



A Balancing Act: Implementation of the Paris Declaration in Timor-Leste

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Paper jointly prepared by Timor-Leste and Australia

Introduction

Timor-Leste has taken many positive steps forward since the country gained independence in 1999. Democratic elections were successfully held in 2007. The new Government has outlined a new development program in the form of the National Priorities (March 2008), which aims to address the country's most pressing needs. Oil revenues are proving to be larger than expected, providing an important revenue stream to help the Government deliver on its plans. The Government and donors are working to resolve security issues, and there has been good progress in helping those who were displaced by the violence in 2006 return to their homes. There have also been modest improvements in some social indicators, although Timor-Leste ranks well below many other countries in the region and there is still a long way to go to improve basic living conditions.¹

Timor-Leste's progress to date is all the more impressive given the monumental challenges facing this young nation. After twenty four years of Indonesian occupation, which ended with violence and the destruction of much of the country's infrastructure, Timor-Leste was left with an acute deficit in human and physical capacity. The violence that erupted in 2006 and the recent attacks on the democratically elected leadership underscore the fragility of Timor's new democracy. Across the country, a large number of people remain displaced and vulnerable, and Timor-Leste continues to rely on international security forces to maintain stability. Poverty and high levels of unemployment remain widespread and are critical concerns. Against this backdrop, development progress has been constrained.

The Government of Timor-Leste is now under significant pressure to resolve social divisions and deliver tangible economic benefits to its people. Improving the quality of aid to achieve development results is therefore a high priority for the Government and donors alike. The Paris Declaration embodies important guiding principles for improving aid effectiveness. However, these principles are not always straightforward to apply in a fragile and changing context such as Timor-Leste. There is no simple "one size fits all" solution – the approach must be tailored to fit individual circumstances and carefully sequenced to match Government capacity. Timor-Leste's crowded donor environment further complicates this task. While relationships between most donors are generally good and there are increasing efforts to harmonise approaches, much more work is needed to reduce duplication and the coordination burden on the Government.

¹ Interim Timor-Leste Survey of Living Standards, Directorate of National Statistics, September 2007

International thinking on the Paris Declaration

At the heart of the Paris Declaration are the principles of ownership, harmonisation, alignment, results, and mutual accountability – principles which are seen as essential for aid effectiveness. Since the heralded [Paris Declaration](#) in 2005, much attention has focused on the way countries receive and give aid. The Declaration states that partner countries should “own” the aid they receive by exercising effective “leadership” using strategic approaches and good planning. On their side, donor countries have a responsibility to “harmonise” the array of projects and funds on offer to partner governments.² However, the Principles for Good International Engagement in Fragile States and Situations recognise that the special and individual needs of fragile states need to be taken into account, and that the Paris Declaration needs to be adapted to environments of weak ownership and capacity.³ In this context, it has been argued that state-building and peace-building should be at the forefront of efforts in situations of fragility, rather than a narrow focus on aid effectiveness.⁴ It has also been acknowledged that the “transition strategy from humanitarian relief to development needs to be managed carefully in order not to undermine government legitimacy” and that a “clear strategy is also needed for how to deal with the transition towards national systems and capacities” in situations of fragility or conflict.⁵ All of these issues remain highly relevant to the Timor-Leste context.

This paper explores Timor-Leste’s experience in implementing the Paris Declaration to date, with the aim of contributing lessons learned to the international debate.

Progress in implementing the Paris Declaration in Timor-Leste

Successes

Timor-Leste has come a long way from the early days of independence when the country was effectively “run by donors”. Timor-Leste’s new Government has embraced the Paris Declaration principles, and has made great strides in developing its national planning architecture and establishing mechanisms to coordinate the efforts of donors. The Government has established a new National Priorities program (March 2008) and is in the process of developing the second National Development Plan. Six new thematic working groups have been set up to oversee inter-Ministerial and donor coordination, with a focus on translating the National Priorities into action. Early assessments indicate that this process is providing an effective framework for generating coordinated action and results.⁶

Substantial investment has also been made in improving the Government’s centralised budgeting functions, and the Department of Finance has started to reflect aid donor funding in its annual budget. Regular donor coordination meetings are held in Dili and bi-annual development partners meetings have been held since

² OECD Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability.

³ OECD Fragile States: Policy Commitment and Principles for Good International Engagement in Fragile States and Situations, April 2007

⁴ Kinshasa Statement, July 2008

⁵ Ibid.

⁶ Timor-Leste National Priorities 2008, Independent Review Mission, 13 July 2008

January 2000, providing Government and donors with the opportunity to jointly review progress in meeting national development goals and objectives. These represent important building blocks upon which donors can better align and harmonise their aid. They also demonstrate that the Government of Timor-Leste has been successful in taking on ownership of the development agenda.

For their part, donors are also working towards implementing the Paris Declaration although, for a range of reasons, progress on donor alignment and harmonisation has been much more uneven and halting. Donors have supported multi-donor trust funds (MDTFs), which provide direct support to the national budget with benchmarks linked to Timor-Leste's National Development Plan.⁷ MDTFs have been found to be valuable mechanisms for donor coordination and have had the added "spill over benefit of working with government to clarify its policy agenda".⁸ Sector wide approaches are also being established in several sectors, including health and education. Several donors are channelling an increasing share of aid funding into Sector Wide Approaches (SWAPs) and multilateral programs as a means to strengthen government ownership and systems, and improve donor alignment and harmonisation. There is also evidence of increasing use of joint donor missions.⁹ State-building and peace-building objectives are now central to some donor programs, and efforts are also being made to strengthen the links between security and development. However, many of these reforms are in the early stages and it is still too soon to judge whether they will lead to demonstrable improvements in results or aid effectiveness. Many would argue that the reforms have not yet gone far enough.

Challenges

Timor-Leste's progress to date has not been without challenges. In fact, the young nation faces so many challenges that the Government and donor community have at times struggled to prioritise their response efforts. With respect to the Paris Declaration, some of the main issues which have impeded implementation progress have included:

Unrealistic expectations have impeded ownership – Early on there was a belief that if the Government of Timor-Leste did everything that donors required of it, donors would deliver on their commitments. The Government produced requested plans, but found that the priorities therein were not always respected by donors. The Government also found that many donor programs were inflexible and slow to respond, yet at the same time donors placed unrealistically high expectations on Timor-Leste's leaders, particularly given the context. Timorese officials were working in burnt out buildings without electricity or computers and found it difficult to match the well-resourced, parallel administration set up by the UN. From these humble beginnings, the Government of Timor-Leste has faced a long, and at times difficult, challenge to claim ownership of the development agenda.

Instability and political change have impeded alignment efforts – The security crisis in 2006 created a new set of challenges and necessitated a major rethink of development priorities. The election of the new Government in 2007 was also a catalyst for a review of priorities and an important opportunity to re-shape the national development agenda. Government departments were restructured and many of the existing plans, policies and systems were superseded. Donors were also required to reassess their programs to take account of changing circumstances. This state of flux has made it difficult to implement an aligned and harmonised approach to development in Timor-Leste. The absence of a consistent and central home for aid coordination

⁷ Examples include the Government led, World Bank managed TSP and CSP trust funds.

⁸ SCANTEAM, Sept 2007, *Review of Development Cooperation in Timor-Leste, Final Report*, pg 36

⁹ For example, Joint UNDP-AusAID review missions in the Justice Sector, Joint USAID-AusAID Conflict Assessment

within the Government of Timor-Leste has further added to this challenge, with donors finding it difficult to anchor their assistance. Many donor programs have been agreed directly with line ministries, making it difficult for central Ministries such as the Ministry of Foreign Affairs and the Ministry of Finance to keep track of donor assistance. On the Timor-Leste Government side, political loyalties and rivalries within the public service have also frustrated efforts to progress new policies and plans.

Security, peace-building and reconciliation remain ongoing challenges – Security is a necessary condition for sustainable development, yet Timor-Leste still faces many challenges to build lasting peace. Fractures within the security forces, vulnerable and fragile society in a post-conflict situation, high youth unemployment, and a weak justice system continue to pose considerable risks to stability. Care is needed to handle these ongoing challenges. As noted by the OECD DAC, “where societal or political groups are excluded from the state or its key institutions, they may seek to challenge the state... and take recourse through violent opposition.”¹⁰ In keeping with the principles of good engagement in fragile states, an inclusive approach to reconciliation and conflict prevention must therefore remain a central focus of development efforts in Timor-Leste.

Coordination within and between the security, political and development spheres has also been weak – Coordination of the large number of actors within the security sector has been particularly problematic. For example, the PNTL (Timor-Leste police force) received training from around 30 different countries in the period leading up to the 2006 crisis in the absence of standardised operating procedures and policing doctrine. The lack of a national security framework to provide strategic guidance for the uniformed services has further contributed to poor coordination and cooperation between the military and police forces.¹¹ More broadly, coordination between the security, political and development spheres has also been weak, with most bilateral partners providing development assistance and security sector support as independent programs, with limited or no effective coordination.

Donor crowding and competition have undermined harmonisation efforts – Timor-Leste has a crowded donor environment in which donors have sometimes jostled for influence, while the sheer number of donors and NGOs – all with different agendas, programs, operating modalities and requirements – has created an enormous burden on the Government. Given this, it is not surprising that there is a substantial body of evidence to suggest that harmonisation is yet to deliver at the operational level. For example, a recent stock-take undertaken as part of the State of the Nation report found that since 2002 over 300 donor reports had been produced in the infrastructure sector alone – a sobering statistic for such a small country. The lack of progress on donor harmonisation has in turn led to a degree of “partner government fatigue” with the donor community. Moreover, far too much of the Timor-Leste Government’s time and energy is still taken up with donor management, rather than the more important business of running the country.

Capacity constraints have hindered alignment efforts – In terms of alignment, weaknesses in institutional capacity have sometimes made it difficult for donors to work through Government systems, while a shortage of qualified Timorese has led to a heavy reliance on international technical assistance to fill capacity gaps. At the same time, the capacity development support provided by different donors has not always been well targeted or coordinated. Donor concerns over sustainability have also manifested in a reluctance to provide in-line support, even when it was clearly needed and welcomed by the Government. More recently, however, some donors have conceded that where capacity is severely constrained, some in-line assistance may be warranted, even if this may seem to go against the Paris principles of strengthening and using country systems. In these cases, donors need to ensure that in-line assistance has partner government ownership, is well coordinated and is situated within a longer term strategy for capacity development.

¹⁰ OECD, June 2008, The 10th Meeting Of The DAC Fragile States Group, FSG Room Document 2: Findings Paper Of The State Building Task Team

¹¹ SCANTEAM, Sept 2007, *Review of Development Cooperation in Timor-Leste, Final Report*, pg 70

Risk aversion and lack of trust have also limited alignment – Donors are accountable to their tax-payers and need to ensure that their aid funds are used wisely. In practical terms, this makes donors inherently risk averse – and perhaps even more so in situations of fragility. In Timor-Leste, many donors have been reluctant to use Government systems due to concerns over accountability; only a small portion of ODA (around 16%) was provided through MDTFs, with donors overwhelmingly opting to provide bilateral assistance.¹² Such risk aversion implies a sense of mistrust, and may also undermine efforts to engage in constructive dialogue and strengthen government systems.

Accountability has tended to be one-sided rather than mutual – Timor-Leste's experience with developing an appropriate vehicle for mutual accountability has been mixed. Tools such as results-oriented matrices and multi-donor trust funds have had a high value added for donor coordination, information sharing and analysis, and as a forum for policy dialogue with Government.¹³ However, they have also been criticised for being too donor driven and lacking clear lines of accountability to the people of Timor-Leste. The use of ex-ante forms of conditionality under MDTFs has also diminished government ownership. Moreover, experience to date suggests that accountability has been largely one-sided, with these mechanisms not yet proving to be effective means to hold donors to account.

Development instruments have been largely donor driven – While instruments such as SWAPs and MDTFs are intended to increase government ownership, this has not always been the outcome in practice. For example, capacity constraints within the Ministry of Health have resulted in a parallel coordination unit being established to help guide the establishment of the health SWAP. MDTFs have also had a relatively limited focus on building government capacity. When combined with concerns over conditionality, diminished government ownership, and the complexity of managing and reporting against some of these instruments, it is not surprising that MDTFs have withered in importance. The rules and regulations of the Development Partners are not often designed to suit the context of Timor-Leste. The need for a more flexible and localised mode of operation in Timor-Leste is imperative.

As noted in the Principles for Good International Engagement in Fragile States and Situations, “a durable exit from poverty and insecurity for the world's most fragile states will need to be driven by their own leadership and people. International actors can affect outcomes in fragile states in both positive and negative ways. International engagement will not by itself put an end to state fragility, [although with adherence to the Principles], it can help maximise the positive impact of engagement and minimise unintentional harm.” Importantly, the Principles are intended to complement the partnership commitments set out in the Paris Declaration on Aid Effectiveness by helping international actors “foster constructive engagement between national and international stakeholders” in countries which are suffering from the symptoms of fragility, such as weak governance or conflict. Moreover, the Principles are designed to “support existing dialogue and coordination processes, not to generate new ones.” The experience in Timor-Leste suggests that these remain important guiding Principles for engagement.¹⁴

There has been an imbalance between planning and service delivery – The opportunity costs associated with developing the planning and coordination architecture in Timor-Leste have been high. Enormous effort has been invested in national and sector plans, but this has meant that comparatively fewer resources have been available to focus on service delivery. Central budgeting processes may have been strengthened, but the

¹² Ibid, pg 37

¹³ SCANTEAM, Sept 2007, *Review of Development Cooperation in Timor-Leste, Final Report*, pg 2

¹⁴ OECD Fragile States: Policy Commitment and Principles for Good International Engagement in Fragile States and Situations, April 2007

Government still faces the Herculean task of translating this into significant increases in budget expenditure. Sector wide approaches are being established in several sectors, but lengthy lead times to develop underlying planning and coordination mechanisms have delayed progress on the ground. In short, the tasks of aid coordination and planning have proven to be very time consuming for a new country with limited capacity, and have diverted efforts away from a much needed focus on improving service delivery and generating employment.

Development efforts have focused disproportionately at the centre – Development efforts to date have been very Dili-centric and, if anything, the 2006 crisis further sharpened this focus. While addressing security concerns and building up the central institutions of state are essential, ensuring that development reaches the districts and rural areas is clearly important in a country where some 85% of the population continue to live a subsistence lifestyle outside major urban centres. Insufficient attention to the needs of rural areas may “produce long term economic distortions in the shape of irreversible rural-urban migration”, which could in turn result in rising inequality and create new drivers for conflict.¹⁵ While the Government has plans to decentralise service delivery, and some donors are increasing their investments in rural development and human security, substantial logistical and structural challenges still need to be overcome to ensure development efforts reach the rural poor.

Since the new Government took office, there has been a big push towards decentralization at the district levels in a number of administrative, legislative and addressing the youth sport to generate income, for example increasing agricultural investment, establishing cooperatives, trials of biofuel in a number of villages. The move to strengthen economic development in rural areas is encouraging.

Reforms have not been adequately sequenced or prioritised – Timor-Leste faces the mammoth task of building up the institutions of state from the ground up and all at once. The process of state-building is therefore one that is likely to take decades, if not generations, to accomplish. State-building objectives and governance reforms need to be carefully sequenced, as “it is unlikely that much can be accomplished when... a country is overloaded with commitments to change large numbers of conditions at the same time. From this perspective, it is better to assess capacities and feasibility more carefully, target fewer changes, and work toward good enough rather than ideal conditions of governance.”¹⁶ In Timor-Leste, the approach to date appears to have been one of trying to address every thing and all at the same time. Development efforts have been spread across many fronts and, as a result, progress in some areas has not lived up to expectations. This implies a need for better sequencing and prioritisation of efforts.

¹⁵ Curtain, R, 2006, *SSGM Working Papers, Number 2006/1 Crisis In Timor-Leste: Looking Beyond The Surface Reality For Causes And Solutions*

¹⁶ Grindle, M and Mason, E (2002) *Good Enough Governance: Poverty Reduction and Reform in Developing Countries*, Kennedy School of Government, Harvard University, pg 21

Lessons learned

Context is all important – This is not a new lesson, but is highly relevant to Timor-Leste context. The approach in the health sector may not be the right one for the infrastructure. The plan for Kosovo is not appropriate for Timor-Leste. The Paris Declaration principles must also be contextualised with the state of development. We cannot apply a “one-size fits all” approach.

Ownership requires strong leadership – Partner government ownership alone is not sufficient: partner governments must also exercise strong leadership. In the absence of strong leadership, there is a tendency for donors to drive the development agenda.

Mutual accountability needs to be broadened to include the concepts of mutual respect, trust and partnership – Partner governments and donors need to commit jointly to achieving shared goals, with partnerships founded on the principles of trust and mutual respect. The concept of mutual accountability will only work where there are shared, realistic and measurable goals, and where the responsibilities of both donors and government are clearly defined.

Plans need to be owned and led by partner governments and focused on early results – There is a need to shift from supply driven to demand driven development. Donor programs need to increasingly align with partner government plans and systems. Planning frameworks also need to be simple, action oriented and with a greater focus on meeting immediate short-term priorities. While medium to longer term planning horizon is also needed, “death by planning” should be avoided. Overly complex planning frameworks based on wish-lists or unwieldy monitoring frameworks can become burdensome, and may distract attention away from a focus on the most urgent priorities.

Fewer, deeper and longer donor engagement is required – Donor competition is directly at odds with the objectives of harmonisation. Donors must work harder to identify areas of comparative advantage and avoid duplication. In this context, donors should consider specialising in particular areas or sectors in order to reduce competition and overlap, and to ensure that there is an appropriate division of labour. Given that the challenges facing Timor-Leste could take years or even decades to resolve, donors must also commit to investing over the long term.

Clear responsibility for aid coordination is needed – The absence of a consistent and central aid coordination function has created challenges for both GoTL and donors. (It is noted that the GoTL is in the process of better defining roles and responsibilities for aid coordination within Government, including establishment of an aid effectiveness secretariat within the Ministry of Finance).

Better sequencing and phasing of reforms is needed – Sequencing and phasing are important for all aspects of development. There is a need to better manage the transition from emergency response to development; there is a need to better sequence state-building objectives and governance reforms; there is also a need to better manage the transition from parallel to government systems. Implementation of the Paris Declaration principles may also require sequencing. Partner government ownership is clearly the first step, while progress towards alignment may require a more staged approach in line with government capacity. For example, where partner government systems are weak or absent, policy alignment should be pursued in the first instance, followed by increasing use of government systems as they develop. In situations of fragility, donors should also re-double their harmonisation efforts to ensure that government systems are not overloaded.

An integrated approach is required to effectively address the security-development nexus – Within donor governments, “a whole of government” approach is needed, involving those responsible for security, political

and economic affairs, as well as those responsible for development aid and humanitarian assistance. This should aim for policy coherence and joined-up strategies where possible, while preserving the independence, neutrality and impartiality of humanitarian aid. Partner governments also need to ensure coherence between ministries in the priorities they convey to the international community. Moreover, the security sector is a critical part of the governance system and must develop as part of the overall governance architecture in tandem with its other components.¹⁷ This underlines the need for coordination among all actors about the importance of tackling security reform, particularly when the sector poses a threat to development. Importantly, there may be tensions and trade-offs between objectives, particularly in the short-term, which must be addressed when reaching consensus on strategy and priorities.

Need to better balance the focus of efforts – Partner governments and donors need to ensure that development efforts strike the right balance between building up the central institutions of state and meeting the more immediate needs of the people. Trade-offs may need to be made: balancing planning and service delivery; central institution building versus the immediate needs of the rural poor.

Financial resources need greater flexibility and Government ownership – Donor financial resources need to be more flexible and responsive, and place greater emphasis on partner government ownership. Some have argued that “rather than multiplying common funds, it would make sense to focus on the mainstream systems from the outset, by using some genuinely transitional form of budget support.”¹⁸ Where donors are unwilling to commit to budget support and instead rely on MDTFs, partner government ownership should be strengthened by ensuring their control over resource allocations. Ex-ante forms of conditionality for MDTFs should be avoided, with the focus of attention and dialogue on managing for shared results.

Creativity and Flexibility to handle potential crisis – In situations of fragility, new challenges and risks arise unexpectedly (e.g. human security problems faced by internally displaced persons arose very quickly in Timor-Leste). Donors need to be prepared to support partner governments in handling such challenges rapidly and effectively, including through fast-tracking financial resources offered.

Conclusion

The Government of Timor-Leste and donors are confronted with a balancing act: how to meet the long-term challenge of strengthening state institutions while also addressing the more immediate need to meet popular expectations for improved core services and basic living conditions.¹⁹ The stakes are high. Experience in other situations of fragility suggests that Timor-Leste remains at high risk of reverting to conflict.²⁰ In this context, the Government faces immense pressure to deliver tangible results for the people of Timor-Leste in order to build public confidence in the state and underwrite its legitimacy. This suggests that the Government and donors must act quickly and flexibly to address the underlying drivers of conflict and instability, and improve basic living conditions.

The upfront transaction costs involved in implementing the Paris Declaration principles are high and have yet to

¹⁷ SCANTEAM, Sept 2007, *Review of Development Cooperation in Timor-Leste, Final Report*, pg 81

¹⁸ ODI Briefing paper Number 39, July 2008, *Aid effectiveness after Accra: How to reform the 'Paris agenda'*, pg 3

¹⁹ SCANTEAM, Sept 2007, *Review of Development Cooperation in Timor-Leste, Final Report*, pg 4

²⁰ See for example Kuroda, K and Edomwonyi, O, *Global Issues Seminar Series: Conflict, Fragile States and Development*, October 10, 2007, Fragile and Conflict Affected Countries Group, Operations Policy and Country Services Network <http://www.worldbank.org/fragilityandconflict>; or Curtain, R, 2006, SSGM Working Papers, Number 2006/1 *Crisis In Timor-Leste: Looking Beyond The Surface Reality For Causes And Solutions*

deliver substantial dividends in Timor-Leste. Given this, it may be prudent to pursue a more sequenced approach to implementing the Paris agenda, with ownership as the first priority. In situations of fragility, donors should also redouble their harmonisation efforts in order to reduce the administrative burden on Government, while progressively working towards improved alignment with government policies and systems as these develop. Care needs to be taken however to ensure that the “tools of the trade”, such as multi-donor trust funds, results-frameworks, and SWAPs do not become millstones that stymie development progress and diminish government ownership. Moreover, donor-partner dialogue needs to be more focused on progress towards shared results, rather than ex-ante forms of conditionality. In the final analysis, Timor-Leste and donors partners must increasingly work towards a shared vision for development based on the guiding principles of mutual respect, trust and responsibility.