

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
2001 – 2003**

EAST TIMOR

December 2000

CURRENCY EQUIVALENTS

East Timor uses the United States dollar as its currency.

ABBREVIATIONS

ADB	-	Asian Development Bank
EIRP	-	Emergency Infrastructure Rehabilitation Project
GDP	-	Gross Domestic Product
JAM	-	Joint Assessment Mission
NCC	-	National Consultative Council
TA	-	Technical Assistance
TFET	-	Trust Fund for East Timor
UN	-	United Nations
UNTAET	-	United Nations Transitional Administration for East Timor
WSS	-	Water Supply and Sanitation

NOTES

- (i) The fiscal year (FY) of UNTAET ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for East Timor covering the three-year period 2001-2003. It includes technical assistance projects and grants from other sources, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the United Nations Transitional Administration in East Timor, and other stakeholders, including non-government organizations. The CAP was discussed by the Board of Directors in October 2000 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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124°30'E

126°30'E

EAST TIMOR



- National Capital
- District Capital
- Town
- Main Road
- Other Road
- River
- District Boundary
- International Boundary

Boundaries are not necessarily authoritative.

8°30'S

9°30'S



Timor Sea

Strait of Wetar

Savu Sea

124°30'E

126°30'E

9°30'S



EAST TIMOR

EAST TIMOR

1. East Timor has not yet legally been constituted as an independent country and it is therefore not eligible for membership of ADB during the transition period, which is expected to last up to two years. This imposes constraints on the activities that ADB can undertake in East Timor. On the basis of legal opinions¹ prepared after East Timor's separation from Indonesia ADB has provided technical assistance (TA) to East Timor from its own resources. In addition, it has been agreed that ADB may also assist through the management of donor resources for planning and implementation of physical rehabilitation and reconstruction activities in East Timor.

2. Following approval on 23 January 2000 of amendments to the Regulations of the Technical Assistance Special Fund and Japan Special Fund to facilitate the provision of technical assistance to East Timor, ADB allocated an initial TA budget of \$5 million for this purpose. The TA program included three SSTAs (microfinance, rehabilitation of the telecommunication sector and poverty assessment and statistics). Advisory TAs have been identified in support of capacity building for governance and public sector management, community empowerment, further assistance to the transportation and communication sectors and environmental assessment.

3. ADB is also playing a significant role during the transition period in administering donor funds contributed to the Trust Fund for East Timor (TFET),² for reconstruction and development activities. Pledges to the TFET, currently totaling approximately \$160 million, will be disbursed as grants for project activities in a range of sectors. In this regard, implementation by ADB of a \$29.8 million Emergency Infrastructure Rehabilitation Project, covering roads, ports and power sectors, commenced in May 2000, a \$4.5 million Water Supply & Sanitation Project began implementation early September 2000, and a Microfinance Project, for \$7.7 million was approved in December 2000.

I. Country Performance Assessment³

A. Economic Performance Assessment

4. By international standards, the economy of East Timor is small and the population is poor. The land area of 14,874 square kilometers is extremely mountainous, exhibits soil erosion, and is prone to drought. The 1998 population was 884,000, having increased at an average annual rate of 1.4 percent from the 1960 level of 517,100. Approximately 78 percent of the 1998 population was East Timorese, with Indonesians making up 20 percent as a result of immigration, and Chinese 2 percent. Gross Domestic Product (GDP) in 1997 was approximately US\$344 million, according to Indonesian data, implying a GDP per capita no higher than US\$395 (see Appendix 2, pages 1 and 2).

5. In 1994, the agriculture sector accounted for about 31 percent of GDP, and employed the vast majority of East Timorese in subsistence rice and corn farming and supplementary,

¹ Legal memorandum - Assistance to East Timor of 28 October 1999 and Legal Memorandum - Use of ADB Resources to Provide Assistance to East Timor of 12 November 1999 refer.

² The TFET was established in December 1999 under the auspices of International Development Association of the World Bank. The Resolution establishing the TFET was amended on 24 February 2000 to, among other things, establish arrangements for the joint roles of the World Bank and ADB as implementing agencies.

³ Unless otherwise specified, all 1999 statistics and estimates used in this report are based on the findings of a joint assessment mission (JAM), which undertook fieldwork in East Timor from 26 October to 12 November 1999.

export-oriented production of coffee and beef. Administration and defense accounted for 21 percent of GDP, and construction for 18 percent. Transport and communications, and trade, restaurants and hotels each accounted for about 9 percent of GDP. The manufacturing sector was small, accounting for 3 percent of GDP. Importantly, professional and technical personnel in the administration, finance, and utilities sectors were predominantly Indonesian. Eight of 13 district leaders and almost 70 percent of teachers were non-indigenous. The Indonesian government provided approximately US\$100 million per year to fill the gap between public expenditure and revenue raised in East Timor.

6. The violence and destruction that followed the pro-independence vote of 30 August 1999 created immediate humanitarian needs, with over 500,000 people displaced from their homes, including many refugees in West Timor and other parts of Indonesia. Out-migration of Indonesians left a large human resource gap, particularly in skilled areas. The planting season for 2000 was seriously disrupted due to the destruction of field crops, subsequent labor shortages, and lack of access to seeds and tools. Closure of the border with Indonesian West Timor and lack of civilian access to port facilities to permit commercial imports from abroad, combined with the disruption of the agriculture sector, caused the economy to be hit by a dramatic supply shock. Acute shortages led to spiraling prices, with an ad hoc price survey indicating a rise in the consumer price index for poor households in Dili of more than 200 percent between August and October 1999. In addition, basic physical infrastructure was seriously damaged.

7. Both the public and private sectors suffered almost total collapse. All of this makes the social and economic development challenge a daunting one that can be met only with substantial international assistance. Following the emergency phase of assistance in East Timor, agriculture and human resource development will be central to achieving sustainable improvements in social welfare. Remittances from the 20,000 East Timorese living overseas will be an important income supplement. Resource rent from oil and gas reserves in the Timor Gap may also be an important revenue source for government over time. In the meantime, the gap between essential public expenditure and domestically generated revenue can only be filled by external funding agencies. At the same time, considerable attention needs to be given to ensuring major inflows of capital during the transition period do not lead to structural imbalances in East Timor's economy. Fiscal instruments must be put in place quickly to tax urban infrastructure and increase investment for overall economic growth and poverty reduction.

B. Poverty Assessment

8. Even before the 1999 destruction and displacement, East Timor was one of the poorest areas in southeast Asia, with severe problems of illiteracy, malnutrition, malaria, and tuberculosis. GDP per capita in 1997 was estimated at under \$395, and approximately 50 percent of households were clustered around the poverty line. This situation worsened dramatically following the popular consultation and the GDP in 1999 is estimated to have fallen by 40-45 percent as a result of the mass destruction of infrastructure. In 1998, about 90 percent of the population lived in rural areas, and agriculture was the primary source of income for 71 percent of the population. Further, the destruction and closure of all banks and public services in September 1999 left no mechanism for payment of salaries for goods and services by public or private entities, and depositors lost access to savings held in the banking system.

9. The United Nations (UN) mounted a large-scale emergency humanitarian relief effort in September 1999, including assistance for the voluntary repatriation of refugees. A consolidated inter-agency appeal totaling \$199 million was launched on 27 October 1999, to address urgent

humanitarian needs for food, shelter, water and sanitation, health, and education. Some 550,000 people were estimated to require general rations, and most towns, dwellings, shops and local government structures had been either partially or totally destroyed. Prior to the upheaval, less than half the population had access to safe water and sanitation facilities. With the substantial damage to infrastructure and public utilities that resulted from the post-consultation violence, already degraded services ceased to function. Similarly, virtually all health facilities were heavily damaged and ceased to function, and few doctors, specialists or health administrators remained in East Timor.

10. Pressing needs exist in all sectors to arrest and reduce poverty. Food security and agricultural development, focused particularly on reactivating the family sector and smallholder agriculture through seed provision for the 2000 planting season, are of critical importance. At the same time, efforts toward longer-term agricultural revitalization, through seed multiplication, irrigation, and livestock re-stocking, are commencing in 2000. Income generating activities, job creation opportunities, small business development, and microcredit programs are also being established. In the health and education sectors, priority is being given to restoring primary health care services, rebuilding and re-equipping schools and hospitals, and recruitment and training of personnel.

11. In October 1999 the Joint Assessment Mission (JAM) identified the need to collect economic and social data to support effective economic policy making. Although the population displacement and infrastructure and asset destruction that followed the 1999 popular consultation have seriously undermined East Timor's prospects for medium-term improvements in living standards, little progress has been made to establish and staff a research and census office within UNTAET. In addition, the departure of non-East Timorese officials has left a skills gap in East Timor that is widely acknowledged, but yet to be fully documented. There is therefore a pressing need to prepare an update on social and economic conditions in East Timor, to assess current production and dissemination of social and economic data, and to identify prioritized actions needed in order to permit the production and dissemination of appropriately comprehensive, reliable and timely data beyond the transition period. This identification of prioritized actions would provide the foundation for designing subsequent programs for statistical development. ADB initiated preparation of an update in 2000, including preparation of a poverty profile, assessment of the medium-term outlook, and recommendations on appropriate institutional and staff training arrangements.

C. Assessment of Socio-Environmental Performance

1. Gender Issues

12. Under most Timorese traditional systems, the role of women is severely limited, with men dominating decision-making and leadership roles within villages. The respective roles of men and women changed substantially as a result of the social disruption caused by the long-term struggle for independence in East Timor, with women participating fully in all aspects of the clandestine front and in the armed resistance. The role of women extended also to include traditionally male income generation activities, and women gained new skills and responsibilities in many new areas.

⁴ Pederson, J. and Arneburg, M. *Social and Economic Conditions in East Timor*, International Conflict Resolution Program, School of International and Public Affairs, Columbia University, New York, Fafo Institute of Applied Social Science, Oslo, 29 September 1999.

13. One serious social legacy of the conflict of the last 24 years has been the large number of widows. Female-headed households now estimated at around 9 percent of the total. Further, a UN study has found that many women have been subjected to rape and other sexual abuse, including forced sterilization, coerced prostitution, and sexual slavery during the conflict⁵. To date, there has been no gender-based analysis of the differential effects of the conflict on men and women, or of the varying roles of men and women in peace building and post-conflict reconstruction and development in East Timor.

14. The need for complete re-establishment of institutions in East Timor provides a unique opportunity to move away from traditional gender stereotypes. In addition, special measures need to be introduced to support changes in attitude, structures, and mechanisms at political, legal, community, and household levels so that women can participate equally in decision-making and access to resources. The existence of civil society organizations, including women's organizations, is a relatively recent phenomenon in East Timor.

2. Human Development

15. Based on Indonesian Government statistics prior to the 1999 upheaval, social indicators in East Timor already demonstrated a low level of human development, with some 50 percent of the population clustered around the poverty line. East Timor's population was young, with 35-40 percent below the age of 18.⁶ Morbidity and mortality rates were relatively high, particularly among infants and children, many of whom suffered from a combination of malnutrition and infection. Life expectancy was low and most households did not have access to safe water or electricity. In 1997 the literacy rate was 41 percent and almost half the population had never attended school. This situation has worsened dramatically since the destruction of September 1999, leading necessarily to a focus on meeting basic human needs and rebuilding communities.

3. Environment

16. The terrain of East Timor is erosion-prone, with poor soil and unpredictable rainfall. Traditionally, agriculture has focused on minimizing risk rather than maximizing production. The displacement of people to unfertile lowlands in the northern coastal plains in 1999 has increased pressure on the existing arable land. As much as 70,000 hectares of forest were burned in the last decade according to official estimates, although some analysts believe the real figure is much higher. The main consequences of deforestation are loss of genetic resources and increased erosion and flash floods from barren hillsides. Institutional structures need to be established urgently to implement environmental protection measures and to draft and enforce regulations aimed at ensuring a working system of natural resource governance across all sectors and users.

D. Governance: Sound Development Management

17. In January 1999, the Indonesian Government announced its intention to allow East Timorese people to vote for either autonomy within Indonesia, or independence. The ballot itself was conducted on 30 August 1999 under the auspices of the UN. More than 98 percent of East

⁵ Report to the 54th Session of the UN Human Rights Commission of the Special Rapporteur on Violence Against Women, in Pires, M. Towards a Gendered Approach to Post Conflict Reconstruction and Development, Conference Paper, April 1999.

⁶ United Nations and World Bank: Overview of External Funding Requirements for East Timor, December 1999.

Timor's 450,000 registered voters participated in the popular consultation and 78.5 percent of these voted in favor of independence. On 25 October 1999, following the formal separation of East Timor from Indonesia, the UN Security Council resolution 1272 was unanimously passed, establishing the UN Transitional Administration for East Timor (UNTAET), initially until 31 January 2001.

18. In the intervening period, the severe outbreak of violence, destruction and displacement of people caused public administration in East Timor virtually to disappear, both in terms of systems infrastructure and personnel. Over 70 percent of administrative buildings were partially or completely destroyed, along with almost all office equipment and materials. Because the majority of senior civil servants were non-East Timorese, vital knowledge and skills have been lost. It will take time before essential public goods and services can adequately be provided. Even more importantly, there is a drastic shortage of skilled personnel for the secondary and tertiary levels, as most technical positions were occupied by non-East Timorese, who have now left the country.

19. During the transition period until democratic elections can be held, UNTAET is the government in East Timor, exercising all legislative and executive authority, including the administration of justice. UNTAET comprises three components: (i) military, to provide and maintain peace and security; (ii) governance, to establish an administration for civil and social services, including capacity for self-government and conditions for sustainable development; and (iii) humanitarian, to coordinate the delivery of humanitarian assistance. UNTAET has been charged with assisting the East Timorese to develop a Constitution, organizing and conducting elections, and building the institutional capacity for electoral processes. Initially, all key positions were held by expatriate officials but during 2000 East Timorese have progressively been brought into key positions in the Government and Cabinet.

20. A National Consultative Council (NCC) provides a mechanism for East Timorese participation in decision-making during the transition period. The NCC includes representatives from a cross-section of East Timorese society including all political parties, church groups and other non-government organizations. The NCC will make policy recommendations on significant executive and legislative matters, and will require substantial skilled advisory support for some time. In this regard, the NCC is in the process of creating joint sectoral committees composed of East Timorese and international experts, to analyze and advise on issues in agriculture, education, environment, finance and macroeconomics, health, human rights, infrastructure, local administration, and national resources. The responsibilities of these committees include promoting information sharing and coordinating donor-funded activities in each sector to avoid overlap and identify gaps in project funding.

21. A key objective during the transition period is to establish a small civil service that can be sustained in the long term, with a lean administrative structure. The previous civil service was estimated to comprise 28,000 people and was subsidized by the Indonesian government. The JAM estimated that East Timor could function effectively with a civil service of about 12,000 staff, of whom almost 10,000 would be teachers and health personnel. The effectiveness of this lean civil service would depend on merit recruitment, adequate compensation, and intensive staff training and development. Achievement of such a lean civil service will also involve a radical departure from the past, and is expected to have a significant social impact, at a time when most East Timorese have lost everything and employment and income generating opportunities are scarce. At the same time, steps have now been taken to establish representative, community-based institutions and to develop these into a system of local government.

II. Country Operational Strategy

A. The Operational Strategy

22. The current situation in East Timor requires urgent, coordinated action by the international community to support reconstruction and long-term development planning, and humanitarian relief. As the regional development bank in the Asia-Pacific region, ADB is positioned to play an important role in assisting East Timor in its development. It is also expected that East Timor will seek membership in ADB at the earliest opportunity.

23. In this context, the primary objectives of ADB support for reconstruction and development in East Timor during the transition period will be to help:

- (i) reduce poverty, with particular attention to ensuring quality basic service delivery, opportunities for productive sector development, and provide associated infrastructure needs;
- (ii) build local capacity to enable early self government;
- (iii) establish effective governance structures and processes based on community participation; and
- (iv) integrate gender-specific development needs into all ADB activities in East Timor, with special attention to the high proportion of women in difficult circumstances in the post-conflict environment.

24. These objectives have been developed taking into account ADB's areas of comparative advantage, particularly in the Pacific, as well as the areas of interest of other aid agencies in assisting East Timor. ADB has participated in all planning and coordination efforts undertaken by the international community since the popular consultation in August 1999, and all ADB activities will be implemented within the framework of UNTAET, which has the power to exercise all legislative and executive authority in East Timor. They will be designed and implemented in full consultation and collaboration with East Timorese counterparts including, as appropriate, the payment of salaries for local participants.

25. ADB, along with other aid agencies, has endorsed four key principles laid down by the East Timorese for the future of East Timor. These principles guide ADB's operational strategy and program implementation:

- (i) partnership with the international community for reconstruction during the transition period to independence, including through international support for training and transfer of skills, with programs formulated in partnership with the Timorese people;
- (ii) development of new democratic processes, to ensure continuing community participation in reconstruction, and the development of open and responsive government structures;
- (iii) development of a government free of corruption, with strong financial controls and a culture of accountability; and
- (iv) fostering of economic growth that benefits the poor, with special attention to protecting the most vulnerable in the short term; and developing policies and programs to foster sustainable growth, and improve living standards and social conditions in the medium term.

B. Poverty Partnership Agreement

26. A preliminary poverty assessment, supported by the ADB, has been initiated in the country. A more substantial poverty assessment will be undertaken only after the population profile of the country stabilizes. If and when East Timor becomes a member of the ADB, a poverty partnership agreement will be proposed to the elected Government.

III. Sector Strategies

A. Agriculture and Rural Development

1. Microfinance

27. Microfinance will be an effective way of assisting the poor to increase their income and standard of living. The need to provide microfinance services is particularly challenging and urgent in East Timor given the recent destruction of its economic infrastructure and the dismantling of support systems. A framework for financial services is required for sustainable economic management after the donor assistance has ended. At present, there appear to be few prospects for establishment of a viable microfinance institution either amongst the existing banks or through non-government organizations (NGOs). However, selected indicators on growth of credit unions over the past ten years suggest potential for further development. ADB has prepared a microfinance development project which will focus on: (i) rehabilitation and expansion of credit union operations through local initiatives; (ii) determining the scope for establishment of a specialized microfinance bank; (iii) helping the Government to develop a prudential framework and supervisory capacity for such institutions. In line with this strategy, ADB provided an SSTA in 2000 for a Microfinance Project. This project was approved in December 2000 and implementation will commence in January 2001 using the TFET.

B. Infrastructure

1. Transport

28. The restoration of transport infrastructure in East Timor was identified as the most urgent priority within the initial six-month work program for TFET. In their current deteriorated state, roads and ports in particular, were not able to fully facilitate humanitarian efforts or security operations. Small carriageways, weak embankments, and damage caused by heavy military traffic meant that the roads could only carry minimum loads. Extremely limited capacity in the port sector has caused serious operational bottlenecks in the Dili port for channeling humanitarian aid and moving other cargoes into East Timor.

29. ADB was requested to take the lead role in coordinating and managing all TFET activities in each of the transport subsectors (including roads, ports and civil aviation). These activities have built on the extensive work already undertaken during the emergency phase by UN, bilateral and non-government agencies. ADB is assisting UNTAET to establish a framework for medium-term reconstruction requirements in the transport sector, including through the design and supervision of infrastructure rehabilitation activities to be financed through the TFET, development of institutional and regulatory frameworks, provision of advisory support as required, and coordination with other agencies active in the sector. Advisory TA has been provided to develop a framework for all transport sector activities to be financed by aid agencies during the transition period. The TA has also initiated work on the establishment of management institutions and regulatory frameworks for each subsector and has reviewed the respective long-

term requirements to enable these subsectors to contribute to poverty reduction and economic growth.

30. ADB is implementing a major emergency infrastructure rehabilitation project (EIRP) on behalf of TFET, for the transport and power sectors. EIRP is undertaking emergency road repair works to facilitate efficient transport of humanitarian aid and security cargo, and to induce revival of economic activity. It has also expanded port facilities to reduce congestion and eliminate bottlenecks at the Dili port.

2. Water and Sanitation

31. As agreed under the JAM, ADB has taken the lead in implementing and managing TFET activities in the water and sanitation sector and in coordinating these with the activities of other donors. ADB undertook a sector planning mission in April 2000, to draw together information on the work that had been done, identify gaps and donor interests, and prepare a prioritized framework for future action. The mission developed a Water Supply and Sanitation strategy to provide the people of East Timor with adequate water and sanitation services using appropriate technology and good management systems. The strategy aims to (i) build local capacity and capability to effectively manage the WSS sector; (ii) rehabilitate and develop water supply and sanitation facilities in urban and rural communities; and (iii) promote improved health, hygiene and community participatory practices. The sector strategy has four components/outputs, which are outlined below in more detail:

- (i) WSS Sector Management Framework, under which the Project management Unit (PMU) has been established and a detailed Project Design Document prepared.
- (ii) Capacity Building and Institutional Development Program, which establishes the human and institutional foundations necessary to complement the physical water supply and sanitation works.
- (iii) WSS Implementation Program, which covers rehabilitation and development of urban and rural water supplies and sanitation across East Timor.
- (iv) Community Development and Environmental Health Program, under which complementary health promotion, hygiene education and strengthening of local NGOs will be carried out.

32. Priority areas for donor support in the immediate term relate to urban water and sanitation issues, including establishment of a centralized water company, with a full workshop and mobile teams to undertake repair works in a methodical way. This requires physical works to make the Dili water treatment plant operational, training of crews (and later, managers), and provision of equipment and tools. With regard to sanitation, Dili rubbish collection is a key priority, requiring plant and equipment, and waste management services.

3. Telecommunications

33. Rehabilitation of landlines is expected to be a major undertaking, since all 13 of the exchanges outside Dili have been destroyed. Initially, a temporary concession was granted to the Australian telecommunications company, Telstra, to provide mobile telephone services as an interim solution. ADB was requested to take the lead in coordinating and managing TFET activities in the telecommunications sector. In order to ensure the efficient provision of public telecommunications services, ADB provided TA support in 2000 for the telecommunications sector in two phases. Phase One was carried out from May to July 2000 and examined viable

technical options to rehabilitate and reconstruct the telecommunications sector in East Timor, taking into account the existing technical set-up as well as future extensions, and the short term and long term implications of various technical solutions. It also covered strategy and planning recommendations for the future East Timorese telecommunications sector. Phase Two was based on the findings of Phase One and generally focussed on the preparation, including structuring, and implementation, of a telecommunications sector project involving an international bidding process for the equipment and/or operation of the telecommunications sector in East Timor.

4. Energy

34. Lack of power supply following the destruction of major power stations in September 1999 contributed to a severe shortage of water, cold storage for food and medicines, and health facilities. Most of the power stations have been left unoperational due to physical damage, the departure of operating staff, and lack of fuel. Immediate priorities include the need to rehabilitate the Dili power generation and distribution system, develop local maintenance and repair capacity, rehabilitate major power stations and their distribution systems in primary population centers, and rehabilitate power systems to ensure the safety of their operations. The United Kingdom provided emergency assistance until March 2000 aimed at meeting the power needs in major centers in the country. As the lead agency responsible for coordinating and managing TFET activities in the power sector, ADB, using TFET, is providing assistance for the EIRP to reinstate power supply in areas where power has not been available in East Timor since the post-consultation destruction. Restoration of power supply will enable operation of borehole water pumps and provision of emergency health care, as well as resumption of economic activity. In addition to physical works, the EIRP is also supporting the financial management of the power sector.

C. Social Infrastructure and Environment

1. Community Empowerment

35. The JAM found that virtually the entire pre-independence government structure in East Timor has disappeared from every level. The operation of all technical sectors has ceased and the loss of physical infrastructure has been extensive. There is a need to mobilize community resources for much of the reconstruction work, at all levels to fill the institutional vacuum. The objective of assistance for community empowerment is therefore to strengthen the capacity of subdistricts and villages to plan and implement their development decisions, including through support for the reconstruction of basic infrastructure, introduction of simple microcredit principles, and cultural activities conducive to community recovery and reconciliation.

36. ADB mobilized an advisory TA in February 2000 to finance initial works in support for a \$20 million Community Empowerment Program that is to be financed through TFET and managed by the World Bank. In addition, ADB has developed a complementary microfinance project which will support the establishment of an appropriate microfinance system for the medium-term in East Timor.

2. Environment

37. At present, the capacity to review, evaluate and monitor the environmental impact of projects or mitigating measures is limited in East Timor. Until UNTAET is able to develop a regulatory framework appropriate for East Timor, environmental laws that were in place prior to

East Timor's separation from Indonesia remain in place. There is a need to review the applicability of these laws, regulations and standards to East Timor's social, legal and institutional context. Given its key role in the infrastructure sectors, a technical assistance was approved in 2000 to develop the institutional and human resource capacity to address environmental and resource management issues in these sectors.

D. Governance Dimensions of ADB Operations

38. Prior to East Timor's separation from Indonesia, East Timorese people held very few senior positions in government. All senior officials who were not East Timorese have now left, resulting in a huge gap in skills and human resource capacity. Although UNTAET is currently providing the administrative and government structure for East Timor, this responsibility will gradually be transferred to an elected East Timorese government following the transition period. East Timorese must therefore be duly equipped with the skills and capacities required to take over related government and administrative responsibilities. Recognizing the central importance of capacity building during the transition period, ADB is giving particular priority to such assistance through its TA program. An advisory TA, Capacity Building for Governance and Public Sector Management, commenced in April 2000 aimed at preparing East Timorese for management of parliamentary business, the judicial system, and economic and public services. The TA includes the development of an overall capacity building plan, to provide a framework for all donor assistance in this area during the transition period. In addition, institution and human resource development issues must be a particular focus of all sector-based activities implemented through TFET.

E. Gender Dimensions of ADB Operations

39. One of the central objectives of ADB assistance in East Timor during the transition period is to integrate gender-specific development needs into all ADB activities. The need for complete re-establishment of institutions provides a unique opportunity to mainstream gender analysis effectively, if addressed from the outset in all sectors. ADB will also support training and capacity building aimed at promoting changes in attitude, structures, and processes at all levels of East Timorese society, so that women can participate equally in decision-making and access to resources. The Microfinance Project will be a vital mechanism for such support and it will give special attention to the large proportion of women in difficult circumstances in the post-conflict environment.

F. Private Sector Development

40. A core concern of ADB is to establish an enabling environment in East Timor for private sector development to generate sustainable growth for widespread income-earning opportunities. Accordingly, much of ADB's TA activity, as well as its advisory support to TFET programs, is focused directly on ensuring an appropriate enabling environment for private sector participation is established in each of the infrastructure sectors for which ADB has lead responsibility. Priority is also being given to developing appropriate regulatory frameworks to encourage sustainable operation over the longer term. In addition, ADB is undertaking preparatory work aimed at introducing a sustainable and appropriate private microfinance banking system in East Timor.

IV. Regional Economic Cooperation

41. As the regional development bank, ADB has a key role to play in assisting East Timor to establish and strengthen links with regional bodies in both Asia and the Pacific. ADB assistance has been sought to develop links for East Timor with ADB developing member countries for skills development and training attachments during the transition period. Six senior East Timorese officials recently participated in a regional TA for management training for senior public sector managers, in cooperation with ADB Institute in Tokyo.

V. Donor Activities and Aid Coordination

42. In adopting a joint approach to reconstruction planning, aid agencies have recognized the importance of appropriate coordination and sequencing of support in East Timor, to maximize effective impact and to ensure that short-term assistance takes place within a sustainable framework of long-term recovery and development. The JAM, for example, was undertaken as a multi-donor effort, including technical experts provided by various government and international agencies, including ADB. Its report on reconstruction priorities, was endorsed by the donors conference in Tokyo on 17 December 1999. It also provided an integrated framework for the planning and sequencing of medium-term assistance in East Timor, taking into account emergency humanitarian support and plans for the recurrent operations of UNTAET. ADB is participating fully in both the coordination and planning of assistance to East Timor during the transition period, including as an implementing agency for TFET, as well as through its own TA program.

43. In light of absorptive capacity constraints in East Timor, and the expected volume of aid funding likely to be made available for reconstruction and development activities during the transition period, effective ongoing aid coordination, both bilateral and multilateral, will be critical to ensuring an effective operational program. UNTAET has established a capacity for aid coordination. Further, within the framework of TFET, governance and coordination structures have been established to ensure effective planning and coordination of assistance. This includes a Donor Council, which meets every six months to review progress and consider emerging priorities in each sector of TFET responsibility; and a field-based committee of TFET donors that meets monthly with UNTAET and East Timorese stakeholders.

VI. Cofinancing and Catalyzing External Resources

44. During the transitory period, cofinancing is expected to play an increasing role in ADB assistance to East Timor, as investment programs are developed in each of the sectors. Where cofinancing is not involved, coordination of efforts with other donors will be vital, since a number of bilateral agencies have indicated interest in undertaking project activities in these sectors, complementing the TFET-financed work program.

VII. ADB Operational Program

A. The Proposed Program

45. In addition to the \$29.8 million Emergency Infrastructure Rehabilitation Project, sector programming missions have also been undertaken under ADB supervision for the water and sanitation and telecommunications sectors. Water and Sanitation Project was implemented in September 2000 and a microfinance project in December 2000. ADB is also assisting the World

Bank in the implementation of a \$20 million Community Empowerment Program that commenced in February 2000.

46. The main issues affecting project implementation relate to the unique political and administrative system in place in East Timor for the transition period. The East Timorese themselves have no official authority as a counterpart government, and the capacity of the UN administration to support project implementation is limited.

47. In addition, the importance of rapid action to implement reconstruction and development activities in virtually all sectors necessitates special arrangements to expedite project design and processing without compromising quality. In order to respond in a timely fashion, ADB will use its existing procedures for emergency loan operations, which are already significantly streamlined, but incorporate appropriate checks and balances.

48. In the expectation that East Timor will seek membership of ADB at the earliest opportunity after it achieves formal independence, ADB's three-year assistance program has included provision for TA assistance at this stage (see Table 1 and Appendix 2). Based on available statistics relating to the poverty situation, it is expected that East Timor will be categorized in Group A of ADB member countries and will be eligible for Asian Development Fund (ADF) financing. ADB will prepare a full lending and TA program once East Timor has become a member of ADB.

Table 1: Lending and Technical Assistance Program, 2001-2003

A. Public Sector Lending Program

	1999 (Actual)		2000		2001		2002		2003 ^d	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program ^a	-	-	-	-	-	-	-	-	-	-
ADF	-	-	-	-	-	-	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
OTHERS ^c	-	-	3	42.0	-	-	-	-	-	-
Lending Pipeline ^b	-	-	-	-	-	-	-	-	-	-
ADF	-	-	-	-	-	-	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
OTHERS	-	-	-	-	2	40.0	1	20.0	-	-

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	-	-	12	4,942.9	-	-	-	-	-	-
TA Pipeline ^b	-	-	-	-	10	4,600.0	10	5,000.0	10	5,000.0

^a The Program comprises the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects.

^c Funded by UN Trust Fund for East Timor (UNTAET).

^d From 2000-2002, the program will be UN's TFET Funded, and from 2003 will depend upon East Timor attaining ADB membership.

B. Strengthened Role of ADB's Liaison Office

49. In line with the new strategy for Resident Missions, ADB has established a Special Liaison Office in East Timor. The main objective is to bring ADB closer and make it more responsive to the needs of East Timor. The office will also improve coordination with UNTAET, local East Timorese, donors and regional organizations. The Head of the Special Liaison Office commenced work in August 2000.

VIII. Economic and Sector Work Program

50. During the transition period (expected to continue until January 2002), capacity building assistance will be required in all sectors, both at national and community levels. Priority within ADB's program will be given to economic and public service management, as well as to capacity building for sectors of ADB responsibility within TFET, such as the infrastructure sectors. Policy dialogue is expected to focus on broad principles of good governance, including the importance of gender equity and mainstreaming of gender issues in all aspects of development planning and implementation. The importance of cost recovery and planning for sustainable operations and maintenance financing over the longer term will also be a particular focus of dialogue and analytical support. Currently, ADB's technical assistance is mostly focusing on economic and sector work.

EAST TIMOR
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999	2000 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (dollars, current)	-	431.0	395.0	-	-	-
2. GDP Growth (% in constant prices)	9.4	10.8	-	-	-	-
Agriculture	-4.3	11.6	-	-	-	-
Industry	-	-	-	-	-	-
Services	-	-	-	-	-	-
B. Saving and Investment (current market prices) (percent of GDP)						
1. Gross Domestic Investment	-	-	-	-	-	-
2. Gross Domestic Saving	-	-	-	-	-	-
C. Money and Inflation (annual percent change)						
1. Consumer Prices (annual average)	-	-	-	-	-	-
2. Broad Money (M2)	-	-	-	-	-	-
D. Government Finance (percent of GDP)						
1. Total Revenue	-	-	-	-	-	-
2. Total Expenditure and Net Lending	-	-	-	-	-	-
3. Overall Surplus/Deficit (-)	-	-	-	-	-	-
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-	-	-	-	-	-
2. Current Account Balance (% of GDP)	-	-	-	-	-	-
3. Export (\$) growth (annual percent change)	-	-	-	-	-	-
4. Import (\$) growth (annual percent change)	-	-	-	-	-	-
F. External Payments Indicators						
1. International Reserves (billion dollars, end of period)	-	-	-	-	-	-
- months of imports	-	-	-	-	-	-
2. External Debt Service (% of exports of goods & services)	-	-	-	-	-	-
3. External Debt (% of GDP)	-	-	-	-	-	-
Memorandum Items:						
GDP (current prices, billion <i>local currency</i>)	-	-	0.344	-	-	-
GNP (current prices, billion <i>local currency</i>)	-	-	-	-	-	-
Exchange Rate (<i>local currency</i> per dollar, annual average)	-	-	-	-	-	-
Population (million)	-	-	-	0.884*	-	-

^a Estimate

Source: Joint Assessment Mission of specialists from East timor, bilateral donor countries, UN agencies, the Asian Development Bank, and the World Bank (November, 1999) and staff estimates.

EAST TIMOR COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population	-	-	884,000 (1998)
Annual Population Growth Rate (% change)	-	-	1.4
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	-	-	-
Maternal Mortality Rate (per hundred thousand live births)	-	-	-
Infant Mortality Rate (below 1 year; per '000 live births)	-	-	33
Life Expectancy at Birth (years)			
Female	-	-	62
Male	-	-	61 (1996)
Adult Literacy (%)	-	-	41
Primary School Enrollment (% of school age population)	-	-	70
Female	-	-	-
Secondary School Enrollment (% of school age population)	-	-	44
Female	-	-	-
Child Malnutrition (% of under age 5)	-	-	-
Population Below Poverty Line (%)	-	-	-
Income Ratio of Highest 20% to Lowest 20%	-	-	-
Population with Access to Safe Water (%)	-	-	63
Population with Access to Sanitation (%)	-	-	-
Public Education Expenditure as % of GNP	-	-	-
Public Health Expenditure as % of GDP	-	-	-
Human Development Index	-	-	-
Human Development Ranking	-	-	-
ENVIRONMENTAL INDICATORS			
Forestry			
Deforestation			
Total Area	-	-	-
Annual deforestation	-	-	-
Biodiversity			
Nationally protected area			
Area	-	-	-
Number	-	-	-
As % of land area	-	-	-
Biosphere reserves			
Area	-	-	-
Number	-	-	-
World Heritage sites (number)	-	-	-
Wetlands of international importance			
Area	-	-	-
Number	-	-	-
Land Use			
Cropland; permanent pasture	-	-	-
Air Pollution (Ambient concentrations)			
Particulates	-	-	-
SO ₂	-	-	-
Water Pollution (concentration of pollutants in water bodies)			
Biochemical Oxygen Demand (BOD)	-	-	-
Chemical Oxygen Demand (COD)	-	-	-
Global Environmental Problems			
CO ₂ emissions (total and per capita)	-	-	-

Source: 1997 data unless otherwise indicated
Government of Indonesia Central Bureau of Statistics; Government of Indonesia Demographic and Health Survey;
World Bank *Education in Indonesia, from Crisis to Recovery* (December 1998)

EAST TIMOR
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^{a*}	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2000 UNTAET GRANTS										
Social Infrastructure										
1. Water Supply and Sanitation Rehab.			POHQ		4.5	0.0	0	0.0	0.0	4.5
			<i>Subtotal</i>		4.5	0.0	0	0.0	0.0	4.5
Transport and Communications										
1. Emergency Infrastructure Rehabilitation			POHQ		29.8	0.0	0	0.0	0.0	29.8
			<i>Subtotal</i>		29.8	0.0	0	0.0	0.0	29.8
Finance										
1. Microfinance			POHQ		7.7	0.0	0	0.0	0.0	7.7
			<i>Subtotal</i>		7.7	0.0	0	0.0	0.0	7.7
Total					42.0	0.0	0.0	0.0	0.0	42.0
2001 FIRM LOANS										
TO BE DETERMINED										
2002 LOAN PIPELINE										
TO BE DETERMINED										
2003 LOAN PIPELINE										
TO BE DETERMINED										

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

EAST TIMOR
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2000-2003

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
2000 TECHNICAL ASSISTANCE PROGRAM					
Finance					
1. Microfinance Study	POHQ	AD	150.0	-	150.0
2. Strengthening the Microfinance Policy and Legal Framework	POHQ	AD	-	250.0	250.0
	Subtotal		<u>150.0</u>	<u>250.0</u>	<u>400.0</u>
Transport and Communications					
1. Transport Sector Restoration	POHQ	AD	1,000.0	-	1,000.0
2. Rehabilitation of the Telecommunications Sector (Phase 1)	POHQ	AD	150.0	-	150.0
3. Rehabilitation of the Telecommunications Sector (Phase 2)	POHQ	AD	150.0	-	150.0
	Subtotal		<u>1,300.0</u>	<u>0.0</u>	<u>1,300.0</u>
Others					
1. Capacity Building for Governance and Public Sector Management	POHQ	AD	1,000.0	-	1,000.0
2. Capacity Building for Local Government	POHQ	AD	150.0	-	150.0
3. Community Empowerment Program (Phase 1)	POHQ	AD	990.0	-	990.0
4. Strategies for Economic and Social Development	POHQ	AD	-	650.0	650.0
5. Poverty Assessment and Statistics (Phase 1)	POHQ	AD	52.9	-	52.9
6. Environmental Assessment Capacity Improvement	POHQ	AD	250.0	-	250.0
7. SSTA for Economic Policy Forum	POHQ	AD	150.0	-	150.0
	Subtotal		<u>2,592.9</u>	<u>650.0</u>	<u>3,242.9</u>
Total			4,042.9	900.0	4,942.9
2001 TECHNICAL ASSISTANCE PROGRAM					
Transport and Communications					
1. Transport Sector and Improvement	POHQ	AD	800.0		800.0
2. Telecommunication Sector Improvement	POHQ	PP	400.0		400.0
	Subtotal		<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
Energy					
1. Power Preparation and Investment Plan	POHQ	PP	800.0		800.0
	Subtotal		<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
Finance					
1. Capacity Building in Microfinance	POHQ	AD	200.0		200.0
	Subtotal		<u>200.0</u>	<u>0.0</u>	<u>200.0</u>
Social Infrastructure					
1. Water and Sanitation Sector	POHQ	PP	400.0		400.0
	Subtotal		<u>400.0</u>	<u>0.0</u>	<u>400.0</u>
Others					
1. Capacity Building for Governance and Public Sector Management (Phase 3)	POHQ	AD	600.0		600.0
2. Capacity Building for Governance and Public Sector Management (Phase 4)	POHQ	AD	500.0		500.0
3. Community Empowerment Program (Phase 3)	POHQ	AD	700.0		700.0
4. Strengthening Poverty Reduction	POHQ	AD	200.0		200.0
5. Environmental Studies	POHQ	AD	400.0		400.0
	Subtotal		<u>2,400.0</u>	<u>0.0</u>	<u>2,400.0</u>
Total			4,600.0	0.0	4,600.0
2002 TECHNICAL ASSISTANCE PROGRAM					
TO BE DETERMINED					
2003 TECHNICAL ASSISTANCE PROGRAM					
TO BE DETERMINED					