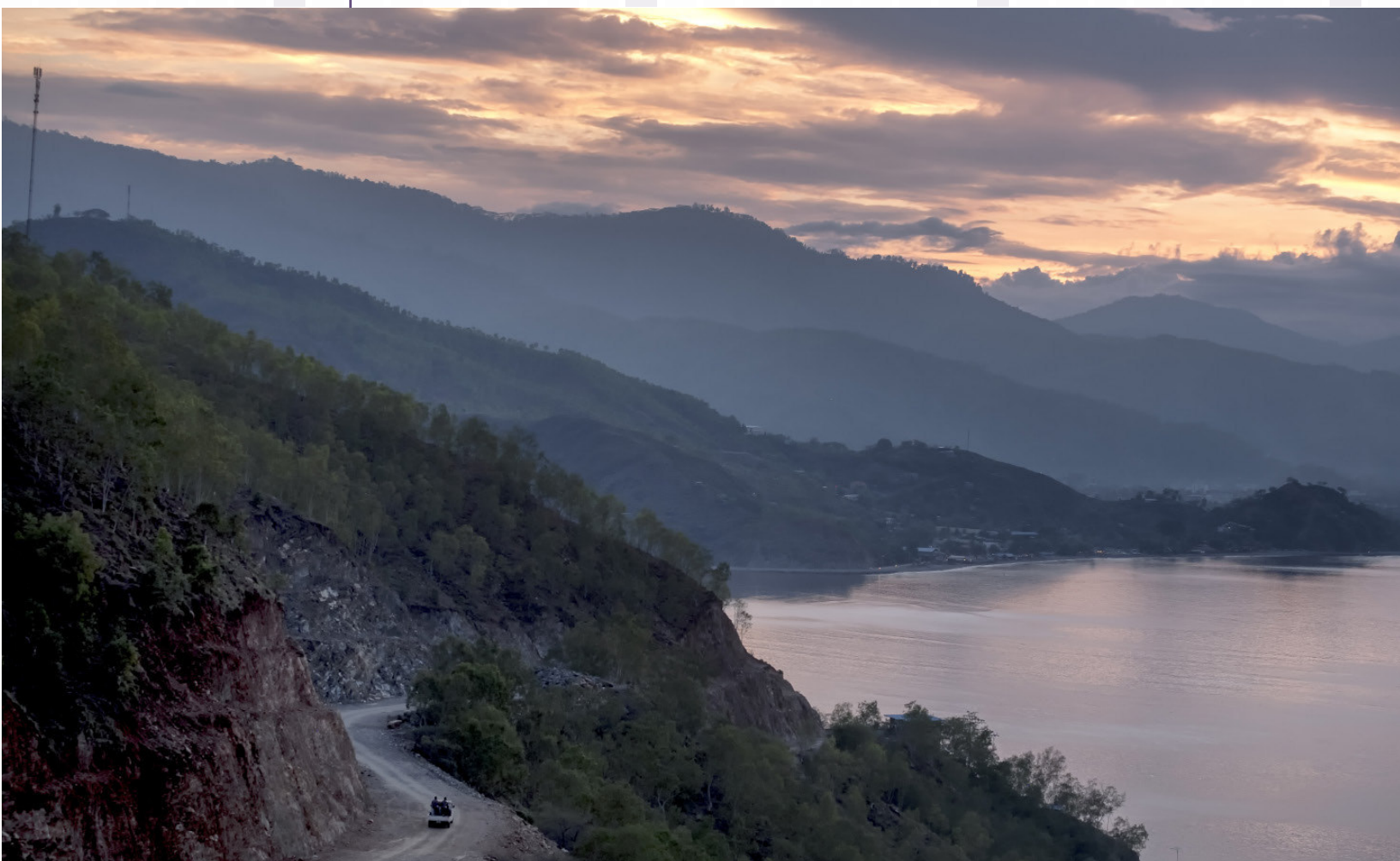


CPS Final
Review
Validation

Timor-Leste

Validation of the Country Partnership Strategy Final Review, 2016–2020



Independent
Evaluation



Raising development impact through evaluation

Validation Report
December 2021

Timor-Leste:

Validation of the Country Partnership Strategy Final Review, 2016–2020

This document is being disclosed to the public in accordance with ADB's Access to Information Policy.

Independent Evaluation: VR-27



Raising development impact through evaluation

NOTES

- (i) The fiscal year (FY) of the Government of Timor-Leste ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars.
- (iii) For an explanation of rating descriptions used in Asian Development Bank (ADB) evaluation reports, see ADB. 2015. *2015 Guidelines for the Preparation of Country Assistance Program Evaluations and Country Partnership Strategy Final Review Validations*. Manila.

Director General	Emmanuel Jimenez, Independent Evaluation Department (IED)
Deputy Director General	Sona Shrestha, IED
Director	Joanne Asquith, Thematic and Country Division, IED
Team leader	Tomoo Ueda, Principal Evaluation Specialist, IED (Up to 18 October 2021)
Team members	Michelle Angielina Dantayana, Evaluation Assistant, IED Ma. Patricia Lim, Senior Evaluation Officer, IED

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

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

Abbreviations

ADB	-	Asian Development Bank
ANR	-	agriculture, natural resources, and rural development
ASEAN	-	Association of Southeast Asian Nations
BNCTL	-	Banco Nacional de Comércio de Timor-Leste
COBP	-	country operations business plan
COVID-19	-	coronavirus disease
CPS	-	country partnership strategy
CPSFR	-	country partnership strategy final review
CPSFRV	-	country partnership strategy final review validation
DFAT	-	Department of Foreign Affairs and Trade of Australia
EDTL	-	Electricidade de Timor-Leste
EIRR	-	economic internal rate of return
EUC	-	Electricity Utility Company
ERP	-	Economic Recovery Plan
FCAS	-	fragile and conflict-affected situations
GAP	-	gender action plan
GDP	-	gross domestic product
IED	-	Independent Evaluation Department
IMF	-	International Monetary Fund
JFPR	-	Japan Fund for Poverty Reduction
JICA	-	Japan International Cooperation Agency
MPW	-	Ministry of Public Works
O&M	-	operations and maintenance
OCR	-	ordinary capital resources
OPPP	-	Office of Public–Private Partnership
PARD	-	Pacific Department
PCR	-	project completion report
PMU	-	project management unit
PPP	-	public–private partnership
PSM	-	public sector management
PVR	-	project completion report validation report
SDG	-	Sustainable Development Goal
SDP	-	Strategic Development Plan
SERD	-	Southeast Asia Department
SIDS	-	small island developing states
SMASA	-	Serviços Municipais Água, Saneamento, e Ambiente
TA	-	technical assistance
TCR	-	technical assistance completion report
TVET	-	technical and vocational education and training
UMIC	-	upper middle-income country
UNDP	-	United Nation Development Programme
WTO	-	World Trade Organization
WUS	-	water and other urban infrastructure and services

Contents

Acknowledgments	vii
Executive Summary	ix
Chapter 1: Rationale and Context	1
A. Validation Purpose and Rationale	1
B. Scope, Methods and Data, and Limitations	1
C. Country Context	2
D. Impacts of COVID-19	8
E. Country Partnership Strategy and ADB Portfolio	9
Chapter 2: Assessment of the Timor-Leste Country Program	13
A. Relevance	13
B. Effectiveness	23
C. Efficiency	29
D. Sustainability	34
E. Development Impacts	37
F. ADB and Borrower Performance	41
G. Quality of the Country Partnership Strategy Final Review	42
Chapter 3: Conclusion, Lessons, Issues, and Recommendations	43
A. Lessons	43
B. Issues	44
C. Recommendations to ADB	45
Appendixes	47
1. ADB Country Portfolio for Timor-Leste During the Country Partnership Strategy Final Review Period, 2016–2020	48
2. Portfolio Performance Indicators	53
3. Self-Assessments of Completed Projects	55
4. Linked Document	56

Acknowledgments

This validation report is a product of the Independent Evaluation Department (IED) of the Asian Development Bank (ADB). The validation was led by Tomoo Ueda (up to 18 October 2021), with team members Michelle Angieline Dantayana and Ma. Patricia Lim. The team was supported by Ganesh Rauniyar, Zofimo Corbafo. Alexis Arthur Garcia and Elizabeth Lat assisted in the portfolio data collection and analysis. The report benefited from the overall guidance of IED Director General, Marvin Taylor-Dormond (up to 15 October 2021), Deputy Director General Sona Shrestha, and Director Joanne Asquith.

Valuable comments for the draft report were received from Royston Brockman (external peer reviewer); Hyun Son and Ari Perdana were the commenters within IED.

The team is grateful to ADB staff at headquarters and the Timor-Leste Resident Mission, officials from the Government of Timor-Leste, and other stakeholders for the useful discussions and inputs provided during the validation process.

IED retains full responsibility for this report.

Executive Summary

This document is a validation by the Independent Evaluation Department (IED) of the Asian Development Bank (ADB) Timor-Leste country partnership strategy final review (CPSFR), 2016–2020 prepared by the ADB Southeast Asia Department (SERD). The validation drew from relevant documents and conducted virtual interviews with ADB staff, government officials, and other stakeholders from February to April 2021 due to travel restrictions caused by the coronavirus (COVID-19) pandemic. The validation followed ADB's Guidelines for the Preparation of Country Assistance Program Evaluations and Country Partnership Strategy Final Review Validations (CPSFRV) and assesses ADB performance against both sector and thematic priorities.

Context

Timor-Leste is a fragile, lower middle-income, small island developing state (SIDS). It is one of 11 ADB member countries identified as having Fragile and Conflict Affected Situations (FCAS) based on ADB's 2020 country performance assessments. It is eligible to borrow from ADB's ordinary capital resources as well as from concessional ordinary capital resources. The population of Timor-Leste was estimated to be 1.32 million in 2020, and it is expected to reach 1.45 million by 2025.

Fluctuations in economic growth reflect Timor Leste's narrow economic base and heavy dependence on oil exports. Petroleum revenues account for nearly 33% of gross domestic product (GDP) on average and a large share of government revenues. However, oil fields are expected to cease production as early as 2023 putting future public revenues at risk unless new oil fields are brought into operation. GDP is estimated to have contracted in 2020 due to the COVID-19 pandemic. While living standards have improved in the relatively short time since independence, progress has been uneven and malnutrition, particularly among children under 5 years of age, has remained high.

Seventy percent of the population depend on subsistence agriculture. Although offshore oil and gas reserves are the primary source of government

revenues, there are no production or processing facilities on land and hence job creation in this sector is limited. Most of the population relies on subsistence farming for their livelihoods, only 31% of the working-age population is formally employed, and youth unemployment is high. Agricultural productivity is low, however, due to poor access to quality inputs, high post-harvest losses, lack of processing facilities, and limited market access. Gender inequities persist, especially in relation to land ownership amongst other things. The diversification of the economy, from public to private and from petroleum to other products and services, remains a key challenge.

Institutional fragility and vulnerability to natural hazards remain high. Timor-Leste has a narrow asset base, mainly resource extraction, agriculture, and tourism, which is highly vulnerable to international market shocks and natural hazards. Exposure to natural hazards and the impacts of climate change threatens lives and livelihoods. They have led to migration and internal displacement, and strained state capacity, hampered service provision.

Government Development Plans

Timor-Leste aspires to achieve upper middle-income country (UMIC) status by 2030. It also aims to attain full Association of Southeast Asian Nations (ASEAN) and World Trade Organization (WTO) memberships. The country's Strategic Development Plan (SDP) has been fully supported by successive governments and aligned with the Sustainable Development Goals. However, the pace of development has been slower than anticipated and ASEAN membership has not yet been reached. The SDP aims to develop core infrastructure, improve human resources, strengthen society, and encourage the growth of jobs in the private sector, especially in agriculture, tourism, and downstream industries in the oil and gas sector.

Impact of COVID-19 Pandemic

The COVID-19 crisis has magnified vulnerabilities.

In the first half of 2020, GDP was estimated to have fallen by 6.8% and exports of coffee—the main non-petroleum commodity exported—fell by 90%. Political instability resulted in the rejection of the budget by Parliament in early 2020. This affected the implementation of infrastructure projects and disrupted economic activities. Temporary relief measures were adopted until a new government was formed, and the budget was eventually approved in October 2020. While the government's response to the pandemic was swift, the country experienced a second wave of COVID-19 in April 2021, as well as flooding in Dili and other parts of the country. Since then, Timor-Leste has been under a state of emergency.

ADB Objectives and Program

ADB's CPS, 2016–2020, aimed at supporting economic growth and diversification. The CPS operational priorities included scaling up infrastructure investment, and delivering services with improved efficiency, cost recovery, and sustainable operation and maintenance (O&M) in partnership with the government and other development partners. Emphasis was on ensuring fiscal sustainability, climate proofing new infrastructure, and increased use of renewable energy in achieving environmental sustainability. The CPS looked to address skills shortages and expand employment opportunities for Timorese citizens. It aimed to diversify the economy through targeted knowledge to improve the enabling business environment, expand access to financial services, and strengthen linkages with regional and global markets.

The active portfolio over the review period was \$482 million, including \$32.7 million in cofinancing. It included 11 loans and grants and 19 technical assistance (TA) projects. The portfolio included operations approved during the CPS review period and those carried over from previous CPS. Timor-Leste was transferred to Southeast Asia Department (SERD) in October 2019 from the Pacific Department.

The transport sector dominated the program portfolio. Under the 2011 Public Debt Law, the country can borrow from external agencies only for infrastructure development, although needs in the social and agricultural sectors are large. All approved loans during the evaluation period were

for transport. Three loans in water and other urban infrastructure and services (WUS) and a grant for education were approved before the current CPS period. Transport sector accounted for 87.2% of total assistance, WUS 7.4%, education (2.7%), agriculture, natural resources, and rural development (ANR, 1.2%) and other sectors i.e., finance, industry and trade, and public sector management (PSM), 1.5%. Over the CPS period, ADB approved 4 loans and grants, and 11 TA projects with combined financing of \$130.3 million, including \$10 million in cofinancing. The focus on transport contributed to improving connectivity but full functioning of the road maintenance fund still needs additional time and stronger commitment.

Performance Assessment

On relevance, the CPS, 2016–2020, was aligned with the government's SDP but investment was uneven across the strategy's three pillars. The CPS's alignment with the government's SDP was largely in infrastructure development, education, and regional cooperation and integration. However, the CPS was heavily focused on inclusive and sustainable growth (pillar 1), with 94% of the portfolio in transport and urban water projects. The other two pillars, improving human capital (pillar 2) and economic diversification (pillar 3), were not supported adequately enough to meet their objectives. ADB's TA supported capacity development and preparations for ASEAN and WTO membership.

The CPS, 2016–2020 had few features that addressed fragility. Timor-Leste's FCAS and SIDS issues were featured with reference points to many of the Pacific small island states. Three of the fragility characteristics—weak governance, ineffective public administration and the rule of law, and vulnerability to economic shocks and natural hazards were acknowledged in the CPS county context, but the sector focus on transport, and other projects selected during the CPS period, did not have strong design features or actions for addressing fragility concerns.

The CPS results framework indicators did not align with the program. Some indicators in education, transport and WUS, were directly linked to ADB projects. However, others were macro-level indicators with little relevance to ADB's portfolio.

Sector-level indicators, including urban sanitation access, and climate resilience were not always relevant to ADB assistance, and could have been more carefully chosen. There were no gender-related indicators despite the CPS's strong focus on gender equity and mainstreaming. The results framework was not adjusted to reflect the postponement of many projects, including in the energy sector.

ADB's program in Timor-Leste mainly covered the transport sector. The previous CPS focused on the water sector, but the 2016–2020 portfolio shifted to transport. Improved connectivity was one of the government's development priorities and this focused on road subsector development to strengthen cross-border trade and improve transit services. However, ADB support for connectivity reduced its focus on other sectors, particularly ANR. Notwithstanding some progress on climate-proofing roads, O&M, contract management, domestic contractors' capacity, and institutional and policy reforms, continue to be major challenges in the transport sector. In terms of cross-cutting issues, the validation found strong relevance in knowledge, partnerships, governance and capacity development, and gender, but less in private sector development and environmental sustainability. There was limited evidence on how ADB considered fragility in strategy and project designs. In non-infrastructure sectors, TA projects provided good capacity needs assessments of government agencies, with measurable progress indicators and time-bound milestones. On balance, these contributed to a positive rating in the cross-cutting thematic areas and hence the validation assesses the Timor-Leste program, 2016–2020 *relevant* but at the lower end of the scale.

On effectiveness, the ADB program in Timor-Leste did not result in the outcomes envisaged in the CPS. The achievements fell short of the targets even in the transport and WUS sectors, which dominated the program. Inadequate O&M and weak climate-proofing of infrastructure resulted in less than satisfactory infrastructure quality. In technical education, only 17% of the trained mid-level automotive and construction graduates found employment within 3 months of graduation, well below the 65% target. Performance of sector projects in ANR, energy, finance, industry, and trade, and PSM were assessed effective, but

together they represented less than 6% of the total portfolio. The less than effective assessment of transport and urban water interventions contributed most to the validation's overall rating of *less than effective*.

In terms of efficiency, implementation delays and cost overruns were common and impacted the economic internal rates of return. Contract awards and disbursement ratios were slightly above the average for FCAS. However, all projects had implementation delays that were attributed to the limited capacity for bidding and awarding contracts and project implementation. There was also a lack of understanding in government agencies of the need to adopt ADB's social and environmental safeguards. The economic internal rate return computations for completed projects had methodological shortcomings. The validation rates the program performance *less than efficient*.

On sustainability, the required investment in infrastructure O&M was lacking. The government's budget allocation for road maintenance was far below what was needed. Poor construction quality has exacerbated this issue, and some newly completed roads require major rehabilitation. In urban water non-revenue water was high and tariff collection low. At the sector level, transport, WUS, and education were assessed less than likely sustainable while other sectors were rated likely sustainable. Overall, the country program is assessed *less than likely sustainable*.

In terms of development impacts, ADB's support helped preparations for Timor-Leste's ASEAN accession. However, given the protracted process and time required to complete the full membership requirements, the country has not yet achieved membership. With ASEAN and WTO memberships, the country expects to realize substantial trade and investment dividends.

Investment in road rehabilitation improved connectivity but challenges remain. Although connectivity improved, the travel times between Dili and the district capitals remained 4–9 hours in 2020, against a target of 2.5 hours. This was because of the challenging geotechnical conditions of the roads and their vulnerability to adverse weather conditions. Critical knowledge related to slope retention, drainage systems, and deployment of bioengineering techniques was not

fully embraced by the government because of its limited staff, expertise, and budget allocations. On the cross-cutting thematic areas, performance in three of the six drivers of change (governance, partnership, gender) was *satisfactory*, but in the other three (knowledge, private sector development and environmental sustainability) it was *less than satisfactory*. The validation assesses the program’s development impacts *less than satisfactory*.

Overall CPS performance

The country program was aligned with the government’s priority to expand transport connectivity focused on the national highway network. Transport connectivity improved although travel times remain unchanged. Water sector projects approved during the previous CPS periods did not meet key targets for reducing non-revenue water and increasing tariff collection. Support for technical education achieved its female student program enrollment targets, but not targets for actual employment. The CPS offered little strategic guidance in terms of diversifying the country’s economic base, or supporting livelihoods, particularly in the ANR sector. The validation did not find evidence that ADB had tailored its approach to Timor-Leste’s special circumstances nor that it understood the risks of working in complex and fragile contexts. However, in the non-infrastructure sector, such as in finance, PSM, and industry and trade, some TAs contributed to government capacity building.

Based on a combination of sector and thematic performance, overall program performance is assessed *less than successful*, confirming the CPSFR rating. The self-evaluation had higher ratings for effectiveness, and development impacts, but the overall rating was also *less than successful*. The self-evaluation did not include an assessment of cross-cutting thematic issues, which also contributed to the gap between the self-evaluation and IED’s validation on development impacts.

Lessons

A strong, non-controversial national goal can help build political commitment and continuity which is important for economic growth. There has been

strong ownership of the SDP by all major political parties, despite their differences. This has paved the way for Timor-Leste to pursue its aspiration to become a full member of ASEAN and the WTO. ADB has supported preparations for ASEAN membership and has primarily focused on supporting Timor-Leste to meet the requirements of the ASEAN Economic Community. It has also supported the government’s drive for WTO accession.

Capacity development and institutional support for legal and regulatory reforms are critical for economic, political, and private sector development. The needs and priorities of Timor-Leste as a SIDS and FCAS are unique and require ADB to provide long-term capacity development support in key areas. ADB support for Timor-Leste’s ASEAN and WTO accession demonstrates that TA can be used strategically to build capacity in critical areas such as state building and service delivery. However, change takes time, patience, and perseverance, particularly since Timor-Leste is a new nation emerging from a long struggle for independence.

A single sector focus on the rehabilitation of national highways for improved transport connectivity can be combined with opportunities for achieving broader development outcomes. Investment in roads has the potential to increase cross-border trade, thereby benefitting the national economy, as well as intra-regional movement of people and goods within the country. Had there been adequate emphasis on the quality of road rehabilitated with required provision for maintenance and road safety, benefits could have been visible in terms of reduction in travel time and transport costs as well as accidents and fatalities on these roads resulting in improved rural-urban linkages and economic benefits to the wider community including rural livelihoods and poverty reduction.

Issues

Timor-Leste’s economy has not diversified. Economic diversification is essential in view of the country’s depleting oil revenues, inadequate infrastructure, low productive capacity, and youth unemployment. More than 70% of Timor-Leste’s population relies on subsistence agriculture and has not fully benefitted from the country’s oil

wealth. More investments in physical and social infrastructure and human capital are necessary. The private sector can be a major contributor to economic diversification by creating sustainable jobs and livelihoods. The legal restriction on borrowing only for infrastructure needs relaxing.

Timor-Leste faces structural challenges that limit growth, constrain public service delivery, and hinder private sector development. Limited human resources and weak public financial management adversely impact the delivery of quality public services. Building state capacity for development planning and the delivery of essential public services continues to be a major challenge. Public service provision is characterized by poor budget execution, inadequate oversight of procurement and contract management, limited performance monitoring, and fragmentation in the management of public investments. The legal and regulatory framework for private sector participation is underdeveloped and does not provide an appropriate enabling environment.

Timor-Leste's path toward full ASEAN membership has been protracted. The government has invested political capital in securing ASEAN membership, which remains a national goal.

The quality of infrastructure is unsatisfactory. Building infrastructure alone is not going to resolve Timor-Leste's economic development challenges; it needs to be sustainable, climate resilient, aligned with Sustainable Development Goal 9 to build sustainable infrastructure, and linked to wider issues concerning livelihoods and rural development. Poor quality infrastructure and inadequate funding for operations and maintenance have shortened the economic life of assets. Although climate-proofing was a feature of road designs, it was not implemented in most cases. Given the challenging climatic and geotechnic environment, the quality of infrastructure needs to withstand the impacts of climate change and natural hazards. However, this implies higher unit construction costs and larger allocations for operations and maintenance. Political differences in the ruling coalition have constrained the establishment of a Road Maintenance Fund, and the allocation of resources from the Petroleum Fund for maintenance.

The formal private sector has not developed sufficiently in Timor-Leste. Beyond the oil and gas sector, the private sector has only made a limited contribution for growth due to the lack of an enabling environment and a weak investment climate.

ADB's attention to fragility and the evolving context in Timor-Leste was not articulated in planning documents. Under the 2016 CPS guideline that was effective during this period, COBPs were the tool to update the evolving country context and any changes in the country program's strategic focus. COBPs from 2017 to 2020 did not refer to the evolving FCAS context, political, economic, or social risks that may have adversely impacted the portfolio, or the need for additional ADB attention and support. COBPs only stated changes in the pipeline of new projects and TA.

Timor Leste is highly vulnerable to natural hazards. Climate-induced hazards, such as floods, landslides, and drought, frequently impact families' livelihoods and damage rural infrastructure leaving citizens isolated and without basic services.

As with other FCAS and SIDS, the evidence available for the evaluation was thin. Of the 11 active sovereign loans and grants, only four (including one education project with a draft completion report) had been completed and self-assessed as of September 2021, and seven were ongoing. Two of the completed project completion reports had been validated by IED. Of the 19 active TA projects, 8 were ongoing and 11 had been completed, of which 8 had TA completion reports. Seven of the eight ongoing sovereign projects, and six of nine ongoing TA projects were considered sufficiently mature for assessment by this validation.

Recommendations

This validation report offers five recommendations to ADB:

Recommendation 1: Enhance efforts with development partners to help diversify the economy and create employment by increasing ADB support for agriculture and rural livelihoods, ecotourism, and other parts of the non-oil

economy (e.g., untapped renewable energy sectors). As most of the population depend on subsistence farming, ADB should focus on labor-intensive agricultural value chain development by promoting high-value crops, while ensuring climate change and resilience building are incorporated in project designs. Ecotourism is also an area which has the potential to provide employment opportunities.

Recommendation 2: Accelerate support to satisfy the requirements for Timor-Leste to join ASEAN and the WTO. ADB has been supporting Timor-Leste in these efforts since 2013, through TA projects to support preparations for Timor-Leste's full membership in ASEAN. Timor-Leste could derive significant dividends by joining these bodies and ADB's focus should be on helping the country fulfill the unfinished agenda associated with the ASEAN Economic Community pillar.

Recommendation 3: Ensure regular maintenance of highway network and feeder roads that have been constructed over the last decade. High-quality road networks are vital to sustain rural economic growth. ADB should focus on supporting the establishment and operation of the Road Maintenance Fund, ensuring compliance with environmental and social safeguards, and improving road safety.

As Timor-Leste is a small FCAS country, greater efforts should be made to link infrastructure investments with poverty reduction, livelihood, and sustainable development outcomes in line with ADB's Strategy 2030 operational priorities.

Recommendation 4: Provide additional capacity development support with clearer institutional goals and milestones in critical areas in close consultation with the government and development partners. ADB should build on its previous support by providing long-term institutional capacity building to critical areas of policy reform and service delivery. In the short term, ADB needs to ensure future training programs, provided through TA projects, have clear progress monitoring indicators to assess improvements in human resources gaps and project implementation performance.

Recommendation 5: Support the government in creating an enabling environment for private sector development. ADB needs to prepare and approve an operational framework for Timor-Leste's private sector participation.

Rationale and Context

1. This report aims to (i) validate the findings of the final review and assessments of the Timor-Leste country partnership strategy (CPS), 2016–2020; (ii) identify lessons and recommendations for Asian Development Bank’s (ADB) future operations; and (iii) contribute to the formulation of the forthcoming CPS, 2023–2027 for Timor-Leste.¹

A. Validation Purpose and Rationale

2. ADB is preparing a new CPS for Timor-Leste covering 2023–2027, which will be aligned with the Government of Timor-Leste’s Strategic Development Plan (SDP), 2011–2030.² To support the new CPS, this evaluation assesses the objectives of CPS, 2016–2020 against project approvals, implementation, and portfolio performance.

B. Scope, Methods and Data, and Limitations

1. Scope of Validation

3. The validation covers all ADB loans, grants, and technical assistance (TA) in Timor-Leste from 2016 to 2020, the validation period. It includes projects approved during the CPS period as well as those carried over from previous programs but completed or ongoing during 2016–2020. A list of the ongoing and completed loans, grants, nonsovereign operations, and TA projects is provided in Appendix 1.

2. Methods and Data

4. The validation adopted a mixed method approach using a combination of qualitative and quantitative methods. Qualitative methods included key informant interviews with senior government personnel, ADB operations staff based at the ADB headquarters and the Timor-Leste Resident Mission, representatives of civil society organizations, and staff from key development partners, including the Japan International Cooperation Agency (JICA) and the World Bank. All interviews were held virtually from 16 February to 6 April 2021 because of travel restrictions resulting from the coronavirus disease (COVID-19) pandemic. The quantitative aspect of the validation was the analysis of ADB’s portfolio performance data for Timor-Leste. The validation also reviewed project and TA completion report validation reports prepared by the Independent Evaluation Department (IED), project completion reports (PCRs), reports and recommendations of the President, project data summaries posted on ADB websites, and other related documents. The validation followed ADB’s guidelines³ and evaluated relevance, effectiveness, efficiency, sustainability, and development impacts. The performance of ongoing projects was assessed according to progress as of July 2020 and the insights provided in key informant interviews.

¹ The final review was received by the Independent Evaluation Department (IED) from the Southeast Asia Department in December 2020. The final review assessed ADB’s operations less than successful. It found the program relevant to Timor-Leste, effective in achieving results, less than likely to be sustainable or to attain satisfactory development impacts, and less than efficient.

² Government of Timor-Leste. 2011. *Strategic Development Plan 2011–2030*. East Timor. Available: <https://www.timorleste.tl/documents/timor-leste-strategic-development-plan-2011-2030>

³ IED. 2015. *Guidelines for the Preparation of Country Assistance Program Evaluations and Country Partnership Strategy Final Review Validations*. Manila: ADB.

Supporting information and data on the drivers of change and on Timor-Leste's fragility and its status as a small island developing state (SIDS) were also reviewed.

3. Limitations

5. Due to the ongoing COVID-19 pandemic and based on guidance from the Timor-Leste Resident Mission on the local conditions, the validation was conducted without the usual country mission. However, a local team member collected evidence in Dili and contacted government officials and other development partners. In addition, IED interviewed ADB staff and government officials involved in almost all projects and TA projects during the CPS period.

C. Country Context

6. **Timor-Leste is a lower middle-income country identified as fragile and conflict affected.** It is classified by ADB as a Group B ordinary capital resources (OCR) country, meaning it is eligible to borrow a blend of regular and concessional OCR. It is one of eight ADB member countries that is categorized as both fragile and conflict-affected situations (FCAS) and a small island developing state (SIDS). In 2020, the population was estimated at 1.32 million and it is expected to reach 1.45 million by 2025.⁴ Timor-Leste aspires to attain upper middle-income country (UMIC) status by 2030. Since independence in 1999, the country has faced challenges in rebuilding infrastructure, strengthening the civil administration and generating employment. This is exacerbated by geographical remoteness, and a narrow asset base, including resource extraction, agriculture, and tourism, and exposure to market shocks.

7. **The country is highly susceptible to various hazards.** Timor-Leste is one of the world's most vulnerable countries to natural hazards, including earthquakes, tsunamis, cyclones, and heavy rains, and has limited infrastructure and inadequate social safety nets.⁵ The exposure to natural hazards and the impact of climate change threatens lives and livelihoods, induce migration and internal displacement, strain state capacity, constrain service provision, and can lead to conflicts over scarce land and resources. Building resilience into development is a major challenge. Over 55% of villages⁶ are susceptible to climate change risks.⁷ An estimated 44% of the country is steeply sloping land prone to soil erosion when rainfall is heavy.⁸ Climate-induced hazards, such as floods, landslides, and drought, frequently impact families' livelihoods and damage rural infrastructure leaving inhabitants without basic services and often isolated.⁹ For instance, the flooding in April this year is reported to have affected about 33,000 households, and damage to households and critical infrastructure was estimated at \$225 million.¹⁰ According to the Pacific-Australia Climate Change Science and Adaptation Planning Program, satellite data indicate sea level rises near Timor-Leste of about 9 millimeters (mm) per year since 1993—higher than the global average of 2.8–3.6 mm per year.

8. **About 85% of government expenditure is financed from the country's Petroleum Fund.**¹¹ Timor-Leste is one of the most oil-dependent countries in the world. Available data indicates that oil rents (difference between the value of crude oil production at world prices and total costs of production) accounted for 24.4% of gross domestic product (GDP) in 2015 with decline in 2016 and 2018 before

⁴ [World Population Review. Timor-Leste Population](#). Annual population growth is estimated to have been around 1.97% over the last 5 years.

⁵ Climate Links. [Climate Risk Profile: Timor-Leste](#) (accessed on 6 March 2021).

⁶ Timor-Leste consists of 13 municipalities, 65 administrative posts (former subdistricts), 452 villages and 2,233 sub-villages.

⁷ Water Aid. [What Climate Change Means to Timor-Leste](#) (accessed on 6 March 2021).

⁸ World Bank. [Climate Change Knowledge Portal Timor-Leste](#) (accessed on 6 March 2021).

⁹ UNDP. [Safeguarding rural communities and their physical assets from climate-induced disasters in Timor-Leste](#) (accessed on 6 March 2021).

¹⁰ ADB. 2021. *Asian Development Outlook 2021 Update: Transforming Agriculture in Asia*. Manila.

¹¹ The Petroleum Fund was established in 2005 with the unanimous approval of the National Parliament to serve as a repository for all petroleum revenues and to preserve the value of Timor-Leste's future wealth.

reversing the trend to 15.3% in 2018 and 16.3% in 2019.¹² Oil accounts for over 90% of government revenues on average and by its nature is sensitive to fluctuations in international market prices. Shortfall in government revenues is met by increasing the volume of oil exports.¹³ Offshore oil and gas resources have been the primary sources of government revenues but have not created jobs because of the lack of production facilities in the country. Gas is piped to Australia for processing. In 2019, total government revenue was \$947.9 million, 80% funded by petroleum revenue,¹⁴ and 20% from domestic sources.¹⁵ The total revenue is expected to have declined to \$478.5 million in 2020—64% from petroleum and 36% from domestic sources.

9. **Since its independence, Timor-Leste has made significant progress in improving living standards but progress in reducing poverty has been uneven.** The country's Human Development Index ranking fell from 129 in 2000 to 132 in 2016, while life expectancy at birth increased from 59.0 years in 2000 to 68.7 in 2016 and to 69.5 in 2019.¹⁶ Expected years of schooling increased from 9.8 in 2000 to 12.4 in 2016 and 12.6 in 2019. The country made significant progress in reducing infant mortality (deaths per 1,000 live births) from 90.6 in 2000 to 41.4 in 2019 while the maternal mortality ratio (deaths per 1,000 births) declined from 742 in 2000 to 142 in 2017. While the poverty headcount ratio declined from 50.4% in 2007 to 41.8% in 2014, it is 20 percentage points higher in the western part than in the eastern part of the country.

10. **About 80% of the poor live in rural areas with limited employment opportunities.**¹⁷ The incidence of poverty in rural areas was 47% compared to 28% in the cities.¹⁸ Poverty is a key driver of migration to cities and overseas, especially among younger people. These regional and urban-rural disparities in living conditions is a source of social tension. Timor-Leste has low employment rates, with only 31% of the working-age population and 21% of 15- to 24- year-olds currently working. Every year, around 18,000 youth enter the workforce and many are unable to find employment.¹⁹ Furthermore, progress in reducing unemployment is likely to have stalled since 2014 because of political instability—experienced intermittently in 2017 and 2018, and the COVID-19 pandemic.²⁰ Figure 1 shows trends in Timor-Leste's Human Development Index components from 2000 to 2019. In 2019, Timor-Leste was classified in the medium human development category.

11. **About 70% of Timor-Leste's population depends on agriculture, mostly through subsistence farming.** Subsistence family is widely practiced as many farmers lack access to technologies and good practices for sustainable and efficient crop production. Limited access to quality inputs, low yields, high post-harvest losses, and limited market access are other constraints on agricultural development. Gender inequities are also evident;²¹ for example, female farmers produce on average 15% less per hectare than male farmers. Adjusting for farm size, the gap becomes 31%. This is similar across geographic regions. The gap is generally explained by gender differences in the factors of production, especially female

¹² World Bank. [Timor-Leste: Oil rents \(%of GDP\)](#) (access on 6 March 2021).

¹³ [Moody's Analytics: Timor-Leste Economic Indicators](#) (accessed on 6 March 2021).

¹⁴ It does not include return on investment as stated by the Ministry of Finance in the Budget Overview.

¹⁵ Ministry of Finance 2020. *State Budget 2021: Budget Overview – Book 1*, Dili. Domestic sources include tax revenues, fees and charges, interest on cash balances, and revenues from autonomous agencies and special administrative regions. https://www.mof.gov.tl/wp-content/uploads/2020/10/BB1_Eng.pdf

¹⁶ UNDP. Human Development Report 2020 (accessed on 7 May 2021).

¹⁷ World Bank. 2019. *Technical Report on Timor-Leste Poverty: Developing Timor-Leste Gender-Disaggregated Poverty Small Area Estimates*. Washington, D.C. <https://documents1.worldbank.org/curated/en/486731560917670303/pdf/Timor-Leste-Poverty-Developing-Gender-Disaggregated-Poverty-Small-Area-Estimates-Technical-Report.pdf>.

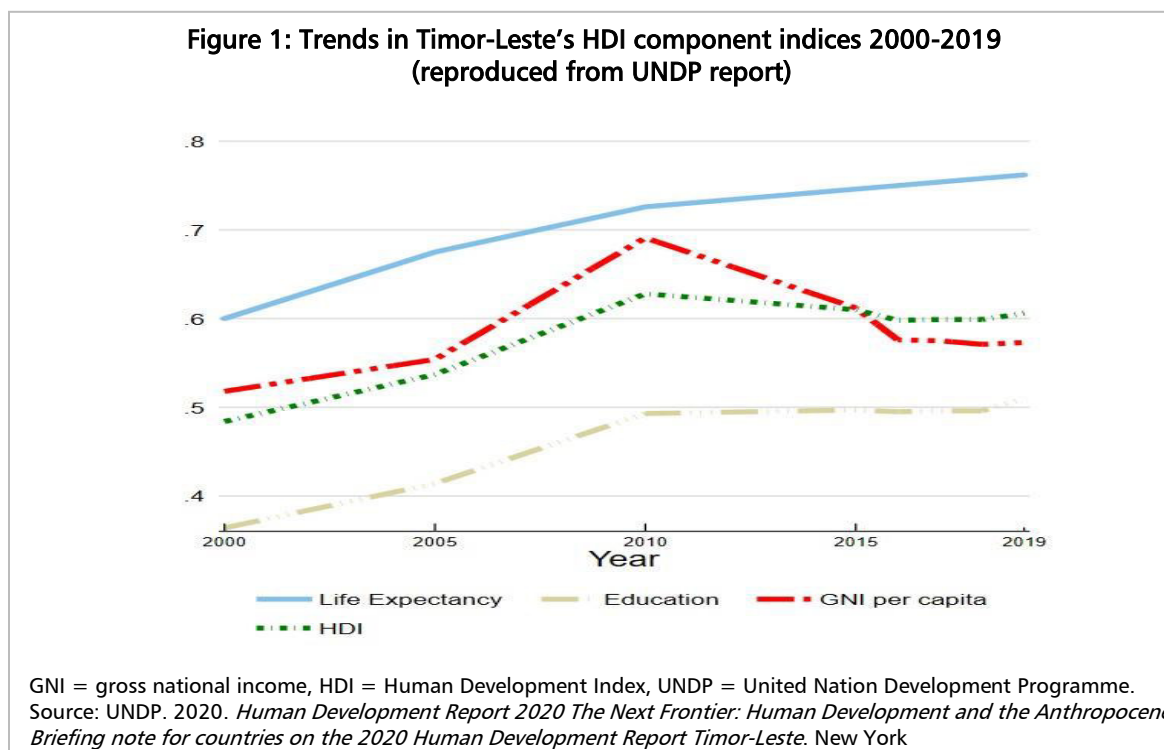
¹⁸ Knoema. [Timor-Leste - Poverty headcount ratio at rural poverty line as a share of rural population](#); Knoema. [Timor-Leste – Poverty headcount ratio at urban poverty line as a share of urban population](#). Knoema. [Timor-Leste – Poverty Headcount Ratio at Urban Poverty Line as a Share of Urban Population](#). (latest available data 2014)

¹⁹ United Nations. 2018. *Leaving No Youth Behind in Timor-Leste: Young People Neither in Education, Employment or Training*, Policy Brief No. 3, Dili.

²⁰ World Bank Group. 2020. *Timor-Leste Economic Report: Towards a Sustained Recovery*, Washington, D.C.

²¹ World Bank. 2018. *Women Farmers in Timor-Leste: Bridging the Gender Gap in Agricultural Productivity*, Policy Brief Issue 4, Washington, D.C.

farmers' lack of access to hired labor and farming tools, lower literacy, and limited involvement in cash crop production and farmers' groups.



12. **Economic growth from 2016 to 2020 was volatile and performance fluctuated widely.** GDP increased from \$367 million in 2000 to \$1.6 billion in 2018,²² and was estimated to be \$2 billion in 2019.²³ The annual GDP growth rate averaged 2.2% per year from 2001–2005, 7.4%, 2006–2010 and 4.3%, 2011–2015. In contrast, growth was 0.6% during 2016–2019. GDP per capita increased from \$415 in 2000 to \$1,335 in 2015 and \$1,561 in 2019 (Table 1). However, the 5-year average growth rate declined between 2000 and 2019. Gross national income per capita measured by purchasing power parity increased from \$3,077 in 2000 to \$4,529 in 2016 but fell to \$4,440 in 2019. The share of agriculture, forestry and fisheries in GDP gradually declined from 17% in 2016 to 14.8% in 2019 (footnote 23), although it remains a major source of livelihood for nearly three-quarters of the population. Similarly, the share of industries and construction also declined from 19.1% of GDP in 2016 to 16.5% in 2018. For the first time, Timor-Leste included oil revenue in its GDP in 2019, and as a result, the share of industry and construction increased to 29.4% of GDP in 2019 (footnote 22). The share of services in 2016 was 63.9% of GDP, but by 2019 this had declined to 56.4% (footnote 23). GDP growth is estimated to have contracted by 8.5% in 2020 because of the COVID-19 pandemic, but is expected to grow to 2.2% in 2021 (footnote 10).

²² ADB. 2020. *Key Indicators for Asia and the Pacific*. Manila.

²³ World Bank. 2020. World Development Indicators (accessed on 7 May 2021).

Table 1: Timor-Leste Gross Domestic Product per Capita and Growth Rate, 2000–2019

Year	GDP Per Capita (\$)	5-year Growth Rate (%)
2000	415	...
2005	465	12.0
2010	806	73.3
2015	1,335	65.6
2019	1,561	12.1

... = not available, GDP = gross domestic product (current price).

Note: The growth rate from 2015 to 2019 is for 4 years.

Source: World Bank.

Data:

<https://data.worldbank.org/indicator/SI.POV.UMIC?locations=MV> (accessed February 2021).

13. **Public service provision is characterized by poor budget execution, inadequate oversight of procurement and contract management, limited performance monitoring.** Total public expenditure²⁴ was expected to increase from \$1.4 billion in 2019 to \$1.7 billion in 2020, and to \$2.1 billion in 2021 (footnote 23). However, limited capacity for procurement and infrastructure development has led to budget underspending (footnote 23). Capital and development expenditure in 2020 declined by almost 35% from \$237.0 million in 2019 to \$153.4 million, partly because of the COVID-19 pandemic. Forecasts are for budgets of \$403.8 million in 2021, \$901.6 million in 2022, and \$787.8 million in 2021, 2022, and 2023, respectively. International Monetary Fund (IMF) projections indicate that public external debt is projected to increase from 5% of GDP in 2018 to 17% in the medium term, and that Petroleum Fund withdrawals will continue to finance fiscal deficits, and the current account will be subject to fluctuations in investment income from the Petroleum Fund (footnote 11).

14. **Domestic revenue accounted for less than 8% of GDP per annum between 2015 and 2019, forcing the government to depend on transfers from the Petroleum Fund.** A World Bank assessment showed that Petroleum Fund withdrawals financed most public spending, but its revenues have declined sharply since 2012.²⁵ To meet its expenditure targets, the government draws the equivalent of 3% of the petroleum wealth (based on an estimated sustainable income²⁶) or some \$547.9 million in 2021. The forecast for 2021 is for total revenues to fall further to \$258.7 million (75% from domestic sources). Petroleum revenues are expected to cease after 2023 unless new oil fields become operational. This implies a further drawdown from the Petroleum Fund and external borrowing. The World Bank notes that the underlying economic policy challenge for Timor-Leste is how best to use its oil and gas wealth to lift the non-oil economy onto a higher growth path and reduce poverty (footnote 23). The prospect of declining income from the sovereign wealth fund requires government plans for economic diversification. Hence, the key challenges facing the economy are to move from an economy dominated by the public sector to one where the private sector plays a much greater role, and from petroleum into other services, due to depleting oil reserves and an expected significant reduction in oil revenues. Government has plans for its next phase of oil and gas development (Greater Sunrise oil fields) stemming from a maritime agreement between Timor-Leste and Australia in 2018, although it will take time to realize revenues from the new oil fields.²⁷ The offshore petroleum production from current sources is

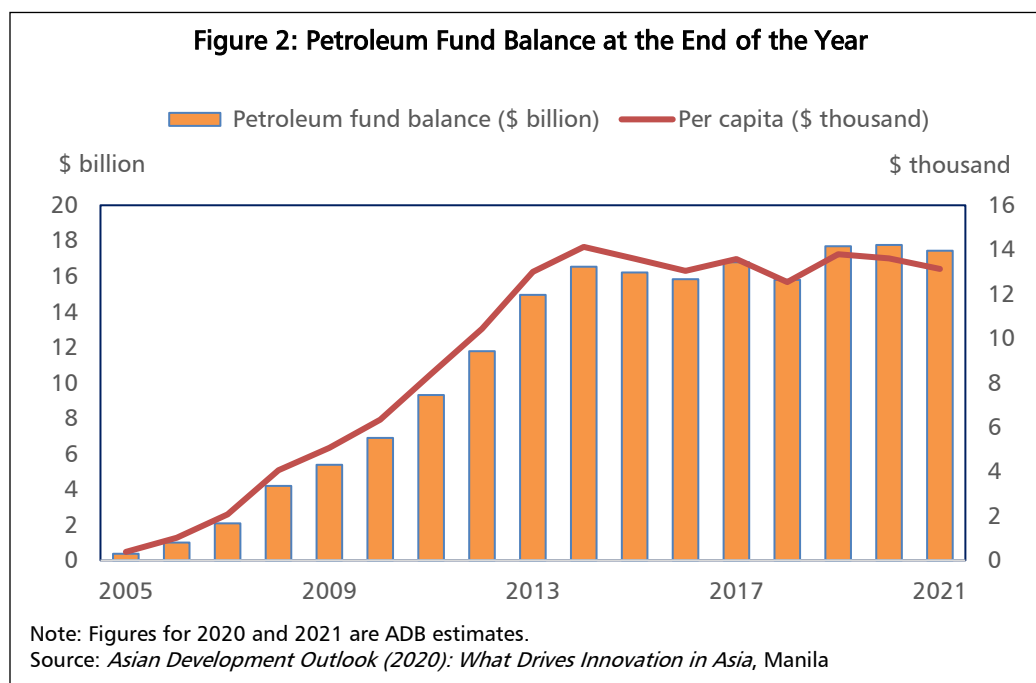
²⁴ Includes government expenditure and commitments from the development partners.

²⁵ World Bank. 2020. *Timor-Lest Economic Report: Towards a Sustained Recovery*, Washington D.C.

²⁶ Estimated sustainable income is the sustainable level of use of petroleum revenue to ensure the continued use of petroleum wealth over the long run which is the Petroleum Fund balance plus the net present value (NPV) of future Petroleum Fund revenues from fields with approved development plans (which excludes the Greater Sunrise Project).

²⁷ The Greater Sunrise fields are located approximately 450 kilometers north-west of Darwin and 150 kilometers south of Timor-Leste. The fields were discovered in 1974 and hold gross (100%) contingent resources (2C) of 5.1 trillion cubic feet of dry gas and 226 million barrels of condensate. Following the establishment of a new maritime boundary treaty between Australian and Timor-Leste in 2019, negotiations between the Governments and the Sunrise Joint Venture on a new Greater Sunrise Production Sharing Contract have been ongoing. The Sunrise Joint Venture remains committed to the development of Greater Sunrise provided there is fiscal and regulatory certainty necessary for commercial development to proceed. <https://www.woodside.com.au/what-we-do/international-developments-marketing-and--exploration/timor-leste>.

expected to end in 2023 and ADB estimates that the revenues from the Petroleum Fund balance will continue to decline (Figure 2).²⁸



15. **Export growth was volatile over the CPS period because of political instability and declining oil prices (Figure 3).** Growth of imports increased in 2017 but declined marginally since then. Exports and imports are projected to increase by 12% and 4% in 2021, respectively, with an expectation that the trade environment will improve.²⁹ The current account deficit peaked in 2016 at 34.6% of GDP but there was a positive balance of 8% in 2019 (Figure 4). The impact of the pandemic increased the deficit to 19.6% in 2020 and it is likely to widen to 27.2% of GDP in 2021 (Figure 5).³⁰ Imports accounted for between 54.5% to 60.5% of GDP.

16. **Timor-Leste is one of 11 countries identified by ADB as having fragile and conflict-affected situations.**³¹ Timor-Leste was recognized as the world's 35th most fragile state in 2015 and 47th in 2020.³² Although the country has improved its ranking over the past 5 years, the level of institutional fragility and vulnerability to natural hazards is still high. Governance and institutional capacity building have not kept pace with the country's development challenges (footnote 9). This is partly because Timor-Leste is remote and has a narrow asset base—mainly resource extraction, agriculture, and tourism—which is highly vulnerable to international market shocks. The hardest hit in any shock will be the rural inhabitants, whose food security will be affected. Timor-Leste is also vulnerable to disaster-related shocks. Gender inequality is seen as both a cause and consequence of the fragility and governance challenges in FCAS and SIDS.

²⁸ ADB. 2020. *Country Partnership Strategy Final Review: Timor-Leste, 2016–2022*. Dili.

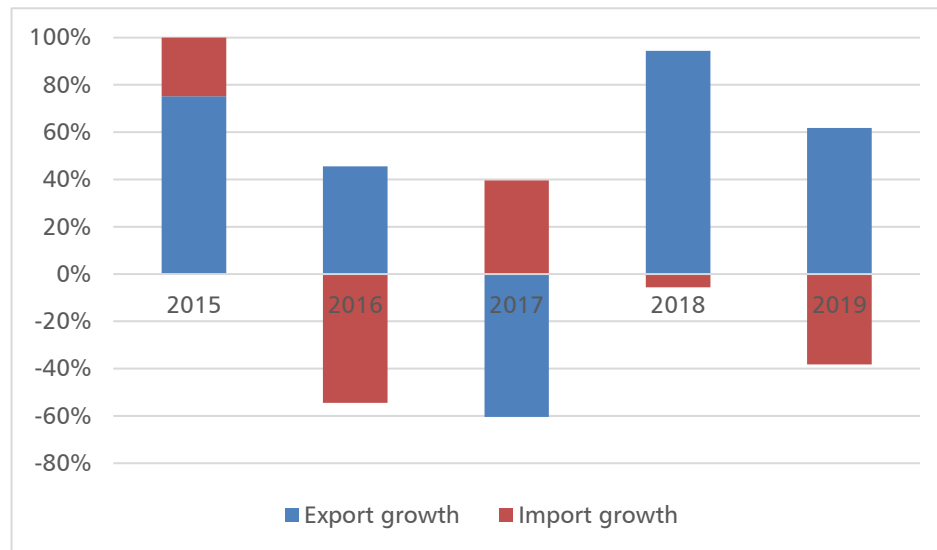
²⁹ World Bank. [Climate Change Knowledge Portal Timor-Leste](#) (accessed on 6 March 2021).

³⁰ ADB. 2021. *Asian Development Outlook 2021 Update: Transforming Agriculture in Asia*. Manila. p199.

³¹ ADB. 2021. *Fragile and Conflict-Affected Situations and Small Island Developing States Approach*. Manila. <https://www.adb.org/documents/fragile-conflict-affected-sids-approach>.

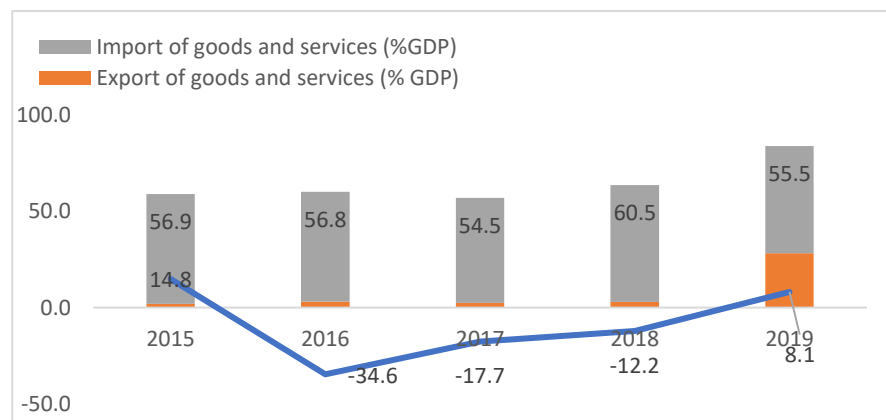
³² Fund for Peace. [Fragile States Index: Country Dashboard](#) (accessed on 6 March 2021).

Figure 3: Annual Export and Import Growth (2015–2019), Timor-Leste



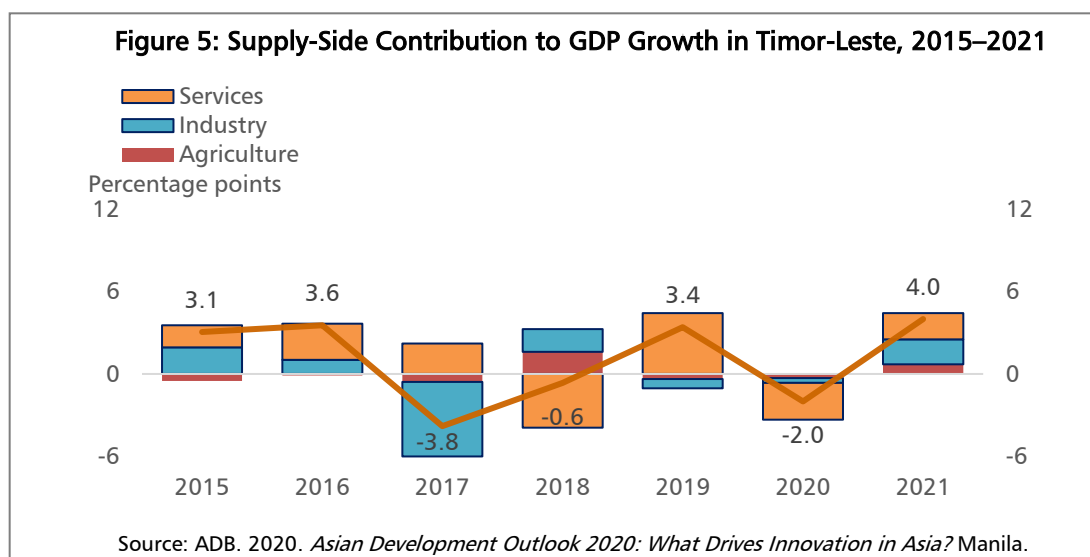
Source: World Bank data portal.

Figure 4: Current Account Balance in Timor-Leste during Country Partnership Strategy Period



GDP = gross domestic product.

Source: ADB. 2020. *Country Partnership Strategy Final Review: Timor-Leste, 2016–2022*. Dili.



17. **The IMF considers Timor-Leste to have a low risk of debt- distress.** Timor-Leste's gross international reserves have remained stable since 2015, above \$16 billion, and they increased to \$18.4 billion in 2019, largely because of growing oil exports (Figure 4). External debt, however, increased three-fold from \$76 million in 2016 to \$228 million in 2019. The debt service ratio as a percentage of exports of goods and services, increased from 0.6% in 2016 to 6.4% in 2019 (Figure 3). However, debt sustainability analysis undertaken by the IMF indicated that Timor-Leste was at a low risk of debt distress and that its risk had even decreased in 2019.³³

18. **The Petroleum Fund, valued at five times the size of GDP, acts as a defense against debt distress.** IMF projections indicate that public external debt will increase from 5% of GDP in 2018 to 17% in the medium term, that Petroleum Fund withdrawals will continue to finance fiscal deficits, and that the current account will be subject to fluctuations in investment income from the Petroleum Fund (footnote 11). Annual domestic revenue accounted for less than 8% of GDP between 2015 and 2019, forcing the government to depend on transfers from the Petroleum Fund.

D. Impacts of COVID-19

19. **The outbreak of the COVID-19 pandemic, which coincided with a period of political instability in Timor-Leste, has taken a heavy toll on the economy.** GDP contracted by 6.8% in the first half of 2020, public expenditure decreased by 7%, exports by 46% and imports by 20%.³⁴ Exports of coffee—the main export commodity and a source of income for some 20% of households—fell by 90%. Service exports dropped by 50%, mainly because of a decrease in travel services. Political instability resulted in the rejection of the budget in early 2020, affecting infrastructure projects and economic activities, instigating temporary relief measures until a new government was in place in 2020, and its budget was approved in October 2020.³⁵ According to the findings of a United Nations rapid socio-economic impact assessment,³⁶ the COVID-19 crisis magnified many of the country's underlying vulnerabilities within the country, including the lack of basic infrastructure, climate hazards, limited access to services and ongoing

³³ IMF. 2019. *2019 Article IV Consultation for the Democratic Republic of Timor-Leste – Staff Report, Country Report No. 19/124*, Washington, D.C.

³⁴ World Bank Group. 2020. *Timor-Leste Economic Report, October 2020: Towards a Sustained Recovery*, Washington, D.C./Dili <https://openknowledge.worldbank.org/bitstream/handle/10986/34748/154239.pdf?sequence=4&isAllowed=y>

³⁵ The National Parliament approved a total amount of \$536.3 million as an extraordinary withdrawal from the Petroleum Fund, with \$219.5 million set aside for an autonomous COVID-19 Fund, coordinated by the Integrated Crisis Management Centre.

³⁶ United Nations Timor-Leste. 2020. *Socio-Economic Impact Assessment of COVID-19 in Timor-Leste*. Dili.

budget and political impasses. COVID-19-related impacts were particularly severe on small-scale farmers, people living in remote areas and urban settlements, and on micro, small and medium-sized enterprises. The pandemic's impacts were exacerbated by climate change, development, and governance factors. Intra-household inequalities have deepened, with regard to unpaid care work, most of which is carried out by women. The poor and vulnerable were among the worst hit by the COVID-19 crisis.

20. **The COVID-19 pandemic continues to dampen economic growth.** After the detection of the country's first COVID-19 case on 21 March 2020, the government's response was swift and managed to limit the total number of infections to 29 with no community transmissions and no deaths at that time (footnote 17). In April 2020, the government announced wide-ranging policy measures designed to (i) strengthen health services; (ii) promote food security and social protection; (iii) boost employment and output; and (iv) provide a fiscal and financial stimulus to support macroeconomic policies.³⁷ The government's Economic Recovery Plan set out immediate and medium-term strategies to combat COVID-19. Its objectives were two-fold: (i) to contain the crisis and sustain the economy, and (ii) to lay the foundation for a national economy that would be more resilient to future shocks and to change the course of development to improve the people's economic well-being.³⁸ A World Bank report (footnote 23) noted that public health measures were crucial in containing the spread of COVID-19, and that the economic response package provided much-needed relief to households and businesses. The report also acknowledged that the impact of COVID-19 on the economy had been significant and would lead to irreversible income losses, unemployment, and company closures, thus increasing poverty. In early March 2021, the identification of new COVID-19 cases forced the government to implement a lockdown in Dili. A state of national emergency until at least 29 September 2021 was declared.³⁹ The pandemic remains a major risk for Timor-Leste's economic growth.

E. Country Partnership Strategy and ADB Portfolio

1. Country Partnership Strategy, 2016–2020

21. **ADB's CPS, 2016–2020 was designed to support economic growth and diversification by removing infrastructure bottlenecks and institutional constraints and investing in human capital.**⁴⁰ The CPS was aligned with Timor-Leste's Strategic Development Plan (SDP), 2011–2030 and the Midterm Review of ADB's Strategy 2020. It had three strategic pillars: (i) more inclusive and sustainable growth, (ii) improved human capital, and (iii) a more diversified and productive economy. These pillars, and a sustainable environment, were also the focus of ADB's Strategy 2020. The CPS's operational priorities included scaling up infrastructure investment, and delivering services with improved efficiency, cost recovery, and sustainable operation and maintenance (O&M) in partnership with the government and other development partners. The CPS stressed the need to ensure fiscal sustainability, climate-proof new infrastructure, and increase the use of renewable energy in order to achieve environmental sustainability. The CPS also aimed to (i) broaden support for education to address skills shortages and expand opportunities for Timorese citizens; and (ii) diversify the economy through targeted knowledge transfer to improve the enabling business environment, expand access to financial services, and strengthen links with regional and global markets. The CPS envisaged ADB support would be delivered in five sectors, but most of the resources for investments were in transport, energy (eventually deferred), and urban services.

³⁷ ADB. 2021. Managing the COVID-19 outbreak in Timor-Leste, A policy brief. <https://reliefweb.int/report/timor-leste/managing-covid-19-outbreak-timor-leste> accessed on 6 March 2021.

³⁸ 8th Constitutional Government. 2020. *Economic Recovery Plan*. Dili.

³⁹ The Council of Ministers met at the Government Palace in Dili and approved the first amendment to the Government Decree No. 21/2021 of 27 August on measures to implement the declaration of the state of emergency made by the Decree of the President of the Republic No. 69/2021, 24 August. The state of emergency covers the entire national territory and is effective until 23:59 on 29 September 2021 (accessed on 29 September 2021). <http://timor-leste.gov.tl/?p=29355&lang=en>

⁴⁰ ADB. 2016. *Country Partnership Strategy: Timor-Leste, 2016–2020*. Manila.

2. Government Development Plans

22. **In 2002, Timor-Leste approved its first 5-year National Development Plan (2002–2007).** The plan aimed to reduce poverty in all districts, promote fair and just economic growth, and provide good quality education and health. Annual action plans were prepared for the 3 years following the plan: 2008 to 2010. The government then approved the SDP, 2011–2030, which was aligned with the Millennium Development Goals. The SDP is also consistent with the subsequent Sustainable Development Goals (SDGs) and with 58 SDG targets.⁴¹ The SDP set a pathway to long-term sustainable, inclusive development through improved infrastructure, more skilled human resources, a strengthened society, and more private sector jobs in strategic sectors, including agriculture, tourism, and downstream industries related to oil and gas.⁴² The SDP had three phases (i) short-term (2011–2015) focusing on human resource development, strategic industries, and infrastructure; (ii) medium-term (2016–2020) emphasizing infrastructure, strengthening human resources, and market formation; and (iii) long-term (2021–2030) to eradicate extreme poverty, establish a strong private sector, and promote a diversified non-oil economy. The SDP set a target for Timor-Leste to become a UMIC by 2030 and the plan was adopted by all political parties. However, the overall pace of development has been slower than anticipated and the targets set for 2020 were not achieved. Timor-Leste's goal of becoming a member of the Association of Southeast Asian Nations (ASEAN) is still in process, and the country is pursuing its accession to the World Trade Organization (WTO). Timor-Leste's goal of membership in these regional and global bodies is driven by the expected economic benefits from greater integration with regional and global economies.⁴³

23. **Against the backdrop of the COVID-19 pandemic, the 8th constitutional government launched the Economic Recovery Plan (ERP) in August 2020.**⁴⁴ The ERP aims to sustain the economy and to transform society to make both more resilient against future shocks. The first phase of the ERP aims to mitigate the impacts of the pandemic, while the second targets economic recovery. The plan was only up to December 2020 and included social protection through food baskets, recovery subsidies, contributory exemptions, and special support for informal workers. An assessment of the plan is to take place in 2021. The second phase, economic recovery, has a two-year time frame (2021–2022) and includes measures covering agriculture and small agro-food industry, tourism, housing, education, health, social protection, institutional development, fiber optics installation, and the use of renewable, sustainable and alternative energy. The ERP envisages spending \$1.6 billion to \$1.7 billion in each year from 2021 to 2023. Of the \$1.7 billion proposed for 2021, \$1.2 billion is expected to come from the Petroleum Fund (70.6%), \$180 million from domestic resources (10.6%), \$120 million from public borrowing (7.1%), and \$200 million in transfers from development partners (11.8%).

3. ADB Approved and Active Portfolio

24. **The validation covered all the investment projects that were ongoing at the outset of the CPS period and were completed by 2020.** The validation and the CPS final review (CPSFR) covered the same portfolio. Timor-Leste has access to both regular and concessional OCR.⁴⁵ Over the CPS period, ADB approved four loans and grants, and 11 TA projects, with total financing of \$130.3 million, including \$10 million in cofinancing. Lending operations accounted for 92% of total approvals. Transport and agriculture, natural resources, and rural development (ANR) were the main sectors supported, accounting for 95% of approved financing. The validation also assessed ongoing and completed projects that were approved before the CPS period—seven sovereign projects and eight TA projects, with total financing of

⁴¹ Government of Timor-Leste. 2011. *Timor-Leste's Roadmap for the Implementation of the 2030 Agenda and the SDGs*. Dili; State Budget, Table 17.

⁴² Government of Timor-Leste. 2011. *Timor-Leste Strategic Development Plan 2011–2030*. Dili.

⁴³ ASEAN membership has three pillars: (i) Economic Community, (ii) Political and Security Community, and (iii) Socio-cultural Community. ADB's support is mainly in facilitating requirements for the Economic Community. Other development partners are involved in supporting the other two communities.

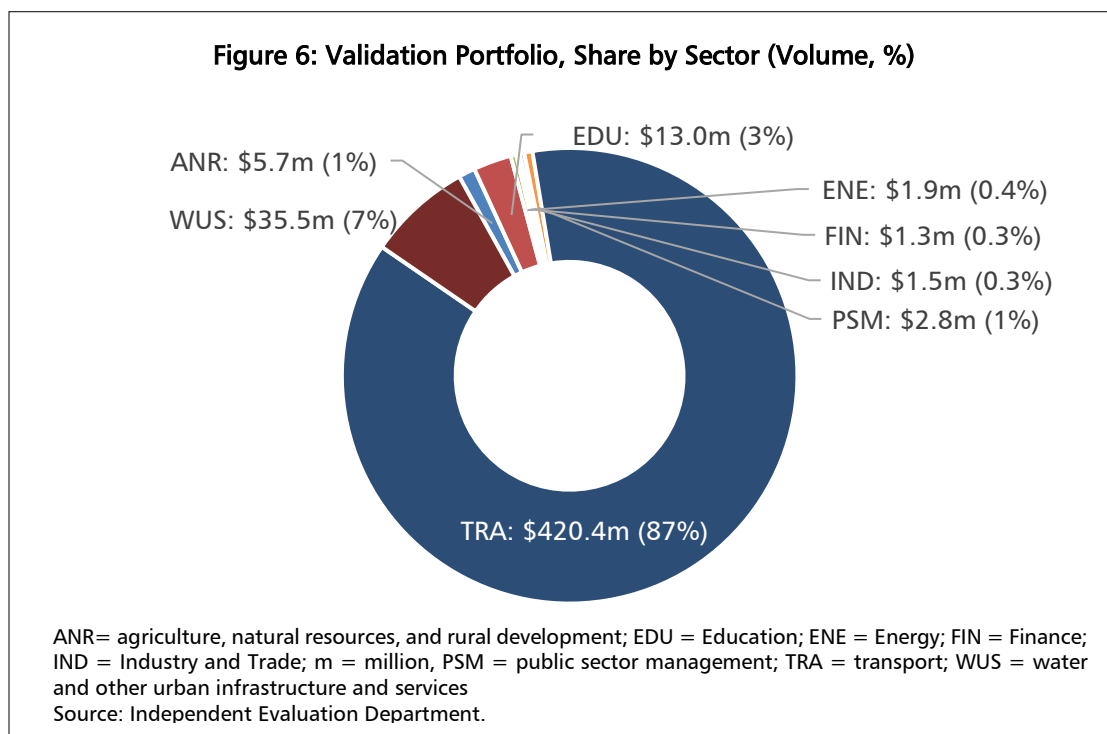
⁴⁴ 8th Constitutional Government. 2020. *Economic Recovery Plan*. Dili.

⁴⁵ ADB. 2019. *Operations Manual*. Policies and Procedures. Manila. Section A1, Classification and Graduation of Developing Member Countries.

\$351.8 million, including \$22.6 million in cofinancing. Transport, water and other urban infrastructure and services (WUS) accounted for 96% of the total financing. The validation also reviewed regional TA projects that included Timor-Leste (Appendix 1 Table A1.2).⁴⁶

25. **The portfolio of completed projects was small.** Of the 11 active sovereign loans and grants, eight were ongoing and three had been completed and self-assessed as of December 2020.⁴⁷ The draft of a PCR of a project in the education sector was also reviewed by the evaluation team. Two of the completed projects completion reports had been validated by IED. Of the 19 active TA projects, eight were ongoing and 11 had been completed, eight of which had been self-assessed. As of December 2020, seven of the eight ongoing sovereign projects, and six of the nine ongoing TA projects, were more than halfway through their scheduled implementation periods, and were determined to be mature enough for assessment under the validation. Overall, ADB's country program—the active portfolio during the review period—had a total approved financing of \$482 million, including \$32.7 million in cofinancing. Programs in transport (87.2%), WUS (7.4%), education (2.7%), and ANR (1.2%) constituted 98% of the country portfolio (Appendix 1, Table A1.1–A1.2).

26. **The portfolio is dominated by transport interventions** (Figure 6). All approved loans during the evaluation period were for transport. Table 2 shows the CPS portfolio for those interventions carried over from pre-2016 approval. Three loans in the WUS and education sectors were approved before the current CPS period. All the approved investment projects were in transport. In contrast, TA operations, totaling about \$9 million during the two periods, covered energy, finance, industry and trade, and public sector management (PSM).



⁴⁶ Some additional information on latest TA operations were added during the final stage after the IED mission.

⁴⁷ All three completed projects were carry-overs from the previous CPS period.

Table 2: Country Portfolio: Loans, Grants, and Technical Assistance 2016–2020 (\$ million)^a

ADB Support	Carry-Over from Previous CPS Period				Approved During 2016–2020				TOTAL			
	No.	ADB	Cofin.	Total	No.	ADB	Cofin.	Total	No.	ADB	Cofin.	Total
Sovereign												
Loans and Grants	7	253.0	76.2	329.2	4	94.6	25.6	120.3	11	347.6	101.8	449.4
Technical Assistance ^b	8	9.4	13.2	22.6	11	9.0	1.0	10.0	19	18.4	14.2	32.6
Total	15	262.4	89.4	351.8	15	103.6	26.6	130.3	30	366.0	116.0	482.0

ADB = Asian Development Bank, Cofin. = cofinancing, CPS = country partnership strategy.

^a Includes approved projects during the CPS period (2016–2020), and carry-overs from the previous CPS period but still ongoing and completed during 2016–2020. Additional financing projects or TA projects are not counted separately from the original project or TA project.

^b Includes stand-alone and associated technical assistance.

Source: Independent Evaluation Department estimates.

Assessment of the Timor-Leste Country Program

27. This CPS final review validation followed the IED guidelines (footnote 3) and adopted a matrix assessment approach by assessing sector performance and the drivers of change under the three strategic pillars set out in the CPS, 2016–2020 (Chapter 3, Table 8). The three strategic pillars were: (i) more inclusive and sustainable growth, (ii) improved human capital; and (iii) a more diversified and productive economy. The six drivers of change were: (i) knowledge, (ii) private sector development, (iii) governance and capacity development, (iv) partnerships, (v) environmental sustainability, and (vi) gender equity. The validation assessed the CPS against its thematic objectives, and also evaluated ADB’s response to the fragility of the country and its status as a SIDS.

28. Data on results and progress of ongoing projects were limited. For the 11 loan and grant projects in the CPS portfolio during the validation period, three PCRs were available—two in the transport sector and one in the WUS sector. The PCR for an education project, completed in 2018, had not been finalized at the time of the validation, although the evaluation team reviewed a draft shared by Southeast Asia Department (SERD) (Appendix 2).

A. Relevance

29. Although Timor-Leste is classified as a FCAS and a SIDS, the CPS 2016–2020 had few features that addressed the country’s fragility. The ADB CPS program was partly aligned with Timor-Leste’s development priorities by focusing on infrastructure. At the time the CPS was prepared, ADB had subscribed to the New Deal for Engagement in Fragile States.⁴⁸ Since then, ADB has issued two documents: (i) *Enhancing Differentiated Approaches for Fragile and Conflict-Affected Situations in ADB Operations*, in 2020⁴⁹ at the Asian Development Fund 13 replenishment meeting,⁵⁰ and (ii) *Fragile and Conflict-Affected Situations and Small Island Developing States Approach*,⁵¹ an operational approach and action plan, in 2021. The first document set out the evolution for aid effectiveness in FCAS. ADB recognized that fragility and conflict were complex and multifaceted and it sought to address five fragility characteristics: (i) weak governance; (ii) ineffective public administration and rule of law; (iii) prolonged civil unrest; (iv) exposure to interstate, national, or subnational violent conflict; and (v) vulnerability to economic shocks and natural hazards. At the request of the government, in October 2019, the Timor-Leste country program was transferred to the SERD from the Pacific Department (PARD).⁵² Three of the fragility characteristics listed in the ADB document—weak governance, ineffective public administration and the rule of law, and vulnerability to economic shocks and natural hazards—were acknowledged in the county context section of the CPS, but neither the sector focus on transport, nor the projects selected during the CPS period contained analysis for addressing fragility concerns or strong design features to

⁴⁸ International Dialogue on Peacebuilding and Statebuilding. [New Deal for Engagement in Fragile States](#).

⁴⁹ ADB. 2020. *Enhancing Differentiated Approaches for Fragile and Conflict-Affected Situations in ADB Operations*. Manila.

⁵⁰ Timor-Leste’s Public Debt Regime Law No. 13/2011 allows the government to borrow only for infrastructure. USAID, Asia Foundation, Stanford Law School. *Introduction to the Laws of Timor-Leste: Petroleum Fund Law*, accessed on 10 April 2021.

⁵¹ ADB. 2021. *Fragile and Conflict-affected Situations and Small Island Developing States Approach*. Manila.

⁵² TLRM staff mentioned that there was initial learning curve during and after the transition for both government counterparts and ADB staff in SERD. Timor-Leste has become a distinct entity, especially as it is the only FCAS and SIDS in SERD, while it was part of regional reporting documents while at PARD.

address this issue. Timor-Leste's FCAS and SIDS issues were featured with reference points to many of the small island states in the Pacific region.

30. **Although the CPS listed the general causes of fragility in Timor-Leste, it recommended few actions that could be embedded in the planned projects.** The CPS noted that the government had requested ADB to continue supporting infrastructure, education, regional cooperation and integration, private and financial sector development coordinated through the New Deal for Engagement in Fragile States (footnote 48). ADB did not prepare a detailed fragility assessment for Timor-Leste during the CPS period. Instead, the CPS highlighted public sector capacity as the main risk, and identified planning, implementation, and O&M systems as weak. These were constraining inclusive growth and undermining long-term fiscal sustainability. The CPS focused on providing capacity support to ADB's project management unit (PMU) on contract management, and to government officials through TA support. By contrast, the World Bank conducted a systematic diagnostic assessment in March 2018, and approved a country partnership framework, 2020–2024 that included a risk and resilience assessment.⁵³ The latest country program of the World Bank indicated that fragility would constrain project implementation; highlighted weaknesses in the rule of law and the justice sector, the lack of clarity over land management and ownership, political economy issues caused by asymmetric power relationships and unequal access to state resources; and noted that, despite the government's anti-corruption efforts, corruption, nepotism, and cronyism continued.

31. **ADB's new FCAS and SIDS approach recognizes that past attempts were not fully institutionalized, and this applies to Timor-Leste as well.** The new approach entails (i) providing guidance to Timor-Leste on the need for capacity and skills development, (ii) revising and developing new ADB processes and procedures to streamline business operations and performance assessment, and (iii) capturing knowledge and creating tools to enhance FCAS and SIDS development effectiveness. The FCAS and SIDS approach noted that the 2013 Operational Plan for Enhancing ADB's Effectiveness in FCAS "was not fully institutionalized, experienced resource constraints, and required stronger management ownership."⁵⁴ Timor-Leste was originally covered by ADB's PARD because its FCAS and SIDS issues were common to those of many of the small island states in the Pacific region. However, at the request of the government of Timor-Leste, ADB country operations were shifted to SERD in October 2019 given the country's aspirations to become a full member of ASEAN and to play a key role in regional economic integration.⁵⁵ Under the 2016 CPS guidelines that were in effect during this period, country operations business plans (COBPs) were to be used to update the evolving country context and any change in the country strategy. However, the COBPs from 2017 to 2020 did not refer to Timor-Leste's FCAS status or to the need for ADB to pay additional attention to the risks faced by the ADB program, or to the change in important strategic objectives due to the political impasse in the country. Instead, COBPs mostly reported on changes in processing new projects and TA projects.⁵⁶

1. Relevance of the Country Program Composition

32. **ADB support for transport dominated the portfolio despite other goals and objectives in the country strategy.** Transport accounted for nearly 87% of the value of the country program approved during the CPS period, and this was followed by WUS projects that were approved before the CPS period

⁵³ World Bank Group. 2018. *Timor-Leste Systematic Country Diagnostic – Pathways for a New Economy and Sustainable Livelihood*. Washington D.C.

⁵⁴ ADB. 2013. *Operational Plan for Enhancing ADB's Effectiveness in Fragile and Conflict Affected Situations*. Manila. <https://www.adb.org/sites/default/files/institutional-document/33825/files/operational-plan-fcas.pdf>

⁵⁵ Resident Mission staff mentioned that there had been an initial learning curve during and after the transition. This applied to both government and ADB staff. Timor-Leste is the only FCAS and SIDS in SERD. While Timor-Leste was in the Pacific Department it was part of regional reporting documents.

⁵⁶ During the CPS period, ADB conducted a country performance assessments (CPAs; not public) in 2016, 2018 and 2020. The assessments in 2018 and 2020 reconfirmed the country's Group B classification, taking into account its FCAS and SIDS context, based on established formula and assessment guidelines. COBPs did not report on FCAS issues or on how these would affect the portfolio, or the envisaged implementation schedules and results.

(Table 3). Four WUS projects planned during the CPS period were deferred to after the CPS period. There were three multitranchise financing facilities on sanitation and a solid waste management project in Dili that were to be implemented under public–private partnership (PPP) arrangements that is yet to materialize. In 2020, a COVID-related food program grant of \$1 million in the ANR sector was added to the originally planned grant for a coffee and agroforestry livelihood project. Another COBP, 2021–2023 (Table 4), as an extension of the current portfolio, focuses on the transport and WUS sectors.

Table 3: Overall Loans and Grants During 2016–2020 by Sector

Project and Sector		Planned		Approved		Remarks
		Loan or Grant (\$ million)	Initial Year Planned	Loan or Grant (\$ million)	Year Approved	
Agriculture, Natural Resources, and Rural Development						
1	Coffee and Agroforestry Livelihood Improvement	3.0	2020	3.0	2020	Solely cofinanced by JFPR
2	COVID-19 Food Security Emergency Response	...	...	1.0	2020	Unplanned; solely cofinanced by APDRF Government of Japan for COVID19
	Subtotal	3.0		4.0		
Energy						
3	Electricity System Strengthening and Sustainability Project	50.0	2018	...	...	Moved to 2021
	Subtotal	50.0		...		
Transport						
4	Road Network Upgrading Project (additional financing)	23.1	2016	22.6	2016	Solely cofinanced by EU
5	Baucau to Viqueque Road Project	50.0	2017	44.0	2015	
6	Dili to Baucau Highway Project	...	...	49.6	2016	Unplanned
7	Road Network Sustainability Project	30.0	2020	...	...	Classified as standby for 2020 in COBP 2021–2023 but was not realized in 2020
	Subtotal	103.1		116.3		
Water and other Urban Infrastructure and Services						
8	Urban Services Improvement Sector Project Investment Program (MFF, Tranche 2)	45.8	2016	...	...	Unrealized during the CPS period
9	MFF Urban Services Strengthening (Tranche 1)	53.9	2016	...	...	Unrealized during the CPS period
10	Dili Solid Waste Management	24.0	2017	...	...	Unrealized during the CPS period
11	Urban Water Supply Sector Project, Phase II	39.0	2019	...	...	Unrealized during the CPS period
12	Water Supply and Sanitation Investment Project, Phase 1	50.0	2020	...	...	Unrealized during the CPS period
	Subtotal	212.8		...	...
	TOTAL	368.8		120.3		

... = not applicable, APDRF = Asia Pacific Disaster Response Fund, CPS = country partnership strategy, COVID-19 = coronavirus disease, EU = European Union, JFPR = Japan Fund for Poverty Reduction, MFF = multitranchise financing facility.

Source: Asian Development Bank Database.

Table 4: Planned Resource Allocations by Sector in Country Operations Business Plans

Sector	COBP, 2016–2018 (%)	COBP, 2017–2019 (%)	COBP, 2020–2022 (%)	COBP, 2021–2023 (%)
Transport	43.8	34.0	33.7	42.9
Water and other urban infrastructure and services	42.5	40.0	36.3	26.4
Energy	20.6	21.0	18.7	13.0
Education	...	5.0	5.6	1.5
Agriculture, natural resources, and rural development	...	...	...	10.7
Finance	...	...	...	3.8
Information and Communication Technology	...	...	...	1.5
Resource Envelope (excluding cofinancing)	\$234.62 million	\$264.09 million	\$304.45 million	\$652 million

... = not applicable, COBP = country operations business plan.

Note: Planned allocations are CPS, 2016–2020 allocations as listed in the relevant COBPs.

Sources: ADB. 2016. *Country Operations Business Plan: Timor-Leste, 2016–2018*. Manila; ADB. 2017. *Country Operations Business Plan: Timor-Leste, 2017–2019*. Manila; ADB. 2019. *Country Operations Business Plan: Timor-Leste, 2020–2022*. Manila; Independent Evaluation Department and Asian Development Bank database (Controller's database as of 31 December 2020, ADB e-Operations and project website, as of March 2021).

33. **Some proposed lending programs did not materialize or were postponed because of the government's focus on transport.** There were substantial differences in actual versus planned operations in almost all sectors due to increases in the transport and ANR programs (Table 5). The transport program saw a \$13 million increase largely because of the new Dili to Baucau Highway Project (Table 5).⁵⁷ Under ANR, a COVID-19 emergency food distribution project was funded by a \$1 million grant from the Asia Pacific Disaster Response Fund. A planned power distribution modernization loan was delayed to 2021. Allocations to the WUS sector decreased significantly, since five grants, including one case of additional financing, were not implemented. (Table 5 and Appendix 3).

Table 5: Comparison Between Planned and Approved Sovereign Loans and Grants in Timor-Leste, 2016–2020

Sector	Allocation in CPS ^a (\$ million)	Share of Planned (%)	Approvals (\$ million)	Share of Approved (%)	Compared to Planned (%)
WUS	212.8	58	0.0	0	...
Transport	103.1	28	116.3	97	113
Energy	50.0	14	0.0	0	...
ANR	3.0	1	4.0	3	133
Total	368.8	100	120.3	100	33

... = not applicable, ANR = agriculture, natural resources and rural development, CPS = country partnership strategy, WUS = water and other urban infrastructure and services.

^a Country partnership strategy, 2016–2020 allocations as listed in the COBPs for 2016–2018, 2017–2019, 2020–2022. The portfolio figures include cofinancing.

Source: Asian Development Bank database (Controller's database as of 31 December 2020, ADB e-Operations and project website, as of 1 March 2021).

34. **The CPS largely focused on pillar 1, more inclusive and sustainable growth.** As a result, 94% of the country portfolio⁵⁸ was in the transport and WUS sectors. Projects were largely geared toward improving connectivity and public services and were therefore aligned with pillar 1, although they also contributed to pillar 2, improving human capital. Education projects were also aligned with pillar 2.

⁵⁷ ADB. [Timor-Leste: Dili to Baucau Highway Project](#).

⁵⁸ By volume of CPS portfolio, including those projects approved before the CPS period but implemented during the period.

35. **The CPS's third pillar, economic diversification, was not supported.** The CPS's limited support for ANR meant that ADB missed an opportunity to improve agricultural productivity. The lack of economic diversification leaves Timor-Leste's economy dependent on oil and gas exports, although ADB did provide TA to the ANR and finance sectors aimed at building an enabling environment for private sector development.

2. Quality of Program Design

36. **The CPS results framework indicators were relevant to Timor-Leste's macroeconomic performance, but the originally envisaged multisector investment (not only transport but in energy and WUS) in the country program did not materialize.** The CPS results framework had three pillars or strategic objectives: (i) more inclusive and sustainable growth, (ii) improved human capital and (iii) a more diversified and productive economy. It included indicators for transport, energy, regional integration, education, urban water and sanitation, private sector development, and finance. Some indicators for education, transport and WUS were directly linked to ADB projects. However, others were macro-level indicators with little relevance to the ADB portfolio, particularly for energy projects that did not materialize. There were long-term indicators to increase electricity metering, but the TA in the energy sector focused on investment preparation. Sector-level indicators, including urban sanitation access, and climate resilience, were not always relevant to ADB assistance, and could have been more carefully chosen. There were no gender-related indicators, despite the CPS's strong focus on gender equity and mainstreaming. The targets and indicators for pillar 3 on a diversified and productive economy were ambitious rather than feasible; for example, compliance with ASEAN legal agreements increased to 100% and the ratio of bank credit to the private sector to non-oil GDP increased to 70% (from 12.6% in 2013).

37. **The CPS results framework was not adjusted to reflect the postponement of many projects.** Originally there were five new WUS projects planned but all were later deferred or cancelled. These were linked to pillar 1 targets on reducing unaccounted for water, and on increasing climate proofing infrastructure, and to the pillar 2 target on access to clean drinking water. The CPSFR noted that implementation of ongoing projects had been delayed but that "most on-going projects are expected to be completed between 2020–2021."

38. **The selection of ADB financing modalities was aligned with the country's official borrowing requirements.** The government's Public Debt Regime Law (2011) permits the government to borrow from external sources only to finance infrastructure projects (footnote 41). ANR and education projects were funded by grants and TA, while the remaining non-infrastructure sectors—finance, PSM, and industry and trade—were funded by TA. This restricted the diversification of the lending portfolio during the evaluation period, but the Ministry of Finance indicated during the IED virtual mission that this restriction may be relaxed.

39. **ADB is seen as the leading partner in infrastructure development, and this is likely to continue into the next CPS period.** The government is keen to borrow more for road projects and the Dili Airport runway expansion and is considering using policy-based lending, which may provide more sector flexibility.

3. Development Coordination

40. **Coordination between ADB and other development partners was limited.** The political uncertainty meant that it was difficult for development partners to engage the government in policy dialogue, but in February 2021 they did agree to hold quarterly meetings for the first time in 2 years.

41. **The government's SDP identifies key roles for development partners.** ADB is the lead partner in infrastructure; JICA's grant activities are mainly in education, roads, and ANR; and the World Bank is involved in the education sector. Since the country has graduated to middle-income country status, the

World Bank can no longer provide grants, and instead, a mix of concessional and non-concessional loans were provided. Both ADB and the World Bank are considering offering policy-based lending to support the country's policy reforms.

42. **Donor coordination is strong in the road and WUS sectors.** ADB and JICA supported the construction of the national highway as identified in JICA's road network masterplan. Australia provided support for rural and feeder roads serving the highway. In the WUS sector, ADB upgraded the water supply in district capitals based on a national water supply master plan prepared under an ADB TA, whereas the Department of Foreign Affairs and Trade (DFAT) of Australia and World Bank supported rural community water supply. Australia's focus has been on community and small-scale water supply systems, either through repairs or constructing new systems. This complements the work of ADB in the larger urban centers. A similar distinction is evident in the road sector: DFAT Australia upgrades rural roads that connect to the national highway network that has been improved with ADB support.

43. **Development assistance is coordinated through the Timor-Leste development partner coordination mechanism and takes account of ADB's commitment to the New Deal for Engagement in Fragile States.** ADB is the lead development partner for the infrastructure sector, the World Bank for the economic sectors, the UN for governance and institutional strengthening, and Australia for the social sectors. The New Deal recognizes the unique context and challenges of fragile states, and sets out a vision, principles and approaches for engagement.⁵⁹ The three main pillars of the New Deal are peacebuilding and state-building goals, FOCUS, and TRUST. FOCUS has five elements: (i) fragility assessment; (ii) one vision, one plan; (iii) compact (to agree that everyone will stick to the plan); (iv) use of peacebuilding state-building goals to monitor; and (v) support political dialogue and leadership. TRUST comprises: (i) transparency, (ii) risk-sharing, (iii) use and strengthening of country systems, (iv) strengthening capacities, and (v) timely and predictable aid. IED did not observe a strong follow-up in Timor-Leste on the New Deal framework, which was originally identified in the CPS as the instrument to address the fragility challenges over the period, through specific action plans and clear indicators. Timor-Leste did not prepare a specific fragility assessment or ADB's own FCAS assessment report as originally envisaged during the CPS period and clear actions to address risks were not included in COBPs during the assessed period. As a result, other requirements under the New Deal have not been pursued.

44. **ADB is directly supporting the government, through TA, to achieve full ASEAN and WTO membership.** ADB provided two TA projects (para. 52) to prepare plans and compare the government legislation against the ASEAN and WTO requirements and guidelines. Other partners, including JICA and DFAT Australia, are indirectly supporting these aims by providing scholarships for government officials, through the University of Timor-Leste, and through official diplomatic channels to support the Government's efforts in the international arena. Japan has a trilateral agreement with the Indonesian government to support Timor-Leste's membership processes.

45. **The CPS envisaged that ADB would strengthen its partnerships with civil society and the private sector, but progress has been limited.** While the CPS expected ADB would explore opportunities to increase civil society participation in project design and implementation, this was limited in practice. Some civil society organizations routinely participate in or issues statements during the annual parliamentary budget processes, which include external support programs. ADB's partnership with the private sector has been limited in the absence of an operational framework.

⁵⁹ The New Deal was prepared by members of the International Dialogue on Peacebuilding and State building comprising the G7+ group, 19 fragile and conflict-affected countries, development partners, and international organizations.

4. Sector Programs and Cross-cutting Theme Assessment

a. Sector Programs

46. **Transport was the dominant sector in the ADB portfolio.** The total financing gap for rehabilitating national roads was estimated to be \$1.5 billion, equivalent to 100% of non-oil GDP. Investments in road infrastructure were justified to encourage the movement of goods and people and to increase the volume of trade across international borders. The government policy on improving connectivity was consistent with this, and investment in improving roads has remained a priority. The Road Network Development Sector Project, approved in 2009, was completed during the CPS period.⁶⁰ The Ministry of Public Works (MPW) benefited from ADB loans, grants, and TA to extend the rehabilitation of the national highways. ADB also emphasized road safety and regulations for road transport, and helped build local contractors' capacity. The establishment of a Road Maintenance Fund, as recommended by ADB, is taking longer than expected because of political uncertainties, and, according to senior MPW staff, the budget allocation for road maintenance is less than 50% of the amount required. IED recognizes that ADB has been supporting the government and that it helped to develop several knowledge products on road asset management and the road maintenance fund within the scope of Baucau to Viqueque Highway Project, but these efforts will take time to come to fruition.⁶¹ This validation assesses ADB's involvement in the transport sector *relevant* based on the strategic importance of roads in improving connectivity and movement of goods and services

47. **Unsafe water, lack of sanitation, and inadequate hygiene were the three main causes of poor health in Timor-Leste.** There was a high incidence of diarrhea and malnutrition (stunting and wasting) among children under the age of five. The first ADB grant-funded project in the sector, the Dili Urban Water Supply Sector Project, was approved in 2007, before the CPS period, but it closed in 2016, 5 years after its original closing date.⁶² While the project had overly ambitious targets for reductions in non-revenue water and increases in tariff collections, it helped improve the country's water system constructed during the Portuguese colonial period and the Indonesian period. The National Directorate of Water Services, under MPW, did not have a water billing system and consumers were not paying. Its institutional and technical capacity was weak. The PCR rated the grant-funded project *less than relevant* since it failed to include institutional capacity improvements and O&M support in its design. The District Capitals Water Supply Project, approved in 2011 and scheduled for completion in June 2021, is improving water supply in Manatuto and Pante Macassar.⁶³ This validation assesses ADB's involvement in the WUS sector program *relevant* given its importance in meeting health objectives.

48. **ADB support for ANR was limited given most of the rural poor depend on agriculture for their livelihoods.** The small-scale TA Support for Preparation of a National Coffee Development Plan for Timor-Leste was timely, since coffee has become the country's only non-oil commodity export.⁶⁴ According to officials of the Ministry of Agriculture and Fisheries, the plan was well prepared and provided a good road map for coffee production, processing, marketing, and exporting. ADB approved two other grants for the sector in 2020. The Coffee and Agroforestry Livelihood Improvement Project (\$3.0 million, funded by the Japan Fund for Poverty Reduction [JPFR]) supported small coffee farmers to organize and adopt improved practices to produce high-quality coffee with greater yields and a higher market value.⁶⁵ Since more than 70% of the population is dependent on agriculture, a more holistic sector assessment for national inclusive growth was needed. ADB's support for ANR operations was limited both in terms of geographic coverage and scale, and is thus assessed *less than relevant*.

⁶⁰ ADB. 2018. *Completion Report: Road Network Development Sector Project*. Manila

⁶¹ ADB. [Timor-Leste: Baucau to Viqueque Highway Project](#)

⁶² ADB. 2018. *Completion Report: Dili Urban Water Supply Sector Project*. Manila.

⁶³ ADB. [Timor-Leste: District Capitals Water Supply Project \(formerly Oecussi and Ermera Water Rehabilitation Project\)](#).

⁶⁴ ADB. [Timor-Leste: Support for Preparation of a National Coffee Development Plan](#).

⁶⁵ ADB. [Timor-Leste: Coffee and Agroforestry Livelihood Improvement Project](#).

49. **ADB's support for education focused on addressing skills mismatches in the labor market, and on improving the quality of secondary education and technical vocational education and training (TVET).** ADB's sector program was aligned with the National Education Strategic Plan, 2011–2030, and with the government's priority of addressing skills shortages. It was also consistent with the CPS and complemented the interventions of other development partners. However, the Mid-level Skills Training Project⁶⁶ and its associated TA, Policy and Planning for Skills Development in Secondary Education, both of which intended to enhance the capacity of the Ministry of Education, were overly ambitious.⁶⁷ The Mid-level Skills Training Project had five outputs and 20 activities with sub-activities. At the time of approval, the government was preparing a TVET Strategic Plan for 2011–2015. This plan was to provide guidance to development partners on funding gaps in the TVET system and to facilitate coordinated support in its development. Considering that the TVET Strategic Plan had not yet been approved at that time of approval of the Mid-level Skills Training Project, a TA rather than an investment project would have confirmed the level of government commitment to TVET sector reforms and the institutional capacity to implement projects. ADB approved a TA project in 2015 to coordinate skills development strategies for secondary technical schools and to improve links with the broader TVET system.⁶⁸ The relevance of the ADB education program would have been enhanced with a narrower project scope and better sequencing of interventions, since the two ADB projects tackled wide-ranging skills shortages by supporting technical secondary education. While there were shortcomings in ADB support, given the scale of need, youth unemployment, and limited sector capacity, on balance, ADB's support for technical education is assessed *relevant*.

50. **ADB's involvement in the energy sector was through TA.** There were two TA interventions during the CPS period but no investment projects. The first, from January 2016 to May 2019, produced a Strategic Plan and Investment Road Map to improve service reliability for Dili's power distribution system. The second, which started in September 2019 and is expected to finish in November 2021, is assessing the feasibility of modernizing the power distribution system, and institutional strengthening to transform the current ministerial department, Electricidade de Timor-Leste (EDTL), into a commercially oriented public utility, Electricity Utility Company (EUC). This transformation started in January 2021 and is scheduled to take 2 to 3 years. ADB's TA support in the energy sector is assessed *relevant*.

51. **The country program included one TA project in the finance sector.** The Expansion of Financial Services TA project aimed to (i) support the implementation of the Master Plan for Financial Sector Development in Timor-Leste, (ii) increase lending and expand access to financial services, including the commercial transformation of the state-owned BNCTL, (iii) promote prudential regulation of the banking sector, and (iv) implement systemic reforms, such as a framework for secured transactions and a bankruptcy and insolvency law.⁶⁹ The TA provided expertise in information technology, bank operations, institutional transformation, and risk management. The draft TA completion report noted that the commercial transformation of BNCTL was in line with the requirements of its commercial banking license to expand its portfolio, extend its product portfolio, strengthen its balance sheet, and increase its attractiveness to strategic investors.⁷⁰ The TA was considered appropriate and relevant to BNCTL's success.

52. **ADB is supporting Timor-Leste's accession to ASEAN and full membership of WTO.** A \$1.5 million TA⁷¹ was approved in July 2020 to assist the government in its preparations to join ASEAN and WTO.

⁶⁶ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant Democratic Republic of Timor-Leste: Mid-Level Skills Training Project*. Manila.

⁶⁷ ADB. 2020. *Completion Report: Timor-Leste: Policy and Planning for Skills Development in Secondary Education*. Manila.

⁶⁸ The request for TA support was conveyed during the Midlevel Skills Training Project midterm review. The Ministry of Education sought ADB technical assistance for capacity development in the areas of secondary education sector planning, teacher training, education management information system, and monitoring frameworks for the sector performance. ADB (Pacific Department). 2014. MidTerm Review Mission to Timor-Leste: Midlevel Skills Training Project. 27 October (internal).

⁶⁹ ADB. 2014. *Technical Assistance Report: Timor-Leste: Expansion of Financial Services*. Timor-Leste.

⁷⁰ ADB. 2021. *Completion Report: TIM: Expansion of Financial Services*, Manila (draft).

⁷¹ ADB. 2014. *Technical Assistance Report: Timor-Leste: Capacity for Multilateral and Regional Economic Integration*. Manila.

There were two earlier TA projects—Capacity for Regional Economic Integration (\$1.0 million),⁷² and Preparing for Regional Economic Integration (\$850,000).⁷³ The Ministry of Foreign Affairs and Cooperation saw the need for expertise to achieve the country's aspiration of joining ASEAN and the WTO. ADB support was seen as crucial and meaningful and hence relevant for the government in meeting some of the conditionalities for ASEAN membership, particularly those associated with the ASEAN Economic Community, as well as with those for WTO accession

53. **There were no PSM operations identified in the CPS.** However, the COBPs during the CPS period included four PSM TA projects, although two appeared to be related to industry and trade sector operations based on the preparation for Timor-Leste's ASEAN accession. Another TA, Fiscal Policy for Improved Service Delivery, was relevant to efforts to address the weak legal and regulatory frameworks for service delivery.⁷⁴ However, its original implementation timeframe was unrealistic because of the bureaucratic process for introducing reforms in Timor-Leste and a general resistance to change. It is understood that under the current Ministry of Finance leadership, there is a commitment to change legal and regulatory frameworks. Another small-scale advisory TA supported (i) macro-fiscal and development pathways and a policy note, and (ii) capacity development of Ministry of Finance staff for linking planning and budgeting. Both TA projects were considered *relevant* by the validation.

b. Cross-cutting themes

54. **The CPS knowledge plan highlighted knowledge gaps and priorities in five sectors: transport, energy, WUS, education, and finance.** The transport sector needed to address (i) inadequate funding and weak capacity for O&M, (ii) resource use efficiency in planning, investment prioritization, project preparation, and project implementation; and (iii) gaps in legal and regulatory frameworks. While most of these issues were addressed under the loan and grant and TA projects, the absorptive capacity of government staff was not adequately assessed. It proved difficult to ensure knowledge transfer to retain and build institutional capacity in the concerned agencies, especially in the areas of transport, environment (safeguards), and climate change. Knowledge support to enhance road safety, health and water leakage management, and the enabling environment for private sector development would have supported implementation of the CPS. The designs of some TA projects contained detailed capacity needs assessments, training modules and schedules, with clear milestones, monitoring and reporting in their design. This was particularly the case for the TA projects in economic planning, institutional reform of the energy department, and reform of Banco Nacional de Comércio de Timor-Leste. The CPS knowledge plan should have been updated because of changes in the government and the operating environment (including the transfer of Timor-Leste from PARD to SERD). On balance, taking all these positive points and some shortcomings into account, ADB support for knowledge solutions is assessed *relevant*.

55. **The CPS recognized that Timor-Leste needed a more vibrant private sector.** At the time the CPS was formulated, Timor-Leste's private sector was at an early stage of development and primarily served direct and indirect demands created by rapid increases in government spending and public investment. The non-oil business sector was based mainly in Dili and was dominated by construction and retail activities. Limited human capital, poor public investment, weaknesses in the commercial regulatory environment, limited coverage of financial services, lack of foreign investment, untapped agricultural potential, and the nascent tourism sector were major challenges to private sector development. While the prospects for agribusiness value chain development and tourism were identified in the CPS, no projects were implemented in these areas, although ADB did support preparation of a national coffee sector development plan.⁷⁵ Attention to private sector development in Timor-Leste is likely to become more important once budgetary allocations from the Petroleum Fund decline and the government

⁷² ADB. 2016. *Technical Assistance Report: Timor-Leste: Capacity for Regional Economic Integration*. Timor-Leste.

⁷³ ADB. [Timor-Leste: Preparing for Regional Economic Integration](#).

⁷⁴ ADB. [Timor-Leste: Fiscal Policy for Improved Service Delivery](#).

⁷⁵ ADB. 2019. *Technical Assistance Completion Report: Timor-Leste: Support for Preparation of a National Coffee Sector Development Plan for Timor-Leste*. Manila.

switches its attention to the development of the non-oil sector. Because ADB support for private sector development did not materialize, it was assessed *less than relevant*.

56. **The CPS emphasized that ADB would continue to advocate transparency and good governance.** It anticipated that ADB would use country systems for project preparation and implementation, delegating certain functions to the private sector, sharing PMUs with other development partners and integrating them into host ministries, helping the government design and implement PPPs, and outsourcing arrangements to improve service quality outcomes. ADB's approach to supporting governance and capacity development was through TA. The design of PSM and capacity development TA was driven by country and sector needs. Decision-making and investment approval is primarily concentrated in the Council of Ministers, and the process can be protracted. A longer time horizon is needed to formulate, approve, and implement relevant reforms. However, it was not clear from the project documents whether adequate lead times were built into the designs, particularly for building ownership and support prior to the provision of TA. Overall, this validation assesses ADB's support for governance and capacity development *relevant*.

57. **Timor-Leste is vulnerable to the adverse impacts of climate change.** The CPS planned to support long-term environmental sustainability, making use of the latest technologies to climate-proof new infrastructure, and ensuring that infrastructure and services were resilient to natural hazards. According to government officials interviewed during the IED virtual mission, ADB's Safeguard Policy Statement (2009) broadly aligns with the government's environmental legislation. ADB supported the establishment of Timor-Leste's National Environmental Licensing Agency, which currently has about 20 staff and plans to double its capacity over the next few years. The design of projects, particularly those in road construction, incorporated appropriate technology to combat natural hazards, but local capacity to address climate change adaptation and mitigation was limited. Most of the engineering designs for buildings and roads followed conventional practices. Weak soil structure and frequent landslides are common challenges, but IED did not find any significant efforts to climate proof infrastructure and no apparent bioengineering features were introduced to combat these challenges. Timor-Leste has two ongoing projects supported by the Green Climate Fund, co-financed by JICA and the United Nations Development Programme (UNDP) but these do not relate to climate-proofing infrastructure.⁷⁶ IED has not identified any other mechanisms that ADB supported to promote improved environmental management and climate change adaptation and mitigation. Consequently, this validation assesses ADB's support for environmental sustainability *less than relevant*.

58. **The CPS affirmed ADB support for gender equality through improving women's access to services, livelihood training, and skills development.** The Road Network Development Sector Project (footnote 60) was the first grant in Timor-Leste to adopt ADB's gender checklist, including the identification of the gender-specific benefits of: (i) improved access to health care facilities; (ii) improved access to schools, social services, and other key facilities; and (iii) targeted employment opportunities for female workers, in such areas as bioengineering. A gender action plan (GAP) was prepared, which outlined gender targets and indicators for transport projects. Of the three TA projects, one had some gender elements. ANR projects had some elements of livelihood training for women, and the WUS project had a plan to improve women's access to water supply. In education, the Mid-level Skills Training Project and the associated TA to support the Ministry of Education were classified as effective gender mainstreaming. The Midlevel Skills Training Project had a GAP, which focused on increasing female enrollment in construction and automotive training.⁷⁷ The GAP aimed to place at least 80% of female

⁷⁶ Green Climate Fund. 2021. [Community-Based Landscape Management for Enhanced Climate Resilience and Reduction of Deforestation in Critical Watersheds](#); and Green Climate Fund. 2019. [Safeguarding rural communities and their physical assets from climate induced disasters in Timor-Leste](#).

⁷⁷ This will be done by (i) raising awareness of non-traditional TVET and related career options through promotional activities, (ii) making the curriculum more gender-sensitive, (iii) providing gender training to TVET management and teaching staff, (iv) constructing a dormitory for female trainees at Tibar, (v) targeting female enrollment of at least 20% in construction and automotive trades by 2016, and (vi) recruiting female trainers in skills areas covered by the project.

trainees in workplace training programs and to strengthen career counseling services by involving businesswomen from nontraditional sectors. The project also intended to provide scholarship programs, targeted at females, as part of TVET implementation plans. This validation assesses ADB's support for gender *relevant*.

59. ADB's Timor-Leste CPS, 2016–2020, was aligned with the country's SDP, particularly in the areas of infrastructure development, education, and regional cooperation and integration. ADB's country portfolio mainly supported transport and WUS (which had a combined share of 94% of the portfolio), and CPS implementation largely focused on pillar 1, targeting more inclusive and sustainable growth. Economic diversification (pillar 3) was supported with only minimal ANR interventions. With about 70% of the country's population engaged in subsistence farming, a greater focus on agriculture is essential to encourage economic diversification. While some interventions were relevant to pillar 3, such as support for the coffee sector and PSM, the expected impact of small-scale projects that began at the end of the CPS period is likely to be limited to reforms in the ANR sector. The results framework was weak, with many indicators having only a tangential relationship with the CPS development objectives. Institutional capacity building for transport projects was not accomplished because of limited technical expertise and slow project approval. However, some TA projects in other sectors had clear milestones, schedules, and monitoring indicators for institutional strengthening in target government agencies (e.g., finance, energy, and economic policy). This validation assesses ADB support for the theme of capacity building *relevant*.

5. Relevance Assessment Summary

60. **ADB's choice of financing modality was responsive to the country's legal framework for official borrowing.** Because of the Public Debt Regime Law, the government concentrated its borrowing on transport, while other sectors received grants and TA. The law prevented ADB and other international financing institutions from diversifying their portfolios. ADB is the lead partner for infrastructure, although coordination among the development partners has been limited in recent years.

61. **The program mainly covered the transport sector.** Previous CPSs focused more on water sector projects, but in 2016–2020 the portfolio shifted to transport. Improved connectivity was one of the government's development priorities, in particular road development to strengthen cross-border trade and improve transit services. However, ADB's support for connectivity reduced its focus on other sectors, particularly ANR. Notwithstanding some progress on climate-proofing roads, establishing a sustainable mechanism for O&M of roads, contract management, domestic contractors' capacity, and institutional and policy reforms continue to be major challenges for the transport sector. In terms of cross-cutting issues, the validation found strong relevance in ADB support for knowledge, partnerships, governance and capacity development, and gender, but less in private sector development and environmental sustainability. Limited evidence was available on how ADB had considered fragility in its Timor-Leste strategy and in project designs. Nevertheless, some good designs could be found in TA projects in the non-infrastructure sectors, such as in economic planning, finance, and energy sector reform. IED rates the CPS and its program *relevant* but the lower end of the scale.

B. Effectiveness

62. **Transport projects did not deliver their intended physical outputs and failed to integrate climate proofing measures.** Six road transport projects were implemented during the CPS period, of which two were completed. The Road Network Development Sector Project (footnote 60) was rated *less than effective* in its PCR and PCR validation report (PVR). This was because of the partial achievement of outputs, low quality of civil works, reduced scope of works, inadequate funds for road maintenance, and the need to relocate affected households because of road widening. Climate proofing measures were not included in the original project design. The JFPR grant for the Our Roads Our Future Project was self-assessed *effective* in its implementation completion memorandum because it helped reduce poverty by

improving the living conditions of rural communities.⁷⁸ The project completed 85% of its target of rehabilitating and upgrading rural roads and benefited from strong community participation. However, the completion report also recognized that maintenance work had been insufficient due to the inadequate time for project implementation as a result of start-up delays. The other four projects are ongoing and at different stages of implementation. Two projects, the Road Network Upgrading Project⁷⁹ and the Road Network Upgrading Sector Project, received additional financing because of cost escalations and expanded scopes.⁸⁰ The Road Upgrading Project is flagged as having safeguard issues in ADB's internal portfolio performance reporting system. The Dili to Baucau Highway Project (footnote 57) and the Baucau to Viqueque Highway Project (footnote 61) are being implemented.

63. **Climate-proofing of road infrastructure has been inadequate.** Road sections risk being washed away because of landslides, while some projects encountered implementation delays due to the longer than expected time required to obtain environmental licenses and the inadequate budgetary provisions for compensating affected people. Compliance with safeguard requirements has taken longer than envisaged due to limited institutional capacity. Implementation delays have led to reductions in project scopes, compromises in the quality of road construction, or the need for additional financing. The original climate-proofing in recent road designs was not carried out because of the emphasis on completing longer stretches of roads and the high cost of climate-proofing. Accidents and deaths on roads have increased. There is a need to record and analyze trade and transit data from project roads and accident-related injuries and deaths in road projects. Time and cost savings due to road improvements have not been assessed.

64. **TA projects supported institutional strengthening to improve government planning and budgeting in the transport sector.** Four transport TA projects took place during the CPS period. The TA completion report (TCR) for the Infrastructure Management TA project (\$1.5 million, approved in 2012 and closed in 2017) assessed this capacity development TA effective.⁸¹ It helped to improve the performance of the MPW in budget execution and planning, and in procurement. Several key management positions are now held by scholarship recipients supported under the TA. IED's preliminary validation of the Dili Airport Runway Upgrading TA Project confirmed the *effective* rating in TCR.⁸² The validation's preliminary assessment of the Policy and Planning Development for Public Investments TA project indicated it was *effective*.⁸³ Most of the deliverables for improving capacity for public investment management and enhancing sector policy and planning were completed. The TA Promoting Sustainable Land Transport Infrastructure was attached to the Baucau to Viqueque Highway Project (footnote 61), and it was effective in improving business practices, particularly in the road subsector. Given that transport projects failed to deliver their intended outputs or to integrate climate proofing measures, IED assesses the transport program *less than effective*.

65. **WUS projects did not achieve their intended outcomes, but some progress was made in improving O&M arrangements.** The first grant-funded Dili Urban Water Supply Sector Project (footnote 62) closed in 2016 and was self-assessed *less than effective*. Only one of the four outcome targets—improved water access for residents—was partially achieved, with about 6,000 new household connections in limited city areas. No GAP was prepared, and social and environmental safeguards outcomes were not monitored.

66. The District Capitals Water Supply Project (footnote 63) was physically completed in December 2020, with financial completion due in June 2021. The civil works for the two municipality capitals,

⁷⁸ ADB. 2018. *Completion Report: Our Roads Our Future—Supporting Local Governance and Community-Based Infrastructure Works*. Manila.

⁷⁹ ADB. [Timor-Leste: Road Network Upgrading Project](#).

⁸⁰ ADB. [Timor-Leste: Road Network Upgrading Sector Project](#).

⁸¹ ADB. 2018. *Technical Assistance Completion Report: Infrastructure Management*. Timor-Leste.

⁸² ADB. 2020. *Technical Assistance Completion Report: Preliminary Assessment for Dili Airport Runway Upgrading Project*. Manila.

⁸³ ADB. 2017. *Technical Assistance Subproject Proposal: Timor-Leste: Policy and Planning Development for Public Investments, Subproject 1*. Manila.

Manatuto and Pante Macassar, were completed in 2016–2017. The ADB grant is now supporting O&M. A two-year O&M contract was signed with a private firm, China Nuclear, covering 1,200 household connections for Manatuto. O&M was not contracted for Pante Macassar, which is in the enclave in Indonesia to the west of Timor island. However, technical support and training was provided to the Serviços Municipais Água, Saneamento, e Ambiente (SMASA), the agency managing public infrastructure within the special economic zone. Here, ADB is providing capacity building support for (i) replacing pipes, (ii) collecting tariffs, and (iii) conducting chemical and water quality tests. The CPSFR admitted that “although most outputs under the revised scope were realized, the outcome was not achieved as it was overly ambitious with an unrealistic timeframe.” IED assesses ADB’s water sector program *less than effective*.

67. Education sector program output targets were mostly achieved, but their outcomes were not.⁸⁴

Under the Mid-level Skills Training Project, five training centers were upgraded, teachers were trained and certified, contracts for workplace training were signed, students were trained, and a TVET scholarship program was implemented. The CPSFR noted that nine out of 10 output indicators of the project were fully achieved, but that the outcome indicator was not met.⁸⁵ The target was that at least 65% of TVET graduates would find employment within 3 months of graduation, but only 17% of mid-level automotive and construction graduates found employment in this period.⁸⁶ The percentage increases to 27% if those finding employment more than 3 months after graduation are considered,⁸⁷ but this was lower than the 48% average employment rate for TVET graduates reported in 2010.⁸⁸

68. The TCR assessed the education TA (footnote 67) *less than effective* because, at TA completion, the Ministry of Education had not demonstrated the capacity to plan and strengthen high-quality technical education. The TA outcome target had not been met since the ministry had yet to approve the secondary technical vocational education school’s development framework. The TA provided an assessment and implementation framework for expanding and improving technical education based on the studies and assessment reports. The findings of these reports were incorporated into the government’s Education Sector Plan, 2020–2024.⁸⁹ One of the key TA outputs, which was only partly achieved, was the dual certification mechanism.⁹⁰ The Ministry of Education, the Secretariat of State for Vocational Training and Employment, and the National Labor Force Development Institute are not in agreement on the assessment and certification mechanisms for technical secondary graduates.

⁸⁴ The intended outcome of the Mid-level Skills Training Project is an enhanced TVET system with mid-level skills training (levels 2–4). The system should be relevant and responsive to labor market needs. The project had five outputs: (i) mid-level skills training provision, (ii) technical teacher training, (iii) enhanced labor market linkages of TVET, (iv) strengthened Secretariat of State for Professional Training and Employment Policy (SEFOPE) financing and support for TVET, and (v) project implementation and management.

⁸⁵ The output 5 indicator (project outputs are delivered on time and within budget) was not achieved because the outputs were delivered 18 months late, but within budget.

⁸⁶ The draft PCR prepared by the resident mission argues the expected outcome would have been largely achieved despite the performance indicator not being met given that: (i) a large number of graduates (up to 46%) opted to continue their training at higher levels instead of finding employment; and (ii) the target of 65% was considered overambitious and unrealistic based on surveys conducted by the Secretariat of State for Vocational Training and Employment (SEFOPE) in 2014 and 2015. However, the reported 27% of graduates from the project finding employment is still below the 41%–45% average TVET employment rate reported in SEFOPE surveys.

⁸⁷ ADB (Pacific Department). 2018. Aide Memoire Review Mission to Timor-Leste: Mid-level Skills Training Project. April (internal). This figure (17%) has not changed according to the latest project performance data in eOps in IQ 2021.

⁸⁸ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Democratic Republic of Timor-Leste: Mid-Level Skills Training Project*. Manila. Summary Sector Assessment; Technical Education and Vocational Skills Training (linked document).

⁸⁹ During the validation mission, a project team member from the resident mission confirmed that findings from the tracer study, teacher training curriculum, learning outcome assessment and labor market study had been adopted by the government in the Education Sector Plan.

⁹⁰ Under Timor-Leste’s decree law, all graduates from secondary technical schools should receive two certificates: (i) a diploma from the Ministry of Education and (ii) a certificate from other institutions for accreditation (technical certificate for specific technical skills).

69. Furthermore, the quality of TVET graduates has not always met the standards required by employers, since many have had low skill levels and poor work attitudes.⁹¹ The CPSFR indicated in its assessment of the CPS results framework that there had been some progress on the outcome target for technical education,⁹² noting that 14% of the student population was enrolled in 32 TVET schools in 2016, compared with 11% (1,982 students) in 2012.⁹³ The validation rates the education program *less than effective*.

70. **Support for ANR included two small-scale grants and one TA project.** The Coffee and Agroforestry Livelihood Improvement Project (\$3.0 million, funded by the JFPR, footnote 65) was based on the ADB supported National Coffee Development Plan (footnote 64) and implemented by Ministry of Agriculture and Forestry. It focused on improving extension services and coffee value chain development. The project aimed to pilot a new model for delivering training to 2,000 coffee farming households in six municipalities. Training was to be based on good agricultural practices for coffee production and related crops, and assistance given with regard to access to finance. According to Ministry of Agriculture and Forestry officials, the National Coffee Development Plan was a good plan that provided a sustainable pathway for coffee development in Timor-Leste. The coffee grant has just started, and no results were available at the time of the evaluation mission. The project is promoting sustainable farming practices by introducing inter-cropping legumes and other crops in coffee fields along with improved coffee production and marketing systems. This validation rates the ANR program *effective*, based on the expected outcome of increasing the income of smallholder coffee growers in Timor-Leste.⁹⁴

71. The first ADB energy project in Timor-Leste will be processed in 2021. Two TA projects have supported the preparation of internal policies and regulations that will establish the EUC as a new state-owned enterprise, by transferring staff and functions from EDTL. Of the EDTL staff, 90%–95% were retained by EUC but were given the option to remain or return to government as civil servants in the MPW after a year. The power sector now has its own regulatory body to approve tariffs, among others. Parliament approved an annual budget of \$158 million in December 2020 for power generation and distribution. The validation rates the energy program *effective*.

72. **ADB TA was also successful in the finance sector.** The finance program included a capacity development TA, Expansion of Financial Service (\$750,000), approved in 2014. Supplementary financing of \$528,000 was received from DFAT Australia in 2017. The TA was physically completed at the end of December 2020. The planned activities that were completed included a road map and action plan for the institutional strengthening of Banco Nacional de Comércio de Timor-Leste (BNCTL), and the application of commercial banking principles by the management and staff. By the end of the TA, BNCTL had been transformed into a commercial bank. The TA exceeded expectations: the number of account holders was expected to increase by 5% within 12 months of TA completion, but the actual increase was much higher. The number of client accounts with loans increased from 21,216 in 2014 to 23,305 in 2020, an increase of 9.8%, and the number of clients with deposits increased from 208,722 in 2014 to 331,228 in 2020, an increase of 58.7%. Although BNCTL's financial position has improved over the last 5 years, returns on equity remained around 3% against the design and monitoring framework (DMF) target of 5%. The

⁹¹ Government of Timor-Leste. 2018. *Completion Report: Mid-Level Skills Training Project*. Dili.

⁹² The envisaged outcome in the CPS, 2016–2020 results framework was skilled workforce with improved technical and vocational training, and the outcome indicator was an increase in the proportion of technicians with secondary and post-secondary qualifications to 50% by 2030 (from 30% in 2010). ADB. 2020. *Country Partnership Strategy Final Review: Timor-Leste, 2016–2022*. Manila. Appendix 2.

⁹³ The CPS, 2016–2020 Summary Sector Assessment for Education, which was cited as a data source in the CPSFR, indicated that in 2010 11% of students in secondary schools were at technical secondary schools. The reports and recommendations of the President (RRP) for the project reported that 14% were already attending technical schools in 2010 (RRP, Summary Sector Assessment).

⁹⁴ There was another small grant categorized under the ANR sector, but it was emergency COVID-19 pandemic support. COVID-19 Food Security Emergency Response (June 2020) provided food assistance to vulnerable households. Against a target of 25,000 people, the assistance reached 28,000 people. The grant supported micro and small enterprises and benefited 289 suppliers employing 959 persons. The emergency assistance was implemented by the Ministry of Agriculture and Forestry with the support of UNDP Timor-Leste.

bank's cost:income ratio remained around 70%, against a target of 75%. Some 60%–70% of the lending portfolio covers micro, small and medium-sized enterprises and about 40% of the borrowers were women. The bank is able to conduct international transactions with seven countries. The financial performance was below expectations, partially because of frequent changes in government, leadership changes in BNCTL, travel restrictions during the pandemic, and the underperformance of some of the TA consultants. BNCTL implemented a gender-sensitive road map and action plan developed in 2016. There is a possibility of ADB extending a policy-based loan in the finance sector in future. The recently completed draft TA completion report (footnote 79) noted that the number of account holders had increased by 51% against a target of 5% and savings volume increased by 234% against a target of 15%. It reported that, despite the negative impact of COVID-19, significant benefits had been achieved in the digital transformation of the bank. During the pandemic there was an exponential rise in the use of digital products (e.g., automated teller machines and point-of-sale accounting systems) replacing the use of branch-driven deposits and withdrawals using physical cash. BNCTL is the only bank in the country that offers products in all provinces and that has customers outside the main centers. The validation rates the finance program *effective*.

73. **ADB supported Timor-Leste's aspirations for greater regional integration.** A TA project approved in 2020, Capacity for Multilateral and Regional Economic Integration (footnote 71), supported Timor-Leste's capacity to meet ASEAN and WTO accession requirements. Progress to date indicates that Timor-Leste's engagement with ASEAN has intensified and a technical work plan to enable the country to comply with ASEAN requirements, also taking into account WTO requirements, has been developed and implementation started. Key actions include: (i) mobilizing a project management team with two international and three national experts, (ii) conducting the first virtual meeting between Timor-Leste's economic line agencies and the ASEAN Senior Economic Officials Meeting in December 2020; (iii) inviting the Timor-Leste Chamber of Commerce and Industry to attend the ASEAN Business Advisory Council as an observer (ASEAN plans to invite Timor-Leste to non-policy making meetings, also as an observer); (iv) agreeing to the TA workplan, including the recommendations on strategy and advocacy, communication, and technical readiness; and (v) conducting a workshop on sharing practical experience on developing market access in bilateral, regional and multilateral trade negotiations. The validation considers the TA to be on track and likely to deliver intended outcomes. It assesses the industry and trade program *effective*.

74. **ASEAN membership is one of the major foreign policy and national objectives outlined in the government's SDP.** Of the four TA projects supported by ADB under its PSM program, two have been completed and the others are ongoing. Three of the four TA projects were designed to support Timor-Leste's preparation for its accession to ASEAN as a full member.⁹⁵ The Ministry of Foreign Affairs highly values ADB's continued support and informed the evaluation mission that Timor-Leste has made progress in its readiness for accession to both ASEAN and the WTO. Timor-Leste already participates in ASEAN events as an observer, and it has prepared a legislative action plan which it is ready to share with the ASEAN member states. The action plan also serves as a road map for WTO accession. Twenty-two pieces of legislation are required; some of these have been approved while others are awaiting approval from the Council of Ministers. A handful require ratification from the Parliament.⁹⁶ Timor-Leste is optimistic that it will join ASEAN in late 2021 or early 2022. However, given the slow legislative process, weak institutions, and reluctance of some of the ASEAN member states, ASEAN membership is likely to be later than this. Nevertheless, ADB's support since 2013 has been effective in enabling the government to continue its path to ASEAN and WTO memberships.

75. The TA project Fiscal Policy for Improved Service Delivery (footnote 74) supported improved legal and regulatory frameworks. The TA support helped to conduct diagnostic assessment of current legal

⁹⁵ The TA projects supporting regional economic integration with a particular focus on gaining membership of ASEAN for Timor-Leste were: (i) TA6542: Capacity for Multilateral and Regional Economic Integration; (ii) TA: 8256: Preparing for Regional Economic Integration; and (iii) TA 9070: Capacity for Regional Economic Integration.

⁹⁶ The government is seeking support from the European Union (EU) for the political security and social cultural pillars.

and operational characteristics of state-owned enterprises and autonomous public agencies, and it provided policy recommendations for their governance, including on the determination and collection of fees and charges. It also supported the piloting of mechanisms for monitoring and performance reporting on a commodity coding system and customs tariff. It built Ministry of Finance staff's capacity to analyse policy reforms. However, implementation of the TA was adversely affected by changes in the government during the CPS period and because of COVID-19's impact on the mobility of consultants and experts. The implementation of the TA for the Support for Achieving the Strategic Development Plan 2011–2030 and the SDGs is behind schedule in achieving its outputs because the knowledge products from the TA are yet to be delivered and owned by the government.⁹⁷ The validation rates the PSM program *effective*.

76. **There are no active PPP operations in Timor-Leste.** Some \$1.2 million was provided for project preparation assistance to implement PPP solutions under the Dili's urban solid waste management project, funded by the Asia Pacific Project Preparation Facility (AP3F) in 2016,⁹⁸ but no updates on the status of the investment project are available. AP3F financed capacity development assistance (\$431,800) for the PMU of the Tibar Bay Port Concession Project to ensure its efficient monitoring.⁹⁹ The International Finance Corporation helped structure the Tibar Bay PPP transaction and its tendering in order to leverage investment alongside the government's contribution. In 2016, the French transport conglomerate Bollore won the 30-year concession through an open and transparent competitive tender. Bollore gave an assurance it would invest \$150 million in the first stage of construction. The government would contribute \$130 million as viability gap financing.¹⁰⁰ The Tibar Bay PPP project also had TA support from the World Bank and Australia to strengthen capacity and resolve institutional issues. Joint advisory work by the World Bank and the International Finance Corporation leveraged the respective strengths of each institution. ADB is exploring a possible 100 megawatts capacity PPP solar energy project upon the request of the electricity utility to help increase the proportion of solar energy in its energy mix, given its commitment to renewable energy.¹⁰¹

77. **ADB had no nonsovereign operations in Timor-Leste.** A lot of work is required to establish an enabling environment for private sector growth in Timor-Leste. A World Bank study noted that lack of access to finance, poor electricity and water services, cumbersome import and business regulations, corruption and bribe requests, and low workforce skills and education levels had all been associated with weaker firm performance.¹⁰² The study recommended policy priorities for increasing firm performance, include increasing firms' access to finance, skills, and affordable inputs, as well as easing firms' entry requirements and reducing regulatory uncertainty. Additional policy areas for reform may include the foreign direct investment regime and the insolvency and creditor rights system (footnote 102). Staff of ADB's Private Sector Operations Department have consulted with private finance institutions, hospital operators, farmers, and others. However, the lack of capacity and the absence of an enabling environment for private sector participation are seen as major constraints on nonsovereign operations. Private sector development should be supported by helping the government develop the enabling environment and through a focus on livelihood and microenterprise development.

1. Effectiveness Assessment Summary

78. **The overall effectiveness rating was determined primarily by the *less than effective* ratings in the transport and WUS sectors, which accounted for 94% of the portfolio.** The assessment of program

⁹⁷ ADB. 2018. *Technical Assistance Report: Timor-Leste: Support for Achieving the Strategic Development Plan 2011–2030 and the Sustainable Development Goals*. Timor-Leste.

⁹⁸ Asia Pacific Project Preparation Facility. [Project Preparation Assistance for the Implementation of PPP Solutions in Dili's Urban Solid Waste Management](#).

⁹⁹ Asia Pacific Project Preparation Facility. [Project Monitoring Assistance for the Tibar Bay Port PPP Project](#).

¹⁰⁰ World Bank. 2018. [Creating Markets in Timor-Leste Through a Landmark Port PPP](#).

¹⁰¹ IED was also given access to the draft TA completion report for Pacific Private Sector Development Initiative (PSDI), Phase 3. This reported an increase in foreign direct investment, an increase in the number of borrowers and deposits at Banco Nacional de Comércio de Timor-Leste reference to a PPP project underway (without further information).

¹⁰² World Bank. 2019. *Timor-Leste Economic Report: Unleashing the Private Sector*, Washington, D.C.

effectiveness was based on the weighted average of the individual ratings of each sector program (IED rating table is in Chapter 3, Table 8). Transport projects have been delayed because of the time required to obtain environmental licenses and inadequate budgetary provisions for involuntary resettlement. Climate-proofing of road infrastructure has not been prioritized, and road sections have been damaged by heavy rains, landslides, and the poor quality of infrastructure. In the WUS sector, a grant to improve water access for residents in Dili was partially successful and established about 6,000 new household connections. The District Capitals Water Supply Project (footnote 63) is to close in June 2021 but remains active and is supporting O&M activities in the two district capitals. The outcomes of the education sector program were not achieved since only 17% of mid-level automotive and construction graduates found employment within 3 months of graduation, significantly lower than the 65% target. Overall, the country program is rated *less than effective*.

C. Efficiency

79. The assessment of efficiency is based on: (i) the costs and benefits of the CPS program, taking into account the original objectives and the least-cost alternatives, and (ii) program implementation, cost disbursements, and contract award performance. Only four out of 48 closed projects had completion reports.¹⁰³ This made it difficult for IED to fully assess the economic efficiency of the portfolio, and the assessment is based mainly on the completed projects, while considering ongoing project implementation performance reviews.

1. Economic Efficiency

80. Only three of the grant projects had PCRs, one of which also had a PVR. A large grant for the transport sector was rated *efficient*, but the other two—one small-scale JFPR grant and another large grant in the WUS sector—were assessed *less than efficient* (Appendix 1, Table A1.1 for details of the ratings of the completion reports). The first transport loan resulted in lower traffic growth than expected and the recalculated economic internal rate of return (EIRR) for one of its main components was 15%, lower than the 19% at appraisal.¹⁰⁴ One transport JFPR loan did not have an EIRR analysis, but implementation was delayed for 2 years, resulting in a *less than efficient* rating. The PCR of the Road Network Development Sector Project (footnote 60) assessed the project *efficient*, based on an EIRR of 14% at completion, which was confirmed by IED in its PVR. However, the PVR pointed out that the benefits of road safety were omitted from the EIRR calculation. Both the PCR and the PVR overlooked implementation delays of 18 months. The construction cost was higher than the original estimate because of the revised road design and climate-proofing.

81. In the WUS sector, only the Dili Urban Water Supply Project had a PCR. At appraisal, the EIRR was estimated to be 20.2%, but at completion it had fallen to 10%. This was because some key economic benefits were not achieved—fewer households than expected were connected to the distribution system, non-revenue water was not reduced, and there was no reduction in the use of energy or chemicals. Water was not supplied for 24 hours and supply varied across the coverage area. In education, at appraisal the EIRR for the Midlevel Skills Training Project was estimated to be 26.6% but there are no EIRR figures for the project at completion.

2. Process Efficiency

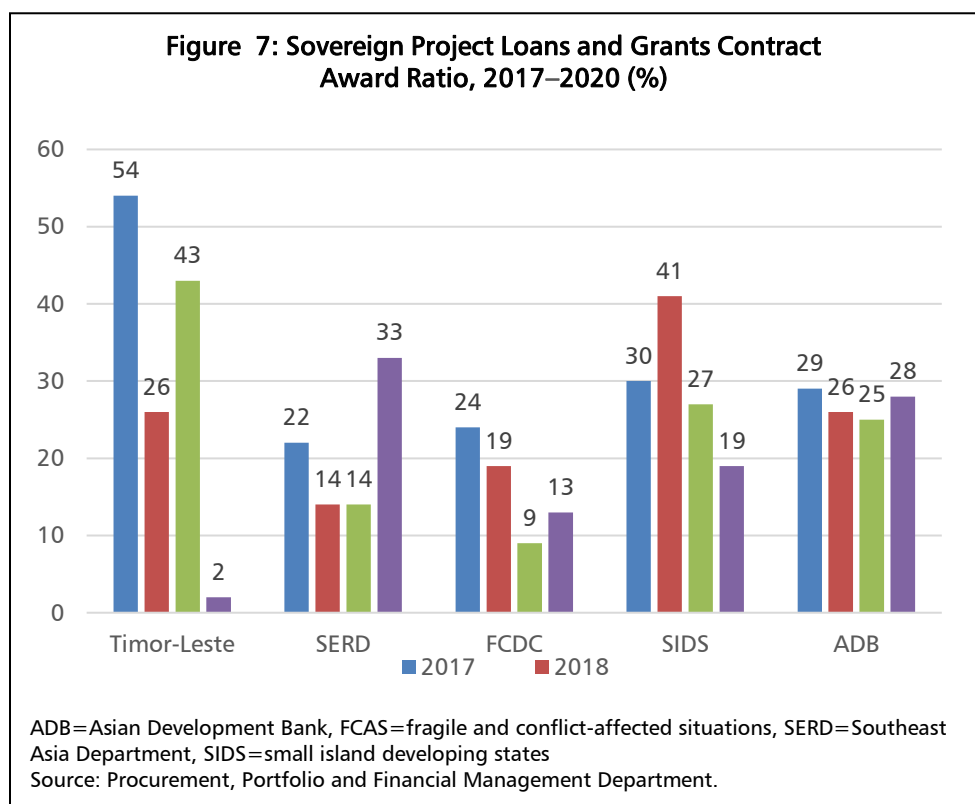
82. **Over half the active portfolio is either at risk or needs attention.** As of 4 March 2021, of the seven active projects, two were at risk, two required attention and three were on track.¹⁰⁵ All projects were on track in 2018, but the proportion dipped to 83% in 2019 and to less than 50% in 2021. ADB staff

¹⁰³ During the finalization of this validation, SERD shared some data in the draft PCR for the Mid-Level Skills Training Project.

¹⁰⁴ Due to its sector project nature, at the time of appraisal an EIRR for the whole project had not been conducted.

¹⁰⁵ These data were provided by Procurement, Portfolio and Financial Management Department upon IED request (April 2021).

interviewed for this validation indicated that changes in senior officials in relevant government agencies were major factors. The annual contract award ratio, against the projection, and annual disbursement ratio status are shown as Figures 7 and 8. The latest ADB portfolio data provided by Procurement, Portfolio and Financial Management Department indicates that the overall portfolio was seriously affected by the COVID-19 pandemic.¹⁰⁶ Timor-Leste's performance for contract awards was low (1.5% in 2020), significantly lower than the FCAS, SIDS, and ADB-wide averages. Timor-Leste had much better contract award ratio achievements in 2017 (54%) and 2019 (43%).



83. **Timor-Leste's disbursement ratio was close to the ERD ratio but slightly higher than the FCAS ratio (Figure 9).** Typically, the Timor-Leste disbursement ratio has been 3-5 percentage points lower than the SIDS average. Timor-Leste was transferred from PARD to SERD in 2019 and was included in SERD data from 2020.

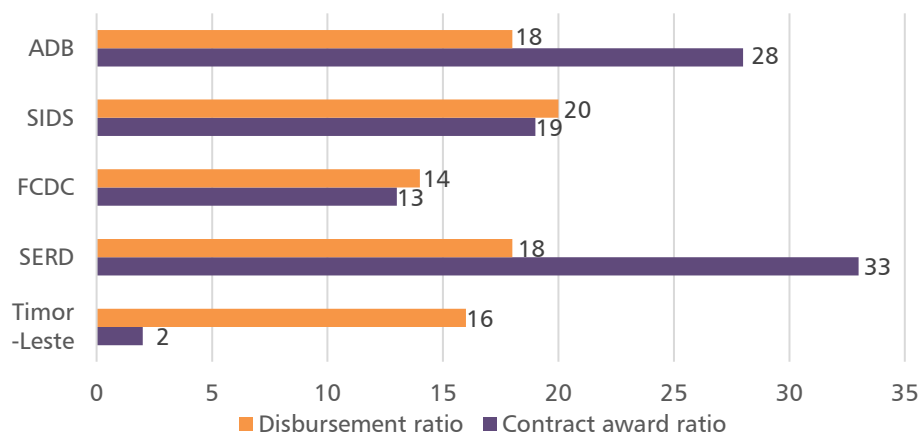
84. **Timor-Leste did not perform well on its portfolio indicators although there were signs of improvement.** Time from approval to signing and to effectiveness for loans and grants took longer in Timor-Leste than the ADB average, except in 2016 and 2017 when these periods were shorter than the average for loans. The average time interval from signing to the first contract award was shorter than the FCAS, SIDS, SERD, and ADB averages. However, there were significant implementation delays for all loans, grants, and TA projects. The actual average implementation period of loans and grants ranged from 6.4 to 7.8 years, and exceeded FCAS, SIDS, SERD, and ADB-wide averages (Table 6). The gap between the original and actual implementation periods narrowed in the period from 2016 to 2018.¹⁰⁷ This suggests that, during the early part of the CPS period in 2016, the implementation schedules at appraisal were not realistic and that capacity-related constraints and other risks may not have been adequately considered. Appendix 2 shows the key portfolio performance indicators. All delays were attributed to

¹⁰⁶ Data as of 4 March 2021.

¹⁰⁷ According to Procurement, Portfolio and Financial Management Department data, no loans or grants were planned for closing (or were actually closed) in 2019 and 2020.

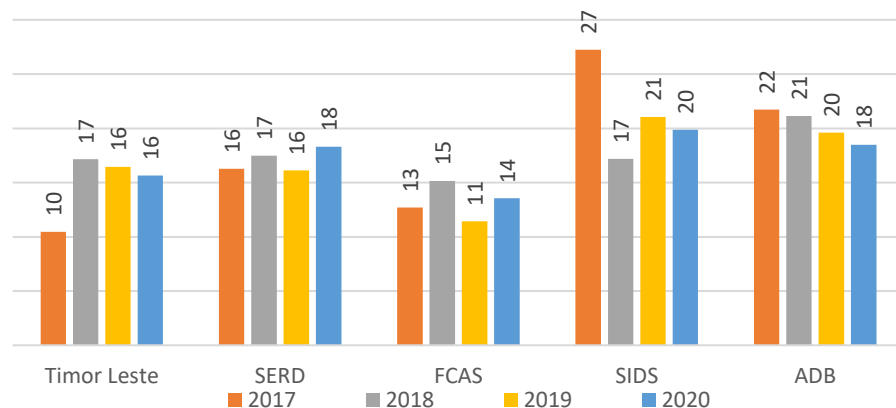
lack of capacity for contract processing and project implementation, and to the need to adopt ADB social and environmental safeguards. Delays were observed in all projects requiring time extensions. As project and TA experiences accumulate, more realistic implementations can be factored into project designs.

Figure 8: Sovereign Project Loans and Grants Contract Award and Disbursement Ratios, 2020 (%)



ADB=Asian Development Bank, FCAS=fragile and conflict-affected situations, SERD=Southeast Asia Department, SIDS=small island developing states
 Note: Disbursement ratio includes projects only (without policy-based lending)
 Source: Procurement, Portfolio and Financial Management Department, ADB.

Figure 9: Sovereign Project Loans and Grants Disbursement Ratio, 2017-2020 (%)



ADB=Asian Development Bank, FCAS=fragile and conflict-affected situations, SERD=Southeast Asia Department, SIDS=small island developing states
 Note: Disbursement ratio includes projects only (without PBL)
 Source: Procurement, Portfolio and Financial Management Department, ADB.

Table 6: Actual Implementation Period, 2016–2020 (average number of years)

Item	2016	2017	2018	2019	2020
TIM	7.5	7.8	6.4	-	-
SERD-wide	7.1	7.0	6.8	6.7	6.6
FCAS	6.6	7.1	4.8	7.8	8.1
SIDS	6.0	6.5	4.2	5.7	6.0
ADB	6.5	6.7	6.5	7.1	7.1

ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, SERD = Southeast Asia Department, SIDS = small island developing states, TIM = Timor-Leste.

Notes:

- (i) Covers loans and grants closed in each year. No projects were completed in 2019 and 2020 in Timor-Leste.
- (ii) Excludes additional financing, policy-based lending or grants, TA loans, financial intermediary loans, credit lines, project design advances, not effective projects, and projects that were effective but fully cancelled.
- (iii) Actual Implementation period is the time from signing to the actual financial closing.

Source: ADB Procurement, Portfolio and Financial Management Department.

85. It is difficult to reach a conclusion on the procurement indicators for Timor-Leste because of the small number of projects reviewed. In terms of procurement readiness, only two projects, one in 2016 and another in 2018, involved major construction work or procurement of goods and services, but in these cases procurement-ready bid documents were prepared before project approval. In 2016, end-to-end procurement time, which is the period from advertisement to contract signing for \$10 million packages and above, was slightly lower for Timor-Leste (315 days) than the FCAS and SIDS averages (319 days), but higher than the ADB average (300 days). No project reached the \$10 million threshold during the 2017–2020 period.

3. Sector Assessments of Efficiency: Non-Infrastructure Sectors

86. Four TA projects supported the PSM program under the CPS, two of which were completed. The TCR for Preparing for Regional Economic Integration (footnote 73) rated the TA project *efficient* based on the cost and time needed to deliver outputs, and the strong political commitment for regional integration. The TA was completed with 95% fund utilization but an 18-month delay. Capacity for Regional Economic Integration (footnote 72) was completed in June 2020 after a 2-year delay. The Fiscal Policy for Improved Service Delivery (footnote 74) was approved in June 2016 with an original closing date of December 2018 that has now been extended to December 2022. Prevailing political uncertainties, a reduction in the number of staff in the Ministry of Finance, and the slow pace of reform have delayed TA implementation. The TA project Support for Achieving the Strategic Development Plan and the Sustainable Development Goals (footnote 41) was originally planned to close at the end of June 2020 but was extended until June 2021. In summary, all four TA projects in the PSM program had implementation delays, which were primarily due to changes in the government and staffing, legal and regulatory reforms, preparation for ASEAN membership, and, more recently, the COVID-19 pandemic travel restrictions. IED assesses the PSM sector program *less than efficient*.

87. The TA project Expansion of Financial Services (\$750,000, footnote 69) supported Timor-Leste's finance operations. It was approved in December 2014 with an initial closing date of June 2018. An additional \$528,000 in supplementary funding from DFAT Australia was approved in June 2017 to support the audit and risk management functions of BNCTL, extending the closing date to December 2020. The TA completed all its planned activities. The CPSFR noted that the ratio of bank credit to the private sector improved only marginally from 12.6% in 2013 to 13.0% in 2018, far below the target of 70%. The reforms at BNCTL helped to expand the bank's operations across the country. Overall, IED assesses the finance sector program *efficient*.

88. The TA project Capacity for Multilateral and Regional Economic Integration (footnote 71) supported Timor-Leste's preparations for accession to ASEAN and WTO memberships. The knowledge work undertaken by the TA was continued by the consultants remotely after COVID-19. Initial indications

suggest that implementation is on track and the TA is likely to complete its intended activities by the closing date of 31 December 2022; and as such IED assesses the industry and trade program *efficient*.

89. In the education sector, the grant and the TA projects experienced implementation delays. The Mid-level Skills Training Project was extended twice, from 31 December 2016 to 31 December 2017 and then again to 31 June 2018. At project closing, \$11.9 million (99%) had been disbursed.¹⁰⁸ Project activities, including the upgrading of facilities, curriculum development (due to failed negotiations with the International Labour Organization), and teacher training, were delayed. Consequently, mid-level training was piloted only toward the end of the project.¹⁰⁹ The lack of qualified national consultants and the lengthy recruitment process negatively affected project implementation. The project was the first ADB project to be directly implemented by the Secretariat of State for Vocational Training and Employment and the agency's lack of familiarity with ADB financial management and procurement procedures contributed to the delays in implementation. The TA project also experienced start-up delays, and its original completion date was extended by 12 months to 31 December 2019. Upon TA closing, \$255,500, or 25% of the total TA value, which was intended to implement a pilot program to convert general secondary schools to technical secondary schools, was undisbursed (footnote 66). IED assesses the education sector program *less than efficient*.

4. Sector Assessments of Efficiency: Infrastructure Sectors

90. The implementation completion memorandum for the JFPR project on Our Roads Our Future, concluded that the project was *less than efficient* (footnote 78). Although no economic analysis was undertaken, the assessment noted the implementation delays and partial achievement of outputs: work in Oecussi district was dropped, contributing to the performance assessment. The other four transport projects are ongoing but continue to have implementation delays because of weak implementation capacity.

91. The validation of the TCR for the Preliminary Assessment for Dili Airport Runway Upgrading Project (footnote 82) concurred with the *efficient* rating of the TCR. The validation report concluded that the TA project's socioeconomic value was substantial because of the long-term benefits expected from the expansion of Dili airport, while contract management was efficient. The TCR for the TA project Infrastructure Management (footnote 81) assessed the performance to have been *efficient*. It noted that the expanded scope of the TA and the time required to deliver institutional and system reforms had extended its completion date by 2.5 years. The TA projects Policy and Planning Development for Public Investments, Subproject 1 (footnote 83) and Baucau to Viqueque Highway Project (footnote 61) are both still being implemented and have been extended by 2 years and 1 year, respectively. The COVID-19 pandemic has adversely affected the implementation of both. The IED assessment indicates that both TA projects are likely to require further extensions.

92. Overall, based on grant, loan, and TA operations, IED assesses the transport program under the CPS *less than efficient*.

93. **The two water and other urban services program grants were delayed and had significant extensions.** The first, for the Dili Urban Water Supply Sector Project (footnote 62), took 9 years to implement (2007–2016) while the District Capitals Water Supply Project (footnote 63) took 10 years (2011–2021). Both took more time than the sector norm for ADB (about 7 years). Under the District

¹⁰⁸ During the IED validation mission, IED heard that the project account was not closed at project completion in order to sustain operations of the project monitoring unit and the training centers. The draft ADB PCR, which was shared with IED in September 2021, reported that financial closing was delayed due to the longer time required by SEFOPE to reconcile financial records, finalize its partnerships agreements with the training centers, liquidate outstanding expenditures, and complete refunds of grant proceeds that were either unused or found ineligible by ADB. At project closing, the government returned about \$2,000 to ADB as a refund of the unused advance fund.

¹⁰⁹ The government PCR indicated that level III training was piloted in October 2015 (footnote 66).

Capitals Water Supply Project (formerly the Oecussi and Ermera Water Rehabilitation Project), civil works were completed but O&M support in both capitals is ongoing. IED assesses the WUS program *less than efficient*.

94. The two energy sector TA projects (both called Electricity Systems Strengthening and Sustainability, Appendix 1, Table A1.2) were implemented within their planned schedules. The first program TA produced a draft internal policy and legal framework for transforming EDTL into EUC. The Timor-Leste Implementing Reforms for Growth and Competitiveness TA Project continues to support this transformation and the strengthening of EUC.¹¹⁰ It may need to be implemented within a much shorter period than its planned closing in December 2023, since both the government and the people have high expectations that power reliability can be improved. IED assesses the energy program *efficient*.

95. The TA project Support for Preparation of a National Coffee Sector Development Plan for Timor-Leste (footnote 75) was completed 18 months after the original completion date, partly because of weak institutional capacity in the Ministry of Agriculture and Forestry and partly because of changes in the government. The community consultation process took more time than originally envisaged. The Coffee and Agroforestry Livelihood Improvement Project (footnote 65) is a follow-up support project to strengthen coffee production and marketing. It is too early to assess its efficiency since most activities have not started. The COVID-19 Food Security Emergency Response was provided as an Asia Pacific Disaster Relief Fund grant, implemented by Ministry of Agriculture and Forestry and supported by UNDP.¹¹¹ Over the first 6 months of the project, progress has been impressive and the food-based distribution component has been *efficient*. Nevertheless, capacity at the Ministry of Agriculture and Forestry is limited and given the wide geographical distribution of coffee farmers, logistical issues pose major challenges to implementation. On balance, IED assesses the ANR program *less than efficient*.

5. Efficiency Assessment Summary

96. **Major implementation delays occurred in most completed investment projects and TA projects.** The EIRRs for most completed projects were lower than the original estimates at appraisal, while the contract award and annual disbursement ratios were varied but usually above FCAS averages. TA implementation was significantly delayed, but ongoing projects are showing improvement, and have fewer delays. The lack of staff capacity in the executing and implementing agencies, and political changes that have affected decision-making, have impeded efficient implementation. The validation assesses ADB support for Timor-Leste *less than efficient*.

D. Sustainability

97. IED assesses the transport program to be *less than likely sustainable* since: (i) the O&M budget allocations and utilization seem likely to remain far below requirements; (ii) the soil structure and terrain mean that a significant investment in climate-proofing is required, although this is not funded under the ongoing project; (iii) the MPW has inadequate technical staff and capacity to undertake O&M; and (iv) preference is being given to allocating resources for road reconstruction or rehabilitation, including widening, rather than for maintenance. Setting up the proposed national road fund will require political commitment, and early action is needed to support O&M requirements. The validation noted that the TA outputs associated with the Baucau to Viqueque Highway Project (footnote 61), included 11 reports, including one on road asset management and a recommendation to establish the Road Maintenance Fund. The road maintenance policy paper estimated that Timor-Leste would require \$45.2 million for periodic maintenance and an additional \$20.6 million for routine maintenance annually to maintain roads and bridges, far more than the recent budget allocation. According to information provided by the Timor-Leste Resident Mission, the budget allocation for 2019 was scaled back from \$11.0 million to \$5.9

¹¹⁰ ADB. [Timor-Leste: Implementing Reforms for Growth and Competitiveness](#).

¹¹¹ ADB. [Timor-Leste: COVID-19 Food Security Emergency Response](#).

million, while the allocation for 2020 was \$4.3 million and for 2021 \$6.9 million. The validation also noted that a draft decree law is in place, but that it would take 6-12 months to enact the law because it would require Ministry of Finance and MPW agreement on the management approach to the Road Management Fund, finalization of the draft law, approval by the Council of Ministers, promulgation by the President, and publication in the State Gazette. The validation considers these steps to be work in progress and at the time of the validation fund had not been established.

98. Only limited O&M is being carried out at the facilities constructed under the Dili Urban Water Supply Project, although O&M was one of its five main outputs. Users are not paying the water tariff and some parts of the city are not receiving water. Despite shortcomings in achieving the outcomes of the two WUS grant projects, ADB is committed to extending water supply coverage in other district capitals. Of the four TA projects in the sector, some were investigating future support to other capitals (Strengthening Water Sector Management and Service Delivery¹¹² and Second District Capitals Water Supply Project).¹¹³ The Second District Capitals Water Supply Project focused on four towns: Baucau, Same, Los Palos, and Viqueque.¹¹⁴ The TA project Urban Services Improvement Sector prepared three master plans: (i) Dili solid waste management, (ii) Dili urban water supply and (iii) an initial road map for investment, 2018–2030.¹¹⁵ These provide the basis for future investment, including by ADB through its Office of Public–Private Partnership (OPPP). JICA is preparing the Dili Urban Master Plan, and extending support for four water treatment plants in 2011, a good example of development partner coordination.

99. Under the District Capitals Water Supply Project (footnote 63), Manatuto city outsourced O&M to a private firm, China Nuclear, under a 2-year contract from January 2020 to January 2022. Manatuto is the first pilot project in Timor-Leste to outsource maintenance. However, the O&M performance does not appear to be up to the intended level, and recent months' data have yet to show a substantial improvement. The report for January 2021 noted that the tariff collection in Manatuto was 5%; the government attributes this low level to the moratorium on payments introduced in 2020 during COVID-19. However, when the tariff was reintroduced in late 2020, households were still reluctant to pay since there is a notion that water should be free (a belief that is also shared in many Pacific islands).

100. In Pante Macassar, SMASA manages the water supply system (para. 66). In 2019, ADB hired an international consultant to help SMASA provide 24-hour water supply. Training planned for 2018 did not materialize because of budget shortfalls caused by the local political situation. In 2020, the consultancy team was unable to visit Pante Macassar because of the COVID-19 pandemic. A consultant engaged under the ADB project by the government checks the performance data every month. However, given the decline in water sources during the dry season in 2020, Pante Macassar has had to rely on the pump that was installed during the project to distribute water manually in the detached enclave (on the west side of Timor island, an area that is not contiguous to the main territory). Pante Macassar authorities are still in a trial-and-error phase and are trying to gain experience to improve the service.

101. The government has asked ADB to continue to build the financial management capacity of Banco Central de Timor-Leste. Senior officials in the MPW indicated that such support from ADB is essential because the newly established regulatory body for the water sector, the National Authority for Water and Sanitation Public Institute, has limited capacity. In September 2020, the Government Directorate General for Water Sanitation was restructured into a public enterprise to oversee 12 district capitals. From IED interviews with MPW officials, it seems performance data for the three district capitals (Dili, Manatuto and Pante Macassar) are regularly sent to the MPW and National Authority for Water and Sanitation Public Institute.

¹¹² ADB. [Timor-Leste: Strengthening Water Sector Management and Service Delivery](#).

¹¹³ ADB. [Second District Capitals Water Supply Project](#).

¹¹⁴ ADB is processing a new project for three of these four capitals.

¹¹⁵ ADB. [Timor-Leste: Urban Services Improvement Sector Project](#).

102. The National Coffee Sector Development Plan that was developed under ADB TA (footnote 75) was appreciated by the Ministry of Agriculture and Forestry and other stakeholders, including those in the private sector. The TCR rated the TA *likely sustainable* because of its clear implementation mechanism. The Ministry of Agriculture and Forestry is committed to implementing the plan with other stakeholders. A JFPR grant approved in 2020—Coffee and Agroforestry Livelihood Improvement (footnote 65)—builds on this TA, and is likely to focus on supporting smallholder coffee growers on a pilot basis, with extension services provided by the Ministry of Agriculture and Forestry. Inter-cropping in coffee fields, as recommended by the plan, is likely to boost incomes during periods of price volatility. Although it is too early to be sure about the sustainability of the project, IED considers that it will be sustainable if implementation goes ahead as envisaged. The benefits that can be seen from COVID-19 Food Security Emergency Response (footnote 111) are assessed likely to be sustainable; not only has the project helped the affected population sustain their nutrition requirements, it has also supported local small and medium-sized enterprises.

103. The TA project Capacity for Multilateral and Regional Economic Integration (footnote 71) has strong government ownership and is directly correlated with Timor-Leste's national aspirations and the government's political commitment to join ASEAN and the WTO. The Ministry of Foreign Affairs is committed to attaining this goal with support from relevant line ministries.

104. The TCR for Preparing for Regional Economic Integration (footnote 73) assessed the TA *likely sustainable* because of the high level of government participation in its activities and the strong political commitment to regional integration. Two other TA projects (footnote 96) complement the government's political aim of accession to ASEAN and WTO. These two TA projects and Capacity for Multilateral and Regional Economic Integration (footnote 71) under the industry and trade program have common themes and objectives that are fully owned by the government. Similarly, Fiscal Policy for Improved Service Delivery (footnote 74) aims to create an enabling environment through institutional reforms and a relevant legal and regulatory framework to improve the competitiveness of Timor-Leste. ADB's TA project Support for Achieving the Strategic Development Plan, 2011-2030 is supporting the government through strategic planning and prioritizing actions for the accomplishment of national SDG goals.

105. The TA project Expansion of Financial Services (footnote 70), completed at the end of December 2020, was instrumental in enhancing the footprint of BNCTL as the only national bank able to transact business outside the country. From IED interviews with government officials, it appears that the reforms introduced under the TA appear to be non-reversible. BNCTL has seen a significant increase in the number of its clients and the volume of transactions, and its financial performance has improved. In education, sustainability of mid-level skills training rests on the government's commitment to provide funding to support operations of training centers and programs in the banking sector. Project documents indicate that the long-term partnership between the executing agency and five training centers has not been finalized because of a lack of government funding.¹¹⁶ The CPSFR indicated that government had committed financial resources to support the training centers, while the updated Education Sector Plan, 2020–2024, which includes the revised objectives for vocational and technical training and costs to 2023, follows the TA recommendations. However, government's financial commitment remains to be seen, given delays in the provision of counterpart funding for Mid-level Skills Training Project and the TA project at the Ministry of Education.¹¹⁷ Furthermore, government has yet to provide clear guidance and direction on investments in general secondary education.¹¹⁸

¹¹⁶ ADB (Pacific Department). 2018. Review Mission to Timor-Leste: Midlevel Skills Training Project. 27 April (internal).

¹¹⁷ Delays in the provision of funding for the Tibar Training Center in 2014 were noted in the October 2014 Mid-Term Review Mission back-to-office-report (BTOR) for the Midlevel Skills Training Project. These delays meant there were no training programs until October 2014. A similar issue was reported in 2013. The BTOR of a review mission in 2018 also highlighted delays in allocation of government funding to support training centers under the project, and the Government's inability to commit funds for the pilot schools.

¹¹⁸ ADB. 2019. Review Mission for TA:9006 TIM Policy and Planning for Skills Development in Secondary Education; Grant 0274 TIM Mid-Level Skills Training Project. 29 March (internal).

1. Sustainability Assessment Summary

106. The validation assesses ADB operations in the transport, education and WUS sectors *less than likely sustainable*; and those in the ANR, energy, finance, industry and trade, and PSM sectors *likely sustainable*. WUS operations were assessed *less than likely sustainable* because of low tariff collections, and high levels of non-revenue water. The transport sector faces challenges in sustaining O&M budgetary allocations (maintenance, one of the central recommendations of the previous CPSFRV, was not fully addressed in the CPS). The sustainability of ADB operations in both these sectors would be enhanced if there was a clear long-term goal of improving the financial and technical capacity of the road agency and water utility, and if finance for infrastructure maintenance was assured by the establishment of the road maintenance fund and by an improvement in the collection of water tariffs. In the education sector, clarity over the demarcation of TVET and secondary education is needed.

E. Development Impacts

107. The CPS results framework included 18 indicators covering three strategic pillars: (i) more inclusive and sustainable growth—to be achieved by the provision of inclusive and sustainable infrastructure services, leveraging private sector expertise for infrastructure management, long-term fiscal sustainability, and environmental sustainability; (ii) improved human capital—to be achieved through support for technical education and water supply, and other services, and (iii) a more diversified and productive economy—to be achieved by supporting a business-enabling environment, financial sector development, and regional integration.

108. The key CPS results framework indicators were: (i) average travel times between the national and district capitals reduced by 30% by 2020, from 3.6 hours in 2015; (ii) national roads maintained using long-term performance-based contracts; (iii) proportion of technicians with secondary and post-secondary qualification increased to 50% by 2030 from 30% in 2010; (iv) access of urban residents to improved water supply increased to 100% by 2030, from 94% in 2014; and (v) compliance with binding ASEAN legal agreements increased to 100% by 2020 from 1.6% in 2015. Of the 18 indicators, five were either achieved or were on track. Table 7 highlights performance as reported in the CPSFR.

Table 7: Performance against CPS Indicators (Indicators that Have Been Achieved or Are on Track)

Country Development Impact (Key Strategic Pillars)	Outcome Indicator	Progress
1. More inclusive and sustainable growth	Average travel times between the national and district capitals reduced by 30% by 2020 (2015 baseline: 3.6 hours).	On track and likely to be achieved with a delay: 336 km of national roads have been rehabilitated or upgraded since 2016, of which 205 km were financed by ADB. As of April 2020, average travel times from Dili to district capitals, estimated at 4–9 hours had still not reached the original target.
	Increased international shipping capacity.	Achieved: In 2019, customs reported traffic of 274,572 TEU. Improvements in customs procedures have reduced handling times and delays and increased capacity. Construction of the new Tibar port is due to be completed in 2021.
	Improved coverage and reliability of electricity services.	On track with some progress: By 2017, 80.4% of households had access to electricity. (Source: World Development Indicators)
2. Improved human capital	Proportion of technicians with secondary and post-secondary qualifications increased to 50% by 2030 (2010 baseline: 30%).	On track with some progress Participation in training programs was not covered in the last Labor Force Survey, 2016. The educational level of the working age population (15 years and over) is generally increasing, with an increase from 33% in 2010 to 38% of workers with secondary school education and an increase from 2% to 12% for tertiary education (LFS, 2016). Of the student population,

Country Development Impact (Key Strategic Pillars)	Outcome Indicator	Progress
		14% were enrolled in 32 TVET schools in 2016 (Government data – Ministry of Energy), compared with 1,982 in 2010 (CPS Sector study).
	Urban residents' access to improved water supply increased to 100% by 2030 (2014 baseline: 94.5%).	On-track with some progress In 2019, three kiosks to facilitate the payment of water bills were opened in Dili; however, progress in expanding metering and billing for water has been slow.
3. A more diversified and productive economy	Proportion of adult population with a bank account increased to 90% by 2025 (2013 baseline 16.6%). ^h	On-track with good progress In 2018, the share of the adult population with at least a deposit account was estimated at 62% (BCTL data).

BCTL = Banco Central de Timor-Leste, CPS = country partnership strategy, GDP = gross domestic product, LFS = labor force survey, TEU = twenty-foot equivalent unit, TVET = technical and vocational education and training.

Sources: ADB. 2020. *Country Partnership Strategy Final Review: Timor-Leste, 2016–2022*. Manila; Statistical Year Books 2018 and 2019 by General Statistics Office of Timor-Leste; and limited data obtained by the evaluation team during the validation mission.

1. Development Impacts of Cross-Cutting Thematic Priorities

109. During the CPS period, Timor-Leste went through political upheaval and changes of senior government officials. The CPS had originally planned a fragility assessment to help prepare action plans on adjusting ADB operations to accommodate the changing circumstances, but this was not prepared. ADB operations would have benefited from such a plan, as well as from a more realistic assessment of how capacity limitations affect project design and implementation, and a better understanding of development risks.

110. **ADB's support for knowledge solutions in the areas of climate-proofing rehabilitated roads and water and sanitation operations was limited.** Critical knowledge relating to slope retention, drainage systems, deployment of bioengineering techniques, and maintaining quality standards of roads to ensure resilience to natural hazards was lacking and not fully understood by departments in the MPW. Budget limitations and the lack of technical staff were often cited as impediments to acquiring new knowledge. In the WUS sector, projects claimed to have contributed to climate change adaptation (through simply reducing non-revenue water), but any improvements have been slight.

111. **ADB support for private sector development was limited.** ADB and other development partners shared a common view that there was a need to improve the enabling environment for private sector participation. The non-oil sector provides opportunities for investment, particularly in agri-processing, high-value crop production, and ecotourism. However, the ADB portfolio focused on the transport sector and paid little attention to upstream work on enabling environments.

112. **ADB supported the establishment of an environmental licensing agency, responsible for issuing environmental clearances.** ADB support enabled staffing at the agency to increase from five to about 20. Government's environmental and safeguard requirements are generally aligned with ADB's Safeguard Policy Statement (2009), but some improvements are needed. For instance, the government's payment of compensation is below the market rate and has often led to protracted negotiations with affected persons. Climate-proofing targets were only partially met. There is no verifiable evidence to suggest that ADB's support under the CPS helped to reduce greenhouse gas emissions, and Timor-Leste continues to be heavily dependent on diesel imports for power generation.

113. **In governance, key decisions regarding project approval and financing rest with the Council of Ministers, resulting in extended review processes and requiring strong inter-agency coordination.** For example, ADB and JICA have supported the government to establish a Road Maintenance Fund, but a

decision is being held up pending clarification on its location within government, i.e., whether it should be in the Ministry of Finance or the MPW. In terms of capacity building, TA projects in the non-infrastructure sectors (finance, PSM and industry trade) helped build the capacity of government staff.

114. **ADB's gender focus relied upon the extent of gender mainstreaming in projects.** The Mid-level Skills Training Project (footnote 66) was classified effective gender mainstreaming and as such had a GAP) that focused on increasing female enrollment in construction and automotive training.¹¹⁹ The GAP included 34 actions with four quantitative targets.¹²⁰ Overall, GAP implementation was successful. All 34 actions specified in GAP were fully implemented and all of the four quantitative targets were achieved. Under the project, female participation in training increased from 5% in 2009 (before the Mid-level Skills Training Project) to an average of 25%, exceeding the project's 20% target.¹²¹ This was achieved by prioritizing female training applicants, offering scholarships to women, building separate facilities for women and men, recruiting female teachers, and working with trainers on gender sensitivity. The project also challenged gender-based cultural stereotypes about female participation in Timor-Leste's construction and automotive industries. Although female enrollment rates in training were good, female employment rates remained low. For example, out of the 150 Oecusse students trained, 29% were women, but only 10% of graduates who were employed were women. The TA project Policy and Planning for Skills Development in Secondary Education (footnote 67) was also classified as effective gender mainstreaming. Its design and monitoring framework included output indicators that encouraged attention to gender differences.¹²² According to the TCR, the TA provided men and women and people with disabilities with equal opportunities for participation in the priority skills program.

115. In summary, across the cross-thematic areas, the validation rates ADB operations in gender, governance, and partnerships *satisfactory*, and operations in the other three themes (knowledge, private sector, and environmental sustainability) *less than satisfactory*.

2. Sector-Level Development Impacts

116. **ADB support for the road subsector improved transport connectivity through the upgrading of the national roads but travel time from Dili to district capitals was still 4–9 hours, against the target of 2.5 hours.** The CPSFR (Appendix 3) notes that the travel time is expected to fall to 2–3 hours by the end of 2022 when ongoing national road upgrades are completed. However, this seems unlikely based on IED interviews and available data while road conditions remain challenging and highly vulnerable to adverse weather conditions. Climate-proofing of roads has been limited. The validation recognizes that the completion of Tibar port at the end of 2021 will facilitate the handling of a higher volume of sea freight, but another assessment will be required when the port is completed. The validation rates the development impact of ADB support for the transport sector *less than satisfactory*.

¹¹⁹This was to be done by (i) raising awareness of non-traditional TVET and related career options through promotional activities, (ii) making the curriculum more gender-sensitive, (iii) providing gender training to TVET management and teaching staff, (iv) constructing a dormitory for female trainees at Tibar, (v) targeting female enrollment of at least 20% in construction and automotive trades by 2016, and (vi) recruiting female trainers in skills areas covered by the project. The project will also introduced a scholarship programs targeted at females as part of TVET policy implementation plans.

¹²⁰ These were: (i) reserving 50% of spaces in the new dormitory for women trainees, (ii) targeting women enrollment of 20% in construction and automotive trades by 2016, (iii) recruiting three to five eligible women trainees for teacher training programs by 2016, and (iv) enrolling at least 10% women trainees by 2014 and 20% overall by 2016 in project-supported skills areas. ADB. 2021. Completion Report: Timor-Leste Mid-Level Skills Training Project. Manila. (draft)

¹²¹ Excerpt from draft PCR provided by the resident mission.

¹²² These include: (1a) learning outcomes and destinations of graduates assessed in a sample of proposed new and existing technical schools by March 2017, with attention to gender differences; (1b) cost-effectiveness of skills programs assessed for existing technical schools by March 2017, separately for males and females; (1d) at least four priority skills programs identified based on labor market relevance and demand, as well as cost-effectiveness and with attention to gender by July 2017; (2a) proposed priority skills programs for new technical schools discussed, based on assessment results, and agreed to by the Ministry of Education and school officials by July 2017, with special attention to equal opportunities for men and women.

117. In the WUS sector, pilot O&M initiatives are ongoing in district capitals under ADB's District Capitals Water Supply Project to explore ways to improve cost recovery.¹²³ Three of these cities—Dili, Manatuto, and Pante Macassar—have different O&M arrangements. Political interventions have made it difficult for Dili and Manatuto to opt for private outsourcing, but the Pante Macassar water supply is now managed by its special economic zone agency. The restructured public water enterprise in Dili is in the midst of a 2-year transition from a government department to a public utility. The government will assess future options at the end of these 2 years. The government has pilot schemes to collect comparative data from these three different O&M arrangements, and positive prospects for finding suitable O&M schemes are emerging. The validation rates the development impact of ADB operations in the WUS sector *satisfactory*.

118. ADB's support for ANR was limited during the CPS period, but its development impact was **satisfactory**. Initial TA support helped the preparation of the National Coffee Sector Development Plan, 2019–2030, launched by the Minister of Agriculture in May 2019. The plan was prepared through an inclusive and participatory process involving key sector stakeholders and is available in print and online editions, in English and Tetum. It is being used by the Ministry of Agriculture and Forestry as a strategic document for the development of the coffee subsector. The subsequent \$3.0 million JFPR grant for the Coffee and Agroforestry Livelihood Improvement Project (footnote 65) is supporting rural households engaged in coffee production and providing opportunities for employment and increased incomes. Small and marginal farmers are likely to benefit from higher coffee yields and the production of better-quality beans. Although the benefits from the grant project approved in 2020, have not been fully realized (based on IED interviews) the prospects for delivering results seem strong. Similarly, the provision of a \$1.0 million grant for the COVID-19 Food Security Emergency Response (footnote 111) has provided food rations to about 20,000 recipients and helped more than 450 micro and small enterprises remain in business during the pandemic.

119. ADB support for technical education aimed to improve the relevance of TVET and to enable it to address skills shortages and expand employment opportunities. ADB supported the development of a strategy to expand technical education and improve links to the labor market, and it provided inputs to the updated Education Sector Plan, 2020–2024. The outputs from these activities have the potential to contribute to improving human capital. Some progress was made in improving the access of women to TVET in construction and the automotive industry—both of which were traditionally viewed as occupations for men. However, in the absence of evidence to demonstrate the improved quality of TVET and the skills profile of graduates, the impact of the technical education sector program remains to be seen. The validation rates the development impact of ADB support for the education sector *less than satisfactory*.

120. The country program failed to contribute to long-term national development impacts. Project outcomes fell short of their targets and the sustainability of many achievements is not assured. ADB road projects connect main destinations, but the benefits of the new roads may not be long lasting. The piloting of various water supply services in three capitals should steadily improve water services. TA projects in the energy and non-infrastructure sectors, particularly in PSM and support for Timor-Leste's ASEAN and WTO accession are providing valuable support. Overall, the IED validation assessed the CPS's development impacts *less than satisfactory*.

¹²³The National Authority for Water and Sanitation Public Institute has a national water quality laboratory in Dili which is supported by JICA and was established in 2002. For Manatuto, the contractor has established a laboratory that is capable of conducting daily checks.

F. ADB and Borrower Performance

1. ADB Performance

121. **ADB was responsive to country development needs within the legal restrictions on official borrowing.** ADB responded to the government's requests to improve road connectivity and TA projects were provided for other sectors, including industry and trade, PSM, finance, and energy. Given that more than 70% of the population is dependent on agriculture, ADB's engagement in the ANR sector was limited and occurred only later in the CPS period. While government regulation does not permit borrowing for non-infrastructure sectors, ADB could have carried out more policy engagement to create a more favorable environment for investment in agriculture and the rural economy. Since 2013, ADB has supported the government's preparatory efforts for joining ASEAN as a full member. The government views ADB as a valuable development partner.

122. **ADB has supported capacity development for project administration and management.** ADB provided training in financial management, procurement, bid preparation, contract management, and safeguard compliance. It supported the establishment of a fully-fledged environmental licensing agency to speed up environmental clearances. In the areas of road and water and sanitation, ADB support was timely and useful; for example, the PMU within the MPW added capacity to manage additional road projects. Many of the TA projects during the CPS period drafted reports and papers for the government's capacity building manuals, guidelines, and reporting templates. ADB proposed plans for institutional reforms and capacity strengthening e.g., in the energy, environment, and WUS sectors. However, IED was not able to confirm whether these proposals had been officially adopted by government and progress was not monitored. In the case of ADB support for BNCTL, EDTL, and the National Directorates of Economic Policy, IED found that clear milestones, schedules, and monitoring indicators had been established. These were factored into the IED ratings on two cross-cutting themes: knowledge and capacity building.

123. **ADB has collaborated with other development partners.** IED recognizes ADB's coordination with JICA and DFAT Australia in the transport sector, its division of responsibilities for support for national road expansion with JICA, and the fact that DFAT-funded rural and feeder roads will connect with the national highway. This national highway network followed the recommendations made under the JICA-funded road network master plan.¹²⁴ ADB is one of the Timor-Leste's few development partners to directly extend TA to the Ministry of Foreign Affairs to support Timor-Leste's efforts to join ASEAN and WTO.

124. **ADB has a visible but small local presence in Timor-Leste.** The small ADB resident mission has received periodic visits from staff from the OPSP and the Private Sector Operations Department to assess potential PPP opportunities. OPSP staff have monitored sovereign projects and advised on improvements and provided capacity development in the WUS, energy and PSM sectors. While ADB does not have many international staff in Dili, it does retain an office there (other development agencies use regional hubs, e.g., the World Bank whose staff are based in its Jakarta office).¹²⁵

125. **Overall, it was difficult to see how Timor-Leste's fragility and SIDS status affected the way ADB operated in the country.** A fragility assessment was not undertaken, and the Timor-Leste portfolio was moved from the PARD to SERD, a department with limited small country experience. There was little evidence of an FCAS approach being used in project documentation or evidence that ADB had engaged

¹²⁴Long-term capacity development programs are offered by bilateral donors, notably by JICA and Australia. JICA has provided over 15 years of support to the University of Timor-Leste Engineering department. It supports faculty staff to be trained in three different universities in Japan.

¹²⁵JICA Dili office has one country director and three international staff (one working on ANR; one on governance who also covers WUS and the police; and one on infrastructure). All 40 of the JICA expert volunteers have been repatriated to Japan as a result of the pandemic.

differently in Timor-Leste, designed its projects differently, from normal, or that had employed a different approach to those it used in other developing member countries. However, some evidence is emerging of ADB's recognition of the needs of Timor-Leste through, for example, long-term TA and institutional capacity support, beneficiary engagement, and working with other development partners, all of which are essential components of an FCAS approach. Within the context of this validation, however, ADB's performance during the CPS period is assessed *less than satisfactory*, especially given ADB's adoption of a Pacific SIDS approach in 2010.

2. Borrower Performance

126. **Timor-Leste has come long way since its independence.** The government's drive and enthusiasm is evident in its aspiration to increase the size of the economy, while ASEAN membership is seen as an opportunity to enter the regional market. However, the implementation of loan and grants and TA projects produced mixed results. Political uncertainties involving changes in the government caused delays in decision-making and in safeguard compliance, which led to most operations running behind their original schedules. Restrictions on borrowing and a heavy reliance on the Petroleum Fund, with little scope for non-oil economic growth, have contributed to further uncertainty. Originally when the CPS was designed, Timor-Leste's FCAS and SIDS issues were featured along with many of the Pacific small island states. Three of the fragility characteristics—weak governance, ineffective public administration and the rule of law, and vulnerability to economic shocks and natural hazards were acknowledged in the county context, but the subsequently, the country's borrowing policy led to sector concentration on transport, and subsequent new projects during the CPS period did not have strong consideration to or actions for addressing fragility concerns. Overall, the validation concludes that the borrower's performance in implementing the CPS was *less than satisfactory*.

G. Quality of the Country Partnership Strategy Final Review

127. The CPSFR did not undertake the matrix assessment required in the ADB guidelines (footnote 3) to assess performance by sector and against the planned thematic objectives, such as those based on the three pillars or the drivers of change in the CPS. Since the only new ADB investments in the CPS period were in the transport sector, the self-assessment should have carefully assessed ADB's performance by key thematic elements to highlight any major achievements through TA projects and policy dialogues. The CPSFR took an optimistic view in its conclusion on the effectiveness of the overall ADB program. This assessment was based on contract awards and the procurement status of ongoing projects rather than on development project results and their link to the CPS results framework. The CPSFR contained little description of the FCAS approach or on how ADB worked to achieve results in fragile context. The efficiency analysis was weak, with little examination of EIRRs and an overreliance on an assessment of project process efficiency.

CHAPTER 3

Conclusion, Lessons, Issues, and Recommendations

128. The validation assessed ADB's program in Timor-Leste from 2016 to 2020. The country program was aligned with the government's priority to expand transport connectivity with a focus on the national highway network between Dili and Baucau. ADB extended TA support to help the government attain full membership of ASEAN and WTO, which is now expected in 2022. However, the CPS offered limited strategic guidance in terms of economic growth and social development, improving governance, economic diversification, and supporting livelihoods, particularly in the ANR sector. IED found little evidence to suggest that ADB followed an approach that considered the particular circumstances of Timor-Leste or that it understood the risks of working in a complex and fragile context. However, in the cross-cutting thematic areas, IED rated ADB operations in knowledge, gender, governance, and capacity building, and partnerships *relevant*, and in private sector development, and environment sustainability *less than relevant*. Overall, IED found the country program *relevant*. As the intended outcomes in the dominant sectors—transport and WUS—were not achieved, the program was rated *less than effective*. Given the major implementation delays, the program was rated *less than efficient*. The technical and financial constraints on O&M in transport and WUS sectors meant that the program was assessed *less than likely sustainable*. The country program's development impacts were assessed *less than satisfactory* in education, transport and in three of the six cross-cutting areas knowledge, private sector development and environmental sustainability. ADB is working with other development partners and providing institutional support to Timor-Leste's ASEAN and WTO accession. The benefits of ADB's investment in infrastructure, the bulk of the program, were less than expected. As a result, IED rates ADB's CPS program in Timor-Leste from 2016 to 2020 *less than successful* overall (Table 8). The CPSFR also rated the overall performance *less than successful*, but some criteria were rated higher than those of this validation; for instance the program was self-assessed *relevant, effective, less than efficient, less than likely sustainable*, with *satisfactory* development impacts.¹²⁶

A. Lessons

129. **A strong non-controversial national goal can help build political commitment and continuity and support economic growth.** There has been strong ownership of the SDP by all major political parties, despite their differences. This has paved the way for Timor-Leste to pursue its aspiration to become a full member of ASEAN and the WTO. ADB has supported preparations for ASEAN membership and has primarily focused on supporting Timor-Leste to meet the requirements of the ASEAN Economic Community.¹²⁷ It has also supported the government's drive for WTO accession.

130. **Capacity development and institutional support for legal and regulatory reforms are critical for economic, political, and private sector development.** The needs and priorities of Timor-Leste as a SIDS and FCAS are unique and require ADB to provide long-term capacity development support in key areas. ADB support for Timor-Leste's ASEAN and WTO accession demonstrates that TA can be used strategically to build capacity in critical areas, such as state building and service delivery. However, change takes time,

¹²⁶The CPS final review did not conduct the required matrix assessment for thematic issues. This partly accounts for its higher overall rating compared to that in this validation.

¹²⁷ Based on IED interviews at the Ministry of Foreign Affairs during the validation mission.

patience, and perseverance, particularly since Timor-Leste is a new nation emerging from a long struggle for independence.

Table 8: Overall Program Assessment

Sectors	Relevance (20%)	Effectiveness (20%)	Efficiency (20%)	Sustainability (20%)	Impact (20%)	Overall Score
Sector Operations (Weight)						
ANR (1%)	1	2	1	2	2	1.6
Energy (0.4%)	2	2	2	2	2	2.0
Transport (87%)	2	1	1	1	1	1.2
WUS (7%)	2	1	1	1	2	1.4
Education (3%)	2	1	1	1	1	1.2
Finance (0.3%)	2	2	2	2	2	2.0
Industry and Trade (0.3%)	2	2	2	2	2	2.0
PSM (1%)	2	2	1	2	2	1.8
Weighted Average Score	1.99	1.03	1.01	1.03	1.10	1.23
Cross-Cutting Themes						
Knowledge (vocation, climate)	2				1	
Private Sector Development	1				1	
Environmental Sustainability	1				1	
Governance and Capacity Development	2				2	
Partnership	2				2	
Gender	2				2	
Weighted Average Score	1.67				1.50	
Overall Weighted Average Score	1.83	1.03	1.01	1.03	1.30	1.24
Overall Rating	<i>Relevant</i>	<i>Less than effective</i>	<i>Less than efficient</i>	<i>Less than likely sustainable</i>	<i>Less than satisfactory</i>	<i>Less than successful</i>

ADB = Asian Development Bank, ANR = agriculture, natural resources, and rural development, CPSFR = country partnership strategy final review, PSM = public sector management, WUS = water and other urban infrastructure and services.

Notes:

Weights are the sector-adjusted relative portfolio size based on the program portfolio under review (Appendix 1, Table A1.3).

Highly successful: $2.5 \leq s \leq 3.0$; successful: $1.75 \leq s < 2.5$; successful on the borderline: $1.6 \leq s < 1.75$; less than successful: $0.8 \leq s < 1.6$; and unsuccessful: $0.0 \leq s < 0.8$, where s is the overall weighted average score.

Source: Independent Evaluation team.

131. **Investment in roads has the potential to increase cross-border trade.** With that, benefitting the national economy as well as movement of people and goods within the country. ADB's single-sector focus on the rehabilitation of national highways for improved transport connectivity overlooked opportunities for achieving broader development outcomes. Had ADB emphasized the need for high-quality road rehabilitation with the required provision for maintenance and road safety, this would have reduced travel time and transport costs as well as accidents and fatalities on these roads, resulting in better rural–urban links and economic benefits to the wider community, including rural livelihoods and poverty reduction.

B. Issues

132. **Timor-Leste's economy has not diversified.** Economic diversification is essential in view of the country's depleting oil revenues, inadequate infrastructure, low productive capacity, and youth unemployment. More than 70% of Timor-Leste's population relies on subsistence agriculture and has not benefited from the country's oil wealth. More investments in physical and social infrastructure and human capital are necessary. The private sector can be a major contributor to economic diversification by creating sustainable jobs and livelihoods. The legal restriction on borrowing only for infrastructure needs relaxing.

133. **Timor-Leste faces structural challenges that limit growth, constrain public service delivery, and hinder private sector development.** Limited human resources and weak public financial management adversely impact the delivery of quality public services. Public service provision is characterized by poor

budget execution, inadequate oversight of procurement and contract management, limited performance monitoring, and fragmentation in the management of public investments. The legal and regulatory framework for private sector participation is underdeveloped and does not provide an appropriate enabling environment.

134. **Timor-Leste's path toward full ASEAN membership has been a protracted process, a long one and the country has missed its self-imposed deadline for becoming a member.** The government has invested political capital in securing ASEAN membership, which remains a national goal.

135. **The quality of infrastructure is unsatisfactory.** Building infrastructure is not enough to resolve Timor-Leste's economic development challenges; the infrastructure that is built needs to be sustainable, climate-resilient, aligned with SDG Goal 9 (on industry, innovation, and infrastructure), and linked to wider issues concerning livelihoods and rural development. Poor quality infrastructure and inadequate funding for O&M have shortened the economic life of assets. Although climate-proofing was a feature of road designs, it was not implemented in most cases. Given the challenging climatic and geotechnical environment, the quality of the infrastructure needs to improve so it can withstand the impacts of climate change and natural hazards. However, this implies higher unit construction costs and larger allocations for O&M. Political differences in the ruling coalition have constrained the establishment of a Road Maintenance Fund, and the allocation of resources from the Petroleum Fund for maintenance.

136. **The formal private sector has not developed sufficiently in Timor-Leste.** Beyond the oil and gas sector, the private sector has only made a limited contribution for growth due to the lack of an enabling environment and a weak investment climate.

137. **ADB's attention to fragility and the evolving context in Timor-Leste was not articulated in planning documents.** Under the 2016 CPS guideline that was effective during this period, COBPs were the tool to update the evolving country context and any changes in the country program's strategic focus. COBPs from 2017 to 2020 did not refer to the evolving FCAS context, risks due to ongoing political, economic or social situations, any adverse impact to the portfolio, or the need for additional ADB attention or support. COBPs only stated changes in the pipeline of new projects and TA.

138. Climate-induced hazards, such as floods, landslides, and drought, frequently impact families' livelihoods and damage rural infrastructure leaving citizens without basic services and often isolated.

C. Recommendations to ADB

139. The validation report offers five recommendations to ADB.

140. **Recommendation 1: Enhance efforts with development partners to help diversify the economy and create employment by increasing ADB support for agriculture and rural livelihoods, ecotourism, and other parts of the non-oil economy (e.g., untapped renewable energy sectors).** As most of the population depend on subsistence farming, ADB should focus on labor-intensive agricultural value chain development by promoting high-value crops, while ensuring climate change and resilience building are incorporated in project designs. Ecotourism is also an area which has the potential to provide employment opportunities.

141. **Recommendation 2: Accelerate support to satisfy the requirements for Timor-Leste to join ASEAN and the WTO.** ADB has been supporting Timor-Leste in these efforts since 2013, through TA projects to support preparations for Timor-Leste's full membership in ASEAN. Timor-Leste could derive significant dividends by joining these bodies and ADB's focus should be on helping the country fulfill the unfinished agenda associated with the ASEAN Economic Community pillar.

142. **Recommendation 3: Ensure regular maintenance of highway network and feeder roads that have been constructed over the last decade.** High-quality road networks are vital to sustain rural economic growth.. ADB should focus on supporting the establishment and operation of the Road Maintenance Fund, ensuring compliance with environmental and social safeguards, and improving road safety. As Timor-Leste is a small FCAS country, greater efforts should be made to link infrastructure investments with poverty reduction, livelihood, and sustainable development outcomes in line with ADB's Strategy 2030 operational priorities.

143. **Recommendation 4: Provide additional capacity development support with clearer institutional goals and milestones in critical areas in close consultation with the government and development partners.** ADB should build on its previous support by providing long-term institutional capacity building to critical areas of policy reform and service delivery. In the short term, ADB needs to ensure future training programs, provided through TA projects, have clear progress monitoring indicators to assess improvements in human resources gaps and project implementation performance.

144. **Recommendation 5: Support the government in creating an enabling environment for private sector development.** ADB needs to prepare and approve an operational framework for Timor-Leste's private sector participation.

Appendixes

APPENDIX 1: ADB COUNTRY PORTFOLIO FOR TIMOR-LESTE DURING THE COUNTRY PARTNERSHIP STRATEGY FINAL REVIEW PERIOD, 2016–2020

Table A1.1: List of Sovereign Loans and Grants (including Cofinancing) Approved, Ongoing, and Completed During the CPS Period

Project Number	Project Count	Loan or Grant Number	Status	Project Name	Approval Date	Closing Date	Total ADB Financing (\$ million)	Total Cofinancing (\$ million)	PCR | PVR Rating	Source of ADB Fund	Source of Cofinancing	Lending Modality
Agriculture, Natural Resources and Rural Development												
Approved During CPS period												
51396-001	1	G9209	Active	Coffee and Agroforestry Livelihood Improvement	28-May-20	31-Oct-24		3.00			JFPR	Project
54310-001	2	G0707	Active	COVID-19 Food Security Emergency Response	18-Jun-20	28-Feb-21	1.00			GoJCV		Special Assistance
				Subtotal (2)			1.00	3.00				
				Sector Total (2)			1.00	3.00				
Education												
Carry-over from Previous CPS Period												
45139-001	3	G0274	Active	Mid-Level Skills Training Project	07-Dec-11	30-Jun-18	12.00			ADF		Project
				Subtotal (1)			12.00					
				Sector Total (1)			12.00					
Transport												
Carry-over from Previous CPS Period												
43322-012	4	G0180	Closed	Road Network Development Sector Project	20-Nov-09	31-May-16	46.00		S | LS	ADF		Project
43322-022	5	G9142	Closed	Our Roads Our Future-Supporting Local Governance and Community-Based Infrastructure Works	20-Nov-09	06-Oct-16		3.00	S		JFPR	Project
45094-001	6	L2857 | L2858 | (Cof. Loan)	Closed (Cof. Loan, Active)	Road Network Upgrading Project	30-Mar-12	12-Oct-18	40.00	68.70		OCR | COL	JICA	Project
	(6)	L3181	Active	Road Network Upgrading Project (additional financing)	30-Oct-14	30-Dec-22	11.78			OCR		Project

Project Number	Project Count	Loan or Grant Number	Status	Project Name	Approval Date	Closing Date	Total ADB Financing (\$ million)	Total Cofinancing (\$ million)	PCR | PVR Rating	Source of ADB Fund	Source of Cofinancing	Lending Modality
46260-002	7	L3020 | L3021 | G0404	Active	Road Network Upgrading Sector Project	19-Sep-13	30-Jun-22	50.00	4.50		OCR | COL	GLDCF	Sector
	(7)	L3341 | L3342	Active	Road Network Upgrading Sector Project (additional financing)	03-Dec-15	30-Jun-21	76.22			OCR | COL		Sector
				Subtotal (4)			224.00	76.20				
Approved During CPS period												
45094-001	(6)	G0504	Active	Road Network Upgrading Project (additional financing)	19-Oct-16	31-Dec-23		22.62			EU	Project
50211-001	8	L3456	Active	Dili to Baucau Highway Project	11-Nov-16	30-Nov-22	49.65			COL		Project
51115-001	9	L3643 | L3644	Active	Baucau to Viqueque Road Project	21-Feb-18	31-Dec-21	44.00			OCR | COL		Project
				Subtotal (2)			93.65	22.62				
				Sector Total (7)			317.65	98.82				
Water and Other Urban Infrastructure Services												
Carry-over from Previous CPS Period												
38189-022	10	G0100	Closed	Dili Urban Water Supply Sector Project	18-Dec-07	25-Aug-16	6.00		LS	ADF		Project
44130-022	11	G0258	Active	District Capitals Water Supply Project	23-Sep-11	30-Jun-21	11.00			ADF		Project
				Subtotal (2)			17.00					
				Sector Total (2)			17.00					
				Total carry-over from the previous period (7)			253.00	76.20				
				Total approved during CPS period (4)			94.65	25.62				
				Total (11)			347.65	101.82				

ADB = Asian Development Bank; ADF = Asian Development Fund; cof. = cofinancing; COL = concessionary ordinary capital resources lending; CPS = country partnership strategy; EU = European Union; GoJCV = Asia Pacific Disaster Response Fund, Government of Japan for COVID19; GLDCF = Global Environment Facility-Least Developed Countries Fund; JFPR = Japan Fund for Poverty Reduction; JICA = Japan International Cooperation Agency; LS = less than successful; OCR = ordinary capital resources; PCR = project completion report; PVR = project validation report; S = successful.
Sources: Controller's database as of 30 September 2020; ADB eOps and the ADB project website, as of 5 January 2021.

Table A1.2: List of Technical Assistance Projects Approved, On-going and/or Completed During the CPS Period

TA Number	TA Count	TA Number	Status	Project Name	Approval Date	Closing Date	Total ADB Financing (\$ million)	Total Cofinancing (\$ million)	TCR Rating	TA Type	Source of ADB Fund	Source of Cofinancing
Agriculture, Natural Resources and Rural Development												
Approved During CPS Period												
50334-001	1	9264	Closed	Support for Preparation of a National Coffee Sector Development Plan for Timor-Leste	05-Dec-16	30-Jun-19	0.23		HS	PATA	TASF	
53104-001	2	9932	Active	Implementing Reforms for Growth and Competitiveness	17-Dec-19	31-Dec-23	1.00	0.50		PATA	TASF	WFPF
				Subtotal (2)			1.23	0.50				
				Sector Total (2)			1.23	0.50				
Education												
Carry-over from Previous CPS Period												
49178-001	3	9006	Closed	Policy and Planning for Skills Development in Secondary Education	03-Dec-15	23-Jul-20	1.00		LS	CDTA	TASF	
				Subtotal (1)			1.00					
				Sector Total (1)			1.00					
Energy												
Approved During CPS Period												
49177-001	4	9075	Closed	Electricity System AC and Sustainability Program	29-Jan-16	31-May-19	1.00			PPTA	TASF	
49177-004	5	9802	Active	Energy System Strengthening and Sustainability Project	05-Sep-19	29-Nov-21	0.88			PPTA	TASF	
				Subtotal (2)			1.88					
				Sector Total (2)			1.88					
Finance												
Carry-over from Previous CPS Period												
47002-001	6	8762	Active	Expansion of Financial Services	20-Nov-14	31-Dec-20	0.75			CDTA	TASF	
				Subtotal (1)			0.75					
Approved during the CPS Period												
47002-001	(6)	8762	Active	Expansion of Financial Services (Supplementary)	29-Jun-17	31-Dec-20		0.53		CDTA		ATAG
				Subtotal (0)				0.53				
				Sector Total (1)			0.75	0.53				
Industry and Trade												
Approved during CPS Period												
54143-001	7	6542	Active	Capacity for Multilateral and Regional Economic Integration	22-Jul-20	31-Dec-22	1.50			CDTA	TASF | RCIF	

TA Number	TA Count	TA Number	Status	Project Name	Approval Date	Closing Date	Total ADB Financing (\$ million)	Total Cofinancing (\$ million)	TCR Rating	TA Type	Source of ADB Fund	Source of Cofinancing
				Subtotal (1)			1.50					
				Sector Total (1)			1.50					
Public Sector Management												
Carry-over from Previous CPS Period												
46273-001	8	8256	Closed	Preparing for Regional Economic Integration	10-Dec-12	01-Oct-16		0.85	S	CDTA		JFPR
				Subtotal (1)				0.85				
Approved during CPS Period												
49002-001	9	9070	Closed	Capacity for Regional Economic Integration	28-Jan-16	26-Aug-20	1.00			CDTA	TASF | RCIF	
49176-001	10	9122	Active	Fiscal Policy for Improved Service Delivery	17-Jun-16	31-Dec-20	0.75			PATA	TASF	
52291-001	11	9704	Active	Support for Achieving the Strategic Development Plan 2011-2030 and the Sustainable Development Goals	11-Dec-18	30-Jun-21	0.23			PATA	TASF	
				Subtotal (3)			1.98					
				Sector Total (4)			1.98	0.85				
Transport												
Carry-over from Previous CPS Period												
46156-001	12	8278	Closed	Infrastructure Management	11-Dec-12	01-Dec-17	1.50		S	CDTA	TASF	
				Subtotal (1)			1.50					
51063-002	13	9495	Active	Policy and Planning Development for Public Investments, Subproject 1	19-Mar-18	27-Nov-22				PPTA	TASF	
51115-001	14	9502	Active	Promoting Sustainable Land Transport Infrastructure	21-Feb-18	31-Dec-21	1.20			PATA	TASF	
52320-001	15	9702	Closed	Preliminary Assessment for Dili Airport Runway Upgrading Project	21-Dec-18	13-Feb-20	0.23		S	RDTA	TASF	
				Subtotal (3)			2.43					
				Sector Total (4)			3.93					
Water and Other Urban Infrastructure Services												
Carry-over from Previous CPS Period												
39151-012	16	4942	Closed	Infrastructure Project Management	21-Jun-07	12-Dec-17	3.00	12.00	S	PATA	TASF	ATAG
45227-001	17	7981	Closed	Strengthening Water Sector Management and Service Delivery	14-Dec-11	20-Jun-18	1.31		LS	CDTA	TASF	
46160-001	18	8064	Closed	Second District Capitals Water Supply Project	26-Mar-12	31-Mar-16	0.55	0.20	S	CDTA	TASF	WFPP
47364-001	19	8750	Closed	Urban Services Improvement Sector Project	07-Nov-14	27-Aug-18	1.30	0.18		PPTA	TASF	UEIF
				Subtotal (4)			6.16	12.38				

TA Number	TA Count	TA Number	Status	Project Name	Approval Date	Closing Date	Total ADB Financing (\$ million)	Total Cofinancing (\$ million)	TCR Rating	TA Type	Source of ADB Fund	Source of Cofinancing
				Sector Total (4)			6.16	12.38				
				Total carryover from the previous CPS period (8)			9.41	13.23				
				Total approved during CPS period (11)			9.00	1.03				
				Total (19)			18.41	14.26				

ADB = Asian Development Bank; ATAG = Australian TA grant; CDTA = capacity development technical assistance; CPS = country partnership strategy; HS = highly successful; JFPR = Japan Fund for Poverty Reduction; LS = less than successful; PATA = policy and advisory technical assistance; PPTA = project preparation technical assistance; RCIF = Regional Cooperation and Integration Fund; RDTA = research and development technical assistance; S = successful; TASF = technical assistance special fund; TCR = technical assistance completion report; U = unsuccessful; UEIF = Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility; WFPPF = Multi-Donor Trust Fund under the Water Financing Partnership Facility.

Sources: Controller's database as of 30 September 2020; ADB eOps and ADB's project website, as of 5 January 2021.

APPENDIX 2: PORTFOLIO PERFORMANCE INDICATORS¹

Item	2016	2017	2018	2019	2020
1. Financial Performance^a					
Active committed portfolio (loans and grants, \$ million)	296.7	276.8	281.0	280.9	285.5
2. Procurement-Ready (% of operations)					
TIM	100		100		
SERD-wide	33	-	6	25	29
FCAS	50	14	25	10	36
SIDS	38	50	38	25	40
ADB	44	45	46	50	51
3. End-to-End Procurement Time (average, days)^b					
TIM	315				
SERD-wide	356	274	160	142	281
FCAS	319	473	273	401	261
SIDS	319	436	273	254	25
ADB	300	286	269	265	285
4. Actual Implementation Period (average, years)^c					
TIM	7.5	7.8	6.4	-	-
SERD-wide	7.1	7.0	6.8	6.7	6.6
FCAS	6.6	7.1	4.8	7.8	8.1
SIDS	6.0	6.5	4.2	5.7	6.0
ADB	6.5	6.7	6.5	7.1	7.1
5. Original Implementation Period (average, years)^c					
TIM	3.6	5.3	5.2	-	-
SERD-wide	4.8	5.1	5.3	4.9	4.7
FCAS	3.7	4.6	3.5	4.9	5.7
SIDS	2.9	3.9	3.2	4.3	4.7
ADB	4.4	4.5	4.3	4.8	4.7
5. Signing of First Contract (average, months)					
TIM	8.6	7.6	-	3.9	-
SERD-wide	12.2	15.2	16.1	12.4	13.3
FCAS	13.4	8.6	9.8	11.6	9.6
SIDS	9.0	7.3	6.0	8.4	10.9
ADB	11.9	9.9	10.1	10.8	10.1
6. Contract Award Ratio^c (%)					
SERD-wide	39.1	53.5	25.7	42.9	1.5
FCAS-wide	18.0	22.3	13.8	14.3	32.6
SIDS-wide	28.5	24.1	18.6	8.6	13.3
ADB-wide	31.8	29.6	40.5	27.0	19.3
ADB-wide	29.2	29.5	25.7	25.0	28.2
7. Disbursement Ratio (% , project only)^d					
SERD-wide	32.3	10.5	17.2	16.4	15.6
FCAS-wide	17.1	16.3	17.5	16.1	18.3
SIDS-wide	15.9	12.7	15.1	11.4	13.6
ADB-wide	24.3	27.2	17.2	21.0	19.9
ADB-wide	20.3	21.7	21.1	19.6	18.5
Disbursement Ratio (% , project and PBL)^d					
SERD-wide	32.3	10.5	17.2	16.4	15.6
FCAS-wide	35.2	23.6	36.5	31.8	60.6
SIDS-wide	16.2	12.8	18.0	13.7	31.7
ADB-wide	25.8	28.3	24.6	27.0	76.6
ADB-wide	27.2	25.7	27.7	29.1	41.9
8. Start-Up Compliance					
Loan (No. ^e | No. ^f)	7 | 5	5 | 11	7 | 6	- | 6	- | -
Average time from approval to signing (months)	2.7	2.7	4.7	4.7	4.7
Average time from signing to effectivity (months)	2.6	2.8	3.2	3.2	3.2
ADB-wide average time from approval to signing (months)	3.4	3.6	3.5	3.2	2.9

ADB-wide average time from signing to effectivity (months)	3.3	3.2	3.2	3.1	3.0
Grant (No.^e|No.^f)	2|2	2|2	5|4	-|3	2|2
Average time from approval to signing (months)	5.2	4.7	4.7	4.7	3.5
Average time from signing to effectivity (months)	2.6	3.0	3.0	3.0	2.3
ADB-wide average time from approval to signing (months)	3.0	3.0	2.8	2.4	2.0
ADB-wide average time from signing to effectivity (months)	2.5	2.6	2.6	2.8	2.7
Technical Assistance (TA)^g					
Active committed TA portfolio (number| \$ million)	10 (\$24.0)	8 (\$7.8)	10 (\$7.9)	10 (\$9.1)	8(\$8.3)
Average time from approval to signing of TA agreement (months)	1.7	1.7	2.9	2.6	2.2
ADB-wide average time from approval to signing of TA agreement (months)	2.5	2.6	2.3	2.0	1.8
9. Portfolio Ratings^h					
On track [number (%)]	4 (80.0)	3 (60.0)	6 (100.0)	5 (83.3)	3(42.9)
Potential problem [number (%)]	-	2 (40.0)	-	1 (16.7)	-
Actual problem [number (%)]	1 (20.0)	-	-	-	-
For attention [number (%)]	-	-	-	-	2(28.6)
At risk [number (%)]	-	-	-	-	2(28.6)
Projects with implementation risk (%)	20.0	40.0	-	16.7	57.1
SERD-wide projects with implementation risk (%) ⁱ	19.2	35.2	35.7	34.6	48.5
ADB-wide projects with implementation risk (%)	19.7	27.4	24.5	25.5	36.1

ADB = Asian Development Bank, FCAS = fragile and conflict-affected situations, PBL = policy-based lending, SERD = Southeast Asia Regional Department, SIDS = small island developing states, TIM = Timor-Leste.

Note: The portfolio is based on commitments (signing).

^a Contract award ratio excludes policy-based, results-based, financial intermediation or credit loans and grants where contracts are not managed by ADB. For projects with combined financial intermediation and project components, only the project component is included. Results-based lending and financial intermediation credit loans and grants were excluded with effective from the 2020 reporting period. The contract award ratios for 2016–2019 were recomputed to exclude Results-based lending and financial intermediation credit loans and grants for historical comparison. The disbursement ratio covers investment project loans and grants only.

^b Covers loans and grants closed in each year. Excludes additional financing, policy-based lending and grants, TA loans, financial intermediary loans, credit lines, project design advances, not effective, and effective but fully cancelled. Actual and original implementation period is the time from product commitment (signing) to the actual financial and original product closing.

^c Contract award ratio is the ratio of total contracts awarded in a given year to the uncontracted balance of signed loans and grants at the beginning of the year, including the amount of newly signed loans and grants during the year.

^d Disbursement ratio is the ratio of the total disbursements in a given year to the undisbursed balance of signed loans and grants as of the beginning of the year.

^e Number of loans (grants) including supplementary financing approved during the year.

^f Number of loans (grants) including supplementary financing signed during the year.

^g Includes nonsovereign technical assistance.

^h Covers all loan and grant projects (including cofinancing).

ⁱ SERD's project performance ratings for 2016–2019 exclude Timor-Leste since the effectivity of the transfer was in 2020.

Sources: Asian Development Bank (Procurement, Portfolio and Financial Management Department) data except for data for procurement-ready projects which were computed by ADB using data provided by the Strategy, Policy and Partnerships Department.

¹ Data on implementation period and signing to first contract has been requested from Procurement, Portfolio and Financial Management Department.

APPENDIX 3: SELF-ASSESSMENTS OF COMPLETED PROJECTS

Project Name	Total ADB Financing (\$ million)	Overall Rating	Relevance	Effectiveness	Efficiency	Sustainability
Grant 180-Road Network Development Sector Project (PCR completed)	46	Successful	Highly relevant	Less than effective	Efficient	Likely sustainable
(IED's PVR rating)	(46)	Less than Successful	Relevant	Less than effective	Efficient	Less than likely sustainable
Grant 9142-Our Roads Our Future-Supporting Local Governance and Community-Based Infrastructure Works (ICM completed)	3	Successful	Highly relevant	Effective	Less than efficient	Likely sustainable
Grant 100-Dili Urban Water Supply Sector Project (PCR completed)	6	Less than successful	Less than relevant	Less than effective	Less than efficient	Unlikely sustainable
Mid-Level Skills Training (Government PCR)	12			(No rating as it is still in draft stage)		
Maybe there will be for possible COVID APDRF Food program	2			Asia Pacific		

COVID APDRF = Asia Pacific Disaster Response Fund, ICM= implementation completion memorandum, IED = Independent Evaluation Department, PCR = project completion report. PVR = project completion report validation report.

Source: ADB. 2020. *Country Partnership Strategy Final Review: Timor-Leste, 2016–2022*. Manila.

APPENDIX 4: LINKED DOCUMENT

- A. Country Partnership Strategy Final Review: Timor-Leste, 2016–2022
<https://www.adb.org/sites/default/files/linked-documents/TIM-cpsfr-2020.pdf>