



DEVELOPMENT EFFECTIVENESS BRIEF

# TIMOR-LESTE

LAYING THE FOUNDATIONS  
FOR PROSPERITY

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FOR PROSPERITY



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Timor-Leste Development Indicators	
Population (2015 projected)	1,225,000
Annual population growth rate (%) (2010)	2.4
Life expectancy at birth (years) (2010)	62.0
Adult literacy rate (%) (2010)	53.4
Population in urban areas (%) (2012)	29.1
Population living below national poverty line (%) (2007)	49.9
Infant mortality rate per 1,000 live births (2012)	56.7
Child malnutrition (% below 5 years old underweight) (2013)	37.7
Maternal mortality ratio (per 100,000 live births) (2010)	557.0
Population with access to safe water (%) (2010)	44.0
Population with access to sanitation (%) (2010)	41.2

Sources: Asian Development Bank (ADB) Statistical Database System at <https://sdb.sadb.org/sdb/index.jsp> (accessed 10 August 2014); Government of Timor-Leste. 2014. *The Millennium Development Goals Report, 2014*; Timor-Leste National Statistics Directorate. 2010. *Timor-Leste Demographic and Health Survey 2009-10*; Timor-Leste National Statistics Directorate, National Accounts, 2000-2012, Timor-Leste National Statistics Directorate, and United Nations Population Fund. 2011. *Population and Housing Census 2010*. Suco Report. Volume 4. Dili (July); Timor-Leste National Statistics Directorate and United Nations Children's Emergency Fund. 2013. *Timor-Leste National Nutrition Survey 2013*; Timor-Leste Transparency Portal, <http://www.budgettransparency.gov.tl> (accessed on 10 August 2014); United Nations Development Programme, Human Development Report at <http://hdr.undp.org/en/data> accessed 10 August 2014; ADB estimates; World Bank. World Databank. Health, Nutrition, and Population Statistics <http://data.worldbank.org/data-catalog/population-projection-tables> (accessed 4 June 2015); and World Bank and Directorate of National Statistics. 2008. *Timor-Leste: Poverty in a Young Nation*. Dili.





# TIMOR-LESTE AND ADB

## LAYING THE FOUNDATIONS FOR PROSPERITY

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A small and mountainous country, Timor-Leste comprises the eastern half of the island of Timor, along with the exclave of Oecussi and the nearby islands of Atauro and Jaco. Timor-Leste is Asia's youngest nation, having gained independence in 2002, and was recognized as a fragile and conflict-affected state in 2011. But with the support of the international community, and following a series of free and fair elections, it has become safe and peaceful.

With a functioning government and regular political processes now in place, the fundamentals of state building have been achieved. As a result of this, and sound management of revenues from offshore petroleum production to fund public spending, the stage is set for enduring improvements in living standards. This is welcome news for a country with some of the lowest human development indicators in the region.

The Asian Development Bank (ADB) has been supporting Timor-Leste's development since 1999, 3 years before independence. Assistance has been concentrated in road transport, urban water supply, infrastructure management, technical and vocational education and training (TVET), finance, and regional cooperation and integration. ADB's strategy has maintained a strong focus on infrastructure—a government priority and an area of comparative advantage for ADB.

■ **ADB's strategy has maintained a strong focus on infrastructure—a government priority and an area of comparative advantage for ADB.**

Development assistance has evolved in response to increased stability and economic growth. At independence and during the period that followed, ADB funds were channeled through a multidonor Trust Fund for East Timor for emergency rehabilitation of infrastructure. From 2006 to 2010, funds came directly from the Asian Development Fund (ADF) for longer-term investments in sustainable infrastructure and institutions, and since 2011 ADB has expanded assistance to support the implementation of Timor-Leste's long-term Strategic Development Plan, 2011–2030. Timor-Leste gained access to ADB's ordinary capital resources in 2012, leveraging larger-scale support for infrastructure upgrading.

As of December 2014, ADB has provided 5 loans for \$101.78 million, 5 ADF grants for \$85.00 million, and 43 technical assistance (TA) projects for \$37.55 million. ADB's active funding portfolio includes two loan projects totaling \$101.00 million, five ongoing grant projects totaling \$82.50 million, and eight TA projects totaling \$21.39 million.

In addition to the assistance of development partners such as ADB, Timor-Leste draws on substantial resources of its own to invest in national development. These come from a transparent and well-managed sovereign wealth fund, the Petroleum Fund. Established in 2005, the fund manages the country's oil and gas revenues for the benefit of current and future generations. It invests in infrastructure and human capital to support the country's transition to more inclusive and private sector-led growth.

Supplementing the Petroleum Fund resources with ADB funds is attractive for two reasons. First, borrowing from ADB at concessional rates may be more attractive than drawing down the Petroleum Fund and foregoing future earnings. Second, ADB funds come with technical expertise for preparing and managing projects. This not only overcomes the shortage of national capacity, but also supports longer-term, government-led capacity development. Exceptionally high levels of government counterpart funding have enabled the government to leverage ADB's funds and expertise.





# PROGRESS IN HUMAN DEVELOPMENT

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Timor-Leste is considered a lower middle-income economy. Most of Timor-Leste's 1.2 million people live in rural areas and practice low-productivity subsistence agriculture. Food insecurity is high and about half of children below the age of 5 show signs of chronic malnutrition. Almost half of adults are illiterate, and rising enrollment rates have not brought a corresponding improvement in education outcomes.

Although data are limited, preliminary figures indicate some notable bright spots in the country's progress toward the Millennium Development Goals (MDGs). Timor-Leste halved child and infant mortality between 2001 and 2009, achieving one of the fastest rates of progress of any country in the world on these indicators. The proportion of people living in extreme poverty has fallen from about 71% to 33% over the same period, and the country is on track to achieve a two-thirds reduction in maternal mortality by 2015.<sup>1</sup> Despite these advances, however, human development has not kept up with increases in national income.

■ Although data are limited, preliminary figures indicate some notable bright spots in the country's progress toward the Millennium Development Goals.

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<sup>1</sup> MDG data are from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) Statistics Division as part of the partnership between ADB, UNESCAP, and the United Nations Programme on the MDGs. Population data used as weights are from the United Nations Population Division World Population Prospects: The 2012 Revision. Estimates were computed based on historical trends by the UNESCAP Statistics Division using the United Nations MDG Indicators database <http://mdgs.un.org/unsd/mdg/>. Poverty data are from the World Bank World Development Indicators online database <http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators#> (accessed 13 Feb 2015).

# ADB'S CONTRIBUTION TO DEVELOPMENT AND POVERTY REDUCTION

Determined to accelerate progress, the government, through its Timor-Leste Strategic Development Plan, 2011–2030, seeks to eradicate extreme poverty and join the ranks of the upper middle-income countries by 2030.

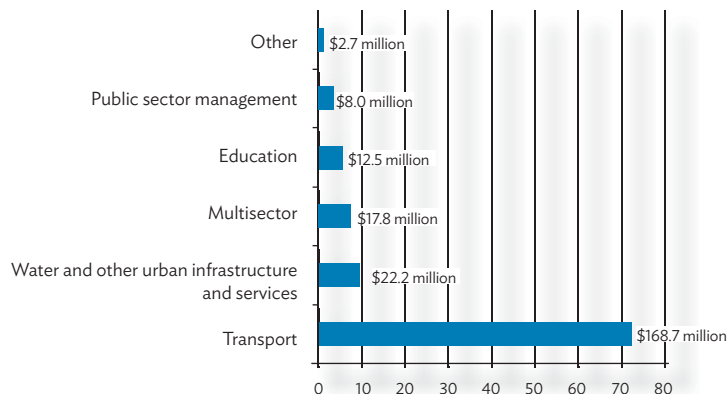
As a foundation for sustainable improvements in living standards, the strategy prioritizes the building of critical infrastructure and strengthening of human capital and institutions to create a vibrant market economy beyond the petroleum sector.

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The Minister of Public Works, Transport and Communications, Gastao de Souza, stresses: "Infrastructure is the main priority. If we do not have good roads, we cannot bring education to people in the rural areas. But we also need loans for water supplies. Children suffer from diarrhea because of the poor quality of drinking water. Roads and other services must come in parallel."

The government therefore requested ADB's support for building infrastructure and for complementary areas such as finance and capacity building. Since 2011, ADB has helped the government upgrade the national road network, improve urban water supplies, and expand TVET. Related TA projects have supported infrastructure management, financial and private sector development, preparations for regional economic integration, and regional cooperation on marine conservation.

**Cumulative Lending, Grant, and Technical Assistance Approvals by Sector (%), as of December 2014**



Other = agriculture, natural resources, and rural development; energy; and finance.

Note: Grants and technical assistance include cofinancing.

Source: Asian Development Bank.

**ADB Loans, Grants, and Technical Assistance Commitments in Timor-Leste, 2005–2014**

(\$ million)

Assistance	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
ADB loans								40.00	50.00	11.78
Grants <sup>a</sup>	10.00		6.00		49.00		23.00			4.50
TA projects <sup>a</sup>	1.20	1.00	15.00	1.30	0.56	1.78	1.43	2.20	1.31	1.73
<b>Total</b>	<b>11.20</b>	<b>1.00</b>	<b>21.00</b>	<b>1.30</b>	<b>49.56</b>	<b>1.78</b>	<b>24.43</b>	<b>42.20</b>	<b>51.31</b>	<b>18.01</b>

TA = technical assistance.

<sup>a</sup> Includes external funds.

Source: Asian Development Bank.

## Rolling Out Better Roads

One of the most important contributions to development and poverty reduction is better road transport. This is particularly true in Timor-Leste, where roads are the main mode of transport, carrying 70% of freight and 90% of passengers. Existing roads are narrow and vulnerable to landslides and flooding, and the vast majority are in very poor condition. ADB estimates that, as of 2015, about 12% of the 1,400 kilometers (km) of national roads are in good condition, up from a low of 8% in 2012.

The government has ambitious plans to upgrade the national and district road network to international standards, and intends to establish effective maintenance systems for the upgraded and renovated roads. A shortage of technical capacity in the road sector means that partnerships with development agencies are the most effective way to deliver the major investments needed. The development partners have divided up the work, with ADB, the Japan International Cooperation Agency (JICA), and the World Bank providing support to rehabilitate the national roads, and Australia and the European Union focusing mainly on rural and district roads.

### ADB Proportion of Development Partner Support for Roads, Disbursement 2009–2014

ADB: \$57.6 million

\$134.0 million total

43%



Other partners: The governments of Australia, Ireland, Japan, and Norway; German development cooperation; the Japan International Cooperation Agency; the European Union; and the World Bank.

Note: Includes government counterpart financing.

Source: Ministry of Finance of Timor-Leste.

ADB has been the lead development agency for the road subsector since 1999. In the early years following independence, ADB supported emergency rehabilitation and capacity building. Since 2009, it has pursued longer-term road sector investment programs that upgrade national roads to new quality standards that ADB has helped to define. Since 2012, this has included loan financing to which the government adds its own funds. ADB road projects receive exceptionally high levels of government counterpart funding—about 60%, compared with the usual 10%—enabling the government to get more value from development partner support.

ADB has provided six TA projects, three project grants, one sector grant, and two loans in the road subsector. ADB projects have also helped build institutional capacity in the country. ADB and the government set up a project management unit in the Ministry of Public Works for road sector projects and has supported its use by JICA and the World Bank. It is also helping the government develop a transport master plan.

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Between 2007 and 2009, the **Road Sector Improvement Project** repaired and upgraded 138 km of four crucial roads in agricultural areas. This was financed by a \$10.0 million grant and a \$2.5 million government contribution.

Schoolchildren walking alongside a new road.



The project made travel faster and reduced vehicle operating costs. Surveys indicated that local people were travelling more—to health centers, for example—and more goods were being bought and sold in the project area. Moreover, villagers earned nearly \$700,000 from employment on the road works, providing a much-needed additional source of income. The project also tested new approaches to community road maintenance that helped shape ADB's subsequent support for the sector.

The **Road Network Development Sector Project** marked the beginning of the next phase of investment, in which the government and ADB adopted a more comprehensive approach to road upgrading. This started in 2008 with an \$800,000 project preparatory TA followed in 2009 by a \$46 million ADF grant. The project is

upgrading 66 km of the national road from Dili to the border with Indonesia. It will involve heavy maintenance of 42 km of national road from Batugade to Maliana. The work is being carried out by international contractors, but uses local enterprises and labor, providing wage-based employment and offering local workers experience in masonry and other tasks. So far, the project has upgraded 52 km of road and has restored and maintained a further 18 km.

Akito Conseqao, working as a mason on a culvert for a local contractor, earns about \$3 per day.



Arlindo Lopes is chief of the rural *aldeia* (village) of Delesuwati in Liquica. “People are happy about the road construction,” he says. “It will be good for our children’s future.”

The completed sections of the road are already reducing travel time. Francisco Verdial is a driver for Paradise Tour and Travel, which operates a service from Dili, the capital, to Kupang in Indonesia. He says, “Before, it took about 3 hours to drive to the border. When the last few sections of road are finished that should be down to 2 hours.”

Complementing the upgrading of the paved national roads is a linked initiative for maintaining feeder roads. **Our Roads, Our Future: Supporting Local Governance and Community-Based Infrastructure** is a \$3 million project financed by the Japan Fund for Poverty Reduction. Through this project, rural people have received training on road rehabilitation and maintenance and are rehabilitating unpaved feeder roads in Bobonaro, Covalima, Ermera, Liquica, and Oecussi districts. Civil works are now largely complete and communities are in a position to maintain the roads themselves. Over the life of the project, 489 local people rehabilitated almost 77 km of rural roads, earning them a total of \$320,000.

At Malehan in Liquica district, supervisor Antonio Halem has a group of 10 workers engaged on gravelling and 10 more working on construction. “We hire local people at \$4 per day of whom two-thirds are women,” he says. In addition to gaining technical skills on road maintenance, the participants receive training from a nongovernment organization, CARE International, in health and other issues, as well as for business skills. Maria Bui Perreira, one of the workers, now has \$77 in the bank and intends to start her own small business.



Arlindo Lopes,  
chief of aldeia  
Delesuwati

Rural people have received training on road rehabilitation and maintenance and are rehabilitating unpaved feeder roads



Francisco Verdial  
drives a *mikrolet*  
(small bus) from  
Dili to the border  
with Indonesia.



A stretch of road before (left) and after (right) upgrading by the Road Network Development Sector Project



Fernando Maia grows pumpkins on his smallholding for sale in local markets.



The road improvements are already making a difference to the lives of local people. In Malehan, they have made it easier for the government to build a new school alongside a rerouted section of road, benefiting 60 children. It has also helped farmers, such as Fernando Maia, who raises chickens and goats and grows corn, pumpkins, peanuts, and cassava on 1 hectare of land near the new road. Fernando, who also earned money working on the road, can now take his goods to market much more quickly because a *mikrolet* (small bus) comes past his smallholding.

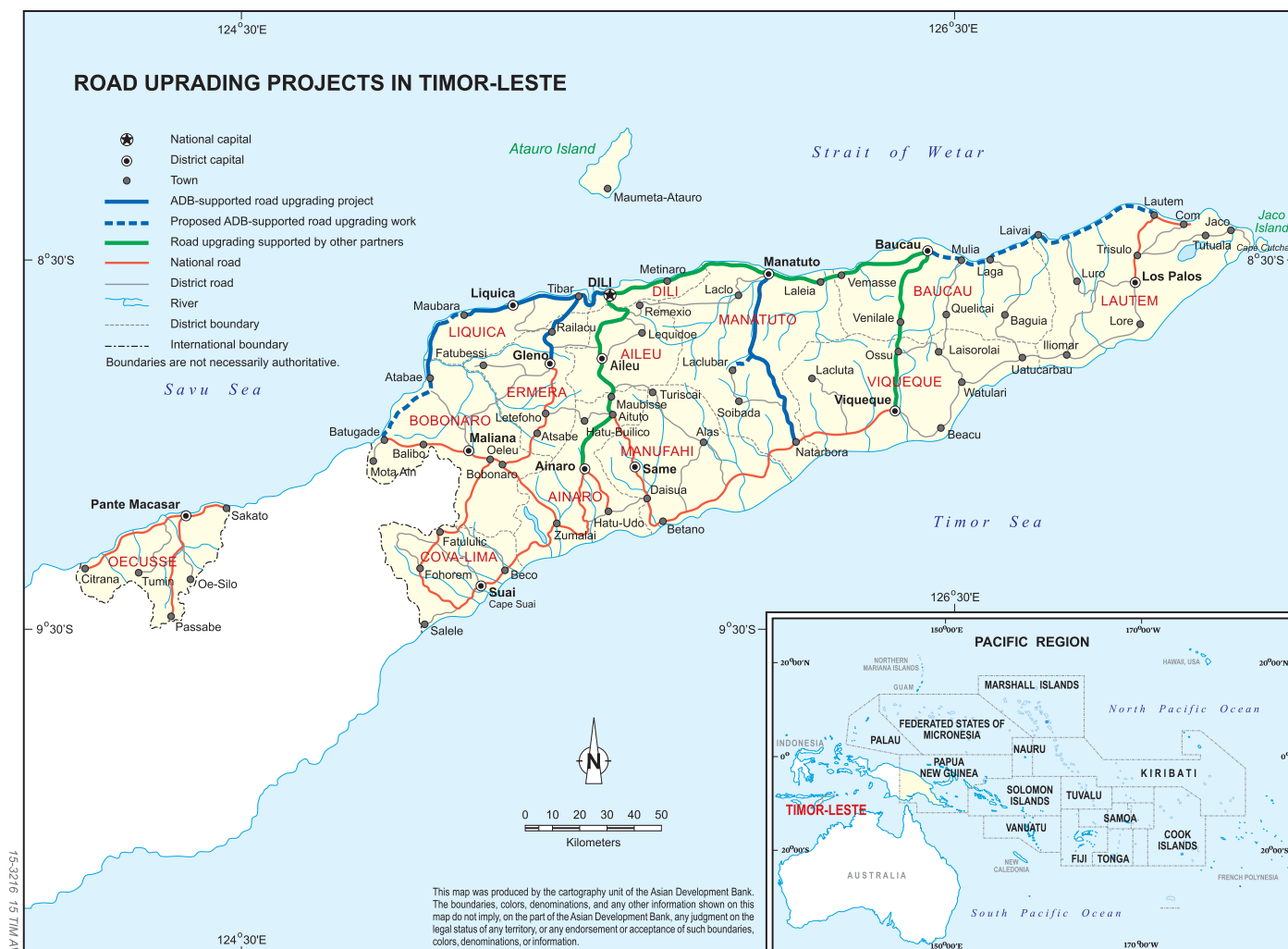
■ The next phase of the government's plan will see about 1,000 km of core national and district roads upgraded with development partner assistance.

The next phase of the government's plan will see about 1,000 km of core national and district roads upgraded with development partner assistance. As part of this effort, ADB is financing the **Road Network Upgrading Project**, approved in 2012, which includes a 6-meter-wide road from Dili to the border with Indonesia and 31 km of roads from Tibar, west of Dili, to Gleno and the coffee-growing areas of Ermera district. So far, 12 km of the road have been completed and the Tibar–Gleno link is on track for completion in April 2016. ADB contributed loans worth \$40 million to the financing of this project at the outset. The emphasis is on comprehensive rehabilitation and upgrading of selected road links and climate proofing of newly upgraded road sections. The project is piloting performance-based road maintenance contracts and addressing the emerging issue of road safety by implementing a community-based road safety awareness program.





Women  
community road  
maintenance  
workers in Maliana  
(Bobonaro District)



One of the most important objectives is to strengthen government agencies and expand the skills of their staff.

In October 2014, ADB approved \$11.8 million in additional financing for this project to include a higher standard of construction for one of the project roads that will serve a proposed new international port at Tibar Bay, about 10 km from Dili. The rehabilitation envisaged in the original project would have been inadequate because freight volumes have been growing more rapidly than anticipated. This work is expected to be completed in 2016.

The \$50 million **Road Network Upgrading Sector Project**, approved in September 2013, will upgrade and climate-proof a further 117 km of national roads, expand the government's road maintenance program, and prepare detailed designs for the upgrading of a further 169 km of national roads under future projects. In 2014, grant funding of \$4.5 million was approved from the Global Environment Facility to cover the extra costs of climate-proofing the investment. The upgrading of the 81 km road from Manatuto to Natabora has already begun.

ADB will continue to support nationally significant road investment projects while improving public transport and promoting road safety. But one of the most important objectives is to strengthen government agencies and expand the skills of their staff. For example, ADB provides training in procurement and assists government officials in preparing tender documents, evaluating bids, and negotiating contracts. At the same time, contractors at both national and community levels also gain valuable experience.

## Clean Water for All

Another important target in the government's plan is to provide all citizens of Timor-Leste with access to clean water and improved sanitation by 2030. ADB is supporting this objective, focusing on Dili and the district capitals—helping to rehabilitate and upgrade dilapidated systems and ensure that they are technically, financially, and environmentally sustainable. ADB has confined its focus to urban water supply because of the need for substantial investment in municipal water and the presence of other development partners with grant-based support for rural water supply.

ADB's first investment in the sector was the **Dili Urban Water Supply Sector Project**, approved in December 2007 and financed by a \$6 million ADF grant. At the time the project was designed, most of Dili's water system was very dilapidated due to lack of maintenance. About 70% of the distributed water was illegally tapped or lost through leaky pipes, and no bills were being issued, so nonrevenue water—a common measure of efficiency—was 100%. The project targeted three subzones where two-thirds of houses had connections, of which about one-third were illegal. It also planned to improve management of the entire Dili water supply system by replacing 77 bulk meters and 17 km of water pipes, installing 2,216 household meters, and building capacity to sustainably manage the system.

Deputy team leader  
Carlito Alvez at a  
borehole in Cacual  
Lido which pumps  
water from 40  
meters below.



Long delays in tendering meant that construction in the three subzones did not begin until 2012. Under the project, each connected household is given a new meter in a protective concrete casing. Silvina Suarez Jesus, who lives with her husband and three children in the Bairo Pite neighborhood, reflects on the changes: "We used to go to the bottom of the road and queue for 2 hours to fetch water for cooking, washing, and bathing. Water was only available for 1–2 hours per day. We had to fill five 10-liter containers and bring them back in a wheelbarrow."

Now, we have a permanent connection that supplies water all day.”

Each *aldeia* has its own caretaker appointed by the chief of the *aldeia*. The caretaker checks regularly that the supply is working and that there are no illegal connections. Once the connection is secure, the meters are read once a month and users are billed.

The National Director of the National Directorate for Water Supply and Sanitation, Gustavo da Cruz, says, “From now on, we will strictly enforce the regulation that everyone should pay for water. Caretakers will report unauthorized connections and people will be given 10 days to comply with the regulations.” On average, based on a requirement of 80 liters per person per day, households are likely to be billed \$3–\$4 per month.

One person who has seen the new system in operation is Jose Freitas, a resident of Marconi *aldeia* in subzone two. He already has a card with a series of meter readings. In 1 month, he has used 10 cubic meters. “I will be happy to pay if it is a good quality connection. But it has to be fair. The government must enforce this. I already pay for my electricity, but some others don’t pay.”

The plan is to extend the system from one subzone to the next. Once people begin paying for water, they are likely to consume less. This will release supplies that can be diverted to neighboring subzones. For those households for which a connection is difficult, water will be available free of charge through public standpipes.

The project has so far provided more than 1,750 households with upgraded services, and it is expected to deliver improved services to 850 households in the coming months. All households



Silvina Suarez Jesus now has a reliable water connection.

**ADB is helping to rehabilitate and upgrade dilapidated systems and ensure that they are technically, financially, and environmentally sustainable.**



Jose Freitas checks his water meter readings.



### ADB Proportion of Development Partner Support for Water Supply and Sanitation, Disbursements 2009–2014

ADB: \$9.0 million      \$118.0 million total  
8%



Other partners: The governments of Australia, the Netherlands, and Norway; the European Union; the United Nations Children's Fund, and the United States Agency for International Development.

Note: Includes government counterpart financing.

Source: Ministry of Finance, Timor-Leste.

have been connected to a 24/7 water supply in the targeted zones. The project is also on track to meet nonrevenue water targets. ADB's support has contributed to a country-wide increase in the proportion of the urban population with access to an improved water source from 91.0% in 2011 to 94.5% in 2014. However, much remains to be done to ensure that the water supply is continuous. ADB estimates that in October 2014 only about 8% of Dili's population had round-the-clock access.

A second ADB-supported water project, the **District Capitals Water Supply Project**, is the first stage of the government's drive to provide 24-hour access to safe drinking water in all district capitals. Approved in 2011 and financed by an \$11 million ADF grant, the project will rehabilitate and expand the water supply systems in Manatuto and Pante Macassar, the capitals of Manatuto and Oecusse districts.

Groundbreaking for the Manatuto and Pante Macassar water supply systems took place in May 2015. In addition to providing clean water, the project aims to reduce the incidence of water-related diseases and associated high rates of child mortality in the project areas by teaching communities about efficient use of water and safe hygiene practices. The design of the water supply systems in the district capitals of Baucau, Los Palos, Same, and Viqueque will be completed in 2015.

Demand for clean water will rise with economic development and the expansion of Dili and the district capitals. This will require much more investment in infrastructure and management—though, as more people are charged for efficient water supplies, there will be more resources to invest. As the system develops, management requirements will also become more complex. Given the limited resources and capacity of the public sector, the government and ADB are exploring the potential for public-private partnerships to ensure efficient operation and good customer service.

Ten-year-old Juvito Silva in Cacual Lidu collects the family water supply from a standpipe.



## Encouraging the Private Sector by Extending Access to Finance

Timor-Leste's private sector is heavily dependent on public expenditure. Future prosperity requires economic diversification and the creation of a vibrant private sector to build a broad-based non-oil economy. This will require ready access to finance. ADB has therefore been helping expand financial services and create a more enabling and inclusive environment for business. The emphasis has been on the needs of small and micro lenders and borrowers, especially in the rural population and among women, to help them participate in economic growth.

ADB support to the finance sector started in 2001 with TA for banking policy and regulations. This led to a \$4 million grant that helped establish the Microfinance Institute of East Timor. The institute grew rapidly and, by the end of 2007, its loans exceeded \$4 million. Although designed initially for microcredit, it offered business loans as well. In 2008, after an ADB study that considered the potential for a wider role, the institute sought a license to become a full-fledged commercial bank.

With further ADB technical support, in 2011 the institute officially became the National Commercial Bank of Timor-Leste (BNCTL)—the country's first locally owned commercial bank. The BNCTL now has 13 branches nationwide and more than 200 staff. In 2014, the BNCTL expanded its mobile banking service to deliver payments to the elderly and disabled in all 13 districts of the country.

By the end of 2014, the BNCTL had provided almost \$26 million through 26,000 loan accounts. Women received 36% of the loans by number and 34% by value. Passbook savings accounts made up most of the 209,000 deposit accounts opened and about \$45 million of the \$65 million deposited as of 2014.

The manager of the BNCTL branch in Liquica, Adriano Belo, explains, "Most of the loans go to shopkeepers, kiosks, furniture stores, and other businesses that need to expand. Loans start at \$300 and go as high as \$25,000." The BNCTL has begun to issue much larger loans for some businesses.

■ **The emphasis has been on the needs of small and micro lenders and borrowers, especially in the rural population and among women, to help them participate in economic growth**



Staff at the Institute for Microfinance Timor-Leste's Gleno branch.



On 11 July 2011, former ADB President Haruhiko Kuroda participated in the inauguration ceremony to mark the transformation of Microfinance Institute of East Timor into BNCTL.



In Ponte Loes, Armando Suarez has taken out a series of loans from the Liquica branch to expand his business. “The first was in 2010. I applied for \$1,500 but got \$900 to stock the shop and restaurant. Then I got another loan in 2011, for \$1,400 to buy a refrigerator and imported chicken.” The shop now makes about \$200 per day and Armando has no difficulty repaying his past loans. The business stands alongside the road from Liquica to Dili, so widening the road will mean moving his premises. Still, he is happy about this because it will increase passing traffic, and he is applying for a new loan of \$5,000 to upgrade the buildings.

Armando Suarez in Ponte Loes took a BNCTL loan to buy a refrigerator.





To further improve the enabling environment for business, the government will introduce secured transactions reforms and develop a new law for bankruptcy and insolvency. The ADB-cofinanced Pacific Private Sector Development Initiative, which has already supported such reforms in eight Pacific island countries, will assist Timor-Leste as it undertakes these reforms to ensure their successful implementation.

Once the secured transactions reforms are in place, people will be able to access business loans from commercial banks using movable assets, such as farm equipment, machinery, and accounts receivable, as collateral. The proposed new bankruptcy and insolvency law will introduce modern, streamlined procedures for winding up insolvent companies and dealing with bankruptcy, making Timor-Leste more conducive to the operation of formal businesses, including foreign ones.

■  
**To further improve the enabling environment for business, the government will introduce secured transactions reforms and develop a new law for bankruptcy and insolvency.**

## Skills for Today and Tomorrow

While Timor-Leste now has some of the financial resources to accelerate economic growth, it is short of workers with technical and managerial skills. To help fill this gap, ADB partnered with the National Institute of Public Administration to strengthen the capacity of institutions and public servants at both national and local levels.

An area of particular concern has been the management of public infrastructure. In 2007, ADB provided TA to the Ministry of Infrastructure to help officials prepare contracts and manage projects. Most of the funds for this \$18 million project came from the Government of Australia, and ADB and the Government of Timor-Leste provided \$3 million each.

For higher-level staff, the project also includes scholarships for formal academic training at Indonesian institutions. Odete da Costa, head of the selection committee, talks about their recent experience, “Applicants were rigorously screened and had to agree to work subsequently for the government for at least 3 years.” For the first batch, 15 of 86 applicants were accepted and all have successfully completed their studies. In the second batch, 11 students were accepted; 7 have completed their studies and 4 will finish in 2015.

One institution that benefited from the project is Electricidade de Timor-Leste (EDTL). In 2009, Inacio Leite, an EDTL technical director, had already left at his own expense to study for a master’s degree at the Institute of Technology in Surabaya. “In my second year, I received support from the scholarship program to pay for travel, local expenses, and tuition fees. I



EDTL production director, Inacio Leite



EDTL distribution director, Segismundo Liberato

Sabino Henriques  
in the control tower  
at Dili airport.



studied energy conversion and the efficient operation of power plants from fuel oil. When I returned, I was appointed director of production.”

Segismundo Liberato had been an EDTL project manager at the Hera power plant. In 2010, he received a scholarship for a 2-year master’s course in energy management at Udayana University in Bali. “My thesis was on load analysis in Timor-Leste. I’m grateful to ADB for the support. The scholarship paid for expenses and the transport and travel needed for research. I was later appointed national director of distribution.”

**Sabino Henriques  
studied the analysis  
and planning of  
air navigation and  
safety systems.**

A third scholarship went to Timor-Leste’s Chief of Air Navigation, Sabino Henriques. In 2011, he studied for 9 months at the Indonesian Civil Aviation Institute. “This was an intense program to increase my diploma qualification to cover the analysis and planning of air navigation and safety systems. Since my return, I have been working on new systems, moving from voice to data communications.”

Another important area for capacity building has been in statistics and economic management. Elias dos Santos Ferreira, Director of the National Directorate of Statistics, says, “We don’t have a major problem with data collection, but we have limited capacity for analysis and reporting and we need to strengthen our links with data users.” ADB has supported these efforts and facilitated a twinning arrangement with the Australian Bureau of Statistics. One major output has been the Business Activity Survey—a key input into the preparation of national accounts to measure the growth of the economy as a whole and the sectors within it. Surveys have been done annually since 2011, the first two with support from ADB. The information is routinely used for planning by the line ministries, banks, and development partners.

ADB’s TA also enhanced the capacity of the Economic Policy Directorate of the Ministry of Finance to provide advice and analysis. This included training for seven newly graduated economists. Vice-Minister of Finance, Helder Lopes, says, “This program has given us the type of people and skills we require for data collection and analysis.” It has also served as a bridge between temporary and permanent employment; the Ministry of Finance recruited five young economists at the end of their training. Fidelia Ximenez and Ilce Magno, for example,

took advantage of the training from international consultants. Fidelia says, “This offered us experience and skills that we now use to prepare regular economic reports.”

ADB's early support for capacity building focused primarily on professional training. But as the experience in building infrastructure has demonstrated, Timor-Leste is also short of manual workers with mid-level skills (TVET levels 2–4), especially in the construction and automotive trades. At present, the gaps are largely being filled by foreign workers.

#### ADB Proportion of Development Partner Support for Technical and Vocational Education and Training, Disbursements 2009–2014

ADB: \$4.0 million      \$26.4 million total  
15%



Other partners: The Government of Australia, the Brazilian Cooperation Agency, Irish Aid, the Government of Japan, and the Korean International Cooperation Agency.

Source: Ministry of Finance, Timor-Leste.

Vocational training is overseen by the Secretariat of State for Professional Training and Employment Policy (SEPFOPE). Antonio de Sa Benevides, Team Leader of ADB's Mid-Level Skills Training Project says, “All of the contractors are saying ‘We do not have any Timorese workers.’” ADB's extensive experience in TVET and training means it is well placed to help the government address these skills shortages.

The government is working with ADB through the **Mid-Level Skills Training Project** approved in 2012, to upgrade the facilities at three of the strongest providers of basic skills in the construction and automotive trades: the Dili Institute of Technology at Baucau, the Tibar Training Center, and the Don Bosco Training Center at Comoro. Since 2014, the project has been expanded to support an additional training center, the Claret Training Centre at Suai, on the country's Southern coast.

**ADB's early support for capacity building focused primarily on professional training. But Timor-Leste is also short of manual workers with mid-level skills especially in the construction and automotive trades.**



Young economists Fidelia Ximenez and Ilce Magno received training from international consultants on data collection and analysis, and were subsequently hired by the Economic Policy Directorate of the Ministry of Finance.



**The government is working with ADB to upgrade the facilities at four of the strongest providers of basic skills in the construction and automotive trades**

The project is improving the centers' training facilities and equipment (including building new female and male dormitories), developing the curriculum and qualifications, upgrading teachers' qualifications, and hiring additional teachers who can impart higher-level skills. The project has completed all planned upgrades of facilities and equipment, and is on course to exceed its goal of training 500 young people in construction and automotive trades. By March 2015, 340 students were enrolled in courses at levels 1 and 2 with a further 65 students expected to progress to level 3 during the year.

"At present, in the Don Bosco Center," says SEPFOPE's Antonio de Sa Benevides, "training is only up to levels 1 and 2. In future, students can be trained to levels 3 and 4, so they can work alongside overseas workers and do everything. We will also be offering more career guidance, especially for bringing women into nontraditional occupations."

One of the project's targets is to ensure that women make up at least one in five of the trainees. As part of this effort, strategies are being developed to increase the number of female trainers in nontraditional technical trades as part of a long-term plan for improving the TVET teaching workforce. The project is also providing scholarships for women and high-performing trainees.

Diolinda Ximenes, 26, is blazing the trail for women to branch out into male-dominated jobs. She is one of the 16 female trainee plumbers at the Tibar Training Center studying for Certificate 2 in plumbing. When she finishes, she plans to return to her community in Manatuto district and help fix their water problems. "People in Manatuto think that women can't work in construction," says Diolinda. "But now men and women have the same rights to do the same things. I believe that men and women are equal. I look forward to graduating from this course. When I do, I will show my certificate to women from the districts to prove that women can do it too!"

Januario Menezes, 24 years old, is studying carpentry at the same center and plans to work in construction. "I saw a TV advertisement on training so applied to the SEPFOPE. I come from a family of farmers, but I am looking for a different kind of job."

Plumbing student, Diolinda, sets an inspiring example of what rural women can achieve.





Januario Menezes, 24, from Viqueque, at the Tibar training center.

Januario and Diolinda are typical of the growing number of young people who are acquiring the skills they need to get a job in the evolving economy.

ADB anticipates providing further support for technical and vocational education, harmonized with the assistance provided by other development partners, including the Government of Australia, the European Union, and the International Labour Organization.

## Forging Stronger Links with the Region

The ADB-supported education and road projects are important steps toward greater integration of Timor-Leste with the fast-growing markets of Southeast Asia and beyond. Closer regional economic integration is a commitment under the Timor-Leste Development Plan, and Timor-Leste applied for membership of the Association of Southeast Asian Nations (ASEAN) in 2011. ADB and JICA are working alongside the government to help make this aspiration a reality. A TA project is helping the Ministry of Foreign Affairs and Cooperation analyze Timor-Leste's compliance with ASEAN requirements, forecast and plan for the economic opportunities created by ASEAN membership, strengthen government officials' skills in the area, and create and amend legislation needed to support accession. Regional economic integration has the potential to make an important contribution to the country's transition to a diversified private sector-led economy.

Timor-Leste is also part of the six-country Coral Triangle Initiative that aims to maintain the ecological integrity of coral reefs and the species that inhabit them. Under this initiative, ADB is working with Timor-Leste through regional TA for Strengthening Coastal and Marine Resources Management in the Coral Triangle of the Pacific. The project aims to make marine and coastal ecosystems more resilient and halt and reverse the productivity decline in these systems, thus improving national food security. Capacity-building efforts are expected to result in more effective integrated resources management and coastal communities that are more resilient to climate change. As part of this work, Timor-Leste is preparing to establish two marine protected areas off Batugade and at Atuario Island.

■ **Timor-Leste applied for membership of the Association of Southeast Asian Nations in 2011.**

# OPERATIONAL EFFECTIVENESS: IMPROVING PERFORMANCE





ADB's self-assessment of its 2011–2015 country partnership strategy (CPS) rated the Timor-Leste program *successful*. It noted that the CPS had accelerated progress toward key national development targets. ADB's strategic positioning was judged to be strong and translated into a coherent program focused on infrastructure and related services. The assessment recommended maintaining sector continuity in the next CPS, continuing to emphasize sustainability in project design, and giving careful thought to how best to contribute to inclusive growth."

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**Efficiency and performance.** In the past, ADB-supported projects have suffered from start-up and implementation delays. The Road Sector Improvement Project, for example, was completed 15 months behind schedule, and the implementation of the Dili Urban Water Supply Sector Project was delayed by 2 years, incurring cost overruns and requiring substantial redesign. Some of the delays resulted from a major political crisis in 2006 and its aftermath. Others were caused by government restructuring or other bureaucratic bottlenecks. Projects were also held up by the shortage of national firms capable of undertaking civil works, low contractor capacity, and the turnover of consultants. These issues have eased over time as a result of strengthened government capacity, learning on ADB's side, and annual reviews of the country portfolio. In line with best practice in countries with fragile situations, ADB is continuing to support gradual, long-term, and government-led approaches to build capacity and promote government-led implementation. In addition, ADB's policy dialogue in the urban water, roads, and electricity subsectors is finding ways to reduce public sector capacity requirements.

Despite the delays and capacity shortages, most projects made good progress in delivering their outputs. Three of the four ADB-financed road projects have already delivered substantial outputs, and construction for the fourth project is on schedule. ADB-financed projects are on track to complete the upgrading or full rehabilitation of about 116 km of national roads by the end of 2015. This includes most of the road from Dili to the border with Indonesia and a 31 km road to connect Dili to Timor-Leste's main coffee-growing region. Similarly in finance, the program achieved the target of increasing coverage by commercial banks in both rural and urban areas. In education, facilities and equipment have been upgraded at three TVET centers, and 340 students were receiving training by March 2015.

**Sustainability.** ADB's self-assessment of its CPS, 2011–2015 highlighted that sustainability continues to be the key threat to ADB-supported infrastructure investments and national efforts to upgrade infrastructure. Country capacity for operation and maintenance (O&M) remains weak, and there is still a tendency to prioritize road building over road maintenance. Both the self-assessment and an Independent Evaluation Department validation study rated ADB's Timor-Leste program *less likely sustainable* because of insufficient resource allocation to asset management and routine O&M of infrastructure assets, and the low level of administrative and technical expertise in the executing agencies.

Support for sustainable O&M is already a key focus of ADB's country program and policy dialogue. Reforms are needed to set up an appropriately funded road maintenance system that uses contracting mechanisms such as long-term performance-based contracts. The ADB-supported Transport Sector Master Plan will help the government integrate planning for road maintenance into its investment decisions. Pilot project-level initiatives to strengthen O&M funding and develop capacity are also showing potential. In the meantime, 2-year post-construction maintenance is packaged into all road-upgrading projects.

■  
**ADB's choice of subsectors is made after careful consideration of the work programs and focus of other development partners to ensure that development assistance is harmonized**

Water revenue collection is similarly hampered by low levels of institutional capacity and national budget allocations that are far below the levels required to fund effective O&M. ADB is therefore helping the government to develop public–private partnerships that would help ensure sustainability. Support for sector reforms has been strengthened with the outposting of infrastructure specialists to the ADB resident mission.

**Coordination and partnerships.** ADB is part of a large group of development partners that are supporting Timor-Leste. Collaboration with these agencies has been central to the success of ADB's activities in the country. ADB's choice of subsectors, for example, is made after careful consideration of the work programs and focus of other development partners to ensure that assistance is harmonized. Notable successes include the coordination of ADB's work on the core road network with JICA and the World Bank through a single project management unit, and the harmonization of ADB's TVET activities with those of the Government of Australia and the International Labour Organization.

ADB participates in the government-led Timor-Leste Development Partners Coordination Meeting discussions, which center around four government-selected strategic sectors. ADB has been chosen by the government as the lead development partner for one of them—the Infrastructure Development Strategic Sector Working Group, responsible for water and sanitation, electrification, urbanization, and transport infrastructure. Complementing the annual government-led discussions, the World Bank hosts monthly coordination meetings of development partners and ADB holds regular infrastructure roundtable meetings.

# FUTURE CHALLENGES AND THE WAY FORWARD

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Timor-Leste has made significant advances over the past few years. Its economy grew at an average rate of 7.1% annually during 2010–2014, and is forecast to grow at 6.2% in 2015, driven by substantial government spending on infrastructure. Poverty has been falling in urban areas and standards of health and education have been rising. During 2000–2013, Timor-Leste has shown significant improvements in quality of life, as measured by the human development index, and has moved up the ranking into the medium human development group. Economic and social advances have also helped defuse social tensions, and in 2012 the country successfully held peaceful elections. After more than a decade of development, core institutions are increasingly robust and infrastructure services are improving.



■  
**The main challenge is to invest these resources efficiently for the long term and ensure that the benefits of growth are shared equitably across the population.**

Nevertheless, significant challenges remain. The population is growing by 2.4% annually and is projected to triple by 2050. More than 60% of Timorese are under the age of 25. This has led to one of the world's highest dependency ratios, with 78 children and 9 elderly for every 100 people of working age. The escalating demands for food, water, sanitation, health, and education that this implies need to be addressed. Youth unemployment is a potential threat to stability as young people look beyond agriculture for their livelihoods. However, if transformed into a healthy, educated, and skilled workforce, Timor-Leste's young population could drive the country's development.

With these issues in mind, the government is implementing its Strategic Development Plan, 2011–2030, which has specific and achievable targets. This plan established two special funds; one to develop core infrastructure, the other to invest in education and skills. For this purpose the government regularly draws on the Petroleum Fund, which in 2014 held \$16.5 billion or \$13,700 per person. However, the recent sharp drop in oil prices is likely to cut the amount it can sustainably withdraw to less than \$600 million—significantly below planned withdrawals of \$1.3 billion in 2015 and \$1.7 billion in 2016.

The main challenge, then, is to invest these resources efficiently for the long term and ensure that the benefits of growth are shared equitably across the population. The private sector has an important role to play, but it remains weak so the economy depends on government expenditure which still accounts for more than half of non-oil gross domestic product. Over the longer term, jobs and growth will increasingly depend on the private sector rather than on public spending.

■  
**Over the next 5 years, ADB will look to extend its work beyond roads and water supply infrastructure to help extend electricity service coverage, raise efficiency, and increase the share generated from renewable sources.**

Under its upcoming CPS, 2016–2020, ADB expects to continue its support for the implementation of Timor-Leste's Strategic Development Plan and the transition to a more inclusive and private sector-led growth path. The development and management of transport and municipal infrastructure will remain the core focus of ADB's strategy in view of its fundamental importance for economic growth, competitiveness, and higher living standards. Over the next 5 years, ADB will look to extend its work beyond roads and water supply infrastructure to help extend electricity service coverage, raise efficiency, and increase the share generated from renewable sources.

ADB expects to continue its support for TVET to alleviate the acute skills shortages in growing sectors of the economy. Assistance for establishing a framework for secured transactions and developing a bankruptcy law are planned, along with continued support for the commercialization of the BNCTL, to help increase the availability of credit for local businesses and broaden access to financial services. In parallel, ADB is set to continue to assist Timor-Leste as it prepares to join ASEAN and enhance links with Australia and Indonesia.

This partnership with the government should help the people of Timor-Leste build a more resilient state, and open up new horizons for current and future generations.

## ADB Grants and Loans Approved or Implemented, 2005–2014

Project Number	Project Name	Approval Date	ADB Funding		Cofinancing		Total Financing (\$ million)	Government Financing (\$ million)	Total Project Cost (\$ million)
			Fund Type	Amount (\$ million)	Source	Amount (\$ million)			
Grant 0017	Road Sector Improvement Project	27 Sep 2005	ADF	10.00		0	10.00	2.50	12.50
Grant 0100	Dili Urban Water Supply Sector Project	18 Dec 2007	ADF	6.00		0	6.00	1.50	7.50
Grant 0180	Road Network Development Sector Project	20 Nov 2009	ADF	46.00		0	46.00	6.90	52.90
Grant 9142	Our Roads Our Future	20 Nov 2009			JFPR	3.00	3.00	0.47	3.47
Grant 0258	District Capitals Water Supply Project	23 Sep 2011	SF	11.00		0	11.00	3.32	14.32
Grant 0274	Mid-Level Skills Training Project	7 Dec 2011	ADF	12.00		0	12.00	1.00	13.00
Loans 2857/2858	Road Network Upgrading Project	30 Mar 2012	ADF, OCR	40.00	JICA	68.70	108.70	37.96	146.66
Loans 3020/3021	Road Network Upgrading Sector Project	19 Sep 2013	ADF, OCR	50.00		0	50.00	73.25	123.25
Loan 3181/Grant 0404	Road Network Upgrading Sector Project (additional financing)	30 Oct 2014	OCR, SF	11.78	GEF	4.50	16.28	13.66	29.94
<b>Total</b>				<b>189.78</b>		<b>73.20</b>	<b>262.98</b>	<b>140.56</b>	<b>403.54</b>

ADF = Asian Development Fund, GEF = Global Environment Facility, JFPR = Japan Fund for Poverty Reduction, JICA = Japan International Cooperation Agency, OCR = ordinary capital resources, SF = Special Fund.

Source: Asian Development Bank.



## Development Effectiveness Brief: Timor-Leste

### *Laying the Foundations for Prosperity*

The Asian Development Bank (ADB) has been supporting Timor-Leste's development since 1999, 3 years before the country gained independence. ADB's assistance has been concentrated on helping the government build a broad-based, non-oil economy through supportive investments in the national road network, urban water supply, and technical and vocational education and training. Related technical assistance has focused on infrastructure management, financial and private sector development, preparations for regional economic integration, and regional cooperation on marine conservation. As of December 2014, ADB had provided 5 loans totaling \$101.78 million, 5 Asian Development Fund grants worth \$85.00 million, and 43 technical assistance grants amounting to \$37.55 million.

### About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to the majority of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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