



Evaluation of the European Union's Co-operation with Timor-Leste (2008-2013)

Executive summary

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Consortium composed by
Lattanzio Advisory Public Sector (LA), ECDPM, PARTICIP, ECORYS, MOKORO
Leader of the Consortium: PARTICIP
Implementing partner: LA
Contact Person: Marco Palmi
palmi@lattanziogroup.eu

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The evaluation report was prepared by:



Via Nazionale, 89A
00184 – Rome, Italy
Phone: +39 06 58300195
www.lattanziogroup.eu

The evaluation team comprises: Paolo Scalia (Team Leader), Volker Hauck, Welmoed Koekebakker, Silvia Cifarelli, James Mackie

***The opinions expressed in this document represent the authors' points of view
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of the countries involved***

EXECUTIVE SUMMARY

Objective and scope of the evaluation: the objective of this country-level evaluation is to assess the European Union's co-operation strategy with Timor-Leste over the period of the 10th EDF (2008-2013) while also taking account of co-operation efforts during the previous period (2006-2007). It focuses on the EU co-operation framework and all other official EU commitments to Timor-Leste apart from assistance from ECHO or initiatives undertaken by the European Investment Bank. It covers the focal sectors and areas in which the EU intervenes (institutional capacity-building, peace and stability, rural development, rehabilitation, health, support for state-building, food security, and support for Non-State Actors).

Context of the evaluation: Country Strategy Paper (CSP) preparation started in 2006/7 against a backdrop of public unrest and fighting. The priorities set for the 10th EDF-CSP-NIP aimed to create a peace dividend through investments in food security, sustainable rural development, health, and institutional capacity-building. Since the peaceful elections in 2007 the country has become gradually more stable, owing in part to increasing oil revenues, and the importance of donor support has declined significantly. Today nearly 90% of the State budget is funded from non-ODA sources, in contrast to the Government's 2002 budget, approximately 80% of which was funded by international partners. While that catapulted the country into "lower middle-income country" status, fragility and severe capacity problems persist nonetheless.

Methodology: the evaluation was carried out over a period of one year from 3rd December 2013, and was divided into desk, fieldwork and synthesis phases. Five evaluators were involved in the study. The field mission took place from 27 June to 12 July 2014. The evaluation is structured around nine Evaluation Questions and 43 Judgement Criteria. Data collection included a comprehensive literature review (200 documents), interviews (200 stakeholders in Timor-Leste, 20 in Brussels), five focus group meetings, a perception survey, and field visits to three districts. A contribution analysis approach was used to facilitate understanding of the causality linking EU interventions to change towards goals. The draft final report was presented in a Seminar in Dili on 18 November 2014.

KEY FINDINGS

Co-operation capacity to contribute to expected goals.

Most EU interventions were in line with national priorities and rural population needs, as well as supporting Timor-Leste's regional integration and international relationships in recognition of the priority attached by the Government to these goals. But although the focal sectors maintained their relevance to the goals of poverty reduction and state-building over the evaluation period, the **effectiveness** of the EU Co-operation was seriously constrained by several factors, including:

- i) **ambiguity** as to whether the prime focus of the Co-operation should be on capacity development and technical assistance, or rather on political co-operation; the weak definition of the political dimension of the Co-operation reflected a lack of clarity of co-operation priorities due to internal disconnects and the partially overlapping mandates of EEAS and EuropeAid;
- ii) a **failure** to achieve a coherent response and to match management, human resources, political and policy dialogue to the ambitious poverty reduction and state-building goals;
- iii) the **slow** EU response to Timor-Leste's economic growth and the need to adjust the assistance paradigm, still largely based on the premise of co-operation with a poor country.
- iv) the EU acted as a **passive player** of development partners' initiatives, with limited capacity of proactive management and leadership, thus jeopardising key strategic choices;
- v) **inadequate** strategy preparation and intervention design; in particular:
 - inadequate adjustment to Timor-Leste's fragility and its weak national absorption capacities;
 - failure to take account of critical issues such as peace consolidation and structural socio-economic development constraints;
 - failure to address sector governance, and a lack of a policy reform agenda; *and*
 - inadequate design of operational choices and lack of a results-based focus.

Partnerships: significant opportunities were lost for establishing joint co-operation mechanisms with Member States and Development Partners, not least in the areas of strategy development, policy dialogue and learning. But the evaluation did find evidence of coordinated efforts and complementary action for interventions related to PFM reform and rural roads.

Internal EU processes and capacities: internal processes and capacities significantly restricted the effectiveness of EU Co-operation efforts. Constraints included: divided structures and functions; a lack of either management coherence or coordination between EEAS and EuropeAid; compartmentalized thematic focus; a focus on disbursements rather than results; and a corporate culture embracing a results-based management approach in theory but with limited application in practice. Human resource shortages in EuropeAid and the Delegation were a critical limiting factor. Learning mechanisms were established mainly at project level and uptake was limited and slow. Development co-operation procedures and systems are perceived by both Timorese officials and some EU officials as heavy and ill-adjusted to the Timor-Leste context.

Aid modalities and instruments: overall the project aid modality was appropriate to the context. However, to remain relevant the approach adopted by the EU will need to be adequately adjusted to the evolving fragility conditions. Projects and programmes produced outcomes at local and sector levels, with mixed effectiveness. Contributions to poverty reduction goals and state-building were considerably constrained by fragmented and non-strategic projects (poor design, lack of policy dialogue, absence of a well-defined results framework, limited attention to outcomes, shortfalls in partners' performance), and insufficient follow-up capacity in the Delegation, NAO and national institutions. Project support and financial instruments proved inadequately aligned with national systems and ill-adjusted to the fragile context. Conditions are slowly being established for applying complementary modalities (including budget support) to co-operation work. Thematic budget lines contributed to positive outcomes at project level but failed to impact at sector or national levels, owing to uncoordinated and non-strategic use of the instruments. Non-strategic use of regional instruments and an absence of critical mass limited impact. Financial instruments and projects would have significantly benefited from policy and political dialogue.

Sustainable development - rural development and health sectors: while the EU Co-operation supported Timor-Leste with a significant volume of projects and programmes targeting rural development and health, the design of agricultural development interventions failed to take adequately into account either the fact that Timor-Leste's agriculture is, in general oriented to subsistence, barter and - to a more limited extent - import substitution, or the fact that production for the market economy is marginal, production costs being very high and regionally uncompetitive.

Efforts have been largely relevant to the focal sector and national priorities, albeit with mixed performance and effectiveness. Rural roads interventions were in line with the highest national priorities and contributed to significantly reducing isolation and improving socio-economic development in rural areas. Water and sanitation projects reflected urgent needs and contributed to enhancing living conditions for beneficiaries. But while a few interactions and complementarities were established across projects, contributions to changes on the ground have been limited as efforts have remained fragmented and disjointed.

Institutional capacity-building was limited in scope and overall the EU Co-operation - apart from improved extension services - has not helped improve the Ministry of Agriculture's capacities and performance. National ownership of EU projects in general was low, focal sector support tackled neither policy development nor sector governance, and moreover they mostly - rural roads being one of the few exceptions - did not address structural factors affecting poverty, rural development and employment. Nor were the root causes of instability in rural areas addressed.

Cross-cutting issues: EU attention to cross-cutting issues was limited and perfunctory. Opportunities for gender mainstreaming and establishment of national capacities for gender empowerment were missed. The EU - notwithstanding that the physical environment is central to rural sector sustainability - did not develop a clear strategy and policy agenda in support of the threatened natural resources of Timor-Leste. The strategy did not address the issue of impunity, a critical issue for human rights and future stability.

Governance and state-building: the EU Co-operation has contributed to some extent to sustainable state-building and democracy at central level, although the outcomes were realised through isolated projects. However, a coherent approach (both conceptually and in practice) to supporting state-building and governance in a more strategic manner was not developed.

Civil Society support: 23% of EU financial support was directed to this end. The extent, scope and contribution of these efforts to co-operation goals appears constrained, *inter alia* by the lack of a robust strategy. EU support for Civil Society as a key partner in policy dialogue, accountability, human rights and the “women, peace and security agenda” has been relevant but limited in scope and fragmented. Support for the social services sector has been fragmented and hampered by a lack of policy dialogue with the responsible Ministries. Civil Society support does not go beyond disjointed, albeit relevant, project interventions. The EU is constrained by the limits of its capacity to manage thematic budget lines, and partnership with Civil Society was not prioritized. Civil Society Organisations perceive the EU as a valuable partner but expect a more prominent role in policy dialogue - a ‘genuine’ strategic partnership rather than exclusively financial support. Civil Society Organisations perceive EU bureaucratic procedures as an obstacle to co-operation.

Influencing long-term change and perceptions of EU Co-operation: significant and reliable finance assistance allowed implementation of a large project portfolio in pertinent focal sectors, with strong relevance to Co-operation goals. But long-term impacts have been limited and the EU has only partially influenced achievement of long-term national development goals. The “New Deal” offers a potentially useful framework for improving Co-operation impact, but so far limited mutual engagement indicates a gap between discussion and practice and low levels of awareness of what it really entails. Peace and stabilisation have been addressed by few interventions, mainly project-related, strategically unconnected, and lacking opportunities for addressing the long-term root causes undermining peace and stability. Yet despite lack of evidence of long-term impacts, the EU Co-operation is highly valued by local political leaders and is positively viewed by beneficiaries as genuinely supportive of Timor-Leste’s overall development and independence, indicating the importance to the country of political support and interest from a major global actor outside the region. The EU is perceived as an honest broker, interested in Timor-Leste’s development out of solidarity although, as highlighted, several actors, including Civil Society, would prefer to see more active EU involvement, including in sector leadership, policy dialogue, and support for gender and Civil Society.

CONCLUSIONS

The conclusions of this Evaluation are of two different orders. The first five are strategic in nature relating to the objectives and ambitions of the EU Co-operation in Timor-Leste. The second set of four conclusions relates more to the manner of implementation. The Recommendations are similarly split into two corresponding sets.

Strategic Conclusions

C.1 An insufficiently proactive mode of Co-operation. Timor-Leste has a strong interest in maintaining strong links with Europe, but the EU Co-operation, if it is to continue, needs to move into a more active mode with:

- i) more rapid adjustment to local changes,
- ii) enhanced sector leadership, political dialogue and counterpart engagement,
- iii) support for regional integration priorities, *and*
- iv) more vigorous support for policy reform, so as to better address state-building and help counter the fragility of the new State (including its persistent relative poverty in rural areas, extremely high youth unemployment, very low capacities and, not least, rapidly declining oil resources).

This will entail much clearer definition of priorities for the Co-operation so as to better reflect these socio-economic conditions and ensure that the problems of limited engagement, internal

contradictions, weak strategy, poor design, lack of focus on results and effectiveness, and a fragmented and disjointed approach, are firmly addressed. Moreover it will require a completely new follow-up paradigm marked by clearer goals and political focus and also more effective management, which will entail, *inter alia*, increased management coherence and better coordination between EEAS and EuropeAid.

C.2 EU Co-operation strategy and implementation: limited effectiveness. The design of the 10th EDF strategy provided a broad and relevant outline for sector-level strategic choices, but undue haste in preparation impeded development of an adequately effective strategy for addressing co-operation goals. The design lacked stakeholder participation, with only very limited involvement of Member States, Government counterparts, or Civil Society, and only limited consultation with development partners. Moreover, while key 11th EDF strategic choices were already defined prior to this evaluation, it is noteworthy that similar conclusions drawn for the 10th EDF strategy also apply to the current state of preparation of the 11th EDF programme.

The following points summarize conclusions on co-operation effectiveness relating to important evaluation issues:

- Opportunities to achieve high impact on **state-building** were impeded by a piecemeal strategy and fragmented project implementation, with consequently limited effectiveness in building capacities to manage domestic resources (in agriculture and the expanding oil economy), thus limiting the building of a sustainable economy and a productive, well-governed State.
- **Peacebuilding** was only marginally supported - a critical gap in EU strategy - with an absence of efforts addressing underlying instability factors.
- Support for **the Women-Peace-Security agenda** (“1325”) was limited to financial assistance to UN and Civil Society initiatives; no **gender perspective** was mainstreamed into the overall strategy and the Co-operation did not strengthen key national institutions in support of women’s empowerment. Nor did the EU engage in political or policy dialogue to support these issues.
- **Sustainable development** was hardly promoted, as the Co-operation lacked engagement in sector leadership and failed to address structural sector constraints, tackle policy reforms, or invest in sector governance. Fragmented implementation, weak national ownership and other design issues further limited contributions to sustainable development. While the rural roads and water and sanitation programmes effectively addressed key development priorities, institutional capacity-building was overall very limited in scope and, apart from agricultural extension services, institutional performance remained very weak over the evaluation period.
- Support for **human rights** was very limited by a lack of strategic choices addressing issues of human rights and impunity.
- Specific actions addressed **environmental issues**, but, in this case too, the absence of strategic vision, a piecemeal approach, and a lack of engagement in policy dialogue all served to limit opportunities for contributing to long-term impacts.

C.3 Positive but limited EU engagement supporting Timor-Leste’s international ambitions.

EU support for Timor-Leste’s foreign policies is a dimension of co-operation perceived by senior government officials as providing dividends for national sovereignty and independence. Several financial and non-financial efforts were made to promote Timor-Leste’s international partnerships and dialogue, linkages to the Pacific Forum and to PALOP. The process promoted international exposure, for example through exchanges, interactions and partnerships; but it is too early to assess outcomes. Disconnects within the EU system and limited dialogue with the government adversely affected clear definition of priorities and in consequence impeded a more strategic approach to foreign policy support, as well as more effective use of regional financial instruments in support of international ambitions.

C.4 The weakness of policy dialogue significantly reduced the effectiveness of EU Co-operation. The lack of EU engagement in policy dialogue with Timor-Leste is one of the aspects which has most weakened the Co-operation’s effectiveness. This has limited mutual commitment, national ownership, support for institutional reform and policy development, and opportunities for

long-term impacts on co-operation goals. The absence of policy dialogue is related to limited EU Delegation resources, the low-profile and passive mode of intervention, and the lack of a clear assessment and vision of a policy agenda. This implies the need for a complete change in the EU Co-operation's approach and the need to improve the image of the EU as a visibly active and fully committed partner, including in policy and political dialogue.

C.5 Partnerships: EU Co-operation has been more a financier than a strategic partner.

Frequent information exchanges were established, with regular interactions with development partners who were involved in consultation and had a role in delegated co-operation management as project implementers, at times leading dialogue with the Government. However, the Co-operation lacked the capacity to actively promote strategic partnerships which would have strengthened its capacity to contribute to co-operation goals. Partners, including Member States, were not actively involved in strategy design, support for institutional change, sector reform or lesson-learning. The main role for Civil Society was as project implementer or project beneficiary, but it was not involved as a partner in the design, implementation, or oversight of EU Co-operation.

Conclusions on the implementation of EU Co-operation

C.6 Inadequate human resources limited most Co-operation functions. Co-operation with Timor-Leste is particularly demanding in terms of human resources because of the general scarcity of well-trained personnel at all levels in Government and institutions. The EU Co-operation did not invest in human resources sufficiently to support its ambitious goals effectively. Delegation resources were overstretched with limited capacity to address major co-operation functions. Delegation staff mainly had a role of administration of financial co-operation, with limited opportunities to focus on results.

C.7 Aid modalities and financial instruments were relevant, but their non-strategic use reduced their effectiveness. Project support, the main aid modality throughout the 10th EDF, did produce some outcomes contributing to Co-operation goals. But the results were mixed and overall, while co-operation aid modalities were relevant, they were inadequately adjusted to the context and were used in a non-strategic way. Their effectiveness was reduced by limited political dialogue, limited national ownership, lack of engagement in policy development, inadequate design, and a focus on compliance and disbursement rather than results. The recent introduction of Budget Support facilitated better dialogue with the Ministry of Finance and provided access to governance dialogue platforms, but it is too early to assess the outcomes and, in any event, the relevance of Budget Support is limited by the absence of financial deficits. Financial instruments were relevant to Co-operation goals but their contribution to long-term impacts was impaired by fragmented and non-strategic use, poor design, and lack of Co-operation engagement in policy development.

C.8 Co-operation mechanism needs strengthening. The Co-operation did not develop a comprehensive management and monitoring mechanism to track progress towards desired changes. Learning mechanisms made few contributions to co-operation effectiveness; uptake was limited and slow. M&E was focused at project level, with limited feedback on progress toward Co-operation goals. The NAO office had limited capacity to support co-operation effectively, including aspects of strategy definition, quality control, implementation, monitoring and evaluation of co-operation interventions, and communication with the line ministries and the Ministry of Finance. The move of the NAO to the Ministry of Foreign Affairs in 2013 may work in favour of Co-operation support for foreign policy, but is less strategic in terms of monitoring and managing contributions to development and poverty reduction goals.

C.9 "New Deal": inadequate efforts made to adjust to fragility. The "New Deal" is recognised as a potentially useful framework for advancing policy dialogue and improving practice in support of peace-building and state-building. Yet within the EU the understanding of its potential is still very limited and its application at a very early stage; national capacities and awareness are also low.

RECOMMENDATIONS

Strategic Recommendations

R.1 Define a new paradigm for EU Co-operation with Timor-Leste. EU Co-operation with Timor-Leste should continue, but only with clear definition and articulation of the *raison d'être* and the scope of the Co-operation, taking into account oil revenues, the expanding economy, instability, low capacities and the urgency of consolidating a stable and sustainable State. The new paradigm should be defined by full, mutual and verifiable political engagement, a clear commitment to and capacity for promoting policy dialogue and focal sector reform, and formulation of an effective strategy based on the assumption that development in Timor-Leste is no longer constrained by lack of financial resources. A well-defined results framework with close monitoring of progress should support the new co-operation paradigm. (F.a.o.: *EEAS, EuropeAid senior management and EU Delegation*)

R.2 Design an effective operational strategy. If conditions are set for the new paradigm and effective co-operation (see R.1), then strengthen the strategy to improve opportunities for effective contribution to the goals of poverty reduction, state-building, peace consolidation and sector development. To that end:

- (i) address sector governance through focal sector support and attention to the policy and regulatory framework, development of anti-corruption measures, improved oversight and accountability of national systems;
 - (ii) build the strategy design on lessons from the 10th EDF, including positive results (such as on PFM reform and rural roads);
 - (iii) connect PFM reforms to sector level reforms, including operationalization of concrete planning and monitoring frameworks;
 - (iv) rebalance 11th EDF programming towards more strategic and complementary engagement in peace-building, state-building, poverty reduction and gender-related issues;
 - (v) integrate Women-Peace-Security agenda throughout the strategy, establishing linkages and complementarities between currently disjointed actions;
 - (vi) support efforts to end impunity for human rights violations committed during the Indonesian occupation, as a *sine qua non* for a sustainable foundation for peace;
 - (vii) mainstream gender and environment in strategy and intervention design, aiming to establish an appropriate policy and legislative framework and national capacities;
 - (viii) ensure that political and policy dialogue actively support gender and human rights issues.
- (F.a.o.: *EU Delegation in close consultation with NAO, Line Ministries, Development Partners and Civil Society*)

R.3 Support Timor-Leste in its international relations. Recognize the importance of the EU Co-operation for the independence of Timor-Leste, and develop a more strategic approach to supporting national foreign policy ambitions; Design a clear strategy for supporting Timor-Leste foreign policy, in line with EU interests and Co-operation priorities. (F.a.o.: *EEAS / EU Delegation*)

R.4 Engage effectively in policy dialogue. Establish with the NAO and each relevant Ministry - with the overarching support of the Prime Minister - a solid policy dialogue to underpin the effectiveness of financial assistance to Timor-Leste. Develop a clear agenda and road map for policy development and a well-defined outcome-based results framework. Embed policy engagement in sector work and ground it in trust, constructive relationships, pro-active sector leadership, and timely results. Devise and employ specific complementary strategic approaches for strengthening policies. (F.a.o.: *Senior EEAS management, and EU Delegation, in close consultation with Prime Minister, NAO and Line Ministries*)

R.5 Build strategic partnerships. Position the EU as sector leader or co-leader. Strengthen synergies and develop joint action with Member States, including participation in strategy, programming and evaluation. Develop strategic partnerships with Development Partners, ensuring that systematic assessment of partners' performance informs new contracts and partnership development. Promote co-operation with Civil Society as important partners, with a clear strategy and road map, establishing mechanisms for improving dialogue between Civil Society and

institutions, and supporting work partnerships for focal sector governance and policy reform. (F.a.o.: *EU Delegation*)

Recommendations on the implementation of EU Co-operation

R.6 Provide adequate human resources for an effective Co-operation effort. Recognize the labour-intensive nature of co-operation with Timor-Leste and strengthen the Delegation's human resources in coherence with the new paradigm. Develop resources in terms of number, expertise, authority and capacities for sector leadership and policy dialogue, in line with the Timorese context and programme priorities. Define results-based job descriptions for human resources involved in EU co-operation. (F.a.o.: *EEAS and EuropeAid management*)

R.7 Reinforce aid modalities and financial instruments. Improve project support and other aid modalities, improving and adjusting their design to the specific context of Timor-Leste while strengthening alignment, ownership and management-by-results. Make more strategic use of a broader spectrum of aid modalities and financial and other instruments (including management modalities) to strengthen implementation mechanisms. Ensure that the strategy for each instrument takes into account:

- (i) the dialogue framework and possible contribution to policy development;
- (ii) an outcome-based results framework related to sector goals;
- (iii) capacity-building goals;
- (iv) opportunities for partnerships; and
- (v) complementarities to be developed with other instruments and non-financial efforts.

Furthermore, should the opportunity arise, combine a contained, cautious and selective use of Budget Support with effective engagement in political and policy dialogue as a potentially useful additional tool for promoting change and for targeted and limited interventions in support of strengthened State functioning. (F.a.o.: *EuropeAid, Regional and Thematic budget line desks, EU Delegation*)

R.8 Strengthen Co-operation mechanisms. To improve performance and increase effectiveness, promote strengthened NAO capacities, a monitoring system supporting management-by-results, and enhanced strategic focus of evaluations. (F.a.o.: *Entirely directed to EU Delegation in close consultation with NAO*)

R.9 “New Deal”: shift from discourse to practice. Establish a clear results-based road map for strengthened mutual engagement in the “New Deal” for Timor-Leste (F.a.o.: *EU Delegation*)