The East Timor Reconstruction Program: Successes, Problems and Tradeoffs

Klaus Rohland
Sarah Cliffe
Summary findings

Pre-mission planning and readiness. The Bank started to plan for East Timor’s reconstruction early in 1999, forging strong relations with the UN and East Timorese. The Joint Assessment Mission set clear priorities, costings, and a shared understanding on reconstruction priorities between the Timorese and institutions which were to finance reconstruction. Key lessons include the value of early engagement; clear roles and responsibilities within international institutions; and a truly “joint” planning approach with national counterparts and donors. Greater continuity between the pre and post-ballot periods in 1999 and earlier efforts to strengthen the role of nascent Timorese government structures would have increased the benefit of strong, coordinated advance planning.

Financial mobilization and aid coordination. Financial mobilization achieved high per capita aid, quick-disbursing and consistent over time, with very few delays in the realization of pledges. Early mobilization of reconstruction funds allowed for a smooth transition from humanitarian to development assistance and avoided gaps in reconstruction activities. However, East Timor also demonstrates the inappropriate complexity of aid financing mechanisms for post-conflict countries with low capacity, which created barriers to national ownership, and prevented the integration of all funding sources into the national budget.

Government and donors largely overcame these constraints through the adoption of agreed reconstruction benchmarks covering political, administrative, economic and social reconstruction. The benchmarks, reviewed and monitored every six months, proved a useful way to maintain reconstruction momentum and ensure links between different activities. Regular multi-donor sector missions to identify gaps, duplication or new priorities helped. Close Government and donor discussions over the recurrent budget also improved sustainability.

Reconstruction design and implementation. The paper reviews progress made in each of the main reconstruction sectors during the transition to independence. A key lesson emerging relates to the trade-off between speed of delivery and capacity building. In East Timor the sectors which made more progress in establishing institutions were often less strong initially in achieving physical reconstruction targets. To have real national ownership of the policymaking process, a fairly long and inclusive process of policy discussion is needed. Intensive efforts to build human and institutional capacity also take time away from the management of emergency rehabilitation and services. Finding the right balance is an important challenge. Early involvement of national counterparts, targeting training and information to political leadership, and unified sectoral programming increase the focus on sustainable policies and institutions. The use of community-driven approaches, non-governmental and private sector capacities, and early attention to building procurement and payment systems can help accelerate reconstruction and service delivery. In deploying non-governmental service delivery, care should be taken to strengthen rather than undermine nascent state capacities. Non-government implementation arrangements may be combined with explicit transitional sectoral strategies to strengthen national ownership and control of policy decisions, and gradually transfer implementation into government hands.

Within the Bank’s portfolio, project preparation time was cut from a Bank wide average of 15 months to 3.5 months while maintaining regular quality standards. The TFET portfolio achieved fast results on the ground in those program components executed through community or private sector mechanisms. Larger reconstruction works lagged, largely due to difficulties in managing standard procurement procedures in a post-conflict context. Specific measures are recommended to address this for future operations. Overall, the volume of outputs via the TFET has been high in the 2½ year period of its existence and it has played a large part in meeting East Timor’s core reconstruction needs.

The situation at independence provides useful lessons for the transitional and reconstruction period. There is much good news. Main development indicators were by 2001 at or near pre-crisis levels, which is a surprisingly fast recovery given the depth of destruction in 1999. The Government has prepared a medium term national development plan, three-year budget and one-year priority program, on the basis of which it has secured donor commitments to meet its external financing requirement for the next three years. Oil and gas revenues from the Timor Sea would provide an exit strategy from dependence on external financing by mid decade. The future thus looks fairly optimistic. The Government faces, however, a backlog of legislative and capacity-building work to establish key institutions; a serious crisis of capacity in the judiciary sector; and hard policy choices in relation to veterans’ policy, property rights and cost recovery. Arguably, these issues should have been addressed earlier in the transition.
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>CDR</td>
<td>Community Driven Reconstruction</td>
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<td>CEP</td>
<td>Community Empowerment Project</td>
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<td>CFET</td>
<td>Consolidated Fund for East Timor (United Nations Trust Fund)</td>
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<td>CNRT</td>
<td>National Council for the Timorese Resistance</td>
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<td>DPA</td>
<td>UN Department of Political Affairs</td>
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<td>DPKO</td>
<td>UN Department of Peace-Keeper Operations</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFIs</td>
<td>International Financial Institutions</td>
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<td>International Force for East Timor</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JAM</td>
<td>Joint Assessment Mission</td>
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<td>PKF</td>
<td>United Nations Transitional Administration for East Timor Peace Keeping Force</td>
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<td>PMU</td>
<td>Project Management Unit</td>
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<td>NGO</td>
<td>Non-governmental Organization</td>
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<td>OCHA</td>
<td>UN Office for the Coordination of Humanitarian Affairs</td>
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<td>TFET</td>
<td>Trust Fund for East Timor</td>
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<td>UNAMET</td>
<td>United Nations Mission in East Timor</td>
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<td>UNDP</td>
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Sarah Cliffe and Klaus Rohland started to work on East Timor in early 1999 and were, respectively, the World Bank Chief of Mission and Country Director for East Timor throughout the country’s transition to independence.

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Executive Summary

The East Timor reconstruction program has been anchored in an unusual cooperation between the East Timorese people, the United Nations Transitional Administration, donor countries and international institutions. The World Bank was involved particularly early—in planning for East Timor’s development prior to the 1999 ballot and has supported a wide range of activities through its trusteeship of the Trust Fund for East Timor (TFET), its economic monitoring activities and its responsibility for co-chairing donor meetings. This paper draws some preliminary lessons on planning and implementation of aid-financed reconstruction activities in general, and the Bank’s programs in particular—both what worked, and what could have been done differently. Further evaluation of the East Timor transition from all the stakeholders involved is needed, and it is hoped that this paper can contribute to this debate.

Context. East Timor has its own particular context, and not all of the lessons identified here will be applicable to other countries. While the country suffered very high physical destruction and the complete collapse of state structures in 1999, it did not go through a prolonged and divisive period of civil war like other post conflict countries in Africa or Southeast Europe. Peace was restored rapidly after the violence. The East Timorese emerged from the events of September largely unified in their determination for independence that had been so amply demonstrated by the overwhelming vote in the ballot. Together with the success of the International Force in East Timor (INTERFET), the UN Transitional Administration Peace Keeping Force (PKF) and Timorese reconciliation initiatives this created a favorable climate for reconstruction, based on high internal security that continued throughout the transition period.

Second, East Timor was under a United Nations Transitional Administration from October 1999 until independence on May 20, 2002. With the East Timorese relatively united behind their quest for independence and reconstruction, UNTAET’s role was to be fundamentally different from the UN missions’ role in other post conflict situations. Rather than restoring and keeping peace between feuding groups within the country, UNTAET’s main role was to support state building. UNTAET succeeded in supporting a rapid and peaceful transition to democratic elections and the adoption of a constitution, in addition to managing what must surely be seen as an exemplary peacekeeping operation. In restoring civilian state structures however, UNTAET faced a daunting task, and was not able to support the formation of a Timorese-led public administration until late in the transition. This meant that no normal national government counterpart for reconstruction programs existed during the peak reconstruction period.

Pre-crisis readiness and planning. The Bank started to plan for East Timor’s reconstruction early in 1999, through social and economic analysis and dialogue with East Timorese leadership and the United Nations to provide for a development framework for the time after the ballot. This early, low profile dialogue was designed to support the political processes facilitated by the UN, through engaging the different Timorese parties in discussion of concrete developmental issues. In its decision to focus early on post ballot planning the Bank was guided by its view that, whatever the outcome of the ballot, relations between the Bank and East Timor would need to be put on a different footing, both within an independence and an autonomy framework.

Early planning gave the Bank a head start to react quickly to the changing environment after the events of September 1999. Strong relationships between the UN Secretariat, the East Timorese and the Bank had been forged during this process. These permitted the rapid launch of the September 1999 Friends of East Timor donor meeting and the October/November 1999 Joint Assessment Mission (JAM), even though the scenario had changed substantially after the violence of early September. The JAM was successful both in process and in product: in producing clear reconstruction priorities and cost estimations, and in building a shared understanding between East Timorese and the institutions which were to finance their reconstruction. Principal lessons from this initial planning period point to the value of early engagement; clear roles and responsibilities for planning within each international institution; a truly “joint” approach in
planning with both national counterparts and donors; and unified presentation of humanitarian, reconstruction and assessed contribution budgets.

The benefits of early and inclusive efforts to coordinate planning between humanitarian operations, United Nations missions, bilateral and multilateral donors and the international financial institutions arise strongly from the East Timor experience. The pre-ballot planning period demonstrated extremely effective coordination between the United Nations and the Bank regarding economic reconstruction scenarios. Due to turnover in the transition from the United Nations Mission in East Timor (UNAMET) to UNTAET immediately after the ballot, however, there was a lack of continuity and ownership of some recommendations of the Joint Assessment Mission, especially those relating to civil service and judiciary. Better continuity planning could have avoided this.

Differing relations with Timorese counterparts also hampered initial post-ballot cooperation between the Bank and UNTAET, and UNTAET’s dual nature as the administration of East Timor and as a mission of the United Nations. The latter created some ambiguities as to its structures and functions, and its relationship to the other parts of the UN system. Despite excellent relations between the Bank and both DPA and DPKO during 1999, it is not clear that the Bank team fully understood the implications of UNTAET acting as the legal Government, or that the United Nations team fully understood the implications of the Bank financing reconstruction programs implemented by a UN administration. Ideally, initiatives to improve mutual understanding of the roles, structures, instruments and decision-making processes of United Nations missions and the IFIs should be set in place for future operations well before the situation arises.

Financial mobilization and donor coordination. Following the Joint Assessment Mission, the Bank and UNTAET co-chaired the Tokyo donors meeting to mobilize reconstruction funds. The Tokyo donors meeting presented to the international community a consolidated funding request that incorporated humanitarian assistance, and development and recurrent expenditure requirements. Financial mobilization for East Timor achieved aid volumes that were high in per capita terms, quick-disbursing and relatively consistent over time. There were very few delays in the realization of pledges for either of the East Timorese trust funds, which have remained in surplus for most of their lifecycles. Early mobilization of development and reconstruction funds allowed for a smooth transition from humanitarian to development assistance. East Timor saw no gap as donors and international agencies moved from emergency to reconstruction support.

Despite these successes, East Timor also demonstrates the inappropriate complexity of aid financing for post-conflict countries with low capacity. Funding for East Timor’s reconstruction rested on six pillars: the humanitarian consolidated appeal; the assessed contribution budget of UNTAET; two trust funds (CFET and TFET: administered by the United Nations and the World Bank); UN agency reconstruction programs; and bilateral development assistance through NGOs and contractors. These differing and complex modes of aid provision created barriers to national ownership of the reconstruction planning process in the initial period, and prevented the integration of all funding sources into the national budget. There were particular difficulties in synchronizing infrastructure rehabilitation and service delivery with the recruitment of civil servants to manage and maintain these facilities and services.

To a large extent, Government and donors overcame these constraints through the adoption of a set of agreed reconstruction benchmarks covering the political transition, the administrative handover, economic and social reconstruction, and public finances. These benchmarks were reviewed and monitored every six months and have proven a useful way to maintain the momentum of reconstruction and ensure links between different activities. The conduct of regular multi-donor joint sector missions to identify gaps, duplication or new priorities in the key sectors have also helped to overcome these systemic deficiencies. Close discussions between Government and donors over the recurrent budget have improved sustainability, through an unusual shared understanding of the recurrent liabilities created by reconstruction projects. There has been only partial success, however, in programming aid commitments behind clearly defined national priorities. This points to the need for earlier acknowledgement of the importance of nationally
driven priority-setting, and intensified efforts by donors and Government alike to bring all reconstruction financing on budget.

**Design and implementation of reconstruction programs.** Considerable progress has been made in rebuilding institutional capacity, rehabilitating physical infrastructure and resuming service delivery, but progress on these differing aspects of reconstruction has been highly variable across sectors. Perhaps understandably given the relatively short timetable of the transition, almost no area of the program has succeeded in equal measure in establishing core sustainable policies and institutions and completing rapid physical reconstruction and service delivery.

A key lesson that emerges in reviewing differences in performance between sectors relates to the trade-off between speed and national capacity building. Reconstruction programs unavoidably involve policy decisions as well as the provision of infrastructure. To have real national ownership over the policy-making process, a fairly long and inclusive process of policy discussion is needed. Intensive efforts to build human and institutional capacity also take time away from the management of emergency rehabilitation and services. In East Timor it is notable that the sectors that have made more progress in building a coherent policy, sustainable institutions and strong levels of management capacity such as the health sector were less strong in the initial stages in achieving physical reconstruction targets.

Finding the right balance is an important challenge. Early and consistent involvement of national counterparts and unified sectoral programming tend to increase the focus on sustainable policies and institutions, although lags in civil service recruitment made this uneven in East Timor. Targeting training and information to political and military leadership is important to help maintain consistent policy direction (as well as contributing to a smooth transition in the political arena). The use of community-driven reconstruction approaches and early attention to building procurement and payment systems can assist in accelerating physical reconstruction and service delivery.

To balance the two objectives, sequencing is obviously important. East Timor shows that a focus on community-driven reconstruction and the deployment of private sector and NGO capacities in the initial stages can achieve rapid results on the ground while the capacity of the public administration is building up. Care should be taken, however, to strengthen rather than undermine nascent state capacities. Non-governmental implementation arrangements, therefore, should be combined with explicit transitional strategies in each sector to strengthen overall national ownership and control of policy decisions, and gradually transfer implementation responsibilities into government hands. Institution building in unglamorous yet critical central administrative functions such as treasury and procurement should also be undertaken early to avoid problems down the line with the more complex reconstruction programs.

For IDA-financed projects under the Trust Fund for East Timor (TFET), the Bank attempted to speed up delivery through the use of its emergency procedures. Project preparation time was cut from a Bank wide average of 15 months to 3.5 months while maintaining its quality standards. The Bank’s Quality Assurance Group reviewed the quality at entry of the East Timor portfolio and found no significant deviation from the quality of its portfolio at large. The chief design lessons for the Bank’s portfolio in post-conflict countries are to build on successful experiences with community-driven reconstruction; to bring forward a standard emphasis on policy and institutional capacity building; and to support sector-wide transitional planning in the early stages of reconstruction.

Rapid, visible impacts on the ground address the political dimension of the speed of delivery. In the wake of wide scale destruction the public in East Timor and in donor countries alike rightly expected to see rapid results as the reconstruction process began and there was little regard for the intricacies of trade offs. Lack of visible results might have led to increased dissatisfaction and jeopardized the reconstruction process. The TFET portfolio achieved fast results on the ground in those program components executed through community or private sector mechanisms (nationwide projects, even in isolated villages, under the community empowerment project; community-based irrigation; labor-intensive works; and a line of credit
for the private sector) and on relatively simple government-implemented services such as vaccination. These “quick wins” were key to maintain public support and confidence in the early days of reconstruction.

Larger reconstruction works under the TFET lagged, however, as they did under the CFET. The primary reasons for this were difficulties in managing standard procurement procedures in a post-conflict context. The development of specific procurement guidelines for post-conflict situations; increased use of pre-qualification processes; an early project for procurement capacity-building; or outsourcing of more physical works components to NGOs, could have alleviated the difficulties if managed under a standard national policy framework. Other possible enhancements within IDA’s procedures relate to further staff deployment and decentralization to the field, use of technology, the need for simplified documentation, and a de minimis provision to exempt small scale projects from the Bank’s lending procedures altogether. Overall, however, the volume of outputs via the TFET has been high in the 2½-year period of its existence and it has played a large part in meeting the core reconstruction needs identified at the time of the Joint Assessment Mission.

**The legacy at the point of independence.** The situation at the point of independence—in terms of which areas are functioning reasonably well and which have serious problems—provides some useful lessons learnt for the earlier transitional and reconstruction period. There is much good news. The principal development indicators were by 2001 at or near their pre-crisis levels, which is a surprisingly fast recovery given the depth of destruction in 1999. The Government has successfully prepared a medium term national development plan, three-year budget and one-year priority program, on the basis of which it has secured donor commitments to meet its external financing requirement for the next three years. At this point, oil and gas revenues from the Timor Sea are estimated to provide an exit strategy from dependence on external financing by mid decade. The future thus looks fairly optimistic.

But there are also major challenges ahead. The country faces enormous gaps in core institutions and legislation, and roadblocks in the justice sector are causing constraints in every other area of development. The gradual withdrawal of international personnel has laid bare deficiencies in technical and management systems and skills. Capacity building needs to progress quickly in order to set the administration on a sounder footing. Once initial efforts by Government to consolidate the core functions of the state are achieved, a second uphill battle will need to be fought to generate private sector growth and employment creation outside the oil and gas sector. With hindsight these are areas that should have received more attention during the transition period. Also it is arguable that tough policy decisions, for example on property rights, veterans’ policy and cost recovery in the electricity sector should have been taken much earlier on to avoid transferring difficult political decisions to the new independent government. The Government has a well-defined priority program for the first year after independence, but it faces great challenges in having to complete a huge volume of “invisible” work in legislation and administrative capacity-building, while simultaneously consolidating fragile new political processes and continuing to deliver services to the population. The Timorese people and leadership have great determination and will no doubt face this triple challenge head-on, but a better balance earlier in the reconstruction program could have improved the trade-off.

Lessons are easy to draw in retrospect, but harder to identify at the time. Sometimes—even when identified early—they are hard to address in an emergency situation where all the actors lack time and material resources. These reflections of hindsight should not diminish from the achievements of the reconstruction operation, which managed to recover from state collapse, over 40 percent drop in economic production and over 70 percent destruction of physical infrastructure in less than three years. But the fact that East Timor was a successful operation—relative to other post-conflict operations—is all the more reason to try to evaluate what worked and what could have been improved, what lessons are country specific and what could be applied elsewhere. Strong evaluations of the East Timor experience can inform future operations, while avoiding a “boilerplate” approach where the lessons of the last country are too automatically applied to the next.
THE EAST TIMOR RECONSTRUCTION PROGRAM

I. Introduction

The East Timor reconstruction program has been anchored in an unusual cooperation between the East Timorese people, the United Nations Transitional Administration in East Timor (UNTAET) and donor countries and institutions. The World Bank, like many other institutions, took on an unaccustomed role. The Bank was involved particularly early, in planning for reconstruction prior to the 1999 ballot, and has supported a wide range of activities through its trusteeship of the Trust Fund for East Timor, its economic monitoring activities and its responsibility for co-chairing donor meetings. It therefore provides a useful case to evaluate the full cycle of post-conflict activities, from emergency reconstruction planning throughout the process of normalizing a development and poverty reduction strategy.

East Timor today presents a very different picture from the smoldering landscape of September 1999. The country has achieved a remarkably fast recovery and transition to independence in less than three years, including the conduct of peaceful multiparty elections, the adoption of a constitution, strong economic recovery, the restoration of service delivery and large-scale rehabilitation of physical infrastructure. The new government has developed and published a long-term national development plan and has agreed with its external partners on a financing strategy, which will bridge the budget deficit for the difficult years pending realization of oil and gas revenues from the Timor Sea.

Amid the general euphoria of independence, it is important not to allow this rosy picture to obscure the lessons that emerged during the period of East Timor’s reconstruction and political transition. Progress has not been perfect during this period in many aspects of political, institutional, social and economic reconstruction. The general evaluation that it has been “relatively good” is all the more reason to focus on identifying both key success factors and those areas that, in retrospect, could have been addressed differently.

This paper describes the Bank’s program in East Timor in the context of the overall transition. It seeks to draw some preliminary lessons on planning and implementation of aid-financed reconstruction activities in general, and the Bank’s programs in particular—both what worked, and what could have been done differently. Further evaluation is needed of the East Timor transition from all the stakeholders involved, and it is hoped that this paper can contribute to that debate.

II. Background and Context

The May 5th 1999 agreement between Indonesia and Portugal set out the framework for the conduct of a ballot of the Timorese people on the options of “special autonomy for East Timor within the State of the Republic of Indonesia”, or a rejection of autonomous status, leading to a transition to full independence. The ballot was held on August 30, 1999, after several months of tension and sporadic violence within the territory as the United Nations Assistance Mission in East Timor (UNAMET) sought to prepare for free and fair elections under difficult conditions. 78.5 percent of the electorate voted to reject the autonomy offer. The announcement of these results on September 4, 1999 set off an orchestrated campaign of violence across the territory, which resulted in the destruction of an estimated 70 percent of public buildings and many private assets, together with displacement of over two thirds of the population. State structures in the country suffered a complete collapse. However, to understand the East Timor story and its limited comparability with other post-conflict situations, it is important to note that the country did not go through a prolonged and divisive period of civil war like other post-conflict countries in Africa or Southeast Europe. Peace was restored rapidly after the violence. The Timorese emerged from the events
of September unified in their determination for independence that had been so convincingly demonstrated by the overwhelming vote in the ballot. In response to the violence, Security Council resolution 1264 on September 15 authorized the deployment of an international force. INTERFET entered East Timor on September 20 and restored order across the territory, although the last Indonesian troops did not leave East Timor until October 31. The military initiative was followed by Security Council authorization of the establishment of a United Nations civilian administration, through Resolution 1272 of October 25 establishing the United Nations Transitional Administration in East Timor (UNTAET). UNTAET acted as the legal administrative authority until independence on May 20 2002, under a wide-ranging mandate covering everything from security to humanitarian affairs and the establishment of a functioning civil service. UNTAET has therefore acted as the legal government counterpart throughout the transition for reconstruction aid.

Politically, the Timorese pro-independence movement had a relatively unified platform at the time of the 1999 ballot. All the major pro-independence parties, together with several NGOs and church organizations, were grouped within the National Council for the Timorese Resistance (CNRT), under the presidency of Xanana Gusmão. CNRT’s flag was used as the symbol of the rejection of autonomy in the 1999 ballot paper. The movement commanded the loyalty of a large majority of the population, easily comparable, for example, to the South African United Democratic Front in the late eighties and early nineties. East Timor has faced relatively few internal security problems during the transitional period, and cannot be compared in this sense to a country coming out of civil war. The Timorese started to plan for the economic and social reconstruction of their country well before the August 1999 ballot, through conferences of political leadership and technical personnel. However, the political evolution of the transitional period did not allow for much continuity with this earlier national planning process. The transitional period saw considerable confusion over who constituted legitimate Timorese representatives for decision-making. CNRT was not accepted by the United Nations as the primary legitimate Timorese representative body when the Transitional Administration was established.

UNTAET established a National Consultative Council in January 2000 that played an advisory role on governmental matters, including representatives of CNRT, other political parties and the church. Following high levels of dissatisfaction amongst the Timorese leadership, this was replaced in June 2000 by a joint cabinet structure of Timorese and international representatives and an advisory council. The Timorese cabinet members were nominated by CNRT, but the organization was disbanded in June 2001 following considerable tension between its constituent elements. Cabinet members thus acted in this period either in an individual capacity or through accountability links to their different political parties. There was no over-arching Timorese body for policy decisions, including reconstruction and development policy. Timorese civil servants were recruited “from the bottom up”, so that in many sectors of the civil service there were no senior management teams to support the cabinet members until late in the transition. In August 2001, following the elections for the constituent assembly, the second transitional government of East Timor was appointed by UN Special Representative Sergio Vieira de Mello. This was a wholly Timorese cabinet, reflecting the results of the 2001 election but including several independents and a minority party in addition to FRETILIN, which in alliance with a smaller party had 65 percent of the vote. This cabinet operated until May 20, 2002, when a new council of ministers was appointed on the day of independence. The constitution was developed and approved extremely rapidly, including the holding of district consultations with enthusiastic popular input. A Presidential election, the second election under UNTAET, was held in April 2002. After initial tensions, the political transition thus took place rapidly and smoothly, but ran ahead of efforts to establish Timorese institutions at a lower level of government.

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1 Timorese representatives held the portfolios of economic affairs, social affairs (education and health), internal administration and infrastructure. The United Nations retained the portfolios of finance, justice and political affairs. Security matters were dealt with outside the cabinet structure.
To summarize, the context for reconstruction can be characterized by: (i) a complete collapse of state structures, accompanied by widespread physical destruction and disruption of livelihoods; (ii) a rapid timetable for political transition and a peaceful transition to a democratic state, with high internal security and based on a broad national consensus on the road to independence; (iii) a lack of clarity on Timorese representation in decision-making, in particular in the early stages of the transition; and (iv) four major changes in government counterparts in the space of two years. These aspects are important for an evaluation of the reconstruction program, both to understand the East Timor story and the limits of its comparability to other post-conflict situations.

III. Pre-mission Readiness and Planning

The Bank first formally engaged in East Timor’s transition in early 1999. Responsibility for East Timor transitional issues was moved from the Indonesia to the Pacific Country Department. Early planning gave the Bank a head start to react quickly to the changing environment after the events of September 1999 that essentially changed the scenario from development planning to post-conflict reconstruction. In its decision to focus early on post-ballot planning the Bank was guided by its view that, whatever the outcome of the ballot, relations between the Bank and post-ballot East Timor needed to be put on a different footing, both within an independence and an autonomy framework.

In its planning process, the Bank tried to engage other international development partners early on, albeit with limited success. Most of the partners were not prepared to look beyond the ballot date and had adopted a wait-and-see attitude that seemed justified at that time when most observers expected a smooth transition into the new constitutional framework for East Timor. The Bank collaborated with Columbia University on a study of social and economic conditions in East Timor, and worked closely with the UN Department of Political Affairs to analyze the economic impact of acceptance or rejection of the autonomy offer. Early on, the Bank also met with Timorese leadership and discussed priorities for reconstruction and development after the ballot, together with modalities to use development planning as a tool for reconciliation. The violence of early September required a complete reorientation of the planning assumptions in place before the ballot, but the structures and contacts built in the early period enabled a rapid revision to the approach.

At the request of the Timorese leadership, the Bank convened a meeting of the Friends of East Timor at the time of the Annual Meetings in Washington, which was addressed by Xanana Gusmão and Jose Ramos Horta. This meeting, attended by most donor and partner countries as well as the United Nations, mandated the Bank to organize a joint assessment mission to identify reconstruction priorities and costing. The Joint Assessment Mission (JAM) took place in late October and early November, at the height of the humanitarian crisis and prior to Indonesian troops leaving East Timor (Box 1). The critical element in the success of this mission was that it was “joint” in three senses: (i) it included equal numbers of Timorese and international experts, including Timorese in coordinating positions; (ii) it included several of the major potential financing institutions, including five bilateral donors, both development banks and the European Commission; and (iii) the IMF complemented the work of the JAM with a concurrent mission to assess the macroeconomic framework. This inclusive approach assisted the mission in developing very widespread ownership of its results, both among national leadership and among those who would need to finance reconstruction activities.
Box 1: The Joint Assessment Mission (JAM) to East Timor (October/November 1999)

The JAM to East Timor was endorsed at the Friends of East Timor Meeting organized by the World Bank with donors, UN agencies and East Timorese representatives on September 29th. Early deployment of the mission was deemed essential, to avoid the risk of delays in the transition from emergency relief to more sustainable development support.

The mission was “joint” first and foremost in its efforts to develop an equal partnership between its 25 international and 25 Timorese participants. The involvement of Timorese coordinators and technical specialists was critical in orienting the mission to the Timorese context. It also helped the various international partners and their Timorese counterparts to come up with a coherent plan endorsed by all sides. To foster compatibility with longer-term development objectives, the JAM used a comprehensive development framework approach, covering eight sectors and incorporating international technical expertise from five donor countries, four UN agencies, the European Commission, the Asian Development Bank and the World Bank. A concurrent mission of the IMF accompanied the JAM.

Substantial investment in planning was made prior to the launch of the mission, with Timorese leadership carefully selecting their technical representatives from both internal and exiled communities and differing political backgrounds, the Bank and other donors coordinating on terms of reference and selection of representatives with compatible skills, and the Bank and UNAMET dedicating staff to resolve logistical problems.

The first mission members arrived in East Timor on October 20, 1999, where they were organized in eight field teams made up of an equal number of East Timorese and international experts. Teams covered health, education, agriculture, infrastructure, private sector development, justice, public administration requirements, and macroeconomic issues. A coordination team made up of East Timorese, World Bank and UNAMET representatives monitored the overall process and results. The public administration and macroeconomic/fiscal teams synthesized the results of the sector teams in order to make recommendations on civil service structures, size, wages, and development of a one-year recurrent and three-year reconstruction budget, with associated external financing requirements. The teams were housed in tents in the abandoned parliament building for three weeks and conducted intensive field assessments.

The JAM made several recommendations, which were critical for East Timor’s reconstruction in the medium term. During the JAM, Timorese leadership took the decision to keep re-recruitment into the civil service below 12,200 civilian staff (as opposed to 28,000 prior to the ballot), both to remove unproductive functions and to allow space in the budget for more competitive wage levels. The decision on the source of applicable law, the program for recovery in the health sector and the emphasis in the education sector on a gradual (rather than big bang) language transition were initially laid out during the JAM. The JAM recommendations also placed strong emphasis on community driven reconstruction and private sector recovery, which resulted in a strong bottom-up and society-wide emphasis within the reconstruction program.

The JAM had gaps. For example, no costing was produced for the police. With hindsight the JAM would have benefited from the inclusion of experts on policing and security matters. Inadequate attention was given to the impact of wage-setting by the UN and other international institutions (including the World Bank) on the local labor market and civil service recruitment. This is an adverse impact of international aid flows that dogs many post-conflict recovery efforts, and would have benefited from a strong drive for a coordinated policy linked to market conditions early on.

The JAM took place in parallel to other planning and budgeting exercises, notably DPKO mission planning and development of the assessed contribution budget for UNTAET, and the consolidated appeal for humanitarian assistance. There was initial concern that the activities of the joint assessment mission would detract attention from the humanitarian appeal. These concerns were largely allayed through cooperation between the JAM and OCHA. Staff from the two institutions compared the preliminary needs
assessments and marked out programs that had been identified and financed under both the humanitarian and the reconstruction program (double-counts), to assist in presenting a coherent financing picture. In the final analysis and as demonstrated by the success of the Tokyo donor conference, coordination between the reconstruction program and the humanitarian appeal benefited both programs and maximized donor funding for East Timor.

Initially, there was relatively little communication between the joint assessment mission and the DPKO planning exercise, although the Bank was asked to contribute to staffing plans for the financial institutions. In part at least, this was an unforeseen consequence of the handover of responsibility from the UN Department of Political Affairs (DPA) to the UN Department of Peace-Keeping Operations (DPKO) as UNTAET was established. The Bank and the Timorese leadership had worked primarily with DPA and UNAMET on early planning initiatives. The joint coordinator of the mission from the UN side had been nominated by UNAMET, and UNTAET did not formally come into being until after the mission began. However, the results of the mission were discussed with SRSG Sergio de Mello in Dili on the day of his arrival and budget estimates discussed in detail with DPKO in New York later on.

The absence of close coordination and continuity with UNTAET was the principal weakness of the JAM, which in other ways provides a strong model for post-conflict reconstruction planning. While this stemmed from an accident of timing rather than design, it caused tensions within UNTAET, with ensuing lack of ownership of the JAM results by newly-arrived international staff. This lack of continuity impacted implementation in different ways. Continuity was preserved for the core government budget and most of the different sector reconstruction programs. The program to reconstitute the public administration, however, was developed largely outside the JAM recommendations, both in its content and its approach to working with the Timorese.

Cooperation between the Bank and UNTAET was also initially hampered by UNTAET’s dual role as the United Nations Mission in East Timor and as the Transitional Administration in East Timor. While the former implied mission structures and a role in anchoring and promoting the operations of UN agencies in East Timor, the latter suggested that UNTAET—as government—should establish full governmental structures and act as a government counterpart to UN agencies, International Financial Institutions (IFIs) and donors. By extension, relations between the Bank and UNTAET would be governed by their roles and mutual obligations as partners within the UN system whenever UNTAET would be seen acting as a UN mission. The usual business model between the Bank and recipient governments would prevail whenever UNTAET was seen as acting as the “Government”. For the way the Bank does business, however, to treat UNTAET as “Government” was crucial, since IDA projects are implemented through national Government counterpart structures. Despite good relations and frequent communication between the Bank and both DPA and DPKO during 1999, neither side had fully understood what this relationship (of the UN as Government, financed by the Bank) would entail.

It was also crucial for the Bank and other donors that there be full Timorese involvement in government counterpart structures, since reconstruction projects have long-term developmental impact and tend to be more sustainable when undertaken with strong national ownership. The Bank and UNTAET initially had differing approaches to the treatment of CNRT, the umbrella movement for pro-independence parties and groups. UNTAET in 1999 and the first half of 2000 treated CNRT as a political party, and was wary of

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2 The JAM was also able to reach a preliminary understanding with OCHA on timing, in that the reconstruction programs would aim to be operational by mid-2000 when the humanitarian program would start to wind down.

3 Examples are difficulties in implementing the usual role of the IMF and the Bank in discussing the UNTAET/ETTA budget prior to June 2000; the shape of UNTAET structures during 2000, which resembled a mission more than a normal government and were awkward counterparts for reconstruction programs; and the question of whether procurement under TFET financed projects should undertaken by a normal “government” procurement department under IDA procurement guidelines as mandated by TFET’s donors or whether UN procurement rules would apply, given that UNTAET was a UN mission.
close consultation which could imply recognition—perhaps because of experiences in the Balkans\(^4\)—while the Bank’s experience of CNRT had been as a constructive counterpart to channel varying Timorese views into the planning process. As the transition progressed, UNTAET gradually brought Timorese representation into government and moved its structures away from those of a UN mission towards those of a normal national government. The view that UNTAET’s “Government” role should guide its relationship with TFET and the Bank gained the upper hand, and subsequently cooperation was smooth and efficient.

Earlier efforts to build understanding between UNTAET, the IFIs, and other donors on their respective roles, financing mechanisms and constraints, would have facilitated a smoother transition from early planning to implementation of the reconstruction programs. Within the Bank, better understanding of the legal mandates, structures and decision-making procedures of United Nations missions would have assisted in more coordinated joint planning. Together with formalization by UNTAET of the central role of Timorese representatives in reconstruction, this could have enhanced the speed and sustainability of initial reconstruction efforts.

### Lessons learned: pre-mission readiness and planning

- Early engagement and planning is crucial for readiness, and should include social, economic and institutional analysis, scenario planning, and building networks of national contacts at a leadership and technical level. Of these, building trust and partnerships with national counterparts is perhaps the most crucial;
- Clear and separated responsibilities for emerging independent or autonomous regions facilitate early engagement and focusing institutional planning in donor agencies and international organizations;
- Alignment of UN mission planning with national reconstruction planning supported by bilateral and multilateral donors would enhance coordination of the delivery of assistance;
- Joint assessment missions should: (i) include national and international counterparts, representatives of the main bilateral or multilateral donors, the IMF, and UN mission representatives where a large mission exists or is planned; (ii) invest substantial and logistical efforts in the organization of field assessments; (iii) provide unified costing methodologies for humanitarian, reconstruction, administration and peace-keeping components; (iv) be explicitly linked to pledging meetings; and (v) plan continuity of each component with “government” counterparts, including where the latter are international UN staff, and;
- Special initiatives to build understanding between DPA/DPKO missions and the IFIs of their respective roles, structures and decision-making processes would enhance reconstruction efforts.

### IV. Financial Mobilization and Donor Coordination

The Tokyo Donors Meeting in December 1999 resulted in US$366 million in reconstruction pledges and US$157 million in pledges for humanitarian aid, to cover the three-year period 2000-02. This amount was surpassed during implementation, with at least US$518 million already disbursed by June 2002. East Timor received both high per capita (Table 1), and unusually diversified sources of aid, with governments from four continents committing amounts within the same range to support its reconstruction\(^5\).

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\(^4\) The authors draw here from conversations with UNTAET staff in 1999 and from discussion in the September 2002 UNITAR-JIIA Tokyo Conference.

\(^5\) The largest aid donors in East Timor are Portugal, Japan, the European Commission, the United States and Australia. A number of other countries, including Norway, Sweden and Finland, the United Kingdom, Ireland, Canada, Germany and New Zealand, give relatively high per capita amounts. This is outside the assessed contributions made to the budget of the UN mission.
Table 1: Aid Per Capita in Post-conflict Countries (annual average for first 5 years following conflict end)

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>GDP per Capita (current US$)</th>
<th>Aid per Capita per Year (current US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>7.8</td>
<td>464</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>3.7</td>
<td>987</td>
</tr>
<tr>
<td>Cambodia</td>
<td>11.4</td>
<td>269</td>
</tr>
<tr>
<td>East Timor</td>
<td>0.8</td>
<td>341&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Lebanon</td>
<td>3.9</td>
<td>1,943</td>
</tr>
<tr>
<td>Mozambique</td>
<td>15.8</td>
<td>166</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>4.2</td>
<td>425</td>
</tr>
<tr>
<td>Rwanda</td>
<td>7.5</td>
<td>226</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>2.5</td>
<td>1,433</td>
</tr>
</tbody>
</table>

<sup>a</sup> Non-oil, excluding UNTAET services.

Sources: World Bank Statistical Information and Analysis (SIMA); World Bank staff estimates for East Timor (estimate does not include UN assessed contribution budget).

The United Nations assessed contribution budget of approximately US$1,280 million in the period up until independence constituted roughly 70 percent of total international funding to support East Timor during the transition. The assessed contribution budget, however, covered only minor costs associated with national reconstruction, its main purpose being to cover the expenses associated with the presence of peace-keeping troops and civilian UN staff. Humanitarian and reconstruction aid was channeled through five principal modalities: (i) bilateral agencies and NGOs under the consolidated appeal; (ii) the United Nations Trust Fund (later CFET) which was designed to mobilize funds for the recurrent expenses of government, rehabilitation of administrative buildings, civil service capacity building and reconstruction in the justice sector; (ii) the Trust Fund for East Timor (TFET), administered by the World Bank in cooperation with the Asian Development Bank, which was designed to mobilize funds for reconstruction in the sectors of health, education, agriculture, community development, private sector development, transport, power and water and sanitation; (iii) non-humanitarian projects implemented by UN agencies; and (iv) bilateral projects implemented through NGOs and contractors. Cooperation between the Development Banks has been close. The World Bank and ADB moved to a joint office building in Dili and were able to maintain the close cooperation successfully on the ground.

Realization of pledges has been relatively fast in East Timor. The Trust Fund for East Timor has realized more pledges than originally planned and, for most of its life has had sufficient funds to initiate the projects prioritized by Government and presented to the TFET donors council. TFET was, however, initially constrained by the requirement to limit commitments to the amount of either cash or promissory notes received. Project preparation ran ahead of receipt of cash or promissory notes for the time until April/May 2000 creating the mistaken perception that donors were slow in realizing their pledges. The UN Trust Fund/CFET has been in surplus for most of its lifecycle, with the exception of mid-2001 when capital expenditures were delayed due to shortages in anticipated funds.

Notwithstanding its success in financial mobilization, the East Timor program has also demonstrated the inappropriate complexity of aid delivery mechanisms for post-conflict countries. The mechanisms described above are quite different in their planning and implementation procedures. The UN assessed contribution budget and humanitarian programs are normally planned outside national budget and donor coordination processes. The United Nations Trust Fund (CFET) was originally administered in New York, but later transferred to Dili where it has functioned as a national recurrent budget with an annual

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<sup>6</sup> Since most of the assessed contribution budget is not directed to national reconstruction, however, and is difficult to disaggregate cross-subsidies from UNTAET to the East Timor Administration, the assessed budget contribution is not included in the aid per capita figures in Table 1.
cycle. The TFET programs were prioritized on a six-monthly cycle and implemented by the Government, but with intensive support from the TFET co-administrators—they function in a manner similar to a separate development budget. UN and bilateral programs, while they typically went through a government approval process, are not generally explicitly linked to the Government budget.

While a large amount of coordination effort was put into rationalizing these different funding sources (see below), this remained a difficult area to explain to Timorese officials, civil society groups or the population during the transition, and the fact of differing timescales for decision-making outside the Government budget constrained fully coordinated planning. There were four main instruments for aid coordination during the transition: (i) six-monthly donor meetings, co-chaired by UNTAET and the World Bank; (ii) monthly field coordination meetings; (iii) joint donor missions every six months in key sectors; and (iv) the production of a combined sources budget based on all available funding sources.

The six-monthly donor meetings, held in Tokyo, Lisbon, Brussels, Canberra, Oslo and Dili during the transitional period, focused on implementation of the core program for reconstruction and restitution of government services. From the Brussels meeting onwards, a set of “reconstruction benchmarks” formed the core agenda of the meetings (Annex 1), where key milestones for the political transition, the administrative handover, economic and social reconstruction, and public finances were jointly monitored by the Government and donors. These meetings, while relatively resource-intensive to organize, proved effective in maintaining momentum in reconstruction activities. During the course of the meetings, Timorese leadership and technical personnel took an increased role in setting the agenda, developing background documents and chairing sessions, which acted as a useful capacity-building exercise for the post-independence phase where the Bank and the Government co-chair.

The field donor meetings have monitored progress against targets discussed in the larger meetings and acted as a communication channel on ad-hoc issues of interest to the Government and donors. The six-monthly joint donor missions organized around the Trust Fund for East Timor are generally judged by the Government and donors to be useful coordinating tools. They have improved over time in organization and focus, with more involvement of Timorese officials and field donor representatives. The missions are, however, uneven in their coverage. There are regular missions in health, education, agriculture, community development, and water and sanitation; less regular exchanges between donors in transport and private sector development; and no regular joint missions in areas outside the scope of the Trust Fund for East Timor. The justice and civil service capacity-building sectors were covered under CFET because of their close proximity to the day-to-day operations of UNTAET. While it is hard to separate this from other contributing factors, the absence of joint missions in the last two sectors may have contributed to the absence of a coordinated reconstruction strategy and relatively low resource availability for these sectors. For civil service capacity building, this has recently been improved through the identification of a unified list of post-independence technical assistance posts.

East Timor benefited from an early and concerted effort to rebuild the core economic institutions, including the establishment of sound budget and treasury systems from mid-2000. It was in this area that the assistance of the IMF was critical. The multi-year budget has constituted an important coordinating tool, and had the following benefits: (i) it focused donors on identified national priorities; and (ii) it drew explicit attention to the recurrent liabilities caused by aid-financed capital reconstruction programs, thus providing transparency and focus on fiscal sustainability. Achievement of the second objective appears to have been particularly successful, with an unusually high level of donor and Government debate around recurrent liabilities and fiscal sustainability.

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7 Close coordination between reconstruction activities and the peacekeeping operations, especially in infrastructure, also produced efficiencies between engineering work undertaken by the military and reconstruction activities under TFET.
In terms of the first objective, allocation of aid funds in line with national priorities, progress has been made but is incomplete. TFET programs are treated on budget and prioritized every six months by the Council of Ministers, but presentations on TFET’s financial status are still made by the World Bank and Asian Development Bank, it would have been desirable to transfer this knowledge more quickly to the Ministry of Finance. Most bilateral and UN agency programs are listed in the combined sources budget but are approved on an ad-hoc basis by the Government rather than prioritized as part of a structured budget process. The combined sources budget, in retrospect, is an area that could have received more capacity-building attention at the beginning of the reconstruction program.

The donor coordination process used during the transition culminated in the presentation at the Dili Donors Meeting, five days before independence, of the Government’s National Development Plan and three-year budget. This meeting was successful in mobilizing pledges sufficient to meet identified external financing requirements for a further three years, and equivalent in volume to the original three years of reconstruction funds pledged in Tokyo. All the initial donors supporting East Timor’s reconstruction have remained engaged, and some new donors indicated interest at the Dili meeting. All aid funds pledged to date in East Timor are grant based.

### Lessons learned: Financial mobilization and donor coordination

- Financial mobilization works best when donors are presented with a comprehensive needs assessment that addresses the issue of overlap between humanitarian assistance and reconstruction financing and establishes a link between recurrent and development expenditures. Joint presentation of humanitarian and development/reconstruction needs maximizes resources—there is no crowding out effect;
- Involving donors in planning and active joint monitoring of progress (through the JAM, the six monthly meetings, the benchmarks and joint sector missions, in the case of East Timor) is an effective way to encourage strong engagement and timely realization of pledges;
- Complex sources of aid financing are particularly difficult to manage and prioritize transparently in a post-conflict situation of low capacity. This could be at least partially addressed through efforts to simplify, in particular through rationalizing budgetary processes, together with specific investment in capacity-building of government officials and popular communication programs on aid;
- A coordinated set of reconstruction benchmarks across political, institutional, economic and social fields, together with frequent donor meetings, is a useful mechanism to focus efforts and maintain momentum;
- Trust Funds can leverage coordination even when they channel less than half of available reconstruction funds, but require specific coordination efforts (such as joint donor missions) to achieve this impact; and
- The budget provides the best anchor for Government-led aid coordination. However, specific capacity-building efforts need to be made early in the process to develop a true combined sources budget process, where all donors dialogue with government, in a timeframe consistent with the budgetary cycle, on the prioritization of resources.
V. Design and Implementation of Reconstruction Programs

It is impossible to do justice in a paper of this length to the achievements and problems faced in all the reconstruction programs undertaken in East Timor, or even in the TFET programs alone. A more detailed evaluation of the TFET is currently underway which should provide more in-depth conclusions. This section therefore seeks to highlight some general points on the design and implementation of the reconstruction programs, and some preliminary lessons, which the Bank has drawn from TFET implementation.

The previous section described the main mechanisms for aid delivery to East Timor. The rough division of labor initially agreed between the multilateral mechanisms was that CFET would focus on the establishment of the public administration, including recruitment and payment of civil servants and non-wage costs, rehabilitation of administrative buildings, capacity-building for generic management, technical systems and skills in the public administration, and the justice sector. Adding capacity building, public administration and justice issues to CFET, and not to TFET was deemed appropriate because of the ongoing nature of these efforts and their close links to the day to day recurrent work of the administration. CFET is analogous to a recurrent budget plus development budget for civil service capacity building and justice. TFET focuses on sector reconstruction in health, education, agriculture, private sector development, community development, roads, power and water and sanitation. TFET programs are implemented by the Government just as normal IDA or ADB projects, and function in a similar way to a development budget. Bilateral projects and those implemented by UN agencies cover all sectors (although the balance of funding varies, with some sectors such as health drawing the majority of their development funds from TFET and some relying more on bilateral funding).

In order to identify some preliminary lessons on the design and implementation of the reconstruction program as a whole, we have examined progress under the reconstruction benchmarks in various sectors under different types of objectives of the reconstruction program: to build technical and managerial capacity; to achieve rapid physical reconstruction; to restore service delivery; and to establish sustainable policies and institutions (see Table 2 and Annex 1 for the benchmarks). We have also looked at which sectors used a sector-wide approach, where all aid sources worked behind a unified plan. There are major weaknesses in this approach. The sectors started from a different baseline, with lack of national experience particularly in the justice and finance sectors. The benchmarks also differ in quality, such that a sector that did not achieve some of its benchmarks may simply have set a higher bar to begin with. In addition, our summaries are somewhat subjective. This is intended as a basis for debate, however, and could be built on further during more in-depth evaluations.

This cross-sector comparison indicates that virtually no area of the reconstruction program achieved all of these objectives in equal measure. This is hardly surprising—the transitional and reconstruction period was relatively short, the destruction of 1999 immense, and capacity in some sectors very low even before the ballot. A couple of other points are worth noting in this comparison. First, some sectors were much more successful than others in establishing policy and institutional frameworks and building national capacity. Second, these are not necessarily the sectors, which were most successful in achieving physical reconstruction targets. In the section that follows we look at some preliminary lessons for why these differences occurred and what could be done differently to achieve a better balance.
Table 2: Sector Comparisons of Progress During the Transition

<table>
<thead>
<tr>
<th>Sector</th>
<th>Clear policies, plans, systems, institutions</th>
<th>Strong technical, management capacity</th>
<th>Rapid physical reconstruction</th>
<th>Rapid restoration of service delivery</th>
<th>Sectoral planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Health</td>
<td>✓</td>
<td>✓</td>
<td>X</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Justice</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Defense</td>
<td></td>
<td></td>
<td></td>
<td>%</td>
<td>✓</td>
</tr>
<tr>
<td>Agriculture</td>
<td>=</td>
<td>✓</td>
<td>=</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Roads</td>
<td>=</td>
<td>X</td>
<td>=</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Water</td>
<td>✓</td>
<td>✓</td>
<td>=</td>
<td>=</td>
<td>✓</td>
</tr>
<tr>
<td>Power</td>
<td>X</td>
<td>X</td>
<td>=</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Public Admin.</td>
<td>=</td>
<td>X</td>
<td>=</td>
<td>%</td>
<td>X</td>
</tr>
<tr>
<td>Comm. Dev.</td>
<td>X</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>X</td>
</tr>
<tr>
<td>Private Sector</td>
<td>X</td>
<td>X</td>
<td>✓</td>
<td>%</td>
<td>X</td>
</tr>
<tr>
<td>Finance</td>
<td>✓</td>
<td>X</td>
<td>%</td>
<td>✓</td>
<td>X</td>
</tr>
</tbody>
</table>

✓ = strong progress made; = = partial progress made; X = weak progress made; % = Not applicable.

Why were some sectors relatively successful in establishing strong policies, institutions and management capacity? The involvement of relatively experienced Timorese counterparts early in the transition appears to be one distinguishing factor for these sectors. In agriculture and health in particular, the Bank and other donors worked with technical counterparts initially mobilized by CNRT for a long period prior to the completion of recruitment in the civil service. There was thus continuity in the debate on policies and systems over time, which was absent in the other sectors. Even in these sectors, however, the lag in the recruitment of senior Timorese civil servants into the new administration created a long period of uncertainty over the positions and responsibilities of counterparts. In particular, the decision to recruit into the civil service “from the bottom up” meant that, from mid-2000 through much of 2001, there were no Timorese civil servants in the senior and middle management levels. This left new Timorese cabinet members with too much demand on their time for relatively minor decisions, constrained capacity-building activities and prevented the critical management level from fully participating in important early policy debates. Early recruitment of national management teams, rather than a sole focus on junior civil servants or senior political appointees, must therefore be a critical lesson for any situation in which the civil service has collapsed after a conflict.

Sectors that maintained a strong relationship of information exchange with political leadership on the Timorese side also tended to succeed in following a more consistent policy. The situation of health, for example, where despite differences between the technical teams and political leadership, there were regular debates on policy, contrasts with the areas of land and property and justice, where there was often little interaction between technical teams — in particular international advisors—and Timorese political leadership. In general, targeting of training and information to political leadership (including military leaders) is one of the lessons that emerge from the East Timor program. In a situation where the changing

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8 Many of these technical counterparts (perhaps because they had qualifications in short supply) were also recruited into senior levels in the civil service or nominated to ministerial posts.

9 We are also grateful to Jim Tulloch for pointing out that, in the case of an international transitional administration, it is critical that national civil servants in different functions be recruited at the same time, since otherwise language difficulties are likely to prevent them from exercising all their functions.
post-conflict political dynamics are destabilizing for many leaders who have experience only in conflict or resistance, efforts to brief leadership such that they feel comfortable with “peacetime” reconstruction issues help both ensure the sustainability of reconstruction programs and bolster smooth transitions in the political arena.10 In addition, there appears to be some correlation between the sectors that undertook sectoral planning with donors and the establishment of clear policies and plans. Unified sectoral planning encourages a focus on sector policy and institutions as a whole, which may not be present when donors negotiate individual projects in a more disparate manner with the Government. Resulting lessons therefore may be to focus on mechanisms to recruit or otherwise formalize senior national counterparts early in a post-conflict transition, and the need for early adoption of a sectoral approach for planning.

The health sector also provides a useful example of an explicit transitional strategy to build national capacity. Timorese and international counterparts accepted at the beginning of the reconstruction period that Timorese/government capacity for public health management and service delivery would not immediately be adequate to take over from the humanitarian NGOs. A transition strategy was therefore used to progressively strengthen the Government’s capacity for public health management (Box 2). This was an effective manner of maintaining acceptable service standards while promoting national ownership of policy and planning and national capacity building.

### Box 2: Transition Strategy for Recovery of the Health System

The transition strategy in the health sector can be characterized in four phases, through which the health authorities gradually moved toward an integrated public health management system.

**Phase I:** During the initial emergency phase, NGOs reestablished essential services, saving lives and alleviating the suffering of a population traumatized by the recent violence. An Interim Health Authority (IHA) was established in February 2000 comprising 16 senior East Timorese health professionals in Dili and one in each district along with a small number of international experts. IHA staff made assessment visits to all districts in preparation of a first sectoral planning exercise.

**Phase II:** The health authority (now called the Department of Health Services) started work on the establishment of a policy framework, medium term planning for the sector and on national preventive programs, including immunization campaigns. During the second half of 2000, DHS signed Memoranda of Understanding with NGOs for each district; formalizing district health plans service standards, and initiated a basic system for distribution of essential pharmaceuticals.

**Phase III:** In April 2001, the Ministry of Health took over the financing of a majority of the NGOs in the districts. By the third quarter of 2001, the first round of recruitment of health staff had been completed. Most of these staff had previously worked with NGOs or on government stipends prior to finalization of the recruitment process. Several senior staff members in the department were also sent for public health management training.

**Phase IV:** At the request of the Government, NGOs gradually withdrew from the districts between September and December 2001, and the management of all health facilities was placed under the control of the Ministry of Health. International doctors were hired to replace departing NGO practitioners while Timorese doctors are being trained overseas, and five public health specialists were deployed to serve as relay between the Ministry and district health centers. A new Autonomous Medical Stores and associated tracking system were established for pharmaceuticals distribution. A few NGOs remained to provide specialized services on a countrywide basis.

The graph in Annex 3 shows the cost per capita and level of service during the transition from emergency to development phase.

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10 The Bank undertook a program of training for political and military leadership in East Timor on “Governance in transition”, in conjunction with the Harvard Kennedy School.
Why did these sectors frequently lag in physical reconstruction, and what could have been done to address this? In general (for government-led programs, at least), these sectors had difficulty in managing the necessary steps for the procurement of large-scale goods and works. Procurement and payment system problems emerge in most evaluations of operations in post-conflict countries. In East Timor, considerable success was achieved in establishing a functioning treasury and payments office early in the transition, so delays in making payments were largely avoided. Additional effort was also made in fielding international procurement staff, but this was still not sufficient to avoid delays in procurement processes. Some sectors suffered more problems in this area than others, primarily due to the degree to which they used community works as the principle vehicle for the early stages of reconstruction (see below on sectors which achieved rapid reconstruction). Larger reconstruction works, however, are not appropriate for community procurement, so other solutions must still be found to accelerate the process. Pre-qualification processes; use of a central procurement agent; the development of specific procurement guidelines for post-conflict situations; or outsourcing more of the physical works components to NGOs, under a standard national policy framework, could assist.

A key lesson of the East Timor program, however, relates to the trade-off between speed and national capacity building. Reconstruction programs unavoidably involve policy decisions as well as the provision of infrastructure. To have real national ownership over the policy-making process, a fairly long and inclusive process of policy discussion is needed. Intensive efforts to build human and institutional capacity also take time away from the management of emergency rehabilitation and services. This is a simple but plausible answer for why some sectors did well in institution-building but were less successful at rapid physical reconstruction—the energies of national counterparts and their international partners are limited, and time spent on one area distracts time from other activities. Finding the right balance is important. We perhaps need to lower our expectations that everything can be done within two years, all at the same time—but at the same time devise strategies which achieve some “quick wins” in service delivery while permitting national counterparts to focus on institution-building rather than fire-fighting.

Why were some sectors more successful than others in rapid physical reconstruction? The activities that succeeded in bringing widespread concrete physical reconstruction to zones outside Dili in 2000 were almost all community based. The community empowerment project, school rebuilding through a variety of funding sources, community irrigation schemes and labor intensive works projects all managed to deliver more quickly than the “top-down” sector approaches. This makes sense, in that local level institutions often survive dramatic conflict more intact than peak-level institutions, and thus tend to have more capacity to deliver in the initial stages of a post-conflict period. Nor is it incompatible with governance objectives. The community empowerment project (Box 3) and several of the other initiatives have strong components promoting participation and accountability for the use of funds as well as physical reconstruction. This project and many others in the community development sector have also made relatively strong progress in the handover of all management functions to Timorese staff.

Are there trade-offs involved in rapid reconstruction, and how can these be addressed? The sectors deploying Community Driven Reconstruction (CDR) initiatives do demonstrate some trade-offs between rapid action and coherent policy and planning. One example relates to operational policies on wages. The numerous CDR initiatives undertaken in East Timor during the transition applied widely differing wage policies, from “no-wage” as a community contribution; to market-based wages determined by the communities; to in-kind or cash wages as high as US$5 per day. This tended to undermine initiatives paying lower wages, and create long-term distortions in the labor market, which persist to this day.12

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11 See also Annex 4: CNRT/World Bank presentation to the Lisbon Donors Meeting, June 2000, notes that “the speed of program design has inhibited debate and capacity-building”.

12 The unskilled wage in East Timor is currently roughly three times the wage in neighbouring Indonesia. Our experience has been that cash wages are important to revitalise local markets, but that paying above long-term market wage levels has adverse effects on growth and development after the initial emergency period.
More coordination between Government and donors on this issue could have averted the problems encountered. A relatively good example of the combination of long-term policy analysis and rapid reconstruction, however, has been in the provision of physical infrastructure to the education sector. Here community and NGO rehabilitation was done in parallel with school mapping. The second phase of physical infrastructure rehabilitation then focused on deficits shown in the school mapping exercise.

**Box 3: The Community Empowerment and Local Governance Project**

Signed in February 2000, the Community Empowerment Project (CEP) was the first project to commence activities under TFET. This nationwide program finds its foundation in the core principle that communities should be ‘empowered’ with their own development. The project supports: (i) the creation of democratically elected village development councils, and: (ii) the provision of funds to the councils to undertake local reconstruction projects.¹

CEP mobilized very quickly, completing both council elections in every rural village in the country and its first cycle of local reconstruction projects between February and November 2000. The project has to date funded more than 1,000 community projects including the building of 39 bridges, 214 km of roads, 104 wells and 131 km of pipe water supply, providing employment to more than 22,000 men and 12,600 women. The councils have also lent money to support 325 proposals for economic activities from a revolving funds that once repaid can be lent to other groups. The project is managed by a wholly Timorese team with the exception of an international financial manager.

Two and half years of project implementation have brought interesting challenges and lessons. The most important lesson is summarized below:

- Initial results from CEP are that there are significant efficiencies from a model where communities manage their own resources, both in speed of reconstruction and low unit costs.¹³
- The infrastructure activities have performed better than the microfinance activities: the latter would be better addressed through more tailored microfinance institutions.
- Governance in the local councils is variable, with some councils functioning with very widespread participation and others dominated, particularly in the early stages, by local elites. Women members (councils have equal numbers of men and women) initially lacked confidence in discussions but have gained a stronger presence over time. Continued capacity building is needed for both male and female council members to reinforce governance objectives.
- The initial project did not address the long-term strategy for local governance, or relations between voluntary councils and sub-national government structures. While this permitted rapid launch of the project, it now requires attention to ensure the sustainability of the structures. An explicit transition strategy to plan discussions on local governance would have been useful to adopt at the beginning of the project. The project has, however, strengthened the ability of communities to participate in the discussions on local governance currently taking place, which is in itself an advantage.

**The Trust Fund for East Timor**

IDA has assisted the Government in monitoring all the reconstruction sectors through the six-monthly donors meetings, but has had direct involvement in a more limited number of sectors through our economic monitoring work and the Trust Fund for East Timor (see Annex 2 for a description of TFET activities and outputs). Within the TFET, a number of specific preliminary lessons have emerged on design and implementation issues. These include issues related to sequencing, design elements, project

¹³ Evaluations of project unit costs under CEP have shown that the community-driven mechanisms deliver extremely cost-effective reconstruction. The average IRR for water projects sampled was 20 percent, while for roads it was 26 percent. When compared with similar water supply projects constructed under traditional programs the cost/household for CEP was US$92 compared with US$152 in the traditional projects.
processing procedures, Timorese ownership and government implementation. The preceding section has already discussed TFET’s role in donor coordination, so this will not be repeated here.

The sequencing of the TFET projects, which was proposed by the Timorese leadership to the TFET donor council, appears to have worked fairly well. The initial batch of projects in 2000 used primarily community, NGO and private sector implementation mechanisms. This permitted the rapid launch of local reconstruction initiatives and labor-intensive works and the re-capitalization of Timorese businesses. The choice of a nationwide community-driven reconstruction program as the first TFET reconstruction project was particularly significant. It gave a signal on the priority that leadership placed on reaching the population most in need, and instilled from the beginning a sense of the importance of participatory reconstruction planning and democratic local institutions.

These programs were quickly followed by different sector initiatives in health, education, agriculture, roads and water and sanitation. The use of quick-disbursing programs implemented through non-government mechanisms early on succeeded in providing some concrete reconstruction activities on the ground while these larger sector initiatives built up project management capacity and tendered out larger reconstruction works. The second-generation programs under the TFET have tended to move from primary to secondary or tertiary infrastructure, and from largely physical rehabilitation to stronger emphasis on systems and quality of service provision, adjusting over time to emerging needs.

The TFET programs typically contained four types of component activities: (i) community rehabilitation works, (ii) larger civil works, (iii) policy studies, and (iv) training and technical assistance. Those programs which allocated substantial funds to community works components as well as works executed through private contractors were more successful in delivering quickly while the larger contracts were under tender. Policy planning and training have become an increasingly obvious need over time in East Timor. The first TFET projects contained (with the exception of health) relatively small components in this area. In part this was due to lack of clarity regarding which of the international sources of finance (TFET or CFET) would provide for this need, and in part on perceptions that physical rehabilitation and service delivery were more urgent. In retrospect, stronger emphasis on policy and technical training would probably have been desirable from the beginning, provided this could be done in parallel to efforts to restore service delivery and rehabilitate infrastructure. It would certainly have helped to alleviate the shortage of skills and experience that East Timor faces now as the international experts are gradually leaving.

The Bank attempted to speed up delivery through the use of its emergency lending procedures (applied to grants, in the case of East Timor). The East Timor TFET projects were indeed prepared far more rapidly than “normal” IDA operations—an average of 3.5 months preparation time compared to 15 months Bank-wide. Projects were designed in a flexible manner on the understanding that concepts were to be constantly adjusted and fine tuned during implementation. Initiation of activities on the ground also occurred quickly for the programs disbursing through community structures and private sector organizations, with nationwide programs underway by mid-2000. This prevented any gap between the relief and reconstruction phases, with humanitarian aid continuing well past the start of the principal reconstruction programs. That there was no gap between humanitarian and development assistance is certainly one of the remarkable lessons from the East Timor experience. It points to the need for simultaneous planning of long-term development/reconstruction activities and short-term humanitarian assistance.

As in other post-conflict countries, procurement issues caused major problems in initiating activities for some of the larger infrastructure rehabilitation components. Procurement has already been discussed

14 Under Operational Policy 8.50
above—we would recommend more attention to pre-qualification, the use of a procurement agency, or greater outsourcing of the initial civil works components to NGOs. Other enhancements within IDA’s procedures which could be used to accelerate project start-up include: (i) faster deployment of experienced staff to the field; (ii) better use of technology, in particular with regard to legal documents and disbursement processing; (iii) specific guidelines for post-conflict procurement; and (iv) the development of simplified project documentation and processing procedures, in particular for small projects. Overall, however, the volume of outputs via the TFET has been high in the 2½-year period of its existence and it has played a large part in meeting the core reconstruction needs identified at the time of the Joint Assessment Mission.

Timorese ownership of project identification and design has been a consistent principle in the TFET, and started well with cooperation in the joint assessment mission. The TFET was however dogged through the transition by the lack of formally recognized Timorese government counterparts (most senior civil servants were only recruited in mid-to-late 2001). In practice the Bank and ADB tried to address this by involving counterparts mobilized by CNRT (or later, by Timorese ministers) in project design and implementation. The Banks also insisted on the presence of Timorese counterpart teams for negotiation of the projects. Many of these counterparts were unpaid and occupied with other tasks, which meant that their involvement was uneven over the early period of reconstruction. As discussed in relation to the general reconstruction program, earlier recruitment of senior Timorese civil servants or alternative mechanisms to recognize the role of national counterparts could have helped address the risks of political tensions or lack of program ownership which arise when national counterparts do not have formal positions.

The trade-off between national ownership and capacity building and speed of reconstruction is demonstrated by the performance of the TFET project management units (PMUs). These were established in each ministry to manage project implementation. Additional international staff was provided, primarily for financial management and procurement functions. The PMUs have varied in their performance regarding ownership and national capacity-building. In sectors such as health, where the PMU is in essence the core of departmental management, they have been closely integrated, with strong Timorese ownership, and have achieved good institutional capacity-building. In sectors where they lie outside the departmental structure, such as transport, there have been problems of lack of accountability between the project staff and government staff. In these sectors, however, they have at times achieved physical reconstruction targets faster than when the PMU was more integrated. In retrospect, a more consistent transitional strategy of the type used in the health sector might have been used effectively, bolstered however by more intensified procurement assistance to speed up implementation.

An issue that we have considered in developing this paper is whether Bank policy on government implementation is appropriate to facilitate speedy reconstruction in post-conflict countries. While we believe flexibility and resources are needed in project preparation and start up to deploy personnel directly on Bank as opposed to Government contracts, we tend to feel overall that Bank policy regarding Government implementation is well-suited to most post-conflict countries.

Government implementation, even when difficult, has enormous benefits in long-term ownership and institution building. It was notable in East Timor that the process of negotiating IDA and ADB programs, which involved detailed discussion of the program design and relative responsibilities of the Banks and Government, was in itself a capacity-building exercise. Flexibility always exists for the Government to outsource implementation to other agencies until capacity increases in the administration, but the basic principle of government-led reconstruction is important to bolster the role of post-conflict administrations. Successor states in many post-conflict countries have great hopes for nation building but few resources to compete with non-government entities in setting the reconstruction agenda. Channeling a significant part of reconstruction aid through the state can give new national leadership a chance to
create a more legitimate and positive role for the state than may have been the case for the country in the past; and can build longer-term capacity for good governance.

It must also be noted, however, that the focus on governmental implementation of TFET, at least initially, created some tensions between the Bank and United Nations Agencies and NGOs. The Resolution Establishing the Trust Fund for East Timor (Resolution 99-8, IDA 99-5) did not generally exclude UN Agencies or NGOs as recipients of Trust Fund resources. Indeed, early on, UNDP was selected to implement the Dili Waste Management Project under a direct agreement with TFET. NGOs were subcontracted under Grant Agreements between TFET and UNTAET to assist in implementing programs in community empowerment and in health, but the strategic focus of TFET on Government-led reconstruction did not allow for a major role for UN Agencies or NGOs under TFET. Not surprisingly, therefore, some agencies and NGOs felt that the Bank deliberately excluded them from access to TFET resources. In assessing these grievances it is important to note that TFET was not the only source of financing in East Timor. CFET, the Trust Fund administered by UNTAET provided funding for governance and capacity-building projects—a traditional area of emphasis for UNDP. NGOs had access to humanitarian assistance funding that extended into the full range of reconstruction projects. Also, bilateral donors continued to fund UN agencies and NGOs directly. In sum, TFET’s strategic choice for Government-led reconstruction projects did not exclude UN agencies and NGOs from access to available funding, albeit outside of TFET.

In expressing our preference for Government-led reconstruction efforts we would like to emphasize that this preference is very much based on country specific considerations. As stated before East Timor had a highly legitimate political process combined with a nascent administration with low capacity. To work with the emerging Government was a logical choice in this case, both to provide it with the opportunity to build capacity and to bolster the legitimacy of the new authorities. But in cases where government legitimacy is not widely accepted in the country or where the government is an existing regime or a resistance movement with a record of serious governance problems, for example on human rights or corruption issues, alternative reconstruction mechanisms may be preferable that can meet the basic needs of the population without fuelling state governance problems with an enormous influx of aid monies. In turn, this would seem to have implications for the Bank’s role. When working outside government structures, other agencies and institutions may have a comparative advantage over the Bank’s usual modus operandi and vice versa. Assessing the role and capacity of governments in a post-conflict country, in short, should drive the relative role of agencies and institutions on the international side.
Lessons learned: design and implementation of reconstruction programs

The reconstruction program overall:

- There is a trade-off between sustainable national capacity building and rapid reconstruction. Sector strategies should be based on realistic targets and take account of both objectives in their initial planning;
- Sequencing is critical in situations of both low institutional capacity and widespread needs. Two key components of this are a focus on community works at the outset while larger capital programs are under development, and the use of community, NGO and private sector implementing arrangement in the initial period while central state structures rebuild. This early period also requires attention to treasury, payment and procurement systems to avoid later problems in implementation.
- These rapid reconstruction instruments need to be combined with the development of explicit transitional strategies to move from emergency non-government implementation arrangements to government-managed services and development programs. Early adoption of such transition plans can work well in allowing space for institutional capacity building while maintaining adequate service delivery.
- Early and consistent involvement of national counterparts encourages a stronger emphasis on sustainable policy and institutional development and capacity building. To have generalized this principle in East Timor would have required earlier recruitment of senior personnel for the civil service or other mechanisms to formalize national counterparts;
- Unified sectoral programming also encourages a stronger focus on sector policy and institutions rather than individual project initiatives;
- Targeting training and information on reconstruction issues to political and military leadership helps to ensure consistent policy direction and bolsters transition in the political arena.

For IDA programs:

- Government-led and managed reconstruction can have substantial benefits in longer-term capacity building and fostering a legitimate role for the state, without a significant downside in speed of reconstruction.
- The sequencing of TFET projects worked well. Project design could have somewhat increased the emphasis on policy and institutional components, and standardized the type of transition strategy for public management used in the health sector.
- Project management units may provide useful additional capacity to government-led reconstruction efforts, but are most effective when integrated into departmental structures;
- Project implementation was sufficiently fast to avoid a gap between humanitarian and reconstruction phases. Implementation needs to be further accelerated through the faster deployment of experienced staff to the field, better use of technology in project processing, specific emergency procurement guidelines and the development of simplified documentation for post-conflict projects. These points are critical to strengthen the institutional capacity for the Bank to respond flexibly in post-conflict countries.

VI. The Legacy at the Point of Independence

East Timor completed its transition to independence on May 20, 2002, after peaceful elections for the constituent assembly and presidency, and rapid drafting of the constitution. Much had already been achieved in the reconstruction programs at this point. The economy had recovered to aggregate pre-crisis levels, although with a change in composition toward urban services. The majority of the infrastructure rehabilitation needs identified in the joint sector mission had been completed, with the exception of some larger works such as hospital upgrading, bridges and large irrigation schemes, which were still in the design phase. Basic levels of service delivery in health and education had been restored across the country and transferred to public management.
Table 3 shows a comparison of core development indicators pre-crisis and in November 2001—given the level of destruction in 1999, these show that substantial recovery had already been achieved two years later. This would have continued in 2002, so it is likely that the degree of recovery in development indicators at the time of independence was very close to complete. This does not, of course, mean that the population is living in good conditions. East Timor was extremely poor before the 1999 crisis, and sustained improvement in poverty reduction and living standards will continue to be a challenge in the coming decade.

| Table 3: Development Indicators Prior to 1999 and in Fall 2001 |
|---------------------------------|----------------|----------------|
| Indicator                       | Pre-1999 | 2001          |
| GDP (current US$)               | 390      | 389           |
| Rural households with animal holdings | 90%     | 80%           |
| Average animal holding per household | 2.1     | 2.2           |
| Net primary enrollment         | 65%      | 75%           |
| Net secondary enrollment       | 27%      | 30%           |
| Net female primary enrollment  | 68%      | 76%           |
| DPT immunization               | 13%      | 9%            |
| Access to piped water or pumps  | 30%      | 42%           |
| Access to potable water         | 66%      | 50%           |
| Electrification                | 35%      | 26%           |

Sources: Timor Living Standards Survey; SUSENAS; IMF estimates

Government has also made rapid progress in laying the basis for longer-term development, through the production of a National Development Plan and medium-term expenditure framework prior to independence. This has been a particularly positive aspect of the immediate post-independence period—the fact that the new state arrived at independence with a clear plan has averted the risk of loss of momentum or lack of coordinated purpose in the Government’s actions. The Government has also been largely successful in overcoming the many logistical problems experienced immediately after independence with the withdrawal of the UNTAET support structures. Immediately after independence, the Government derived from the National Development Plan a one-year priority program for FY02/03, with detailed quarterly targets. This builds on the progress made with earlier benchmarking exercises, and assists in operationalizing the national development plan. Discussion of the one-year priority program that has taken place between the Government and donors since May 2002 has been instructive in identifying risks and weaknesses in the transitional and reconstruction process that preceded independence.

The priority program identified by the Government focuses on four areas: (i) continued poverty reduction planning and service delivery; (ii) governance; (iii) public expenditure management; and (iv) the power sector. Annex 3 shows the Government’s priority program for 2002/03.

In the poverty reduction planning and service delivery area, donors and other stakeholders have generally complimented Government on its progress in producing the National Development Plan and one-year program. Actions in this area relate to on-going efforts to improve poverty reduction strategies within Government, rather than specific weaknesses in the situation inherited at the moment of independence, and therefore do not point to specific “lessons learnt” on the transition. Exceptions to this occur in two areas: (i) the absence of a veteran’s policy, which was judged to present a risk of social instability if not addressed; and (ii) attendance of teachers and health-workers, where absenteeism of some civil servants

15 Problems associated with the status of veterans stem from earlier events in the transition. FALINTIL, the resistance’s military arm, had restricted their fighters to cantonments prior to the 1999 ballot. During the period of humanitarian crisis in late 1999 and early 2000, as former combatants FALINTIL members were denied access to humanitarian assistance. This led to increasing
risks disruption to service delivery. These areas could possibly have been addressed earlier in the transition.

In the governance area, a number of more immediate gaps or problems are providing a serious challenge for stability and development in the first year after independence. These include: (i) a legislative vacuum, in particular the absence of legislation on the functioning of the justice system, of a civil service code, and of property rights/land claims and commercial legislation; (ii) lack of Government capacity for legislative drafting; (iii) no structured process for policy and legislative debate, and low capacity in parliament to debate legislation; (iv) lack of capacity in the judiciary to interpret and apply the provisions of the constitution and other existing and planned laws; (v) the urgent need for institution-building, in particular of institutions established by the constitution, such as the supreme court, the court of accounts and the ombudsman; and (vi) some emerging problems of corruption and lack of discipline in the civil service.

The Government has clear targets to address these areas in the first year, but they constitute a great challenge in the post-independence transition. In particular, East Timor in 2002 shows in very stark terms the critical nature of the justice sector for all other areas of development. To give a few examples, the civil service cannot systematically sanction bad performance because no legal framework exists; citizens who complain about bribery cannot expect redress or accused civil servants expect due legal process; private sector development cannot take off because firms cannot rely on stable property rights or enforcement of contracts. These weaknesses limit long-term recovery and diminish faith in the institutions of the post-conflict state, which in turn risks the re-emergence of social unrest or destabilizing political forces.

The third area of focus in the post-independence program has been public expenditure management. Donors and IFIs have in general been complimentary of the fiduciary systems established under the transitional administration and of the pro-poor nature of the budget. Priority actions in these areas related primarily to small initiatives to tighten existing systems, and to the challenge of transferring public expenditure management functions to Timorese hands (at present most key functions in the Ministry of Finance and central payment office are held by international managers). For the power sector, Government and donor discussions noted that this was close to crisis at the moment of independence, with no management capacity, a non-functioning billing system, the provision of a financially unsustainable and regressive subsidy, and inadequate physical and financial planning to provide for long-term commercial and residential use. Urgent actions to be undertaken include the outsourcing of management capacity and the meeting of ambitious targets for cost recovery. Moving from a situation of largely free electricity (which is financially unsustainable) to normal cost recovery will incur risks of social and political instability in the fragile post-independence period, as this is an unpopular decision for any government to have to implement. Perhaps this issue could have been more appropriately addressed during the political transition, prior to the raising of expectations on the receipt of free electricity.

Through this short “window of opportunity” perspective, one could argue that sustainable policies should be implemented early on, or tendencies will develop that are difficult to reverse later on. This argument would also apply to anti-corruption measures. In East Timor, corruption could perhaps have been addressed more aggressively immediately after the initial re-recruitment of the civil service. Generally, the above principle would apply also to decisions on the size of the civil service (since later retrenchments discontent and dissatisfaction. FALINTIL was finally disbanded in February 2001 and the new East Timor Defense Force formed, after protracted discussions on East Timor’s security strategy. A third of its men were then recruited into the new National Defense Force and a program co-financed by the World Bank and USAID supported the demobilization of the rest. However, the long period of uncertainty from September 1999 to February 2001 provided an opportunity to mobilize disgruntled members of both the armed and civilian resistance movement as a future power base to further their political agenda. If not addressed the issue could be a source of destabilization that might impact on the development prospects of the country.
are much harder to implement than limiting initial re-recruitment) and to efforts to build a culture of taxation, although in the case of East Timor these two elements were built in at the beginning to the reconstruction program.

These areas are interesting in that they point to gaps in the transitional and reconstruction programs. In this sense they provide perhaps the most concrete input possible to “lessons learnt”, in that unlike the (relative) success story described in the preceding sections, they identify the problems that the international community and the transitional administration did not succeed in helping the Timorese to resolve during the transition. No reconstruction program is perfect, and this should not detract from the many achievements during the transition period. The initial reconstruction and transition period in East Timor was also relatively short, and it is natural that many issues remain unresolved. For future post-conflict operations, these gaps do however point to an important lesson on the sequencing of interventions, and the need for earlier action on these critical areas for longer-term development.

Lessons learned: the legacy at the point of independence

- Earlier efforts in reconstruction planning and setting clear benchmarks, followed by the national development planning process, have helped give a strong sense of direction and prioritization in the post-independence period.
- Areas that made stronger progress in policy and institution building during the transition are now reaping the benefits through the relatively smooth functioning of some of the key service delivery sectors and the public expenditure management system. Earlier attention to policy and institution building, rather than a simplistic focus on disbursements and physical reconstruction targets, would produce a more consistent focus on these areas.
- Lack of institutional and capacity building in the justice sector can constrain the transition from reconstruction to development across all other sectors and risk political or social instability. A stronger transitional and capacity-building strategy for the justice sector, adopted at the beginning of the reconstruction period, could act to minimize these constraints.
- Areas where there is a short window of opportunity in a post-conflict period to take steps to improve long-term development sustainability include: (i) the size and wage policy of the civil service; (ii) anti-corruption measures; and (iii) taxation and cost recovery. Where these are not addressed, it is much more difficult to reverse a negative outcome later down the line. Policy debate in these areas should be introduced early on in the planning of reconstruction programs.
## Annex 1: Key Benchmarks: Progress date

<table>
<thead>
<tr>
<th>Political Affairs</th>
<th>Administrative Handover</th>
<th>Defense Force</th>
<th>Foreign Affairs</th>
<th>Law and Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Training plans completed by department</td>
<td>✓ Selection of personnel and coordination of overseas training opportunities decided (achieved in April)</td>
<td>✓ Foreign Affairs Department staffed at 50% (achieved by June)</td>
<td>✓ Organigrams and structures in place</td>
<td>✓ 250 trained local police</td>
</tr>
<tr>
<td>✓ Options paper to address supply/procurement issues (achieved in April)</td>
<td>✓ Review/revision of departmental organigrams and staffing plans (achieved by September)</td>
<td>✓ Foreign Affairs Department staffed at 50% (achieved by June)</td>
<td>✓ Organigrams and structures in place</td>
<td>✓ phase 1 of Integration Plan</td>
</tr>
<tr>
<td>✓ Review/revision of recruitment process and criteria</td>
<td>✓ Recruitment process for all director-generals and &gt;35% of level 5-7 process initiated</td>
<td>✓ Foreign Affairs Department staffed at 50% (achieved by June)</td>
<td>✓ Organigrams and structures in place</td>
<td>✓ Restructure of CIVPOL</td>
</tr>
<tr>
<td>✓ Recruitment process for all director-generals and &gt;35% of level 5-7 process initiated</td>
<td>✓ Foreign Affairs Department staffed at 50% (achieved by June)</td>
<td>✓ Organigrams and structures in place</td>
<td>✓ Restructure of CIVPOL</td>
<td>✓ Dili, Baucau and Oecussi District Courts fully operational</td>
</tr>
<tr>
<td>✓ Foreign Affairs Department staffed at 50% (achieved by June)</td>
<td>✓ Organigrams and structures in place</td>
<td>✓ Restructure of CIVPOL</td>
<td>✓ Dili, Baucau and Oecussi District Courts fully operational</td>
<td>✓ Becora, Gleno and Baucau Prisons fully operational (achieved by June)</td>
</tr>
</tbody>
</table>

### December 2000
- Workshops to agree detailed implementation strategies held in all sectors

### Jan
- Workshops to agree detailed implementation strategies held in all sectors

### March 2001
- Workshops to agree detailed implementation strategies held in all sectors

### May
- Workshops to agree detailed implementation strategies held in all sectors

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Legend: ✓ Achieved 30 September; ≈ Partially achieved; × Not achieved

Note: where a benchmark was achieved later than required, the month in which it was achieved is given in brackets.
<table>
<thead>
<tr>
<th>June 2001</th>
<th>Political Affairs</th>
<th>Administrative Handover</th>
<th>Defense Force</th>
<th>Foreign Affairs</th>
<th>Law and Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Commissioners are sworn in collectively by the Transitional Administrator</td>
<td>✓ &gt;90% of level 5-7 recruited</td>
<td>✓ 600 soldiers recruited</td>
<td>✓ Fully functioning Department of Foreign Affairs</td>
<td>✓ Total of 800 trained local police</td>
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<tr>
<td>✓ Nationwide campaign of public education on basic constitutional themes and issues (to 15 May)</td>
<td>✓ &gt;70% of positions with statutorily established authority held by East Timorese</td>
<td>✓ Reinsertion program fully operational</td>
<td>✓ Proposal for foreign Representation brought forward in Budget context</td>
<td>✓ Extension of village posts to remaining districts</td>
<td></td>
</tr>
<tr>
<td>✓ Independent Electoral Commission holds first sessions</td>
<td>✓ Reductions in international staff as per plans (achieved by September)</td>
<td>✓</td>
<td>✓ Completion of the Needs analysis study to guide development of the Integration Plan.</td>
<td>✓ Law Reform Commission established</td>
<td></td>
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<tr>
<td>✓ Civic education programs delivered at the grassroots by East Timorese trainers</td>
<td>✓ &gt;40% of training days delivered against plan</td>
<td>✓</td>
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<tr>
<td>✓ Political party agents recruited and trained</td>
<td>✓ &gt;60% capital budget and &gt;80% goods and services budget disbursed by departments</td>
<td>✓ Agreed performance management system introduced for 2001-02</td>
<td>✓</td>
<td></td>
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</tr>
<tr>
<td>✓ Civil registration concluded (20 June)</td>
<td>✓ All departments have completed training plans for 2001/2002</td>
<td>✓</td>
<td>✓ Detailed profile of international TA requirements finalized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Electoral roll produced</td>
<td>✓ Performance management system introduced for 2001/2002</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Voter and electoral system information campaigns launched</td>
<td>✓ Capital and goods and services spending within 10% of CFA estimates</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ District level electoral staff recruited</td>
<td>✓ 50% of goods and services, by dollar value, procured and delivered within 30 days of order, 80% within 90 days and 100% within 180 days</td>
<td>✓ Transfer of UNTAET’s protocol division to DFA</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Detailed profile of international TA requirements finalized</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ Planning for transfer of common services completed</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>September 2001</th>
<th>Political Affairs</th>
<th>Administrative Handover</th>
<th>Defense Force</th>
<th>Foreign Affairs</th>
<th>Law and Order</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Finalization of party slates of candidates and lists of independent candidates</td>
<td>≈ &gt;90% of level 1-4 recruited</td>
<td>✓ First group of Timorese diplomats identified for diplomatic postings</td>
<td>✓ Public Notary offices established in Dili and Baucau</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Official start of a six week election campaign</td>
<td>≈ &gt;90% of positions with statutorily established authority held by East Timorese</td>
<td>✓ Definition of functions, tasks and procedures, initial structure and functions of the Department</td>
<td>✓ Improved prison conditions and management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Constitutional Commissions complete public hearings and prepare report for the Constituent Assembly</td>
<td>✓ Reduction in international staff in accord with de-escalation plan</td>
<td>✓ Additional recruitment of 12-15 diplomats</td>
<td>✓ Improved interventions by Defense Counsel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Final voters roll completed</td>
<td>≈ Generic management and skills training provided in line with established training targets for managers, languages, induction and computing</td>
<td>✓ Transfer of UNTAET’s protocol division to DFA</td>
<td>✓ Total of 1050 trained police officers, including some 400 ex-police</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Recruitment and training of vote counting staff</td>
<td>✓ All departments have completed training plans for 2001/2002</td>
<td>✓ Begin the process of identification of international treaties and agreements to which East Timor may accede</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Election vote counting completed</td>
<td>≈ Performance management system introduced for 2001/2002</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Certified results announced</td>
<td>✓ Capital and goods and services spending within 10% of CFA estimates</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>✓ Constituent Assembly sworn in</td>
<td>✓ 50% of goods and services, by dollar value, procured and delivered within 30 days of order, 80% within 90 days and 100% within 180 days</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>≈ Detailed profile of international TA requirements finalized</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>≈ Planning for transfer of common services completed</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Public Finances
- Budget spending running at least 50% of estimates (overtaken)
- Customs and excise rates modified and in place
- Wage income tax in place
- Budget review completed and appropriations legislation approved by Cabinet and NC

### Agriculture/Economy
- Rice and maize production at 70 percent (120,000 MT) of 1997 levels
- Buffalo and cattle vaccination completed (achieved in January)
- Hand tool distribution benefiting 4,000 families completed
- 5,000 hectares of irrigation areas recovered (including 45 community schemes) (achieved in February)
- Ministry of Agriculture operational and all staff recruited

### Health
- Selected essential drugs and medical supplies to last 6 months
- Two rounds of National Immunization days (polio and Vitamin A) completed
- Sites agreed and design underway for 25 priority health centers.
- Policy papers on health financing and role of the private sector
- National Center for Health Education and Training (NCHET) operating in temporary site

### Education
- 300 schools at basic operational level (achieved in March)
- > 80% of books received distributed
- 500 scholarships underway
- Application procedures for new teachers publicized

### Infrastructure
- Agreement with Education on
- Budget spending running at least 50% of estimates (overtaken)
- Customs and excise rates modified and in place
- Budget review completed and appropriations legislation approved by Cabinet and NC

### Workshops to agree detailed implementation strategies held in all sectors

### December 2000
- Budget spending running at least 50% of estimates (overtaken)
- Customs and excise rates modified and in place
- Wage income tax in place
- Budget review completed and appropriations legislation approved by Cabinet and NC
- Rice and maize production at 70 percent (120,000 MT) of 1997 levels
- Buffalo and cattle vaccination completed (achieved in January)
- Hand tool distribution benefiting 4,000 families completed
- 5,000 hectares of irrigation areas recovered (including 45 community schemes) (achieved in February)
- Ministry of Agriculture operational and all staff recruited
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- Sites agreed and design underway for 25 priority health centers.
- Policy papers on health financing and role of the private sector
- National Center for Health Education and Training (NCHET) operating in temporary site
- 300 schools at basic operational level (achieved in March)
- > 80% of books received distributed
- 500 scholarships underway
- Application procedures for new teachers publicized

### January
- Budget spending running at least 60% of estimates (overtaken)
- Third quarter update completed by mid April
- Timorese counterparts in place for senior CFA positions, or agreement on need for continuing international TA in line positions in CFA (achieved by September)
- Buffalo and cattle vaccination completed
- District agriculture offices fully functional (buildings, staff, equipment, transport)
- 3-5 Pilot Agriculture Service Centers established
- Quarantine regulations and other standards for animal and plant products issued
- Joint donors sectoral review
- Private sector credit line operational
- Commercial legal framework adopted
- Framework study for 9000 ha of major irrigation works completed (achieved by June)
- Land use mapping and GIS information started
- Health administration recruitment completed and line authority transferred (achieved by June)
- More than 40% of health facilities selected in district health plans appropriately utilized
- 30% of children under 1 immunized (achieved by September)
- Hospital needs and capacity assessment completed (achieved in August)
- Strategic plans for prevention and control of Malaria, TB, STDs/HIV/AIDS developed and circulated
- Stakeholder consultations on key policy options papers
- National vision and mission statement published
- 600 schools at basic operational level (achieved by September)
- Furniture for 40,000 students produced and delivered (achieved by September)
- Recruitment of 1,000 teachers
- 1,000 scholarships underway
- University rehabilitated and re-opened, limited faculties
- 50% Input consultancies for policy and curriculum contracted
- Educational administrative processes defined (achieved by September)
- Establishment of 4 infrastructure regional offices
- 25 Third phase road maintenance contracts awarded
- Medium to long-term business plans drafted for Aviation, Ports, Roads and Water (achieved in June)
- Compliance with international safety standards for Dili and Baucau airports
- Maximum of 18 vessels delayed at port
- 1 Comoro PS generating set overhauled
- Paper on establishing autonomous authority — 28 Feb. (achieved by June)
- Land and Property dispute resolution training program designed
- 13 District Land and Property offices established and equipped
- Rental policy and administrative procedures in place (achieved by June)
- Abandoned buildings and unauthorized occupations policy in place

### Comprehensive review of sector plans, including progress against targets and modifications of targets undertaken
<table>
<thead>
<tr>
<th>Public Finances</th>
<th>Agriculture/Economy</th>
<th>Health</th>
<th>Education</th>
<th>Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Revenue estimates and five year financing requirement identified and agreed with IFIs</td>
<td>✗ Agriculture policy options paper finalized and circulated</td>
<td>✗ 150 Health posts established with equipment to provide basic primary health care in accordance with District health care plans</td>
<td>✗ Strategic policy options paper completed</td>
<td>✓ Establishment of community based road maintenance contracts covering the core road network (300 km)</td>
</tr>
<tr>
<td>25% of Budget in order to meet revenue targets (achieved in July)</td>
<td>✗ 70% of chickens and pigs vaccinated (achieved by September)</td>
<td>- Evaluation of District Health Plan implementation</td>
<td>- 780 schools at basic operational level</td>
<td>Independent Power Authority legally established from July</td>
</tr>
<tr>
<td>- Baseline surveys and inventories completed (achieved by September)</td>
<td>✗ Agricultural credit program underway</td>
<td>- Ongoing refresher and upgrade training of health workers at NCHET (achieved by September)</td>
<td>- Ministry of Education building rehabilitated and equipped (achieved by September)</td>
<td>Plan for rural power station rehabilitation finalized</td>
</tr>
<tr>
<td>- Strategic policy options paper finalized and circulated</td>
<td>✗ Agricultural credit program underway</td>
<td>- Design of regional hospitals completed</td>
<td>- District educational offices operational</td>
<td>Final business plans for Aviation, Ports, Roads and Water, including proposed service standards and financing requirement identified</td>
</tr>
<tr>
<td>- Coffee technology and horticulture center operational</td>
<td>✗ Fish hatcheries completed</td>
<td>- Post Independence policy options paper finalized and circulated</td>
<td>- Training of personnel in education administration and management</td>
<td>Strategic policy options paper finalized and circulated</td>
</tr>
<tr>
<td>- Second phase of boat building training completed</td>
<td>✗ Second phase of FAD completed</td>
<td>- Joint donors review completed</td>
<td>- School mapping study completed (achieved by September)</td>
<td>Final business plans for Aviation, Ports, Roads and Water, including proposed service standards and financing requirement identified</td>
</tr>
<tr>
<td>- Second phase of FAD completed</td>
<td>✗ Baseline surveys and inventories completed (achieved by September)</td>
<td>- Revenue collection for the third and fourth quarters of 2000-01 exceeded 90% of estimate and monthly profiles prepared</td>
<td>- Land allocation database operational</td>
<td>Joint donors review completed</td>
</tr>
<tr>
<td>- Revenue collection for the third and fourth quarters of 2000-01 exceeded 90% of estimate and monthly profiles prepared</td>
<td>✗ Livestock and feed distributed according to targets</td>
<td>- National Center for Health Education and Training established</td>
<td>- L&amp;P administrative systems and manuals in place for all districts</td>
<td>L&amp;P administrations operating effectively in all districts</td>
</tr>
<tr>
<td>- Revenue collection for the third and fourth quarters of 2000-01 exceeded 90% of estimate and monthly profiles prepared</td>
<td>- 2 workshops on coffee improvement for 18 sub districts</td>
<td>- Refurbishing of 8 district health offices completed</td>
<td>- Collection and collation of available registry documents 100% completed</td>
<td>Infrastructure systems reviewed and finalized</td>
</tr>
<tr>
<td>- Monthly expenditure statements covering all agencies produced within four weeks of the end of month</td>
<td>- 5,000 businesses registered and operational</td>
<td>- School mapping exercise completed</td>
<td>- Roads power stations study</td>
<td>Revenue collection for the third and fourth quarters of 2000-01 exceeded 90% of estimate and monthly profiles prepared</td>
</tr>
<tr>
<td>- Design of Customs Automation completed</td>
<td>✗ US$3.4 million credit provided to facilitate establishment of East Timorese enterprises under SEP I and targeted 3,000 new jobs</td>
<td>- Hospital reconstruction plan completed</td>
<td>- Roads power stations study</td>
<td>Revenue collection for the third and fourth quarters of 2000-01 exceeded 90% of estimate and monthly profiles prepared</td>
</tr>
<tr>
<td>- Agroforestry map and management plan established</td>
<td>- Forestry management plan established</td>
<td>- National Center for Health Education and Training established</td>
<td>- Roads power stations study</td>
<td>Revenue collection for the third and fourth quarters of 2000-01 exceeded 90% of estimate and monthly profiles prepared</td>
</tr>
<tr>
<td>- 5,000 businesses registered and operational</td>
<td>- US$3.4 million credit provided to facilitate establishment of East Timorese enterprises under SEP I and targeted 3,000 new jobs</td>
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</tr>
</tbody>
</table>
Annex 2: TFET Scope and Modus Operandi

The Trust Fund for East Timor provides financing for the sectors of health, education, agriculture, community development, private sector development, water and sanitation and transport. The World Bank is the Trustee, and co-administers projects with the Asian Development Bank. TFET receives funds from the Governments of Australia, Finland, Ireland, Italy, Japan, New Zealand, Norway, Portugal, the United Kingdom, the United States, the European Commission and the World Bank. Pledges total US$177 million, of which almost US$100 million was disbursed in the first two years of operation, totaling approximately 20 percent of total aid inflows in this period.

Projects are signed as both implementation capacity and funds become available. The initial projects were identified through the Joint Assessment Mission; prioritized by the first meeting of the Timorese National Consultative Council; and endorsed by a donor council meeting. Subsequent programs are identified through the joint Timorese/donor missions (to avoid overlap with other donors); prioritized by the NCC, 1st transitional council of ministers, or 2nd transitional council of ministers (depending on period); and presented to the TFET donor council for endorsement. Projects are then prepared and appraised by teams of World Bank/ADB and government counterpart staff. Once projects are negotiated and signed, funds are transferred in tranches to government departments, who make all operational project management decisions and manage procurement and payments, within the scope of the grant agreements.

TFET Programs include:

- **The Community Empowerment and Local Governance Project** elects village development councils and provides them resources to rehabilitate basic infrastructure and restart economic activities. It includes special windows cultural heritage and vulnerable groups such as widows (US$19 million over 3 years).

- **The Dili Community Employment Generation Project**, in partnership with UNDP, used labor-intensive public works to generate temporary employment for the poor in the capital city (US$496,000 over 5 months).

- **The School System Revitalization Program** includes funding for the renovation of damaged schools and for the building of new ones (US$27.8 million over 3 years).

- **The Health Sector Rehabilitation and Development Program** supports the Interim Health Authority, for the rehabilitation and re-equipment of health facilities (US$25.3 million over 3 years).

- **The Agriculture Rehabilitation and Development Project** aims to restore priority productive assets—such as livestock, irrigation and rural infrastructure—before shifting its emphasis to demand driven programs and structure interventions to address weaknesses in rural markets and distribution systems (US$14.8 million over 3 years).

- **The Roads, Transport, Ports and Power Project** provides emergency repairs to key infrastructure within a two-year sector framework (US$38.8 million over 3 years).

- **The Water Supply and Sanitation Rehabilitation Project** aims to rehabilitate water supply and sanitation infrastructure and provide sustainable water supplies and sanitation services (US$9 million over 1.5 years).

- **The Small Enterprise Project** provides loans and business skills training to East Timorese enterprises to revive the local economy and create jobs (US$12.35 million over 2 years).
• **The Microfinance Development Project (MDP)** aims to rehabilitate and strengthen the operations of credit unions, and establish a sustainable microfinance bank to provide financial services to poor and low-income households (US$4 million over 3 years).

• **The Economic Capacity Building Project** aims to address the scarcity of needed skills in East Timor, which constrain the operation of key economic and financial institutions (US$600,000 over 1.5 years).

**Some results on the ground:**

<table>
<thead>
<tr>
<th>Category</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of village councils elected</td>
<td>418</td>
</tr>
<tr>
<td>Number of village projects completed</td>
<td>1,150</td>
</tr>
<tr>
<td>Number of schools rehabilitated / built</td>
<td>540</td>
</tr>
<tr>
<td>Number of schools books provided</td>
<td>2,073,400</td>
</tr>
<tr>
<td>Number of school furniture sets provided (students &amp; teachers)</td>
<td>74,484</td>
</tr>
<tr>
<td>Number of health centers &amp; posts rehabilitated (including mobile clinics)</td>
<td>269</td>
</tr>
<tr>
<td>Autonomous Medical Store built and stocked</td>
<td>✓</td>
</tr>
<tr>
<td>Autonomous Pharmaceutical distribution system established</td>
<td>✓</td>
</tr>
<tr>
<td>Number of household who received hand tools</td>
<td>20,658</td>
</tr>
<tr>
<td>Number of animals distributed</td>
<td>73,349</td>
</tr>
<tr>
<td>Number of animals vaccinated</td>
<td>1,269,303</td>
</tr>
<tr>
<td>Number of irrigation schemes rehabilitated</td>
<td>80</td>
</tr>
<tr>
<td>Kilometers of core roads rehabilitated</td>
<td>1,250</td>
</tr>
<tr>
<td>Rehabilitation of Dili port completed</td>
<td>✓</td>
</tr>
<tr>
<td>Number of loans issued</td>
<td>345</td>
</tr>
<tr>
<td>Person-days of work through mid-2002</td>
<td>2.9 million</td>
</tr>
<tr>
<td>Number of jobs generated through mid-2002</td>
<td>12,000</td>
</tr>
</tbody>
</table>
Annex 3: Transition in the Health Sector

Handover from NGOs in the districts

Visit per capita  Aid per capita (US$)
Annex 4: Earlier Lessons Learned: NRT/World Bank presentation in June 2000

What were the main challenges in Tokyo?

- **Speed:** Diminish gap between relief and reconstruction
- **Quality:** Create a sustainable reconstruction program with strong economic and social returns
- **Timorese participation:** Empower the Timorese people to lead and participate in the reconstruction process
- **Coordination:** Achieve a new level of coordination among donor-financed programs

**How have we — Timorese and international community — done?**

- **Speed: Diminishing the gap between relief and reconstruction**
  - *Approximately US$9 million in reconstruction estimated to be disbursed by end-June 2000*
  - *Design and appraisal completed for 7 TFET programs: 5 disbursing*
  - *Design and appraisal completed for most major bilateral programs: several active (teacher training, roads, community development)*

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic recovery underway, in particular in agriculture and services</td>
<td>Geographical variance: slower recovery outside Dili and high rural - urban migration</td>
</tr>
<tr>
<td>Key nationwide community-based and private sector programs up and running: over 30,000 short-term jobs created</td>
<td>Core government programs have taken longer</td>
</tr>
<tr>
<td>Transitional program for emergency infrastructure (key bottleneck) is operational</td>
<td>Road network has suffered unforeseen damage</td>
</tr>
<tr>
<td>Planning and design for major sector programs in health, education and agriculture on schedule to take over as humanitarian program ends</td>
<td>Speed of program design has inhibited debate and capacity-building</td>
</tr>
<tr>
<td>Key transitional services — port management, border control, post, infrastructure emergency repairs — operational</td>
<td>“Fire-fighting” ethos</td>
</tr>
<tr>
<td>Good sector coordination between humanitarian and reconstruction programs</td>
<td></td>
</tr>
</tbody>
</table>


Key recommendations

- Increase delegation of government functions to line management in the East Timorese Administration
- Boost procurement capacity in central units and PMUs
- Increase implementation support capacity in World Bank Resident Mission
- Strengthen time-bound plans, targets and key performance indicators for UNTAET Trust Fund and the Trust Fund for East Timor, together with other government-executed reconstruction programs

Quality: Creating a sustainable reconstruction program with strong economic and social returns

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable framework for public finances now in place</td>
<td>First semester lacked strong budgetary framework</td>
</tr>
<tr>
<td>Strong technical design for sectoral reconstruction programs</td>
<td>Stronger medium-term economic and social sector analysis needed</td>
</tr>
<tr>
<td>Monitoring and evaluation mechanisms need strengthening</td>
<td></td>
</tr>
<tr>
<td>Early reconstruction programs have targeted visible community initiatives</td>
<td>Entails risk in financial control</td>
</tr>
<tr>
<td>Job creation privileged over quality of infrastructure</td>
<td></td>
</tr>
<tr>
<td>High wages in rural areas risk drawing workers out of agriculture</td>
<td></td>
</tr>
</tbody>
</table>

Key Recommendations

- Following approval of budget law; increase authority and resources in Central Fiscal Authority for budget execution
- Undertake economic capacity-building for Timorese staff
- Support for economic and sector analysis, monitoring and evaluation of economic and social indicators
- Continue to apply key principles for public investment decisions: private sector support, rural investment, minimize liabilities for recurrent budget
- Maintain community and private sector emphasis; but strengthen financial and quality controls
- Ensure wages in new programs do not exceed market-clearing levels
Timorese participation: Empowering the Timorese people to lead and participate in the reconstruction process

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reconstruction priorities generated by Timorese sector specialists and endorsed by leadership</td>
<td>No working-level Timorese mechanism to provide on-going coordination of reconstruction programs. Too many demands on time of leadership</td>
</tr>
</tbody>
</table>
| Timorese sector specialists have participated in sector programming and TFET appraisal missions and are growing in confidence and experience | Short duration of some missions inhibits debate  
Discontinuity in presence of Timorese sector specialists and limited number of specialists participating  
Participation in initial planning but not in implementation in all sectors (delays in recruiting senior civil servants)  
Lack of resources to support Timorese participation |
| Village-level institutional partners have been formed and strengthened in most districts | Information flows to and from the population are insufficient at all levels (UNTAET, CNRT, World Bank, other development agencies):  
  • Responsibilities of different agencies unclear;  
  • Plans and policies unclear;  
  • Language problems |
| Early program in place to support Timorese private sector participation | Development councils, facilitators and other village structures lack experience  
Timorese entrepreneurs suffer from language barriers, lack of market linkages and lack of knowledge of new government procurement procedures |

Key Recommendations

- Establish Reconstruction Coordinating Committee
- Establish procurement committees with strong Timorese participation
- Provide resources to support Timorese participation in planning and policy-making
- Accelerate recruitment of senior civil servants
- Increase information flows:
  - Regular district meetings on reconstruction plans and progress
  - Joint information campaigns; UNTAET/ CNRT/development agencies
  - Increased radio capacity
  - Greater capacity for translation/ interpretation
  - International staff encouraged to learn local languages
• Use of existing mechanisms, such as the church, for information dissemination

• Provide more training for Timorese entrepreneurs and local institutional partners

➢ Coordination: Achieving a new level of coordination among donor-financed programs

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectoral coordination frameworks have been produced for education, health, infrastructure and agriculture</td>
<td>Sectors act independently: inter-sectoral framework missing within government&lt;br&gt;Low bilateral participation in sector programming/supervision missions&lt;br&gt;Better information exchange on detailed design and timing of programs is needed&lt;br&gt;Discontinuity in sector representatives</td>
</tr>
<tr>
<td>Donor Field Coordination Committee operational</td>
<td>Stronger focus on concrete sector-specific or implementation issues needed</td>
</tr>
<tr>
<td>Trust Funds operational and funds flow reasonably strong</td>
<td>TFET has faced commitment authority constraint&lt;br&gt;Needs stronger coordination between trust funds to link recruitment, capacity building and physical infrastructure</td>
</tr>
</tbody>
</table>

Key Recommendations

• Establish Reconstruction Coordinating Committee

• Move Field Coordination Committee to issue/sector-based format, with regular reporting on multilateral and bilateral programs

• Strengthen sector-wide planning, bringing together activities from both Trust Funds

• Ensure continuity of UNTAET/CNRT/World Bank sector representatives

• Request wider bilateral participation in sector programming and supervision missions

• Ensure timely cash flow into Trust Funds