The background of the slide features a photograph of a rural landscape in Timor-Leste. It shows several traditional houses with thatched roofs built into a hillside. The terrain is green and hilly, with more houses visible in the distance under a blue sky with some clouds.

19 October 2017

New Zealand Ministry of Foreign Affairs and
Trade | Manatū Aorere

Evaluation of New Zealand's Country Programme in Timor-Leste

Evaluation Compendium - Part Two: Country engagement and strategic outcomes

FINAL

Evaluation Compendium

The Timor-Leste Country Programme Evaluation was commissioned by the New Zealand Ministry of Foreign Affairs and Trade (MFAT) to strategically assess New Zealand's bilateral engagement with Timor-Leste. This evaluation covers recent activities, particularly those under the *Timor-Leste Strategic Framework for Development 2012-2015* (MFAT, 2012), and includes their implications for current and future activities under the *Joint Commitment for Development 2016-2020* (MFAT, 2016b) and beyond. This is one of several strategic evaluations that are currently being undertaken to examine the results and impacts of New Zealand's country partnerships.

The evaluation commenced in April 2017 and has involved a range of detailed assessments that if combined would make for a long and complex report. The findings have therefore been made more accessible by presenting the evaluation as a compendium of five products crafted to meet the needs of different stakeholders.

These products are:

1. **Part One: The Summary Findings** which includes two subsections:
 - › The Key Points: a double page infographic outlining the evaluation's main findings and key lessons.
 - › The Executive Summary: a five-page summary of the main findings.
2. **Part Two: Country engagement and strategic outcomes.** This is a thirty-page discussion of the relevance of New Zealand's bilateral engagement with Timor-Leste, including the development context, how the programme is evolving, and the strategic implications for MFAT's future development assistance. This higher-level assessment focuses on the needs of MFAT's development managers and other state actors engaged in Timor-Leste.
3. **Part Three: The Timor-Leste Context.** This is a compilation of four papers that assess the current development environment and socioeconomic status of Timor-Leste. These papers provide a resource for MFAT staff, and a contextual basis for the upcoming strategic planning processes:
 - › Paper 1: Economic and Social Development.
 - › Paper 2: Public sector issues in Timor-Leste.
 - › Paper 3: Private Sector Development.
 - › Paper 4: International Integration.
4. **Part Four: The Detailed Assessments of Development Activities.** This is a compilation of eleven papers that assess the current New Zealand development activities against the OECD DAC criteria. These papers provide a resource for those MFAT programme managers, implementation teams, and development partners who are interested in particular activities. They also frame important issues that may warrant further investigation as part of the dedicated review processes planned for each activity.
 - › Paper 1: Scholarships, Short-term, and English Language Training Opportunities.
 - › Paper 2: Alternative Pre-school Education.
 - › Paper 3: The HANDS programme (*Halimar, Aprende, no Deskobre; Susesu*).
 - › Paper 4: Lafaek Education Media.
 - › Paper 5: Coffee.
 - › Paper 6: Aquaculture.
 - › Paper 7: Tourism.
 - › Paper 8: Community Policing.
 - › Paper 9: Human Rights.

- › Paper 10: Partnerships.
 - › Paper 11: Volunteers.
5. **Part Five: The Evaluation Process** outlines the evaluation plan, the evaluation team, the people consulted, and the findings from both the scoping mission and the main mission.

Part Two: Country engagement and strategic outcomes

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1 Timor-Leste's development context and its bilateral relations with New Zealand

Section 1 summarises the analyses of Timor-Leste's context undertaken by the Evaluation Team. More detailed information is available in Part Three of the Evaluation Compendium.

its bilateral relations with New Zealand

Since independence, Timor-Leste has made enormous progress in establishing both a democratic government and the associated legislative, executive and judicial functions of a modern state. The country has also made considerable development and economic gains in its infrastructure, services and poverty reduction - gains that have been faster than in many similar countries. Nevertheless, not only do important social, economic and political challenges remain, but new challenges on the horizon need to be faced. The next decade will thus be a pivotal time for the Government of Timor-Leste and its development partners, including New Zealand.

1.1 Economic and social development

Since independence, the population of Timor-Leste has grown by 36 per cent, although the rate of growth has now tapered off¹ (MoF, 2016b). In 2015, the population of Timor-Leste stood at just under 1.2 million of which:

- › 51 per cent were under 19 years of age, and 60 per cent under 24 years of age;
- › 70 per cent lived in rural areas; while 70 per cent of the urban population (i.e. 21 per cent of the total population) lived in Dili.

Between 2010 and 2015, Timor-Leste's Human Development Index (HDI) increased by 20.5 per cent to 0.605, although the country's score fell in the absolute country rankings from 120 to 133. This reflects both its significant successes and its ongoing challenges. On the positive side:

- › Since 2007, poverty levels have reduced at a faster pace than in many other poor countries;
- › GDP growth has now stabilised, and in 2016 was at a healthy 5.0 per cent. By 2019 it is projected to reach 6.0 per cent; and
- › Considerable reductions have also been achieved in all multi-dimensional indicators of deprivation, with notable improvements in access to electricity, water, sanitation and schooling (MoF and World Bank, 2017). For example, the present generation is now receiving nearly three times the schooling received by the previous generation.

However, there is still much to be achieved:

- › Not only do poverty levels remain high at 41.8 per cent, but they also remain above the figure at independence (36.3 per cent) (World Bank, 2017b), with poverty more deeply felt amongst youth, and in rural areas; and

¹ 1.81 per cent in 2010-2015, compared with 2.4 per cent for 2004-2010.

- › Timor-Leste has the highest incidence of childhood malnutrition, and infant and maternal mortality of all the ASEAN and Pacific Island countries (UNDP, 2016).

Underpinning Timor-Leste's successes, and the associated reductions in poverty levels, has been:

- › A relatively stable democratic process, and improving security;
- › The benefits of significant petroleum revenues;
- › The concerted support from the international community; and
- › An associated increase in public sector investments in core services and infrastructure (e.g. education, roads and electricity).

The most difficult current challenge confronting Timor-Leste, and the one that is likely to deepen over the coming decade, is the financial challenge that has resulted from the decline in the royalties from the oil and gas fields currently operating in the Timor Sea. Production from current fields is rapidly declining, while at the same time there has been an hiatus in the development of further fields. This has partly been due to an ongoing maritime boundary dispute with Australia. However, in late August 2017 the two countries reached a resolution at the Permanent Court of Arbitration in The Hague.

Timor-Leste's petroleum revenues have been deposited in the sovereign *Petroleum Fund for Timor-Leste*, which in 2015 totalled around USD16 billion (MoF, 2015a). The fund, however, is struggling with declining royalties, variable investment income, and Government drawdown that regularly exceeds the Petroleum Fund's estimated sustainable income (ESI). Projections indicate that the fund is likely to be exhausted in ten years or less (MoF, 2016c) (La'o Hamutuk, 2017). While resolution of the Timor Sea dispute may open new investments, particularly in the new Greater Sunrise field, development of the reserve will take time and it may be many years before significant royalties are received. If Timor-Leste is to avoid a significant contraction in aggregate living standards, substantial progress will have to be made in diversifying its economy away from oil-funded government spending.

Efforts to develop the country's non-oil economy are challenged by the not unexpected slowness of developing the country's private sector from its extremely low base. The non-oil economy is small, and largely driven by Government spending. This spending has generated recent dramatic increases in real value addition in both the Public Administration and Construction Sectors, which between 2005 and 2015 grew by 250 per cent and 500 per cent respectively, and which together accounted for 43 per cent of non-oil GDP in 2015 (MoF, 2015b). In contrast, during the same five-year period, the output of the Agriculture, Forestry and Fishing Sector - in which most Timorese make their livelihoods - grew by just 7 per cent (despite a 20 per cent growth in the rural population), while the Manufacturing Sector contracted by nearly 40 per cent. Unsurprisingly, un- and under-employment is high², while almost two thirds of those who are 'employed' are listed as farmers. Despite the seeming lack of opportunity, there are still some indicators of potential – for instance, coffee exports more than doubled in the three years to 2016, reaching almost US\$30.0 million (World Bank, 2017a).

In the medium term, Timor-Leste is facing significant financial challenges, at the same time as it is struggling with the need to:

- › Improve governance and public expenditure management at all levels;
- › Strategically invest to build its economy, and service its people;
- › Diversify its economy to provide a range of economic livelihood opportunities and guard against the possible effects of 'Dutch disease'³, thereby allowing for more sustainable models of private sector growth;
- › Address the significant, growing, and increasingly intractable development inequality experienced by a rural population that struggles to access improved opportunities;

² The Labour Force Survey indicates that 11 per cent of the labour force was unemployed in 2013 (Ministry of Finance, 2015).

³ 'Dutch disease' refers to the negative economic impact of sharp inflows of foreign currency (such as revenues from large oil reserves) being used to fund domestic expenditures. The resulting impact on domestic costs and prices makes the country's other products less price competitive on the export market.

- › Creatively handle the country's high un- and under-employment, especially given its very young population⁴; and
- › Deal with the country's ongoing rural poverty, and disturbing levels of malnutrition and food insecurity (La'o Hamutuk, 2016).

1.2 The Government of Timor-Leste

Timor-Leste is a new country, and its Government is in the early stages of development. In line with many other small-island developing states, Timor-Leste is striving to deliver the range of state functions with limited human and institutional systems, skills and resources. The result is that Government quickly commits all available capacity to the most pressing issues, leaving many gaps, and causing delays in improving those instruments of state functionality (legal and institutional) that are still inoperative. The World Bank's governance indicators show that performance needs to be enhanced across the board, with the areas rated particularly poorly being: regulatory quality, rule of law, and control of corruption. All the same, amongst Timor-Leste's ASEAN neighbours, and its comparators in the Pacific, there are countries with worse ratings in every dimension of performance, while indicators show an ongoing improvement in Timor-Leste's quality of governance over the last ten years (World Bank, 2017d).

Within such a vulnerable framework, the aspirational development strategy of the GoTL is risky, and needs to be carefully monitored. Of particular concern is the 'frontloading' of infrastructure and capital intensive industrial development at the expense of Government investment in human capabilities, and the development of the private sector. The GoTL has been devoting a large share of its resources to capital investment, and has no immediate plans for cutting back - over the coming five years it plans to invest a further \$4.6 billion (or 45 per cent of spending) in capital developments (MoF, 2016c) (ADB, 2017). In addition, the Government has committed a further 10 per cent of its total recurrent spending to generous, and politically sensitive, welfare payments to veterans. In 2017, the allocation to veterans is just over US\$100 million, while the allocation to health is US\$60 million⁵.

The GoTL's significant withdrawals from the Petroleum Fund, well in excess of the ESI, might seem to be justified given the country's development challenges. Yet the benefits of the practice need to be weighed against the risks it poses, such as

- › the absence of any alternative revenue instrument that can pick up the slack when the Fund ceases to sustain the current rates of withdrawal;
- › the questionable social and economic value, and sustainability, of some of the expensive initiatives withdrawals are being used to fund; and
- › the implications for other, perhaps more vital areas of expenditure, if fiscal retrenchment is required, given that it may be politically or contractually difficult to curtail some large items of spending.

In addition, high levels of government spending on capital investments impact on the cost of local labour and other non-tradeables, with the result that private sector jobs and incomes cannot compete, and internationally exposed sectors, such as tourism and horticulture, get crowded out. That said, parts of the GoTL are aware of the risk, and are working to address it through political, technocratic, revenue, and expenditure reform.

Overall, Timor-Leste's prevailing challenge over the next five to ten years is to transition to a more sustainable economy, by moving towards private-sector led growth (World Bank, 2017a). The overriding social challenge is to expand economic growth in ways that are more sustainable and equitable for all Timorese – urban and rural; men, women and children; youth and the aged. Yet given

⁴ Almost 70 per cent of its population is young people aged under twenty-five (Preliminary Results of the Population and Housing Census 2015).

⁵ These payments are much more generous than other forms of social assistance, and provide recipients with incomes considerably larger than prevailing wages (Kent and Wallis, 2014). Nevertheless, it can be argued that veteran payments are a significant boost to an otherwise moribund rural economy.

that between 70 and 75 per cent of the Timorese population (about 137,000 households) live in relatively remote rural areas away from Dili or other urban centres, this will be no easy task (GoTL, 2015).

The July 2017 Parliamentary elections have seen the establishment of Timor-Leste's first minority government. This raises concerns about Government stability and decision-making capacity over the coming five years, which, as has been seen, will be critical years. Pleasingly from New Zealand's perspective, the new Parliament includes two Ministers who are New Zealand alumni - ex-Prime Minister Rui Araújo (who is now Minister for Health) and ex-Rector of the University of Timor-Leste, Aurelio Guterres (who is now the Minister for Foreign Affairs).

In all of this, a new generation of Timorese is emerging - 45 per cent of the population has been born since independence, and 20 per cent of those who voted in the last national elections had never voted before (MoF, 2016a). While not downplaying the significant challenges that Timor-Leste is facing, the country has much to celebrate in its rapid growth and the many successes of its less than two decades of existence – a fact that is already moving its relationship with many of its bilateral and multilateral partners away from a 'problem-centric' focus, and into a 'vision-centric' dimension.

1.3 New Zealand's bilateral relationship with Timor-Leste.

New Zealand's bilateral relationship with Timor-Leste has its origins eighteen years ago, in September 1999, during the fraught aftermath of the August independence referendum. New Zealand Defence Force personnel were deployed at the time as part of the multinational peace-making taskforce, INTERFET⁶, prior to the arrival of UN peacekeepers in 2000 (NZDF, 2017). These early and ongoing⁷ security links are regarded as the foundation of what has become a mutually respectful and genuinely close development partnership (MFAT, 2015b) (GoTL, 2017).

The Evaluation Team was, in fact, surprised by the significant and often passionate emphasis given to Timor-Leste's partnership with New Zealand, by both the GoTL and the broader development community. Across several interviews⁸, New Zealand was consistently characterised as:

- A valued, consistent, and relied-upon partner in the history and evolution of independence in Timor-Leste;
- A trusted friend and 'brother', both in the diplomatic and the development spheres;
- An essential member of the development round table – one whose presence brings a balance to discussions, and whose absence would be sorely missed;
- The 'Scandinavia' of the southern hemisphere - a 'right-sized' role model of a small country with a strong economy, effective standards of governance, good race relations, and good public administration;
- An honest broker, with a commitment to Timor-Leste's development that is unclouded by vested interests other than the successful development of both countries; and
- A confidante, who both advises and supports Government as a colleague and equal, without paternalism or condescension.

This is high praise, although it needs to be moderated by the fact that other bilateral partners also garner many of these sentiments. Nevertheless, the fact that these perceptions were both collectively and consistently reported by senior Ministers and directors, as well as by other development partners,

⁶ International Force East Timor (INTERFET) - more than a thousand NZDF personnel were deployed over this period.

⁷ Currently only two defence personnel remain in-country to provide high level strategic support through the Mutual Assistance Programme (MAP).

⁸ Interviews with officials prior to the 2017 election including the then Minister of Foreign Affairs and Cooperation (Hernâni Coelho) on 27/4/17; Minister of the Interior (Longuini dos Monterio) on 26/4/17; General Commander of the PNTL (Julio Harnay) on 26/4/17; and Vice Minister of Education (Dulce Jesus de Souares) on 25/4/17. In addition interviews with other donors including: head of ADB Country Mission (Paolo Spantigati) on 26/4/17; Director of the USAID Mission (Diana Puttman) on 27/4/17; and the World Bank Country Representative (Bolormaa Ambaabazar) on 15 June 2017.

seems unique, and very possibly enhances New Zealand's political capital when assisting Timor-Leste to manage the complex and evolving dynamic of its diplomatic and development relations.

All the same, for some in New Zealand, its foreign policy relationship with Timor-Leste is less than compelling, given the limited trade, social, or strategic links between the two nations. Timor-Leste's trade with New Zealand is a very small part (1.4 per cent) of its very small non-oil trade portfolio (MoF, 2017b). According to MFAT, the total bilateral trade in goods with Timor-Leste in 2016 was only \$NZ 3.0 million, of which 90 per cent was New Zealand exports to Timor-Leste (MFAT, 2017d). New Zealand business investments in Timor-Leste are very limited, reflecting a hesitancy that can be attributed to the country's small and limited economy, to negative post-conflict perceptions, and to the slow emergence of a supportive legal landscape. Nevertheless, the Embassy is supporting a growing number of visits by New Zealand businesses to explore opportunities in sectors such as infrastructure, food and beverages, aviation, and government services. The reality is, however, that growth in the bilateral trade of goods will remain modest for the foreseeable future, and thus any potential to expand trade is not a strong driver of the bilateral relationship⁹.

The reality is that the bilateral relationship is defined by factors other than trade – many of which offer benefits to both Timor-Leste and New Zealand. It is clearly in New Zealand's interests for Timor-Leste to remain stable and not re-experience the violence of the past. It is also clearly in Timor-Leste's interest to have New Zealand as a partner at the table in the international arena, where its support has helped enhance its sense of legitimacy, and its aspirations, as it has established itself as a new nation in a very dynamic region. Timor-Leste - despite some signs of a growing nationalism - remains internationalist in outlook, and as such is a keen and active member of regional and global dialogues. This has played out in many forums that have been of strategic and economic interest to not just Timor-Leste, but also to New Zealand. There have been significant benefits to New Zealand in having a 'friendly' country onside. For instance, Timor-Leste was one of the strongest and most effective advocates for New Zealand's selection to the UN Security Council in 2015/2016. It also actively promoted ex-Prime Minister Helen Clarke's (albeit unsuccessful) bid for appointment as Secretary-General of the United Nations.

MFAT appreciates that Timor-Leste has expectations of reciprocity for any international campaigns it might itself be interested in mounting, the most immediate of which are its desires for membership of ASEAN, and of the WTO (MFAT, 2015b). New Zealand is sympathetic to both of these aspirations, given the ongoing, mutual nature of the bilateral relationship, and its own commitment to supporting multilateral and regional trade architectures. While the economic implications for Timor-Leste of its accession to ASEAN and WTO will probably be small, ASEAN in particular offers benefits through the opportunities it creates to align systems with international standards, and to upgrade the country's human resource development¹⁰. As a gesture of its support, New Zealand (with ASEAN consent) has been actively inviting Timor-Leste to join New Zealand-hosted ASEAN regional initiatives, training courses, and seminars.

There are other arenas in which Timor-Leste's international influence has been growing. The country:

- › plays a strong leadership role in the g7+ organisation for post-conflict and fragile states (MoF in Dili is the permanent host of the secretariat);
- › is the immediate past chair of the Community of Portuguese-Speaking Countries (CPLP); and
- › has expressed a strong interest (particularly through ex-Prime-Minister Araújo) in building deeper links with the Pacific. Its pending full membership of the Pacific Community (SPC) is likely to be the main vehicle for building these links¹¹.

Just as New Zealand identifies itself to some extent as a bridge between the Pacific and Asia, in a similar vein, Timor-Leste also sees the relevance of its ties with both regions. On the one hand,

⁹ Interview with Ambassador Poole 19 June 2017, and ex-Ambassador Schwass 18 July 2017.

¹⁰ See "International Integration" Paper 4, Part 3 of this Evaluation Compendium.

¹¹ The Committee of Representatives of Government and Administration (CRGA) of the SPC signed off in Nov 2013, however it appears that SPC is still awaiting Timor-Leste's application in line with the Canberra Agreement.

Timor-Leste shares many developmental and cultural characteristics with the small island states of the Pacific (some of Timor-Leste's population is, in fact, Melanesian in origin¹²). On the other hand, its geographic and economic alignment is with Asia. Timor-Leste therefore aspires to be an active member of both regional communities.

The bilateral ties between the two countries have been further strengthened in other arenas too, for instance, by the largely positive experiences of the many Timorese who have studied or lived in New Zealand. Five members of Timor-Leste's current and past parliaments – including the ex-Prime Minister (now Minister of Health), the current Foreign Minister, the previous Minister for State Administration, and three elected members of past and present National Parliaments – have studied in New Zealand. There are also many senior officials amongst the ever-growing alumni from New Zealand's scholarship, short term, and English language training programmes¹³.

¹² Timor-Leste's people are mainly of Malayo-Polynesian and Melanesian-Papuan descent (MoF, 2017a)

¹³ See Evaluation Compendium Part 3: Paper 5 - Scholarships, short-term, and English Language Training Opportunities.

2 Findings: Achievements and Challenges for New Zealand's Development

Section 2 discusses findings related to the relevance and impact of New Zealand's sectoral engagements and development impacts in Timor-Leste. More detailed information on specific activities is available in Part 4 of this Evaluation Compendium, which contains papers on all activities current in 2017.

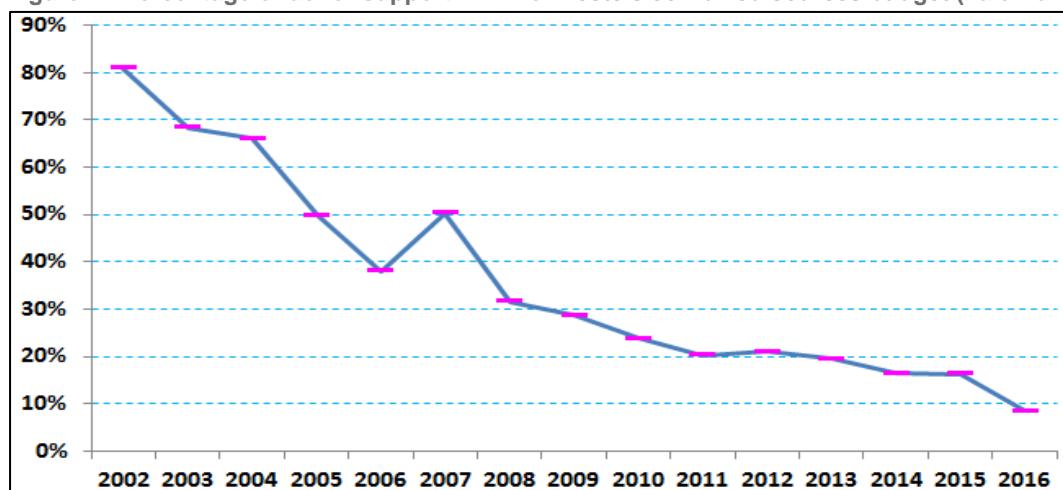
Programme

2.1 Overseas Development Assistance and the contribution of New Zealand

In recent years, as the GoTL has found its feet, the post-independence macroeconomic environment has gradually stabilised, and Government revenues from oil have escalated, Overseas Development Assistance (ODA) has become an ever-smaller percentage of Timor-Leste's national budgets. It now represents less than one tenth of Timor-Leste's combined sources budget (Figure 1). Among other reasons, this increase in Government revenues has seen a number of smaller bilateral donors entirely withdraw from Timor-Leste (e.g. Irish Aid and Norwegian Aid). And yet, as noted above, the development case for continued support has not greatly changed:

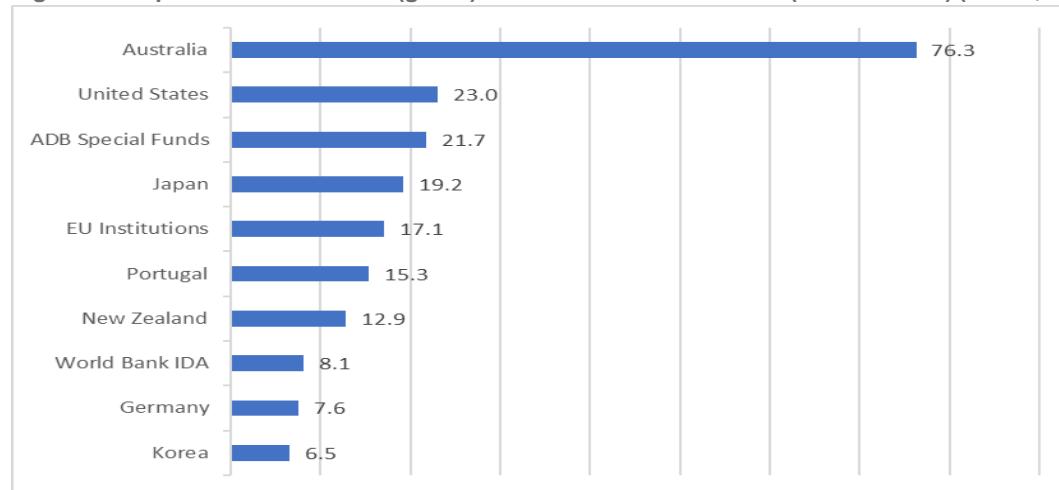
1. The systems, institutional and human capacity available to Government and key state agencies is still limited;
2. Poverty and other human development challenges are still significant and ongoing; and
3. The country's oil revenue flows, which account for more than 95 per cent of government revenue, are declining, with future income uncertain.

Figure 1: Percentage of donor support in Timor-Leste's combined sources budget (La'o Hamutuk, 2016)



Currently, Australia is by far the largest bilateral donor to Timor-Leste, with New Zealand ranking seventh, but in the same order of magnitude as most other donors (Figure 2).

Figure 2: Top ten donors of ODA (gross) for Timor-Leste 2014-2015 (USD millions) (OECD, 2017)



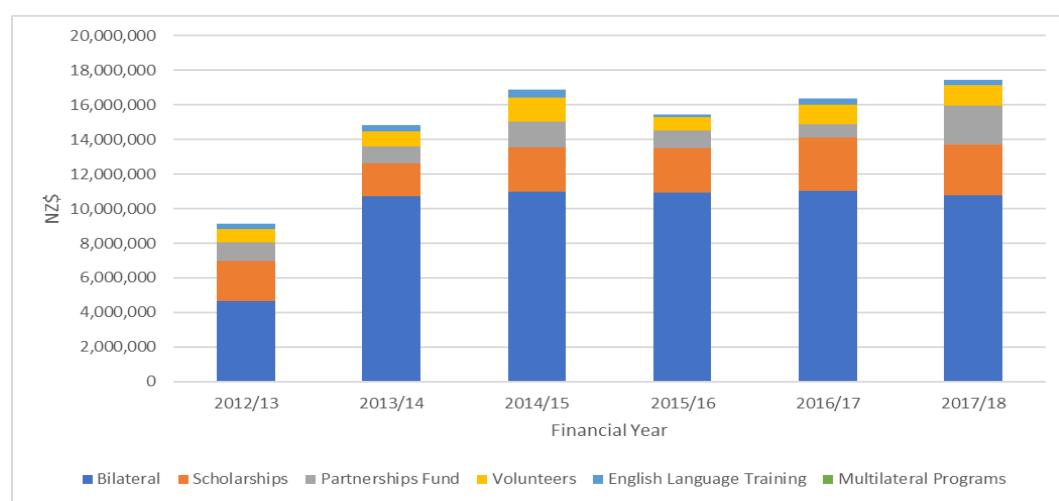
Between July 2001 and June 2007, New Zealand's total ODA to Timor-Leste was NZ\$27m (including NZ\$20m in bilateral support), or an average of NZ\$3.8m per year (Emmott & Buchanan, 2008).

Following the civil unrest of 2007, and up until FY 2012/13, New Zealand's total ODA was generally less than NZ\$10m/year (NZ\$8.8m in 2012/13).

However, in FY 2013/14 the bilateral component of aid was significantly increased, and the total ODA between FY2013/14 and 2017/18 averaged NZ\$15.8m per year.

Overall, during the 2016-2018 triennium, the total New Zealand ODA to Timor-Leste is projected to be NZ\$50.2m (MFAT, 2017b), averaging NZ\$16.7m per year. The importance of NZ's grant assistance has thus been growing, and now comprises about six per cent of total grant ODA.

Figure 3: New Zealand ODA spending in Timor-Leste (MFAT, 2017c)



Over the last five years, approximately two-thirds of New Zealand's support has been made up of bilateral funding. The remaining one-third has included: scholarships, short-term training, Partnerships, and volunteers¹⁴. However, there have also been a number of wider initiatives not

¹⁴ In 2015/16 funds from the World Bank Multi-Donor Trust Fund were allocated to support HANDS' initiatives (World Bank, 2017c)

captured by these figures, including New Zealand's support to multilateral donors such as the World Bank-managed funds (e.g. the Pacific Finance Technical Assistance Centre), and the ADB's regional Private Sector Development Initiative.

2.2 Strategic Alignment of New Zealand ODA

During the early 2000s, New Zealand's assistance in Timor-Leste was variously described as 'flexible', 'ad hoc', 'dissipated' and 'lacking direction' (Emmott & Buchanan, 2008). Since 2010, however, New Zealand's programming in Timor-Leste has become more focused. This seems to have been influenced by:

- › effective reflection and incorporation of review and evaluation findings (Emmott & Buchanan, 2008);
- › stronger Ministerial and management guidance; and
- › alignment with the clearer priorities outlined in the Government of Timor-Leste's (GoTL) *Strategic Development Plan (SDP) 2011 – 2030*¹⁵.

The SDP, which outlines the GoTL's vision, targets and indicators for the coming decades, is built around four pillars:

- › **Social capital:** health, education and social protection;
- › **Infrastructure:** transport, telecommunications, power, and water supply and sanitation;
- › **Economic foundations:** primarily targets two sectors for development – agriculture and tourism – as a means of generating growth, jobs, and new sources of public revenues beyond the oil sector; and
- › **The institutional framework:** focuses on macroeconomic management, and improving the capacity and effectiveness of government institutions.

To support the SDP, New Zealand developed its own *Strategic Framework for Development (SFD) 2012 – 2015*¹⁶, which aligned New Zealand's priorities with three of the four SDP pillars (Figure 4).

Figure 4: Strategic Alignment between Timor-Leste and New Zealand Priorities

Pillars of Timor-Leste's Strategic Development Plan (2011 – 2030)	New Zealand's Strategic Framework for Development (2012 – 2015)	The Joint Commitment for Development (JCfD) 2016 – 2020
Social Capital	Education and training	Improving knowledge skills and education
Economic Foundations	Private sector investment	Economic Diversification
Institutional Framework	Security and justice	Security and justice
Infrastructure	N/A	N/A

The *Strategic Framework for Development* expired in 2015, and in February 2017 the two Governments signed a *Joint Commitment for Development (JCfD) 2016 – 2020*¹⁷. The JCfD acknowledges Timor-Leste's aspirations to be an upper middle-income economy supported by a diversified economy, and includes membership of ASEAN. It acknowledges that economic diversification, private sector development, and sustainable use of the Petroleum Fund are critical to creating both revenue and jobs, and to safeguarding a secure economic future. The JCfD states that New Zealand will invest in a small number of areas to deliver maximum impact. This agreement has recognised and further refined New Zealand's current and planned investments in three focus areas:

¹⁵ (GoTL, 2011)

¹⁶ (MFAT, 2012)

¹⁷ (MFAT, 2016)

1. Improving knowledge skills and education: The JCfD aims to contribute to:

- › A skilled workforce and strengthened public sector; and
- › The quality, access and gender equity of learning outcomes for children 3-5 years old;

2. Economic Diversification: The JCfD aims to contribute to:

- › investments in agriculture, tourism and small business development that create jobs, improve people's livelihoods, and build overall economic resilience and diversification; and

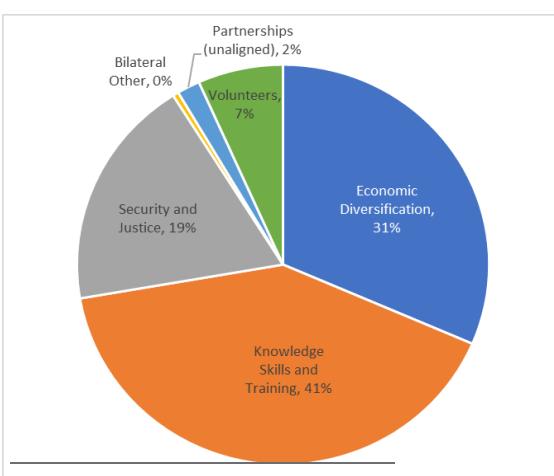
3. Security and justice: The JCfD aims to contribute to:

- › investments to improve the safety, security and access to justice of the people of Timor-Leste.

Since 2010, New Zealand's development assistance has increasingly focused on these three strategic themes, with a concurrently increasing synergy between its bilateral and non-bilateral funding¹⁸. Figure 5 shows that in the last two trienniums, more than 91 per cent of spending has been aligned with the three priorities. Evidence also shows that New Zealand's current programme is characterised by longer-term sectoral engagements, and by activity implementation that has capably evolved in step with Timor-Leste's dynamic operating context. This finding supports the 2015 OECD peer review of New Zealand's aid programme which noted that New Zealand's tools and partnerships have adapted to the evolving contexts in Timor-Leste, with movement away from a stabilisation role towards greater integration with the line agencies of the GoTL (OECD, 2015).

Like the *SFD 2012-2015* before it, New Zealand's JCfD aligns action directly with the goals of Timor-Leste's SDP. However, neither the JCfD nor the SFD specify targets. While the JCfD does acknowledge that a programme Results Framework will need to be produced within six months, no progress had been made in this direction at the time of the evaluation. Hence both of New Zealand's recent partnership documents rely on broad statements of strategic intent, proposed joint actions by New Zealand and the GoTL, and a narrative listing of areas in which results are expected. This broad approach is considered by MFAT to provide an appropriate roadmap for the relationship while leaving flexibility for adaptive management. However, while there is solid evidence that current development managers do in fact review, learn and adaptively manage the programme, this provides little basis for more specific accountability measures to be applied. It also means that the adequacy of progress/performance can only be subjectively assessed, and that considerable care is required to responsively review, adaptively manage, and sensitively negotiate and maintain a common and enduring vision for the programme. Discontinuity due to staff turnover is a particular risk. However, over the past five years it appears that this has been well managed by MFAT having paid particular attention to the right blend of Aid Management skills, particularly at the Post.

Figure 5: Sector expenditure between FY12/13 and FY17/18



For a moderately-sized bilateral donor, this approach has been appropriate - gaps have been identified, partnerships have been strategically developed, and the efforts of other donors have been leveraged. Several development partners (ADB, USAID, Irish Aid and the World Bank) commented on the active and beneficial collaboration they have experienced with New Zealand. In Timor Leste, New Zealand has a delegated co-operation agreement with the United States, and has also supported pooled funding with the ADB and World Bank. Furthermore, within the envelope of its chosen sectors, New Zealand's assistance has been considered exemplary. New Zealand is well regarded within the Council of

¹⁸ Both scholarships and PfID support now aims to align more coherently with the JCfD priorities.

Ministers for the way it respectfully partners, integrates with, and otherwise supports Timor-Leste's Ministries¹⁹. Timor-Leste's Minister of the Interior reported that New Zealand is the lead donor in community policing, and its Vice Minister for Education²⁰ reported it as the lead donor in early childhood education. Once again, this evaluation confirms the OECD findings that New Zealand's approach, partnerships and delivery modalities are well placed to deliver realistic and appropriate results in fragile contexts (OECD, 2015).

New Zealand's budgets are allocated over three-year periods to improve their predictability and management. A breakdown of the current total aid flows for the triennium 15/16 to 17/18 is presented in Table 1.

Table 1: Timor-Leste Total Country Aid Flow (NZ\$) (MFAT, 2017b) (updated 2/2/2017)

Total Country Aid Flow (TCAF) element	%	2015/16 Forecast	2016/17 Forecast	2017/18 Forecast	Triennium Forecast
Bilateral total	67%	\$10,943,268	\$11,052,497	\$10,755,750	\$32,751,515
Economic Diversification					
Agriculture	18%	\$1,882,520	\$2,931,835	\$3,708,000	\$8,522,355
Fisheries	6%	\$1,267,965	\$926,953	\$761,750	\$2,956,668
Tourism	1%	\$0	\$35,000	\$256,000	\$291,000
Economic Training	1%	\$252,337	\$19,325	\$0	\$271,662
Knowledge, Skills and Education					
Early childhood support	23%	\$3,331,888	\$4,372,372	\$3,700,000	\$11,404,260
Scholarships and Short-Term Training	18%	\$2,537,728	\$3,070,965	\$2,968,132	\$8,576,825
English Language Training for Officials	0%	\$169,141	\$0	\$0	\$169,141
Security and justice	19%	\$4,145,828	\$2,687,012	\$2,250,000	\$9,082,840
NZ Embassy Fund	0%	\$62,730	\$80,000	\$80,000	\$222,730
Partnerships Fund	8%	\$1,055,530	\$753,484	\$2,245,015	\$4,054,029
Volunteers	6%	\$743,817	\$1,158,071	\$1,161,273	\$3,063,161
Pacific Leadership Programme	NA				NA
ADB Private Sector Development Initiative	NA				NA
World Bank Timor-Leste Strategic Partnership Multi-Donor Trust Fund	NA				NA
Total Country Aid Flow	100%	\$15,449,484	\$16,035,017	\$17,130,170	\$48,614,671

2.1 Assessment of development support

The detailed assessments in Part 4 of this Evaluation Compendium present and discuss the evaluation findings for all New Zealand's current investments through the lens of the Development Assistance Committee's (DAC) evaluation criteria²¹. These assessments outline the results achieved against both the SFD and JCfD, and comment on progress. A high-level summary of the key findings is presented in Table 2. Overall the portfolio rates well for Relevance, Effectiveness and Inclusion. The most problematic DAC criteria across the portfolio are – unsurprisingly, given the fragile and emerging governance and economic systems - Sustainability and Impact . Within the three sectors the work in Skills & Education, and Community Policing are focused and doing well, while the work in Economic Diversification is more disparate and challenging. The three areas highlighted in red (related to the Lafaek Learning Media and the Provedoria interventions) require more thought by MFAT, and are discussed in more detail in Part 4.

¹⁹ Interview with Longuinhos Monteiro on 26 April 2017 who was Minister of the Interior at that time.

²⁰ Interview with Dulce Jesus Soares on 25 April 2017 who was Vice Minister of Education at that time.

²¹ Relevance, Effectiveness, Efficiency, Impact, Sustainability (and Inclusion)

The following discussion focuses on the broader merit of New Zealand's strategic focus in each of its three sectors, and assesses the extent to which the planned (SFD and JCfD) outcomes have been achieved.

Table 2: Evaluation Assessment of New Zealand's current Portfolio of activities against the DAC criteria.

Sector/ Activity DAC Criteria	Skills and Education				Private Sector Development			Security and Justice		Partnerships	Volunteers
	Scholarships, short-term training, ELTO	UNICEF Alternative Preschools	Early childhood education	Education media	Coffee	Aquaculture	Tourism	Community Policing	Human Rights		
 relevance	Positive contribution to recognised capacity challenges.	NZ is the only donor supporting pre-school education.	NZ is the only donor supporting pre-school education.	Only platform for delivering Tetum reading material to homes; informed by GoTL curriculum.	Contributing to development of an important rural development sector.	New and uncertain market/value chain with inherent investment risks for farmers.	One of the few opportunities for economic diversification in TL, despite fledgling state of the sector.	Important contribution to the developing culture of a nascent police institution.	Key issue in Timorese constitution and political rhetoric.	Limited range of New Zealand partners. Better guidance is needed on strategic alignment.	Limited pool of host partners in Timor-Leste limits scope, scale and strategic opportunities for engagement.
 effectiveness	Selection process challenged by need for high level English competency. Growing and influential alumni.	Addressing multiple components of the preschool system.	Addressing multiple components of the preschool system.	Effective editorial and publication process.	Appropriate strategic partnership with a key local player.	Technically intensive hand-holding necessary to maintain performance of farmers and hatchery staff.	Early work on policy support has delivered a quality product.	Long-standing commitment to sector by NZ; (now) well-respected staff and advisers.	Recent training has been effective, but PDH-U is increasingly underfunded and lacks political support.	Mostly effective delivery.	Strong positive feedback from hosts and volunteers demonstrates effective placements in almost all cases.
 efficiency	Well-established systems that are responsively monitored and upgraded.	Efficient assessment of models; ambiguous/ evolving policy position.	Fragmented management arrangements; ambiguous/ evolving policy position.	Nation-wide distribution system reaching all schools and a majority of households.	Unclear if rollout mechanism is optimised to achieve timely and affordable impact.	Slow delivery of hatchery upgrades and perceptions of distant management support.	Policy delivery was handled quickly and at minimal cost, strongly supported by the Post.	In-country advisers are a time and cost intensive programme model. Locally engaged staff help to improve reach.	Delivery of Phase 1 was less than anticipated. Phase 2 has been better, but donor dependency remains high.	Good working partnership between NGOs and MFAT with sensitive approach to timescales.	Very solid systems and practices for assignment and pastoral management. Excellent M&E practices.
 impact	Scholar motivation for nation building is apparent.	Models tested that are comparable yet cheaper than formal preschools.	Evidence suggests positive impact on numeracy and literacy of next generation.	Some evidence of increasing literacy and numeracy; positive engagement of teachers and parents.	Solid evidence of households realising increased yields from adopting tree husbandry practices.	Target farmers report good yields/profits from first harvest and household food benefits.	Both the sector and the Government approach lack cohesion, which raises concerns regarding early and effective change. Scale of potential benefits is uncertain.	A focus on strategy and training appears to be effecting an appropriate change of culture in the PNTL.	Case work is limited, and success rate is poor. PDH-U seems increasingly allocated to lesser issues (e.g. monitoring recreation leave, school monitoring)	Projects generally achieve meaningful and sometimes exemplary results.	Difficult to assess substantive impact, but subjective measures and stories are uniformly positive.
 sustainability	High rates of return to Timor-Leste, and of retention in relevant employment.	Likely to remain dependent on donor funding.	Likely to remain dependent on donor funding.	[Appropriately] donor-dependent platform.	If farmer adoption is high, yield increases should be significant and lasting yet pathways to long-term, and spontaneous adoption remains unclear.	Unclear scale of market opportunity; dependence on external technical support and free supply of fingerlings; long and multi-faceted pathway to a sustainable system.	Multiple players with different agendas need to show greater unity – current progress will be undermined if strategy and action plans are not widely adopted.	A risk that the momentum of culture change may wane after the pending withdrawal of the NZ advisers.	Limited clarity of political support, and heavy donor dependency.	NGOs are generally careful to build in handover and sustainability mechanisms.	Both hosts and volunteers focus on retaining capacity.
 inclusiveness	Difficult to get female participants – particularly in STTS and ELTO.	Good involvement of mothers and girls. Good staff balance.	Good involvement of mothers and girls. Good staff balance.	Equal access to boys and girls. Strong gender messaging.	Pleasing focus on women farmers and corporate gender policy.	Limited focus on involving women as leaders in aquaculture farms.	Policy work has a solid and best-practice focus on inclusion and mitigation of social risk.	Strong focus on women's involvement and voices within local structures.	Issues seem to be gender balanced.	All NGOs pay particular attention to inclusiveness.	Strong gender balance, and focus on promoting gender inclusive principles.

2.2 Improving Knowledge, Skills and Education



New Zealand has a solid portfolio of past and current activities in the Knowledge, Skills and Education sector in Timor-Leste (Figure 6). Current support includes:

1. *Scholarships and Training* which comprised 18 per cent of New Zealand's ODA to Timor-Leste in the 2012 to 2015 triennium, or around NZ\$3.0 million per annum, including:
 - Up to 20 English language awards per year,
 - 20 short-term vocational training awards per year, and
 - 15 academic scholarships per year.
2. *Sector wide support to early childhood education*, which comprised 23 per cent of New Zealand's ODA to Timor-Leste in the 2012 to 2015 triennium, or around NZ\$3.8 million per annum, including:
 - Targeted support to UNICEF to pilot community-run, alternative models of pre-school education, an initiative that was bilaterally supported between 2014 and 2016, but is to receive funding from New Zealand's Partnerships for International Development Fund (PfID) from 2018 until 2021²²;
 - The major HANDS programme investment that supports the GoTL to establish a more comprehensive and effective public pre-school system; and
 - The formulation and distribution of early childhood learning media through the *Lafaek* initiative.

These investments are firmly aligned with the strategies of both Governments, and directly contribute to aspects of Goal 4 of the United Nation's 2030 *Strategic Development Agenda* (SDA). While there are several donors in the broader education sector, New Zealand's focus on scholarships, short-term training, and early childhood education is both complementary and integrated with other development partner initiatives.

Figure 6: Recent and current investments by MFAT in the Knowledge, Skills and Education Sector

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ministry of Education Capacity Building Programme (A00160)		MoE : NZ\$0.3M							
EDU : Alternative preschool education in Timor-Leste (A1190)				UNICEF : NZ\$2.34M					
PfID : Smarter Children, Healthier Economies: Expanding Early Childhood Care and Education in Timor-Leste. - NZ PfID Application							UNICEF : NZ\$1.95m		
EDU : Early Childhood Education (HANDS) (A10681)			Various : NZ\$3.25M		Grow HR Int'l : NZ\$5.9M				
EDU : Lafaek Learning Media (A11960)				CARE : NZ\$4.5M					
Short Term Training Awards				MFAT : 20 awards per year					
English Language Training for Officials (ELTO) Phase III Timor-Leste				MFAT : 15 to 20 awards per year					
Academic Post-graduate Scholarships			MFAT : NZ\$2.55M per year (up to 15 scholarships/yr)						
					Bilateral	Ongoing			
					Other	Continuing			

²² New Zealand Partnerships for International Development Fund, (Round 10, 2017) *Smarter Children, Healthier Economies: Expanding Early Childhood Care and Education in Timor-Leste*.

Scholarships and Training

The relevance of investing in short-term training and scholarships for adults acknowledges that capacity is a critical constraint on the nation's development, especially given the need in a newly established, small, and largely agrarian country to access new and essential skills and systems. New Zealand's Head of Mission²³ stressed that poor capacity (people, skills, motivation, systems, resources) is the key constraint within most Government institutions, the private sector and professions (health, education, science and technology). Hence, access to skills development through both short and long-term programmes is essential for the nation's development.

The short-term training²⁴ and English language training²⁵ activities address the pervasive professional capacity constraints within the Timorese public service, while academic scholarships seek to address the human capital constraints the country is facing with a much longer return-on-investment horizon. The Government of Timor-Leste stressed the value of both the short and long-term trainings that have exposed key Timorese actors to New Zealand and Pacific approaches to development. These exchanges have not only offered the opportunity to build skills and capacity, but have exposed these actors to new perspectives that have broadened their vision of what is possible. Demand is ongoing, and the Minister of Foreign Affairs and Cooperation²⁶ highlighted opportunities where he felt New Zealand was uniquely positioned to further help Timor-Leste including:

- 'fit for purpose' public financial management;
- sustainable tourism;
- more responsible use of marine fishery resources;
- improved integration of state and customary justice mechanisms;
- improved air connectivity between small islands; and
- experience of fully operative civil defence and policing systems.

Looked at more broadly, however, the effectiveness and efficiency of training and scholarships programmes have been regularly criticised. Their reach is said to be limited, and the risks associated with investing substantial resources in just a few individuals are high. However, as previously mentioned, New Zealand alumni provide a growing and influential cohort of senior national officials²⁷, which suggests that at least in Timor-Leste's case, the benefits have sufficiently outweighed the risks²⁸. Overall, there are approximately 65 New Zealand alumni listed for Timor-Leste, affording New Zealand unique access to, and influence in Timor-Leste, across multiple sectors and organisations.

It is widely recognised and appreciated in Timor-Leste that graduates returning from New Zealand have received a quality education or training experience, and that New Zealand has significantly

²³ Interview with Vicky Poole on 12 June 2017.

²⁴ Commenced in 2015 at the request of Xanana Gusmão, who was Minister of Planning and Strategic Investment at that time.

²⁵ Two intakes per year; around six people per intake; comprising a seven-week home-stay component, followed by a 13-week study component at Victoria University.

²⁶ Interview with Hernâni Coelho on 27 April 2017 who was the Minister of Foreign Affairs and Cooperation at that time.

²⁷ The seven high profile Timorese, who have completed part of their studies in New Zealand, all studied during the Indonesian times, and were strategically placed to take of major roles in Timor's fledgling bureaucracy after independence.

²⁸ During this evaluation, current and former scholars and trainees urged New Zealand to expand the programme to give more Timorese access to the opportunities they had been afforded. They acknowledged that New Zealand's resources were finite, and that as such, an expansion of scholarship and short-term training programmes delivered in New Zealand would mean that less resources were available to spend directly in Timor-Leste. Yet while they conceded that investing in local training/education institutions would be of more immediate benefit to more people, they felt that the quality of New Zealand training and education would have greater long-term benefits, and thus justified a trade-off.

Strategic Outcomes Expected

SDF 2012–15: Youth and adults in Timor-Leste have increased opportunities for employment and improved income through appropriate skills development.

Timor-Leste has a wider pool of highly skilled and qualified individuals who contribute to and lead Timor-Leste's national development.

Jcfd 2016–20: Sustainable development in Timor-Leste is driven by a skilled workforce and a strengthened public sector.

increased the number of scholarships and short-term trainings offered in response to a request from the then Minister of Planning and Strategic Investment²⁹ in 2011. The sustainability and impact of short-term training and scholarships is challenging to capture, but is considered largely acceptable in the case of New Zealand alumni, insofar as a fair proportion of scholars/trainees have returned to their country, and are now gainfully employed. During this evaluation, several current and recent scholars expressed their strong attachment to their country, and their motivation to use their personal opportunity to contribute to its development. There is also evidence to suggest that at least some alumni seek to maintain academic, business, and personal connections with New Zealanders. This could easily be dismissed as anecdotal, and yet it accords with a strong and well-documented ‘nation building’ ethic in the country, especially amongst educated Timorese. While the causal linkages between scholarships/training and development impact are long, in a small, low-capacity nation such as Timor-Leste, the potential to achieve significant and lasting impact is nevertheless unusually high.

New Zealand could do more to support its alumni, and leverage off their ideas and connections in priority sectors. Currently, the list of alumni is incomplete and networks are informal. While the Embassy regularly extends invitations to official occasions, there is much more that could also be done to:

- Provide ongoing professional and career opportunities to Alumni, and integrate them with New Zealand’s activities both in Timor-Leste and across the region;
- Support the Alumni to be more active in increasing their profile, promoting the benefits of links with New Zealand, and advocating for responsible development; and

Understand the opportunities and challenges faced by returning Alumni. The Scholarships programme is already looking at ways to build its Alumni globally. The upcoming scholarships evaluation might consider using Timor-Leste as a tracer study to build understanding.

Early Childhood Education

MFAT’s engagement with early childhood education in Timor-Leste is a long-term investment in the next generation of Timorese that complements the more immediate impacts of its trainings and scholarships for adults. There is a wealth of evidence to indicate that supporting the intellectual and social stimulation of young children provides very significant returns on investment, including better literacy and numeracy outcomes in primary school (UNICEF, 2017). It also helps inculcate the culture of life-long learning that is essential for the establishment of a competitive foundation in this disproportionately young country³⁰.

Strategic Outcomes Expected

SDF 2012 – 15: Children in Timor-Leste have access to quality relevant education.

J CfD 2016-20: ECE learning outcomes for 3 to 5-year olds improved in terms of quality, access and gender equity.

New Zealand’s support to early childhood education is well contextualised – it is closely aligned with the legislative frameworks of Timor-Leste, supporting the government to meet the targets of the *National Education Strategic Plan (NESP) 2011-2030*, as well as the *Policy Framework for Pre-school Education (PEPE)*³¹. Both call for 50 per cent of 3-5-year-old children to have access to pre-school by 2020, and 100 per cent access by 2030 (MoE, 2011). New Zealand’s support is also clearly aligned with the UN’s *Sustainable Development Goal 4*, particularly SDG 4.2³². Furthermore, New Zealand professionals and institutions are well placed to support early childhood education in Timor-Leste, given its highly regarded Te Whāriki early childhood curriculum, quality pre-school sector, and world-class academic support and teacher training.

²⁹ Xanana Gusmão.

³⁰ Census projections show over 40 per cent of the population is under 14 years old (GoTL, 2015).

³¹ *Programa de Educação Pré-Escolar (PEPE)*.

³² SDG 4. 2: By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education (UN, 2017).

New Zealand embassy staff participate in the *Early Childhood Working Group* which meets regularly, and is comprised of representatives of all development partners involved in the sector. In addition, the Post and the HANDS³³ team, are members of ACETL³⁴ which is currently working to help the Ministry of Education secure ongoing funding through the *Global Partnership for Education*³⁵. New Zealand's programme is appreciated not just for its tangible support, but for its willingness to take on a wider leadership role, and to openly share its ideas with other development partners in the education sector (MFAT, 2016a).

New Zealand is currently supporting the Ministry of Education in servicing all 338 existing public pre-schools in Timor-Leste (MFAT, 2016a) - almost 20,000 children, or about 16.7 per cent of Timorese children aged 3, 4 and 5. While this percentage seems low, it is primarily due to the limited availability of local pre-schools, not to a lack of parental demand. There are, in fact, more 5-year-olds currently (and improperly) enrolled by their parents in Grade 1, than are currently attending pre-schools (Hellyer, 2017). By 2016, New Zealand had additionally supported UNICEF to pilot 123 community-run, alternative pre-schools in Ermera and Viqueque (UNICEF, 2017). Furthermore, with New Zealand support, all children between three and seven formally enrolled in pre- and primary schools (some 115,000 children), are receiving quality learning media for use both at school and in the home (Raynes, 2017).

New Zealand is appreciated by senior government officials for leadership that has helped to focus long-term donor assistance on the development of the early childhood education sub-sector, and for its maintenance of effective and constructive working relationships with multiple stakeholders³⁶. The Director General for Pre-school and Basic Education reported: “*The embassy staff and programme team have actively worked with us. All the decisions are ours, but they make helpful suggestions. I'm very happy with the support*”³⁷.

Yet despite the meaningful efforts of New Zealand and other donors in support of early childhood education, the task is not only just beginning, but facing multiple challenges:

- About one third of adult Timorese are illiterate;
- While 88 per cent of the population speak Tetum as their mother tongue or a second language, only 5 per cent speak Portuguese – the other official language. Hence skills and motivation to teach and learn Portuguese are very limited, especially in rural areas;
- The recent Baseline Study conducted by the *Lafaek Learning Media* project showed that in rural areas 93.1 per cent of Grade 1 pupils were unable to read a single word in a Tetum passage³⁸, and 58 per cent of Grade 3 pupils were unable to answer a single comprehension question regarding a short passage of text;
- Similarly, 60 per cent of Grade 1 and 40 per cent of Grade 2 students could not count to 20 (CARE International, 2016);
- While basic education is compulsory, and primary school gross enrolment is high (137 per cent³⁹), pre-school is not compulsory; and
- According to the PEPE five-year costed action plan (HANDS, 2016), the aspirations of both PEPE and NESP are well beyond current or projected GoTL resources, with the result that no formal pre-schools have been built in Timor-Leste in the last two years.

³³ ‘Halimar, Aprende, no Deskobre; Susesu’ - Tetum for: ‘Play, Learn, and Discover; Succeed’.

³⁴ ‘Ação Conjunta para a Educação em Timor-Leste’ – Portuguese for ‘Joint Action for Education in Timor-Leste’.

³⁵ A multi-stakeholder partnership and funding platform that aims to strengthen education systems in developing countries.

³⁶ A point repeated by the then Vice Minister of Education (Dulce Jesus Soares), Director General of Pre-School, Basic and Recurrent Education (Cidálio Leite), the National Director of Pre-school Education (Abelina da Costa), and the Inspector General (Evaristo de Jesus).

³⁷ Interview with Cidálio Leite on 20 June 2017.

³⁸ While the World Bank Early Grade Reading Assessments (EGRA) conducted nationally in 2009 and 2011 showed that 70% of Grade 1 students were not able to read a single word in Tetum (World Bank, 2013) this study included both urban and rural children.

³⁹ “Gross” enrolment includes students of all ages, including late enrolments, early enrolments, and repetitions. As such, the total enrolment can lead to ratios greater than 100 per cent. In Timor-Leste, many 5-year-old children are ‘inappropriately’ enrolled in Grade 1.

There is much that needs to be done, and while not all of it can be addressed through early childhood learning interventions, the interventions so far supported have achieved significant results (see the *HANDS* and *Lafaek* discussions in Papers 3 and 4 of Part 4 of this Compendium). The impetus for New Zealand to continue its support is therefore significant.

In fact, given New Zealand's track record in the early childhood education sub-sector, its high profile, and its solid reputation and engagement with Government⁴⁰, there is a strong argument for the extension of its support beyond pre-school to include children into Grade 2, and thus to all children aged 3 to 7. While this would be a significant task requiring additional resources (and closer alignment with the basic education component of Australia's Partnership for Human Development Programme), broadening the scope makes a great deal of sense, as it would move New Zealand's engagement into a more securely funded area of Government concern. To this end a new Partnership program already aims to detail the various options for early childhood education in Timor-Leste and their integration with formal pre-school and basic education. A broadened early childhood education scope also aims to break down the pre-school/basic education compartmentalisation that currently exists within the Ministry of Education and introduce a results-based approach focused on establishing foundational skills across the early childhood years (three to seven-year olds). Over time, it would also help to formalise the relevance of pre-school education – particularly in the areas of language development, pre-reading skills and numeracy - and thus ensure that pupils transitioning to Grade 1 are more capable and commensurate in their skills than is currently the case. Furthermore, it would also improve the alignment of New Zealand's support with both its own and world best practice in Early Learning, which usually incorporates children up to six or seven. MFAT should thus consider undertaking a scoping mission in 2018 to consider the opportunities to broaden its early childhood programme, and to evaluate the impact this would have on the sector and on its overall funding.

2.3 Economic Diversification



Timor-Leste is facing a crucial need to diversify its economy in order to underpin Government revenues, and deliver opportunities to the populace that are both sustainable and equitable.

As discussed in Section 1, and further detailed in Part Three of this Evaluation Compendium⁴¹, the large foreign exchange flows associated with oil have negatively affected the incentives for development of non-oil import-competing and exporting activities in the country, and have skewed development of the private sector towards the contracting opportunities created by government spending. At the same time, three-quarters of the population live in rural areas, the cash income of most households is very limited, and the capacity of most households to try new opportunities is constrained by the need to ensure that subsistence food production is never compromised.

Because the GoTL recognises these challenges, the SDP logically prioritises private sector investment as the way of diversifying the economy to sustain growth and employment. But as noted in the accompanying analysis of private sector development⁴², progressing this priority through top-down reform is a complex task, and requires work across a whole spectrum of issues related to policy, institutions and infrastructure. New Zealand (and New Zealand Inc) may from time to time

Strategic Outcomes Expected

SDF 2012 – 15: An active private sector that generates employment and incomes.

J CfD 2016-20: Investments in agriculture, tourism and small business development create jobs, improve people's livelihoods, and build overall economic resilience and diversification

⁴⁰ Especially when compared with Australia's current Basic Education initiatives.

⁴¹ Refer Paper 1 "Economic and Social Development" within Part 3 of the Timor-Leste Country Evaluation Compendium.

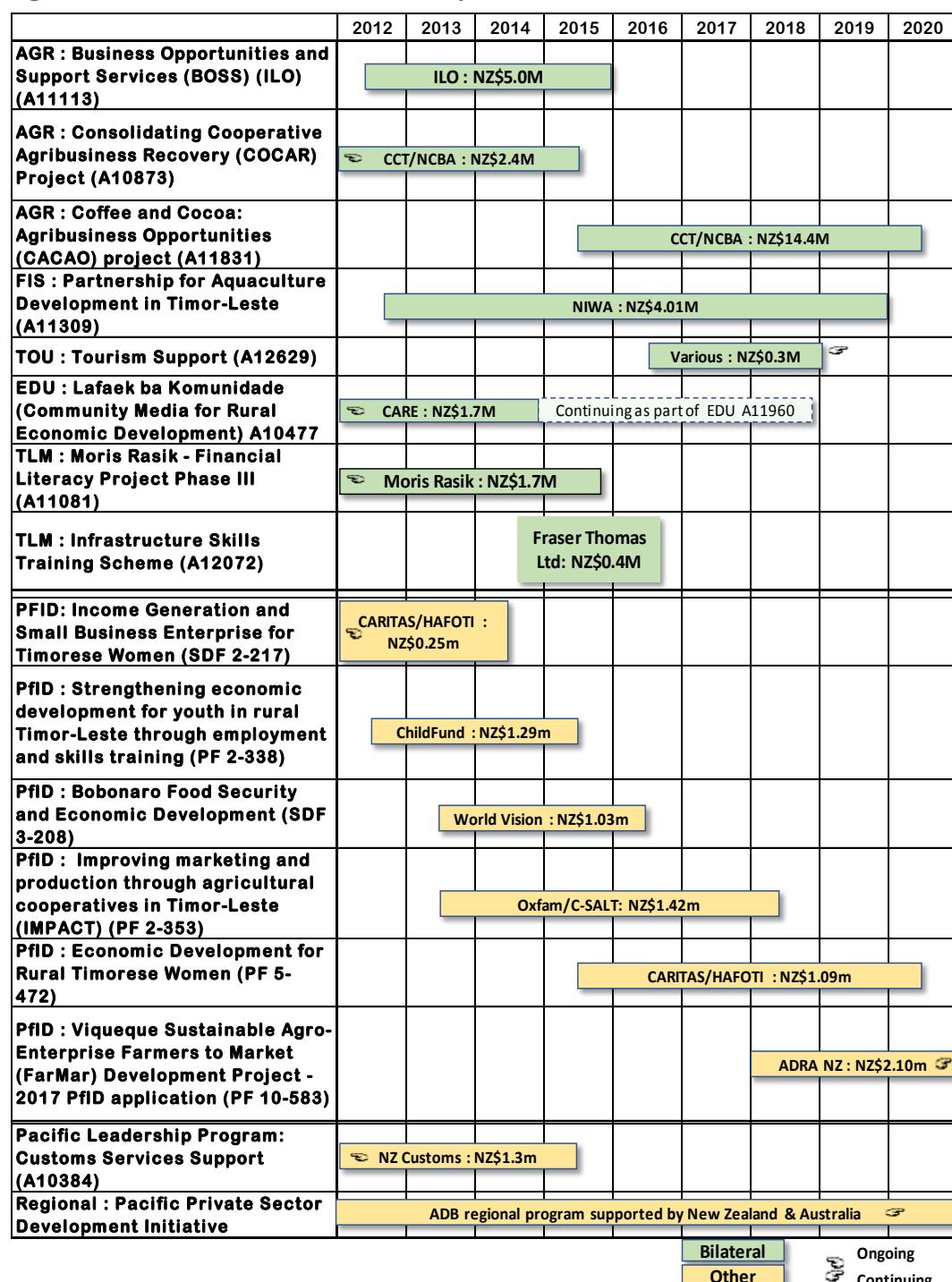
⁴² Refer Paper 3 "Private Sector Development" within Part 3 of the Timor-Leste Country Evaluation Compendium.

recognise opportunities where nimble, niche interventions might assist with such work. Yet other donors are better positioned to make the significant and lengthy commitments needed to address the critical issues in the enabling environment (e.g. the World Bank, the ADB, and Australia).

That said, it is not feasible for the private sector to wait for all the necessary enabling environment changes to eventuate before it gets down to business. It must therefore identify effectual ways of working despite the constraints. To this end, New Zealand has been working directly with the private sector and with farming households to improve the functioning of value chains within the current environment.

New Zealand's investments are broad (Figure 7), and include programmes that are both bilaterally and non-bilaterally funded. The bilaterally funded programmes support the GoTL to stimulate economic diversification and private sector development in what are potentially the two most significant non-oil sources of growth: agriculture and tourism.

Figure 7: Recent and current investments by MFAT in Economic Diversification



Whilst tourism is not one of MFAT's Global Reach priorities, it is one of the relatively few economic diversification options available to the country, and hence support to the sector is justified. The current needs are to establish the basic foundations, and test the potential scale of the sector in Timor-Leste, in line with which New Zealand has already supported the GoTL to develop a widely accepted Tourism Policy.

Since 2012, New Zealand's work in Timor-Leste's agriculture sector has included its most significant investments in economic diversification, with programmes working to:

1. Improve arabica coffee productivity within the high-altitude coffee belt for 15,000 households (about half the industry), and introduce new diversified economic options for farmers at lower altitudes, including cocoa and other cash crops. Through a strategic partnership with Cooperativa Café Timor (CCT), productivity-enhancing interventions have been rolled out, including tree husbandry techniques, and plant stock distribution. This approach is justified by the significant resources and extension capability of CCT. Given the growing global demand for organic and fair-trade coffee, this investment should generate both household income and national level revenue.
2. Establish and strengthen the aquaculture sector in Timor-Leste, by bringing hatcheries online for fresh and brackish water fish production, and by piloting community-based production systems. Aquaculture is justified by the protein-insufficient diets in sub-coastal areas, and the strong local demand for fish. Recent experience also suggests that despite the value chain challenges in Timor-Leste, farmers can easily sell much of their initial production locally; and
3. Build the value chains for livestock and vegetables focused on the Dili market. This work has established pilots for effective abattoir services, and fresh produce marketing to supermarkets.

In addition to these bilaterally funded engagements, New Zealand's global funding has also been supporting:

1. Six NGO projects focused on livelihood support to rural households, youth and/or women, funded under the PfID programme;
2. The ADB's Pacific Private Sector Development Initiative (PSDI), a regional initiative that has completed significant work in Timor-Leste; and
3. Up to 15 volunteers per year, 70 per cent of whom work with economic service agencies (e.g. IADE, accounting firms, and social enterprise NGOs) to build their economic outcomes.

As outlined in Figure 7, New Zealand has funded several relatively disparate investments since 2012. MFAT staff found it difficult, in fact, to coherently describe the logic behind this portfolio and the high-level outcomes and results that would reflect success (unlike for the other sectors (Education, and Security and Justice)). The high-level reasoning behind this portfolio therefore needs clarification.

There are, in fact, four elements to this issue.

1. Both the JCfD and the SDF lack clarity as to the focus of New Zealand support. This is evidenced by the inconsistent and often interchangeable titles used in the relevant documents (the Global Reach Priorities, the SFD 2012-2015, and the current JCfD 2016-2020), in which New Zealand's work in the 'sector' is variously and interchangeably described as:
 - Agriculture;
 - Tourism;
 - Private sector investment;
 - Private sector development;
 - Economic development; and
 - Economic diversification.
2. There is little strategic mention of the goals of the United Nation's *2030 Strategic Development Agenda* (SDA), particularly of poverty (SDG1), zero hunger (SDG2), and decent work and economic growth (SDG8) – all issues critical to Timor-Leste's development. Nevertheless, a more detailed review of the design and implementation documentation for the coffee, aquaculture and

tourism⁴³ projects, reveals a much richer and more nuanced appreciation of these needs, and of their potential to contribute to these integrated outcomes. Yet at the ‘sector’ level much of this nuance is lost.

3. Currently, all major bilateral and multi-lateral donors (including Australia, the United States, and the European Union), have strategic approaches that focus their support on economic diversification, and therefore - all but inevitably - on agriculture, tourism and manufacturing. Hence, economic diversification is not an area where New Zealand is a lead donor, but rather it is a crowded space with many players, and sometimes conflicting voices. There is, nevertheless, significant work that must be done if Timor-Leste is to advance its non-oil economy at a sufficient pace. As a result, economic diversification must remain an integral part of New Zealand’s support over the coming decade. The key to success, however, will be careful negotiation of relevance, value add, and integration with other partners. Currently, all three value chains being worked with by New Zealand are arguably relevant. However, the specific value add of New Zealand in the case of coffee is not particularly clear. While astutely mobilizing the extension capability (and self-interest) of a financially viable local organization is valuable, it does not draw on any New Zealand expertise or advantage (although there may be opportunities to change this⁴⁴) - whereas the potential for New Zealand’s experience to value add for tourism is undeniable, and should be developed more strongly.
4. Unlike in the case of the education and security sectors, where MFAT and the GoTL have a sound and negotiated understanding of the joint pathways necessary to progress the agreed outcomes, this is not the case for Economic Diversification. Generally, the GoTL has approached the necessity of economic diversification through Government-led investments that are high risk, large-scale and generally unsustainable centre-pieces for its growth strategy. This has made it difficult for New Zealand (and other donors) to meaningfully engage with the GoTL’s economic development portfolio.

All in all, while the individual projects have a clear intent, the higher level strategic integration, cross-MFAT understanding, and Government-to-Government vision has generally been lacking. Yet because the Evaluation Team agrees that Economic Diversification is an area of need that cannot be ignored, New Zealand’s programme would greatly benefit from a solid process that more clearly defines the high level results chain (or theory of change) for Economic Diversification, and thus helps all stakeholders to better understand the strategic links behind its investments. To further strengthen this logic, it is suggested that:

1. Each investment should focus on two levels:
 - Firstly, it should deliver solid on-the-ground support to improve value chain function in a way that demonstrates feasible, sustainable and equitable income improvement for the poor; and
 - Secondly, it should then leverage off this real-world experience by supporting sector advocacy with the relevant line agencies (and potentially other development partners) to increase their focus on enabling systems and policies, and significantly reduce the GoTL’s predilection for direct market interventions.

One mechanism MFAT could consider for supporting advocacy and increasing its fiscal ability to respond flexibly is through a new small ‘governance’ facility – a flexible fund that supplements value chain experiences and coherently supports Government to improve or address gaps in their services or policies. This facility could also have a role in supporting New Zealand’s other two sectors.

2. MFAT should also aim for greater coherence between its bilaterally funded initiatives and those of the NGOs supported by the PfID, by detailing those areas where collaboration would bring added value (see discussion in Part 4, Paper 10).

⁴³ See Part 4 of the Evaluation Compendium – Papers 5, 6 and 7.

⁴⁴ See Part 4 of the Evaluation Compendium – Paper 5.

2.4 Security and Justice



New Zealand has contributed to the Security and Justice Sector in Timor-Leste through support to the *Polisia Nasional Timor-Leste* (PNTL) and the *Ministry of State Administration* (MOSA) to achieve a locally relevant and sustainable model of community policing; and by assisting the *Office of the Provedor for Human Rights and Justice* (PDHJ)⁴⁵ to increase its capacity and regional services (Figure 8). Together these investments account for 19 per cent of ODA since 2012. The aim is to operationalise the rule of law in a way that is sensitive, relevant, and has a lasting impact on the peace, security and human rights of the people of Timor-Leste. As such, both areas of investment contribute to the UN's *Strategic Development Goal 16: Peace, Justice and Strong Institutions*.

Strategic Outcomes Expected

SDF 2012–15: An effective and efficient community policing model is implemented across Timor-Leste.

Human rights abuses are reported and investigated in accordance with appropriate legislation enabling men and women to realise their rights.

J CfD 2016–20: Improved safety, security and access to justice for the people of Timor-Leste.

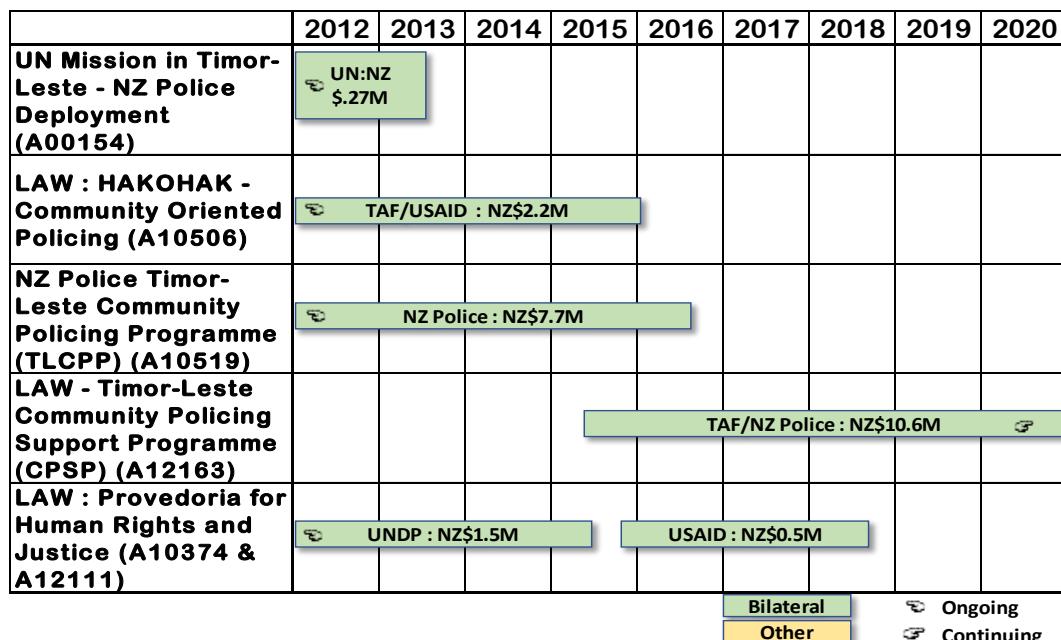


Figure 8: Recent and current investments by MFAT in the Security and Justice sector

The rationale for investments in security and justice arises out of a recognition of the fragile security situation in post-conflict countries⁴⁶, and of the dependency of the economic development of fragile states on the establishment of security and the rule of law.

Community Policing

New Zealand Police's engagement with Timor-Leste has a long-standing history that dates from Independence, and is underpinned by its significant experience in community policing both domestically in New Zealand, and internationally throughout the Pacific Islands. In Timor-Leste, New

⁴⁵ Provedoria dos Direitos Humanos e Justiça.

⁴⁶ As evidenced by the periods of post-independence instability that have subsequently affected Timor-Leste

Zealand Police and the Asia Foundation have been working together to establish and strengthen the relevant systems/policies, and to inculcate a constructive institutional culture within the PNTL.

The community policing initiatives have delivered significant outcomes including:

1. the development, approval and implementation of standard operating procedures for community policing in Timor-Leste, and the embedding of a community orientation within the PNTL Strategic Plan (2014 – 2018);
2. support to establish a police presence in all 452 sucos across Timor-Leste; and
3. the establishment of 13 Municipal Security Councils (MSCs), and associated Women's Security Meetings (WSMs), and 123 Community Policing Councils (CPCs), all of which are now regularly helping to resolve local issues.

New Zealand Police appear to be well-regarded in Timor-Leste, and to have effective and productive relationships with the key agents of change. Furthermore, New Zealand's direct investments in police training have been capably complemented by its funding of the Asia Foundation's work in support of the CPCs. MFAT's oversight of gradual and persistent on-the-ground engagement has significantly contributed to an increasing emphasis on, and desire to establish, the principles of community policing, with the result that it is now a well-established paradigm within the PNTL. New Zealand's *Prevention First* operating model is also being considered as a potential framework for the upcoming revision of the PNTL strategy.

Overall, the encouragement of an effective and efficient community policing model appears to have had a significant and lasting impact, and made a significant contribution to the country's improved safety and security.

The remaining challenge is one of sustainability and ownership, the key indicator for which is the expansion of community policing from 'in-service' vocational enhancement to a more fundamental 'pre-service' training foundation. Given the significant internal politics within the PNTL, progress in this area can be observed and supported, yet it remains subject to the PNTL resolving its preference for competing training paradigms. Nevertheless, solid evidence of ongoing change is a key factor if New Zealand is to consider future support for community policing.

Provedoria

New Zealand's support to human rights in Timor-Leste focuses on the establishment and advancement of the country's national human rights institution, the PDHJ. Initial support was delivered through the UNDP, subsequent support through USAID. The result is a stronger and more competent institution, with a greater district reach. Nevertheless, due to the GoTL's significant underfunding of the PDHJ, and an apparent loss of political vision and support, progress is currently stalled. The future of New Zealand's support to the PDHJ therefore depends on:

- › a significant escalation of the GoTL's resourcing commitment;
- › the need for GoTL agencies to actively follow through on the PDHJ's investigative findings; and
- › the need for the PDHJ to demonstrate it can mediate change within Timor-Leste's complex political economy in an efficient, timely and culturally sensitive manner.

Overall

New Zealand's engagement in the Security and Justice Sector in Timor-Leste shows solid evidence of success. Its support has demonstrated to Timor-Leste the merits of community policing, and (somewhat more arguably) the need for a human rights institution that can protect, monitor and promote human rights and good governance. Yet while both programmes need to ensure their sustainability, the next steps lie with the GoTL.

There are, however, two areas where New Zealand may wish to consider enhancements to the current programmes:

1. There is considerable opportunity to use the community policing presence, and the active community groups⁴⁷, to foster stronger disaster preparedness, planning, and response, at the suco and municipal levels. New Zealand should consider enhancing this element of the programme as it has strong merit, particularly as Timor-Leste continues to devolve Government services. The initiative also complements the efforts of other donors as outlined in Part 3 (Paper 1 Annex A).
2. Given that human rights interventions are a logical follow-on to the work with community policing, there is also scope to further strengthen the human rights profile of the current CPSP support, particularly through the training of police to take a more human-rights-sensitive approach. This may be the logical step should New Zealand decide to scale back its interventions with the PDHJ.

2.5 Aid Management

2.5.1 Coherence

All partners emphasised the need for New Zealand's development agenda to be efficiently and effectively focused. For many donors, focus means specific, long-term, externally contracted, and sizable investments – an approach that works well for larger donors such as Australia. New Zealand, on the other hand, with its relatively smaller budget envelope, is necessarily more frugal, and must carefully negotiate and strategically ‘seed’ its funding to ensure traction, while at the same time deepening its ongoing partnership with Government. This has led New Zealand to ways of working in Timor-Leste that are highly respected and appreciated, including: its capacity for continual dialogue and strategic investment, a flexibility to engage with opportunities as these arise, the building of vision (e.g. through cross-visits and short-term training), the supporting of champions, and, over time, the development of longer and more robust interventions fashioned around the unique needs of Timor-Leste. Furthermore, the GoTL expressed an appreciation not only for the individual interventions, but also for the close relationships that the team at the Embassy maintains with both Government and development partners in the key sectors – sectoral partnerships in which New Zealand, Government, communities and stakeholders jointly engage in a development ‘journey’.

To enable this development ‘journey’ the Post identifies three equally important and complementary management characteristics:

1. Time dedicated to understanding a sector, and developing key relationships, and thus to being seen by that sector as relevant. Issues are usually complex, and analysis that is immersed in, and draws on, an intimate understanding of context, must underpin all engagements if these are to be effective;
2. In partnership with Government, the Private Sector and Civil Society, investing nimbly in initiatives that can slowly progress understanding, and to an appreciation of the available alternatives; and
3. A willingness to consider deeper, longer-term investments for those initiatives that show promise, and then to design these participatively with the relevant partner.

These are characteristics that need to be understood and strengthened in all areas (awareness, focus, capacity, tools) if the Embassy is to continue its engagement as an effective and important partner in the development dialogue.

2.5.2 Integration

New Zealand's development partners have also been impressed by the willingness of the aid management staff to collaborate – Embassy support was variously described as ‘considered’, ‘negotiated’, ‘unassuming’, ‘friendly’, ‘bipartisan’ and ‘generally effective’. This stance of the Embassy staff – the Ambassador, and both the international and local staff - has not only served to overcome significant development challenges in the sectors in which New Zealand engages, but has been

⁴⁷ Including Community Policing Councils, Municipal Security Councils and Women's Security Meetings.

valued even in areas in which New Zealand is currently only a minor player (e.g. tourism). It is underpinned by a working culture at the Embassy that values, respects and celebrates the contribution of all staff - a culture that development partners stressed was rare, and as such in need of protecting.

The GoTL also noted two characteristics they would like to see more embedded in New Zealand's programme. Firstly, they value programmes (e.g. CPSP, and to some extent HANDS) that are supported by 'institutional' rather than 'independent' consultants. When the Government has to deal with several independent consultants, they consider there is a greater risk of confused communication (due to inconsistent or conflicting perspectives and biases) than there is when the consultants all come from the same institution (with a coherent organisational culture). The GoTL therefore values programmes that build institutional or agency alliances, in which advisory support (long or short term) is supplied from within the institutional culture of a collaborating partner.

Secondly, they strongly prefer embedded and long-term, rather than fly in/fly out (FIFO) consultants. While more expensive, effective mentoring will only arise out of respectful, trusting and confident relationships, enabled by sound communication and extensive experience.

The challenge for MFAT is to find New Zealand agencies with both the mandate and capacity that allows them (and their staff) to engage in Timor-Leste in a significant and meaningful manner over the longer term (NIWA is involved in the Fisheries programme, for instance. Yet its level of engagement is inconsistent). Inevitably a successful model will require a mixed approach that combines: limited medium/long term inputs from New Zealand agency staff, regular opportunities for exchanges and training; and short-term support both from the agency itself, as well as from the proposed flexible 'governance' facility.

2.5.3 Resourcing

The selection of New Zealand staffing at the Post has resulted in a succession of recent appointments (both at the Ambassador and the Aid Management levels) who tend to share the same commitment, ethics and vision. This has been essential to the efficient functioning of the small team. Yet given the size of the aid program, its sectoral spread, its 'journey'-based management (see 2.4.1), and the number of investments in place, the Aid Management team at the Post is surprisingly small (currently: one New Zealander and two Timorese) – significantly smaller, in fact, than the teams of other bilateral donors. New Zealand's staffing factor⁴⁸ is much lower than either Australia's or USAID's (Table 3).

Table 3: Development Aid management staff in Timor Leste

Country	ODA (NZ\$ equivalent)	Programmes	Donor country citizens	Timorese citizens	Staffing Factor
USAID ⁴⁹	30m	Overall	4	10	0.46
Australia ⁵⁰	100m	Improving livelihoods	2	4	0.23
		Enhancing human development	4	6	
		Strengthening governance and institutions	3	4	
New Zealand	17m	Overall	1	2	0.18

The two Timorese nationals working with New Zealand's aid programme are very committed local professionals with long-term focuses and broad networks, whom MFAT has supported through mentoring, training, and cross-visits to Wellington and other centres. They have now been given significant responsibility to represent the interests of the New Zealand aid programme, and to help the New Zealand staff navigate the complex socio-political fog that pervades relationships and socio-

⁴⁸ Personnel per million NZ dollars of ODA

⁴⁹ <https://oig.state.gov/system/files/160570.pdf> accessed 22 August 2017

⁵⁰ Pers Comm Paul Regnault, Programme Manager

political networks across Timor-Leste's Government, Civil and Private Sectors. Without these trusted staff, the Embassy would be less sensitive to, and less capable of engaging with, the political economy.

Given this, local staffing at Post is one area that New Zealand should consider enhancing – partly because the team is small and more capacity would aid its functioning, and partly to achieve a more sustainable critical mass that ensures continuity, and the retention of institutional memory, when staff changes inevitably occur. It is therefore suggested that MFAT appoint one more national member to its Aid Management team.

2.5.4 Programme Design

Another dimension of the New Zealand aid management, is the consistent appreciation expressed by partners of the way in which it embeds its participatory design process. Stakeholders in the Agriculture, Education and Security sectors all emphasised that the design process was long, thoughtful, rigorous and, at times, arduous. However, they also emphasised that the resulting designs were uniquely Timorese, built on learning, and capitalised on emerging opportunity. Some designs were appreciated because they allowed a programme to develop distinctly Timorese aspects (e.g. Community Policing), others enabled niche interventions to capture emerging opportunities (e.g. Early Childhood Education), while others introduced new perspectives to enhance old ways of doing things (e.g. the recent empowerment of women farmers in the coffee subsector).

3 Findings: Implications for New Zealand’s future Programme Focus

This section discusses the strategic factors that may necessitate a change in programme priorities or approaches in order to meet the Joint Commitment for Development 2016-2020

Zealand’s future Programme Focus

Over the coming years, five interrelated challenges will markedly define Timor-Leste’s relationship with its development partners⁵¹.

- 1. Divergent development strategies:** Current elements of the country’s development strategy are problematic, especially its focus on physical infrastructure and capital intensive industrial development at the expense of investment in social development (through health and education), and local private sector development.
- 2. Reducing revenues:** In all likelihood, the GoTL’s revenues will drop rapidly in the next few years, which will require significant recalibration of aggregate public spending. Depending on how the necessary adjustments are made, this could have deleterious effects on the delivery of social services, and on the viability of the private sector.
- 3. Challenged counterpart commitments:** There is also the risk that the GoTL will reduce its funding commitments in sectors that New Zealand is currently supporting (as foreshadowed in early childhood education). This may require New Zealand to consider recalibration of its programmes to achieve their overall objectives. It may also generate political risks to the programme (in New Zealand) if cuts in counterpart spending occur while other, less defensible, expenditures are maintained.
- 4. Increased fragility:** If the GoTL does not engineer an efficient and equitable ‘soft landing’ for the country’s economy, the public expenditure ‘glue’ that has helped reconcile political differences may well be eroded, and social unrest may ensue. New Zealand and other partners need to consider contingency plans to assist Timor-Leste if such unrest were to threaten its stability.
- 5. New Generation:** The recent parliamentary elections have highlighted the emergence of a ‘new generation’ of Timorese whose perspectives are increasingly influential in the politics and the aspirations of the country.

If these challenges are managed well the country will continue to grow as it pursues strong equitable growth for its people. If managed poorly, Timor-Leste could see growth stagnate, internal conflict increase, and the possible escalation of fraught regional relationships. The core implications of this for the New Zealand programme are outlined below.

3.1 Between Asia and the Pacific

Timor-Leste is strategically positioned within MFAT’s ‘Global Reach’ programme⁵². In contrast, other New Zealand agencies (e.g. *New Zealand Trade and Enterprise*⁵³ (NZTE)), as well as some bilateral

⁵¹ Refer to Part 3 of this Evaluation Compendium.

⁵² i.e. the programmes outside of the Pacific region.

⁵³ New Zealand’s economic development and trade promotion agency.

and multi-lateral partners (e.g. the ADB and the World Bank), tend to cluster support for Timor-Leste with their engagements in PNG and the Pacific Island Countries (PICs). In the current MFAT perspective, Timor-Leste lies outside of New Zealand's immediate Pacific sphere of interest and historical obligation, with the result that the strategic opportunities for support that are available to Timor-Leste are, in theory, more limited than those available to New Zealand's Pacific bilateral partners. Nevertheless, from a development perspective, Timor-Leste is often managed within MFAT as a special case, with regular exceptions being the norm - a flexible approach that has clearly been to Timor-Leste's benefit.

Optimally, New Zealand's relationship with Timor-Leste would benefit from the best of both worlds. On the one hand, increasing New Zealand's development engagement with Timor-Leste in a Pacific regional context would bring a new dimension to the relationship, and usefully differentiate New Zealand from Timor-Leste's South-East Asian partners and Australia (MFAT, 2015b). On the other hand, a foreign policy relationship that pursued integration of Timor-Leste with ASEAN and other regional economic and social forums, would help to enhance regional stability and integration, and provide additional support to Timor-Leste in key areas.

This dissonance has at times led to frustration. The need to manage regular exceptions within the Timor-Leste programme has at times led to frustration, particularly because the decision-making inevitably takes time, and requires multiple one-off negotiations. Yet given the current fragility of Timor-Leste's development, it seems inappropriate to limit its options. Despite the management challenges, the best outcome would therefore be for MFAT to provide Timor-Leste over the next five years with all the development opportunities that are open to its Pacific partners, while at the same time supporting its integration into international bodies such as ASEAN.

3.2 Progressing global reach themes

One of the issues arising out of this debate relates to the Strategic Plan for New Zealand's Aid Programme, which identifies four key strategic themes to be pursued with its non-Pacific bilateral partners: Agriculture, Renewable Energy, Knowledge and Skills, and Disaster Risk Management. To some extent, neither the current programme in Timor-Leste, nor the priorities as outlined in the JCfD, entirely align with these priorities. This largely reflects the need development aid managers have faced to keep the programme 'flexibly focused': evolving over time, and addressing issues where there is current appetite, and realistic opportunity for change.

Two of the four global themes ('agriculture' and 'knowledge & skills') have become central to the Timor-Leste programme, and significant initiatives are already underway.

There are also ongoing discussions with the Ministry of the Interior and the Ministry of State Affairs regarding the importance of improved mechanisms for Disaster Risk Management, out of which some initial work appears to be emerging - work that is targeted at improving disaster preparedness, and inter-agency coordination at both the national and local levels.

On the other hand, there is little current appetite in Government to consider renewable energy, given the recent, very costly, and highly politicised roll-out of the country's diesel-powered generation capacity, which now delivers reliable power to over 70 per cent of the country. Nevertheless, the Government of Timor-Leste has identified the need for renewable energy in its Strategic Development Plan and it is therefore a situation that New Zealand should monitor closely, as before too long, two issues will need to be addressed:

1. The huge recurrent costs of diesel generation: This issue will inevitably need attention in the next five years, at which point there will be opportunity to support the Government to seriously assess alternative energy sources. Substantial studies on the renewable energy sector have already been undertaken by the ADB (covering wind, solar and hydropower (ADB, 2014)), and the GoTL (covering hydropower (GoTL, 2012)).
2. The need to service more remote areas. Currently 30 per cent of households (some 60,000 remote homes) are not supplied by the grid. While the ADB sees grid expansion and renewable

power (primarily solar and wind) as being the means to address this gap, very little has happened in this regard (ADB, 2016).

Hence, over the next triennium the Government may well be receptive to considering options for renewables and, while this is a focal area for the ADB's planned *Electricity System Strengthening and Sustainability Investment Programme*, New Zealand could play an important supporting role in both planning and implementation.

3.3 Prioritising future engagement

It is obvious from the discussion in 3.1 and 3.2 that there is no shortage of investment options for New Zealand ODA in Timor-Leste. Whether New Zealand approaches its choices with 'Pacific flexibility', or through its more focused Global priorities (such as DRR and renewable energy), the challenge gets down to competing priorities, a limited resource, and the need to maintain a consolidated program. The current investments in education, economic diversification, and security will consume the bilateral ODA through to 2018/19, following which a decision will need to be made – either to continue to build on the current sectors, or to engage with new investments.

Currently, there appears to be both a relatively robust rationale and the momentum to maintain/evolve the existing bilateral programmes in education and security:

1. For Early Childhood Education, New Zealand is the best placed donor to support Government and civil society to craft an effective collaboration model for alternative and formal pre-schools, and to nurture the transition of children into Grades 1 and 2. Traction, reputation and Government commitment all seem robust and, if maintained, would result in the ongoing enhancement and deepening of this engagement during the next triennium.
2. For Security and Justice, New Zealand's presence is both appreciated and effective in advancing the Community Policing paradigm. Conditional on evidence of the further/ongoing adoption of community policing as the policing paradigm, then CPSP will continue through the coming triennium. Because the PDHJ investment is, however, unlikely to deliver impact in the current environment, resources could be diverted to strengthen CPSP initiatives either in human rights, and/or improved operational systems to coordinate devolved DRR services.
3. It is in economic diversification sector that more apparent funding flexibility exists. Over the next triennium current investments will mature:
 - CACAO: It appears likely that the coffee rehabilitation support will deliver real household impact, provided CACAO focuses on its sustainability mechanisms. If these progress appropriately, then New Zealand should only need to make provision for a limited amount of follow up support, particularly to embed the rehabilitation methodologies across the sector (including sustainable industry/government funding models). The other promising opportunity with CACAO is the piloting of diversification options for lower altitude farms. Even were these successful, however, scaling up would require more resources than will be available. In which case, New Zealand should probably lobby for this to be absorbed by a much larger program, such as the USAID's AVANSA, Australia's TOMAK and MDF programs, or the new EU ERA project.
 - Aquaculture: Work in aquaculture is more challenging, and the focus of the current project should be on consolidating support to ensure the sustainability of the fingerling production capacity. Beyond this, it is apparent that a long-term, large-scale investment will be needed to effectively establish aquaculture value-chains in Timor-Leste, which will also be beyond New Zealand's resources. Even were this not so, uncertainty would remain regarding the eventual reach, scale, profitability, and sustainability of such value-chains.

As mentioned, economic diversification will be an essential need for Timor-Leste in the coming decade, and although maturation of the coffee and aquaculture projects will likely open up some funding flexibility, the levels of funding released will only be modest. Already there is momentum to direct some of this funding to emerging opportunities in tourism. However, the final decision on

this can only be made once MFAT carefully defines the strategic logic and portfolio underpinning the economic diversification sector (see Section 2.2).

Hence, although there are many options and ideas overall, there will be insufficient resources available for New Zealand to consider serious sector-based engagement beyond the current three sectors until after the next triennium (i.e. early 2020s). However, some seed funding during the coming triennium to explore new sectors of interest (primarily Disaster Risk reduction and Renewable Energy) is warranted - such funding is essential to confirm if opportunities really do exist, as well as to ensure that proven opportunities have sufficient Government buy-in and alignment with other donors.

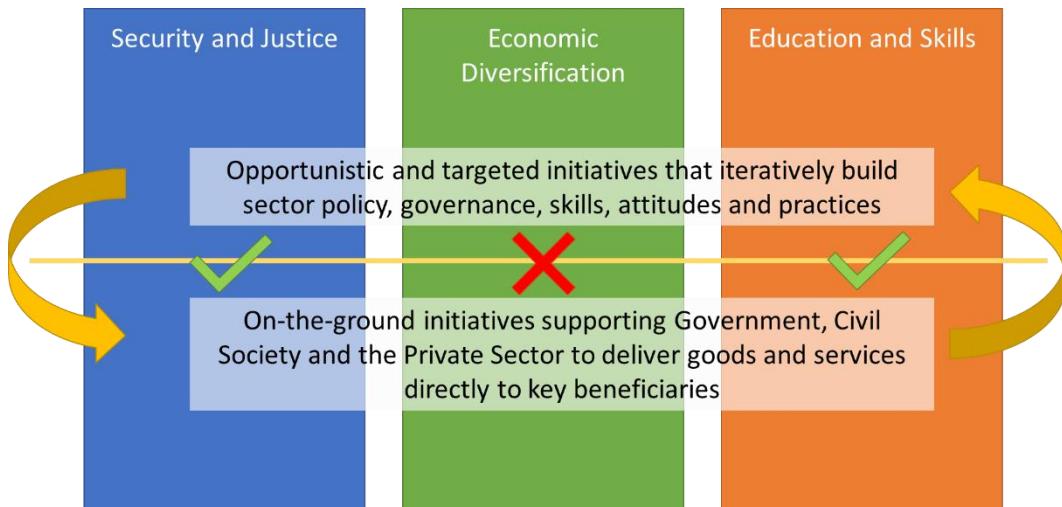
3.4 Leveraging off on-the-ground experience in a sector to influence its governance, attitudes, skills, resourcing and practices.

New Zealand should also consider mechanisms that enhance leverage and influence in the sectors in which it works. Two of New Zealand's most effective and respected engagements (Support for Early Childhood Education (HANDS) and the Community Policing Support Programme (CPSP)) reflect this pan-sectoral "learning by doing" ethic – it is CPSP/HANDS' on-the-ground experience with its partners that has enabled the mutual identification and understanding of the gaps in the respective sector's attitudes, skills, resourcing and practices. For example, CPSP, in concert with the Embassy, has been in a position to leverage off its on-the-ground experience to influence Government:

- › Attitudes e.g. by helping to develop a Community Policing Policy, and to integrate the Community Policing paradigm into the Police Training Academy;
- › Skills e.g. by building the capacity of over 400 local community police;
- › Resourcing e.g. by rigorously discussing expectations that New Zealand would fund police housing, and thereby arriving at an innovative and more sustainable model;
- › Practices e.g. by encouraging the appointment of suco-based police, and the strengthening of relationships between the PNTL and the Community Policing Councils.

Leveraging on-the-ground experience in this way has, however, been less of a feature of New Zealand's Private Sector engagements (e.g. coffee, tourism and aquaculture). In coffee and aquaculture, for instance, the current investments would have benefited considerably if New Zealand were able to influence higher level governance in a way that reduced the GoTL's direct intervention into markets (hence the proposal for a flexible 'governance' facility). In the case of Tourism there is a need to gain local on-the-ground experience that can leverage support, for example, for demand-based initiatives. All in all, NZ programmes would function more effectively in Timor-Leste's emerging landscape, if they were *all* to combine both on-the-ground experience with effective support to systems and policy (see figure).

Figure 9: The inter-relationship of policy and practice should be a feature of all sector investments.



3.5 Using NZ Political Capital to influence GoTL priorities

As outlined in Part 3 of this evaluation, the ADB and others consider there is potential for the GoTL to engineer a ‘soft landing’, but realising this potential requires the country’s leadership to focus on the issues with more urgency. Other development partners perceive that New Zealand has ‘a special relationship’ that may put it in a stronger position to engage with the GoTL in the delicate task of promoting fiscal responsibility. The recent request for New Zealand to help with accrual accounting (through G2G funding) might provide an entry point for such an engagement, provided that this focus on fiscal reform is maintained by the incoming Council of Ministers appointed by the recent election. At the very least, MFAT should keep abreast of current initiatives in the public finance management arena, in order to act decisively if an opportunity should arise. An investment in this area (if feasible) would nest well with the Economic Diversification agenda and the need to complement on-the-ground experience with sector advocacy.

3.6 ASEAN and WTO accession

Joining the WTO and becoming a member of ASEAN are now firm objectives of the GoTL. In the short run, accession to these organisations is unlikely to have immediate economic impact: Timor-Leste is already an open economy, so increased competition from foreign suppliers is unlikely to require significant adjustment, while the nascent state of the country’s private sector suggests that it will be some time before firms can take advantage of any increased market access for exports.

The bigger impacts of accession will come from the legislative and institutional reform and development that compliance with each organisation’s agreements will require. In many ways, these requirements are consistent with each other, and mutually supportive. Yet the preparation needed to implement these agreements will be an extensive process of legislative review and development – a process that is more than usually complicated, due to Timor-Leste having adopted a civil code, rather than a common-law legal system. This is of some concern given the limited capacity and current stretching of the relevant Government agencies, with the accompanying risk that capacity will be diverted from critical issues to fulfil the obligations that are mandatory for ASEAN and WTO accession.

Nevertheless, there are a number of good reasons for New Zealand to back Timor-Leste’s accession to ASEAN and WTO including:

- its strong interest in promoting engagement with regional and multilateral trade and investment architectures;

- › the stimulus it will provide as Timor-Leste attempts to develop institutions and practices consistent with its goal of being a modern developed economy; and
- › the possibility that it may empower further resources from NZ Inc partners.

While New Zealand may wish to provide assistance to Timor-Leste in the process of accession to both organisations, it needs a realistic appreciation that this will need to be complemented, and preceded, by work on other issues. Assistance could be in the form of mentoring and facilitation (e.g. New Zealand could become a member of the Working Party for Timor-Leste's WTO accession), or in the form of technical assistance with the necessary policy reform and institutional development.

3.7 Strategic management

Currently, only a minority of staff within MFAT are aware of Timor-Leste's many successes and challenges. For the majority, Timor-Leste is barely on the agenda, with most staff having little understanding of just how much is at stake for the country (and in consequence for New Zealand's investments) over the coming decade. Moreover, at a broader level, there is a need for all New Zealand's state agencies with an interest in Timor-Leste (e.g. MFAT, NZ Police, Customs and VSA) to come together to discuss a common vision of the challenges and partnership opportunities. This will require a strategic whole-of-government dialogue. This is commensurate with the findings of the broader 2015 OECD peer review of New Zealand's aid programme, which suggested that the programme, although already responsive and adaptive, could be further enriched by stronger strategic dialogue, and a longer-term planning horizon (OECD, 2015). In 2015, MFAT undertook a holistic strategic dialogue in Dili that brought together New Zealand foreign affairs, development, security, trade and academic groups to discuss direction and strategy in Timor-Leste, not just with regards to aid, but the bilateral partnership as a whole. This whole-of-government dialogue now needs to happen again so that:

1. There is a unified understanding of the pace of change in Timor-Leste, along with its impending challenges;
2. Questions about the quality and sustainability of the GoTL's development approach can be debated;
3. The merits, approach and support needed for ASEAN (and WTO) accession can be discussed;
4. MFAT and its NZ Inc partners can openly discuss the merits of Pacific and/or Asian alignment. This dialogue should clarify for MFAT and its NZ Inc partners:
 - › how relationships with Timor-Leste are managed;
 - › how the clarity and efficiency of service provision can be improved; while
 - › avoiding the sometimes-fraught discussions that arise because Timor-Leste fails to neatly fit within the current MFAT processes;
5. The development agenda of New Zealand can be reviewed, and, if necessary, priorities revised (including the implications for managing results);
6. The agendas of all NZ Inc players can be better aligned;
7. Budgets and strategic flexibility can be adjusted to ensure that the programme is capable of adaptive responses to opportunities and risks as these arise; and
8. Regular oversight reviews can be scheduled.

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