the Crisis Response Window that could support the government's rapid response to eligible crisis and emergency situations, as well as the potential access to the IDA regional program that could provide additional resource for participating in regional integration operations. Initially a

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<sup>16</sup> For more on the gender context in Timor-Leste, please see Attachment 3.

<sup>17</sup> Because Timor-Leste has not begun borrowing from IBRD of the World Bank, the Bank has not included an analysis of Key Exposure Indicators in this CPS. However, they will be added during the CPS Progress Report.

<sup>18</sup> The estimate of the IDA envelope is based on the available IDA16 resources, and it is updated annually. The IDA16 envelope includes firm FY12-13 allocations and indicative FY14 allocations, and the IDA17 envelope (FY15-17) is only an indicative estimate. The final allocation may vary due to: (i) total IDA resources available over the CPS period; (b) the country's performance rating, GNI per capita, and population; (iii) the performance other allocation parameters, and IDA assistance terms for other IDA borrowers; and (iv) the number of IDA-eligible countries. Also, IDA allocations are provided in SDR terms; while the US dollar equivalent amount is provided at the IDA16 replenishment exchange rate of US\$1.50233/SDR, the exchange rate for each operation depends on the applicable prevailing rate at the time of approval.

<sup>19</sup> This mechanism allows the inclusion of emergency related contingent components in selected investment operations to support rapid response in eligible crisis and emergency situations when needed.

combination of an IDA credit and an IBRD loan totaling US\$40 million will finance an investment in roads. The remaining IBRD resources are being considered for investments to be chosen from the following areas: branch roads, port facilities, airport upgrading, telecommunications, agriculture, and education. These are likely to develop in outer CPS years, and will be included in the CPS Progress Report. Instruments could include Investment Loans (SILs), Program-for-Results (P4R) financing, or budget support.

37. **Although WBG financing is small relative to budget and needs, the government sees various benefits in borrowing.** At US\$15-\$25 million, the expected amount of IDA/IBRD loan disbursements is small relative to government budget (in excess of US\$1 billion). Nevertheless, the government views borrowing from the WBG and others as an important component of budget gap financing. *First*, borrowing would permit the government to reduce withdrawals from the PF while the costs of the loans are less than the expected PF returns (currently averaging 4% per annum). *Second*, the government wishes to become familiar with and develop the capacity to manage debt. *Finally*, the government values the considerable technical assistance and implementation knowledge that comes embedded in WBG loans, and therefore wishes to use WBG loans to leverage sizeable portions of government investments. For example, the proposed credit and loan of US\$40 million for a road rehabilitation project could be accompanied by US\$52 million of government financing, using WBG procurement methods and safeguard policies. The government values in particular the WBG global capacity to foster South-South knowledge exchanges both with fragile and non-fragile states. The WBG is already supporting some of these activities and South-South learning will be expanded considerable during the CPS period, both in lending and in analytical support.

38. **In the CPS period, the WBG will utilize the full suite of WBG financial products, including lending, recipient- and Bank-executed TFs, IFC investment and advisory services, and technical assistance) to support Timor-Leste's development path.** For the first CPS years, the government intends to restrict borrowing to transport infrastructure investments. Financing instruments to support non-infrastructure activities will consist primarily of Bank- and recipient-executed trust funds, including a planned AusAID-World Bank multisector trust fund, a European Union trust fund for public financial management, and the Global Environment Facility (GEF) and Global Agriculture and Food Security Program (GAFSP) for agriculture. (Attachment 4 provides an overview of trust funds active in Timor-Leste.) TFs are an important feature of Timor-Leste's portfolio, funding critical technical assistance, analytical work, project preparation, supervision, and implementation support, and partially funding five staff positions in the Dili office. They are integrated into the portfolio and encourage cooperation with key development partners. During the CPS period, the WBG will make less use of recipient-executed TFs, as donor financing diminishes or is transferred directly to the government, it will, however, continue to rely on smaller Bank-executed TFs that are better suited to mobilize global WBG experience.

39. **The IFC will facilitate the country's first robust PPP transaction in Timor-Leste during the CPS period, in addition to continuing to provide other Advisory Services.** It will support the government's initiatives improving the business environment, addressing in particular access to finance and barriers to entrepreneurship and business entry. PPPs will encourage a private sector role in developing Timor-Leste's core infrastructure and the World Bank will complement IFC's role by working with the government to improve its capacity to design and manage PPPs and other forms of infrastructure financing.

### C. STRATEGIC AREAS AND RESULTS

40. The FY2013-17 CPS program will be structured around the three strategic areas and one crosscutting theme of the SDP, and the program of the Fifth Constitutional Government. The CPS will also address key stressors identified in the Fragility Assessment. The three strategic areas are: (i) improving the *management and delivery of services* in education, health and nutrition, and social protection (Social Capital pillar in the SDP); (ii) building core *infrastructure* to connect communities to markets; and (iii) supporting *economic development* for a non-oil economy. Work in these areas will be underpinned by a cross-cutting focus on (iv) strengthening *institutions* for quality of spending and inclusive service delivery. The WBG will emphasize selectivity within these four engagement areas, focusing on a small number of discrete, high impact projects as described in Table 1.

**Table 1: Indicative New IDA, IBRD, IFC Financing, Trust Funds, Global Partnerships, AAA, and IFC Advisory Services (FY13-14)**<sup>20</sup>

	Service Delivery	Infrastructure	Economic Development	Institutions
WBG Recipient-Executed Operations (IBRD/IDA, IFC Financing, & TF co-financing)		Road Climate Resilience Project AF (FY13-14) PPPs in Infrastructure (IFC, FY14) Investment in Business Infrastructure (IFC, FY14-15)	Coffee & cash crop rehabilitation (FY15) Investments targeting 2 projects (IFC, FY14-17)	
Recipient-Executed Operations (TFs & Global Partnerships)	Education quality improvement (FY15) Skills development/labor markets (FY15)	Telecommunications & ICT Development (TBD)	Food/nutrition security & agriculture productivity (FY14)	Pacific Microfinance Initiative (IFC, FY15) Land policy & land titling (FY15)
AAA & IFC Advisory Services	Food & nutrition security & agriculture policy (FY14) Health equity & financial protection (FY14) Health financing PER (FY15)	PPP policies & capacity building (IFC/WBI, FY14-15)	Business process simplification (IFC, FY14) Financial services & banking sector review (IFC, FY14)	Country Gender Assessment (FY14) Community Driven Development M&E (FY14) Building disaster/climate resilience (FY14) Poverty analysis, PERs, & Public investment management (FY14-17) Capacity building for PPPs & infrastructure financing (FY15)

<sup>20</sup> This list includes only new planned activities; the fiscal year listed is an estimated start date for the activity, but is subject to change. Activities are listed under the main CPS strategic area, but many touch on multiple strategic areas. All activities are subject to change. Activities in the IDA17 period will be further defined during the CPS Progress Report in FY15.

***Strategic Area 1: Improving the Management and Delivery of Services in Education, Health and Nutrition, and Social Protection***

41. **The first CPS strategic area will build the capacity of the government to deliver services to create an educated, healthy, employable and less vulnerable population.** In particular, the WBG will focus on supporting decentralized service delivery in health and education, and improving the targeting and impact of social protection programs.

**Engagement Area 1.1: Increasing access to and quality of education and health.**

42. **The WBG will focus on technical assistance to improve the efficiency and quality of service provision in education, skills development, and health, and contribute to a higher order goal of creating an employable youth.** The WBG will directly support implementation of the new National Health Sector Strategic Plan (NHSSP) and National Education Strategic Plan (NESP), analyze deficiencies in nutritional outcomes, and (in outer years) expand collaboration in the areas of teacher quality improvement and workforce development. In the Ministry of Health, technical assistance will strengthen a sector-wide monitoring and evaluation (M&E) system to assess the health sector's achievements against the NHSSP and evidence-based decision-making. The WBG will also support the MOH to analyze health equity and financial protection. Education will be enhanced through management strengthening and school facility improvements. The WBG will also support the Ministries of Health and Education with district level budgeting and planning, and to link line ministry annual plans and budgets to the national strategic policies.

**Engagement Area 1.2: Developing an appropriate social protection system.**

43. **Through the Social Protection Administration Project and related TA, the WBG will continue to assist the government to improve the design, management, and evaluation of its core social protection programs.** Assistance includes development and deployment of a Management Information System (MIS) for cash transfers; capacity building and training; and technical assistance on M&E and database management. Upon request, the WBG will also advise the government on methods to improve the impact of its programs, including poverty targeting, and on the design and financing of its social insurance scheme for civil servants and the formal sector.

***Strategic Area 2: Building Core Infrastructure to Connect Communities to Markets***

44. **The second CPS strategic area will develop core infrastructure to enhance access to services, employment, and markets, and to facilitate efficient and reduced-cost movement of people and goods.** Insufficient or poor quality infrastructure is an important constraint to private sector growth and improved connectivity will help to enable economic diversification. Support in this area will be delivered through a close partnership between the IBRD and IFC, will include lending, technical assistance, and IFC investment and advisory services, and will set the stage for PPPs for major infrastructure.

**Engagement Area 2.1: Developing a high-quality, well-maintained road infrastructure.**

45. **Through the Timor-Leste Road Climate Resilience Project, the WBG will support Timor-Leste with climate-resilient road infrastructure on the Dili-Aileu-Maubisse-Ainaro corridor, including branch roads to Gleno, Same, and Ramelau.** This corridor transects key agricultural and tourism development areas in Timor-Leste's most populous region, where many of

its poorer populations live. This road network is a centerpiece of the SDP, and is expected to reduce the transaction costs of market access, in particular for agriculture, improve access to one of the priority areas targeted for tourism, and increase the accessibility of social services, particularly in the rainy season. The road network is also a crucial connection between the north and south and will facilitate access to the new Tibar Port, which will replace the Dili Port (see Engagement Area 2.2). It will also facilitate an emergency response to tackle natural disasters. Finally, it is intended to serve as a demonstration of effective climate-responsive road infrastructure.

### **Engagement Area 2.2: Commencing freight and air traffic improvement.**

46. **The WBG, led by the IFC, will advise the government of Timor-Leste on the structure and implementation of a transaction to enable private sector participation in the Dili Airport expansion and greenfield port at Tibar Bay.** This advice will consist of: (i) due diligence and structuring, including advice on technical, legal, environmental, and social due diligence and design of potential legal structures for a PPP; and (ii) implementation of a transparent and competitive tender for a private airport operator. By the end of the CPS period, both projects will achieve financial closure, facilitating private investment to improve and maintain infrastructure. Improved trade logistics will help reduce the cost of imports, and in particular of food, reducing inflation pressures. This CPS Outcome will link to Engagement Area 2.1, as the road network being rehabilitated by the WBG links these facilities. The government has also expressed interest in WBG co-financing the public investment component of the project; this is an important opportunity for IBRD-IFC partnership to improve the private sector enabling environment.

### **Engagement Area 2.3: Supporting reliable and affordable telecommunications services through efficient and well-regulated competition.**

47. **WBG assistance will support the development and implementation of a new telecommunications regulatory framework and Information and Communications Technology (ICT) policy, and contribute to institutional development of the newly created ICT regulator.** These efforts build on the success of WBG assistance on a competition friendly telecommunications policy and negotiations for the termination of the telecommunications monopoly, leading to the issuance of two new operator licenses in a previously closed market and the establishment of a new regulatory body. In the outer years of the CPS, the WBG may support the government's catalytic investments in fiber-optic infrastructure, including an international submarine cable. Technical assistance and investment in the telecommunications sector is expected to contribute, both directly and indirectly, to improved market access, productivity, and job creation.

### ***Strategic Area 3: Supporting Economic Development for a Non-Oil Economy***

48. **The third CPS strategic area will assist Timor-Leste to build the foundations for a non-oil economy that can eradicate poverty, create jobs, and improve livelihoods.** It will emphasize development of a productive agriculture sector, and support to private investment and reduced transaction costs for business, including for tourism. Interventions on the ground will focus on districts crossed by the road corridor to maximize the economic impact of the road and to demonstrate a more integrated path for rural development. IFC will lead WBG engagement with SMEs to identify opportunities for downstream development pending an agreement by Government and developers of the Sunrise field.

### **Engagement Area 3.1: Increasing productivity of the agriculture sector through strategic policy support and investments.**

49. **Through the Food and Nutrition Security and Agriculture Policy TA and Project<sup>21</sup>, the WBG will help address the low yields in food crops and the under-development of markets for domestic food production.** Specifically, it will support: (i) participatory resource planning and development; (ii) investments in market and rural productive infrastructure; and (iii) use of targeted learning grants to farmer organizations to improve farm practices. Raising productivity of food crops to regional standards will help not only to improve rural incomes, but will also lead to lower food prices, thereby facilitating access to food at the national level. Given the strong representation of women in subsistence agriculture, increasing agricultural productivity will have a clear impact on women's economic opportunities. Similarly, the WBG will explore opportunities for the sustainable development of ocean and in-land fisheries, an important natural resource that remains until now untapped and unmanaged. The WBG will also assist the Ministry of Agriculture and Fisheries (MAF) to implement its new strategic plan and will offer support in organizational development, strategic, policy and investment planning capacity, and decentralization of its technical functions at the district level.

### **Engagement Area 3.2: Improving the business environment.**

50. **The WBG will assist the government in addressing key constraints to private sector investment (including weak legal protections, complex and costly regulations, and skill mismatch), primarily through partnership with financial institutions, support to private sector institutions, technical advice on business regulatory reform, customs clearance, and PPP policies support on land policy, and establishment of the nascent One Stop Shop for business.** Activities in this area will specifically address constraints to women's participation in private sector enterprises, including regulatory and process reforms to simplify business registration and formalization. The private sector will be particularly important to drive tourism development, a priority in the SDP, and the IFC will explore potential transactions with tourism operators. Already the WBG is helping government identify areas with tourism potential along the road corridor. The IFC will lead efforts by the WBG to strengthen the government's capacity to design and manage PPPs and will identify areas for IBRD engagement in PPP regulation and policy as well as infrastructure financing, an important stepping stone for increasing private sector engagement in infrastructure provision. To help address the constraints posed to private sector development by insecure land ownership and usage rights, particularly for women, the WBG will respond to a request by the Ministry of Justice for capacity building support in the areas of land policy and land administration. Interventions in this area are also expected to mitigate the risk of land-related conflict. Should there be demand from the government, the WBG will also provide assistance on minimum wage policy, employment skills, and training, building on the findings of a recent Labor Market Issues Diagnostic Report.

51. **IFC will partner with three financial institutions, including two microfinance institutions, to double access to finance, particularly for women entrepreneurs.** The WBG, led by the IFC, will partner to conduct a review of the financial services and banking sector. Based on these findings and government demand, the WBG will assist the government to improve financial infrastructure through a credit registry or support to payment system development and develop an approach to address gaps in SME financing.

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<sup>21</sup> The program team is currently seeking GAFSP funding; however, in the absence of this funding, the program will go forward with support from WBG resources.

### ***Cross-Cutting Theme: Strengthening Institutions for Quality of Spending***

52. **The cross-cutting theme will focus on strengthening institutions to improve the quality of spending, both across government and in the specific sectors addressed by this CPS.** All activities in the CPS will contribute, directly or indirectly, to improving the quality of spending of government ministries. The WBG will also focus on planning and budgeting and enhancing resource flows between Dili and the districts. Through improvements in institutional capacity, the WBG will support the government to efficiently execute its substantial capital investment, improve the quality of planning through better use of data, and strengthen systems to prepare for budget support in subsequent CPS periods.

#### **Engagement Area 4.1: Supporting public sector institutions and planning functions to contribute to better economic management.**

53. **The WBG will continue its focus on cross-sector public financial management, macroeconomic stability, and budget execution through the Planning and Financial Management Capacity Building Program.** This will be supplemented by substantial support to the government to improve public financial management and funds flow at the sector level as a means to strengthen service delivery. PERs will be undertaken in several sectors, including health, infrastructure, and gender. The WBG will support sector strategies in key sectors where they are currently absent (for example, social protection).

54. **The WBG will continue to support the collection and analysis of data on living standards through household income and expenditure surveys, poverty assessments, and other household level living standards survey instruments.** A CGAP will be developed based on a gender assessment. These data will be made widely available and used to inform planning and policy dialogue. The WBG will also support program- and sector-level data collection, including impact evaluations and M&E systems. Consistent with commitments under the New Deal for Engagement with Fragile States, the WBG will work to improve and use country systems, and to ensure that all aid is on budget and reported through the government's Aid Management System. A country systems review, conducted in partnership with procurement and financial management teams with expertise in fragile states, will identify barriers to further use of country systems and present a plan to address these areas during the CPS period.

#### **Engagement Area 4.2: Increasing the focus on equity, inclusion, and citizen participation.**

55. **The WBG will deliver a series of analytical products highlighting issues of equality and inclusion, including a study on socioeconomic inequalities, a human opportunity index, a gender study, and a possible youth report.** For example, analysis of the development benefits of infrastructure spending will facilitate more effective, equitable, and sustainable development outcomes for poor people and reduce grievances around infrastructure development. Findings will inform the World Bank's program design and will be disseminated to government through short, digestible policy notes, and workshops. The WBG will also use ongoing analysis of the distribution of benefits from infrastructure projects and social transfers to build a dialogue with the government about equity and transparency in service delivery. For infrastructure specifically, the WBG will work with civil society and the government to increase the voice of poor and vulnerable groups in decision-making around spending. The WBG will partner with AusAid to assist with South-South knowledge transfer and design of a M&E system for a large Community Driven Development program financed by the government.

## V. RESULTS AND RISKS

### A. RESULTS FOCUS

56. **The WBG will consistently monitor progress toward CPS Engagement Areas and link results to the outcome and output indicators of activities in the portfolio.** The results matrix identifies several outcomes that are directly and measurably linked to the CPS Engagement Areas, and can be reasonably expected to be achieved within the CPS period. The WBG will implement the new RIM Sys results monitoring program, which links all portfolio activities to CPS outcomes and allows consistent and streamlined tracking of progress. In recognition of risks in the operating environment activities in the outer years of the CPS remain unspecified and are not reflected in the results matrix. The CPS Progress Report in FY2015 will analyze progress, reconsider interventions and results, and define activities for the latter CPS years.

### B. MANAGING RISKS AND VULNERABILITIES

57. **Timor-Leste is a young, post-conflict country facing significant developmental and institutional challenges** (Table 2). Risks include, *inter alia*, climate change, political or social instability, policy and governance gaps, and implementation risks due to the low capacity environment. Macroeconomic risks are also substantial. Economic prospects over the medium term depend heavily on prudent and effective management of the Petroleum Fund and associated fiscal policies. Risks include vulnerability of the economy to volatile oil prices, the risks to economic stability and sustainable growth from inefficient or excessive withdrawals from the Petroleum Fund in excess of absorptive capacity, and governance concerns, including political risks associated with the evolution of political and government institutions and social tensions. The WBG categorizes risks broadly as project-related risks that can be mitigated through project design and safeguards; country-level risks that the WBG can help to mitigate through selection of intervention areas, project design, objective advice on policies and programs, and engagement with stakeholders; and risks that are beyond the WBG's span of influence. Flexibility is the core risk management strategy built into the CPS.

58. **The WBG will actively monitor risks and changes in the operating environment, and will adjust its mitigation strategy accordingly.** In cooperation with the country office team and the *Justice for the Poor* program, and with substantial input from the government's Fragility Assessment team, the World Bank's Center for Conflict, Security, and Development (CCSD) conducted a desk review of the major drivers of fragility based on the 2011 WDR framework in September 2012. The findings from this review have informed the CPS and identified areas where additional analytical work is necessary to understand economic, political, and social drivers of instability. The WBG has worked closely with the government on the Fragility Assessment and will use its findings to inform its dialogue with the government and program design going forward. Table 2 summarizes the risks and mitigation strategies for country level risks as well as programmatic and institutional risks.

**Table 2: Risks and Mitigation Strategies**

Risk Description	Mitigation Strategy
<i>Country-Level Risks</i>	
Timor-Leste reverts to conflict after failing to manage its upcoming generational leadership transition	The WBG would prepare for the suspension of operations in Timor-Leste and consider the evacuation of staff.
Political conflict and/or instability hampers access to senior civil servants and project sites, impedes achievement of development objectives, or reverses policy gains	Programs will be designed with the flexibility to respond, or restructure, as the operating environment requires. The WBG will commission ongoing analytical work and work in close cooperation with the CCSD team to keep abreast of potential conflict triggers in the operating environment.
Elite bargains, patterns of wealth distribution, unmet expectations, perceptions of corruption, and entrenched poverty lead to instability (particularly among frustrated youth)	The CPS cross-cutting focus on quality of spending, investments in social service delivery and agriculture, and a geographic focus on a region with a high proportion of poor people, are intended to increase the share, quality, and impact of spending reaching impoverished communities. Dialogue with the government on infrastructure and cash transfer spending, as well as planned public expenditure reviews, will continue to inform the government’s planning and budgeting.
Legal and policy uncertainty around land leads to increased tensions between the state and communities, especially due to land expropriation or investor concessions	In addition to following required safeguards procedures for the Road Climate Resilience Project, the World Bank is conducting a study of cultural heritage sites along the road corridor to ensure that the road does not impede access to or encroach upon any cultural sites. Should funding be secured, the WBG will also work with the government and stakeholders to improve the legal and policy environment on land.
Conflict between elements of the military and police forces resurface following the withdrawal of UNPOL and the International Stabilization Force	The WBG does not engage in the security sector. However, WBG’s Timor-Leste country team employs a full-time security officer to keep abreast of potential security risks in the operating environment. The Australian government is supporting the government to develop its community policing capacities to provide a supporting/ alternative security presence in communities throughout Timor-Leste.
Inflation, continued overspending of the PF beyond a sustainable level, corruption, or poor investment management cause wastage and create economic and political risks	The draft CPS focuses on quality of spending as a cross-cutting theme. The WBG’s programs and technical assistance within the Ministry of Finance, line ministries, and possibly the new Economic and Policy Investment Advisory agency will focus on transparency and efficient management of funds. The WBG’s Timor-Leste country team will also continue to rely on substantial fiduciary and procurement guidance.

Risk Description	Mitigation Strategy
<i>Programmatic and Institutional Risks</i>	
The government is unwilling to borrow for non-infrastructure projects and additional donor support is not identified	The WBG will continue to make use of diversified funding sources, such as bank budget and trust funds, including multisector trust funds being developed in partnership with AusAID and the EU. The WBG will also continue to urge increased human and infrastructure investments in social sectors.
Lack of ownership, poor coordination, and/or weak local capacity lead to projects which are unsustainable and/or not appropriately modeled for the operating environment	All projects will be reviewed for alignment with the CPS, which has been discussed and agreed with the government and reflects overall government priorities and priority projects. Additionally, individual projects will continue to be designed in cooperation with civil servants and advisors within the respective Ministries; buy-in from the government will be a deciding factor during project concept note reviews for new activities. In line with CASCR recommendations, projects will be designed simply, and will be phased to ensure that the attention of civil servants is not unduly spread across multiple objectives. On-the-ground support from sector and fiduciary teams will also help to mitigate the capacity risks.
Delays in the passage of key legislation result in delays in project preparation or implementation	The WBG will continue to monitor the legislative agenda and will make use of political economy analysis to determine the likelihood of the passage of key legislation that impacts planned or ongoing projects. However, there may be a need to delay or restructure projects and CPS outcomes to account for changing political priorities and legislative delays.
Procurement, financial, and public financial management systems continue to be inadequate to ensure effective project management, anti-corruption, and budget implementation	The WBG will engage additional financial management and procurement resources in Dili, both by hiring staff on the ground and through requests for support from the WBG's Jakarta office. The WBG will also work with the CCSD and regional procurement and financial management teams to build country systems, and find ways to ensure good practice fiduciary management in a low-capacity context.
Vested interests prevent progress on key reforms.	The WBG will work closely with leading government partners, civil society, and development partners to promote reforms. The WBG's focus on building institutional capacity and promoting quality of spending will also help to mitigate this risk.
Lack of prioritization and poor management threaten the sustainability of the government's portfolio of programs	The CPS quality of spending cross-cutting theme will address the quality of program design, implementation, and management, in addition to activities falling strictly within the areas of planning and financial management.
Timor-Leste is prone to frequent natural disasters, and the impacts of climate change are likely to lead to an increase in the instance and severity of natural disasters	During the CPS period, technical assistance will be carried out on managing disaster/climate risks on and around the Dili-Ainaro road corridor, with a view to improving disaster/climate resilience of the transport assets and of livelihoods.

### Annex 1: Timor-Leste Country Partnership Strategy Results Matrix

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
<b>STRATEGIC AREA 1: IMPROVING THE MANAGEMENT AND DELIVERY OF SERVICES IN EDUCATION, HEALTH AND NUTRITION, AND SOCIAL PROTECTION</b>				
<b>Engagement Area 1.1: Increasing access to and quality of education and health</b>				
Access to a quality education enables people to participate in the economic, social and political development of the nation (SDP, pg. 14)	<ul style="list-style-type: none"> <li>▪ Insufficient capacity of Ministry of Education (MOE) for effective policy development and resource management to ensure high quality education</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>MOE capacity to allocate resources to key needs increased</b>, as measured by:                  <i>Indicator 1:</i> Pre-secondary gross enrollment rate (GER) increased from 74.3% (Census 2010) to 80% by 2015.                  <i>Indicator 2:</i> Gender disparity in secondary education enrollment narrows from 5.8 percentage points to under 4 percentage points by 2015.             </li> </ul>	<ul style="list-style-type: none"> <li>▪ Pre-secondary GER from 74.3% to 80%</li> <li>▪ GER disparity narrows from 5.8 percentage points to under 4 percentage points</li> </ul>	<p><b>SPN:</b> Second Chance Education Project, Education Sector Support Project (incl. AF and AFII), Education Management Strengthening Project</p> <p><b>LEN:</b> Education Quality Improvement Project, Food Security Project</p> <p><b>ESW:</b> Education service delivery, education quality, workforce development, teacher quality improvement</p>
Timor-Leste will have a healthier population as a result of comprehensive, high quality health	<ul style="list-style-type: none"> <li>▪ Declining trend in Government of Timor-Leste (GoTL) health expenditure as a % of general government expenditures, in particular with insufficient</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>MOH resource management improved</b>, as measured by:                  <i>Indicator 1:</i> # of districts that receive recurrent             </li> </ul>	<ul style="list-style-type: none"> <li>▪ Health MTEF prepared and updated based on</li> </ul>	<p><b>SPN:</b> National Health Sector Strategic Plan Support Project</p> <p><b>LEN:</b> Food Security Project</p> <p><b>TA:</b> JSDF on Food and</p>

<sup>22</sup> For results which are strongly linked to projects which end in or prior to FY15, and for which follow-on work has not yet been identified, outcomes and milestones are identical. New outcomes will be incorporated into the CPS Progress Report, as necessary.

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
services accessible to all Timorese people (SDP, pg. 34)	resources to maternal and child health <ul style="list-style-type: none"> <li>▪ Insufficient capacity for resource management, including planning and budgeting, implementation, resource (human, financial, and material) management, and monitoring and evaluation</li> </ul>	expenditures consistent with the NHSSP Mid-Term Expenditure Framework (MTEF) and approved budget ( <i>Target: 8 in 2015; Baseline: No MTEF yet developed</i> )  <i>Indicator 2: % of stock-outs of tracer essential drugs at health facilities reduced (Target: 30% in 2015; Baseline: 40% in 2011)</i>	costed strategic plan  <ul style="list-style-type: none"> <li>▪ % of stock-outs of tracer essential drugs at the Autonomous Service of Medicines and Health Equipment decreased (<i>Target: 15% in 2015; Baseline: 19% in 2012</i>)</li> </ul>	Nutrition Security and Agriculture Policy (TBC)
<b>Engagement Area 1.2: Developing an appropriate social protection system</b>				
Rights and interests of the most vulnerable citizens protected (SDP, pg. 44)	<ul style="list-style-type: none"> <li>▪ Lack of information needed for decision-making</li> <li>▪ Unsustainable levels of growth in budget</li> <li>▪ Lack of strategic framework/policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Management and implementation of social assistance programs improved</b>, as measured by:              <i>Indicator 1: Social assistance policy framework in place</i>    <i>Indicator 2: Program management indicator reports produced by the MIS (Target: Quarterly in FY15; Baseline: None in FY13)</i> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Interministerial committee to consider SA policy formed</li> <li>▪ Management Information System for cash transfers developed and deployed</li> </ul>	<b>SPN:</b> Social Protection Administration Project <b>TA:</b> Social Protection NLTA, indicative social protection TA <b>ESW:</b> PER on Social Assistance, ongoing analysis on social protection and labor

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
<b>STRATEGIC AREA 2: BUILDING CORE INFRASTRUCTURE TO CONNECT COMMUNITIES TO MARKETS</b>				
<b>Engagement Area 2.1: Developing a high-quality, well-maintained road infrastructure</b>				
<p>Extensive network of quality, well-maintained roads will connect communities, promote rural development, industry and tourism, and provide access to markets (SDP, pg. 70)</p>	<ul style="list-style-type: none"> <li>▪ Insufficient road network increases cost and time for travel</li> <li>▪ Low investment in operations and maintenance (O&amp;M)</li> <li>▪ Poor condition of roads in key agricultural areas</li> <li>▪ Little attention to climate change impact on road networks</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Improved road conditions and sustainability of road investment</b>, as measured by: <ul style="list-style-type: none"> <li><i>Indicator 1:</i> % of the Dili-Ainaro Road Corridor that is in good or fair condition (<i>Target:</i> 90% in FY2016; <i>Baseline:</i> 10% in 2012)</li> <li><i>Indicator 2:</i> Climate resilience of the Dili-Ainaro road corridor, as measured by % of drainage on the road corridor in good condition (<i>Target:</i> 90% in 2016; <i>Baseline:</i> 20% in 2012)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Road roughness reduced, as measured by International Roughness Index (IRI) (m/km) (<i>Target:</i> 3.5 for improved sections in 2016; <i>Baseline:</i> 9 in 2012) in the Dili-Ainaro Road Corridor</li> <li>▪ # of locations with improved slope protection on Dili-Ainaro road corridor (<i>Target:</i> 25 in 2016; <i>Baseline:</i> 0 in 2012)</li> <li>▪ % of drainage on the Road Corridor in good condition (<i>Target:</i> 90% in 2016; <i>Baseline:</i> 20% in 2011)</li> </ul>	<p><b>LEN:</b> Timor-Leste Road Climate Resilience Project and Additional Financing I and II <b>TA:</b> Road for Cultural Heritage</p>
<b>Engagement Area 2.2: Commencing freight and air traffic improvement</b>				
<p>International airport expanded and network of district</p>	<ul style="list-style-type: none"> <li>▪ Lack of sector planning</li> <li>▪ Insufficient airport facilities</li> <li>▪ Limited private sector</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Air transport infrastructure improved through</b></li> </ul>		<p><b>IFC AS:</b> Dili Airport <b>IFC IS</b></p>

<b>COUNTRY DEVELOPMENT GOAL</b>	<b>CONSTRAINTS</b> the CPS will address	<b>OUTCOMES</b> the CPS will influence	<b>MILESTONES<sup>22</sup></b> by which to measure progress	<b>Indicative Bank Group PROGRAM</b>
airports built up to meet future demand for air traffic and boost key industry sectors (SDP, pg. 222)	investment	<p><b>private sector investment</b>, as measured by:</p> <p><i>Indicator 1:</i> Dili Airport construction complete</p> <p><i>Indicator 2:</i> US\$5 million in new private investment facilitated for construction of Dili Airport</p>	<ul style="list-style-type: none"> <li>▪ Advice provided on technical, legal, environmental, and social due diligence and design of potential legal structures for PPP</li> <li>▪ Competitive tender to select private developer/investor/operator to partner with the GoTL to build a new Dili Airport initiated</li> </ul>	
New seaports support growing economy and meet future industry and freight demands (SDP, pg. 222)	<ul style="list-style-type: none"> <li>▪ Limited private sector investment</li> <li>▪ Lack of sufficient freight facilities</li> </ul>	<p>▪ <b>Seaport infrastructure improved through private sector investment</b>, as measured by:</p> <p><i>Indicator 1:</i> US\$50-70 million in new private investment for the Tibar Bay Port facilitated and port construction underway</p>	<ul style="list-style-type: none"> <li>▪ Competitive tender to select private developer/investor/operator to partner with the GoTL to build Tibar Bay Port initiated</li> </ul>	<b>IFC AS:</b> Tibar Bay Port (Dili)
<b>Engagement Area 2.3: Supporting reliable and affordable telecommunications services through efficient and well-regulated competition</b>				
Modern telecommunications network established	<ul style="list-style-type: none"> <li>▪ Legal and regulatory frameworks incomplete</li> <li>▪ Limited</li> </ul>	▪ <b>Information and communications technology (ICT)</b>		<b>LEN or Programmatic AAA + RETF:</b> Telecommunications and

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
(SDP, pg. 100)	telecommunications infrastructure, particularly in rural areas, leading to low access and high costs	<p><b>policymaking capability improved</b>, as measured by:</p> <p><i>Indicator 1:</i> Sector policy documents updated and effective regulatory framework in place</p> <p>▪ <b>Penetration of telecommunications increased</b>, as measured by:</p> <p><i>Indicator 1:</i> # of direct beneficiaries (<i>Target:</i> 80% of the population in 2017; <i>Baseline:</i> approx. 50% of the population in 2012)</p>	<p>▪ Initial review/update of Telecommunications Policy undertaken</p> <p>▪ Policy needs assessment of broadcasting and Internet delivery, national Internet exchange, international optical fiber cables completed</p>	ICT Development Project
<b>STRATEGIC AREA 3: SUPPORTING ECONOMIC DEVELOPMENT FOR A NON-OIL ECONOMY</b>				
<b>Engagement Area 3.1: Increasing productivity of the agriculture sector through strategic policy support and investments</b>				
Thriving agricultural sector reduces poverty, provides food security, and promotes growth in rural areas and the nation as a whole (SDP, pg. 118)	<ul style="list-style-type: none"> <li>▪ Weak policy formulation and implementation capacity of the Ministry of Agriculture and Fisheries (MAF)</li> <li>▪ Limited use of commercial inputs and improved technologies by farmers</li> <li>▪ Under-developed market</li> </ul>	<p>▪ <b>Agricultural productivity and competitiveness improved</b>, as measured by:</p> <p><i>Indicator 1:</i> % of farmers adopting improved farming</p>		<b>LEN:</b> Agriculture Productivity Improvement Project (APIP), Food Security Project (see below), Marine Coastal and Environmental Management Project (indicative), Coffee Sector Rehabilitation Project

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
<p>Timor-Leste will have at least four niche cash crop products that can be consistently exported (pg. 223)</p>	<p>linkages due poor road and marketing infrastructure</p> <ul style="list-style-type: none"> <li>▪ Limited and erratic rainfall and poor soil conditions</li> <li>▪ Limited private sector investment in agriculture</li> <li>▪ Poor agricultural practices among coffee farmers</li> <li>▪ Soil degradation</li> </ul>	<p>practices (baselines and targets will be identified during project preparation)</p> <p><i>Indicator 2:</i> % of farmers adopting soil and water conservation measures (baselines and targets will be identified during project preparation)</p> <p><i>Indicator 3:</i> One IFC investment in coffee, forestry, or another key agribusiness subsector initiated</p> <ul style="list-style-type: none"> <li>▪ <b>MAF policy formulation and planning, regulatory, and implementation capacity strengthened,</b> as measured by:</li> <li>▪ <i>Indicator 1:</i> Timor-Leste Research and Development Institute and Agricultural Advisory Committee established and operational</li> </ul>	<ul style="list-style-type: none"> <li>▪ Coffee sector strategy prepared in a consultative manner</li> <li>▪ MAF is reorganized and adopts a decentralized structure</li> </ul>	<p><b>TA:</b> JSDF on Food and Nutrition Security and Agriculture Policy (TBC); Institutional Development Fund (IDF) on Capacity Building in MAF; TA for policy and planning capacity building</p> <p><b>ESW:</b> Pre-feasibility study for development of groundwater irrigation, Action Plan for the Rehabilitation of the Coffee Sector (WB and IFC)</p> <p><b>IFC AS:</b> Pacific Microfinance Initiative (partnership w 2-3 MFIs)</p> <p><b>IFC IS:</b> Coffee/agribusiness investment</p> <p>N.B. APIP could be supported through GAFSP if GoTL's proposal is accepted. In such case, the Bank will appraise and supervise project implementation.</p>

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
<b>Engagement Area 3.2: Improving the business environment.</b>				
<p>Reforms to improve the business and investment environment in Timor-Leste, provide better access to microfinance, and create a new National Development Plan. (SDP, pg. 151)</p> <p>Businesses need credit to invest, expand, purchase goods and equipment, and upgrade facilities. (SDP, pg. 152)</p>	<ul style="list-style-type: none"> <li>▪ Weak legal and regulatory protections (including on land ownership and use), complex and costly regulations, limited access to finance, skills mismatch</li> <li>▪ High cost of business start-up</li> <li>▪ Limited or no access to credit and long-term finance at affordable rates</li> <li>▪ Potential for conflict arising from land expropriation and evictions</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Reduce the cost and increase the ease of doing business in Timor-Leste</b>, as measured by: <ul style="list-style-type: none"> <li><i>Indicator 1:</i> Business registration and licensing process streamlined and time reduced (<i>Target:</i> 5 days; <i>Baseline:</i> 103 days)</li> <li><i>Indicator 2:</i> Access to finance is doubled (<i>Target:</i> 26% of the population in FY17, <i>Baseline:</i> 13% of the population in FY12)</li> <li><i>Indicator 3:</i> # of women with formalized businesses increased (Targets and baselines will be determined in early 2013)</li> </ul> </li> <li>▪ <b>Contingent upon passage of the draft land law, land titling underway in line with law and approved land policy</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ One Stop Shop established, maintained and improved</li> <li>▪ Either payment systems or credit registry created</li> <li>▪ Milestone will be determined in early 2013</li> <li>▪ Milestone will be determined in early 2013</li> </ul>	<p><b>TA:</b> Labor Market Issues Diagnostic Report, Land policy and land titling  <b>IFC AS:</b> Public-Private Dialogue, Business Environment TA, partnerships with financial intermediaries, Business Registration and Licensing Reform, process simplification, Financial services and banking sector review, IFC PMI partnerships with 2-3 Financial Institutions; IFC financial infrastructure project.</p>

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
<b>CROSS-CUTTING THEME: STRENGTHENING INSTITUTIONS FOR QUALITY OF SPENDING</b>				
<b>Engagement Area 4.1: Supporting public sector institutions and planning functions to contribute to better economic management</b>				
<p>SDP implemented as cost effectively and efficiently as possible (SDP, pg. 227)</p> <p>Public sector management and governance strengthened; Modern Information Technology will have been adopted by the civil service to support joined-up government and e-government initiatives (SDP, pg. 227)</p>	<ul style="list-style-type: none"> <li>▪ Insufficient attention to sector planning, weak linkages between subnational program implementation and national planning</li> <li>▪ Inadequate information for planning purposes</li> <li>▪ Low level of cooperation, including data sharing, within and among government agencies</li> <li>▪ Insufficient attention by donors to the needs of fragile states, including lack of harmonization of aid with the local and national context, unpredictable aid, and inadequate attention to building capacity and systems</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Improved efficiency and targeting of public expenditures, in line with strategic priorities and sound fiscal policy,</b> as measured by: <ul style="list-style-type: none"> <li><i>Indicator 1:</i> Household and other survey data, poverty assessments, and program- and sector-level data made widely available and used to inform program planning and policy dialogue (This indicator will be sharpened during the CASPR.)</li> <li><i>Indicator 2:</i> At least 2 Ministry-level MIS developed and in use (<i>Baseline:</i> 0 in 2012)</li> <li><i>Indicator 3:</i> World Bank support integrated into and reported in budget plans and requests, and</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Gender-informed PERs in infrastructure and at least 1 additional sector</li> <li>▪ Poverty assessment and/or HIES completed</li> <li>▪ Disaster/climate resilience study undertaken</li> <li>▪ Country Gender Assessment undertaken</li> <li>▪ At least 1 Ministry-level MIS developed and in use</li> <li>▪ Full and accurate data on World Bank assistance made available in GoTL Aid</li> </ul>	<p><b>SPN:</b> National Health Sector Strategic Plan Support Project, Education Management Strengthening Project, Planning and Financial Management Capacity Building Program</p> <p><b>LEN:</b> Education Quality Improvement Project, Food Security Project, Public Financial Management (PFM) and Economic Management</p> <p><b>TA:</b> Public Investment Management TA, Petroleum Fund and Asset Management TA, Agriculture Policy and Strategy TA, Social Protection and Pensions</p> <p><b>ESW:</b> Infrastructure PER; Youth public expenditure analysis; education service delivery, quality and workforce development; Poverty Analysis and HIES; Building Disaster/Climate Resilience; Country Systems Review</p> <p><b>TF:</b> Social Protection</p>

COUNTRY DEVELOPMENT GOAL	CONSTRAINTS the CPS will address	OUTCOMES the CPS will influence	MILESTONES <sup>22</sup> by which to measure progress	Indicative Bank Group PROGRAM
		<p>included in appropriations approved by Parliament</p> <p><i>Indicator 4:</i> PPP regulation gaps identified to allow transactions for Dili Airport and Tibar Bay Port</p>	<ul style="list-style-type: none"> <li>▪ Transparency Portal</li> <li>▪ Country systems review undertaken</li> </ul>	<p>Administration Project</p> <p><b>IFC AS/WBI:</b> PPP policy support project</p>
<b>Engagement Area 4.2: Increasing the focus on equity, inclusion, and citizen participation</b>				
<p>Timor-Leste will be a strong, cohesive and progressive nation where the rights and interests of its most vulnerable citizens are protected (SDP, pg. 219)</p>	<ul style="list-style-type: none"> <li>▪ Lack of adequate information for equality- and inclusion-focused policy planning</li> <li>▪ Rapid increase in infrastructure budget, executed through multiple modalities, with incomplete monitoring of impacts</li> <li>▪ Limited voice and participation of citizens and civil society in identifying, planning and executing development priorities</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Government policy and programs informed by data on equality and inclusion</b>, as measured by: <ul style="list-style-type: none"> <li><i>Indicator 1:</i> Collection and use of data on development and inequality improved to support policy planning (This indicator will be sharpened during the CASPR.)</li> <li><i>Indicator 2:</i> National systems and capacities for maximizing development benefits for poor and vulnerable groups improved, increasing their voice and</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ At least 2 analytical pieces on inequality (including gender and age-based inequality) prepared and disseminated widely</li> <li>▪ Analysis of equity in infrastructure spending completed and feeds into reform of country systems for infrastructure planning</li> </ul>	<p><b>TA:</b> Network for Parliamentarians (with the World Bank Institute (WBI))</p> <p><b>ESW:</b> Poverty and Social Impact Analysis (PSIA) grant on Understanding Perceived and Actual Socio-Economic Inequality, Poverty Analysis and HIES, Human Opportunity Index for Timor-Leste, Youth PER, Country Gender Analysis, Public Investment Management, sub-national spending modalities, and large infrastructure contracts; Infrastructure PER</p> <p><b>ESW, LEN (IDA), and TF:</b> Social accountability and transparency</p>

<b>COUNTRY DEVELOPMENT GOAL</b>	<b>CONSTRAINTS</b> the CPS will address	<b>OUTCOMES</b> the CPS will influence	<b>MILESTONES<sup>22</sup></b> by which to measure progress	Indicative Bank Group <b>PROGRAM</b>
		reducing grievances in infrastructure development	<ul style="list-style-type: none"> <li>▪ Partnership with stakeholders established around a national-level engagement on infrastructure, with equal participation of women</li> </ul>	

## Annex 2: Country Assistance Strategy Completion Report

June 2012

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Country Assistance Strategy for FY2006–2008	August 18, 2005	Report No. 32700-TP
Interim Strategy Note for FY2010–2011	August 12, 2009	Report No. 50099-TP

<b>CASCR prepared by:</b>	Amanda Green
<b>Under the guidance of:</b>	Luis F. Constantino Pamela Dale
<b>With inputs from:</b>	World Bank Timor-Leste Country Team

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### I. Introduction

1. This Country Assistance Strategy Completion Report (CASCR) evaluates the World Bank's Country Assistance Strategy (CAS) for the Democratic Republic of Timor-Leste for the period FY2006–2008, as well as the subsequent Interim Strategy Note (ISN) for FY2010–2011 produced jointly by the World Bank and International Finance Corporation (IFC). To the extent possible, this CASCR reports on progress to date, including for CAS outcomes that were envisioned over the period FY2006–2008. A Country Assistance Strategy Progress Report (CASPR) was prepared but never finalized, as the decision was taken to move to an ISN.

2. The CAS for FY2006–2008 was the World Bank's first full CAS for Timor-Leste, following the Transition Support Strategy developed in 2000. Its chief aim was to help the country consolidate early post-independence progress. In line with Timor-Leste's National Development Plan and Stability Program, the CAS was developed around three strategic pillars: delivering sustainable services, creating productive employment, and strengthening governance. Youth and gender considerations were mainstreamed throughout the program. Taking into account lessons learned from the Bank's early interventions in the country, the CAS emphasized four principles of engagement: building institutional capacity, deepening the results orientation, strengthening transparency and communication, and consolidating and extending strong international partnerships. The CAS advocated a whole-of-government program supported by strong multidonor partnerships, underpinned by the Consolidation Support Program (CSP), a budget support operation financed by ten donor partners. Given its alignment with the multidonor CSP, the CAS results matrix included outcomes to which the Bank did not expect to contribute directly. This CASCR reports only on those outcomes to which the Bank expected to contribute directly.<sup>23</sup>

3. Less than a year after the start of the CAS, in April 2006, violence erupted in Timor-Leste. Fighting broke out between the army and police following the dismissal of over one-third of the army's soldiers, which sparked widespread violence in the capital, Dili, particularly among youth gangs. Over 100,000 people were displaced, and international troops were called in to restore order. This period of insecurity lasted well into 2007, invalidating many of the assumptions underlying the CAS and prompting the decision to move to an ISN. In May 2007, the Bank began processing new operations under Operational Policy 8.00, *Rapid Response to Crises and Emergencies* (OP 8.00).<sup>24</sup>

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<sup>23</sup> These outcomes were marked with an asterisk (\*) in the CAS Results Matrix. International Development Association. 2005. *Country Assistance Strategy for the Democratic Republic of Timor-Leste for the Period FY06–FY08*. Report No. 32700-TP, June 22. Annex B9.

<sup>24</sup> The most recent project in Timor-Leste approved under OP8.00 is the 2009 Youth Development Program.

4. Published in August 2009, the ISN for FY2010–2011 aimed to support the government in using its oil wealth to address immediate post-conflict stabilization imperatives while laying a sound basis for sustained growth in nonoil sectors. Recognizing the critical role of private sector development in ensuring national stability and nonoil growth, the ISN was prepared jointly by the World Bank and IFC. The move to an ISN also reflected the understanding that the political and security risks present at the time in Timor-Leste required greater focus and flexibility in the program. CAS activities that were no longer relevant to the country’s context and goals were restructured or dropped. This CASCR reports to the extent possible on progress made on all CAS activities.

5. ISN activities were organized differently than those in the CAS, focusing on four strategic stages of the government’s transition from restoring stability to fostering long-term development: (i) participation in the ongoing dialogue on National Priorities and the formulation of a national development strategy; (ii) development of capacity to implement this strategy; (iii) design and implementation of short-term stabilization activities; and (iv) steps to secure longer-term economic growth and development. Implementation of the ISN was guided by the Bank Group’s framework for engagement in fragile states.<sup>25</sup>

6. Following a thorough review of CAS and ISN implementation, the country team has rated both Program and Bank performance *moderately unsatisfactory* based on the latest guidelines for CASCR ratings.<sup>26</sup> Though good progress was achieved toward most major outcomes—an impressive feat in a new, postconflict country—the program did not meet expectations in key areas such as job creation, agricultural development, and youth employment. Regarding the Bank Group’s performance, while the design of the CAS provided the broad scope and coordinated multidonor approach the government was looking for, the strategy’s ambitious targets foundered in the face of severe capacity challenges and postconflict uncertainty. Despite improvements in program supervision and meaningful dissemination of analytical work, implementation was hampered by overly complex projects and insufficient mitigation of risks.

7. This assessment is based on discussions within the country team and on a review of key documents.<sup>27</sup> The assessment is informed by the Independent Evaluation Group’s (IEG) Country Program Evaluation (CPE), which reviewed 39 IDA- and IBRD-financed operations, four IFC advisory service activities, and various trust funded activities implemented between 2000 and 2010. However, in keeping with the CASCR guidelines, this assessment is a self-evaluation by country office staff, and therefore may differ from the CPE in both its analysis and conclusions.

## **II. Progress toward Longer-term National Development Goals**

8. In evaluating Timor-Leste’s progress toward the long-term development outcomes set forth in the CAS, it is important to take into account the disruptive and, in some cases, retrogressive effects of the 2006–2007 crisis. The outbreak of violence destabilized the political environment, contracted the economy, and exacerbated unemployment, adding a significant burden to the challenges the country already faced in meeting its national development goals. As discussed at length in the World

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<sup>25</sup> World Bank. 2005. *Fragile States—Good Practice in Country Assistance Strategies* (IDA/R2005-0252), December.

<sup>26</sup> World Bank. 2012. *Guidance to Staff on the Country Assistance Strategy Completion Report*. Operations Policy and Country Services Department. October.

<sup>27</sup> Key reference documents include the CAS for FY2006–2008, the ISN for FY2010–2011, Project Documents, Implementation Status and Results Reports, supervision reports, Implementation Completion and Results Reports, trust fund progress reports, portfolio reviews, and recent Economic and Sector Work.

Bank's *World Development Report 2011: Conflict, Security, and Development*, it is not unusual for post-conflict countries to experience "cycles of repeated violence, weak governance, and instability," which frustrate efforts to reduce poverty, advance human and economic development, and improve institutional performance.<sup>28</sup> Moreover, creating institutions that can break the cycle of violence takes 15 to 30 years, even in the most promising cases, and the transition to stability tends to take shape in a series of transitions from confidence building to institutional transformation.<sup>29</sup>

9. In this context, it is notable that the young nation of Timor-Leste emerged from this crisis intact and with a renewed focus on translating the work of government into tangible economic and social benefits for its citizens. Despite the tense situation, the government showed impressive restraint in its handling of the crisis. Under intense pressure to rebuild public trust, it moved quickly to address the proximate cause of the unrest and to resettle those who had been displaced. In the aftermath of the conflict, the government prioritized the promotion of economic recovery, provision of security, implementation of social protection programs, and restoration of positive communication with the Timorese people about government policies and initiatives.

10. As a result of the government's priority focus on stabilization and recovery, some activities that had been highlighted in national development planning documents and, consequently, in the CAS were deemphasized in the short term, with attendant effects on the achievement of these objectives. Still, despite the challenging context, Timor-Leste has made important progress toward recovering from the effects of the crisis and advancing toward national development goals. The country's first National Development Plan—in which the CAS was anchored—set forth two overarching development objectives: (i) to reduce poverty across the nation; and (ii) to promote equitable and sustainable economic growth.

11. The incidence of poverty increased significantly between 2001 and 2007, a period of global economic financial downturn. The Timor-Leste Survey of Living Standards (TLSLS) measured the poverty headcount at 49.9 percent nationwide in 2007, up from 36.6 percent in 2001.<sup>30</sup> Poverty was shown to be greater in rural areas, arising largely from a decline in average consumption. Preliminary analysis in advance of a planned household survey and full poverty assessment suggests some persistence in poverty..

12. Timor-Leste's economic recovery has been strong, showing average annual growth rates above 10 percent since 2007. The government's expansionary fiscal policy has been a principal driver of this growth. This fiscal approach relies on the country's petroleum income, which peaked at US\$ 2.8 billion in 2011 and is projected to come to an end by 2025. The country has amassed over US\$ 11 billion in savings (nearly eleven times the estimated nonoil GDP in 2011) in its Petroleum Fund, which provides a cushion for potential economic shocks. Withdrawals from this Fund, which were budgeted to exceed the estimated sustainable income (ESI) by US\$ 321 million in 2011 and are planned at over twice the ESI for 2012, have been aimed at spurring domestic investment and private sector growth. While medium-term economic prospects are strong, they depend on the quality of government spending and government efforts to stimulate economic opportunities across the country. Moreover, the transition from low-income, postconflict environment into an oil-rich lower-middle-

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<sup>28</sup> World Bank. 2011. *World Development Report 2011: Conflict, Security, and Development*. Washington DC: World Bank, pp. 2-5.

<sup>29</sup> Ibid, pp. 10, 12.

<sup>30</sup> World Bank. 2008. *Timor-Leste: Poverty in a Young Nation*. Preliminary Draft. Washington DC: World Bank.

income country will have important implications for its strategic development path as well as for the nature of its relationship with the Bank.

13. Though the ISN focused less on national long-term development goals than on short-term stabilization, it did aim to help the government lay the foundations for sustained nonoil growth as part of its transition out of a postconflict environment. It did so in two areas: support for enhanced rural productivity and creating a basis for enhanced private sector activity.

14. After a period of low growth from 2000-2007, agricultural sector growth rates reached 13.4 percent in 2008 and 12.6 percent in 2009. Yet nearly half of rural households live below the poverty line of US\$ 0.88 per day, and food security, poor nutrition, and child malnourishment remain substantial challenges. Additional efforts are needed to reach vulnerable upland farmers and to address the underlying causes of food insecurity, including low yields of staple crops, large post-harvest losses, and limited food distribution capacity.

15. Timor-Leste has a small but growing private sector, which has benefited from a substantial increase in government spending since 2007. The business regulatory environment has improved, including in telecommunications, microfinance, procurement, business registration, and customs clearance. Despite this progress, the barriers to private sector growth remain substantial. Timor-Leste ranks 169<sup>th</sup> out of 185 countries in the joint World Bank-IFC 2013 *Doing Business* survey, and poor infrastructure, high transportation costs, and limited access to land and finance impede investment.

### **III. Program Performance**

16. Overall performance on the CAS and ISN program is rated *moderately unsatisfactory* based on the ratings scale provided in the CASC guidelines. Good progress was achieved toward most major expected outcomes—an accomplishment that is particularly remarkable in a postconflict, low-capacity environment. Support provided under the CAS and ISN programs helped expand school enrollment and improve health outcomes. The highly transparent and inclusive process of identifying and recognizing veterans of the resistance helped promote national dialogue and healing after a long history of conflict. On governance, the Bank's role in helping Timor-Leste to develop institutions, establish and strengthen financial management systems, and create a world-class petroleum revenue management regime is widely acknowledged by the government and development partners.

17. Nonetheless, the program fell short of goals in key areas such as job creation, agricultural development, and meeting the needs of unemployed young people. Efforts to stimulate private sector development and job growth have proceeded slowly in comparison to the country's needs. Early interventions were too piecemeal to make a meaningful impact, and more comprehensive approaches have so far failed to take root. Support provided to agricultural development under the multidonor CAS and, subsequently, to rural development under the ISN has had some effect, but there is a need for broader, more systematic interventions and closer engagement with key players in the ministry. Finally, despite an effort to mainstream youth concerns in the CAS, the design of the program failed to mitigate the risk of youth dissatisfaction and violence that materialized during the crisis.

18. The remainder of this section will briefly review program performance by CAS pillar and ISN strategic area. In each of the areas supported by the CAS, Bank assistance was underpinned by the multidonor CSP budget support operation; other key Bank interventions are highlighted in the relevant sections below. Where there are intersections between the CAS and ISN programs, like

topics are discussed together, thus yielding an integrated discussion of progress over the two strategy periods. Details are provided in the self-evaluation summary matrix (Annex 1).

### *Delivering Sustainable Services*

19. *Increased access to and improved efficiency and quality of basic education (CAS).* Access to basic education has grown rapidly despite the crisis, with net enrollment reaching around 90 percent. Between 2001 and 2007, literacy among those aged 15 to 24 swelled from 50 percent to 85 percent. The CAS outcome targets on grade one enrollment and continuation to grade two were achieved with relative parity among boys and girls. However, repetition and dropout rates remain high, and educational quality is low. An Early Grade Reading Assessment (EGRA) conducted in 2011 found that 43 percent of children at the end of grade 2 were unable to read a single word. The scope for overall improvement in early reading ability has been held back by the growth in primary school enrollment, which has brought the poorest, most vulnerable children into the system. It is notable, however, that Timor-Leste was one of the first low-income, capacity-constrained countries to undertake the EGRA, and given continued distribution of learning materials and teacher training, expectations are high that reading results will begin to improve. The education ministry is undertaking major sector reform, shifting to school- and community-based management of school clusters, but the sector continues to face systemic management and resource constraints.

20. *Improved access to and quality of primary health services (CAS).* Timor-Leste's relatively strong health sector institutions responded well to the crisis, swiftly re-establishing service provision and assisting those who had been displaced, and the country has continued to make good progress in achieving many of its key health outcomes. Immunization coverage exceeded CAS outcome targets, and moderate progress was made in increasing annual outpatient visits. Achievement of CAS targets on skilled attendance at birth is unclear given discrepancies in available data sources.<sup>31</sup> Ensuring adequate quality of health sector information represents a continuing challenge. Health promotion efforts have gained some headway, particularly in reproductive health and communicable diseases, and Timor-Leste has made important advancements in health sector management.

21. *Service delivery capacity in health and education sector programs (ISN).* The Bank's interventions to support the government's strategic planning, financial and information systems development, and management of construction and service provision have assisted the government to progressively improve its performance under the Health Sector Strategic Plan for 2008–2012. In the education sector, there has been good progress in achieving outcomes set out in the Strategic Plan for Achieving Universal Primary Completion by 2015. In addition, the Second Chance Education Project, which became effective in 2011, aims to provide basic education certification and skills training to young people who missed out on traditional education opportunities.

22. *Improved efficiency of power supply and collections in the national capital and enhanced availability of reliable, affordable power in the districts (CAS).* Following a recent extensive national power development program, unofficial estimates suggest that the national electrification rate may have risen to 80 percent in mid-2012. Installation of a new generator at Comoro has helped achieve significant fuel cost savings and improve the reliability of the power supply in Dili. Distribution system improvements have significantly reduced system losses, increased the number of paying customers, and strengthened revenue collection. Key challenges in rural energy include expanding

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<sup>31</sup> According to the Health Management Information System (HMIS), the target of 40 percent was exceeded (46 percent), while under the 2009–2010 Demographic and Health Survey it was not (30 percent).

access to electricity and addressing the negative health and environmental effects of biomass fuels. A distribution system was completed in Aliambata, but plans to build a seep gas-fired generation plant were dropped following tests showing that gas resources in the project areas would be insufficient. The government instead financed a diesel-fired power plant that backs up the electricity supply.

23. *Recognition of veterans of the resistance on the basis of national consultations (CAS).* Launched in 2002, the painstaking and participatory process of identifying and registering veterans of the resistance had a tangible effect on national stability, generating public consensus around the definitions of veterans and appropriate forms of government assistance. This process was highly inclusive and well received, as evidenced by the absence of veterans' issues from among the political grievances articulated during the 2006–2007 crisis.<sup>32</sup> A veterans' law was passed in 2006 and has since been revised to adjust eligibility and benefit levels. The national dialogue culminated in a series of recognition ceremonies held between November 2006 and May 2008. Pension payments to veterans or survivors were launched in mid-2012.

24. *Sustaining an effective safety net for the most vulnerable (ISN).* The government's social assistance framework expanded rapidly following the crisis, resulting in a formal safety net and associated public expenditures that extend beyond those usually found in low-income countries. A series of cash transfer programs was launched in 2007, including pensions for the elderly and disabled and a conditional cash transfer program directed at female-headed poor households who send their children to school and health clinics. Roughly one-tenth of the population is now receiving some form of social support.

25. *Tackling youth employment and alienation (ISN).* Though the CAS highlighted the risks posed by Timor-Leste's rapidly growing youth population in a context of high unemployment and poor government communication about public sector development initiatives, the 2006–2007 crisis brought this issue to the forefront. In designing the ISN, the Bank sought to tackle the needs of youth more directly using a two-pronged approach: (i) building a national employment bridge to support short-term income-earning opportunities, and (ii) empowering young people to participate meaningfully in their country's development through direct engagement and second-chance education opportunities. During ISN implementation, however, the government requested that the comprehensive National Workfare Program envisioned under the first element be dropped. On the youth empowerment side, the Youth Development Project has provided funding to support local development projects that are identified and implemented by youth groups in five districts. The Second Chance Education Project is working to establish community learning centers and provide education services for young people who have not benefited from the traditional school system.

26. *Promoting equitable access to "economic justice" (ISN).* The Bank has worked to strengthen participation in development planning and decision making among the rural poor, supporting research, conflict mapping, and a community feedback system designed to deepen accountability in local governance. The feedback system has not been taken on board by the government, however. The program has also focused on improving government and private sector engagement with communities. Some progress has been made in integrating effective conflict management and rights protection considerations into development processes.

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<sup>32</sup> World Bank. 2008. *Defining Heroes: Key Lessons from the Creation of Veterans Policy in Timor-Leste*. Washington DC: World Bank.

## *Creating Productive Employment*

27. *Jobs created directly through budget implementation and overseas employment programs (CAS).* The number of jobs created through the nascent emigrant workers program fell far short of expectations. Negotiations with recipient countries proved to be complex, preventing the program from reaching its potential. There were some efforts early in the CAS period to direct routine road maintenance budget expenditures toward labor-intensive activities, but these activities yielded few jobs. Challenges included slow budget execution and limited capacity for works supervision. Following the crisis, the ISN sought to implement a more comprehensive employment creation program, but this effort was dropped at the government's request (paragraph 25).

28. *Improved private sector enabling environment, resulting in increased trade, investment, and jobs (CAS).* Key elements of the legal framework supporting investment have been implemented, and administrative procedures for credit are in place. Foreign direct investment and nonpetroleum exports have grown substantially, exceeding CAS targets. Business registration processes have been updated, and the time required to start a business fell from 92 days in *Doing Business 2005* to 13 days as of March 2012. A One Stop Shop for business entry, set to open in April 2013, is expected to further reduce the number of days and procedures required. There was some expansion of entrepreneurial jobs, and government-business consultation has been enhanced, including through the unification of 17 associations into the Chamber of Commerce and Industry of Timor-Leste.

29. *Improved access to credit for private investment and working capital (CAS).* Timor-Leste's ranking on "getting credit" jumped to 159<sup>th</sup> of 185 countries in the *Doing Business 2013* survey, up from 170<sup>th</sup> of 178 countries in *Doing Business 2008*.<sup>33</sup> A public Credit Registry Information System, designed in consultation with banks and microfinance institutions, was launched in 2009. Commercial bank lending and access to microcredit have grown, though no special initiatives have been undertaken to reach young people.

30. *Creating a basis for enhanced private sector activity (ISN).* The IFC supported the establishment of a Chamber of Commerce and Industry, which has provided recommendations to the government on private sector priorities such as access to financial services, trade facilitation, and business registration, and has participated in discussions with the government and labor unions on the minimum wage and labor law. The government approved a Public-Private Partnership Law in May 2012 and has signed transaction agreements with IFC to develop Tibar Port and Dili Airport.

31. *Enhanced sustainable resource management (CAS).* There has been some progress in outlining a legal and regulatory framework for the sustainable development of agriculture, forestry, and fisheries, though implementation has been slow and difficult to assess. Enforcement, implementation, and impact are still limited. The country's first national park was created and other protected areas identified, though these amount to only about 60 hectares of land. A fisheries licensing system is under implementation, but monitoring is selective and control is limited.

32. *Building blocks for improved food security and food production in place (CAS).* There has been some recent progress on monitoring of and reporting on food security, but food production statistics remain unreliable. Good progress has been made toward the release of new crop varieties, and these improvements are expected to have a significant impact once sufficient seed and planting

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<sup>33</sup> The Doing Business methodology was adjusted in *Doing Business 2012*, so these rankings are not directly comparable. But they give a general sense of Timor-Leste's improvement in this area.

materials are available. A high-quality national agricultural extension strategy was developed, and extension officers are now in place in nearly every village in the country. Their effectiveness is constrained by limited resources, however.

33. *Enhanced business-oriented production of agricultural products (CAS)*. Coffee remains the only high-value, organic cash crop in Timor-Leste. Annual coffee production and export earnings have increased steadily, but important challenges remain in expanding the sector's value added, including high input costs, inconsistent quality due to aging trees and insufficient understanding of quality problems among producers, lack of access to credit, and limited coordination among small growers.

34. *Support for enhanced rural productivity (ISN)*. The ISN included support for policies and programs to increase smallholder productivity, and the Bank's guidance in the sector has begun to be integrated into government strategy documents. Though the ISN left open the possibility of launching a rural development operation, this did not materialize due to funding constraints. Recent advances in rural development planning and implementation show the importance of maintaining a long-term, generational view of support for agricultural and rural development.

### ***Strengthening Governance***

35. *Safeguards against corruption and abuse of power in place, with increased awareness of citizens' rights (CAS)*. Timor-Leste has made good progress in establishing institutions to safeguard public sector accountability. The Office of the *Provedor dos Direitos Humanos e da Justiça* became operational in 2006. It is no longer responsible for investigating corruption following the establishment of an independent Anti-Corruption Commission in June 2009 and the appointment of a vice prime minister with a mandate to address corruption. The effectiveness of both these institutions has been constrained by limited resources. The independence and effectiveness of parliamentary scrutiny has improved, though there is a continuing need to strengthen technical skills and experience. The media and civil society are active on governance issues, publishing cases of alleged corruption and fostering public discussion.

36. *Transparency and probity in managing petroleum revenues (supported by the CAS and continued under the ISN)*. In 2008, the government launched the Timor-Leste Transparency Model to help the public better understand the resource management process. In July 2010, Timor-Leste became the third country to be deemed compliant with standards set under the global Extractive Industries Transparency Initiative (EITI). In October 2010, the first Revenue Watch Index ranked Timor-Leste 12<sup>th</sup> of 41 resource-rich countries on comprehensive revenue transparency. However, some amendments to the Petroleum Fund Law have been enacted against technical advice, and withdrawals from the petroleum fund have been above the ESI for the past three years.

37. *Enhanced motivation and responsibility among civil servants, resulting in higher standards of probity and service delivery (CAS)*. The powers and mandate of the Office of the Inspector General, including its role in internal audit, were defined through an organic law in 2009. Parliament has approved the establishment of a *Tribunal da Contas*, which will conduct external audits. In 2009, the government established an independent Civil Service Commission with a mandate to improve service orientation, leadership, ethics, and career structure in the civil service, along with powers to investigate misconduct and decide on disciplinary measures, but it faces this broad agenda with limited capacity and financial resources. The government introduced a new career regime, though this has been undermined somewhat by the recent proliferation of special regimes for line ministries.

38. *Sound policy and legislative process across government and strengthened capacity to manage for and monitor results on the ground, with particular attention to women and youth (CAS).* The government produced a legislative program setting out a timetable for passage of legislation, but the harmonization of organic laws is still pending. The capacity of the National Statistics Directorate has improved significantly as a result of technical assistance and hands-on experience in implementing key surveys, including—despite the disruptions caused by the crisis—a living standards survey that would be considered of high quality by international standards.

39. *Improved implementation of budget in a transparent manner, in line with savings policy and sustainable growth and poverty reduction goals* (supported by the CAS and continued under the public financial management outcome of the ISN). Timor-Leste has made solid progress in strengthening the transparency and effectiveness of public financial management systems. The budget document is comprehensive but does not accurately predict total budget spending given the frequent use of significant supplementary budgets. Procurement capacity has improved, though there is anecdotal evidence that less competitive procurement mechanisms are used more frequently than in the past. A major reorganization of the Ministry of Finance (MOF) clarified roles and responsibilities, promoted communication, and gradually strengthened management, but its relative strengths are diminished by incomplete budget coverage, low capacity for budget planning and implementation in line ministries, and the lack of internal and external audit.

40. *Enhanced revenue performance through streamlined procedures and mechanisms* (supported by the CAS and continued under the public financial management outcome of the ISN). Customs collections have improved thanks to new cargo clearance arrangements, use of x-ray technologies, and improved electronic systems. Petroleum tax receipts reached a record high in 2011 following the launch of the government's first comprehensive petroleum tax audit. Domestic revenue mobilization remains weak, though a 2010 public awareness campaign strengthened the transparency of tax laws and taxpayer obligations.

41. *Review capacity-building experience in Timor-Leste (ISN).* Under the ISN, the Bank anticipated conducting a review of capacity-building experience in oil-rich post-conflict societies to identify approaches that could work in Timor-Leste and feed into a technical assistance and skills development strategy. The Bank did conduct a review of capacity building in the MOF, but at the government's request, the ISN output was modified to a civil service review completed in 2011, which recommended reforms to strengthen wage and salary bill management.

42. *Continued support for the National Priorities exercise (ISN).* The Bank, along with the United Nations, played a lead role in supporting the development and monitoring of high-priority, government-identified initiatives known as the National Priorities (NPs) until 2011, after which the government began to phase out the process in deference to its new Strategic Development Plan. The government valued this support, as evidenced by its reference to the NPs process as best-practice postconflict support to government-led and government-owned priority setting, but in practice, its budget priorities appeared to be only marginally influenced by the exercise.

43. *Bringing international experience of postconflict transition to Timor-Leste: support for the national strategic planning exercise and Bank Group policy work (ISN).* Some assistance was provided in the development of the government's national strategic plan in the form of background documents and costing support, but more formal engagement was not requested. Policy dialogue was enhanced on trade integration, telecommunications liberalization, agricultural reform, and poverty dynamics. The Bank has supported the government in bringing its own postconflict experience to the

world through the g7+ community of fragile and conflict-affected states, which is viewed internationally as the most vocal and legitimate voice representing fragile states on the world stage.

#### **IV. World Bank Group Performance**

44. Overall Bank Group performance under the auspices of the CAS and ISN is rated *moderately unsatisfactory* based on the ratings scale provided in the CASCR guidelines.<sup>34</sup> The CAS was intentionally designed to be ambitious in order to meet the multifaceted development needs of a new nation arising from conflict. The strategy's focus on government ownership and donor coordination was highly appreciated, but in the end its approach proved to be overly broad. Following the crisis, the ISN sought to refocus the country program on stabilization and recovery efforts while putting in place the building blocks for sustainable development in the medium to long term. In some sectors, this effort to pare down to the essentials may have cut back too far, setting goals that were easily reached. In others, the limited time horizon of the ISN allowed for minimal progress on thorny agendas—especially as some large planned operations did not go forward. On the implementation side, the country team made important progress in strengthening program supervision and making analytical work more accessible, while continuing to play a valued role in donor coordination. Nonetheless, many programs were not sufficiently small, simple, or flexible to ensure achievement of outcomes or maintain good portfolio performance in a low-capacity environment. The CAS and ISN identified several risks, some of which were realized, but no appropriate response to prevent or mitigate these risks was taken.

##### *Design and Relevance*

45. The CAS was closely aligned with government priorities as expressed in the National Development Plan, Stability Program, and Sector Investment Programs. The selection of strategic pillars and country-level objectives on which to focus was drawn from these documents, as well as from the country's Millennium Development Goals.

46. The CAS was anchored by the multidonor CSP. In recognition of severe capacity challenges faced by the nascent government in implementing its sweeping agenda, the CAS also envisioned the implementation of targeted capacity development in the management of public finances through the Planning and Financial Management Capacity Building Program (PFMCBP). These interventions were supported by sector-specific operations in areas where the Bank had built up expertise through implementation of the successful post-independence Trust Fund for East Timor. Together, these instruments embodied an innovative business model for the Bank in Timor-Leste, building on the government's no-borrowing policy at the time to engage productively in coordinating international partnerships, supported by trust fund resources, grants, and analytical and advisory activities.

47. The CAS was drafted at a time when the government was taking on a new level of leadership and focusing on programs designed to foster self-reliance, rather than directly on poverty reduction. In this environment, the Bank team felt that its role was to support the government's policies and priorities while continuing to advocate for pro-poor interventions where appropriate. While supporting the legitimate interest of a country that had recently regained its sovereignty, this design

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<sup>34</sup> This rating encompasses the activities of both the World Bank and IFC, where they apply. IFC launched operations in Timor-Leste in August 2006, shortly after the start of the CAS. Though their involvement in its design was limited, their early interventions were conducted in the context of the Bank's CAS engagement as well as their own independent strategy. Subsequently, the ISN was developed, implemented, and monitored jointly with IFC.

choice elicited a tension—common in fragile state environments<sup>35</sup>—between cultivating country ownership and focusing limited resources on a few priorities. In the end, the ambitious targets set by the CAS may have diffused focus on the steps and sequencing needed to achieve tangible progress.

48. Though the CAS covered a wide array of issues that were critical to Timor-Leste’s development, the relevance of the strategy was tested during the 2006 crisis, during which many of the risks identified in the CAS played out. As expressed in the ISN, the overarching lesson of the CAS experience was that maintaining social stability requires paying close attention to underlying tensions and communicating with citizens to manage expectations. Although the potential for a resurgence of conflict was well understood, it did not adequately influence program design. A more explicit focus on ensuring the distribution of tangible, short-term results might have helped stave off the 2006 crisis. For example, the Bank identified youth as a flashpoint, but making it a “cross-cutting” CAS theme in effect demoted the issue from direct attention. Only after the crisis did the Bank carry out targeted analytical work on youth unemployment and enunciate a multisectoral youth strategy, leading to operational interventions. Importantly, the ISN notes, this youth development work was embedded in strong government leadership emanating from the lessons of the crisis.

49. In the shift to an ISN, planned actions that were no longer deemed relevant were redesigned, postponed, or dropped, and the thrust of continuing programs was adjusted to emphasize short-term stabilization and continuous dialogue. For example, the PFMCBP refocused its efforts on accelerating government spending without losing fiduciary control. The sectorwide approaches in education and health concentrated on maintaining and/or restoring basic service provision, especially in rural areas, and the new Youth Development Project aimed to foster inclusion and empowerment among unemployed young people. Finally, the Bank joined other donors in supporting the government’s NPs to help the government prioritize and manage its stabilization and recovery objectives. Based on the Bank’s experience in fragile states, the ISN was geared toward ensuring a flexible program to allow for timely responses to quickly evolving challenges.

50. The design of the ISN reflected the lessons learned under the CAS by emphasizing selectivity, simplicity of project design, and accessibility of analytical and advisory work. In some sectors, this shift yielded a stronger, better-targeted program. On public financial management, for example, a renewed focus on key functions and critical capacity needs under a restructured PFMCBP have guided further progress in the sector. In agriculture, targeted analytical and advisory work has supported gradual, but important, shifts in the Bank’s strategic approach. In other areas, however, the effort to scale interventions back to core results may have swung the pendulum too far. In education and health, once services had been restored in the aftermath of the crisis, the ISN left little to aim for in furthering sector goals. In the area of economic justice, ISN objectives were drawn from the work program of one ongoing intervention and thus provided little strategic guidance. While this shorter-term focus reflected a conscious choice to concentrate on stabilization and recovery in the lead-up to a new medium-term government strategy, it may have sold short a few key areas of engagement.

### ***Implementation***

51. Implementation of the CAS and ISN centered around coordinating strong donor partnerships in support of the government’s broad policy priorities, combined with targeted support for capacity building in public financial management. Linchpin programs such as the CSP were buttressed by

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<sup>35</sup> UNDP, World Bank. 2005. *Operational Note on Transitional Results Matrices: Using Results-Based Frameworks in Fragile States*.

sector-specific operations in areas where the Bank had a history of engagement and expertise, as well as high-quality economic and sector work and just-in-time advisory assistance.

52. This approach helped the Bank leverage the limited resources available to Timor-Leste under IDA14, attracting US\$ 38.6 million in donor cofinancing as well as US\$ 80 million in trust fund resources over the period from FY2006 to FY2011. By comparison, the projects approved for Timor-Leste during this same time period drew on US\$ 42.1 million in IDA resources. The country team also increased its human resources, expanding the number of technical staff in the country office and placing an operations manager at the regional hub in Sydney.

53. The country team's decentralization efforts helped enhance the quality of supervision, a key factor in the success of interventions in Timor-Leste. Supervision of the CSP involved twice-yearly multidonor monitoring missions and was intensified through regular dialogue around the government's quarterly monitoring reports. These missions often dovetailed with supervision of sector programs. Overall, the Timor-Leste country program's supervision costs have tended to fall below regional and Bankwide averages (Table 1), reflecting a balance between the absence of investment lending and the greater supervision needs in a low-capacity, postconflict environment.

**Table 1: Average Supervision Effort, US\$ thousands**

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Timor-Leste	77	64	80	52	41	64	93
East Asia and the Pacific	75	83	64	67	65	67	68
Bankwide	94	98	88	87	87	83	84

Notes: (1) Average supervision effort is the total cost of projects, including costs of support activities, in addition to supervision, for a fiscal year, divided by the number of projects in the portfolio that fiscal year; (2) There is substantial variation between projects on supervision costs. For example, in 2008, the HSSP cost was US\$7,000, whereas PFMCBP was US\$243,000. (Note that data for FY2012 were added to the table on February 12, 2013.)

54. Under the ISN, proposed interventions that did not fit with refocused priorities or have sufficient government buy-in were dropped. Though these adjustments contributed to narrower, more flexible approaches in most sectors, the speed of interventions was held back by staffing challenges, burdensome procurement and operational systems, and limited country implementation capacity.

**Table 2: Timor-Leste Portfolio Highlights**

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
No. of projects	7	8	6	6	6	8	6
No. of potential problem projects	0	1	1	4	1	2	2
No. of problem projects	0	1	1	0	3	3	1
No. of projects at risk	0	2	2	4	4	5	3
Net commitment amount	53.8	40.8	20.4	19.5	24.5	49.5	46.1
Commitments at risk	0	14.5	7.9	17.6	12.6	17.5	8.1
Projects at risk							
% of total, by number	0%	25%	33%	67%	67%	63%	50%
% of total, by amount	0%	36%	39%	90%	51%	35%	17.60%
Proactivity			0%	100%		33%	50%
Satisfactory projects at exit, by number*	50%	50%	66.7%	0%	100%	n/a	n/a
Disbursement ratio	48.8	37.2	18.8	38.0	28.7	27.6	16.1

\* Project outcome rating = Satisfactory or Moderately Satisfactory, Source: IEG Outcome Indicators (SAP) (Note that data for FY2012 were added to the table on February 12, 2013.)

55. Project outcome ratings were mixed, both during and after the crisis. For all seven projects approved in FY2006 and FY2007 and reviewed by the IEG upon exit, project outcomes were rated moderately unsatisfactory. By comparison, 42 percent of project outcomes for the 28 projects approved between FY2000 and FY2005 and reviewed by the IEG upon exit were rated either satisfactory or moderately satisfactory.<sup>36</sup> The IEG's CPE did not review any projects approved between FY2008 and FY2010. These data may indicate that project design suffered during the volatile crisis period given high levels of uncertainty and change. Project management quality seems to have fared better in response to the crisis, with at least half of projects receiving satisfactory or moderately satisfactory ratings at exit in all years except FY2009 (Table 2).

56. Portfolio performance declined after the crisis, however. The number of projects at risk has risen to around two-thirds in the last three years, representing 90 percent of commitments in FY2009. Proactivity has varied widely, reflecting the small size of the portfolio, where actions taken on one project greatly affect aggregate statistics. The disbursement ratio has been on par with or above the East Asia regional average, rising to nearly 40 percent in 2009 owing in part to heavy disbursement from the PFMCBP. This performance reflects the difficulties of implementing a challenging program under considerable uncertainty and risk, as well as the distinct operating environments at various points in this new nation's young history. The Bank's performance during the CAS and ISN period was most successful in areas where the greatest congruence existed between Bank programming and government priorities and where intensive supervision with considerable face time was carried out.

57. Several projects in the portfolio were restructured to enhance their effectiveness and better align their objectives with country development goals. The PFMCBP was formally restructured in early 2010 to address emerging priorities and reduce the program's scope and complexity. A Mid-Term Review in June 2010 found that the PFMCBP had made a significant contribution to strengthening capacity across its target agency, the MOF. The Energy Services Delivery Project was restructured to scale up the impact of the successful distribution component. The Youth Development Project was restructured to, among other reasons, enhance the realism of outcome indicators and targets, reduce risks to outcomes, increase project sustainability, and improve results measurement.

58. A 2008 Quality Enhancement Review (QER) of the Timor-Leste program encouraged greater focus, simplicity in project design, and better follow-through on analytical work.<sup>37</sup> The QER supported the Bank's role in helping convene donors around a common agenda, including the use of sectorwide programs to reduce disparate donor demands on government, but criticized their design as too complex. The QER was disappointed with the impact of Bank analytical work in areas such as health, social protection, and youth employment, implying that there was more focus on the product than on catalyzing change. While the QER underestimated the time it can take to translate analysis into action in Timor-Leste, the Bank has modified how it conducts analytical work in the country.

59. In the past, the country team occasionally missed opportunities to disseminate the findings of analytical work in an accessible manner and to translate those findings into policy and operations. Learning from this experience, recent initiatives on agricultural productivity, natural resource benefits sharing, and capacity building have replaced a report-oriented approach with an interactive series of debates, presentations, and tailored policy notes aimed at specific audiences. The role of the country team's external communications group has been expanded. There is a strong preference for

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<sup>36</sup> Independent Evaluation Group. 2011. *Timor-Leste Country Program Evaluation, 2000-2010: Evaluation of the World Bank Group Program*. Washington DC: World Bank.

<sup>37</sup> World Bank. 2008. *Quality Enhancement Review: Pacific Islands*. Washington DC: World Bank.

analytical work that has grown out of clear government demand and links closely with ongoing or potential operations. This focus on analytical work is reflected in higher-than-average completion costs in most years (Table 3). The provision of high-quality knowledge products is an important part of the Bank’s contribution in Timor-Leste, particularly in light of its comparatively limited financial role. Creation and dissemination of high-quality, highly relevant analytical work is expected to be a significant area of focus under the next CPS.

**Table 3: Average Completion Costs for Analytical and Advisory Activities, US\$ thousands**

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Timor-Leste (for active or closed, not dropped)	124	300	215	154	-	26	-
East Asia and the Pacific	161	182	134	126	146	190	185
Bankwide	170	183	177	188	200	218	215

(Note that data for FY2012 were added to the table on February 12, 2013.)

60. One of the Bank’s principal roles in Timor-Leste has been to help bring the country’s many donors together around a coordinated agenda. This role was cemented under the CAS and ISN by the Bank’s administration of the multidonor CSP and PFMCBP and its support for the National Priorities. The Bank has provided substantial technical assistance to the MOF’s National Directorate for Aid Effectiveness and chairs a biweekly donor coordination meeting.

## V. Lessons Learned and Recommendations for the Country Partnership Strategy (CPS)

61. The whole-of-government approach embodied by the CAS was too broad and ambitious given Timor-Leste’s severe capacity challenges. Though designed in response to the fledgling country’s desire to move forward on multiple fronts and the donor community’s optimism about the country’s prospects, the CAS set overly high expectations for what could be accomplished in three years and may have diffused focus on key priorities. Now, after the tenth anniversary of Timor-Leste’s independence, the government and donors are more attuned to the need for careful prioritization and sequencing of the development agenda, and for tempering expectations and communicating with citizens about challenges. It will be important for the CPS to present a truly strategic, prioritized, and realistic plan for supporting Timor-Leste’s development. However, in the search for achievable objectives, it should be careful not to reach only for low-hanging fruit.

62. Achievement of the CPS will require sustained efforts to strengthen institutions and build implementation capacity across the board. The obstacles to institutional development in Timor-Leste are thorny, deeply embedded in the country’s history and culture and not well understood in the donor community. The public sector has essentially had to build technical skills and expertise from scratch, a long-term challenge that is exacerbated by: (i) a weak management culture in the civil service, (ii) capacity constraints associated with the government’s language policy, in which the formal and working languages are different from that in which the majority of civil servants are literate; and (iii) the gap between slowly growing capabilities and quickly expanding ambitions.

63. In parallel with project-based efforts to support capacity strengthening, CPS interventions will need to be designed with current capacity constraints in mind. This will mean a disciplined approach to ensuring simple project design and realistic, monitorable indicators of progress. In Timor-Leste, it will be more effective to aim for “best fit” rather than “best practice.” Program design will need to be flexible given the risks posed by the country’s fragile stability and uncertain funding. In developing the CPS, the team would be well served in drawing on the Bank’s framework for engagement in fragile states, which emphasizes the centrality of efforts to build state capacity and

accountability, the interlinkages between peacebuilding and development, the importance of broad international partnerships, and the need for strong and flexible institutional responses.<sup>38</sup>

64. This simplified, concretely monitorable approach will need to be underpinned by a strong results matrix that lays out a streamlined set of clearly defined goals and targets that are both measurable and regularly measured as part of broader monitoring processes (rather than standalone indicators reviewed only under the auspices of the CPS process itself). Given the need for flexibility and adaptability in any development context, and particularly the fluid situation in Timor-Leste at this time, a useful results matrix is one that can be amended to reflect changing circumstances and development needs. The upcoming CPS will make use of the mid-term CPS Progress Report to conduct a thoughtful review and modification of the results matrix with the aim of strengthening its relevance and utility.

65. Implementing programs in Timor-Leste's capacity-constrained environment will imply continuous hands-on support. Experience has shown that interventions in Timor-Leste gain more traction when supported by intensive dialogue, sustained technical assistance, and close supervision. Under the CAS and ISN, Bank programs consistently underestimated the time it took to complete procurement and financial management procedures. Successful approaches are process-intensive and require more staff and more generous budgets than would otherwise be the case.

66. Timor-Leste's rapidly growing national budget, together with the Bank Group's increasingly constrained resource envelope for the country, will necessarily change the nature of the Bank's relationship with the country. Maintaining relevance will require innovative approaches to working in a nontraditional environment. Operational interventions will continue to be just one facet of a multidimensional program, buttressed by high-quality, creatively disseminated analytical work; just-in-time advice; convening power; organizational support; and sustained policy dialogue. In some cases, the Bank Group's most effective contributions may be delivered behind the scenes, and it will be a challenge to incorporate these informal but valuable activities into the definition of results expected from the CPS.

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<sup>38</sup> *Fragile States—Good Practice in Country Assistance Strategies* (IDA/R2005-0252), December 22, 2005.

CASCR Annex 1: Summary of Timor-Leste CAS/ISN Program Self-Evaluation<sup>39</sup>

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b>CAS Outcome (Pillar I)</b>  <b>Increased access to and improved efficiency and quality of basic education*</b></p> <ul style="list-style-type: none"> <li>• Net enrolment rate for both girls and boys in grade one at least 85%</li> <li>• 95% of grade one girls and boys continue to grade two</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Net enrolment rate 87.55% in 2011, up from 67% in 2004-05. NER for girls in 2011: 87.14%; for boys, 87.94%.</li> <li>• Grade 1 to Grade 2 survival rate at 95.2% overall in 2011; 95.5% for boys and 94.9% for girls.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Fundamental School Quality Project (TFET) (FY02-07; S)</li> <li>• Consolidation Support Program (CSP) (FY06-07; MU)</li> <li>• Primary Education Support Project (FTI-CF) (FY06-09; no ICR or ISR required)</li> <li>• Education Sector Support Project (ESSP), with additional financing (IDA Grant/AusAID) (FY07-13; S/S)</li> <li>• Fast Track Initiative Bridging Project (FTI-CF) (FY09-11; S)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Youth in Crisis (FY08)</li> </ul>	<ul style="list-style-type: none"> <li>• Core capacity—that which is necessary for implementation—should be ensured prior to implementation in order to avoid risk of stalling. Analysis of core capacity helps support additional capacity building during implementation.</li> <li>• Pairing of Timorese national consultants with international experts at all levels, positive engagement with civil society organizations, and participation of local communities were key factors in the success of the FTI Bridging Project.</li> <li>• In fragile and/or post-conflict states, time and resources are better focused on promoting field-based partnerships during implementation than on time-consuming and expensive upfront production of a standard Project Appraisal</li> </ul>

<sup>39</sup> Because there was a change in the Bank's engagement following the 2006 crisis in Timor-Leste, some CAS activities were not pursued under the ISN. This completion matrix covers outcomes foreseen under both the CAS and the ISN and reports on progress as of June 2012.

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
			Document. <ul style="list-style-type: none"> <li>• Broad, rapid project design, combined with intensive, well-resourced supervision, can be effective in low-income, low-capacity states.</li> </ul>
<p><b><u>CAS Outcome (Pillar I)</u></b>  <b>Improved access to and quality of primary health services*</b></p> <ul style="list-style-type: none"> <li>• Measles and DPT3 vaccination coverage increased from 45% to 55%</li> <li>• Skilled attendance at birth increased from 25% in 2003 to 40%</li> <li>• Annual outpatient visits per capita increased to 2.5</li> <li>• Targeted health promotion programs implemented, particularly for youth on HIV/AIDS, STDs and communicable diseases, reproductive health, and road safety/accident prevention</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Measles and DPT3 vaccination targets exceeded. Per the Demographic and Health Survey (DHS) (2010): DPT3, 66%; Measles, 68%. Per the Health Management Information System (HMIS) (November 2011): DPT3, 62%; Measles, 70%.</li> <li>• Increase in skilled attendance subject to data discrepancies; measured at 30% in DHS (2010) and 51% in HMIS (November 2011).</li> <li>• Annual outpatient visits per capita at 1.8 (September 2011).</li> <li>• TA and training provided to support health promotion activities in collaboration with United Nations agencies. Modest progress on communicable diseases and reproductive health; limited focus on road safety.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Second Health Sector Rehabilitation and Development (TFET/EC) (FY01-08; MS)</li> <li>• CSP (FY06-07; MU)</li> <li>• EC-funded Health Sector Program (FY06-11; S)</li> <li>• Health Sector Strategic Plan Support Project (FY08-13; S/MU)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Health Sector Review (FY11)</li> <li>• Population Policy Note (FY09)</li> <li>• HIV/AIDS Behavioral Survey (FY10-11)</li> </ul>	<ul style="list-style-type: none"> <li>• In the reconstruction phase, there must be a clear focus on broader sector strategy.</li> <li>• Continuous guidance is essential in the context of limited institutional capacity, and it is important for adequate supervision resources to be allocated.</li> <li>• Close coordination with development partners was critical to sector development.</li> <li>• Results frameworks, even under a SWAp, need to identify results that can be achieved through project interventions.</li> </ul>



CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b>CAS Outcome (Pillar I)</b>  <b>Improved efficiency of power supply and collection in the national capital to allow greater spending on district power services*</b></p> <ul style="list-style-type: none"> <li>• Reduced fuel costs in comparison to regional benchmark Singapore FOB</li> <li>• Overall efficiency of Dili generation, distribution, and collections improved, as measured by increased collections per liter of fuel from 30 to 45</li> <li>• EDTL institutional capacity strengthened</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Fuel cost savings estimates exceeded with discounted fuel savings of US\$ 3.85 million through installation of new generator with reliable generation capacity of 4.7 MW. Estimates based on average diesel oil prices from the time of commissioning in April 2007 to the project's completion report in January 2008. Regional benchmark comparisons were not made.</li> <li>• Technical and nontechnical system losses reduced from about 56% in June 2007 and 69% in December 2007 to about 41.7% in September 2011; revenue collections thus increased from 31% in December 2007 to about 58% in September 2011.</li> <li>• Technicians trained in hands-on operational work, but transfer of professional managerial skills to EDTL local staff largely lacking due in part to insufficient local staff who could be trained. Capacity building activities foreseen under ESDP were not implemented.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Power Sector Priority Investments (TFET) (FY05-08; MS)</li> <li>• Public-Private Infrastructure Advisory Facility grants for legal and regulatory development and commercialization (FY05-07)</li> <li>• CSP (FY06-07; MU)</li> <li>• Energy Services Delivery Project (IDA Grant) (FY07-12; MS/MU)</li> <li>• PHRD for Energy Services Delivery Project (FY06-08)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Household Energy (2007)</li> <li>• Key Issues in Rural Energy Policy (FY09-10)</li> </ul>	<ul style="list-style-type: none"> <li>• Utility management contracts should include management of foreseen capital projects and capacity building of utility staff in their scope of responsibilities.</li> </ul>

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b>CAS Outcome (Pillar I)</b>  <b>Enhanced availability of reliable, affordable power in the districts to support social and economic development*</b></p> <ul style="list-style-type: none"> <li>• Reliable power restored to currently connected customers in districts</li> <li>• Measures to restore power services to sub-districts and expand rural access under implementation</li> </ul>	<p><b>Not Achieved.</b></p> <ul style="list-style-type: none"> <li>• Under the Gas Seep Harvesting Project, the government financed a diesel-fired power plant that currently serves as backup electricity supply to 700 existing customers and 610 new customers. A 1-MW diesel unit, which was transferred to Darabai station from Comoro station, is providing power to project areas.</li> <li>• Rural Electrification Master Plan updated in 2007.</li> <li>• Strategic Development Plan (SDP) for 2011-2030 includes renewable energy and rural electrification program.</li> <li>• Gas seep distribution system completed, but plans to build a seep gas-fired generation plant dropped following tests showing insufficient gas resources for plant design specifications.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Energy Sector Management Assistance Program on rural electrification (FY06-07)</li> <li>• CSP (FY06-07; MU)</li> <li>• Gas Seep Harvesting (TFET) (FY07-12; HU/U)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Household Energy (2007)</li> <li>• Key Issues in Rural Energy Policy (FY09-10)</li> <li>• ASTAE Rural Electrification Master Plan and Implementation Manual (FY05-08)</li> </ul>	

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<p><b><u>CAS Outcome (Pillar I)</u></b>  <b>Recognition of veterans of the resistance on the basis of national consultations*</b></p> <ul style="list-style-type: none"> <li>• Veterans recognized in accordance with law</li> <li>• National policy on assistance to veterans followed by Government, NGOs, and donors</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Definition of “veterans” enshrined in veterans law.</li> <li>• Recognition ceremonies conducted in 2006-2008, and nearly 13,988 veterans awarded medals by mid-2008; facilitated by registration database with over 75,000 veterans or their survivors.</li> <li>• National policy on assistance to veterans under revision; veterans’ pension system established; first payments to 12,538 beneficiaries made in July 2008.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Post Conflict Fund Grant (FY05-06)</li> <li>• CSP (FY06-07; MU)</li> <li>• Institutional Development Fund Grant on Institution Building for Veterans Policy Implementation (FY05-08)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Veterans’ Policy Note (FY08)</li> </ul>	
<p><b><u>ISN Outcome (Strategic Area 3)</u></b>  <b>Sustaining an Effective Safety Net for the Most Vulnerable</b></p> <ul style="list-style-type: none"> <li>• Efficient and sustainable range of social protection programs in place</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Range of cash transfer programs introduced, becoming one of budget’s largest spending items.</li> <li>• Yet policy development has been piecemeal and lacked prioritization, and program design has some weaknesses in management of beneficiary information, local administrative capacity, payment mechanisms, outreach, targeting, and M&amp;E. After completion of diagnosis and initial operational work under previous nonlending TA, issues of policy and</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Social Protection Administration Project (FY11-13)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Social Protection Administration TA (FY11-13)</li> <li>• Social Protection NLTA (FY11-13)</li> <li>• Vulnerability Analysis (FY08-11)</li> </ul>	<ul style="list-style-type: none"> <li>• While AAA support has been considerable, more effort is needed to ensure that AAA is disseminated effectively and yields constructive recommendations for use in further operations. QAG report acknowledged that excellent AAA work carried out under difficult circumstances was not followed up or finalized with government in a timely manner.</li> </ul>

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	program management will be tackled in a follow-on project and nonlending TA.		
<p><b><u>ISN Outcome (Strategic Area 3) Tackling Youth Unemployment and Alienation</u></b></p> <ul style="list-style-type: none"> <li>• Major national temporary employment ‘bridge’ created, particularly in rural areas</li> <li>• Alienated youth engaged in productive community-based activities</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Not achieved; WB disengaged from this area after dropping planned National Workfare Project at government’s request. Other donors have engaged in limited activities in this area.</li> <li>• Local development projects under way in 5 districts, identified and implemented by youth groups; 208 projects completed.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Youth Development Project (FY09-12; MS/MS)</li> <li>• Emergency National Workfare Project (Dropped)</li> <li>• Second Chance Education Project (FY11-16; S/S)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Youth in Crisis (FY08)</li> </ul>	<ul style="list-style-type: none"> <li>• Including youth as a “cross-cutting” theme under the CAS did not provide sufficient impetus to develop and implement targeted youth activities; this approach was amended for the ISN.</li> <li>• National Workfare Project was dropped due to limited interest and commitment on the part of the government.</li> </ul>
<p><b><u>ISN Outcome (Strategic Area 3) Promoting Equitable Access to ‘Economic Justice’</u></b></p> <ul style="list-style-type: none"> <li>• Decision-makers and donors more aware of local communities’ needs</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Decision-makers’ awareness improved. Chapter on community land inserted in draft land law, and proposal for expansion into separate organic law.</li> <li>• Donors’ awareness improved through Donor Coordination Working Group on land, particularly regarding need to consult with local communities and complexities of land acquisition and resettlement for infrastructure projects.</li> </ul>	<p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• EAP Justice for the Poor (FY09-13)</li> <li>• Social Accountability in Participatory Transfer and Grant Programs (FY09-12)</li> <li>• Customary Systems of Land Management and Rural Development (FY09-12)</li> <li>• Justice for the Poor advisory services, just-in-time analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Difficulties of simultaneously aspiring to high-quality research outputs and local capacity building can be underestimated in low-capacity environments.</li> <li>• Working with local CSOs is time consuming, and engagement strategies may need to be adapted mid-stream in light of country realities.</li> <li>• Focus on process-intensive engagements might yield</li> </ul>

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<ul style="list-style-type: none"> <li>• Effective conflict management and rights protection considerations integrated into development processes</li> </ul>	<ul style="list-style-type: none"> <li>• Some progress. Safeguards for recently approved road project would have applied OP4.10 (Indigenous Peoples), but deemed unnecessary following an ADB social assessment.</li> <li>• Though dialogue continues, there has been little progress in dialogue with government on increasing social accountability and rights protection into country-led development processes, particularly in the area of land.</li> </ul>		<p>good results by influencing outcomes once Bank and program credibility have been established.</p>
<p><b>CAS Outcome (Pillar II)</b>  <b>Jobs created directly through budget implementation and overseas employment programs*</b></p> <ul style="list-style-type: none"> <li>• Increased private sector employment through improved budget implementation, with an emphasis on labor-intensive programs</li> </ul> <p>• 3,000 jobs created overseas for Timorese workers with adequate representation of women and youth</p>	<p><b>Not Achieved.</b></p> <ul style="list-style-type: none"> <li>• Jobs being created through labor-intensive programs, but no specific monitoring of jobs created through budget implementation more broadly.</li> <li>• By FY08, nearly 6,000 projected annualized jobs created via business development center-supported businesses, new FDI, and market place construction under 2<sup>nd</sup> SEP.</li> <li>• Not achieved; 265 workers sent to South Korea (231 men, 34 women).</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• Planning and Financial Management Capacity Building Program (FY07-13; S/S)</li> <li>• Second Small Enterprises Project (TFET) (FY02-08; MS)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• 2008 Budget Employment Impact (FY09)</li> <li>• Youth Development &amp; Labor Market (FY08)</li> <li>• Youth Open Space (FY07)</li> <li>• Infrastructure Constraints Study (FY06)</li> <li>• Gas Pipeline TA (Dropped)</li> </ul>	<ul style="list-style-type: none"> <li>• Though recognizing the need for movement on job creation in the short term, while awaiting longer-term progress on private sector development, the piecemeal approach adopted under the CAS was insufficient to meet the country's significant nationwide employment needs or the high expectations set by the CAS outcomes.</li> </ul>

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<p><b>CAS Outcome (Pillar II)</b>  <b>Improved private sector enabling environment, resulting in increased trade, investment, and jobs*</b></p> <ul style="list-style-type: none"> <li>• Laws on investment, leasing, credit and collateral approved</li> </ul> <ul style="list-style-type: none"> <li>• Business registration procedures streamlined</li> </ul> <ul style="list-style-type: none"> <li>• Improved performance against “Doing Business” indicators</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• New investment law passed in 2011 and now in effect; this replaced two previously approved investment laws. Laws on leasing of state and private property approved. There is currently no law on credit, but there are new administrative procedures. Law on collateral entered into force in March 2012.</li> <li>• Number of procedures required dropped to 6 in 2012 from 10 in 2006. Time for business registration has decreased from 157 days in 2005 to 13 days as of March 2012. Ranked 157<sup>th</sup> of 183 countries in 2011 on ease of starting a business, down from 152<sup>nd</sup> in 2010.</li> <li>• Achieved; ranked 168<sup>th</sup> of 183 countries in 2011 (Doing Business 2012) on overall ease of doing business, up from 174<sup>th</sup> of 175 in 2006. Further improvements expected in 2013 rankings as a result of the new One Stop Shop for business registration and streamlined procedures.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Second Small Enterprises Project (TFET) (FY02-08; MS)</li> <li>• CSP (FY06-07; MU)</li> <li>• IFC: Better Business Initiative (annual)</li> <li>• IFC: Advisory support on cost of doing business (Dropped)</li> <li>• IFC planning investments in tourism, manufacturing, and infrastructure; none completed</li> </ul> <p><b>AAA/Advisory Services:</b></p> <ul style="list-style-type: none"> <li>• Private and Financial Sector Review (FY06)</li> <li>• Diagnostic Trade Integration Study (FY11)</li> <li>• IFC Doing Business in Timor-Leste (annual)</li> <li>• IFC Small and Medium Enterprise Demand Study (2010)</li> </ul>	

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<ul style="list-style-type: none"> <li>• 1,000 new jobs created through non-petroleum private investment (measured on a gross basis)</li> <li>• Increased number of entrepreneurial jobs, especially for women and youth</li> <li>• Greater consultation between Government and private sector</li> <li>• USD 10 million in new Foreign Direct Investment</li> <li>• USD 10 million increase in non-petroleum exports</li> </ul>	<ul style="list-style-type: none"> <li>• Likely achieved, but no data collected on actual rather than expected jobs created.</li> <li>• Nearly 3,000 jobs created in 2007; based on a small sample of entrepreneurs trained in business management (188), 96% were women, 86% were still in business employing 1.5 workers on average; no data on youth.</li> <li>• Government-business consultation strengthened through biannual Better Business Initiative Forum and associated working groups.</li> <li>• Achieved; actual investments at US\$ 44.3 million in 2010, up from US\$ 8.5 million in 2006.</li> <li>• Partially achieved; merchandise exports at US\$ 12.7 million in 2008, up from US\$ 8.1 million in 2005.</li> </ul>		
<p><b>CAS Outcome (Pillar II)</b>  <b>Improved access to credit for private investment and working capital*</b></p> <ul style="list-style-type: none"> <li>• Increased number of microfinance institutions, in both rural and urban areas</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Three institutions providing microcredit to women in rural areas; aside from Banco Nacional Comercio de Timor-Leste, Moris Rasik and Tuba Rei Matin have 19 branches and 5 sub-branches, with 17,000 borrowers among them—a slight increase from</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Financial Reform and Strengthening (FIRST) Initiative (FY07-09)</li> <li>• IFC: Support for credit registry (Dropped)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Private and Financial Sector Review (FY06)</li> <li>• Timor-Leste Strategy for</li> </ul>	<ul style="list-style-type: none"> <li>• Strong central bank commitment crucial if some key stakeholders are not at first fully supportive of a credit registry or if they want to limit its membership.</li> </ul>

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<ul style="list-style-type: none"> <li>• Increased coverage by commercial banks in both rural and urban areas</li>   <li>• Increased lending for private investment and working capital</li>   <li>• Increased access to credit for women and youth</li> </ul>	<p>the 16,700 borrowers receiving microcredit from four microcredit institutions in 2005.</p> <ul style="list-style-type: none"> <li>• Three foreign-owned commercial banks in operation, with 10 branches and 16 ATMs; Banco Nacional Comercio de Timor-Leste established in July 2011 (out of IMfTL) and has branches in 10 districts.</li> <li>• Total commercial bank lending to the private sector up 23% from US\$ 87 million at end-2005 to US\$ 107 million in mid-2011.</li> <li>• Good progress in reaching women; no special outreach toward youth.</li> </ul>	<p>Establishing a Credit Registry (TA, FY06-09)</p> <ul style="list-style-type: none"> <li>• FIRST: Timor-Leste Strategy for Establishing a Credit Registry (TA, FY07-09)</li> </ul>	
<p><b><u>ISN Outcome (Strategic Area 4)</u></b>  <b>Creating a Basis for Enhanced Private Sector Activity</b></p> <ul style="list-style-type: none"> <li>• Steps and time required for registering a business reduced</li>   <li>• Reform-focused consultation between Government and private sector continued and strengthened</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Number of procedures and days decreased from 10 and 147, respectively, in 2008, to 6 and 13 as of March 2012.</li> <li>• IFC supported establishment of Chamber of Commerce and Industry (CCI) and its first national Congress.</li> <li>• Ongoing dialogue between government and private sector on private sector priorities such as access to financial services, trade facilitation, and business registration (One Stop Shop).</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Rural Growth (Dropped)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Timor-Leste Public-Private Dialogue (IFC Advisory Service, FY08-10)</li> <li>• Timor-Leste Business Registration and Licensing (IFC AS, FY2009-11)</li> </ul>	

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<ul style="list-style-type: none"> <li>• Private sector capacity to prioritize and address PSD needs and make specific policy recommendations improved</li> <li>• Government ability to structure and execute public-private partnerships in a transparent and competitive manner improved</li> <li>• SME loan products piloted and options evaluated to improve access to financial services</li> <li>• Outside peer private sector expertise brought in to help address market imperfections</li> </ul>	<ul style="list-style-type: none"> <li>• CCI is receiving training from the Government of Victoria, Australia, with IFC support. They recently participated in tripartite discussions on the minimum wage and labor law.</li> <li>• Assistance provided to CCI in offering detailed recommendations to government on private sector priorities.</li> <li>• Decree law on public-private partnerships approved in March 2012.</li> <li>• Government has a new office for public-private partnership development and a short list of prioritized partnerships for 2012-2013.</li> <li>• Credit Registered Integrated System developed for businesses, including methods to facilitate loans to small businesses.</li> <li>• RSF market study for design now in progress.</li> <li>• Victoria Chamber of Commerce helping the CCI to address private sector development needs in Timor-Leste.</li> </ul>		
<p><b><u>CAS Outcome (Pillar II)</u></b> <b>Enhanced sustainable resource management*</b></p> <ul style="list-style-type: none"> <li>• Legal and regulatory framework and systems in place for sustainable development of agriculture and fisheries</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Some progress, though implementation slow and difficult to assess; Forestry Policy and Strategy drafted, but no regulatory systems in place. Reasonable progress on</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Third Agricultural Rehabilitation Project (FY04-09; MU)</li> <li>• CSP (FY06-07; MU)</li> <li>• Agricultural Performance Improvement Program (APIP) (Delayed to end-2012 pending</li> </ul>	<ul style="list-style-type: none"> <li>• The absence of a systematic, comprehensive approach held back attempts to make meaningful progress in the agriculture sector.</li> <li>• More sustained engagement of key players, especially in the ministry, was needed.</li> </ul>

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<ul style="list-style-type: none"> <li>Monitoring and control system functioning and licensed boats in operation</li> </ul>	<p>developing a regulatory framework, but implementation and impact are still minimal.</p> <ul style="list-style-type: none"> <li>System in place, but monitoring selective and control limited.</li> </ul>	<p>completion of sector expenditure framework)</p> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>Timor-Leste Country Environmental Analysis (FY06-10)</li> </ul>	
<p><b><u>CAS Outcome (Pillar II)</u></b> <b>Building blocks for improved food security and food production in place*</b></p> <ul style="list-style-type: none"> <li>Coordinated national system established for seed/tuber testing, multiplication and distribution</li> <li>Timely reporting and monitoring of food security</li> <li>Agricultural extension model piloted, with increased information to farmers, particularly women</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>Good progress toward release of 6 new crop varieties (with support from AusAID and ACIAR); significant impact expected once sufficient seed and planting materials available.</li> <li>Food security reporting and monitoring remains inadequate, as food production statistics are unreliable. Ministry's Food Security Unit making some progress but hindered by lack of resources and data reliability.</li> <li>One small pilot undertaken; national extension strategy in place; over 400 extension officers based in nearly every <i>suco</i> (village), though their effectiveness limited due to inadequate operational budgets (for travel, training, etc.). No specific attention to female farmers. Extension officers will be assisted through EU-funded Rural Development Program IV.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Third Agricultural Rehabilitation Project (FY04-09; MU)</li> <li>CSP (FY06-07; MU)</li> <li>APIP (Delayed to end-2012)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>Rural Growth Strategy (Dropped)</li> </ul>	<ul style="list-style-type: none"> <li>More technical assistance and regular independent technical reviews required from the start, given difficulties in systematically gathering and analyzing data.</li> <li>In conditions such as those in Timor-Leste, new initiatives need to be pilot-tested before nationwide implementation to strike a balance between achievement of outputs and knowledge transfer.</li> <li>Donor coordination in the sector is a priority, given the large number of donors providing (often competing or duplicative) recommendations.</li> </ul>

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b><u>CAS Outcome (Pillar II)</u></b>  <b>Enhanced business-oriented production of agricultural products*</b></p> <ul style="list-style-type: none"> <li>Increased production and earnings from agriculture cash products, including high value, organic, and alternative products</li> </ul>	<p><b>Not Achieved.</b></p> <ul style="list-style-type: none"> <li>Coffee remains the only high-value crop.</li> <li>Annual coffee production increased to 8,000-14,000 metric tons of green beans on 52,000 ha of cultivated land in 2007-2009.</li> <li>Export earnings grew to US\$ 12.6 million in 2008 from US\$7.6 million in 2005.</li> <li>No progress was made in developing production or markets for high-value crops.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>Third Agricultural Rehabilitation Project (FY04-09; MU)</li> <li>CSP (FY06-07; MU)</li> <li>APIP (Delayed to end-2012)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>Diagnostic Trade Integration Study (DTIS) (FY11)</li> </ul>	<ul style="list-style-type: none"> <li>Encouraging large-scale private sector investment in agricultural products, particularly cash crops, will remain a challenge until issues of land registration and ownership in rural areas are addressed. Developing this sector will require leveraging Bank support to the government on policy frameworks and IFC expertise in public-private partnerships and private sector investment.</li> </ul>
<p><b><u>ISN Outcome (Strategic Area 4)</u></b>  <b>Support for Enhanced Rural Activity</b></p> <ul style="list-style-type: none"> <li>Policy and investment framework developed to influence rain-fed and small-scale irrigated agriculture</li> </ul> <p>• Rural development planning and budget quality improved</p>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>Agricultural Performance Improvement Program presented by WB in early 2010; recommendations gradually being integrated into government strategy documents. WB expects to continue influencing this policy and investment framework with Global Food Crisis Response Program funding in 2011-12.</li> <li>Some improvement in development planning and budget quality; SDP shows signs of further improvement.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>APIP (FY10).</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>Raising Agricultural Productivity (FY09-11)</li> <li>Advisory services, policy papers, Government-donor dialogue on agriculture enabling environment</li> </ul>	<ul style="list-style-type: none"> <li>World Bank was increasingly able to influence outcomes and strategies through direct policy advice to key decision makers. General advice did not seem to work; instead, it is necessary to work with counterparts within a framework that is agreed with government, and to have access to key policymakers.</li> </ul>

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<ul style="list-style-type: none"> <li>• Assessment and review of rural development investment options strengthened</li> <li>• Partner resources aligned to support implementation of identified measures</li> </ul>	<ul style="list-style-type: none"> <li>• Some improvement in assessment and review of rural development investment options, and signs of further improvement in SDP.</li> <li>• Some improvement in the focus of partner resources on key issues and constraints as well as opportunities; expected to increase under SDP and Action Plans.</li> </ul>		
<p><b>CAS Outcome (Pillar III)</b> <b>Safeguards against corruption and abuse of power in place, with increased awareness of citizens' rights*</b></p> <ul style="list-style-type: none"> <li>• Provedor functioning credibly in education, prevention, and investigation of corruption</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Provedor established and functioning, though small staff size hampers the timeliness and quality of investigations and reports. Provedor no longer responsible for anticorruption, following establishment of Anti-Corruption Commission in June 2009 and appointment of a Vice Prime Minister with anticorruption mandate. The ACC is undertaking investigations and working with government agencies to prevent corruption. The VPM with responsibility for anti-corruption was removed from his position after repeatedly criticizing the government for its failure to address corruption.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> <li>• IDF Grant on Institutional Development of the Provedor (FY04-08)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Communication and Leadership Capacity for National Renewal (LICUS/Pacific Facility) (FY07-11)</li> <li>• Analysis on civil service, Petroleum Fund Law, Timor Gap Law, and Public Investment Management shared with parliamentary committees.</li> </ul>	<ul style="list-style-type: none"> <li>• In a low-capacity environment such as that found in Timor-Leste, establishing institutions of the state is a necessary but not sufficient condition for improved governance. To succeed, these institutions need to be backed by sufficient financial and human resources, buttressed by sustained, hands-on capacity-building support.</li> </ul>

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<ul style="list-style-type: none"> <li>• Adoption and implementation of Leadership Code by Presidency, Judiciary, Parliament and Executive</li> <li>• Higher-quality, independent scrutiny by Parliament, Court of Appeals, media, and civil society</li> </ul>	<ul style="list-style-type: none"> <li>• Not achieved; no leadership code introduced.</li> <li>• Parliamentary scrutiny has improved; MPs increasingly vocal on public sector accountability. Local NGOs and media active on governance issues, publishing cases of alleged corruption and commenting on key government initiatives for public discussion.</li> </ul>		
<p><b>CAS Outcome (Pillar III)</b> <b>Transparency and probity in managing petroleum revenues*</b></p> <ul style="list-style-type: none"> <li>• Petroleum revenue collection, savings policy, and petroleum fund functioning credibly</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Petroleum revenue collection effective. Savings policy no longer in operation as government escalates drawdowns from Petroleum Fund. Petroleum Fund Law amended in a way that maintains integrity of Norway Plus model.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• Second Petroleum Technical Assistance Project (TFET) (FY03-07; S)</li> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> <li>• EITI (FY09-12; no ISR yet)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Analysis of Petroleum Fund Law amendment</li> </ul>	
<p><b>ISN Outcome (Strategic Area 1)</b> <b>Support for Continued Transparency in the Management of Petroleum Revenues</b></p> <ul style="list-style-type: none"> <li>• Continued adherence to sound management of petroleum resources and increased transparency in line with EITI principles</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Petroleum management regime continues to adhere to principles of sound management and transparency in line with EITI; methodology for estimating sustainable income debated in Parliament and amended.</li> <li>• Though government has approved</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• PFMCBP (FY07-13; S/S)</li> <li>• EITI (FY09-12; no ISR yet)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Policy Note on National Oil Company Oversight (Bank-Netherlands Partnership Program TF) (FY09)</li> <li>• Petroleum Support Project (FY05-13)</li> </ul>	

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
	<p>spending over the ESI, spending quality is poor; some changes made to the Petroleum Fund contrary to advice provided by World Bank and Norway's Petroleum for Development.</p> <ul style="list-style-type: none"> <li>• Field audits of petroleum companies have begun.</li> </ul>		
<p><b><u>CAS Outcome (Pillar III)</u></b> <b>Enhanced motivation and responsibility among civil servants, resulting in higher standards of probity and service delivery*</b></p> <ul style="list-style-type: none"> <li>• Career development and pay structure introduced</li> <li>• Office of the Inspector General (OIG) reinforces integrity and accountability through inspections and investigations, with recommendations implemented and reports published</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Decree Laws introduced for Civil Service Act, Career Regime, Recruitment, Performance and Commission.</li> <li>• 16 audits, 3 inspections, 78 investigations completed as of June 2007; 10 cases referred, none prosecuted; report summaries published and posted online</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> <li>• IDF Grant on Institutional Strengthening of the OIG (FY04-08; MU)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Timor-Leste Civil Service Review (FY10-12)</li> <li>• TA on Strategic Planning for MOF (FY11) – BETF PFMCBP</li> </ul>	
<p><b><u>CAS Outcome (Pillar III)</u></b> <b>Sound policy and legislative process across Government*</b></p> <ul style="list-style-type: none"> <li>• Progress in following policy and legislative process by all entities, including availability of draft laws, appropriate consultations, and coherent legislative timetable</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Legislative program developed, setting out a timetable for the passage of legislation.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Administrative Services Capacity Building Project (FY03-06)</li> </ul>	

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b><u>CAS Outcome (Pillar III)</u></b>  <b>Strengthened capacity to manage for and monitor results on the ground, with particular attention to women and youth*</b></p> <ul style="list-style-type: none"> <li>• Improved monitoring and evaluation leading to higher quality policy decisions and clearer priorities</li> <li>• Capacity of the National Statistics Directorate enhanced in conducting and analyzing a household survey program</li> <li>• Poverty assessment results incorporated into preparation of future strategies</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Limited progress; previous administration's Sector Investment Plans discarded by new government, which introduced SDP, National Priorities, and Annual Action Plans.</li> <li>• Overall capacity improved through technical assistance and implementation and analysis of a high-quality living standards survey in 2007; in-house capacity building still required</li> <li>• Poverty Assessment completed in 2009, informed preparation of the SDP.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> <li>• IDF on Enhancing Poverty Monitoring and Analysis (FY06-09)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Poverty Assessment (FY09)</li> <li>• Household Survey (FY08)</li> </ul>	<ul style="list-style-type: none"> <li>• Targeted technical assistance and hands-on experience in survey implementation have been important factors in strengthening capacity for monitoring and evaluation, as evidenced by the high quality of the most recent household income and expenditure survey.</li> </ul>
<p><b><u>CAS Outcome (Pillar III)</u></b>  <b>Improved implementation of budget in a transparent manner, in line with savings policy and sustainable growth and poverty reduction goals*</b></p> <ul style="list-style-type: none"> <li>• Improved financial management with critical financial management staff in place in MPF and line agencies</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Solid progress in strengthening PFM systems. Improvements measured in 12 of 29 PEFA indicators between 2007 and 2010, often modest but underpinned by real changes in work practices, legislation, and IT systems. Progress in indicators somewhat undervalued by overly optimistic 2007</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> <li>• IDF Grant on Public Expenditure Management (FY03-07)</li> <li>• Pacific Facility on Advice on Budget Preparation (FY06-10)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Public Financial Management Performance Report (FY11)</li> <li>• PEFA 2010: led by IMF with participation from WB</li> </ul>	

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<ul style="list-style-type: none"> <li>• Reduced unspent appropriations</li> <li>• Combined Sources Budget and budget execution reports published in an accessible form, including medium-term donor commitments</li> </ul>	<p>ratings.</p> <ul style="list-style-type: none"> <li>• Some progress on budget execution; excellent progress on carry-over management</li> <li>• Budget published online at time of presentation to parliament. Budget execution information available in real time through Transparency Portal. Open Budget Initiative rates Timor-Leste 34/100, stating that it “provides minimal information to the public in its budget documents during the year”; however, Timor-Leste has the groundwork in place to improve its rating quickly.</li> </ul>		
<p><b><u>CAS Outcome (Pillar III)</u></b>  <b>Enhanced revenue performance through streamlined procedures and mechanisms*</b></p> <ul style="list-style-type: none"> <li>• Customs clearance times reduced for low-risk shipments</li> <li>• Improved revenue collection, including from petroleum</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• In 2010, average reported times taken for good to clear green line Customs declarations improved. The next phase of ASYCUDA will track this indicator.</li> <li>• Domestic revenue increased from US\$ 52.8 million in 2008 to US\$ 136.1 million in 2012 (projected). Petroleum revenue increased from US\$ 2.40 billion in 2008 to US\$ 2.82 billion in 2012 (projected).</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• CSP (FY06-07; MU)</li> <li>• PFMCBP (FY07-13; S/S)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• TA on MoF Strategic Plan identified improvements to revenue administration.</li> </ul>	

CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b><u>ISN Outcome (Strategic Area 2)</u></b>  <b>Support for Transparent and Effective Public Financial Management</b></p> <ul style="list-style-type: none"> <li>• Transparency and effectiveness in public financial management improved</li> <li>• Ministry of Finance capacity for prudent, effective and accountable planning and management of public finances improved to promote growth and poverty reduction</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Transparency and effectiveness improved in most areas, though diminished in policy-based budgeting as per PEFA indicators. Much progress still to be made, e.g. when assessed against PEFA “getting the basics right.” Timor-Leste rates low against Open Budget Initiative, but groundwork is in place to improve quickly.</li> <li>• MOF capacity has improved substantially between 2007 and 2012, as described in PFMCBP Mid-Term Review. The SDP for 2011-2030 evinces a step-change in capabilities.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• PFMCBP (FY07-13; S/S)</li> <li>• IDF grant on building the capacities of procurement institutions to achieve development outcomes (FY11-14)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Advisory services, in-time analytical inputs documented in PFMCBP Mid-Term Review and Strategic Plan (FY07-12)</li> </ul>	<ul style="list-style-type: none"> <li>• Progress on public financial management benefited from substantial resources allocated to this area and sustained approach that built upon previous donor commitments.</li> <li>• Intensive use of international consultants also played a role.</li> </ul>
<p><b><u>ISN Outcome (Strategic Area 2)</u></b>  <b>Review Capacity-Building Experience in Timor-Leste</b></p> <ul style="list-style-type: none"> <li>• Technical assistance and skills development strategy developed that reflects lessons learned since independence</li> </ul>	<p><b>Achieved.</b></p> <ul style="list-style-type: none"> <li>• Output modified to a civil service review and completed.</li> <li>• Review of capacity building in MOF conducted, yielding some discussion with government and donors about capacity building lessons.</li> </ul>	<p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Timor-Leste Civil Service Review (FY11)</li> <li>• PFMCBP Mid-Term Review</li> </ul>	<ul style="list-style-type: none"> <li>• Challenges of institutional development in Timor-Leste not yet articulated or understood widely across WB and development partners.</li> </ul>



CAS/ISN Outcomes and Indicators	Status and Evaluation Summary	Lending and Nonlending Activities that Contributed to Outcomes (Approval-Completion Date; ICR Outcome/ISR DO/IP)	Lessons for the New CPS
<p><b><u>ISN Outcome (Strategic Area 1)</u></b>  <b>Bringing International Experience of Post-Conflict Transition to Timor-Leste: Support for the National Strategic Planning Exercise</b></p> <ul style="list-style-type: none"> <li>• Strategy developed by Prime Minister's Office (PMO) that is developmentally sound and conforms to the country's macroeconomic and institutional capacities</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• SDP developed and launched in July 2011; provides a development vision for the country that is ambitious relative to institutional capacities.</li> </ul>	<p><b>Operations:</b></p> <ul style="list-style-type: none"> <li>• PFMCBP (FY07-13; S/S)</li> </ul> <p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• PMO Planning TA (Dropped)</li> </ul>	
<p><b><u>ISN Outcome (Strategic Area 1)</u></b>  <b>Bringing International Experience of Post-Conflict Transition to Timor-Leste: Bank Group Policy Work</b></p> <ul style="list-style-type: none"> <li>• Dialogue intensified on transition from post-conflict to long-term growth and development</li> <li>• Trade strategy developed that enables Timor-Leste to increase productivity and competitiveness in its non-oil tradable sector and expand exports</li> </ul>	<p><b>Partially Achieved.</b></p> <ul style="list-style-type: none"> <li>• Some increase in dialogue, notably on recommendations of Diagnostic Trade Integration Study (DTIS), SDP, telecommunications sector liberalization, and agriculture.</li> <li>• DTIS completed and serving as the basis for dialogue on trade issues; extent to which this has resulted in national trade strategy unclear.</li> </ul>	<p><b>AAA:</b></p> <ul style="list-style-type: none"> <li>• Diagnostic Trade Integration Study (FY11)</li> <li>• Policy note on poverty dynamics (FY09)</li> </ul>	<ul style="list-style-type: none"> <li>• The Bank Group should be prepared to support the government's aid effectiveness efforts and commitments under the New Deal for Engagement with Fragile States, which include use of country systems and aid transparency.</li> </ul>

**CASCR Annex 2: CAS Planned Lending Program and Actual Deliveries  
(FY06-08)**

CAS PLANS (06/22/2005)			STATUS	
	Project	US\$ (M)		US\$ (M)
Ongoing	TFET Fundamental School Quality Project	20.6	Actual	20.6
	TFET/EC Second Health Sector Rehabilitation and Development Project	33.1		32.1
	TFET Power Sector Priority Investments Project	1.4	Actual	1.4
	TFET/EC Third Agriculture Rehabilitation Program	11.3	Actual	11.9
	TFET Second Small Enterprises Project	7.5	Actual	7.4
	TFET Second Petroleum TA Project	1.7	Actual	1.6
	TA: Office of the Inspector General (IDF)	0.09	Actual	0.09
	TA: Provedor (IDF)	0.22	Actual	0.22
	TA: Strengthening Public Expenditure Management (IDF)	0.32	Actual	0.32
	TA: Public Expenditure Management and Procurement Capacity Building (IDF)	0.31	Actual	0.31
	Planned/New	Education for All FTI	8.2	Actual
EC-Funded Health Program		4.11	Actual	4.36
Energy Service Delivery Program		2.5	Dropped	0
TFET Gas Seep Harvesting Project		0.85	Actual	0.39
GEF and CDCF Energy		Not found		Not found
Power Sector Lending		Not found	Actual (delivered to ESMAP on Rural Electrification, FY06-07)	Not found
EC-funded Agricultural Program		Not found	Not found	NLTA Not found
GEF and BCF Natural Resource Management		Not found		
TA: Light Labor Survey (IDF)		Not found	Not found	Not found
Planning and Financial Management Capacity Building Program		Not found	Not found	Not found

	TA: Strengthening Capacity for Poverty Monitoring (IDF)	32.6	Actual	31.0
	TA: Strengthening Parliamentary Capacity (IDF)	0.3	Actual	0.3
		Not found	Not found	Not found
Additional Actual Projects			IDF Grant on Institution Building for Veterans Policy Implementation (FY05-08)	0.16
			Communication and Leadership Capacity for National Renewal (LICUS/PF, FY07-11)	1.7
			Petroleum Support Project (FY05-13)	0.089
			Advice on Budget Preparation (PF, FY06-10)	0.11
<b>Total Planned</b>		<b>125.1</b>	<b>Total Actual</b>	<b>122.3</b>

**CASCR Annex 3: ISN Planned Lending Program and Actual Deliverables  
(FY10-11)**

ISN PLANS (08/12/2009)				STATUS		
FY	Project	US\$ (M)			US\$ (M)	
		IDA	TF		IDA	TF
Ongoing	PFMCBP (FY06)	7.0	25.6	Actual	7.0	24.0
	Education Sector Support (FY07)	6.0	6.0	Actual	6.0	10.48
	Energy Services Delivery (FY07)	2.5	0.5	Dropped	0	0
	Gas Seep Harvesting (FY07)	0.0	0.85	Dropped	0	0
	Health Sector Strategic Plan Support (FY08)	1.0	19.3	Actual	1.0	20.0
	Extractive Industries Transparency Initiative TA (FY09)	0.0	0.23	Actual	0	0.19
	Youth Development (FY09)	2.1	0.0	Actual	1.3	0
				<i>Additional Actual Projects:</i>		
				FTI Bridging Project (FTI-CF, FY09-11)	0	
				ESSP Additional Financing (FY10)	5.0	4.9
2010	Emergency National Workfare	3.5	0.0	Dropped	0	0
2011	Second Chance Education	5.0	0.0	Actual	3.2	0
	Rural Development	4.1	0.0	Dropped	0	0
<b>Total Planned</b>		<b>31.2</b>	<b>52.48</b>	<b>Total Actual</b>	<b>24.5</b>	<b>59.57</b>

**CASCR Annex 4: CAS Planned Non-Lending Services and Actual Deliveries  
(FY06-08)**

<b>CAS PLANS (06/22/2005)</b>		<b>STATUS</b>
Ongoing	Veterans Clandestino Study Health Sector Review TA: Youth Leadership for Economic Development (PCF) TA: Youth Policy Development TA: Veterans (PCF) TA: Power Regulatory Framework (PPIAF Phase I) TA: Rural Power Mapping (ESMAP) Private and Financial Sector Review Labor Market Study Regional Flagship Study on Labor Mobility Strengthening the Institutions of Governance TA: Support to NDP (DfID)	Completed FY07 Completed FY07  Completed FY07 Completed FY08 Completed FY06 Completed FY07 Completed FY07 Completed FY06 Completed FY08 (Youth Development and Labor Market Study) No Information Found No Information Found Delivered under CSP
Planned/New	Population Growth and Challenges Youth: Challenges and Options Making Services Work for the Poor Veterans Policy Paper Household Fuel Study TA: Power Regulatory Framework (PPIAF Phase II) Rural Growth Strategy Doing Business in Timor-Leste (annual) TA: Business Environment TA: Collateral and Credit Registry (FIRST) Poverty Assessment Public Expenditure Analysis (annual) TA: Governance, including enhancing demand (Pacific Facility, EITI)	Completed FY09 (as "Population Policy Note") Completed FY09 (as "Timor-Leste's Youth in Crisis") Dropped Completed FY08 Completed FY07 Completed FY07 Dropped Completed annually Not found Completed FY09 Completed FY09 Ongoing  No Information Found  <i>Additional Actual Projects:</i> ASTAE Rural Electrification Master Plan and Implementation Manual (FY05-08) Youth Open Space (FY07) Country Environmental Analysis (FY06-10)

**CASCR Annex 5: ISN Planned Non-Lending Services and Actual Deliveries  
(FY10-11)**

<b>ISN PLANS (08/12/2009)</b>		<b>STATUS</b>
<b>FY</b>	<b>PRODUCT</b>	
Ongoing	<p>TA and Policy Work on Rural Productivity and Growth National Priorities Exercise Poverty Assessment Civil Service Reform Social Protection Fiscal Sustainability and Payment Systems</p> <p>CDD for Infrastructure Telecommunications Sector Reform Diagnostic Trade Integration Study Petroleum Sector Support Justice for the Poor</p>	<p>Completed FY10 Completed FY10 Ongoing Moved to FY11 Completed FY10, Follow on TA and AAA Ongoing (“Social Protection Administration TA”, “Timor-Leste Social Protection AAA)</p> <p>Completed FY11 Completed FY11 Completed FY11 Ongoing Completed (“Customary Systems of Land Management and Rural Development”, “Social Accountability in Participatory Transfer and Grant Programs”, and “Women’s Participation in Community-Investor Negotiations on Land and Rural Development”), Follow on TA Ongoing (“Legal and Social Accountability for Development Assistance and Service Delivery”)</p>
2010	<p>Continued support for National Priorities Exercise Capacity Building Review</p> <p>PFMCBP-related Analytical Work Policy Note on National Oil Company Oversight (BNPP)</p>	<p>Completed FY12 Completed FY11 (Changed to “Civil Service Review”) Completed FY10 (PFM/PER, PEFA) Completed (FY in 09)</p> <p><i>Additional Products</i> Timor-Leste HIV/AIDS Behavioral Survey (FY10-11) Health Financing Note (FY10)</p>

		Key Issues in Rural Energy Policy (FY10)
2011	PFMCBP-related Analytical Work	<p>Completed in FY11 (“TL Public Investment Management”, “PFM Review”, “GET PPP”, PEFA Review, TA on Strategic Planning for MOF, PFM Performance Report”)</p> <p><i>Additional Products</i></p> <p>Building the capacities of procurement institutions to achieve development outcomes (Approved FY11, ongoing)</p> <p>HD Policy Notes (Completed FY11)</p> <p>TA on Rural Energy Access and Efficiency (Completed FY11)</p> <p>Health Sector Review (Completed FY11)</p> <p>Education Strategy (Completed under ESSP, FY11)</p> <p>Teacher Development Strategy (Completed under ESSP, FY11)</p> <p>Raising Agricultural Productivity (Completed FY09)</p>

### Annex 3: Assessing Gender Disparities in Timor-Leste

In the decade since independence, Timor-Leste has experienced high rates of economic growth, made progress in developing its legal and policy framework, and re-established and strengthened basic social service delivery throughout the country. These efforts impact men and women both directly and indirectly, and have contributed to the closing of the gender gap in key areas, such as school enrollment. However, substantial challenges remain. Consistent with the findings of the 2012 World Development Report (WDR) on Gender Equality and Development, gender disparities persist as a result of inequalities within *households* and in access to and participation in *markets* and *institutions*.

Early in the CPS period, the World Bank Group will conduct a Country Gender Assessment to identify specific areas where gender disparities remain, where other development partners are engaged, and where the WBG is well-placed to respond. This Assessment will feed into the development of a Country Gender Action Plan in the CPS period. In the interim, the East Asia Pacific companion piece to the 2012 WDR, the most recent Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) report, two recent IFC reports on gender, investment, and economic opportunities, and gender assessments conducted by other development partners have identified the following areas where progress on closing the gender gap is lagging:

- **Education:** Young women are less likely than young men to receive the education and training necessary to prepare them for workforce participation and income generation. Though the female to male gross enrollment ratio for secondary education is nearly 1:1, young women are much less likely to enroll in tertiary education. More than half of adult women are illiterate.
- **Youth Opportunities and Outcomes:** Youth of both genders face high rates of unemployment, exclusion from political and economic decision-making, and poverty. Anecdotal evidence suggests that high rates of alcohol consumption amongst male youth may increase the likelihood that they engage in violent and anti-social behavior, and reduce their ability to find gainful employment. The adolescent fertility rate is high by international standards, at 52 births per 1,000 girls aged 15-19. Early marriage and pregnancy limits young women's educational attainment and economic opportunity, and increases their likelihood of living in poverty.
- **Health and Nutrition:** Substantial gender disparities in health and nutrition exist throughout the life cycle. Birth rates and maternal mortality ratios in Timor-Leste remain stubbornly high, and care for women during pregnancy and delivery is insufficient for maternal and child health. The contraceptive prevalence rate for married women aged 15-49 is just 22 percent, contributing to a high overall birth rate and increasing the risk of sexually-transmitted infections for both men and women. Boys are more likely than girls to be undernourished and have a higher under-five mortality rate. Stunting and wasting are common for both boys and girls.
- **Economic Opportunities:** Substantial disparities exist in women's access to paid employment opportunities, wage rates, and overall labor force participation, as well as access to finance and economic inputs. High birth rates (an average of nearly 6 children per woman) contribute to low employment rates and missed educational opportunities for women, and reduced women's mobility. Women's labor tends to be concentrated in less lucrative activities, such as handicrafts, household work, or subsistence agriculture activities. According to the IFC's 2010 report on *Economic Opportunities for Women in the Pacific*, women make up over 40 percent of microentrepreneurs in Timor-Leste, but own just 16 percent of formalized businesses.

- Poverty: The poverty rate in Timor-Leste is close to 50%; the poverty rate for female-headed households is higher than the poverty rate for male-headed households of the same size.<sup>40</sup>
- Crime and Violence: Domestic and gender-based violence is highly prevalent in Timor-Leste; a 2010 study found that approximately one-third of women (38 percent) have experienced physical violence since age 15. One percent of women experienced physical violence often, while 28 percent experienced physical violence sometimes in the past 12 months (National Statistics Directorate, et al. 2010. Timor-Leste Demographic and Health Survey 2009-2010. Dili: National Statistics Directorate). Timor-Leste's Vulnerable Persons Unit reports over 1,000 domestic violence cases per year in Dili alone, and estimates that for every report, ten incidences of domestic violence go unreported. Excessive alcohol consumption and hypermasculine identities that idolize violence contribute to the high rates of familial violence. In contrast, men are disproportionately impacted by criminal and political violence, including violence perpetrated by gangs.
- Political participation: Women are well-represented in high-level Ministerial appointments and in Parliament. However, at the sub-national level and within traditional governance structures, women are highly underrepresented. Given the continued importance of traditional or customary law throughout Timor-Leste, particularly for decisions related to family and civil law, women's underrepresentation at this level of governance could impede women's access to justice.

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<sup>40</sup> Gender-disaggregated data from the 2011 Household Income and Expenditure Survey is not yet available. However, the most recent data from the 2007 Living Standards Survey shows higher poverty rates among women and female-headed households.

## **Annex 4: Commitments under the New Deal for Engagement in Fragile States**

### **Peacebuilding and State-building Goals (PSGs)**

- 1. Legitimate Politics** - Foster inclusive political settlements and conflict resolution
- 2. Security** - Establish and strengthen people's security
- 3. Justice** - Address injustices and increase people's access to justice
- 4. Economic Foundations** - Generate employment and improve livelihoods
- 5. Revenues & Services** - Manage revenue and build capacity for accountable and fair service delivery

### **FOCUS**

- 1. Fragility Assessment** – A self-assessment of stresses and sources of resilience
- 2. One Vision, One Plan** – To guide Government and development partners
- 3. Compact** – For harmonization and donor coordination
- 4. Use PSGs to Monitor** – targets and indicators to assess progress
- 5. Support political dialogue and leadership** – inclusive of civil society, women and youth

### **TRUST**

- 1. Transparency** – in the use of aid and fiscal systems
- 2. Risk-sharing** – joint Government and Development Partner risk mitigation strategies
- 3. Use and strengthen country systems** – strengthening financial systems for use by all
- 4. Strengthen capacities** – build critical capacity of institutions
- 5. Timely and predictable aid** – more flexible and faster

## Annex 5: Overview of Main Trust Funds

The WBG is in discussions with *AusAID* for development of a 3-year, \$15 million single-donor trust fund modeled on the Pacific Facility and other successful arrangements in the region. The proposed trust fund would staff positions based in Timor-Leste, as well as analytical and technical assistance activities in mutually-identified priority areas. This TF is expected to come online in early FY14.

*Education for All Fast Track Initiative* funding supports the Management Strengthening Program, which strengthens PFM, procurement, and evidence-based planning systems within the Ministry of Education.

The *Global Facility for Disaster Risk Reduction* has provided funding for an assessment of climate change/disaster risk reduction.

Through the *Institutional Development Fund*, the WBG is working to build the capacity of procurement institutions in Timor-Leste. The grant supports strengthening of the legal and regulatory framework for procurement, development of a procurement performance evaluation system, and training activities for staff of the National Procurement Commission under the office of the Prime Minister. The FY13 priority will be assisting the government to finalize the Procurement Omnibus Law; future years will focus on procurement capacity building.

The *Japanese Social Development Fund* provided seed funding for preparation of a proposal for a project to understand and ameliorate the causes of malnutrition in Timor-Leste. The follow-on proposal will suggest activities to address malnutrition through multisectoral interventions, and will complement ongoing WBG work.

The *Justice for the Poor* program has been active in Timor-Leste since 2008 and is now moving into its second iteration. This AusAID-funded multi-country TF will examine patterns of spending in major infrastructure projects, as well as consultation processes for infrastructure projects and the elite bargains that emerge around distribution of infrastructure contracts. The program will develop partnerships with civil society to pilot approaches to improved infrastructure spending and consultation mechanisms, and ensure that grievances around infrastructure contracts are addressed.

The *Rapid Social Response Trust Fund* has provided \$2 million (\$1.45 million in recipient-executed funds and \$.55 million for Bank-executed complementary technical assistance) to improve program management of the Ministry of Social Solidarity to implement core cash transfer programs in Timor-Leste in an efficient, reliable, and transparent manner through standardized information management and stronger program implementation and management capacity.

Much of the WBG portfolio is funded through *free-standing trust funds*, with both single and multiple donor sources. The primary donors for these trust funds are Australia and the European Commission. Free-standing trust funds support WBG activities in planning and financial management, governance, education, health, and telecommunications.

In the CPS period, the WBG will be pursuing support from several new trust fund facilities. These include the *State and Peacebuilding Fund* and *UN-World Bank* trust for activities with the Ministry of Justice on land, the *Global Environmental Facility* and *Global Agriculture and Food Security Program* for agriculture and rural development, and the *Korean Trust Fund for Fragile States* for analytical and advisory activities to understand and address some of the remaining sources of fragility in Timor-Leste.

## **Annex 6: Summary of 2011 IMF/WB Debt Sustainability Analysis**

Until FY2012, Timor-Leste had no public debt. As a young nation with access to grants from development partners, and with a large petroleum revenue reserve, the government has not borrowed to finance development. However, Timor-Leste will borrow from development partners for the first time during FY2013, recognizing both their potentially favorable financial terms, and the benefits of project cycle assistance.

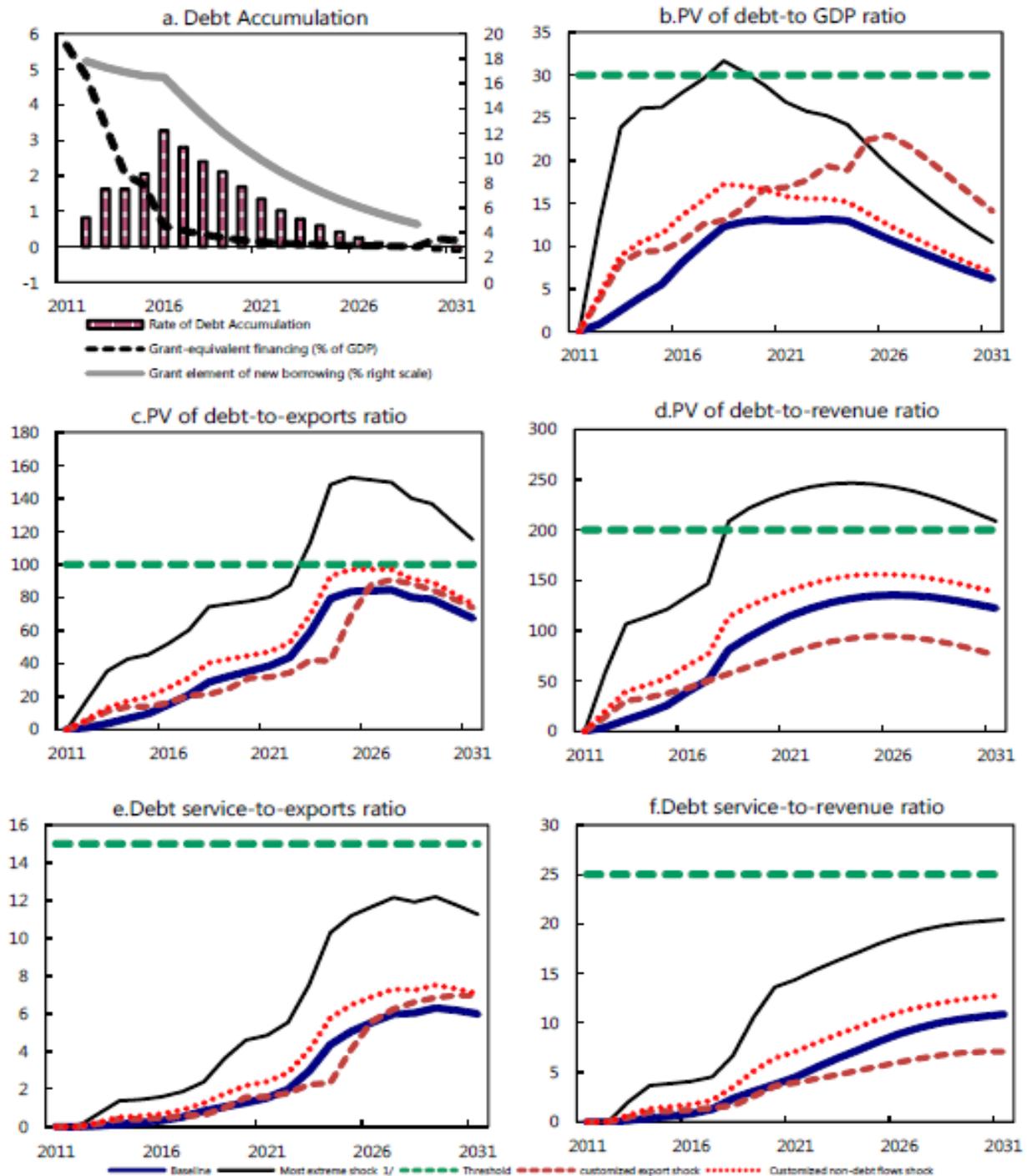
The government's new fiscal plans aim to frontload capital spending to improve poor infrastructure, which is one of the key constraints to developing the non-oil sector. The 2012 budget allows borrowing of up to \$160 million, \$43 million of which will be for calendar year 2012. This is part of a wider plan to borrow up to \$483 million over 2012-16 to finance capital spending in the Strategic Development Plan (SDP).

This amount is about twice the size anticipated at the previous DSA in 2010. About one-third of these loans is expected to be concessional, with the remainder as non-concessional. Planned World Bank lending under the CPS is within these amounts.

After 2016, the loan amounts are projected to decrease gradually in line with the previous DSA and the SDP. The total borrowing amount would be 80 percent higher than in the previous DSA. The share of concessional loans is expected to decline gradually, as with rising per capita income, Timor-Leste will no longer be eligible for concessional loans over the long term.

Under the baseline scenario, all the debt burden indicators remain below their policy-dependent indicative thresholds. However, debt vulnerability may increase, as suggested by the higher level of debt service in the longer term associated with the repayment of non-concessional borrowing, as evidenced by stress tests. This calls for a cautious approach to such borrowing and emphasizes the importance of prudent debt management. Furthermore, while Timor-Leste's public debt is still very small, it might consider limits on borrowing as it plans to expand external borrowing.

Figure 1. Timor-Leste: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Timor-Leste authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. Figures b-f correspond to a nondebt flows shock.

## **Annex 7: Development Partner Focal Areas and Links to the Government's Program**

**Asian Development Bank (ADB).** ADB has been involved in the reconstruction and development of Timor-Leste's economy and social and physical infrastructure since late 1999. Timor-Leste became a member of ADB in 2002. Over the 2011–2015 period, ADB will support the upgrade of the country's infrastructure (including provision of a long for upgrading the Dili-Bobonaro road corridor), Dili water supply, and complementary initiatives in financial services, private sector development, and skills training. Assistance will also be provided for good governance and capacity development, gender equity, knowledge solutions, and helping Timor-Leste integrate with Asian economies.

**Australian Agency for International Development (AusAID).** Australia is Timor-Leste's largest partner, with an allocation of AUD\$127.1 million (US\$129.1 million) in Official Development Assistance (ODA) to Timor-Leste in 2012-13. Australia and Timor-Leste signed a new development partnership in November 2011, focusing on rural development, particularly rural roads and rural water and sanitation; health; education; governance and security.

**European Union (EU).** The European Commission opened a fully-fledged Delegation in Dili in early 2008 to respond to the needs of intensified dialogue and cooperation between the Government of Timor-Leste and the European Union. The majority of EU resources (43.5 million Euro, 54%) are indicatively allocated to support sustainable rural development; 18 million Euros (22%) for capacity building in the sector of Justice, Parliament and Media; and 9.75 million (12%) for health; leaving 7 million Euro allocated to other actions, particularly support to Non State Actors, and 2.5 million Euro for PALOP (Portuguese speaking countries of Africa and Timor-Leste) programs.

**France.** France does not provide ODA to Timor-Leste. France's main efforts in favor of Timor-Leste are channeled through the United Nations and the UN Security Council (core funding of peacekeeping mission and UN agencies), and through the European Union and the European Development Fund (France contributes to 20% of the EDF). However, France intends to maintain bilateral cooperation with Timor-Leste by having a small cooperation office based in Dili. The French Embassy also provides small grants to Timorese NGOs, French NGOs, or French experts to implement projects.

**German Government.** German-Timorese Development Cooperation is concentrated on the focal area of peace building. A strategic intervention in the maritime sector has been a further priority. These activities are meant to contribute to social and economic prosperity, and peaceful development of the country.

**Japan International Cooperation Agency and Government of Japan.** In 2012, the government of Japan extended the first-ever foreign loan to Timor-Leste, for approximately US\$70 million, for the purpose of upgrading the road between Dili and Baucau, Timor-Leste's second largest city. This infrastructure investment is the key feature of Japan's "*Country Assistance Policy*", a five-year strategy document that was completed in April of 2012.

**New Zealand Aid Programme.** The New Zealand Aid Programme is currently consulting with the Government of Timor-Leste on the draft "Strategic Framework for Development" 2012-2015 for Timor-Leste, which will guide New Zealand's official development assistance to Timor-Leste. The content and scope of the draft Framework was consulted very closely with key development partners and government over the period 2009-2010. The proposed focal areas of the Framework for Development are: Education and Training; Security and Justice; and Private Sector Investment, in support of the pillars of Timor-Leste's Strategic Development Plan 2011-2030.

**Norway.** The government of Norway channels its support through multilateral institutions (UNDP, UN Women, UNICEF), civil society/NGOs, and the Government of Timor-Leste.

**Portugal.** Timor-Leste is Portugal’s main beneficiary ODA. Portuguese aid is largely allocated for education and training, in addition to good governance, participation and democracy, sustainable development and the fight against poverty, and cluster cooperation.

**United States Agency for International Development (USAID).** The US Government operates in Timor-Leste under the terms of the Agreement for Economic and Technical Cooperation between the Government of the United States of America and the Government of the Democratic Republic of Timor-Leste dated June 6, 2003. The US Government supports programs in the following areas: Governing Justly and Democratically, Investing in People (health and higher education), Economic Growth and the Millennium Challenge Cooperation (which includes activities in anti-corruption and immunizations). USAID is in the process of drafting a new five year strategy, with intent to focus on economic growth, good governance, maternal and child health, water and sanitation, higher education, and global climate change for the duration of its five year strategy.

	FAO	ILO	IOM	UN Agencies	World Bank Group	ADB	Australia	EU	Germany	Japan	New Zealand	Norway	Portugal	United States
<b>Sectors and subsectors</b>														
<b>1. DEVELOPMENT OF SOCIAL CAPITAL</b>														
1.1 Health				■	■		■	■		■				■
1.2 Education				■	■		■	■		■	■		■	■
1.3 Education and Professional Training		■		■	■								■	■
1.4 Social Inclusion				■	■		■						■	
1.5 Environment			■	■	■									
1.6 Culture and Heritage				■	■									
1.7 Media - Diversity and Independence				■	■									
<b>2. INFRASTRUCTURE DEVELOPMENT</b>														
2.1 Roads and Bridges		■		■	■	■	■	■		■				
2.2 Water, Sanitation and Drainage				■	■	■	■	■						
2.3 Electricity				■	■	■	■	■						
2.4 Sea ports					■	■								
2.5 Airports					■	■								
2.6 Land Transportation					■	■								
2.7 Telecommunications					■	■								
2.8 Major project procurement					■	■								
<b>3. ECONOMIC DEVELOPMENT AND JOB CREATION</b>														
3.1 Agriculture	■			■	■	■	■	■	■	■				■
3.2 Petroleum				■	■	■	■	■	■	■				
3.3 Tourism				■	■	■	■	■	■	■				
3.4 Encouraging Jobs Growth		■		■	■	■	■	■	■	■				■
<b>4. CONSOLIDATION OF THE INSTITUTIONAL FRAMEWORK</b>														
4.1 Economic Policy				■	■	■	■	■						
4.2 Good Governance in the Public Sector				■	■	■	■	■			■		■	■
4.3 Peace, Stability and International Relations			■	■	■	■	■	■			■	■	■	■

## Annex 8: Standard Country Assistance Strategy Annexes

### Standard Annex A2: Country at a Glance

#### Timor-Leste at a glance

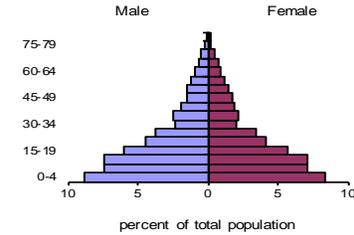
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Key Development Indicators	Timor-Leste	East Asia & Pacific	Lower middle income
<b>(2011)</b>			
Population, mid-year (millions)	1.2	1,962	2,519
Surface area (thousand sq. km)	15	16,302	23,579
Population growth (%)	2.9	0.7	1.5
Urban population (% of total population)	28	46	39
GNI (Atlas method, US\$ billions)	3.1	7,249	4,078
GNI per capita (Atlas method, US\$)	2,730	3,696	1,619
GNI per capita (PPP, international \$)	3,600	6,657	3,632
GDP growth (%)	10.6	9.7	6.9
GDP per capita growth (%)	7.5	8.9	5.3
<b>(most recent estimate, 2005–2011)</b>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	37	14	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	73	33	..
Life expectancy at birth (years)	62	72	65
Infant mortality (per 1,000 live births)	46	20	50
Child malnutrition (% of children under 5)	45	6	25
Adult literacy, male (% of ages 15 and older)	59	96	80
Adult literacy, female (% of ages 15 and older)	43	91	62
Gross primary enrollment, male (% of age group)	119	111	110
Gross primary enrollment, female (% of age group)	115	112	104
Access to an improved water source (% of population)	69	90	87
Access to improved sanitation facilities (% of population)	47	66	47

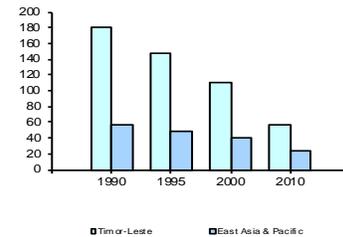
  

Net Aid Flows	1980	1990	2000	2011 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	1	0	231	292
<i>Top 3 donors (in 2010):</i>				
Australia	0	0	82	124
Portugal	..	0	53	34
Japan	0	0	29	28
Aid (% of GNI)	..	..	71.6	9.2
Aid per capita (US\$)	1	0	279	256
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	..	..	-0.3	3.4
GDP implicit deflator (annual % change)	..	..	3.0	8.9
Exchange rate (annual average, local per US\$)	..	..	1.0	1.0
Terms of trade index (2000 = 100)	..	..	..	..
Population, mid-year (millions)	0.6	0.7	0.8	1.2
GDP (US\$ millions)	..	..	316	1,054
<i>(% of GDP)</i>				
Agriculture	..	..	25.8	..
Industry	..	..	18.5	..
Manufacturing	..	..	2.8	..
Services	..	..	55.7	..
Household final consumption expenditure	..	..	111.7	..
General gov't final consumption expenditure	..	..	35.2	..
Gross capital formation	..	..	25.6	..
Exports of goods and services	..	..	..	..
Imports of goods and services	..	..	..	..
Gross savings	..	..	-34.7	..

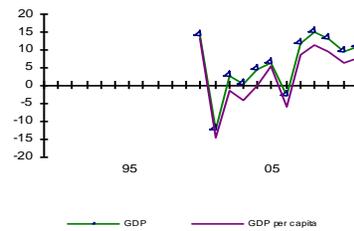
Age distribution, 2010



Under-5 mortality rate (per 1,000)



Growth of GDP and GDP per capita (%)



1980–90 1990–2000 2000–11  
(average annual growth %)

2.5 1.1 3.2  
.. .. 5.6

Note: Figures in italics are for years other than those specified. 2011 data are preliminary. .. indicates data are not available.  
a. Aid data are for 2010.

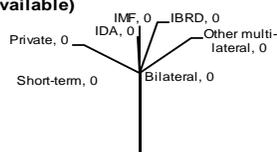
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2011
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	5	15
Total merchandise imports (cif)	242	286
Net trade in goods and services	-289	-269
Current account balance	38	813
as a % of GDP	12.0	77.1
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	..	..

Central Government Finance	2000	2011
<i>(% of GDP)</i>		
Current revenue (including grants)	21.2	124.6
Tax revenue	..	..
Current expenditure	10.7	19.3
Overall surplus/deficit	2.7	92.8
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows	2000	2011
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	0	0
Total debt service	0	0
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	0.0	0.0
Total debt service (% of exports)	..	..
Foreign direct investment (net inflows)	..	..
Portfolio equity (net inflows)	..	..

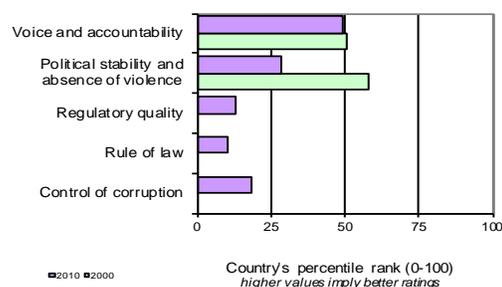
**Composition of total external debt, 2010**  
(data are not available)



US\$ millions

Private Sector Development	2000	2011
Time required to start a business (days)	-	103
Cost to start a business (% of GNI per capita)	-	5.0
Time required to register property (days)	-	..
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

**Governance indicators, 2000 and 2010**



Source: Worldwide Governance Indicators ([www.govindicators.org](http://www.govindicators.org))

Technology and Infrastructure	2000	2010
Paved roads (% of total)	..	..
Fixed line and mobile phone subscribers (per 100 people)	2	54
High technology exports (% of manufactured exports)	..	0.0

Environment	2000	2010
Agricultural land (% of land area)	23	25
Forest area (% of land area)	57.4	49.9
Terrestrial protected areas (% of land area)	5.1	6.1
Freshwater resources per capita (cu. meters)	9,250	7,469
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	0.18	0.18
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	..	11.8
Energy use per capita (kg of oil equivalent)	..	58

World Bank Group portfolio	2000	2010
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
<b>IDA</b>		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	-	-
Disbursements for IFC own account	-	-
Portfolio sales, prepayments and repayments for IFC own account	-	-
<b>MIGA</b>		
Gross exposure	-	-
New guarantees	-	-

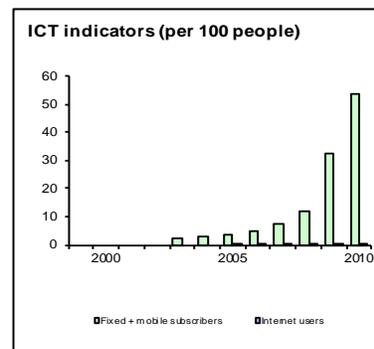
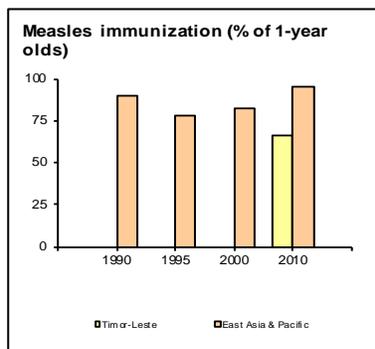
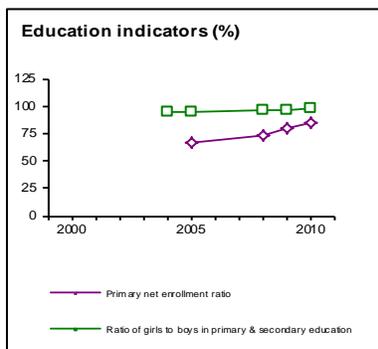
Note: Figures in italics are for years other than those specified. 2011 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

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Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015  
(estimate closest to date shown, +/- 2 years)

	Timor-Leste			
	1990	1995	2000	2010
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	52.9	37.4
Poverty headcount ratio at national poverty line (% of population)	..	..	39.7	49.9
Share of income or consumption to the poorest quintile (%)	..	..	6.7	9.0
Prevalence of malnutrition (% of children under 5)	..	..	40.6	45.3
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	..	..	..	85
Primary completion rate (% of relevant age group)	..	..	..	65
Secondary school enrollment (gross, %)	..	..	34	56
Youth literacy rate (% of people ages 15-24)	..	..	23	..
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	..	..	..	98
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	35	..
Proportion of seats held by women in national parliament (%)	..	..	..	29
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	180	148	109	54
Infant mortality rate (per 1,000 live births)	135	112	86	46
Measles immunization (proportion of one-year olds immunized, %)	..	..	56	66
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,000	880	610	300
Births attended by skilled health staff (% of total)	..	26	24	29
Contraceptive prevalence (% of women ages 15-49)	25	23	8	22
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	498	498
Tuberculosis case detection rate (% , all forms)	..	..	62	87
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	..	52	54	69
Access to improved sanitation facilities (% of population)	..	37	39	47
Forest area (% of land area)	65.0	..	57.4	49.9
Terrestrial protected areas (% of land area)	..	..	5.1	6.1
CO2 emissions (metric tons per capita)	..	..	0.2	0.2
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	..	..	..	11.8
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	..	..	..	0.3
Mobile phone subscribers (per 100 people)	0.0	..	..	53.4
Internet users (per 100 people)	0.0	..	0.0	0.2
Computer users (per 100 people)	..	..	..	..



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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Development Economics, Development Data Group (DECDG).

**Standard Annex B2:  
Selected Indicators of Bank Portfolio Performance and Management**

Indicator	2010	2011	2012	0
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	6	8	6	0
Average Implementation Period (years) <sup>b</sup>	3.0	3.1	3.8	0.0
Percent of Problem Projects by Number <sup>a, c</sup>	50.0	37.5	16.7	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	23.0	8.8	2.2	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	66.7	62.5	50.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	51.6	35.3	17.6	0.0
Disbursement Ratio (%) <sup>e</sup>	28.7	27.6	19.6	0.0
<b>Portfolio Management</b>				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	20	2
Proj Eval by OED by Amt (US\$ millions)	9.9	0.0
% of OED Projects Rated U or HU by Number	55.0	50.0
% of OED Projects Rated U or HU by Amt	100.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**Standard Annex B3:  
IBRD/IDA Program Summary**

**Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>**

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<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>
2013	TP: Road Climate Resilience Proj - AF	40.0
	Sub-Total	40.0
2014	Timor-Leste Coffee Sector Development	7.0
	TP Telecomms and ICT Develop Project	7.0
	Sub-Total	14.0
Total		54.0

## Standard Annex B5: Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2005-11	East Asia & Pacific	Lower-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	0.7	0.9	1.2	1,961.6	2,518.7
Growth rate ( <i>% annual average for period</i> )	2.6	2.8	3.0	0.7	1.6
Urban population ( <i>% of population</i> )	18.6	22.5	28.3	45.9	39.4
Total fertility rate ( <i>births per woman</i> )	5.3	6.4	5.5	1.8	2.9
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	49.9		
Urban headcount index	..	..	..		
Rural headcount index	..	..	..		
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	..	2,730	3,696	1,619
Consumer price index ( <i>2005=100</i> )	..	..	139	131	140
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	31.9		
Low est quintile ( <i>% of income or consumption</i> )	..	..	9.0		
Highest quintile ( <i>% of income or consumption</i> )	..	..	41.3		
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	8.5	5.1	2.0	2.0
Education ( <i>% of GNI</i> )	..	..	..	3.8	4.0
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	85	93	85
Male	..	..	86	93	87
Female	..	..	85	94	83
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	52	69	90	87
Urban	..	67	91	97	93
Rural	..	48	60	84	83
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	..	66	95	80
DPT	..	..	72	94	79
Child malnutrition ( <i>% under 5 years</i> )	..	..	45	6	25
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	42	51	62	72	65
Male	41	50	62	70	64
Female	43	52	63	74	67
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	159	112	46	20	50
Under 5 ( <i>per 1,000 live births</i> )	215	148	54	24	69
Adult (15-59)					
Male ( <i>per 1,000 population</i> )	..	..	259	157	244
Female ( <i>per 1,000 population</i> )	..	..	223	105	175
Maternal ( <i>per 100,000 live births</i> )	..	880	300	89	300
Births attended by skilled health staff (%)	..	..	29	91	57

CAS Annex B5. This table was produced from the CMU LDB system.

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Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

## Standard Annex B6: Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Non-Oil Gross domestic product<sup>a</sup></b>	<b>525.2</b>	<b>665.0</b>	<b>788.2</b>	<b>875.1</b>	<b>1054</b>	<b>1252</b>	<b>1487</b>	<b>1767</b>	<b>2099</b>
<i>Agriculture</i>	144.6	164.8	181.0	187.5	..	..	..	..	..
<i>Industry</i>	54.7	71.5	85.5	100.9					
Manufacturing, Mining, and Quarrying, and other industry	20.8	24.3	32.7	36.8					
Construction	33.9	47.2	52.8	64.1					
<i>Services</i>	324.5	439.8	521.6	590.5					
Wholesale and retail trade, Transportation and Storage, Accommodation and	105.2	159.1	183.2	210.8					
Information and Communication	31.7	39.4	44.4	44.8					
Financial and Insurance Activities	8.7	11.8	12.7	15.0					
Real Estate Activities	75.6	87.2	90.3	101.2					
Professional, Scientific, technical, administration and support services	11.8	16.4	18.4	20.5					
Public admin, defence, education, human health and social work activities	84.2	115.2	161.7	187.8					
Other services activities	7.3	10.7	10.9	10.4					
Non-oil value added, GROSS	523.8	676.1	788.1	878.9					
Plus: Taxes on products	18.8	19.3	30.2	31.9					
Less: Subsidies on products	17.4	30.4	30.1	35.7					
Total Consumption	..	..	..	..	..	..	..	..	..
Gross domestic fixed investment	..	..	..	..	..	..	..	..	..
Government investment	..	..	..	..	..	..	..	..	..
Private investment	..	..	..	..	..	..	..	..	..
Exports (GNFS) <sup>b</sup>	..	..	..	..	..	..	..	..	..
Imports (GNFS)	..	..	..	..	..	..	..	..	..
Gross domestic savings	..	..	..	..	..	..	..	..	..
Gross national savings <sup>c</sup>	..	..	..	..	..	..	..	..	..
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	1838	3065	2633	3198	4315	4073	4161	..	..
Non-oil GDP	525	665	788	875	1054	1252	1487		
Oil GDP	1313	2400	1845	2323	3261	2821	2674		
GNI per capita (US\$, Atlas method)	1850	2900	2250	2730	..	..	..	..	..
Petroleum Fund balance (US\$ millions)	2086	4197	5377	6904	9338	10923	12297		
Petroleum Fund balance (% of non-oil GDP)	422	661	681	788	886	872	827		
Public debt (US\$ millions)	0	0	0	0	0	43	123		
<b>Real Sector</b>									
Real non-oil GDP growth	11.7	14.6	12.8	9.5	10.6	10.0	10.0		
CPI (annual average)	10.3	9.0	0.7	6.8	13.1	8.0	8.0		
CPI (end-period)	8.6	7.5	1.7	9.2	13.1	8.0	8.0		
<b>Balance of Payments (US\$)</b>									
Current account balance	1177	2023	1363	1538	2375	1773	1506		
(in % of GDP)	65	67	52	48	55	44	36		
Trade Balance	-169	-297	-376	-374	-666	-795	-861		
Exports (GNFS) <sup>b</sup>	7	14	9	18	22	33	29	..	..
Imports (GNFS) <sup>b</sup>	176	311	385	392	689	829	890	..	..
Petroleum Revenue	1313	2400	1845	2323	3261	2821	2674		
FDI (\$m)	..	39	30	5	46	55	64		
Overall balance	147	-20	39	156	-3	160	151		
Public Foreign Assets (end-period)	2316	4407	5627	7310	9743	11487	13013		..
in months of goods and service imports	158	170	175	224	170	166	175		

(Continued)

## Key Economic Indicators (Continued)

Indicator	Actual		Estimate			Projected			
	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Central government operations (as % of GDP at market prices)<sup>c</sup></b>									
Revenue	75.4	80.8	72.5	75.2	78.1	54.6	68.1	..	..
Domestic Revenue	2.7	1.7	2.5	2.6	2.6	3.3	3.8		
Petroleum Revenue	72.6	79.1	70.0	72.6	75.6	51.3	64.3		
Expenditure	13.5	19.6	23.8	24.8	28.0	43.3	37.0	..	..
Recurrent Expenditure	8.8	13.5	15.4	16.5	13.0	16.7	17.1		
Capital Expenditure	4.8	6.1	8.4	8.4	15.0	26.6	19.9		
Overall Balance	61.9	61.2	48.7	50.4	50.1	11.3	31.1	..	..
Non-oil Overall Balance (in % of non-oil GDP)	-39.6	-85.3	-71.1	-81.1	-113.6	-130.0	-92.8	..	..

a. GDP at

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

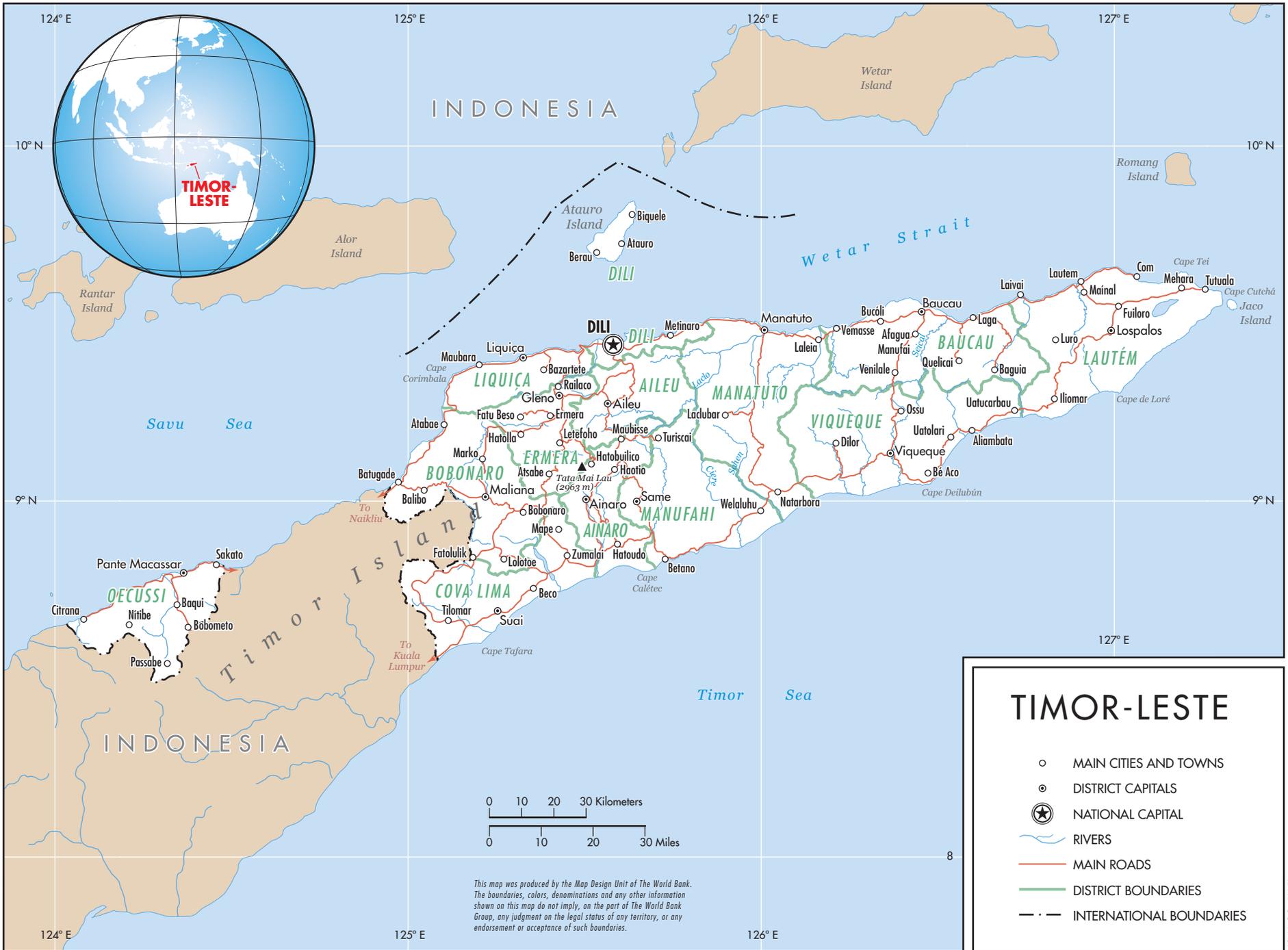
## Standard Annex B8: Operations Portfolio (IBRD/IDA and Grants)

Closed Projects 22

<u>IBRD/IDA</u> *	
Total Disbursed (Active)	19.70
of which has been repaid	0.00
Total Disbursed (Closed)	12.14
of which has been repaid	0.00
Total Disbursed (Active + Closed)	31.84
of which has been repaid	0.00
Total Undisbursed (Active)	26.13
Total Undisbursed (Closed)	0.28
Total Undisbursed (Active + Closed)	26.41

### Active Projects

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>			<u>Difference Between Expected and Actual Disbursements</u> <sup>a/</sup>			
		Supervision Rating			IBRD	IDA	GRANT	Cancel.	Undisb.	Orig.	Frm Rev'd
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P092484	Planning & Fin Mgt Capacit	S	✓	2006		7		0.123115	-0.30943		
P125032	Timor Leste Road Climate IMS	S	✓	2011		20		17.66024	2		
P116520	TL Second Chance Educati	MS	✓	2011		5		4.398733	-0.453181		
P106220	TP - Youth Development Pr	MS	✓	2009		2.118		0.113161	0.2084204		
P095873	TP-Education Sector Supp	S	✓	2007		11		3.600375	-1.511865		
P104794	TP-Health Sector Strategic	MU	✓	2008		1		0.230463	0.2407558	13.66527	
Overall Result						46.118		26.12608	0.1747009	13.66527	



## TIMOR-LESTE

- MAIN CITIES AND TOWNS
- ⦿ DISTRICT CAPITALS
- ★ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- DISTRICT BOUNDARIES
- · - INTERNATIONAL BOUNDARIES

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