

Abbreviations

ADB	Asian Development Bank
aldeia	subvillage or hamlet (Portuguese)
ARP	Second Agriculture Rehabilitation Project
APRACA	Asia-Pacific Regional Agricultural Credit Association
AusAID	Australian Agency for International Development
BPA	Banking and Payment Authority
CBO	community-based organization
CDA	Community Development Adviser
CEP	Community Empowerment Program
CFET	Consolidated Funds for East Timor
CNRT	National Timorese Resistance Council
CTA	Chief Technical Adviser
CU	credit union
CUF	Credit Union Federation
CWSS	Community Water Supply and Sanitation
DOF	Division of Fisheries
DfID	Department for International Development (UK)
DNAT	Direcção Nacional da Administração Território
ECHO	European Community Humanitarian Organization
EDTL	Electricidade de Timor-Leste
EIRP-1	Emergency Infrastructure Rehabilitation Project - Phase 1
EIRP-2	Emergency Infrastructure Rehabilitation Project - Phase 2
EIRR	economic internal rate of return
ETPA	East Timor Public Administration
ETTA	East Timor Transitional Administration (replaced by ETPA)
FAO	Food and Agriculture Organization of the United Nations
FIRR	financial internal rate of return
FMES	Fisheries and Marine Environment Service
FPRTL	Foundation for Poverty Reduction in Timor-Leste
GDP	gross domestic product
GoJ	Government of Japan
GoT-L	Government of Timor-Leste
IAMS	Infrastructure Asset Management System
ICB	international competitive bidding
IDA	International Development of Agency
IEC	information, education and communication
IMFTL	Instituição de Microfinanças de Timor-Leste
INAP	Instituto Nacional da Administração Pública
IS	international shopping

IT	information technology
JICA	Japan International Cooperation Agency
LCB	local competitive bidding
MAE	Ministério da Administração Estatal
MAFF	Ministry of Agriculture, Fisheries and Forestry
MDE	Ministry of Development and the Environment
MDP	Microfinance Development Project
MIS	Management Information System
MTCPW	Ministério Dos Transportes, Comunicações E Obras Públicas
NDP	National Development Plan
NGO	nongovernment organization
PCC	Project Coordination Committee
PID	Program Implementation Document
PMU	Project Management Unit
posto	subdistrict (Portuguese)
QCBS	Quality and Cost Based Selection
QRF	Quick Response Facility
RDTL	República Democrática de Timor-Leste
RMRC	road maintenance and rehabilitation contract
SAS	Serviço das Águas e Saneamento (Water and Sanitation Service)
SEP	Small Enterprises Project
SMIF	Sector Management Investment Framework
SOTL	ADB Special Office in Timor-Leste
suco	village
TA	technical assistance
TFET	Trust Fund for East Timor
UN	United Nations
UNDP	United Nations Development Programme
UNMISSET	United Nations Mission of Support in East Timor
UNPKF	United Nations Peace Keeping Force
UNTAET	United Nations Transitional Administration in East Timor
USAID	United States Agency for International Development
USGET	United States Support Group in East Timor
WB	The World Bank
WS&S	water supply and sanitation
WSS	Water and Sanitation Service (replaced by SAS)
WSSRP-1	Water Supply and Sanitation Rehabilitation Project - Phase I
WSSRP-2	Water Supply and Sanitation Rehabilitation Project - Phase II

NOTE: In this report "\$" refers to US dollars.

Contents

	<i>Page</i>
Map of Timor-Leste	ii
Abbreviations	iii
■ EXECUTIVE SUMMARY	vii
Introduction	vii
Origins of the Rehabilitation Programs	vii
Roads	viii
Ports	ix
Power	ix
Water Supply and Sanitation	x
Fisheries	xi
Microfinance	xi
ADB Technical Assistance	xii
■ PART 1: INTRODUCTION	1
■ The Destruction – September 1999	3
■ Rehabilitation – October 1999 Until the Present	4
■ Project Summary	7
■ PART 2: INFRASTRUCTURE REHABILITATION	11
■ Roads Sector	13
Postconflict Condition	13
Planned Interventions	14
Cumulative Progress to 7 th Progress Report: EIRP 1	17
Additional Progress Since 7 th Progress Report: EIRP 2	20
Continuing and Prospective Needs	23
■ Ports Sector	25
Postconflict Condition	25
Planned Interventions	25
Cumulative Progress to 7 th Progress Report	25
Additional Progress to Date	27
Continuing and Prospective Needs	27
■ Power Sector	28
Postconflict Condition	28
Planned Interventions	29
Cumulative Progress to 7 th Progress Report	29

Additional Progress to Date	33
Continuing and Prospective Needs	33
■ Water Supply and Sanitation	36
Postconflict Condition	36
Planned Interventions	36
Cumulative Progress to 7 th Progress Report	41
Additional Progress to Date	48
Continuing and Prospective Needs	49
■ PART 3: SOCIAL AND ECONOMIC REHABILITATION	51
■ Fisheries	53
Postconflict Condition	53
Planned Interventions	53
Cumulative Progress to 7 th Progress Report	55
Additional Progress to Date	59
Continuing and Prospective Needs	59
■ Microfinance	61
Postconflict Condition	61
Planned Interventions	62
Cumulative Progress to 7 th Progress Report	64
Additional Progress to Date	69
Continuing and Prospective Needs	75
■ PART 4: TECHNICAL ASSISTANCE FUNDED BY ADB	77
■ Capacity Building Technical Assistance	79
■ ADB Technical Assistance Summary	83

Executive Summary

.....

Introduction

The program of Trust Fund for East Timor (TFET)-funded projects sought to address the emergency rehabilitation needs following the destruction that took place in September 1999. Asian Development Bank (ADB) managed six of the projects,¹ primarily in infrastructure sectors but also in fisheries and microfinance among economic sectors. ADB also funded, from its own resources and in partnership with the Japan Special Fund, an ongoing program of 22 technical assistance (TAs)²—some supporting the sectoral activities but the majority addressing the urgent needs of the Government of Timor-Leste to rebuild and develop the institutions and capacity of government itself. Fourteen of the TAs have been completed.

Four³ of the six ADB-managed projects have been completed and project completion reports are now being prepared to review effectiveness of implementation and learn lessons for the future. A fifth project, Microfinance Development Project, is substantially complete and remaining work addresses needs for transforming the microfinance institution for its long-term ownership and management. The sixth project, Emergency Infrastructure Rehabilitation Project Phase 2 (EIRP-2), is currently in progress.

With most emergency rehabilitation work completed, this 8th Progress Report reviews the progress from the destruction and postconflict status in 1999, through the project interventions and their impacts, to the continuing need for development. The review takes a sector perspective rather than a narrower, time-bound project-centered view.

Origins of the Rehabilitation Programs

The 1997 Asian financial crisis had increased to over 50% the proportion of Timorese households living below the poverty line, double Indonesia's average. The 1999 conflict is estimated to have caused the poverty level to increase to some 80% of the people, many of whom faced a real and imminent risk of starvation. Half the people were displaced, 175,000 out of Timor-Leste and 200,000 within Timor-Leste. About a third of the displaced people returned within some 6 months. Returning home,

¹ The total of the grants for the six projects is \$52.8 million. Details are given in Table 1.1.

² The total grants for the TAs approved to date is \$9.3 million. In this continuing program of support by ADB, two TAs for a total of \$0.7 million have been approved since the 7th Progress Report. Details of TA grants are given in Table 4.1.

³ Emergency Infrastructure Rehabilitation Project - Phase 1 (Grant 8181-TIM(TF)); Water Supply and Sanitation Rehabilitation Project - Phases 1 and 2 (Grants 8185-TIM(TF) and 8189-TIM(TF)); and Hera Port Fisheries Facilities Rehabilitation Project (Grant 8190-TIM(TF)) are complete and subjects of project completion reports under preparation in the first half of 2004.

.....

they found their houses, crops, farm inputs and other means of livelihood looted or destroyed. Access to nourishment was minimal and tenuous—the people's ability to produce their own food had been ruined, the transport system was in danger of failure and the economic supply system had collapsed.

In partnership with the Timorese people, the international community responded to the humanitarian and security crisis. The TFET strategy sought to facilitate early relief of hardship by institutional and infrastructure rehabilitation. Prioritization was based on urgency, with highest priority given to avoidance of imminent failures. Quick impact engineering work could avoid complete failure in roads, ports, power and water supply. Economic and financial sectors were less 'urgent' in terms of quick impact works as the failures of markets and institutions had already occurred.

Roads

Postconflict conditions were the result of a long term lack of adequate maintenance combined with poor design and construction of the roads. Topography, geology, and climate contributed to the fragility of roads built for low traffic volumes and light axle loads. Postconflict humanitarian and security traffic increased volume and loads, accelerating deterioration so that there was a risk of imminent network failure.

Planned interventions under TFET consisted of the roads component of the Emergency Infrastructure Rehabilitation Project Phase 1 (EIRP-1) and the whole of Phase 2 (EIRP-2). The EIRP-1 addressed emergency needs to (i) restore all main arteries to viable conditions; (ii) construct essential causeways and bridges; and (iii) establish an effective local contracting industry. These interventions addressed the emergency needs and the EIRP-2 supported long-term development through capacity building and engineering solutions to reduce maintenance costs to a level affordable for Timor-Leste. The EIRP-1 roads component was completed in June 2002. EIRP-2 is ongoing.

Development impacts of the EIRP-1 were primarily in maintaining access for humanitarian and security efforts and in providing rural employment at a critical time. While much of the physical, emergency rehabilitation is unlikely to have long-term impacts, the EIRP-1 also provided capacity building for the Government to plan, implement, and maintain roads and capacity building for local contractors to carry out such works.

Continuing needs for the roads sector have been assessed in the sector investment program⁴ to meet the Government's 10-year vision to (i) raise the network to a sustainable condition with life cycle costs minimized, closures reduced, and reliable access; (ii) improve key roads to meet the needs of a growing economy; and (iii)

⁴ "Timor-Leste Transport Sector Investment Program," November 2003, prepared by the Ministry of Transport, Communications and Public Works with ADB support.

ensure effective capacity to manage the network with private sector and community participation and adequate cost-recovery from users. The EIRP-2 activities will contribute to realization of this vision.

Ports

Postconflict conditions included little damage to port structures but the port handling equipment had been destroyed. Outside Dili, there was very limited cargo handling capacity, based on simple beach landing facilities. Port capacity was too limited for the volume of humanitarian and security cargo. Ships queued for 9–12 days, threatening failure of port activity and consequent disruption of the relief effort.

Planned interventions under the EIRP-1 port component aimed to expand port facilities and improve cargo handling capacity to urgently reduce Dili port congestion. Meeting this short-term objective created facilities for long-term use: the third berth and slipway were repaired; a concrete deck was constructed on the third berth; and the hardstand area of the eastern container yard was rehabilitated. Works were completed in 2002.

Development impacts were the increased speed and efficiency in handling security and humanitarian cargoes. In the long-term, a resource has been created which improves capacity to handle import and export of goods.

Continuing needs are foreseen by the transport sector investment program as being for light-handed regulation of financially self-sustaining ports. Dili Port is already “off-budget” with revenues funding recurrent costs.

Power

Postconflict conditions were of generating stations’ equipment and structures damaged by arson and gun fire. Control panels, fuel systems, and wiring were destroyed and movable equipment looted. Transformers were drained and riddled with gunfire, and transmission and distribution cables had been removed or damaged in the torching of adjacent homes and buildings. Office equipment and records were destroyed or looted. Indonesian staff, who had filled all middle and senior management posts and most skilled jobs, returned to Indonesia.

Planned interventions of TFET were developed in the context of urgent measures by individual donors: the Department for International Development (UK) (DfID) restored 21 power stations by April 2000. Other donors including Japan and Portugal, subsequently participated. By late 2000, capacity was restored to 80% of the predestruction level. The 20% of capacity which remained unusable was typically in the small, rural power stations and their supporting local distribution networks. These became the focus of the EIRP-1’s power component. Savings on other components of the EIRP-1 were transferred for rehabilitation of transmission and distribution networks. Sixteen rural power stations and their networks have been rehabilitated,

management and financial systems developed, and the Government assisted in strategy and plan development. Physical completion is expected in May 2004.

Development impacts of restoration and extension of power supply to rural consumers is contributing to poverty reduction by facilitating livelihood activities, improving the quality of life, and supporting the resumption of services, such as health, education and water supply facilities.

Continuing needs include: (i) establishment of efficient management systems and sector planning capacity; (ii) review and development of capacity for management of district and subdistrict systems; (iii) review of eight district power stations and two subdistrict power stations which have not yet been rehabilitated; and (iv) expansion of distribution networks to increase sustainability of power stations, increase poor households benefiting, and enhance affordability through both lower unit costs and quality of supply.

Water Supply and Sanitation

Postconflict conditions were of severe damage from looting, arson and destruction of equipment, treatment plant, storage tanks, offices, and stores. Water sources were impaired and contaminated; destruction of homes included their meters, latrines and septic tanks. The institutional infrastructure was severely damaged but a core of Timorese technical staff remained. In community operated water systems, the community itself could begin restoration and operation of the systems.

Planned interventions by TFET were the Water Supply and Sanitation Project Phases 1 and 2 (WSSRP-1 and 2). The WSSRP-1, in Dili and in districts, aimed to rehabilitate water supply and sanitation infrastructure and reestablish capacity to manage, operate and maintain the infrastructure. The WSSRP-2 continued these aims, but the Government decision to focus on rural development resulted in increased allocations to district and community systems. Implementation began in late 2000 and the WSSRP-2 was completed in December 2003.

Development impacts included emergency support for rehabilitation of water supplies in Dili and selected districts and longer term impacts in Dili, districts and rural communities supporting health, infrastructure and human development goals. Some 112,000 people are estimated to benefit from improved water supply and sanitation and some 76,250 person-days employment was generated in implementation. Capacity building supported sustainability of Government and community-managed systems.

Continuing needs include improved data on water resources and water use to allow more effective planning, and agencies need to collect and share data. Government resources will be insufficient to fund community and rural services and the Water and Sanitation Service (WSS) will require assistance to fill the role of peak manager in the subsector. WSS capacity building needs a longer term approach to give local ownership and improve water supply management. Health and hygiene promotion to end-users will maximize health benefits of the improved services.

Fisheries

Postconflict conditions of Hera Port were poor due to the combination of poor construction and maintenance. Most inshore fishing boats and gear had been destroyed. Offshore, commercial fishing boats were destroyed or removed including about 24 which went to Atauro island, of which only 4 or 5 are operational.

Planned interventions followed a strategic plan for a private sector-based industry. An enabling environment for the private sector was to be created by the Government with bilateral support, including fisheries legislation. TFET planned to rehabilitate Hera Port to contribute to the objective to improve nutrition by developing offshore pelagic fisheries. Breakwaters and wharf faces in the harbor basin were rehabilitated by the end of 2002 and the project closed in January 2004.

Development impacts remain uncertain. The port is necessary but insufficient, by itself, to develop offshore fisheries. Bilateral support for sector development was delayed. Fisheries legislation is expected to be enacted soon. With no enabling environment created by the Government, private sector development has not occurred. The intended impacts can be achieved, though delayed.

Continuing needs depend upon legislation and its implementation by the Division of Fisheries (DOF) to promote commercial fishing. Port activity must be monitored as part of fisheries management but staff must first be appointed for the port. The DOF has neither commercial nor port management skills. The DOF also has no facilities and equipment. These activities were planned to be private sector-based and if the DOF is to undertake them, it will need support.

Microfinance

Postconflict conditions saw the small, largely urban-based banking sector withdraw from Timor-Leste with staff, records, assets and the deposits of the Timorese clients. The formal payments and regulatory systems ceased to function. Loss of deposits contributed to the reduced activity of moneylenders, the major source of rural finance. Most of the credit unions collapsed, with only 4 of 27 considered operational.

Planned interventions immediately addressed the transaction requirements of international agencies and staff with offices of two foreign banks providing a limited range of services in Dili, including management of the TFET-funded, World Bank-managed Small Enterprises Project. The Microfinance Development Project sought to address the needs of the Timorese poor and rural communities by developing a microfinance bank, rehabilitating credit unions and supporting capacity development.⁵

⁵ Capacity development has also been supported by three ADB-funded TAs.

Development impacts include the creation of a regulatory framework and establishment of the Instituição de Microfinanças de Timor-Leste (IMFTL) which has three branches, including two outside Dili. To end-March 2004, IMFTL had made loans to 7,470 individual borrowers, including microcredit groups, of whom 4,422 had fully repaid. Some 6,260 people held deposits. Credit unions have proved beyond rehabilitation. Poverty reduction and livelihood activities are served by the ongoing availability of credit and secure savings facilities for the poor and rural communities. The project is substantially complete and transfer to long-term ownership and management will be completed by the end of 2004.

Continuing needs of IMFTL are the expansion of its branch network to more districts and communities. Further training in finance and banking skills will assist IMFTL and also provide a core of skills to support development of other financial activities. The legal and regulatory framework requires further development to address issues including enforcement of credit contracts and completion of the legal framework for credit unions.

ADB Technical Assistance

Grants for the technical assistance program funded by ADB with support from the Japan Special Fund now total \$9.3 million. Twenty-two technical assistance (TA) projects have been approved, including two since the 7th Progress Report. Fourteen TAs have been completed, seven are ongoing or starting and one is delayed pending agreement on a revised scope to avoid overlap with other work.

TAs include planning and capacity building TAs paralleling TFET-funded projects managed by ADB, including for microfinance, power, transportation and water resources. Many, accounting for most of the grant total, address the need for capacity building in government at national and local levels.