

ASIAN DEVELOPMENT BANK

TAR: ETM 34400

**TECHNICAL ASSISTANCE
(Financed from the Japan Special Fund)**

TO

EAST TIMOR

FOR

**ECONOMIC POLICIES AND STRATEGIES FOR
DEVELOPMENT PLANNING**

December 2001

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
JICA	–	Japan International Cooperation Agency
MTDSP	–	medium-term development strategy and plan
SSTA	–	small-scale technical assistance
TA	–	technical assistance
UNDP	–	United Nations Development Programme
UNTAET	–	United Nations Transitional Administration in East Timor
WB	–	World Bank

NOTE

In this report, "\$" refers to US dollars

I. INTRODUCTION

1. The Asian Development Bank (ADB), World Bank, United Nations Development Programme (UNDP), and bilateral funding agencies including the Australian Agency for International Development (AusAID) and Japan International Cooperation Agency (JICA) are working together to assist East Timor to rebuild its economy. ADB has provided two small-scale technical assistance (TA) grants¹ and one TA grant² for capacity building in economic development policy. The work accomplished has resulted in a major publication³ and a comprehensive report⁴ covering poverty assessment, strategy formulation, institution building, and recommendations. A key recommendation emerging from these studies is to help East Timor prepare a medium-term development strategy and strengthen local skills and knowledge with the formulating and implementing economic policies and strategies. This TA is a response to these needs.

2. The TA Fact-Finding Mission was fielded in July 2001 to design the TA. The Mission reached an understanding with the Ministry of Economy and Development and United Nations Transitional Administration in East Timor (UNTAET) on the rationale, objectives, scope, cost estimates, and implementation arrangements of the TA.⁵

II. BACKGROUND AND RATIONALE

3. An important event for the TA was the Economic Policy Forum held in Dili from 26 to 28 March 2001. The East Timorese leadership was closely involved in the forum, which marked progress in the emergence of an East Timorese-owned socioeconomic development policy and strategy aimed at equitable, high quality, sustainable economic growth for the country. Discussion at the forum focused on a range of development challenges, policy options, and strategic trade-offs now facing East Timor. This included monetary and exchange rate policy, fiscal policy, maximization of the benefit from aid, management of a natural resource boom, trade policy and the commercial environment, agriculture and rural development, international relations, financial development, infrastructure, social policies, political structures, and land ownership.

4. The policies and strategies adopted by an independent East Timor assume critical importance given the task of rebuilding the economy from a virtual total collapse in 1999, combined with the need to address existing economic inequalities. The TA for strategy formulation was designed as a process-oriented educational intervention aimed at capacity building in areas the East Timorese identified as being of priority. ADB, UNDP, World Bank, and the East Timor Planning Agency under UNTAET cooperated to produce a poverty assessment with the two aims of (i) collecting information on socioeconomic conditions to develop a poverty reduction strategy, and (ii) building capacity of the planning agency for analysis and participatory poverty assessment. A key purpose has been to assist the East Timorese in their efforts to identify, assess, and choose economic policy and strategy options that are appropriate to their circumstances.

¹ TA 3425-ETM: *Poverty Assessment and Statistics in East Timor, Phase I*, for \$52,900, approved on 8 April 2000; TA 3592-ETM: *Economic Policy Forum*, for \$150,000, approved on 18 December 2000.

² TA 3512-ETM: *Strategies for Economic and Social Development*, for \$650,000, approved on 4 October 2000.

³ H. Hill and J. M. Saldanha. August 2001. *East Timor: Development Challenges for the World's Newest Nation*. Singapore: Institute of Southeast Asian Studies.

⁴ TA 3512-ETM: *Formulating Strategies for Economic and Social Development*, Final Report, September 2001.

⁵ The TA first appeared in *ADB Business Opportunities* (internet edition) on 10 July 2001.

5. The forum and poverty assessment are a critical first step in the process of institutional strengthening through which the East Timorese community will evolve development strategies in an inclusive manner. A major constraint is the weak human resource base in Government agencies. A major challenge will therefore be to translate East Timor's general development strategies into concrete and realistic action programs and to establish monitoring systems and evaluate progress in achieving economic policy objectives, so that development strategies can be modified as appropriate.

6. Institutional and budgetary constraints may slow strategy implementation. Therefore, processes and mechanisms must be put in place to enable East Timor to make appropriate policy choices within the existing constraints. Thus, a coherent, realistic, and implementable medium-term development strategy and plan (MTDSP), is needed. It must be developed in an inclusive manner and through strengthened economic policies and strategies, including institutional strengthening initiatives that are appropriate to East Timor's circumstances.

III. THE TECHNICAL ASSISTANCE

A. Objectives

7. The purpose of the TA is to assist the public servants and decision makers in the traditional and commercial sectors to provide strategic vision and direction for equitable and sustainable economic development. The TA has three specific objectives: (i) formulating a national development strategy and plan, (ii) developing skills to enhance the capabilities of the East Timorese leadership, and (iii) setting up systems and procedures to monitor and evaluate the achievement of strategic economic objectives and action programs.

B. Scope

8. The TA has four components.

9. Component A aims at enhancing economic decision-making capabilities and strengthening applied public policy analysis. Component A has three subcomponents:

- (i) development of strategic, managerial, and technical competencies for senior East Timorese civil servants;
- (ii) enhancement of economic and financial capabilities through the development of specific applied skills in economics and finance-related disciplines for senior East Timorese managers in the public, private, and nonprofit sectors; and
- (iii) strengthening of public policy analysis and dissemination to improve public awareness of and participation in public policy formulation, implementation, and assessment.

Component B encompasses the development, testing, and refinement of a national accounting system based on International Monetary Fund practices, and utilization of national accounting data for policy analysis and application. Component C includes the development of a computer-based system for tracking foreign assistance. Component D comprises preparing a realistic and implementable MTDSP, including medium-term sectoral strategies and a short-term prioritized and coordinated program of concrete development interventions.

10. While components A, B, and C will essentially deal with the implementation of economic development strategies, Component D will focus on the preparation of a country-owned MTDSP. The preparation will entail a dynamic and ongoing process. The TA will provide a critical input to the MTDSP. The TA framework is given in Appendix 1. Examples of shorter term economic strategy programs and interventions that could be started in 2002/2003 include, for Component A.1, a mix of traditional economic strategy programs (e.g., vehicle and land registration to enhance revenue collection, and preventive basic health care systems to reduce public and private health costs), and nontraditional approaches. The latter could include the development of joint ventures with international private sector enterprises, and the adoption of new paradigms for addressing economic issues and reduce poverty. Component A.2 could include the formulation and pilot implementation of sector-specific investments and service delivery programs for different industries and pilot implementation of the proposed phased strategy for dealing with land and property rights. Component A.3 could include preparing and disseminating policy briefs.

11. The process for developing economic strategy and programs will encompass macro and micro level activities. At the macro level, the TA team will need to work closely with key central agencies to prioritize macroeconomic strategies, supported by appropriate administrative systems. The implementation of those systems will be pursued through an executive skills development program. At the micro level, the TA team will work on implementing development programs and providing feedback to the macro level TA team. An integrated and process-oriented planning approach will be used to develop the skills of senior East Timorese from the government and private sector, and give them control over the setting of priorities and build commitment to the final economic strategies chosen. The implementation of short-term economic strategies under components A, B, and C will have close linkages with the MTDSP under component D.

C. Cost Estimates and Financing Plan

12. The TA is estimated to cost \$950,000 equivalent. The entire cost of the TA will be financed by ADB on a grant basis from the Japan Special Fund, funded by the Government of Japan. Major expenditure items are international consultants, international travel, and training and seminars. Detailed cost estimates are presented in Appendix 2.

D. Implementation Arrangements

13. The TA will require a total of 25 person-months of international consultant services to be provided by 7 individual consultants with expertise in macroeconomics, national accounting, trade and monetary policy, public finance and administration, land and property economics, institutional development, and economic development planning. All consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB, including the engagement of East Timorese, in accordance with Board Document R246-99. The outline terms of reference for consultants are in Appendix 3.

14. The Executing Agency will be the Ministry of Economy and Development. The Commission on Planning and the funding community will be closely involved in implementing the TA through a steering committee with representatives from East Timor central agencies and local representatives from ADB, UNDP, World Bank, and bilateral agencies. The steering committee, chaired by a senior East Timorese official, will have monthly meetings, and will be responsible for coordinating external assistance programs in capacity building and economic strategy formulation. AusAID has been requested by UNTAET to provide technical training to

East Timorese junior staff in daily management of the different public sector departments. The executive development program under the TA, covering the fields of economic policy and strategy implementation, will complement the AusAID initiative. The UNDP human development report for East Timor, which is to be prepared concurrently with TA implementation, will be an input in the MTDSP. The World Bank will provide staff to work with the ADB team under the TA. The preparation of the MTDSP will be the result of a collaborative effort involving the external funding community and East Timor senior leadership. It is expected that 15 one-day workshops will be held, in addition to training provided outside the formal workshop meetings.

15. The TA will be implemented over 15 months, from January 2002 to March 2003. The TA will be implemented in three distinct phases, each five months in duration.

16. During phase 1, the development strategy steering committee will be set up and selected members of the TA team of consultants will work with the East Timorese on a detailed design of skills development activities and economic strategy and plan formulation. The executive skills development program will commence in phase 1 and will continue through phases 2 and 3. The framework for the MTDSP will be prepared during phase 2. The activities under phase 3 will consolidate the findings and output produced with a feedback loop into the process of preparing the final MTDSP. The ultimate output will be a realistic, implementable, and country-owned MTDSP based on extensive consultation and pilot-testing of strategy implementation under the previous phases. The consultants will submit an inception report to the steering committee and ADB at the end of the first field mission to East Timor. At the end of phases 1 and 2, a detailed progress report will be submitted. A final report on the implementation of components A-C will be submitted at the end of phase 3. A draft MTDSP will be submitted by the economic development planner at the end of phase 2. The final MTDSP document will be submitted at the end of phase 3. The final reports, incorporating feedback received at the tripartite review meetings, will be submitted 15 months after the start of the TA.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the United Nations Transitional Administration in East Timor in an amount not exceeding the equivalent of \$950,000 for the purpose of the Economic Policies and Strategies for Development Planning, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goals To provide strategic vision and direction for the development of East Timor</p>	<p>Implementation of short-term and medium-term economic strategies. The foundation for action will be a sound medium-term development strategy and plan</p>	<p>Periodic review of the country's economic performance by external funding agencies</p>	<p>The Government has the commitment and institutional capabilities to implement sound economic policies and related strategies.</p>
<p>Objectives</p> <p>1. Assist the East Timorese leadership in developing skills and capacities at national level to implement their strategies for economic development and poverty reduction</p> <p>2. Development plan, program, and project formulation to implement economic development policies</p> <p>3. Monitoring and evaluation of the achievement of strategic objectives and outputs of shorter term action programs</p>	<p>Executive development program delivered</p> <p>Shorter term action programs and concrete projects identified. The basis will be a country-owned medium-term development strategy</p> <p>Cost-effective system set up to evaluate progress and achievements against initial objectives</p>	<p>Through technical assistance (TA) consultants in close collaboration with the Government, and other funding agencies, in particular, Australian Agency for International Development (AusAID)</p>	<p>Commitment by the East Timorese leadership to enhance their level of core competencies</p>
<p>Outputs Component A: build local capacity and ownership of the</p>	<p>(i) Timely delivery of executive leadership development</p>	<p>Asian Development Bank (ADB) staff reports</p>	<p>(i) Commitment and ownership demonstrated by East Timorese</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>public sector through enhancement of economic capabilities and strengthening of public policy analysis</p> <p>Component B: development of national accounting system based on International Monetary Fund (IMF) practices</p> <p>Component C: development of computer-based system for tracking foreign assistance</p> <p>Component D: preparation of medium-term development strategy and plan</p>	<p>program</p> <p>(ii) Capability of East Timorese leadership demonstrated to implement concrete proposals for action and implementation</p> <p>(iii) Benefits generated comprising both enhanced public sector performance and benefits to the population at large</p> <p>(iv) Country-owned development plan prepared</p>		<p>leadership</p> <p>(ii) Highly qualified TA personnel capable of communicating in Indonesian and Portuguese languages</p> <p>(iii) TA staff fielded on time and encountering no disruptions to work schedules</p>
<p>Activities</p> <p>(i) Training of trainers program</p> <p>(ii) Executive development program (training or seminars)</p> <p>(iii) Case studies</p> <p>(iv) Consultations on poverty reduction strategy</p> <p>(v) Reporting</p>	<p>(i) High quality development programs delivered</p> <p>(ii) Case studies implemented and their progress monitored</p> <p>(iii) Consultation resulting in national poverty reduction strategy</p>	<p>(i) East Timorese senior leaders assisted by TA staff and funding agencies</p> <p>(ii) Periodic reporting</p>	<p>(i) Commitment and ownership demonstrated by East Timorese leadership</p> <p>(ii) Highly qualified TA personnel capable of communicating in Indonesian and Portuguese languages</p> <p>(iii) TA staff fielded on time and encountering no disruptions to work schedules</p>
<p>Inputs</p> <p>(i) International consultant services to undertake specified</p>	<p>Qualified and committed TA consultants and</p>	<p>(i) Periodic reporting on progress made</p>	<p>Qualified TA personnel available and working in harmony with the East</p>

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>terms of reference</p> <p>(ii) United Nations Transitional Administration in East Timor (UNTAET)/ government counterpart services</p> <p>(iii) Local administrative support services</p> <p>(iv) Participatory consultation workshops</p>	<p>counterpart staff recruited and in place as scheduled</p>	<p>(ii) TA consultants in collaboration with counterpart staff and funding community</p>	<p>Timorese leadership</p>

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Total Cost
1. Consultants	
a. Remuneration and Per Diem—International Consultants	550,000.0
b. International and Local Travel	130,000.0
c. Reports and Communications	20,000.0
2. Workshops, Training, Seminars, and Conferences—Facilitators	110,000.0
3. Miscellaneous Administration and Support Costs	40,000.0
4. Contingencies	100,000.0
Total	950,000.0

Note: Financed by Asian Development Bank on a grant basis from the Japan Special Fund, funded by the Government of Japan.

Source: Staff estimate.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. A total of 25 person-months of international consulting services is to be provided to implement the technical assistance (TA) and produce the output as specified in the TA logical framework (Appendix 1). Seven individual consultants will be recruited and their services will need to be provided mainly in the field intermittently during the 15-month TA implementation period, following a predetermined process of capacity building. The consultants will work as a team under the overall supervision of a steering committee that will include senior representatives from the Second Transitional Government of East Timor and the external funding community. The TA team will be led by a long-term international consultant. Not all consultants will need to be in the field at the same time. However, while the consultancy services will be provided on an intermittent basis, care will be taken to have at least one consultant in the field at all times to ensure continuity in the consultation process. This will be one of the roles of the lead macroeconomist. All consultants will be recruited on the basis of their technical expertise, their practical experience in East Timor, and their proven personal ability with dedication to imparting knowledge and skills.

2. **Team Leader.** The team leader who will also be the lead macroeconomist will be needed for 8.5 person-months to supervise and coordinate the implementation of components A, B, and C of the TA and will be responsible for engaging in a consultative process with the Second Transitional Government of East Timor and relevant private sector and civil society partners on the implementation of East Timor's strategies for economic development and poverty reduction. The team leader will be responsible for the overall coordination and strategic direction of TA-related activities, translating general development strategies into specific actions, and establishing a system for monitoring and evaluating progress.

3. The team leader will provide field services throughout the implementation of the TA. The team leader must (i) have an advanced educational background in macro and development economics, and (ii) have had extensive experience with the economy of East Timor. The team leader's specific duties and responsibilities will include, but not be limited to the following:

- (i) Assist the Asian Development Bank in identifying and selecting local assistants, trainers, and facilitators.
- (ii) Coordinate and supervise the field activities of the combined team of international consultants.
- (iii) Prepare the TA inception, midterm, and final reports, with input from the local assistants and with the assistance of all international consultant team members.
- (iv) Prepare a conceptual framework for East Timor showing how implementation of the proposed development strategies will improve the standard of living of the disadvantaged groups.
- (v) Review the status of East Timor's macroeconomic data and assist in the further compilation of such data to be developed into an internationally acceptable, uniform system of national accounts, based on standard International Monetary Fund (IMF) practices.
- (vi) Supervise data collection and analysis for the productive sectors of the economy, i.e., agriculture, industry and construction, and the service sector, in particular the public health and education subsectors, and focusing on the mix of private and public sector activities, physical infrastructure, financing mechanisms, and the external sector.

- (vii) Contribute to the identification of institutional and capacity building constraints and development of strategic, core, and foundation managerial and technical competencies for senior East Timorese civil servants.
- (viii) Help develop and strengthen public policy analysis and disseminate such analysis to the public.
- (ix) Help implement a system for land and property rights adjudication.
- (x) Work in close consultation with the economic strategy planner and be guided by the recommendations of the steering committee.

4. **Macroeconomist and National Accounts Specialist.** The specialist's services will be needed for 1.5 person-months to assist the team leader. The specialist must have an advanced educational background in macro and development economics, as well as extensive experience in national economic data collection and analysis. He or she will also need to possess strong computer skills. The specific duties and responsibilities will include, but not be limited to the following:

- (i) Review the status of East Timor's macroeconomic data and assist in the further compilation of such data to be developed into an internationally acceptable, uniform system of national accounts, based on standard IMF practices.
- (ii) Develop a computer-based system for the tracking of all foreign assistance, by source, sector, and geographic location.
- (iii) Take a lead role in data collection and analysis for the productive sectors of the economy, i.e., agriculture, industry and construction, and the service (in particular the public health and education subsectors), and focusing on the mix of private and public sector activities, physical infrastructure, financing mechanisms, and the external sector.
- (iv) Identify the likely sources of economic growth, and develop macroeconomic and sectoral strategies to promote growth that enhances the standard of living of the poor.
- (v) Assist the team leader to prepare the TA inception, midterm, and final reports.

5. **Macroeconomist and Trade and Monetary Policy Specialist.** The specialist's services will be needed for 1 person-month to assist the team leader. The specialist must have an advanced educational background in macro and development economics, as well as extensive experience in trade and monetary policy formulation, implementation, and assessment. Specific duties and responsibilities will include, but not be limited to the following:

- (i) Identify major issues in trade and monetary policy formulation and implementation, and help the East Timorese leadership develop specific actions to address those problems.
- (ii) Deliver the trade and monetary skills development component of the executive development program.
- (iii) Help the team leader prepare the TA inception, midterm, and final reports.

6. **Public Finance and Public Administration Specialist.** The specialist's services will be needed for 2 person-months to assist the team leader. The specialist must have an advanced educational background in macro and development economics, as well as extensive experience in public finance and public administration policy formulation, implementation, and assessment. Specific duties and responsibilities will include, but not be limited to the following:

- (i) Identify major issues in public finance and public administration policy formulation and implementation, and help the East Timorese leadership develop specific actions to address those problems.
- (ii) Take a lead role in developing and strengthening public policy analysis and disseminating such analysis to the public.
- (iii) In coordination with the macroeconomist and trade and monetary policy specialist, provide inputs in the development of a computer-based system for tracking all foreign assistance.
- (iv) Assist the team leader to prepare the TA inception, midterm, and final reports.

7. **Land and Property Specialist.** The specialist's services will be needed for 2 person-months to assist the team leader. The specialist must have an advanced educational background in law, as well as extensive experience in land and property policy formulation, implementation, and assessment. Specific duties and responsibilities will include, but not be limited to the following:

- (i) Identify major issues in the adjudication and resolution of disputes over land and property rights, and help the East Timorese leadership develop specific actions to address those problems.
- (ii) Work in close coordination with the land and property unit to organize training workshops for the East Timorese staff.
- (iii) Help the team leader to prepare the TA inception, midterm, and final reports.

8. **Institutional Development Specialist.** The specialist's services will be needed for 2 person-months to assist the team leader. The specialist must have an advanced educational background in organizational theory and public administration, as well as extensive experience in human resource development policy formulation, implementation, and assessment. The specific duties and responsibilities will include, but not necessarily be limited to, the following:

- (i) Identify major issues in human resource development, the public and private sectors, and help the East Timorese leadership develop specific actions to address those problems.
- (ii) Identify institutional and capacity building constraints and help develop strategic, core, and foundation managerial and technical competencies for senior East Timorese civil servants.
- (iii) Guide East Timorese counterparts in the implementation of strategies for the development of generic competencies, such as training in leadership, management, communications, and project cost-benefit analysis.
- (iv) Provide inputs in the implementation of strategies for the development of specific applied skills in economics and finance-related disciplines for senior East Timorese public sector, private sector, and nonprofit sector managers.
- (v) Help the team leader prepare the TA inception, midterm, and final reports.
- (vi) Provide guidance in the establishment and administration of the program.
- (vii) Undertake overall design of the capacity development program proposed.
- (viii) Provide conceptual frameworks for the design of the program.
- (ix) Recruit international consultants who will act as cotrainers to East Timorese in the first tranche of programs.
- (x) Help recruit local East Timorese to operate as trainers.
- (xi) Undertake a train-the-trainer program for East Timorese in action-based capacity development.

- (xii) Help develop a questionnaire to determine a profile of core competencies for use in East Timor public sector agencies.
- (xiii) Help design and run briefing and project definition workshops.
- (xiv) Oversee the establishment of the training venues.
- (xv) Act as codirector during the first two capacity development programs.
- (xvi) Help evaluate program, process, administration, and outcomes and make necessary adjustments for future programs.

9. **Economic Development Strategy and Economic Planning Expert.** The expert's services will be needed for 8 person-months. The expert will be responsible for all activities related to the preparation of a medium-term development strategy and economic development plan for the country. This will include sector data collection, processing, and organizing of these data. To ensure medium-term and long-term sustainability, the plan will include a diagnostic analysis of the environment and environmental conservation measures. The plan will also include options for developing information and communications technology. The expert will work closely with the team leader to ensure that outputs and achievements under components A, B, and C are well-incorporated in the medium-term development strategy and plan (MTDSP). As the objective of institutional strengthening cannot be readily achieved within the timeframe of the TA, the MTDSP will need to incorporate a long-term institutional underpinning. The strategy planner will also work with the staff from the funding community, in particular the Australian Agency for International Development (AusAID), United Nations Development Programme (UNDP), and World Bank. Given their key role in the TA implementation, the strategy planner and team leader should attend the regular steering committee meetings.