



Asian Development Bank

# **Timor-Leste Ninth Progress Report ADB TFET Projects & Other Operations**

**Timor-Leste and Development Partners Meeting  
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**Timor-Leste Development Partners Meeting 2005**  
**Asian Development Bank Progress Report**

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**I. EXECUTIVE SUMMARY**

1. ADB has supported Timor-Leste's rehabilitation phase by implementing development projects funded by TFET and by funding technical assistance (TA) projects. ADB is now preparing its "consolidation" phase program to be funded predominantly from Asian Development Fund grants (\$15.2 million over 4 years) and technical assistance (about \$4.0 million over 4 years). The Government requested a targeted program that will continue to help stabilize National and district roads, consolidate urban water supply and sanitation services, strengthen infrastructure institutions, and strengthen local governments.

2. ADB administered two (2) TFET-funded projects during 2004. The Emergency Infrastructure Rehabilitation Project – Phase 2 (EIRP 2) has made good progress since project management unit (PMU) difficulties were resolved in Q3 2004. The Cassa Bridge construction will be completed on schedule in May 2005 and detailed engineering and design for roads civil works is almost complete. The Microfinance Development Project closed in December 2004 and IMFTL, the microfinance bank established by the Project is operating successfully, though incurring small losses. A new ADB TA will support IMFTL management for another 2 years. In addition to TAs providing parallel support to TFET projects, six stand-alone ADB TAs were ongoing during 2004.

3. ADB studies and observations are starting to yield important lessons learned from development experiences in Timor-Leste. Lessons point to the need for Government to re-engage directly in rural water supply and rural power supply. It is too much to expect communities to successfully manage these services without Government support and authority. EIRP experiences highlight the importance of a competent PMU. Microfinance lessons reaffirm the key principles enunciated by the Consultative Group to Assist the Poor (CGAP) including the centrality of sound corporate governance and that the proper role of government is to enable financial services, not to provide them directly.

**II. INTRODUCTION**

**A. Purpose of ADB Support**

4. ADB support to Timor-Leste aims to help reduce poverty. To achieve this, ADB has focused on (i) improving public infrastructure to foster private sector growth and to deliver basic social services, (ii) strengthening institutions to improve economic and financial management, and (iii) boosting community-level income generation, particularly by building sustainable microfinance operations. While these three strategic pillars have effectively guided ADB support during Timor-Leste's rehabilitation phase, greater selectivity and targeting is required as the Country enters a consolidation phase.

## **B. From Emergency Rehabilitation to Consolidation**

5. Since Timor-Leste's restoration of Independence in May 2002, assistance to the Country has shifted from relief and rehabilitation to longer-term development programs. ADB has continued to help improve public infrastructure, largely through investment projects funded by the multi-donor Trust Fund for East Timor (TFET). The Emergency Infrastructure Rehabilitation Project – Phase One (EIRP 1) aimed to provide access to humanitarian relief and facilitate peace and security by rehabilitating some of the key infrastructure, including the repair of main roads, the expansion of port facilities to reduce congestion of cargo handling, and the restoration of power supply. The Hera Port Fisheries Facilities Rehabilitation Project aimed to promote offshore fisheries in order to increase fish supplies and to ease the pressure on inshore fishery resources. The two Water Supply and Sanitation (WatSan) Rehabilitation Projects aimed to rehabilitate WatSan infrastructure and to reestablish capacity to manage, operate and maintain the infrastructure, initially in Dili and later in selected districts and rural communities. The Microfinance Development Project established a new micro-finance institution, the *Instituicao de Microfinancas de Timor-Leste* (IMFTL) to provide micro-finance services to the poor to encourage the development of small and micro-enterprises.

6. ADB also provided eight (8) technical assistance (TA) grants to support these projects with capacity building. Two TAs focused on strengthening the microfinance institution - enhancing its sustainability and enabling it to expand to rural areas and improve the micro-credit access of the rural poor, particularly women. Another TA strengthened the Government's public financial management capacity by continuing advisory support on the issue of Timor Sea oil and gas and by helping to establish regular trade statistics. Several TA grants helped the Government develop a policy framework for poverty analysis including the establishment of baseline data on its extent, nature, and dimensions. They also helped the Government to decide on its poverty reduction strategy. Assistance has been provided to develop infrastructure investment programs to enhance the Government's ability to develop a financially viable and fiscally responsible budget. This work enhanced the linkages between the national development plan and the combined sources budget and supported government decision-making and priority setting within and across sectors.

## **C. Supporting the New Consolidation Phase**

7. After supporting Timor-Leste's rehabilitation phase since 2000, ADB will henceforth help the Government "consolidate" its development future. Timor-Leste will receive ADB development grants from its Asian Development Fund (ADF). The grants will total approximately \$15.2 Million over the four years 2005-2008. The Government prefers these grants to be invested in infrastructure, particularly main roads and urban WatSan.

8. Additionally, ADB will provide grants of about \$1.0 million per year for TAs, primarily to help the Government plan and prepare roads and urban WatSan projects and to strengthen infrastructure institutions.

9. ADB will leverage its financial support by helping the Government and other development partners execute infrastructure investments. ADB will backstop Government leadership through strategic and program planning, donor coordination, and funds mobilization.

10. Soft loans from ADF IX totaling approximately \$22.8 million are also available to the Government until 2008.

### **III. TRUST FUND FOR EAST TIMOR (TFET): 2004 PROGRESS**

#### **A. Emergency Infrastructure Rehabilitation Project - Phase 2**

##### **1. Purpose and Implementation Arrangements**

11. The Emergency Infrastructure Rehabilitation Project – Phase 2 (EIRP 2) aims to restore Timor-Leste's main road network to a sustainable condition that can be maintained within the Government's budget capacity. The project comprises four components: (i) preventive civil works and periodic maintenance; (ii) establishment of a routine maintenance regime; (iii) detailed engineering; (iv) training and project management. Outputs include restoration of five roads, an effective contracting system, community based maintenance program, and effective project management.

12. EIRP 2 is executed by the Ministry of Transport, Communication, and Public Works (MTCPW). The project finances a Project Management Unit (PMU) within the Directorate of Roads, Bridges and Flood Control. The Secretary of State for Public Works has the "sign off" authority. The PMU comprises a Project Manager who is a national of Timor-Leste, an internationally recruited Chief Technical Advisor (CTA, roads engineer), a locally recruited Project Finance Officer, and support staff. The PMU manages the day-to-day implementation of all components of the project and also produces technical outputs such as MTCPW Standard Specifications and an MTCPW Construction Supervision Guide.

##### **2. Parallel Technical Assistance**

13. A new ADB TA for Infrastructure Institutional Development and Capacity Building will have a Road Sector component that will partly overlap with EIRP 2 and support its implementation.

##### **3. Implementation Progress: Civil Works and Capacity Building**

14. EIRP 2 was approved and became effective in May 2002, with a target completion date of December 2003. Completion was extended to 30 November 2006, following early implementation delays<sup>1</sup>.

15. There has been good implementation progress since September 2004 when a competent CTA was mobilized and the PMU became fully functional. The progress covers preparation of detailed engineering design and bid documents, recruitment of construction supervision consultants, procurement of works, and construction. Consultants for the detailed design, mobilized in October 2004, have completed topographical and geotechnical surveys, bioengineering techniques, bridge and drainage design, unit rates analysis and estimates. They completed their services in April 2005. The bidding documents for nine contract packages have been completed.

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<sup>1</sup> It is unclear what impact these implementation delays had on road works undertaken under the first EIRP. Some roads may have deteriorated.

16. The original work-program was revised in consultation with the MTCPW. The original number of five roads has been retained for a total of nine contract packages covering earthworks, slips and landslides, bridges, drainage and protection works needed at the most critical road sections, all emergency in nature.

17. Procurement of works is ahead of schedule. Two contract packages have been advertised, and two more are ready for advertising. The remaining five will follow during April-May 2005. A road construction supervision consultant firm is being recruited.

18. Civil works for Cassa Bridge commenced in November 2004 under the supervision of a foreign consultant. The major work, erecting 60 meters of steel truss, has been completed, and the construction progress is on schedule. The bridge is expected to be complete in May 2005.

19. A new set of standard specifications has been produced for road, bridges and airport construction. The specifications will initially be tested during the construction stage of the project and eventually adopted for all projects under MTCPW.

20. Management and training activities are progressing in accordance with the implementation schedule. The PMU has developed a Construction Supervision Guide consistent with FIDIC conditions of contract. It includes administration and site manuals, and has been completed on time for the use of Government counterpart staff and the local consultants during the project's road civil works.

## **B. Microfinance Development Project**

### **1. Purpose and Implementation Arrangements**

21. A grant of US\$7.73 million (subsequently reduced to US\$4 million) from TFET was approved by ADB on 6 December 2000. The purpose of the Microfinance Development Project was to create an environment that would facilitate community-based opportunities for income generation and sustainable employment. The project is expected to result in a sustainable, self-sufficient microfinance bank that provides accessible and varied financial services to the economically active poor and to middle income men and women. The project was completed on 31 December 2004.

22. The project capitalized the new microfinance bank, *Instituicao de Microfinancas de Timor-Leste* (IMFTL) with a total of \$2,536,000. The project also provided technical assistance to support the start-up and initial expansion of IMFTL. IMFTL started operations on 22 May 2002, and, following licensing to operate as a quasi-bank on 4 September 2002, now operates as a commercial entity, managed by full-time staff, including a General Manager, all remunerated through revenue from operations. IMFTL is wholly owned by the Foundation for Poverty Reduction (the Foundation) governed by a Board of Trustees, which appoints IMFTL's Board of Directors.

### **2. Parallel Technical Assistance**

23. ADB provided two advisory TA grants to help microfinance development in Timor-Leste: (i) TA 3556-TIM for \$250,000 to strengthen the microfinance policy and legal framework, and (ii) TA 3743-TIM for \$150,000 to support the installation and

adoption of the UN/FAO-GTZ micro-banking system as the core banking software for IMFTL. In recognition of the need for further institutional development and sustained management support, a TA for strengthening microfinance operations was approved by ADB in December 2004, which will continue through to end 2006.

### 3. Implementation Progress: IMFTL Operations

24. As at the end of December 2004, IMFTL had 3,277 loan accounts totaling \$921,887. Portfolio-at-risk remained a high 15%. Deposits amounted to \$884,439 in approximately 8,630 accounts. IMFTL's net operating loss for FY2004 was \$18,114.13.

## IV. STAND-ALONE TECHNICAL ASSISTANCE

25. A total of 22 TA grants have been provided by ADB in the post-conflict period. Fourteen of the TAs have now been completed and closed and seven are ongoing. One TA approved in December 2003 will commence in mid-2005. The following table outlines stand-alone<sup>2</sup> TAs that were ongoing during all or part of 2004 and early 2005.

ADB Program Objective	TA Name	TA Scope & Status
Improved public infrastructure to support basic social services and private sector development	Integrated Water Resources Management (TA 3986-TIM)	<p><u>Scope:</u> To help the Government prepare a National Water Policy, a Water Resources Management Plan, a Water Reserves Management Plan and to strengthen Government capability to manage and implement water policy.</p> <p><u>Status:</u> 1<sup>st</sup> and 2<sup>nd</sup> phases completed. National Water Policy document awaiting approval by the Council of Ministers. System of rainfall and river flow monitoring established. Draft guidelines for hydro-meteorological network for T-L and environmental and social working paper prepared. 3<sup>rd</sup> phase ongoing, preparing policy implementation strategy and action plan.</p> <p><u>Completion Date:</u> 1 June 2005.</p>

<sup>2</sup> Stand-alone: TAs not directly supporting a project.

	<p>Economic Policies and Strategies for Development (TA 3803-TIM)</p>	<p><u>Scope:</u> To help the Government formulate a National Development Plan (NDP); to develop leadership skills in Government and agencies, and to set up systems and procedures to monitor and evaluate the achievement of strategic economic objectives.</p> <p><u>Status:</u> Mostly complete. Advisors were mobilized, including a Petroleum Fiscal Advisor to the Prime Minister, a Trade and Statistics Advisor, and a SIP/Public Sector Expenditure Advisor. Associated training and equipment was also delivered.</p> <p><u>Completion Date:</u> 30 September 2005.</p>
<p>Capacity building for economic &amp; financial management</p>	<p>Capacity Building to Strengthen Public Sector &amp; Governance (TA 3839-TIM)</p>	<p><u>Scope:</u> To assist the Government in developing the technical and administrative competencies of local authorities in public administration and governance, particularly in areas of planning, problem solving and delivery of essential services;</p> <p><u>Status:</u> Mostly complete. Built capacity through 69 training courses/workshops involving approximately 1,570 trainees. Six training modules completed, pilot tested and translated to Indonesian language. Trained domestic trainers who delivered most of the modules.</p> <p><u>Completion Date:</u> 30 September 2005.</p>

	Capacity Building in the Ministry of Planning & Finance (TA 4329-TIM)	<p><u>Scope:</u> To assist the Government to improve its capacity to monitor NDP implementation; to improve systems and procedures used by the Government to monitor the execution of programs and activities of Government agencies and the coordination of external assistance programs.</p> <p><u>Status:</u> Complete. Assisted in the design of the Government Reporting Information and Monitoring System, improved external assistance data, provided capacity building for staff of Planning Division and Developed Registry of External Assistance (REA).</p> <p><u>Completion Date:</u> 30 June 2005.</p>
	Postal Services Development (TA 3819-TIM)	<p><u>Scope:</u> To provide assistance in reestablishing an appropriate framework for developing an efficient, cost-effective postal system in T-L;</p> <p><u>Status:</u> Provided assistance for reestablishment of commercial oriented postal services in the Country, funded trainings and Postal Mgt Specialist to formulate strategy and regulatory framework. Also completed Master Plan for Postal Development.</p> <p><u>Completion Date:</u> 31 December 2005.</p>
Community-level income generation	Microfinance Info. Tech. Systems Development (TA 3743-TIM)	<p><u>Scope:</u> To strengthen microfinance institutions; to provide latest information technology to the IMFTL and credit unions, through the installation of the Microbanking System and strengthening accounting and internal audit to ensure good governance;</p> <p><u>Status:</u> Complete. Consultants provided necessary support, including training.</p> <p><u>Completion Date:</u> 31 March 2005.</p>

## V. CONSOLIDATION PHASE

### A. Asian Development Fund Grants: Investing in Infrastructure

26. ADB will provide future assistance to Timor-Leste primarily through the Asian Development Fund (ADF), a special fund that provides lower interest loans with longer maturity and longer deferred commencement of repayment than loans from ADB's ordinary operations.

27. ADF IX for the period 2005-2008 also makes development grants available to low-income post-conflict countries, including Timor-Leste. Timor-Leste can take up to 40% of its total ADF IX allocation as grants: 40% of approximately \$38.1 million, which is approximately \$15.2 million. The Government prefers the grants be invested in priority roads and also in urban WatSan.

28. Transport Sector Improvement Project: The Government and ADB agreed to allocate \$10 million in ADF development grants to partly implement the Government's 5 year-road investment program now being prepared with assistance from ADB TA 3731-TIM: *Transport Sector Improvement* (\$0.5 million). The project should be approved in 2005 for a start in 2006. It will continue a multi-donor<sup>3</sup> program to rehabilitate and stabilize Timor-Leste's national and district road network, which can then be properly maintained.

29. Urban Water Supply and Sanitation Project: The Government and ADB agreed to study the feasibility of investing the remaining ADF grant allocation in urban WatSan. There are no details at this stage. A technical assistance grant to help prepare the project should be approved in 2005 (\$0.5 million) and if agreed, a follow-on investment project would start in 2007.

### B. Technical Assistance: Strengthening Infrastructure Institutions

30. ADB will provide technical assistance totaling about \$3.0 million to support institutional reform and organization development of infrastructure agencies during 2005-2008. This is additional to about \$1.0 million TA for project preparation.

31. ADB will work at two levels to strengthen infrastructure institutions. At one level, ADB will support broad-based infrastructure institutional reform, collaborating with JICA, the World Bank, AusAID, the EU and other partners. ADB supports a comprehensive approach to institutional reform with donor support, covering core Government functions such as strategic planning, legal framework, regulation, and rural services.

32. ADB will also work at a sector level to strengthen individual infrastructure agencies of the Ministry of Transport, Communications and Public Works, including roads and WatSan.

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<sup>3</sup> The Government of Japan and the European Union are key donors in the road sector in Timor-Leste.

33. The following TAs are proposed:

Proposed TA Name	Expected TA Approval	Proposed TA Scope
Infrastructure Institutional Development and Capacity Building (incorporating Technical Capacity Building for Road Sector Management)	2005	<ul style="list-style-type: none"> <li>• Training up to 30 engineers and technicians on roads project management, including contract management and construction supervision.</li> <li>• Prepare a comprehensive infrastructure institutional reform and capacity building vision and framework (“road map”)</li> </ul>
Preparation of an Urban WatSan Project	2005	<ul style="list-style-type: none"> <li>• Prepare an updated Urban WatSan sector analysis and sector investment program.</li> <li>• Assist the Government prepare an Urban WatSan investment project.</li> </ul>
First Infrastructure Capacity Building	2006	<ul style="list-style-type: none"> <li>• Part of a comprehensive, possibly multi-donor program on infrastructure institutional reform and organization development.</li> </ul>
WSS/SAS Organization Development	2006	<ul style="list-style-type: none"> <li>• Supporting the graduation of WSS/SAS from a Government department to a WatSan public corporation.</li> <li>• Strengthening day-to-day operations of WSS/SAS.</li> </ul>
Second Infrastructure Capacity Building	2007	<ul style="list-style-type: none"> <li>• Part of a comprehensive, possibly multi-donor program on infrastructure institutional reform and organization development.</li> </ul>
Preparation of Second Road Sector Improvement Project	2008	<ul style="list-style-type: none"> <li>• Review and update the Government’s 5 Year Road Sector Investment Program and 10 Year Indicative Program.</li> <li>• Help the Government prepare a second road sector investment project.</li> </ul>
Third Infrastructure Capacity Building	2008	<ul style="list-style-type: none"> <li>• Part of a comprehensive, possibly multi-donor program on infrastructure institutional reform and organization development.</li> </ul>

### C. Ongoing Stand-Alone Technical Assistance

34. The following TAs not specifically related to ADB's infrastructure focus have been recently approved.

TA Name	Years of Implementation	TA Scope
Second Capacity Building to Strengthen Public Sector Management and Governance Skills	2005-2007	<ul style="list-style-type: none"><li>• Further course and materials development, training of trainers, and training of district and suco-level officials.</li><li>• Strengthen DNAT and INAP.</li></ul>
Strengthening Financial Management Capacity	2005-2006	<ul style="list-style-type: none"><li>• Strengthen the financial management capabilities of the Ministry of Planning and Finance and the finance units line Ministries.</li></ul>
Strengthening Microfinance Operations	2005-2006	<ul style="list-style-type: none"><li>• Improve the operations of IMFTL.</li><li>• Support the privatization (wholly or partially) of IMFTL.</li><li>• IMFTL corporate planning.</li></ul>

### D. Assisting the Consolidation Support Program

35. ADB will help the Government prepare the Infrastructure component of the Consolidation Support Program (CSP).

## VI. LESSONS LEARNED

36. This section introduces lessons learned and recommendations from ADB's programming and project experiences in Timor-Leste since 2000.

### A. Water Supply and Sanitation Rehabilitation Projects I & II

37. Experiences in Timor-Leste question the efficacy of community-managed piped water supply systems without supportive Government involvement.

38. Community-based service provision in rural areas, including water supply is by now standard development practice. Community-based approaches can improve sustainability and equity; but the flipside is that relying on communities merely excuses government from doing its job.

39. In Timor-Leste, the ADB rated its two TFET-funded WatSan Rehabilitation projects “Partly Successful”.<sup>4</sup> The Audit found that benefits are “less likely” to be sustainable.

40. The Audit team’s social development expert questioned the efficacy of a wholly community-based approach for Timor-Leste that includes no State-supported incentives and sanctions. She asserts that the community management model is based on flawed assumptions about the nature of communities. Global experience shows that there is no such thing as a wider “community” with a shared interest, desire or ability to manage even simple gravity-fed water supply systems for the benefit of all, no matter how much mobilization and training is provided.

41. This is so in Timor-Leste where social relations are household and kin-based rather than community.

42. Villagers revealed to the Audit team that they were not unaware, but unwilling to act collectively. Staff from another project said that the problem of fair distribution of water has proved intractable.

43. Unsupported by the State, water-user committees (WUCs) cannot institute the incentives and sanctions necessary for effective collective management of the public good.

44. Inappropriate technology compounds the problem. Projects sometimes attempt to provide unrealistically high water service levels. For instance, subsistence farmers occupying marginal ridge-top lands far above water sources—living in villages that are barely monetarized—struggle to manage and pay for the operation and repair of extensive piped water supply systems, especially if pumping is required.

45. Recommendation: Governments should not abrogate responsibility for providing rural water supply services. Piped water supply systems need an established and qualified institution, empowered by the State to manage, to do repairs and maintenance, collect user fees, and impose regulations on use and sanctions on abuse. State involvement and empowerment should reinforce community-based arrangements.

46. Recommendation: Technology should not drive project design. By choice of location, some villagers simply cannot expect to have 30 liters per person per day piped clean water; and no donor or government is morally obliged to provide it. Technology should only be sufficient to achieve agreed minimum benefits, such as time savings and health status, that can be sustained for that group of beneficiaries.

**B. First Emergency Infrastructure Rehabilitation Project, Project Completion Report (Draft)**

47. Rural power supply experiences in Timor-Leste mirror those for rural water supply and show that community managed power supplies require ongoing Government administrative, technical and financial support.

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<sup>4</sup> ADB, *Water Supply and Sanitation Rehabilitation I and II Projects (Grants 8185 and 9189-TIM) Project Performance Audit Report*, Manila, 2004.

48. Only about four out of a total 35 recently installed sub-district rural power stations are producing power on a regular daily basis. The package diesel generator sets were installed under the ADB-administered first Emergency Infrastructure Rehabilitation Project (IERP I) and programs supported by the Government of Japan and Government of Portugal.

49. Most plants are not operating because villages lack funds to buy diesel fuel. Community management is not collecting and managing sufficient funds to fuel, operate and maintain the generator sets.

50. Additionally, village operators and managers are not competent to troubleshoot technical problems. Even minor faults cause lengthy outages. There is little technical, administrative and financial support from Government after installation.

51. Under consensus arrangements adopted in 2001, a Village Management Committee (VMC) was to be set up in each village to operate the power station, collect fees from users, and organize fuel purchases. VMCs were to be formed from the traditional village leadership structures. But few VMCs were established.

52. There is a significant correlation between well functioning power stations and the existence of VMCs<sup>5</sup>.

53. A follow-up ADB study recommended that a highly mobile “Rural Power Management Group (RPMG)” should be formed to liaise between the sub-district VMCs and EDTL. It would: (i) assist in the formation of appropriately constituted VMCs where required; (ii) supervise and audit village technical performance and financial management functions and thus help to restore the credibility of VMCs; (iii) provide for a continuous flow of information about sub-district power operations between the sub-districts and the national authority so that timely responses to changing conditions can be organized; (iv) troubleshoot technical problems and arrange for necessary maintenance; (v) organize purchase and delivery of high-quality fuel and authentic spare parts for routine maintenance with village funds; (vi) arrange for village operators to be paid; and (vii) provide technical and management training to VMCs. The RPMG has not yet been formed.

54. Sub-district operators require early funding from Government sources, but progressively reducing subsidies and increasing self-funding.

55. The impact of elected Suco administrations on the management of village-level public goods is unknown but may be significant.

56. Recommendation: Governments should not abrogate responsibility for providing rural power supplies. A time-bound plan, endorsed and funded by the Government, is necessary to (i) mobilize a centrally funded RPMG as quickly as possible; (ii) pay and

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<sup>5</sup> Certain common elements were found among the few successful sub-district power stations: (i) evident credibility of the VMC founded on the traditional village leadership structure; (ii) relatively secure fuel supply arrangements to the sub-district (usually arranged and delivered by EDTL); (iii) EDTL’s support in technical troubleshooting; (iv) community support for the fee level per household and transparency of collection arrangements; and (v) use of paid village operators.

train operators in each sub-district power system; and (iii) appropriate budgetary support for the recovery program. All the analysis necessary for the Government to decide and to act has been done. The recovery program is included in the Government's March 2005 Consolidated Support Program (CSP); the program can be included in the Annual Action Plan of the MTCPW with the necessary budgetary allocation.

57. Recommendation: The Government's recovery program for rural power supplies should exploit synergy opportunities with other services, for instance rural water supplies.

### **C. Microfinance Development Project**

58. Experiences with the Microfinance Development Project provide clear lessons for operating a microfinance bank and for government and donor policy.

59. For a successful microfinance bank, sound corporate governance is imperative. Donors and government should not interfere with day-to-day operations. The Board of Directors, such as IMFTL's, which demonstrates commitment to the objectives of the institution, has balanced social and business background, and demonstrates openness to learning. Strong first- and second-line management is vital.

60. Management must direct work towards common corporate objectives, and instill discipline among staff. IMFTL's vision and mission are not well communicated to, or known among, staff.

61. Demand-driven products and correct pricing is vital to growth and profitability. The majority of IMFTL's products serve the target market segment of poor clients, the majority of which feel services are useful and facilitate their businesses. However, a critical mass of products, particularly the Microfinance Group Loan, are often not responsive to the needs of clients and there are indications that pricing is inappropriate.

62. Delinquency management must be rigorous and strictly enforced by staff.

63. A sound Management Information System (MIS), such as that of IMFTL, assures timely and good quality monthly reporting, and enables early troubleshooting and management action.

64. Government and donor policy should reflect that capital is not a constraint to developing microfinance in Timor Leste (there is a proven high ability and willingness to save among the poor), but rather the capacity of MFIs to intermediate capital efficiently by lending to profitable businesses and collecting loan repayments.

65. Policy should also recognize that the private sector is the only efficient provider of microfinance services. Government's role, together with donors, is to encourage private sector involvement in microfinance by ensuring that (i) regulation is carefully designed to avoid constraining the private sector, but to encourage a diversity of institutions to offer a variety of service to the poor, (ii) there is macroeconomic stability, (iii) there is adequate supervision of deposit-taking MFIs, and (iv) microfinance operates on commercial terms.

66. In conclusion, strong corporate governance and management, with a clear private sector perspective, is vital for operational growth and sustainability. Products should be tailored to client needs for portfolio and asset growth, and prices adjusted to ensure competitiveness and profitability. Delinquency management must be rigorous. IMFTL's mission must be ingrained throughout the institution.

67. Recommendation: Sustained management support should be provided to IMFTL to ensure continued (i) capacity building of first- and second-line management as well as the Board of Directors, and (ii) institutional development for operational growth and sustainability.

#### **D. Emergency Infrastructure Rehabilitation Project – Phase 2**

68. The experience of EIPR 2 highlights the critical importance of a good PMU. Even with a single-sector project, design and implementation arrangements are complicated. Twelve outputs are to be delivered. Project performance all hangs on the performance of the PMU. It took almost 18 months after EIRP 2 became effective for a competent CTA to be engaged and for implementation to really start.

69. Notwithstanding good progress since September 2004, limited counterpart capacity still impedes implementation. MTCPW is short of technical personnel and will struggle to provide qualified personnel to work with the Consultant for the on-the-job-training (OJT) during construction.

70. The project will establish two regional testing laboratories, at the Baucau and Maliana regional offices of MTCPW. These will be operated by the Supervision Consultant during the project and later turned-over to each MTCPW regional office. MTCPW will have to provide qualified Material Engineer and Laboratory Technicians in order for the laboratories to operate after the project.

71. Recommendation: To overcome shortages of technical staff in MTCPW, the PMU should select and employ junior engineers and technicians from the private sector to work as counterpart staff to the Consultant during the project, focusing on OJT for road construction, including modern techniques.



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