

UPDATE No. 13

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**Trust Fund for East Timor**

TFET is managed by the World Bank and the Asian Development Bank and receives funds from Australia, Finland, Ireland, Japan, New Zealand, Norway, Portugal, the United Kingdom, the United States, the European Commission and the World Bank.

This monthly report updates the activities of the Trust Fund for East Timor (TFET), established by the World Bank's Board of Governors following the December 1999 Tokyo Donors' Meeting. The multi-donor TFET provides grants for economic reconstruction and development activities in East Timor that are prepared and supervised by the World Bank and the Asian Development Bank (ADB). The World Bank is the trustee. The ADB administers TFET projects in the sectors of roads, ports, water utilities, telecommunications, power and microfinance, with the World Bank responsible for TFET projects in the sectors of health, education, agriculture, private sector development and economic capacity building. All TFET projects are implemented by government departments.

The Trust Fund's activities are guided by the following principles:

- **East Timorese leadership and participation** – critical at all stages to ensure sustainability of reconstruction programs. TFET priorities are set by Council of Ministers and endorsed the National Council; sector plans and projects are prepared by joint teams of international and Timorese specialists.
- **Donor coordination** - vital to ensure a strategic approach and avoid duplication or gaps. The World Bank and the ADB support the Transitional Administration in developing sector-wide frameworks, to attain a maximum of added value in reconstruction and development.
- **Speed is important, so is quality** - the TFET is designed to provide flexible grant funding, both quick-disbursing aid - the first major sector project started disbursing in March 2000 - and longer-term investment programs.

**ALL FUNDS CHanneled THROUGH TFET ARE GRANTS
AND DO NOT HAVE TO BE REPAID BY THE PEOPLE OF EAST TIMOR**

1. Financial status (USD)

<i>TFET</i>	Pledges	Cash Receipts	Commitments	Disbursements
October 17	167,555,700*	112,750,000	143,700,000	61,228,826
September 11	168,940,000	108,380,000	113,300,000	58,393,831
Change	-1,384,300	4,370,000	30,400,000	2,834,995

* Difference due to exchange rates movement

TFET receipts by donor nations and allocations to each of the TFET projects are presented in Section 4. Cash receipts have risen from USD 108.38 million to USD 112.75 million reflecting a new contribution from the UK. An additional three second generation projects in Agriculture, Education and Private Sector Development were approved in September 2001. Disbursement levels for the month of September are still below than anticipated due to recovery of initial deposits for first generation projects and some lays in execution during the Government transition. It is anticipated that second generation projects will start disbursing in November 2001, with the exception of CEP II, which started disbursing in June 2001.

General issues being addressed - Effectiveness and disbursement conditions on the second generation projects include the approval of a land and resettlement framework for Project Affected Persons. This is currently being addressed with Government. Timely approval of an appropriate, simple framework will be critical for project implementation.

2. Projects update

The Dili Community Employment Generation Project, in partnership with UNDP, used labour intensive public works to generate jobs for the poor in the capital city, bridging the employment gap as private sector activities revive. The project sought to help communities organize and remove debris from Dili neighbourhoods and manage solid household waste. (USD 499,000)

The project reached completion in December 2000. The project was operational for 8 months in ten communities and has employed more than 4,500 people with around 60% of budget paid out in actual salaries. All assets have been transferred to the Dili District Administration. An evaluation mission assessed the achievement of project objectives from 1-8 March 2001, including the number of people employed, recruitment and targeting procedures, financial controls, goods/equipment procurement and environmental safeguards in waste disposal. The project implementation completion report (ICR)¹ has been finalized and is available upon request.

The Community Empowerment and Local Governance Project supports the creation of democratically elected village development councils in order to build accountable and participatory local institutions. Through the councils, local communities receive grants to rehabilitate basic infrastructure and restart economic activities. The project includes special windows for cultural heritage and vulnerable groups such as widows and orphans. (USD 21.5 million over 25 years, USD 7 million in the initial grant agreement and USD 8.5 in the second grant agreement).

[1] Community Grants and Credit – Handover issues from last year's councils to the newly elected council members have slowed progress under this component, although disbursement of the second and third tranches under the second cycle is proceeding. Supervision shows that in many postos high levels of community participation and contribution (labour and materials) have resulted in savings which allow villages to extend projects beyond what had originally been planned. Preliminary results of a survey of all sub-projects show that CEP has enabled communities to install over 150 km of pipe, build at least 54 wells, repair or build over 250 km of road and at least 37 small bridges. With regard to economic activities, over 70% of repayments are on track.

[2] Cultural Heritage and Reconciliation – Follow-up training in the area of conservation is underway. On 4, 5 and 6 October 2001, Uma Fukun Timor brought theatre to East Timor, hosting the premiere of "Hanoi-hetan", a Gasworks Theatre production featuring at The Melbourne International Festival of Arts. The opening night was televised on TVTL; all three nights, East Timorese and Australian actors performed to a full house. Uma Fukun Timor also sponsored a concert at the "Campo Democracia" bringing together six East Timorese bands on 3 October 2001. This event was visited by over 15,000 people. The small grants program for cultural activities has been socialised in all districts but Oecussi and was enthusiastically received.

[3] Radio and Television - District reporter trainees continue to send in reports for the national broadcaster. Field-based training for district reporters has recently concluded, with the exception of Los Palos which will take place shortly. One of the trainees is producing and hosting weekly agriculture programs in coordination with the Dili-based district reporters desk of the national broadcaster and the Department of Agricultural Affairs. Despite a small number of drop-outs, the program continues to move forward. The second phase of the radio and television component has now began with initial discussions on the formation of district boards. In order to ensure ownership and sustainability, after community consultations, the component will pilot four community radio stations, one in each region, as well as one in Oecussi.

➤ **Issues being addressed** – Economic activities repayment rates, whilst adequate, are below best practice for a sound microfinance institution (MFI). CEP provision for revolving credit was intended as a stop gap measure as other MFIs were established. Accelerated establishment of longer term MFIs is now urgent to ensure that CEP does not need to cover this activity in the third cycle.

¹ The purpose of an ICR is to meet requirements for accountability and transparency of project activities, reevaluate expected project benefits and sustainability and maintain a record of implementation experience so as to facilitate assessment of development impacts.

The Emergency Infrastructure Rehabilitation Project aims to implement emergency repairs to key infrastructure (roads, ports and power) within a two-year sector framework. (USD 29.8 million over 2.0 years, with USD 27.8 of this provided in the second grant agreement). The project will mobilize local and international contractors to undertake civil works as well as providing opportunities for community groups to participate in routine road maintenance activities. The project will support the reestablishment of institutional control over the road network.

No update available from the Infrastructure Project Management Unit for the month of September.

The Small Enterprises Project (SEP) aims to revive the local economy and promote job creation by restarting viable business activities in the private sector, through the provision of loans on commercial terms. SEP also includes grant components to strengthen the land and property administration system and to develop the capacity of the private sector in East Timor (USD 4.85 million for the first Grant Agreement and USD 7.5 in the second).

[1] Small loans for Private Businesses - As of end-September, 92 % of the funds available for the credit line have been disbursed, with 100 % of funds available for the credit line committed. The average loan size disbursed is of USD12,000 and loan recovery performance is 82%.

[2] Business Development Centres - The Public Works Department completed the layout of the four Business Development Centres (Baucau, Dili, Maliana, Oecussi). Preparation of detailed designs and bill of quantities is underway. ETPA Procurement has been tasked with the preparation of the bidding documents for the rehabilitation work.

[3] Private Sector Capacity Building - In order to select a firm to deliver business skills training, UNTAET/ETPA is reviewing the technical proposals submitted by two consulting firms. All districts have been contacted concerning potential candidates to be trained as master trainers.

➤ **Issues being addressed** – PMU Staffing: the PMU has been reinforced with the recruitment of a National Financial Specialist, National Business Development Specialist and National Procurement Specialist. The three East Timorese Nationals are currently receiving on the job training. However, finalisation of PMU management positions lags. The SEP mission planned for late October may have to be postponed until November due to lack of counterpart availability, which would affect disbursements.

The Health Sector Rehabilitation and Development Program supports the restoration of health services (including the rehabilitation and re-equipment of health facilities in the territory), and the development of the country's health policy and system (USD 38 million over 3 years, USD 12.7 million in first grant agreement and USD 12.5 million in the second).

Following the appointment, on 20 September, of the first Minister and Vice-Minister of Health of East Timor, Drs Rui Maria de Araujo and Joao Martins, it was decided that the PMU Director would be the Director General of the Department of Health. Handover of management of district health services to the Department of Health (DoH) is progressing. The thirteen sections of the central DoH have started preparation of the detailed work plans for the 4th quarter of 2001.

[1] Support to ongoing service delivery – On 27 September, the Minister of Health handed over letters of appreciation to the Heads of the first five NGOs to transfer their role in the management of district health services to the new District Health Management Teams. This is the first step in the implementation of the transition strategy that will see management of the health services in all districts in the hands of DoH by the end of the UNTAET mission. Agreements were reached with several other NGOs to continue clinical and managerial support to the District Health Plans for variable periods beyond 30 September up until December 2001. Increased support was provided by the DoH to districts, for example, to plan mobile clinics using the motorcycles distributed in August. A human resource management officer has been recruited to handle the process of identifying and placing long-term expatriate doctors and medical specialists. Ten doctors have been identified for the districts with starting dates from mid-October to early December. Others have been short-listed for further follow-up. Discussions were held with UNICEF on much needed assistance to revitalize the immunization services.

[2] Improvement of range and quality of services, and development and implementation of support systems - Contracts have now been awarded for the construction of all 22 community health centres (CHC), in 10 districts, planned in the first phase of TFET-supported reconstruction program. Design work on a further three has started. A contract has also been prepared for the supply of medical equipment for CHCs and health posts. Crown Agents took over the management of the Autonomous Medical Supply System on September 10 and is now effecting a complete inventory and reviewing the logistics of supply to the fully DoH-supported districts. Construction of the National Medical Store is 50 % complete. A contract has been awarded for the supply, training in use and maintenance of an HF radio network for the health system.

[3] Development and implementation of health sector policy and management systems – The Health Policy Working group continues to meet regularly. Arrangements have been made for four MoH staff to attend the World Bank flagship course on health sector reform and sustainable financing in Washington.

➤ **Issues being addressed** – Anticipation and monitoring of the effect of the progressive withdrawal of the NGOs that have been taking a lead role in each district continues to be important. Timely placement of doctors is a particular priority; currently planned recruitment appears adequate to meet the immediate needs. Delivery of construction materials for CHCs before the onset of the rainy season is a major concern, particularly in areas of difficult access.

The Agriculture Rehabilitation and Development Project aims to improve food security and increase agriculture production in project areas (USD 20.7 million over 3 years, USD 6.8 million in the first grant agreement, USD 9 million in the second).

[1] Priority Asset Restoration - Vaccination of 225,460 pigs against hog cholera has been completed. About 22,500 vaccinated chicks and feed have been distributed to beneficiaries in Liquiça, Covalima and Dili districts. An additional 1,080,000 doses of Newcastle vaccine (for chicken) have been distributed to all 13 districts. There was concern that the first shipment of 326 buffaloes from Lombok might be infected with Infectious Bovine Rhinotracheitis (IBR) and as a precaution the shipment was returned to quarantine facilities in Indonesia. These animals were shown subsequently to be false positives, and the first buffalo shipment is now expected to arrive on October 21, 2001. Data collection for the Project Benefit Monitoring and Evaluation Baseline Survey has been completed, and data analysis is underway.

[2] Irrigation/Rural Infrastructure Rehabilitation - Rehabilitation of 20 access roads contracted to communities is nearing 80 percent completion, and rehabilitation of 30 community irrigation schemes is progressing. Two of these schemes are being reviewed to adjust to the preference of the communities concerned in Viqueque (Buku) and Baucau (Seical). Due to delays in processing the contract to Shandong International for the rehabilitation of larger irrigation schemes in Bobonaro, work is only now expected to start in Halicou (354 ha). The rehabilitation design of the Bilimau site (350 ha) may need to be adjusted due to PKF road repairs in the same location. A contractor has been selected to rehabilitate the Baedubu and Uaibati irrigation schemes in Viqueque.

[3] Pilot Agriculture Service Centres - Design and preparations – including field work report, a business strategy and plan – were completed for the Bobonaro PASC in July 2001 and are currently underway in Aileu. The same is expected for the Viqueque PASC in November 2001. The PASC team (comprising both international and national experts) has also drafted founding documents, a subsidiary agreement and is finalizing general manager contracts as well as reviewing bids for the rehabilitation of the PASC facilities. It is expected that the 3 pilot PASCs will be ready for operation by mid-December 2001, provided the enabling regulations are passed in a timely fashion (see issues being addressed).

➤ **Issues being addressed** - In the absence of a company law, the 3 PASC projects will be formed as interim foundations with the understanding that they will be converted to standard companies as soon as the law is passed. Their establishment as foundations, which would allow these centres to operate, is still pending a decision from the Transitional Administration.

***The Emergency School Readiness Project (ESRP)** is the initial phase of the School System Revitalization Program and addresses East Timor's large educational needs. ESRP includes funding for the renovation of damaged schools and for the building of new prototype schools. The project is implemented in close cooperation with UNICEF, which manages programs for the re-roofing of primary schools in East Timor. (Two Grant Agreements of USD 13.9 million each).*

[1] Schools Rehabilitation – As of 30 September 2001, 465 schools representing 2,407 classrooms have been rehabilitated to Basic Operational Level (BOL) under ESRP. Work continues on 70 schools (373 classrooms) whilst funding agreements have been signed for the remaining 114 schools (569 classrooms). As of 30 September, the distribution of all student furniture has been completed at district level. The Logistics Unit is verifying the distribution of furniture to school level. The distribution of the last batch of textbooks received from Indonesia has started. 33,500 new Portuguese language textbooks have been ordered and are expected to be delivered by end-November 2001. Delivery of a second order of 35,000 sets of Portuguese textbooks (1 student's book and 1 exercise book per set) is expected by mid-December 2001

[2] School System Improvement – The school mapping team presented its final report to the Department of Education on 5 October 2001. Internal discussions and review of the team's recommendations are underway and will enable the ESRP technical crew to finalise the proposed list of 65 primary schools to be rehabilitated /upgraded to fundamental quality level by the coming project – FSQP (see [3]), and to initiate site surveys. Delays are slowing down progress on all five prototype schools: in the case of the two primary schools, major problems are related to incompatibilities between the equipment used by the foreign contractors and that with which local labour is accustomed to work. It is feared that recruitment of skilled workers from other districts to speed up the process could result in social conflicts. Whilst ESRP engineers are supervising the construction work, the PMU is recommending that an extension be granted for completion of the prototype schools in order to ensure an acceptable quality. In the case of the three junior secondary schools (Oecussi, Same and Maliana), lesser delays are expected, mainly due to the CA elections, and in Maliana a 10 worker strike further slowed progress. Corrective actions have been taken by the contractor (increased number of workers and increased number of shifts).

[3] Fundamental School Quality Project (FSQP) – The project's architect has been selected and his contract is currently under final negotiations. Bidding documents for geo-technical and ground survey for the five new "escolas basicas" are expected to be released by end-November 2001. The ESRP team will soon commence site surveys for the nine junior secondary schools to be upgraded to the "escola basica" standard.

***The East Timor Water Supply and Sanitation Rehabilitation Project** aims to provide the people of East Timor with sustainable water supplies and sanitation services, by: [1] providing assistance to rehabilitate and restore damaged and inadequate water supply and sanitation infrastructure and, [2] by re-establishing human and institutional capacity to manage, operate and maintain water supply and sanitation infrastructure (USD 4.5 million in the first grant agreement and another USD 4.5 million in the second).*

[1] WSS Sector Management – The TFET agreement between the ADB and UNTAET for Phase 2 of the Project has been signed and PMU consultants have been mobilized. A bank account has been opened at the BNU, Dili Branch, and the first withdrawal application, for US\$1 million, has been submitted to the ADB for processing.

[2] Institutional Development – nothing to report.

[3] WSS Implementation - All Phase 1 contracts for the construction of water supply systems in Dili District and for the rehabilitation of water supply systems at the district level are nearing completion. Final reports on each activity are under preparation and arrangements for handover to the WSS of four new systems in Dili District is in process. Local contractors have already been short-listed for the Phase 2 program and EOIs will be called for from national and international NGOs during October. A number of proposals for Phase 2 water and sanitation activities at the district and sub-district level have already been submitted by NGOs.

➤ **Issues being addressed** – Finalizing Phase 1 activities and preparation of Phase 2 activities will continue through October.

Economic Capacity Building: *The project addresses the scarcity of needed skills in East Timor which constrain the operation of key economic and financial institutions – in particular the Central Fiscal Authority, the Central Payment Office, and the Census and Statistics Unit, which should provide data for economic analysis and policy making. The project aims to train East Timorese to compile, analyse and maintain the main macroeconomic aggregates. To assist with retention and improve sustainability, the project will also focus on developing and mentoring East Timorese staff in the core financial institutions (The amount of the grant agreement is USD 0.5 million).*

The EICB has been designed to complement and reinforce the support provided through other bilateral donors and through multilateral donors to the Consolidated Fund for East Timor.

[1] Support to FreeBalance – Contract and implementation details have been finalised with the selected software firm. It is expected that all Projects Management Units (PMUs) will transition from manual to semi-manual financial management systems in November/December.

[2] Development of a System of National Accounts - The firm selected has provided a technical and a financial proposal and a contract is being finalised. The training of East Timorese counterparts in the management of this system is also part of the project. It is expected that a draft system of national account will be ready by end-November.

[3] Economics Training - Trainers for the provision of courses in economic analysis, public finance and budget management across the administration have been identified. Contracts are being negotiated. It is expected that training will commence in January 2002. This component aims to equip the civil service with a sound analytical framework within which to address key policy issues.

➤ **Issues being addressed** – In relation to the System of National Accounts there are financial issues associated with the cost and quality of outcomes of the project that are being resolved.

The Microfinance Development Project (MDP) *aims to help reduce poverty in East Timor. It will facilitate community-based opportunities for income-generation and the creation of sustainable farm and non-farm employment. The Project will (i) help the poor to engage in income-generating activities; (ii) rehabilitate and strengthen the operations of credit unions; (iii) establish a sustainable microfinance bank to provide financial services to poor and low-income households (USD 4.0 million in the first grant agreement).*

[1] Strengthening of the federation of credit unions. A review and upgrade of the chart and manual of credit union accounts, financial and operating systems is underway. The credit union inter-lending system will be introduced as soon as the improved accounting and financial systems are in place.

[2] Revival and the rehabilitation of the credit unions - Following the identification of seven credit unions in the districts (Aileu, Aitut, Atabae, Atsabe, Bobonaro, Maliana and Same) and two in Dili to be the focus of this year's efforts. Training initiatives concentrating on (i) training of trainers in training module development, training activity and system design and (ii) on site at field level in accounting/book-keeping, credit management, collection strategy, and promotional efforts to attract new members have been on-going since August. To date, 15 credit union trainers have been trained and the new credit unions were provided training in membership expansion, credit union principles, governance and the cooperative philosophies of self-reliance, self-help and autonomy.

[3] Establishment of the Microfinance Bank - The non-passage of both the Companies' Act and the Association and Foundation Law prior to the dissolution of the National Council and the Cabinet on 15 July 2001 prevented the formal registration and licensing of the Microfinance Bank. As a remedial measure, the project will create an interim board of directors of the Microfinance Bank to oversee the pre-operating and organizational activities of the bank itself. Five Microfinance Bank Field Loan Officers were recruited and appointed to handle the operations in the districts of Maliana, Ermera, Oecussi and Dili. Bank sites and buildings have been identified in these areas and rehabilitation will start as soon as lease contracts are signed.

[4] The Credit Union Central Fund and Inter-lending system - The project seeks to fast track the operation of a central fund/credit union inter-lending system, allowing the credit union to borrow during lean periods or when liquidity support is needed when demand for credits is at its peak. The central fund and/or the inter-lending system will produce results as soon as the credit unions themselves have been sufficiently rehabilitated and new credit unions are rolled out.

➤ **Issues being addressed** - As the issue of “ownership” of the Microfinance Bank’s initial required capital of USD 2.0 m has yet to be resolved and as the Companies Act and the association and foundation law are unlikely to be in place before the first quarter of 2002, an option is to seek the chartering of both the foundation and the Microfinance Bank by the Transitional Administrator with the concurrence of the Second Transitional Government. Pending the above, the financial schemes and the credit disbursement activities of the Microfinance Development Project at this point are at best tentative and are, by necessity, stop-gap measures.

3. Coordination

TFET appraisal and supervision missions – provisional schedule

Sector	Date
Infrastructure	October 2-10
Agriculture	October 15-31 ARP I Supervision Launch ARP II
Water & Sanitation	October 22-30
SEP	Oct 29 – Nov 10 SEP I Supervision SEPII Launch Jan-Feb 2002 SEP I & II Supervision
Education	November 4-19* May 2002*
CEP	November 5-30 Supervision November 12-23 *
Health	November 5-19 * Supervision
Microfinance	November

TFET donors are invited to participate in all TFET supervision missions. Missions marked with an asterisk are multi-donor sector missions which will review progress in all multilateral and bilateral projects within the relevant sector.

4. TFET Receipts and Commitments

TFET RECEIPTS, October 22, 2001

TFET RECEIPTS	CASH	PROMISSORY NOTES
DONOR	USD million	USD million
Japan	23.86	
European Union	31.14	
Portugal	15.00	35.0
Australia	12.37	
World Bank	10.00	
UK	11.60	
Finland	3.04	
Japan PCF	2.00	
Norway	2.00	
USA	0.50	
IDA PCF	0.40	
Ireland	0.46	
New Zealand	0.38	
TOTAL	112.75	35.0

TFET COMMITMENTS, October 22, 2001

TFET COMMITMENTS PROJECTS AND PROGRAMS	USD million
Community empowerment	9.0
Dili community employment generation	0.5
Capacity building and human resource survey	0.4
Infrastructure rehabilitation	27.8
Small enterprise	4.8
Health sector rehabilitation and development	12.7
Education: School System Revitalization	13.9
Agriculture rehabilitation and development	6.8
Water and sanitation	4.5
Microfinance	4.0
Economic capacity building	0.5
Community empowerment II (CEP II)	8.5
Health II	12.5
Water and sanitation II	4.5
Agriculture II	9.0
Education II	13.9
SEP II	7.5
Project preparation and supervision	2.9
TOTAL	143.7

ADDITIONAL INFORMATION

Additional information on the activities of the Trust Fund for East Timor, as well as information on East Timor in general, can be found at www.worldbank.org/eap. For questions or email versions of specified materials, such as Project Information Documents or detailed Project Appraisal Documents, please contact Natacha Meden <nmeden@worldbank.org> in the World Bank's Dili office or Kimberly Versak <kversak@worldbank.org> in Washington D.C.