

IEG ICR Review  
Independent Evaluation Group

1. Project Data: Date Posted : 09/05/2007

PROJ ID : P082190	Appraisal	Actual
Project Name : Timor-este Transition Project Costs (US\$M):		
US\$M ):	27.0	35.96
Support Program II		
Country : Timor-Leste		
Loan /Credit (US\$M		
Loan/ ):		
US\$M):	4.00	4.17
Sector Board : PS		
US\$M ):		
Cofinancing (US\$M):	23.0	31.79

Sector (s): General public  
administration sector  
(54%)  
General education  
sector (17%)  
General agriculture  
fishing and forestry  
sector (17%)  
Health (8%)  
Other social services  
(4%)

Theme (s): Administrative and civil  
service reform (25% -  
P)  
Public expenditure  
financial management  
and procurement (25%  
- P)  
Other public sector  
governance (24% - P)  
Judicial and other  
dispute resolution  
mechanisms (13% - S)  
Other rural  
development (13% - S)

L/C Number : CH061

Board Approval Date : 07/22/2003

Partners involved : United Kingdom, Australia, USAID, Norway, Finland, Canada, Ireland, New Zealand	Closing Date :	10/31/2004	10/31/2004
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## 2. Project Objectives and Components:

### a. Objectives:

The project was part of a 3 year Transition Support Program (TSP) for which the objective was to provide bridge financing and allow Timor-Leste to put in place key governance institutions, strengthen other institutions, develop day-to-day service functions and implement a modest development program in the years before substantial oil and gas revenues come on stream . TSP II covers three thematic areas : (i) Good Governance, including strengthening state institutions, and public expenditure management; and strengthening administrative capacity in the justice sector; (ii) Service Delivery for Poverty Reduction, particularly improvement in the efficiency and effectiveness in the health and education sectors; and (iii) Job Creation, especially through private sector development and agriculture .

b. Were the project objectives/key associated outcome targets revised during implementation?

No

### c. Components (or Key Conditions in the case of DPLs, as appropriate):

As a DPL, the key conditions were :

A. Good Governance- improve the operation of key oversight institutions, local government, public sector management, poverty reduction planning, public expenditure management, and justice :

1. Oversight institutions: (a) development of guidelines on the policy and legislative processes, with formal procedures for policy review, consultation and legislative drafting within the executive; (b) establishment of the Ombudsman Office; (c) preparation of strategy for investigation of complaints regarding civil service by the Inspector General along with a review of the status of previous investigations and follow -up; and (d) implementation of a campaign on payment of fees and fines for basic public services .

2. Local Government: (a) : Presentation of legislation on the State Local Administration and Local Authority to the Council of Ministers (CoM); (b) Presentation of a strategy on community authorities in sucos and villages, intended to legitimize community authorities; and (c) Presentation of a draft proposal on funding mechanism for local authorities together with a framework for capacity building and financing by development partners .

3. Public sector Management: (a) finalization of Civil Service Statute and Disciplinary Regulation, dissemination of Statute and training of senior management in application of disciplinary procedures; (b) Presentation and review of draft Human Resources Policy; (c) Establishment and training of Human Resource Units in priority line agencies; and (d) Implementation of personnel registry in priority institutions, ensuring that basic personnel records are maintained for permanent staff.

4, Poverty Reduction Planning: (a) hold a workshop to review experience of the prioritizing and sequencing exercise and preparation of the annual action plans and quarterly reporting matrices; (b) Updating of priorities and sequencing exercise; (c) Promotion of a high-level consultative mechanism as a fully independent body .

5. Public Expenditure management: (a) Formulation of a pro-poor FY2005 budget in line with national priorities; and  
(b) Development of a Human Resource Development strategy for financial management functions .

6. Justice Sector: (a) Finalization of legislation on Public Prosecutors and Public Defenders; (b) Realization of sessions in the Judicial Superior Council; (c) Improvement in ratio of cases taken to court to cases brought to trial; and (d) Establishment of systems for registration and delivery of registration services (notary, civil identification, and state property administration).

B. Service Delivery - improve service delivery in education and health :

1. Education: (a) Preparation and approval of an education sector policy framework and draft education law; (b) Development of primary education curriculum and distribution of supporting teaching guides to all primary schools; (c) Development and implementation of a three year training program for pre -secondary education teachers; (d) Training of senior management and district personnel in financial management procedures; and (e) Development and piloting of a mechanism for channeling funds through School Councils .

2. Health: (a) Improvement of service delivery, meeting targets for delivery of DPT 3 and Measles vaccination, attended delivery, and outpatient visits; (b) Formulation of District Health Plans, providing a framework of performance monitoring and management of services; and (c) Formulation of nine micro-policies.

C. Job Creation - enhance job creation through private sector development including a special focus in agriculture :

1. Private Sector Development: (a) Finalization of company and investment laws; (b) Development of land administration and cadastre systems, aimed primarily at urban properties; (c) Implementation of a community-based road maintenance system; (d) Promotion of backward linkages to onshore investment from the Timor Sea; and (e) Launch of a "Sending Labor Abroad" program.

2. Agriculture: (a) Development of a draft policy framework for the agricultural sector; (b) Development of the regulatory framework and strategy for community based management of fisheries; and (c) Implementation of pilot initiatives in the introduction of commercial crops, farm -level processing of agricultural products and community watershed management.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

Total financing for the three years of the TSP came to US\$ 99.4 million, of which IDA provided US\$14.1

million and nine bilateral cofinancers provided US\$ 76.2 million, while bilateral parallel financing provided US\$ 9 million. Concerning TSP II, the project cost US\$ 35.96 million, financed by an IDA grant for US\$ 4.17 million and cofinancing of US\$31.39 million provided by the United Kingdom, Australia, USAID, Norway, Finland, Canada, Ireland, New Zealand. The actual amount of cofinancing provided by each donor for this project is not specified in the ICR . The project was appraised in April, 2003, approved by the Board on July 22, 2003, made effective on October 10, 2003, and closed on schedule on October 31, 2004.

### 3. Relevance of Objectives & Design:

The project was somewhat relevant, but much too complex for the country . It was provided within the framework of the World Bank's Transition Support Strategy and builds on work supported by the Trust Fund for East Timor (TFET) administered by IDA. The Government's annual Transition Support Programs and National Development Plans provide the specific framework for this operation and others in the series . A Country Economic Memorandum, Poverty Assessment, Public Expenditure Review, fiscal sustainability study, and other AAA have also assisted in providing analytical support for the government of Timor Leste and firmed up the conceptual framework for this operation. The IMF's Article IV Consultations in April 2003, just before the TSP II Appraisal Mission, was also important in setting the framework for the TSP II .

Concerning the project's objectives, there was a clear need for capacity building, given the lack of capacity in the country. Public expenditure and budget reform was an urgent priority given the expected large increases in revenues from oil and gas. Finally, improved service delivery was needed both in the context of a post -conflict country to improve public commitment to the government, as well as a basic precondition for development in terms of education, health, and other sectors . Therefore, in terms of the key objectives, the project was clearly relevant .

Despite the project's grounding in prior work and Bank strategy documents, and the relevance of its key objectives, the project design was too complex for the country, which caused it to detract from the capacity of government and its counterparts to perform their functions . Project design was influenced by the need to focus on legislation and staffing, but this should have been kept in better perspective given the country's capacity constraints .

The issue of complexity and the difficulty of prioritizing actions was made more severe by formulating the project as a single tranche DPL. Triggers could have been a useful addition to the project to encourage adherence to the timetable.

Project implementation rested on an extremely ambitious legislative program, which was beyond the

country's capacity, and on staffing . Management weaknesses and lack of understanding of routine procedures led to low levels of budget execution . Acute capacity constraints throughout the country led to uneven implementation . All of these factors detracted from the relevance of the project's design, which should have been simplified and prioritized .

#### 4. Achievement of Objectives (Efficacy):

As a DPL, the prior actions were an important aspect of this project's objectives . Government implemented all of the prior actions for the project, including presentation to the Parliament of a comprehensive FY 2004 budget that complies with the requirements of the Finance and Fiscal Management law (limits on government personnel, allocations for health and education sectors ), publication of the Annual Financial Report and Accounts for FY 2002, issuance of a draft Road Map for implementation of the National Development Plan, approval of a Health Policy Framework acceptable to the Association, issuance of a pilot Parent -Teacher Association Operation Manual, promulgation of a law on the Statutes of the Judicial Magistrates, and promulgation of part I of the Land Law (Law No. 1/2003).

1. The project did provide budget support to the government, which with cofinancing comprised about 34 percent of its revenues for FY2003/2004, and it was an organizing vehicle for other donor support .

2. GDP growth was not a specific objective of TSP II . However, GDP growth provides a basic perspective for the evaluation of any programmatic or other policy development loan, and would be closely related to the project's objective of job creation in the context of private sector development . The ICR contains no data on GDP growth, despite the discussion in the ICR for the prior Institutional Capacity Project concerning GDP growth in 2002 which implies that some indications would have been available for 2003 and 2004 by the time this ICR was drafted. However, the IMF Article IV Staff Report indicates that non -oil GDP declined by 6.3 percent in 2003, increased by 0.3 percent in 2004 and increased by 2.3 percent in 2005. For this overall indicator of performance, a rating of modest achievement is appropriate.

3. Good Governance - Modest Achievement : Consolidation of institutional framework for good governance (oversight institutions, local government, public sector management, poverty reduction, public expenditure, and justice). Approximately one half of the project's objectives were achieved (see ICR Table 2). World Bank Institute Governance Matters indicators for Timor Leste show declining ratings for "control of corruption", no trend for "regulatory quality", and only a slight increase in the rating for "government effectiveness ".

A. Oversight institutions. There were serious project implementation shortfalls . Work on guidelines for

policy and legislative processes have not been started, less than half of the scheduled legislative program for the CoM has been implemented (see ICR Table 2), although the Inspector General is actively pursuing inspections and the Organic Law

for the Office of the Ombudsman has been approved .

B. Local government. The work on a local government funding mechanism has not been completed .

C. Public Sector Management. The Public Service Statute has been approved and HR units have been established

in most agencies, but progress has been slower than anticipated in creating a database with supporting personnel files,

D. Justice Sector. The conditions have been achieved . Regular meetings of the Superior Council of the Judiciary

are taking place. However, there is no assessment of the impact of these meetings . Notary and Civil Service

registration have been approved .

E. Poverty Reduction. The modest conditions have been achieved, however there are no indications that poverty is being reduced.

F. Public Sector Management. About half of the conditions have been achieved (see ICR Table 2). No progress was

reported in preparing a HR strategy for financial management functions, but there has been good progress in

improving discipline in the budget process with submissions only 3.5 percent higher than spending limits . Concerning improving the data base needed for public sector management, trade and price statistics are being

regularly published (according to the ICR). However, the IMF seems to question the availability of key data . It

reports [see page 19 of its last Article IV consultation report (February 2007)], "In the absence of national accounts

and balance of payments statistics, the authorities have begun producing quarterly macro -economic indicators of

non-oil activity based on existing data in various parts of the administration . Formal responsibility for balance of

payments statistics has been transferred to the Banking and Payments Authority, where capacity is stronger ."

#### 4. Service Delivery - Modest Achievement

A. Health - Substantial achievement. DPT and measles immunization targets were surpassed . The target for

outpatient visits was also exceeded . There was a small shortfall in meeting the target for attended deliveries (43% of

all deliveries vs. the target of 45%). Hospital spending was in line with the target of 40 percent maximum for all CFET

health spending.

B. Education - Modest achievement. There are no performance indicators which would relate to service delivery .

Two out of five planned activities not yet launched, and there is no indication of any improvement in the education

sector.

#### 5. Private sector development and job creation - negligible achievement.

A. There is no indication in the ICR of whether there was any impact on job creation . However, the "Doing Business"

indicators for 2006 rank Timor Leste 174th out of 175 countries, with very low rankings in dealing in

licenses, registering property, getting credit, protecting investors, and enforcing contracts . There were no commitments from the oil companies to new investments . The community based road maintenance program was effective for only six months and then stalled. Clearly, much remains to be done before much progress can be made in job creation in private sector development. However, the ICR reports that a Law on Commercial Entities was promulgated, and that draft laws for leasing of private and state land were approved for submission to Parliament .

B. Agriculture - Modest achievement. There is no indication that work towards a sector policy or pilot initiatives had any impact on agriculture.

6. Increased attention to capacity -building requirements in the public sector - Modest achievement. The ICR presents anecdotal evidence that the operation helped focus the government on capacity building requirements, but this does not seem to have had an impact on implementation .

7. Improving the alignment of external financing by channeling resources through the budget - Modest achievement. Channeling resources through the budget appears to have improved the alignment of external resources with the country's financial needs. The ISR states notes that concerns were raised about the management of expenditures and the alignment of donor resources and the budget .

5. Efficiency (not applicable to DPLs):

- ERR )/Financial Rate of Return (FRR)
- a. If available, enter the Economic Rate of Return (ERR) FRR ) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The project was somewhat relevant but achieved only a fraction of its objectives . The few performance indicators which are available show very little or no improvement . Lack of improvement in GDP, the business environment, and governance indicators suggest little overall improvement in the areas targeted by the project . There are no indicators of job creation or poverty reduction, and with slow GDP growth, the burden of proof must remain with the ICR and this was not met. The health sector is an outstanding exception, with targets being achieved across the board which gives some confidence that the health of the population is improving as a result of this project .

- a. Outcome Rating : Moderately Unsatisfactory

#### 7. Rationale for Risk to Development Outcome Rating:

The project was ambitious in tackling a wide range of issues and encompassing a number of objectives . This should have been better assessed against the lack of institutional capacity and shortage of trained individuals . This suggests that the objectives which were achieved will be on a somewhat fragile footing for some time .

a. Risk to Development Outcome Rating : Significant

#### 8. Assessment of Bank Performance:

The very broad and ambitious program appears to have been formulated without due regard to government ownership and capacity. Although the government's National Development Program was the basis for the project, the Bank should have better assessed the government's implementation capacity and cautioned the government against such an ambitious and broad approach . A more modest and better targeted program might have had a better chance of showing specific improvements . Quality-at-Entry is therefore an important issue . The ICR specifically reports (paragraph 7.7) that one of the other donors recommended a much more streamlined program. This advice should have been followed . However, the Bank did allocate a large amount of resources to supervision and made a robust effort to assist in implementation of this unwieldy program though, with the unfortunate impact that a very large burden was placed on government, implying that government had higher priority tasks which were foregone in its efforts to accommodate the large Bank supervision missions . Again, this is a reflection of the Bank's failure to focus on a few key reforms .

at -Entry :Moderately Unsatisfactory

a. Ensuring Quality -at-

b. Quality of Supervision :Moderately Unsatisfactory

c. Overall Bank Performance :Moderately Unsatisfactory

#### 9. Assessment of Borrower Performance:

The ICR reports that the Borrower took the lead in formulating, supervising, and implementing the reforms supported by the project. However, as a new government, the Borrower lacked capacity and did not have adequate expertise to evaluate the commitments it was making and to understand what was involved in carrying though on the work program. This, especially because the breadth and complexity of the work program would have been presented coordination issues for a much more developed country . Therefore, while the government owned the program, it fell short in achieving the objectives because of its lack of perspective in undertaking such a complex operation.

a. Government Performance :Moderately Unsatisfactory

b. Implementing Agency Performance :Moderately Unsatisfactory

□ c. Overall Borrower Performance :Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:

Monitoring was made difficult by the complexity of the project, and imposed a large burden on the government .  
 Although the government's TSP Action Matrix was an important resource for M&E, it did not allow for prioritizing and selecting where to proceed in the absence of adequate progress across the board . Evaluation appears to have been mechanically focused on meeting conditions with little attention to performance indicators and ensuring that the reforms were having an impact on the population .  
 a. M&E Quality Rating : Modest

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

There appear to have been no safeguard or fiduciary issues .

12.

12. Ratings :

	ICR	IEG Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Unsatisfactory	There are few performance indicators on which to base an assessment of outcome. However, GDP growth lagged, and governance and business environment indicators are poor .
Risk to Development Outcome :	Moderate	Significant	There is an error in the ICR's rating. The ICR rates "sustainability" as "likely" but this terminology and rating system is no longer in use. The ICR should have rated "risk to development outcome" rather than "sustainability", and IEG infers that the intended rating was "moderate" would have been similar to old rating of "likely". Given the government's dissatisfaction with aspects of this project and political and social volatility, the risk to development outcome is significant.
Bank Performance :	Satisfactory	Moderately Unsatisfactory	The project was too complex, and, while government did feel that it owned the project, the Bank should have counseled the government against pursuing such an ambitious project . The project contained virtually no performance indicators, which the Bank could have introduced and which might have led to a better prioritization of key activities.
Borrower Performance :	Satisfactory	Moderately Unsatisfactory	While the government may have intended to pursue the project more appropriately, its lack of capacity caused implementation shortfalls .
Quality of ICR :		Unsatisfactory	

NOTES:

NOTES

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

Complex multi-sector operations pursued in the context of limited government capacity are very risky .

The Bank

should have used its resources to assist governments to identify a few key priorities and help with implementation

to achieve some impact. For countries facing severe capacity constraints, such as Timor -Leste, operations should

be kept fairly simple and with clearly prioritized programs .

14. Assessment Recommended?                      Yes    No

15. Comments on Quality of ICR:

The ICR contains only a very few performance indicators, and these are largely in the health sector . It is difficult to

evaluate the extent to which this project achieved its objectives based on information in the ICR . While a majority of

the project conditions were met, there is very little information available on the extent to which this assisted the

country's development program in the areas of project focus . It is therefore difficult to understand the impact that this

project may have had. Instead of evaluating performance in terms of indicators, the ICR focuses on mechanically

reproducing the implementation of the project's conditions . While this is important, it is only a first step in understanding the role that a project has had in assisting with the development of the economy .

a. Quality of ICR Rating : Unsatisfactory