



Abbreviations

ADB	Asian Development Bank
BPA	Banking and Payments Authority
CFET	Consolidated Funds for East Timor
CTA	chief technical adviser
CU	credit union
CUF	Credit Union Federation
EIRC	Emergency Infrastructure Rehabilitation contract
EIRP	Emergency Infrastructure Rehabilitation Project
EIRP2	Emergency Infrastructure Rehabilitation Project, Phase 2
FAO	Food and Agriculture Organization
GTZ	Gesellschaft fur Technische Zusammenarbeit
IMTL	Instituicao de Microfinancas de Timor-Leste (Microfinance Institution of Timor-Leste)
LV	low voltage
MFIET	Microfinance Institution of East Timor
MTCPW	Ministry of Transport, Communications and Public Works
MV	medium voltage
NDP	National Development Plan
NGO	nongovernment organization
O&M	operation and maintenance
PCC	project coordination committee
PMU	project management unit
RMRC	road maintenance rehabilitation contract
TA	technical assistance
TFET	Trust Fund for East Timor
UN	United Nations
UNTAET	United Nations Transitional Authority in East Timor
WS&S	water supply and sanitation
WSS	Water and Sanitation Service
WSSRP	Water Supply and Sanitation Rehabilitation Project

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 initial efforts directed at the urgent needs of the roads, ports, and water and power supply sectors. In all activities, ADB focused on local capacity building that was severely affected following the aftermath of the 1999 referendum.

In 2003, the ADB-managed projects continued to improve its operations and most of the projects are now at an advanced stage of implementation, and are expected to be completed by end-2003. ADB will intensify its efforts to ensure that all projects are fully implemented, and project ownership is established for sustainability and long-term operation and maintenance.

Supported Interventions

TFET funds have supported six projects managed by ADB in Timor-Leste with grants totaling \$52.8 million. As of 31 May 2003, two projects (Emergency Infrastructure Rehabilitation Project (EIRP-1), and Water Supply and Sanitation Rehabilitation Project (WSSRP-1) have been completed, and three projects are at an advanced stage of implementation. The EIRP-2 is in its early stages of implementation. The cumulative disbursements have reached 77% of the total value of the grants.

Grant Amount		Contracts Awarded		Disbursed		Available for Commitment	
\$52.8 m	100.0%	\$42.9 m	81.3%	\$40.5 m	76.8%	\$9.9 m	18.7%

- **Emergency Infrastructure Rehabilitation Project (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. Most works are complete, and remaining power supply restoration activities will be completed by end-June 2003.
- **Emergency Infrastructure Rehabilitation Project 2 (EIRP-2)** – for \$9 million to support long-term road sector development by strengthening the local contracting industry, undertake preventive civil works and periodic maintenance instituting operational and maintenance systems, and providing capacity building for sector management. The project is in implementation from January 2003, with completion scheduled at the end of December 2003.
- **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 grant 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. Implementation is ongoing with physical completion expected by 3rd quarter of 2003.
- **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 will be achieved by rehabilitating the necessary harbor infrastructure facilities at Hera port for larger offshore fishing vessels. Construction is ongoing and physical completion is expected to be completed by June 2003.
- **Microfinance Development Project** – for \$4 million to reduce rural poverty by developing a sustainable rural microfinance system responsive to the needs of the rural poor, particularly women. Performance of rural lending operations has been progressing well. Three microfinance branch offices are operating. For credit union (CU) development there is a need to work directly with CUs, and also to strengthen appropriate policy and regulatory framework, and capacity building. Physical completion is expected by December 2003.

Development Impacts

Social dimensions of project impacts extend and deepen the initial humanitarian benefits. 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 some districts benefits many and there are potentials for more social benefits from increased availability and duration of supply.

Up to 240,000 people in rural areas and 15,000 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 31,500 in the Oecussi enclave and 1,750 on Atauro Island.

Promotion of offshore fisheries at Hera port is expected to increase fish supply and bring down prices, which will lead to improved nutrition and health. It will also ease 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 will support employment on farms, in households, and small trading businesses. TFET-funded projects also addressed institutional and capacity development.

Government capacity and ownership were developed under each project:

- road projects created core staff experienced in maintenance, and reestablished engineering depots, road asset management system, and a system of contractor classification for quick, effective contracting;
- water supply capacity building activities and implementation experience equipped 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 microfinance institutions; and
- overall, the Government's project implementation capability and capacity have improved through TFET projects.

Local contractors have upgraded their capability to tender for project works, and have increased their ability to bid, win, and implement contracts. International and local contractors employed and trained Timor-Leste nationals, increasing the pool of local technical expertise.

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

Community groups have acted as implementers as well as beneficiaries of TFET projects:

- in roads, communities provided maintenance in a cost-effective manner for work that could not be undertaken otherwise;
- in water supply, water users groups helped communities become more self-reliant in addressing shared needs and in implementing agreed solutions; and
- in microfinance, beneficiary groups underwent a socialization process to inculcate in them sound principles of credit and their responsibilities as borrowers. The Microfinance institution also provided opportunities for safe-keeping of cash.

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

- Assistance is needed to establish efficient management systems and sector planning capacity.
- Capacity development for management and operation of district and subdistrict systems is needed and a review of local power management capabilities may also require further technical assistance support for institutional and capacity development.
- Identification of alternative renewable energy is crucial.
- Review of technical requirements of nine district power stations (Aileu, Baucau, Los Palos, Maliana, Oecussi, Same, Suai, Viqueque, and Kovalima) and associated distribution system is needed. These districts are not covered under the current projects, and have acute power supply distributions.

Water Supply

- Water resources databases are timely. Technical assistance may create capacity for data management and reestablish databases and improve analyses.
- With TFET project support, WSS has created a core of experienced staff, but the National Development Plan aspirations for better health and environmental protection, and quality of life require more staff to extend geographical scope and new skills for such tasks as billing of user charges and improved financial management.

Roads

- There is a continuing need for road repair, labor, and operation and maintenance.

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 as a tool to implement the precautionary approach to fisheries utilization.

Microfinance

- The regulatory and legal framework, especially for credit union operations, needs to be finalized and practical operations reviewed to assess performance and the need for refinement of regulations and laws.
- Nationwide expansion of microfinance will necessitate further external assistance.
- Micro and small enterprise development is important for local level business development, and microfinance programs will help in the credit needs to accelerate enterprise development in the rural areas. Micro and small enterprise development will need external assistance.

ADB Technical Assistance

In parallel with the implementation of TFET-funded projects, ADB has approved a total of 20 TAs for \$8.7 million, of which 13 are substantially completed and 7 are ongoing.

Many of the 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.