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ADB	Asian Development Bank
ARP II	Second Agricultural Rehabilitation Project
AusAID	Australian Agency for International Development
BPA	Banking and Payments Authority
CFET	Consolidated Funds for East Timor
CU	credit union
CUF	Credit Union Federation
EDTL	Electricidade de Timor-Leste
EIRP	Emergency Infrastructure Rehabilitation Project
EIRP-1	Emergency Infrastructure Rehabilitation Project, Phase 1
EIRP-2	Emergency Infrastructure Rehabilitation Project, Phase 2
ETPA	East Timor Public Administration
FAO	Food and Agriculture Organization
IMTL	Instituição de Microfinanças de Timor-Leste
MTCPW	Ministry of Transport, Communications and Public Works
NGO	nongovernment organization
PMU	Project Management Unit
SEP	Small Enterprises Project
TA	technical assistance
TFET	Trust Fund for East Timor
UN	United Nations
UNDP	United Nations Development Programme
UNTAET	United Nations Transitional Authority in East Timor
WS&S	water supply and sanitation
WSS	Water and Sanitation Services
WSSRP	Water Supply and Sanitation Rehabilitation Project
WUG	water users group

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

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Executive Summary

Introduction

This Progress Report updates the Trust Fund for East Timor (TFET) activities of the Asian Development Bank (ADB) in Timor-Leste. Since 2000, ADB has focused on rehabilitation of infrastructure with efforts directed at the urgent needs of the roads, ports, and water and rural power supply sectors. In all activities, ADB prioritized local capacity building that was severely affected following the aftermath of the 1999 referendum.

As of 1 December 2003, most of the ADB-managed projects are at an advanced stage of implementation, and all, except one project (Emergency Infrastructure Rehabilitation Project, Phase 2 [EIRP-2]) have been substantially completed. ADB will ensure that projects are fully completed and sustained, and long-term operation and maintenance will be undertaken by the respective ministries and beneficiaries.

Supported Interventions

TFET funds have supported six projects managed by ADB in Timor-Leste with grants totaling \$52.8 million. As of 1 December 2003, three projects, Emergency Infrastructure Rehabilitation Project, Phase 1 (EIRP-1), Water Supply and Sanitation Rehabilitation Project (WSSRP-1), and Hera Port Fisheries Facilities Rehabilitation Project have been completed, and two projects (WSSRP-2 and Microfinance Development Project) are at an advanced stage of implementation. The EIRP-2 is at an early stage of implementation and is expected to be completed in 2004. Cumulative disbursements have reached 83% of the total value of the grants.

Grant Amount		Disbursed		Available for Commitment	
\$52.8 m	100.0%	\$43.6 m	83%	\$9.2 m	17%

- **Emergency Infrastructure Rehabilitation Project, Phase 1 (EIRP-1)** – for \$29.8 million to provide access to humanitarian relief and facilitate peace and security by (i) repairing main roads to facilitate transport of aid and security cargo; (ii) inducing revival of economic activity; (iii) reducing port congestion to enable effective logistic services for humanitarian and economic goods; (iv) contributing to power supply restoration; and (v) employing local labor and skills to initiate income generation. The Project is now fully completed.

- **Emergency Infrastructure Rehabilitation Project, Phase 2 (EIRP-2)** – for \$9 million to support long-term road sector development by strengthening the local contracting industry, undertaking preventive civil works and periodic maintenance by instituting operation and maintenance (O&M) systems, and providing capacity building for sector management. Project implementation started January 2003, with completion scheduled in mid-2004.
- **Water Supply and Sanitation Rehabilitation Project 1** – for \$4.5 million to provide the people of Timor-Leste with adequate, affordable, and sustainable water supply and sanitation (WS&S) services using appropriate technology and management systems. Work was successfully completed in June 2001; the Project was closed in December 2001.
- **Water Supply and Sanitation Rehabilitation Project 2** – for \$4.5 million to ensure the communities of Timor-Leste have access to clean WS&S services as these are considered essential for public health, protection of the environment, and for promotion of economic growth based on appropriate technology and management systems. The Project is now substantially completed.
- **Hera Port Fisheries Facilities Rehabilitation Project** – for \$1 million to contribute to sustained food security for the people of Timor-Leste. A parallel goal is to achieve responsible fisheries management by promoting offshore pelagic fisheries to ease inshore fishing pressure. This has been achieved by rehabilitating the necessary harbor infrastructure facilities at Hera port for larger offshore fishing vessels. The Project has been completed in June 2003.
- **Microfinance Development Project** – for \$4 million to reduce rural poverty by developing a sustainable rural microfinance system to respond to the needs of the rural poor, particularly women. Performance of rural lending operations has been highly satisfactory. Three Instituição de Microfinanças de Timor-Leste (IMTL) branch offices are operating. For credit union (CU) development there is a need to strengthen appropriate policy and regulatory framework, and capacity building. The Project is expected to be completed in mid-2004.

Development Impacts

TFET grants have provided the initial impact needs of the country and the project impacts have extended and deepened beyond the humanitarian needs. Evaluation of the completed and ongoing projects indicates the substantial impacts in terms of building local capacity, stakeholder ownership, and multiple synergistic benefits to the communities in Timor-Leste. Road rehabilitation under the EIRP-1 provided access to places that would otherwise be isolated. The EIRP-2 will help maintain access and

improve transportation through reduced road closures and lower costs of maintenance and vehicle operation. Rural electricity in various districts benefits many and there have been for more social benefits from increased availability and duration of power supply.

Up to 250,000 people in rural areas and 15,000–20,000 in Dili benefited from the TFET-funded water supply projects by improving access to safe water supply, thus freeing women and children from many hours spent collecting water. Beneficiaries include about 31,500 in the Oecussi enclave and 1,750 on Atauro Island.

Promotion of offshore fisheries at Hera port has increased fish supply and brought down prices, which is leading to improving nutrition and health. It has also eased pressure on inshore fishery resources. Easy access to microfinance especially by women is enabling the formerly resource-poor population to start their own small businesses. Market vendor loans are evenly split between men and women but microfinance group loans have a strong gender bias, with some 90% of loans to women.

Employment generation is a pressing need. Road maintenance by community groups and national contractors created employment throughout the country, especially in rural areas, estimated at over 300,000 persondays. Water supply projects are estimated to have created up to 90,000 persondays of work. Increased fisheries production will directly employ fishers and indirectly create jobs in marketing, processing, distribution, and supporting services. Microfinance loans are supporting employment on farms, in households, and small trading businesses. TFET-funded projects also addressed institutional and capacity development.

Government capacity and ownership were developed through each of the TFET projects.

- Road projects helped strengthen staff in maintenance, road asset management system, and contract bidding and selection process;
- water supply capacity building activities helped increasing numbers of WS&S staff with management, technical, and planning skills;
- the microfinance project developed the policy and regulatory framework and internal systems and procedures for the IMTL and strengthened local staff capacity in managing IMTL; and
- overall, the Government's project implementation capability and capacity have improved substantially through TFET projects.

Local contractors have improved their capability to manage and implement civil contract works. International contractors employed have also trained Timor-Leste nationals in project civil works, increasing the pool of local technical expertise.

Local NGOs were engaged in water supply projects, developing their capacity to implement participatory community development, including mobilization of beneficiary groups, training, and physical implementation.

Local community groups have helped in implementing as well as benefited from TFET projects:

- in roads, local communities were provided employment in road maintenance activities;

- in water supply, water users groups helped communities become more self-reliant in addressing their water needs and in sustaining their projects; and
- in microfinance, beneficiary groups underwent a socialization process to inculcate in them sound principles of credit and their responsibilities as borrowers of small credits. IMTL is also providing opportunities for safekeeping of cash in the rural areas.

Continuing Needs

TFET-funded projects have made a great contribution to restore basic essential infrastructure and services in Timor-Leste. However, much remains to be done to continue the rehabilitation development of the country. In sectors addressed by ADB-managed projects, specific needs have been identified.

Power

- Further support is needed to establish efficient management systems and sector planning capacity, and appropriate policy and regulatory framework.
- Capacity development for management and operation of district and subdistrict systems is needed. Local power management capabilities may also require further support for institutional and capacity development for sustainable operation and maintenance of rural power stations.
- Identification of alternative renewable energy is crucial.

Water Supply

- Establishment of water resources databases is crucial. Further assistance will create capacity for data management and reestablish databases and improve analyses.
- With TFET project support, WSS has created a core of experienced staff; to meet the National Development Plan aspirations for better health, environmental protection, and quality of life, more staff will be required to extend geographical scope and new skills for such tasks as billing of user charges and improved financial management.
- Priority reticulation mains and water treatment plants need to be upgraded.
- Appropriate water supply policy and legal frameworks including water tariff should be promulgated.

Roads

- There is a continuing need for road upgrading and O&M to provide access to remote areas throughout the year.

Fisheries

- Support is needed to develop the legal framework and regulations for sustainable natural resource management.
- Further assistance to carefully monitor catches may be needed to manage the utilization of fishery resources.

Microfinance

- The regulatory and legal framework, especially for credit union operations, needs to be further refined.
- Nationwide expansion of microfinance will necessitate further donor assistance.
- Micro and small enterprise development is important for further microfinance development.
- IMTL (microfinance bank) need to be divested to ensure long-term sustainability.

Sector Investment Programs

On request by the Government, ADB provided support in the preparation of sector investment programs (SIPs) in the infrastructure sector, which included Water Supply & Sanitation, Power, Transport, and Communications. The preparation of SIPs is intended to facilitate collaboration and coordination with the donor community in funding and implementing priority programs over the medium term.

ADB Technical Assistance

In parallel with the implementation of TFET-funded projects, ADB has approved a total of 20 TAs for \$8.6 million, of which 13 are substantially completed and 7 are ongoing.

ADB TAs have supported implementation of TFET-funded projects either as project preparation or addressing specific capacity building and institutional issues. Related work has included development of regulatory and legislative framework, analysis of policy issues, and sector-specific capacity development. Wider support has also been provided to sectors not addressed by TFET, such as posts and telecommunications, Timor Sea Office, and for general capacity and local institutional development requirements.