

Trust Fund for East Timor (TFET)

Report of the Trustee - Technical Appendices

Part A: Project Overviews

Donors' Council Meeting
Dili, Timor-Leste
June 3, 2003

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COMMUNITY EMPOWERMENT AND LOCAL GOVERNANCE PROJECT
 TF023534, USD7.0 million, TF026209, USD1.55 million,
 and PHRD Grant, USD0.455 million (CEP I);
 TF023876, USD8.50 million (CEP II);
 TF075342, USD1.5 million (CEP III)

Project Overview – April 2003

Project Objectives

The objective of the Community Empowerment and Local Governance Project (CEP) is to reduce poverty and support inclusive patterns of growth and development. The name of the project, “community empowerment,” reflects the core principle that activities are produced by communities for communities.

Project Status

CEP I—effective February 21, 2000 through June 30, 2002—was designed to assist communities in the aftermath of the September 1999 violence, when government structures were virtually non-existent. Under CEP I, communities elected sub-district and village development councils and, through them, determined and carried out local infrastructure reconstruction, promoted productive local economic activity, and supported cultural heritage and social reconciliation. Two cycles of community grants (the first on an emergency basis) were administered. An independent review of project activities is underway and is expected to be completed by August 2003, together with the Bank’s implementation completion report.

CEP II—effective May 21, 2001 and expected to close December 31, 2003—expanded activities to pilot carefully designed mechanisms for providing assistance to disadvantaged groups, such as widows, orphans, and disabled people; provide assistance for better coordination at the district level for planning development activities; and establish community radios along with necessary training and equipment. A third cycle of community grants is being administered under CEP II.

CEP III—effective July 1, 2002 and expected to close December 31, 2003—provides grants to communities in the sub-districts of Dili, previously excluded from the project, to alleviate the economic downturn in the post-independence period. As with CEP I and II, CEP III covers the operational costs of delivering community grants.

Table 1 presents some project achievements; a brief description of the four main project components follows. Box 1 discusses key challenges facing the project.

Table 1. Project Achievements

Component	Inputs	Target Jun -02	Actual Nov-02
Community Sub -Grants and Credits (2 nd cycle)	No. of sub-districts	60	60
	No. of villages with <i>conselho do suco</i> re-elected	418	418
	Grant amount disbursed for sub -grants/credits	USD3,452,410	USD3,447,410
Component	Inputs	Target Mar-03	Actual Mar-03
Community Sub - Grants and Credits (3 rd cycle)	No. of sub-districts	65	65
	No. of villages with <i>conselho do suco</i> re-elected	458	457
	Grant amount disbursed for sub -grants/credits	USD1,968,000	USD1,148,320
Cultural Heritage and Social Reconciliation	No. of proposals approved	600	117
	Building reconstruction, % complete	100%	98%
	Amount disbursed under grants	USD150,000	USD30,370
Community Radio	No. of managers, technicians, & reporters trained	48	48
	No. of management boards (Kliburs) established	8	8

Component	Outcomes	Target Jun -02	Actual Nov-02
Community Sub -Grants and Credits (2 nd cycle)	% of agreed work complete	100%	90%
	No. of wells dug	n/a	170
	Km of pipe for water supply installed	n/a	441 km
	No. of bridges built	n/a	47
	Km of roads built	n/a	438 km
Cultural Heritage and Social Reconciliation Community Radio	No. of pilot vulnerable groups supported	72	68
	No. of groups supported (i.e. weaving, music, sports, and theater)	150	65
	Community Radio Support Center Established	1	1 established
	Community Radio Stations Established	8	8 functional, 3 on air
Component	Outcomes	Target Mar-03	Actual Mar-03
Community Sub -Grants and Credits (3 rd cycle)	% of agreed work complete	100%	23%
	No. of wells dug	n/a	209
	Km of pipe for water supply installed	n/a	352 km
	No. of bridges built	n/a	12
	Km of roads built	n/a	418 km
Cultural Heritage and Social Reconciliation	No. of groups supported (i.e. weaving, music, sports, and theater)	150	117
Community Radio	Community Radio Center established	1	1 established
	Community Radio Center established	8	8 on air

Project Component Updates

[1] Community Grants – The core of this component has been the formation and support of democratically selected development councils at the village and sub-district level (*Conselho do Suco* and *Conselho do Posto*). The purpose of the councils is to represent communities in the development planning process. The component consists of three subcomponents, which are described below.

Sub-Grants to Sub-Districts. Under this subcomponent village councils allot grants based on proposals submitted by community groups. The third cycle of community grants (provided under CEP II) was postponed starting in April 2002 for several reasons: the presidential elections in April 2002 and subsequent independence celebrations in May 2002 occupied communities' time and effort; the wet season ending June 2002 made project implementation difficult; and the government's fiscal year beginning July 2002 provided an opportunity for community grants to come in line with the government's budgetary cycle. Planning for the third cycle restarted in July 2002 and disbursements began in October 2002. Disbursement of third cycle grants totaled USD1.15 million as March 31, 2003, with the bulk of the projects having reached the midpoint of completion; activities are expected to be substantially completed by the December 31, 2003 project closing date. Funds are being reallocated to allow for the monitoring of the third grant cycle from start to finish.

Highly Vulnerable Groups. This subcomponent aims to support groups, such as widows, the elderly, and the disabled, who have difficulty accessing funds. A pilot program was evaluated and demonstrated that it will be a significant challenge to reach the most vulnerable, and that creative ways to assist them will need to be investigated, particularly given the harsh economic environment which offers no easy small business options for such groups. Based on the pilot, activities are being formalized and expanded, with a portion of the funds being implemented and disbursed through the Truth and Reconciliation Commission. An evaluation of the factors contributing to communities' successes and failures in implementing this activity is being conducted.

District Planning and Initiatives. This subcomponent is providing grants to districts for information, coordination, and training activities that involve council members. It will also support "district initiatives grants" for activities involving more than one sub-district, which are planned in conjunction with council members. Key elements in this are the Government's District Development Officers (DDOs) and new District Community Development Committees (DCDCs). The latter are comprised of district-level staff and representatives of sub-district councils. The Administration for Local Government and Development (ALGD) recently approved terms of reference for DCDCs, and

DCDCs are now being organized and members trained. DDOs are eager to work with DCDCs, and have submitted strategy and capacity building plans that the ALGD is funding. The success of the DCDCs will greatly enhance CEP programs.

[2] Cultural Heritage – As part of the process of reconstruction, all three CEP projects support the development of Timor-Leste’s culture and history. A Culture Board has been formed as an executive body, with a management team that implements two subcomponents: the Uma Fukun Cultural Center and a small grants program. The Culture Board lost its manager in July 2002 and has recently recruited a new manager who is now completing a strategic action plan.

National Performance and Culture Center (Uma Fukun Timor). Phase 1(a) of construction on Uma Fukun has been completed, and the center is usable. Approximately USD1 million in additional funds need to be raised to complete phases 1(b), 1(c), and 2. Now that Uma Fakun’s status has been clarified—there will be a formal relationship between the Uma Fukun and the Ministry of Education and Culture—UNESCO will undertake formal fundraising efforts to cover the shortfall.

Small Grants. The small grants program for cultural activities is underway, but proceeding slowly. Working together, the Board and new manager are seeking ways to increase the number of small grant proposals. The proposals are reviewed and decided on by the “Klibur Media Ho Kultura,” small groups of men and women elected to represent community cultural interests at the district level. Because of the overlap in Klibur activities in regard to cultural heritage and community radio, these two project teams have joined forces to disseminate information and help Kliburs better understand their roles and responsibilities.

[3] Community Radio – This component, added under CEP II, addresses the need to develop a professional, sustainable radio and television system in the country. Other than an initial workshop to discuss television, CEP has focused on radio. Under phase I, trainee district reporters were transparently recruited from communities in each district. Training and small equipment were provided to produce local programs for the former Radio UNTAET (now Radio Timor-Leste, the public broadcaster). Some of the former trainees now form the nucleus of reporters from which community radios are growing; several of the district reporters have also been integrated into the public broadcaster.

Under phase II, eight community radios have been established in selected districts and all are now on the air, including in Oecussi (despite access challenges). Focus has now shifted to training in all aspects of community radio broadcasting, including program development based on the results of listener surveys completed in all participating districts. The Community Radio Center (CRC) is providing management, technical, and programming support to the fledgling community radio stations and coordinating activities with Kliburs and community radio station staff. The CRC team is ensuring that each station has a proper structure in place, starting with an operational manual, clear job descriptions, by-laws, program schedule, and rates list. The CRC will promote social accountability and public voice by ensuring that each station fosters the participation of different groups in society, while addressing the information needs of their community. The CRC will continue to explore future funding options for this network of community radios.

[4] Project Management Unit (PMU) – This project was the first to be managed by a Timorese Project Director and senior management team. The team undertook an internal review, restructuring, and rehiring process to enable facilitators to be more effective in responding to community needs. The series of basic training and capacity building activities for staff, council members, and district financial management teams, completed by November 2002, is now continuing with a strong focus on improving community capacities, especially in financial management. Communication, especially between the Dili PMU and the regional offices, needs to be strengthened, and the role of UPKs (sub-district financial management units) relative to village council treasurers needs to be clarified.

Box 1. Challenges Facing CEP

Role of Village Councils. Field visits undertaken during the November 2002 supervision mission found that the extent of coordination between village councils and village chiefs, sub-district coordinators, and traditional leaders has increased over successive project cycles, and that the councils are establishing a role for themselves. However, only in very few cases are councils expanding beyond channeling CEP resources. In this context, the councils' capacity to manage more broadly-defined community interests—along with their ability to marshal domestic, in addition to international donor, resources—needs to be addressed, as does a strategy for a post-CEP transition (see below).

Revolving Funds. Credit activities funded under the community grants component are marked by a range of problems, including low repayment rates, lack of transparency in how individuals are selected for credit, and lack of understanding in communities of how the funds operate. While it is expected that the provision of credit in communities will be shifted primarily to microfinance institutions, the Project Management Unit is working with pilot districts to reschedule credits/loans under the revolving fund, and recovery is improving.

Quality of Works. The community works funded by sub-grants have enabled communities to meet their own-defined needs, especially providing a significant increase in investment in small water and sanitation projects. The widespread challenge now is to improve the quality of works delivered, including strengthening the technical assistance, training, and general support to communities in the design process, and to improve access to, and use of, non-CEP technical resources available at the district and local levels.

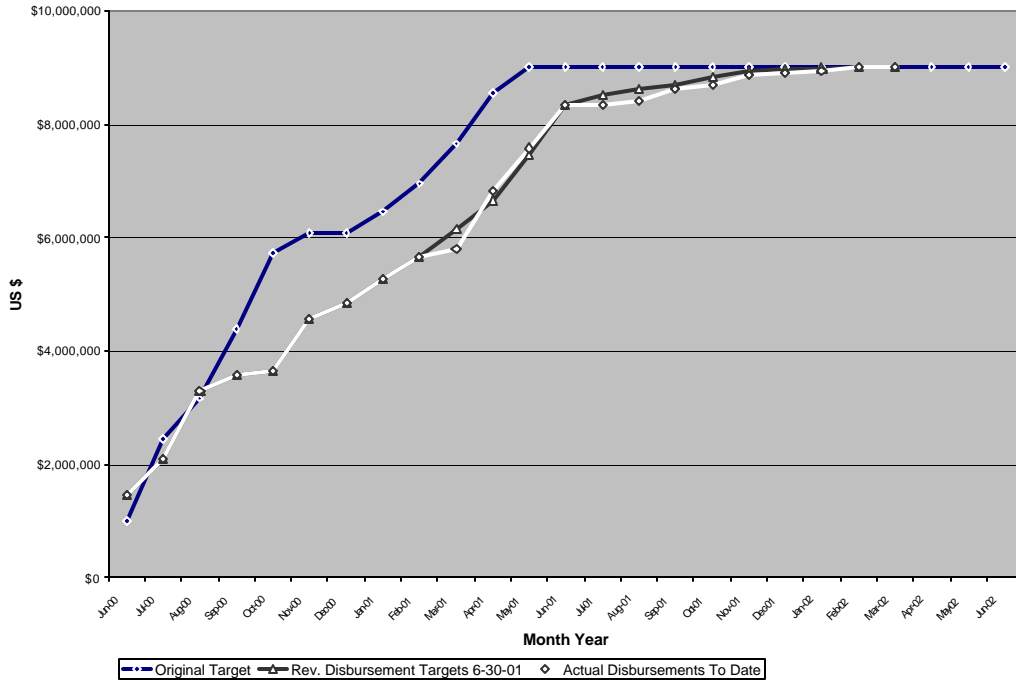
Radio Programming. Community radios have been enthusiastically greeted by all the communities where they have been launched. They are recognized as valuable assets by all stakeholders, from District Administrators to residents of the remotest aldeias. The challenge will be to develop—on a self-financing basis—the capacity of the managing Kliburs and community radio staff to create programming that meets the needs and desires of communities, and allows for participation of different groups in society.

Integrating with Government. The Project Management Unit (PMU) has successfully helped communities establish and operate councils in every sub-district in Timor-Leste, an impressive achievement. However, after a period of difficult management challenges, the test now is to find ways to strengthen Government-PMU coordination, with the purpose of ensuring that project achievements and aims are fully integrated with Government objectives as outlined in the National Development Plan. The Minister of State Administration, now charged with implementing CEP, is addressing these issues.

Post CEP. The principal strategic challenge now facing the Government and its partners is deciding what happens after CEP's scheduled December 31, 2003 closure. Many of the village council members interviewed during the November 2002 review mission expressed the desire that something similar to CEP be continued. An independent review of CEP's strengths and weaknesses is now underway to contribute to these considerations. The Road Map for the Implementation of the National Development Plan puts a lot of emphasis on the support to community driven initiatives, intertwined with support to local government. Under the leadership of the Minister of State Administration, an options study for local government is being finalized. The Government is also launching a process of legitimization of suco and aldeia authorities.

The charts and tables below provide disbursement and expenditure information on for CEP I, CEP II, and CEP III. The charts depict actual and projected disbursements against targeted disbursements; the tables show project expenditures by category.

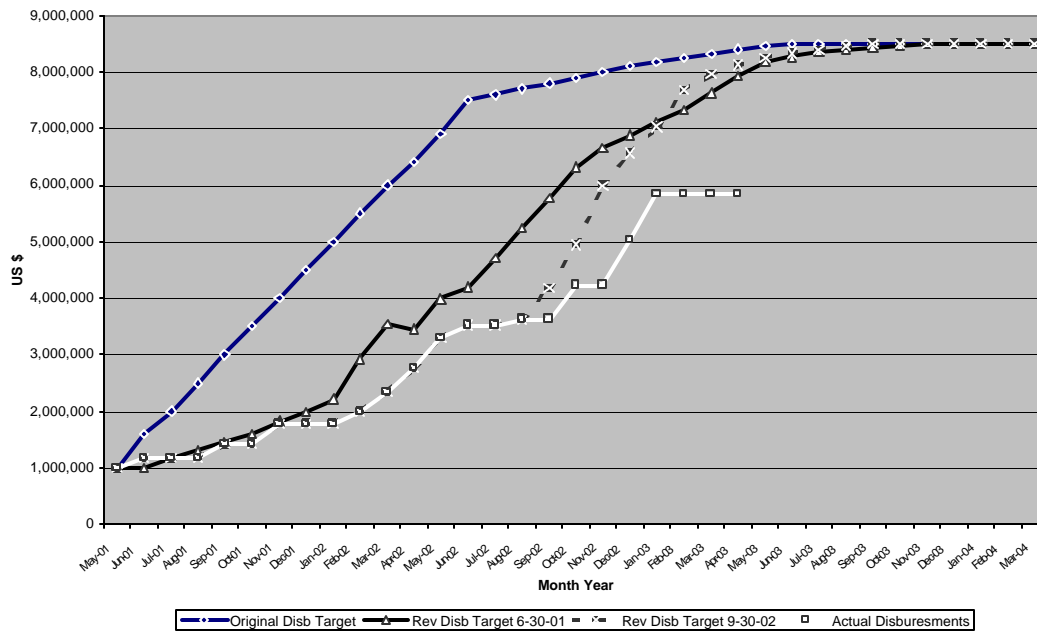
**First Community Empowerment and Local Governance Project (CEP I)
Actual vs. Revised Disbursement Targets
(Project Completed)**



**First Community Empowerment Project (CEP I)
Expenditure by Category
(Project Completed)**

Category	Allocated	Disbursed	Undisbursed
1a. Sub-Grants/Credits (Community)	4,700,000.00	4,682,864.90	17,135.10
1b. Sub-Grants/Credits (Cultural Heritage)	0.00	4,320.60	-4,320.60
2. Goods/Transportation	1,120,000.00	1,119,932.33	67.67
3. Consultant Services/Training	3,130,000.00	3,147,270.57	-17,270.57
4. Civil Works	50,000.00	45,611.60	4,388.40
5. Unallocated	0.00	0.00	0.00
6. Project Account	0.00	0.00	0.00
Total	9,000,000.00	9,000,000.00	0.00

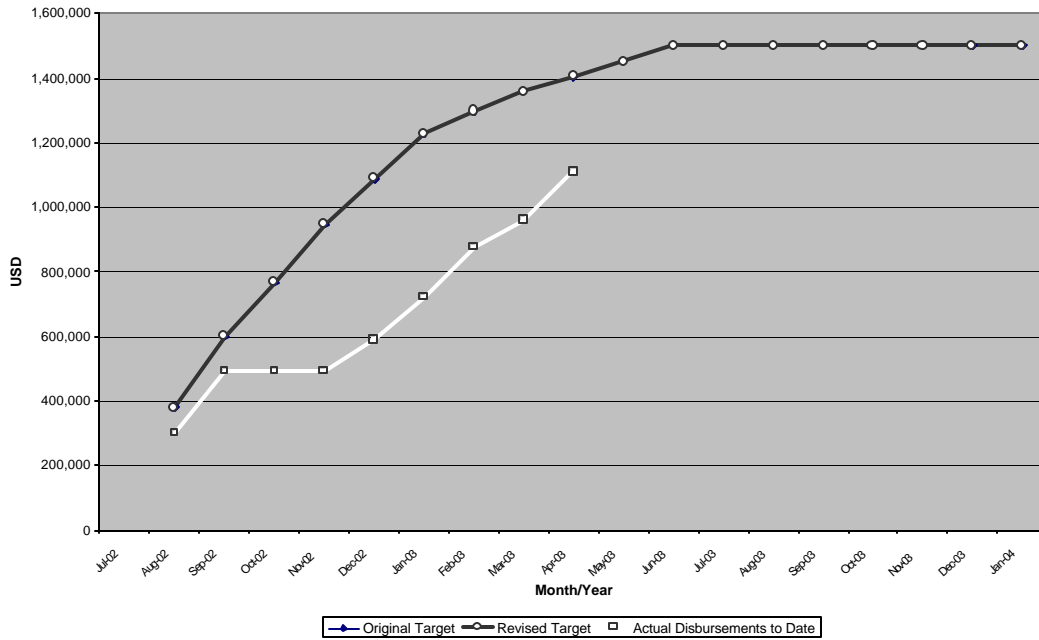
**Second Community Empowerment and Local Governance Project (CEP II)
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Second Community Empowerment Project (CEP II)
Estimated Expenditure by Category as of April 22, 2002 (USD)**

Category	Allocated	Disbursed	Undisbursed
1a. Sub-Grants (Community - sub-districts)	3,730,000.00	1,073,669.52	2,656,330.48
1b. Sub-Grants (Community - highly vulnerable groups)	950,000.00	213,780.36	736,219.64
1c. Sub-Grants (Community - district planning)	240,000.00	0.00	240,000.00
1d. Sub-Grants (Cultural Heritage)	400,000.00	30,370.50	369,629.50
2. Goods	860,000.00	363,722.32	496,277.68
3. Civil Works	800,000.00	791,562.82	8,437.18
4a. Incremental Operating Costs (Audit)	20,000.00	12,700.00	7,300.00
4b. Incremental Operating Costs (Other)	100,000.00	165,719.03	-65,719.03
5. Consultant Services/Training	1,400,000.00	1,439,768.71	-39,768.71
6. Project Account (to be allocated to components above)	0.00	1,400,000.00	-1,400,000.00
Total	8,500,000.00	5,491,293.26	3,008,706.74

**Third Community Empowerment and Local Governance Project (CEP III)
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Third Community Empowerment Project (CEP III)
Estimated Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Sub-Grants (Community)	200,000.00	0.00	200,000.00
2a. Goods (Cultural Heritage)	23,000.00	2,134.09	20,865.91
2b. Goods (Community Radio)	35,000.00	0.00	35,000.00
3. Civil Works	25,000.00	4,000.00	21,000.00
4. Incremental Operating Costs	188,000.00	158,365.83	29,634.17
5. Consultant Services/Training	1,029,000.00	645,014.66	383,985.34
6. Project Account (to be allocated to components above)	0	300,000.00	-300,000.00
Total	1,500,000.00	1,109,514.58	390,485.42

DILI COMMUNITY EMPLOYMENT GENERATION PROJECT
TF023623, USD0.5 million

Project Overview – April 2003
Project Closed – December 2000

Project Objectives

The objectives of the Dili Community Employment Generation Project were to support the Transitional Administration to: (i) generate short-term employment; (ii) raise urban incomes; and (iii) build social capital through community-managed environmental clean up.

Project Achievements

The project, implemented in partnership with UNDP from April-December 2000, used labor intensive public works to generate jobs for poor people in the capital city, bridging the employment gap as private sector activities revived. The project helped communities organize and remove debris from Dili neighborhoods and manage solid household waste. The project was implemented in three stages:

[1] Pilot stage, which involved one community in the most urgent area of Dili, to establish recruitment related procedures and effectiveness.

[2] Second stage, which included a much greater number of communities and villages, but involving each community incrementally to assure effective project management (so that the project could succeed in meeting its aim to reduce social tensions, not increase them).

[3] Third stage, which included a shift in project focus from solid waste management to collection and disposal of household refuse.

An evaluation mission assessed achievement of project objectives from March 1-8, 2001, including number of people employed, recruitment and targeting procedures, financial controls, goods/equipment procurement, and environmental safeguards in waste disposal. The project implementation completion report (ICR)¹ is available upon request. The project was rated highly satisfactory, especially in the context of the extremely limited institutional capacity and economic and civil instability at the time. Project performance indicators focused on employment generation—indicators used included number of workers hired and percent of project budget spent on workers’ wages. The only other performance indicator was the degree of community management and consultation. The first two were met and rated highly satisfactory; the third was rated satisfactory. The main project achievements are presented in Table 1; a description of achievements follows.

Table 1. Project Achievements

Objective	Key Performance Indicators	Actual Achievement
Generate employment	At least 10 work-teams be employed in each neighborhood in Dili, reaching a total of 600 workers	A total of 12 work-teams (rotating workers on a monthly basis) were employed, totaling between 4,500 to 4,600 unskilled laborers employed in Dili
Raise urban incomes	At least 50% of total budget of USD499,000 be used for payment of wages	60% of the budget was used for payment of wages
Build social capital	At least a number of workers report being consulted on project management and informed about project structures, selection and payment procedures	A total of one out of three community sites/worker groups reported being consulted to some degree and informed about project structures, selection or recruitment procedures, and payment mechanisms

¹ ICRs meet requirements for accountability and transparency of project activities, assess project benefits and sustainability, and maintain a record of implementation experience to facilitate assessment of development impacts.

Generate Employment. The project exceeded employment generation targets and was rated highly satisfactory for this output. The number of workers employed for waste management increased from the proposed 600 for the duration of the project to a total of 4,500 workers rotated monthly by the end of the project. Community leaders consulted and participating in project implementation preferred to give all community members the opportunity for short-term employment. This had not been expected since the wage chosen was intended to be a “self-selection wage,” set below minimum-wage level to ensure that those most in need would apply. Many more people participated than envisioned.

Gender Impact: Besides exceeding employment targets, UNDP reported that some 20 percent of workers were women, indicating the project had a positive impact on promoting some gender balance.

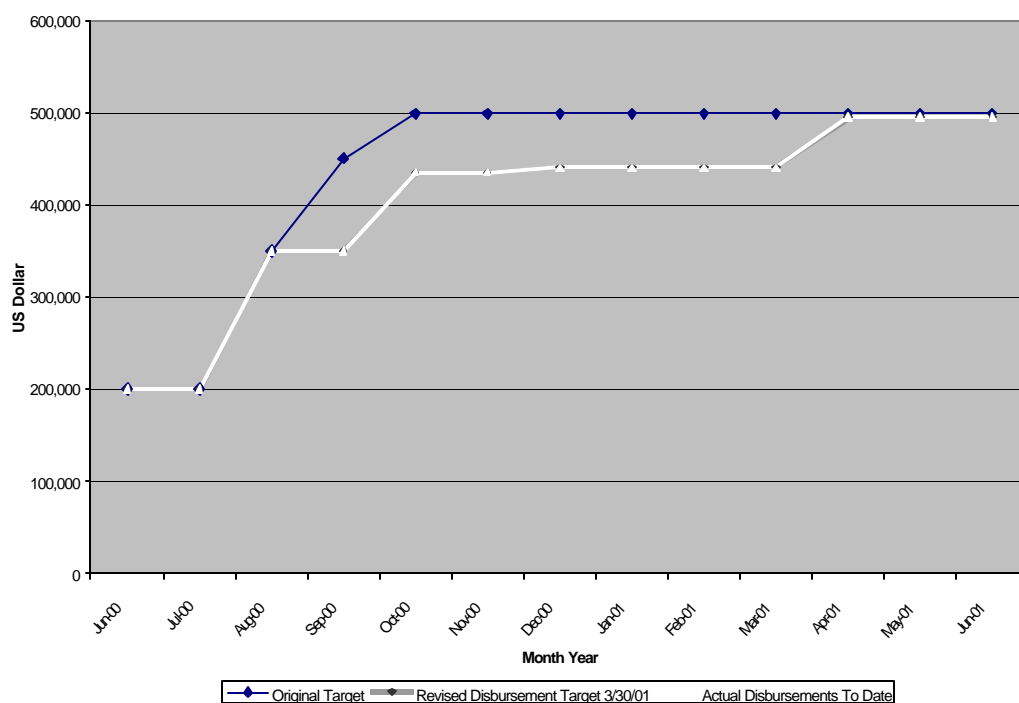
Raise Urban Incomes. The project exceeded wage disbursement targets and was rated highly satisfactory for this output. Sixty-one percent of the budget was used for worker wages compared to the 50 percent outlined at appraisal. This was because of the increased number of workers employed on a rotational basis and a reallocation of project savings and contingencies to wage expenditures. During the ICR consultation session with former workers, approximately 25 percent reported they were now employed in “white collar” jobs, but said they worked for the project because, at the time, it provided an important source of income for food, basic household items, and clothing.

Build Social Capital. Involving workers and community leaders in project management through community consultation is one mechanism of building social capital. Another was the publication of transparent and accountable procedures. The creation of social capital were monitored using “the degree that workers reported being consulted on project management” as a performance indicator. Only one out of three worker groups interviewed reported being consulted on project management. However, at an ICR community consultation meeting with a combined group of community leaders, workers, and Dili District civil servants (responsible for project management), 14 of 16 people said the project effectively met the urgent need for job creation and helped curb civil unrest in their neighborhoods. Due to the varying degrees of success, this output was rated satisfactory.

Other Benefits. All partners (government, implementing agency, and beneficiaries) agreed that the project built crucial links of trust and cooperation between the government and people; clarified and established roles and expectations between the government and communities (a new concept in this post-conflict context); and helped develop the government’s and the community’s leadership and management capacities in the delivery of public services.

The chart below depicts actual versus target disbursements; the table shows project expenditures by category.

**Dili Community Employment Generation Project
Actual vs. Disbursement Targets
(Project Completed)**



**Dili Community Employment Generation Project
Expenditure by Category (USD)
(Project Completed)**

Category	Allocated	Disbursed	Undisbursed
1. Goods/Transportation	171,268.77	156,649.13	14,619.64
2. Labor Wages	299,000.00	295,119.25	3,880.75
3. Operating & Maintenance Equipment	6,500.00	25,000.39	-18,500.39
4. UNDP Administration Fee	17,500.00	17,500.00	0.00
5. Project Account	0.00	0.00	0.00
Total	494,268.77	494,268.77	0.00

EMERGENCY INFRASTRUCTURE REHABILITATION PROJECT - PHASE I

TF08181, USD29.8 million

Project Overview – April 2003

Project Objectives

The objectives of Phase I of the Emergency Infrastructure Rehabilitation Project included assisting the Public Administration and subsequently the Government of Timor-Leste in: (i) carrying out a backlog of road repair works to facilitate efficient transport of humanitarian aid and contribute to the revival of economic activity; (ii) expanding the capacity of port facilities to reduce congestion; and (iii) reinstating power supply in rural areas and supporting the re-establishment of a power entity (this component is now being implemented in conjunction with the power sector component of the Transition Support Program).

Major Donors Involved in the Infrastructure Sector

Donor	Area of Concentration
AusAID, DFID Japan, NORAD	Road Repair
ADB (TFET)	Infrastructure (Roads, Ports, Power)
ADB (TFET)	Rural Roads/Agriculture
Portugal	Airport Management
DFID, Japan, Portugal	Repair of District Power Stations
Japan, Portugal	Port Support

Project Status

The project, administered by the Asian Development Bank, became effective April 19, 2000; the project's physical completion date and financial closing date have been extended to June 30, 2003 and December 31, 2003, respectively. The project has three main components: (i) roads infrastructure; (ii) port sector; and (iii) power. The project also provides for a Project Management Unit, which coordinates consultant services (now reduced to two internationals and one Timorese national).

The original aim to complete all emergency rehabilitation within a two-year timeframe was achieved in the roads and ports components, however the rural power project has been delayed and is not expected to be completed until June 2003. Project implementation to date has been satisfactory. Two supplemental grants—of USD6 million and USD3 million respectively for Phase II of the project—became effective May 18, 2002. Phase II will undertake further substantial road works with the objective of reducing future recurrent maintenance costs. Table 1 shows project achievements; successes and challenges under each project component, and its subcomponents, are described below.

Table 1. Project Achievements

Indicator	Completion Target	Progress as of end-March 2003
No. of landslips/failed road bench sites repaired	430	430 (completed)
Volume of retaining walls constructed	22,000 cubic meters	22,000 cubic meters (completed)
Length of roadside drain reinstated	400 km	400 km (completed)
Length of culvert constructed	900 m	900 m (completed)
No. of bridge abutments protected/river training sites	50	50
Km of roads maintained with community participation	1,445	1,445 (continuing under CFET funding)
No. of rural power stations rehabilitated	14	5 operative; 4 are 95% completed; 2 are 70% completed (completion by June 30, 2003)
No. of power meters provided	n/a	500 single-phase meters and 300 three-phase meters provided
Port reconstruction & upgrading	n/a	Completed

Successes and Challenges under Project Components

[1] Roads Infrastructure Component

“Bridging” Contracts. Emergency funding of slip clearing and temporary repair to maintain access after extreme damage resulting from an exceptionally severe wet season was completed in June 2000. Contractors faced severe difficulties undertaking the work due to continuing rains and damage to the road network.

Emergency Road Rehabilitation. Five contracts (combined value of USD4.6 million) for rehabilitation and repair of four trans-island routes and various roads in Oecussi commenced June 2000 and were completed February 2001. Sixty-five contracts (combined value of USD12.4 million) for road and bridge repair and backlog maintenance were implemented during 2001 and the first-half of 2002 using pre-qualified contractors, including some Timorese entities. Contracts were situated in all areas of the country and focused on the core road network and principal feeder roads to district centers; contract values varied from USD15,000 to USD900,000 to allow maximum local participation. Limited capacity of the local construction industry to meet projects needs was a constraint. The road rehabilitation component was completed at the end of June 2002, though disbursements in respect of contract retention continue.

Community Participation Projects. Commencing October 2000, funding was provided to District Administrators in Baucau, Viqueque, Liquica, Ainaro, and Kovalima to address urgent local priority road repairs, on a pilot basis, using community labor, local contractors, and peace-keeping force engineers. This pilot was discontinued in January 2001, following the establishment of regional engineers who assumed responsibility for roads. Village groups and small community based contractors were engaged to carry out routine drain cleaning and verge maintenance on the whole of the main road network. Community maintenance of the main and district road network was adopted by the Roads Services Department and is now funded from CFET. Establishment of the program entailed a considerable amount of community consultation in order to explain the physical objectives, contractual obligations, and payment mechanisms to village groups. Late mobilization of counterpart staff delayed implementation, though approximately 1,445 km of road was under community maintenance, with over 400 communities involved at completion of this component.

[2] Port Sector Component

Dili Wharf and Slipway to Main Wharf. Physical work was completed in October 2000 and facilities are now in service. Reconstruction of the eastern slipway was completed in September 2000, and construction of an extension to the wharf was also completed and put in use a year later. Technical problems experienced in verifying the quality of workmanship delayed commissioning, but were satisfactorily resolved by an independent testing laboratory.

Dili Port Eastern Container Yard. The reconstruction of the Eastern container hard stand to gravel surface standard, including repairs to the revetment, was completed in August 2000. Further upgrading to provide concrete surface, lighting, electrical supply for refrigerated containers, and fire fighting facilities was completed by end-June 2002. There was considerable difficulty in ensuring that a local contractor produced work in accordance with the specified quality.

[3] Power Sector Component

Consultant Services. Support for preparation of a business plan and annual budgets was provided. Technical assistance to establish financial management systems—including billing—for the power entity commenced in April 2001. There were considerable difficulties in implementing the technical assistance for financial management systems. UNTAET management issued variations to the scope, effectively deleting the institutional development components, and the varied scope was not satisfactorily executed.

Power Sector Management (subcomponent included under the Transition Support Program). The project supported preparation of the proposed power sector management contract. Consultations on the content of the management contract began in June 2002, and the draft documentation was prepared in early October 2002 and finalized in early December 2002, prior to issuance of tenders on December 12, 2002. Qualifying proposals were received from three companies and have been evaluated. Negotiations with the first-ranked bidder are scheduled during the week of April 21, 2003, with mobilization of the contractor expected on May 30, 2003. The project additionally supported assistance to power utility billing, revenue collection, and related staff training functions, although problems related to long-term training needs in these areas remain. This will be addressed under the management contract.

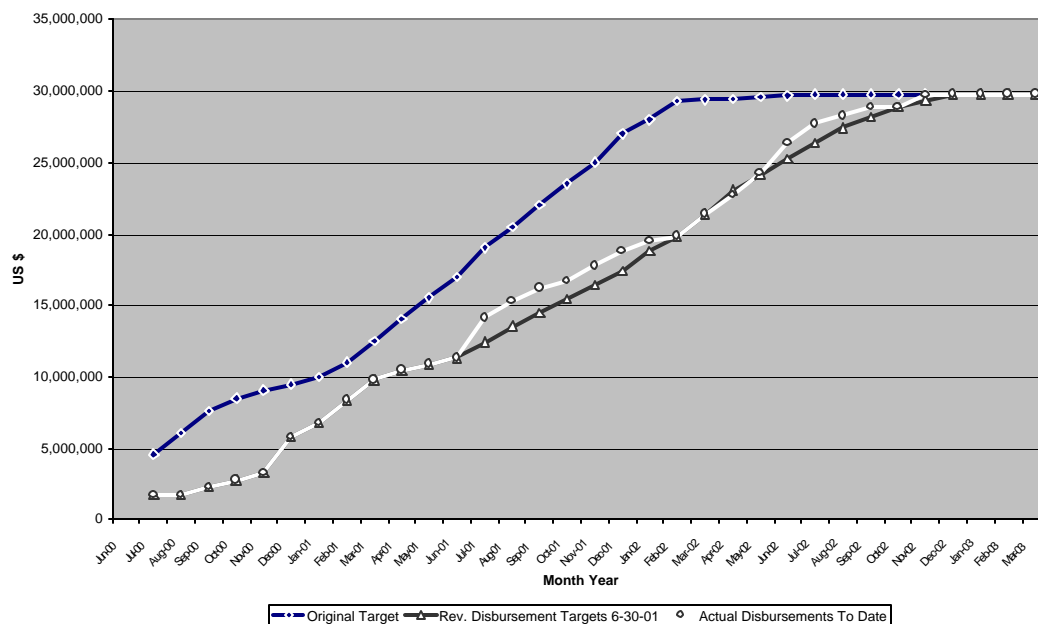
A contract for the supply and installation of 10,000 prepayment meters was signed by the Government with a Norwegian contractor in February 2003. The reliability of the Dili power supply has also improved markedly since December 2002. Maintenance of the Comoro power station is currently being carried out with assistance of the above Norwegian contractor, in conjunction with the installation of new generating capacity at Comoro, supplied with Norwegian grant assistance. These developments improve the operational environment of the power sector and strengthen prospects for success of the management contract.

Rehabilitation of Rural Power Stations. Fourteen rural power stations are to be rehabilitated. A contract awarded on February 2002 is expected to be completed in June 2003. The delay is due to late Government approval of the contract and its variation orders as well as weather conditions that affected some project sites. Contract amendments provide for the addition of refurbishment at Gleno district power station, enhancement of capacity at Maubisse and Betano, and expansion of medium- and low-voltage distribution networks and consumer home connections. The latter activity has been included to ensure that the optimum number of consumers are served, thereby minimizing the cost of supply to each household. Considerable further damage was caused to the distribution network in the post-referendum period, which has meant adjustment of program resources and budgets to ensure project objectives are met. Community consultations are ongoing in advance of commissioning of the rural power stations, with the objective of implementing community management, including payment for consumables. To date, five out of 14 rural power stations are operative. The power systems (complete with associated MV/LV distribution networks and consumer connections) in operation are Bobometo (Oecussi District), Maubisse, Lequidoe, Batugade and Balibo. Remaining power systems are expected to be put into service during the months of April, May, and June 2003.

Metering. Five hundred single-phase and 300 three-phase meters have been provided to support billing initiatives. The project also supported a publicity and information campaign aimed at improving revenue collection (this campaign will be continued under the management contract). Government efforts in meter installation, repair, and meter reading continue to be poor, and are a priority area to be addressed under the management contract. Government has begun installation of 5,000 meters with the assistance of a metering specialist supported by the project; these efforts will also be continued under the management contract.

The chart below depicts actual versus target disbursements; the table shows project expenditures by category.

**Emergency Infrastructure Rehabilitation Project – Phase I
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Emergency Infrastructure Rehabilitation Project – Phase I
Estimated Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Port Rehabilitation	2,060,000.00	1,080,690.08	979,309.92
2. Road Rehabilitation	20,550,000.00	18,977,791.21	1,572,208.79
3. Power Sector Rehabilitation	2,770,000.00	2,729,994.82	40,005.18
4. Project Management Unit (including Consultant Services)	3,050,000.00	2,511,222.41	538,777.59
5. Unallocated	1,370,000.00	0.00	1,370,000.00
6. Project Account (to be allocated to components above)	0.00	4,500,000.00	-4,500,000.00
Total	29,800,000.00	29,799,698.52	301.48

EMERGENCY INFRASTRUCTURE REHABILITATION PROJECT - PHASE II
TF08198, USD9.0 million

Project Overview – April 2003

Project Objectives

Phase II of the Emergency Infrastructure Rehabilitation Project aims to enhance and extend Phase I objectives toward a sustainable road network that can be maintained with a relatively modest budget. Phase II will support earthworks to minimize annually recurring emergency maintenance through reduced backlog. It will continue programs initiated under Phase I to establish a viable and efficient road maintenance operation in Timor-Leste, and support training of a Timorese road maintenance service to carry out routine maintenance, including through contracting village groups.

Project Description

The project, administered by the Asian Development Bank, became effective May 18, 2002. Physical completion and the financial closing date for the project is December 31, 2003. The project scope includes: (i) preventive civil works and periodic maintenance; (ii) support for the establishment of a routine maintenance regime; (iii) detailed engineering; and (iv) training and project management.

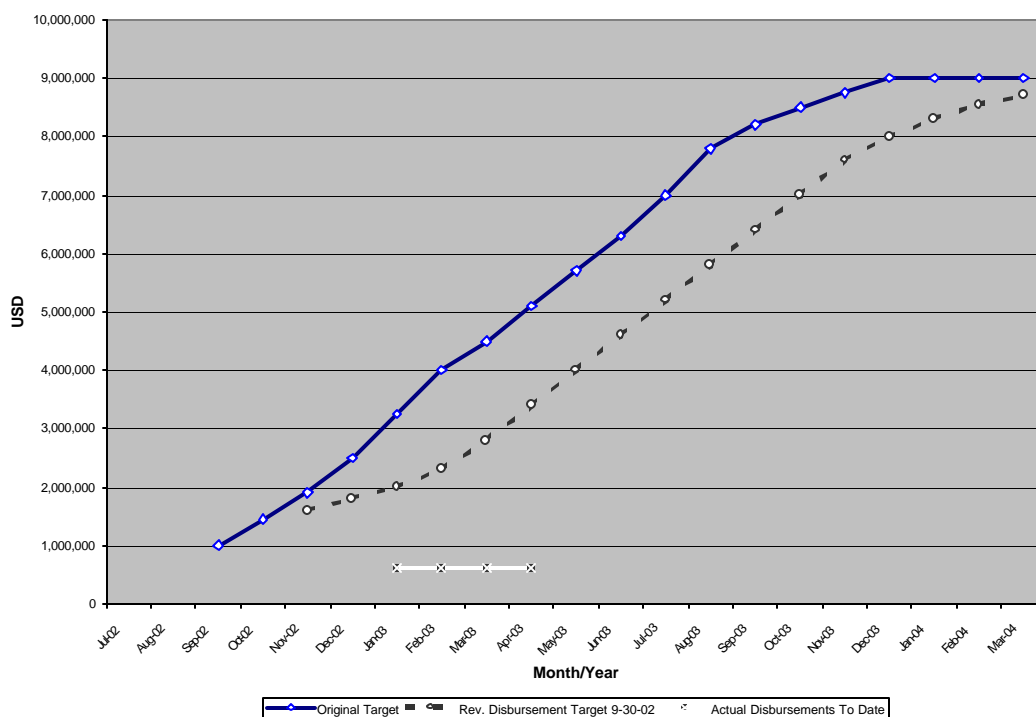
Project Status

The project is slightly behind schedule due to delays in selecting the design engineering consultants to provide geotechnical assessment and detailed designs for civil works. Recruitment of the consultants is now underway, and they are expected to be mobilized by August 2003.

Staffing for both international and local positions within the Project Management Unit, which will program, administer, and coordinate daily activities, is in progress. Assessment of training needs is underway to address capacity building for a routine maintenance program and for upgrading of necessary skills to assume managerial and technical responsibility for field administration and periodic maintenance, bio-and other engineering techniques, and financial and administrative accountability.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Emergency Infrastructure Rehabilitation Project – Phase II
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Emergency Infrastructure Rehabilitation Project - Phase II
Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Civil Works	6,720,000.00	0.00	6,720,000.00
2. Consulting Services	1,350,000.00	600,000.00	750,000.00
3. Unallocated	930,000.00	0.00	930,000.00
4. Project Account (to be allocated to above components)	0	0.00	0.00
Total	9,000,000.00	600,000.00	8,400,000.00

SMALL ENTERPRISES PROJECT
TF023631, USD4.85 million

Project Overview – April 2003
Project Closed – December 2002

Project Objective

The objective of the Small Enterprises Project (SEP I) was to restart private sector activity by providing financing to small business, restoring essential elements of a land and property administration system, and providing technical assistance, including business skills training.

Major Donors Involved in Supporting Private Enterprise

Donor	Area of Concentration
World Bank (TFET)	Small Business Financing, Capacity-Building, Business Environment, Market Rehabilitation
ADB (TFET)	Microfinance, Credit Union Rehabilitation
ADRA	Market Rehabilitation
AusAID	District Technical Resource Service Centers
JICA	Rural Income Generation; Infrastructure Rehabilitation.
Opportunity International	Microcredit
Timor Aid	Microcredit
USAID	Business Environment

Project Achievements

SEP I, administered by the World Bank, became effective May 5, 2001 and, following a six month extension to allow for completion of works, closed on December 31, 2002. Table 1 summarizes project achievements under the four main components. An Implementation Completion Review (ICR) review mission reviewed SEP I in March 2003, and the ICR is expected to be completed by end-June 2003. Box 1 discusses emerging lessons from the implementation of SEP I.

Table 1. Project Achievements

Line of Credit Component	
Amount disbursed	USD3.99million
No. of loans approved <i>of which approved to women</i>	341 17%
Average loan size	USD11,699
No. of jobs created <i>of which jobs to women</i>	1,321 26%
Land and Property Administration Study Component	
Development of reports as input for land administration policy/system	Six land studies were completed and synthesized into one; a summary for policy makers was produced.
Technical Assistance (Business Support Services) Component	
Training of local trainers	Solomon Leonard Limited of New Zealand delivered training of 24 future master trainers (representing nearly all districts) in the first half of 2002.
Business Development Center Rehabilitation Component	
Rehabilitation of four buildings to be converted to Business Development Centers (BDCs)	Rehabilitation of the BDCs in Baucau, Maliana, and Oecussi commenced in March 2002 and was completed in October 2002; Dili BDC rehabilitation commenced in April 2002 and was completed in November 2002.

[1] Loans to Small Businesses – A line of credit of USD4.0 million provided small business loans from USD500 to USD50,000 to Timorese entrepreneurs. Projects were selected for financing based on the commercial viability of the business plan. Loans were extended at 10 percent interest for terms up to 36 months. SEP I financed 341 enterprises and created about 1,300 jobs directly. According to surveys conducted in February 2003, an estimated 1,040 to 1,200 additional jobs were created. In addition to contributing to capacity in road transport, retailing, and agricultural processing, lending financed investment in areas such as restaurants and personal services, which proved to be more vulnerable to the economic decline following the reduction in forces in 2002. SEP I borrowers expressed serious concern about competition from enterprises funded with grant (i.e. gratis) assistance from NGOs or under the Community Empowerment and Local Governance project. The repayment rate under the line of credit continually declined over the life of the project, reaching 68 percent as of April 2003. This is delaying the launch of the line of credit under the follow-on SEP II, pending completion of items in a June 2002 action plan designed to address the issue.

[2] Strengthening Land and Property Administration – The UNCHS (Habitat) managed teams of consultants that worked in Timor-Leste on land, housing, and property issues in May-August 2000. The outputs were seven reports on: (a) land registration; (b) cadastral survey and mapping; (c) housing, property and land rights (two reports on dispute resolution); (d) housing and human settlement development; (e) land law; and (f) land and property planning and administration. A less technical summary of the seven reports was prepared in March 2001. The delivery of large and complex reports simultaneously overwhelmed the absorptive capacity of the local and UNTAET leadership. Producing smaller reports, annexing technical information separately, and focusing initially on the simplest and least controversial actions may have proven a better strategy.

[3] Technical Assistance (Business Skills Training) – To help them learn to manage their debt and businesses, borrowers under the line of credit were the main target for training. The project adopted a two-phased approach: in February 2002, training of 24 “master trainers” took place (master trainers were from central and district government, Caixa Geral de Depósitos, and NGO staff); in April 2002, the master trainers then trained 214 business entrepreneurs (including 58 women) in nine districts. All together, due to lack of advance planning/preparation by the Project Implementation Unit and poor targeting and selection of participants, only 7 percent of borrowers in 13 districts received training. The capacity of the master trainers needs to be improved by additional training under the follow-on SEP II. Evaluation of the master trainers and those trained by them has yet to be undertaken by the Project Implementation Unit.

[3] Business Development Center Rehabilitation – After community consultations, the small grants component of the project directed to business communities was changed to rehabilitation of buildings for four Business Development Centers (BDC) in Dili, Baucau, Maliana, and Oecussi Districts. Funds were reallocated for civil works in May 2001 and rehabilitation of the buildings was completed for all BDCs by project closing. The BDCs will be an important part of SEP II, serving as vehicle for distribution of considerable technical inputs. Aside from the construction jobs created during building rehabilitation, the implementation of this grant component has not yet fully taken effect and the Business Development Services component of SEP II has not yet commenced.

Box 1. Emerging Lessons from SEP I

Think twice before offering a line of credit in an immediate post-conflict environment. Immediately following conflict and a concomitant destruction of property, asset prices often rise to an inflated level. If a line of credit is offered under such conditions, it can result in excessive borrowing, exposing borrowers to unmanageable levels of debt as asset prices deflate post-boom. In a post-conflict environment, borrowers and lenders also face massive information deficiencies—misreading of market conditions and opportunities is more likely than not, thus leading to loan losses, unsuccessful businesses, and worsening of poverty and livelihood levels. For these reasons, and depending on precise operational conditions, support for the creation of a new formal lending sector is immensely difficult and should probably not be undertaken until the reconstruction and development process (2-3 years) is more advanced. Instead of pursuing a credit program, the explicit objectives of SEP I could have been achieved largely by issuing grants, approved on commercial principles, to entrepreneurs with viable business proposals. This implies a managed transition from intermediated grant-giving to intermediated loan giving. In addition, loan repayment rates under the SEP I line of credit suffered due to competing grants offered under the Community Empowerment Project; such activities under the projects should have been coordinated better at the outset so that only one form (preferably grants) of small enterprise intermediated assistance was offered. Once a decision has been made to move toward intermediated loans, the conditions should be coordinated among all loan programs with a view to fostering a healthy credit and repayment climate.

Competing project objectives made for difficult implementation. Many of the implicit objectives of SEP I related to financial sector development, although the main project development objective of SEP I related to broader and more explicit post-conflict private sector development goals. The competing objectives and forms of input brought about a degree of internal inconsistency during project implementation. To not link the delivery business skills training concretely to approval of a loan to borrowers has a materially negative effect on borrowers' ability to manage their business and repay loans.

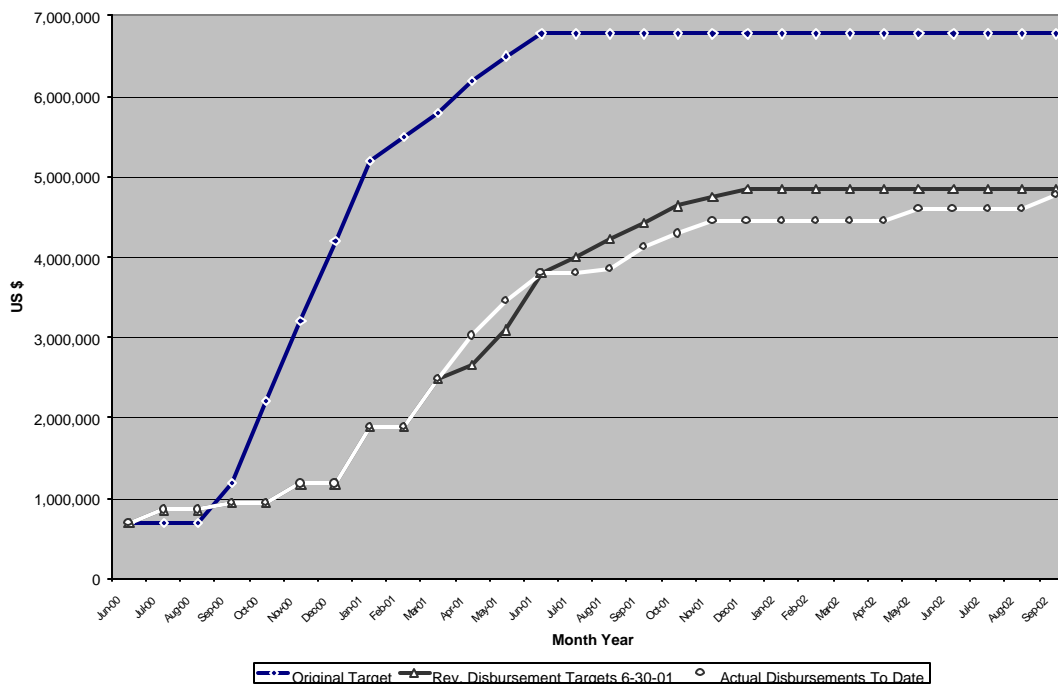
Studies on land and property issues should be introduced in a phased-manner. External studies on land and property issues, in the context of a transitional political environment, require very high levels of local political ownership and should be introduced in a phased manner, gradually building up a baseline of data and a range of policy options for the new/incoming administration with better ability to establish a regulatory framework.

Project design in a post-conflict environment should allow time for capacity building. The sequencing of post-conflict private sector development interventions is crucial, and adequate allowances should be made for relatively weak implementation capacity on the part of any transitional administration and emerging government structure. Procurement of services in a post-conflict transitional environment can be expected to take longer than normal, and project design needs to accommodate this accordingly.

Early designation of counterparts helps build capacity and sustainability; close linkages with stakeholders are needed to address emerging issues; training should be targeted. Designation, as early as possible, of regular government staff as counterparts to Project Implementation Unit local and foreign consultants, and contracting of an experienced project management adviser, would ensure sustainability of the project initiatives and build capacity in project management within the government. Stronger linkages of the Project Implementation Unit to various groups of stakeholders, e.g. Caixa Geral de Depósitos staff and borrowers, would have improved monitoring of project progress and timely response to emerging issues. Training programs should have been more focused on loan beneficiaries such that the quality of the emerging loan portfolio benefited directly from enhanced capacity. Unfortunately this was not the case under SEP I, where only 7 percent of borrowers benefited from the training program.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Small Enterprises Project
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Small Enterprises Project (SEP I)
Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Loans for Private Enterprises	4,000,000.00	3,987,694.50	12,305.50
2a. Consultant Services (Loans for Private Enterprises)	255,500.00	253,761.00	1,739.00
2b. Consultant Services (Land & Property Administration)	250,000.00	129,201.34	120,798.66
2c. Consultant Services (Other)	15,000.00	15,000.00	0.00
3. UNCHS Fee	10,250.00	10,250.00	0.00
4a. Goods (PMU Strengthening-TA)	15,000.00	6,069.48	8,930.52
4b. Goods (CGD-TA)	85,000.00	75,000.00	10,000.00
5. Works	200,000.00	67,045.87	132,954.13
6a. Incremental Operating Costs (Audit)	10,000.00	0.00	10,000.00
6b. Incremental Operating Costs (Other)	1,000.00	0.00	1,000.00
7. Unallocated	8,250.00	0.00	8,250.00
8. Project Account (to be allocated to components above)	0.00	230,000.00	-230,000.00
Total	4,850,000.00	4,774,022.19	75,977.81

SECOND SMALL ENTERPRISES PROJECT
TF050153, USD7.50 million

Project Overview – April 2003

Project Objectives

The main objectives of the Second Small Enterprises Project (SEP II) are to generate employment, accelerate economic growth, and improve the competitiveness of small-and-medium size enterprises (SMEs). This will be achieved by providing an SME line of credit, capacity building focused on private sector development, and rehabilitation of market infrastructure.

Project Status

SEP II, administered by the World Bank, became effective March 27, 2002 and is scheduled to close June 30, 2004. To date, no disbursements under project components have been made, and the project has been rated unsatisfactory by the World Bank. The status of the three main project components is summarized in Table 1 and described below. Disbursements will begin once actions have been taken to resolve the non-repayment issue under the SEP I line of credit component.

Table 1. Status of SEP II

Component	Status
Line of Credit	Launch delayed due to economic downturn and non-repayment issue under SEP I line of credit
PSD Capacity Building	Firms being selected to fulfill consultancies; implementation expected to begin May 2003
Market Rehabilitation	Communities have begun drafting proposals

Project Component Updates

[1] **Small Business Loans** – To meet continued outstanding demand for SME loans, and given that no other independent SME lending facility is yet available, a further USD4.0 million line of credit on commercial terms was designed under SEP II. The SEP II line of credit is to have an increased focus on the agriculture sector—USD2.0 million has been earmarked for agribusiness endeavors. Caixa Geral de Depósitos (CGD) was reappointed as the project entity for SEP II, after a comprehensive appraisal of the financial institutions in Timor-Leste. CGD has built up valuable experience in delivering SME lending in Timor-Leste during SEP I, especially in the outlying districts. CGD has committed to assuming 10 percent of the risk of the line of credit; under SEP I, CGD had none of its own capital exposed to the risk of default. Risk-sharing by the intermediate bank will improve the loan analysis process, enhance loan management and performance, and shore up credit culture. SEP II maximum loan term is to remain at 36 months, with an initial grace period of up to three months; the terms and conditions of loans and services provided by CGD will remain the same. The interest rate was increased to 14 percent per annum in an effort to move toward less market distortion. Loans under SEP II are expected to range between USD1,000 and USD50,000. However, the launch of the line of credit has been delayed due to reluctance to proceed in the context of the economic downturn, and because of the non repayment and financial management issues under SEP I. It is expected that this component will need to be restructured, which will be done in alignment with the Road Map for Implementation of the National Development Plan.

[2] **PSD Capacity Building** – The overall amount committed to the component is USD1.759 million. Firms are being selected to fulfill the consultancy assignments under the three subcomponents described below. Implementation is scheduled to begin in May 2003.

Business Development Services – The principal objective of the business development services is to generate employment and increase productivity and economic growth. Wide-ranging support will be offered to approved and potential borrowers to help them manage and develop their businesses, to help ensure a high level of loan performance. Training courses will be delivered to larger, local firms that need more sophisticated support in structuring their business management. Business development services are to be delivered via a variety of platforms, but particularly through the four Business Development Centers rehabilitated under SEP I. Dili will serve as the national Business Development Services coordinating office.

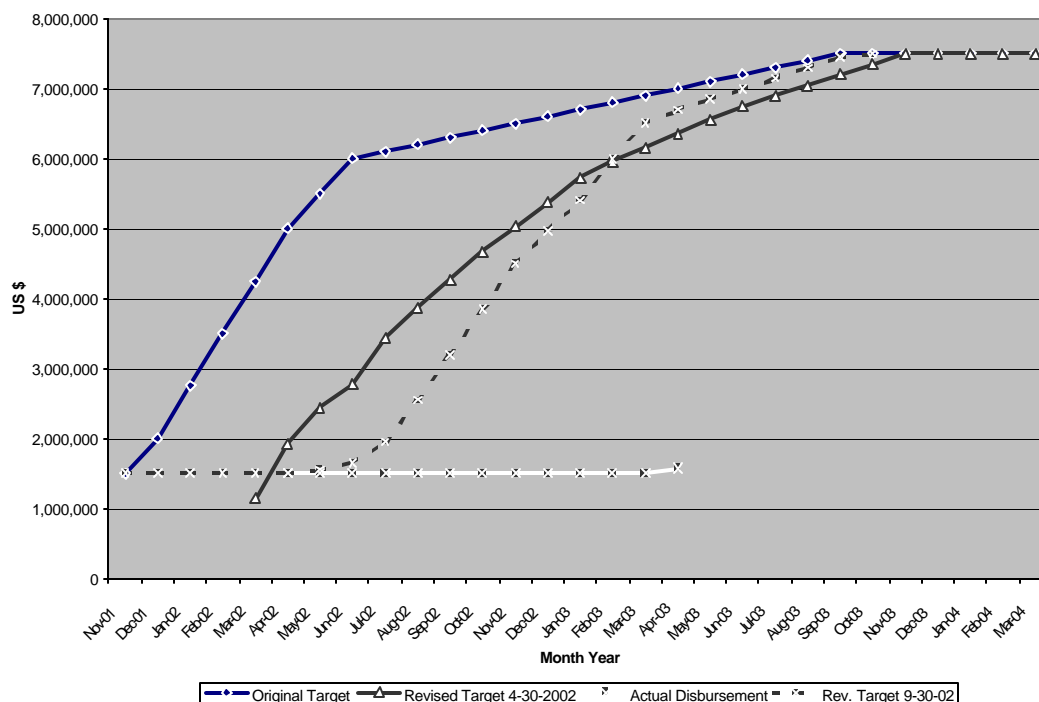
Civil Servant Training on Private Sector Development – A small group of Timorese civil servants will be given training in private sector development and service delivery. The training is intended to build awareness of private sector development issues within the public sector and to help prepare the responsible civil servants to deal with private sector development policy issues they are likely to face.

Business Regulatory Environment – A central impediment to the successful development of Timor-Leste's private sector in the medium- to long-term is the lack of a functioning business enabling environment. In the post-Independence period, Timor-Leste will require additional resources devoted to ensuring the establishment of a modern, international, best-practice private sector enabling framework. This component provides targeted assistance to the development of the business enabling environment.

[3] Market Rehabilitation – Although some rehabilitative work has already taken place, the vast majority of produce and goods markets remain in a state of partial or total destruction, or in dilapidated condition due to lapsed maintenance. This USD1.0 million component will finance the construction of improved marketplace facilities at the district and sub-district levels. Marketplace rehabilitation work will have multiple benefits: employment generation at the district and sub-district levels; enhancement of valuable construction skills; and facilitation of improved trading conditions. The Business Development Services component will complement market rehabilitation by providing capacity building training to market cooperatives in managing the facilities. Communities seeking funds are being contacted and encouraged to draft viable proposals for market management and maintenance.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Second Small Enterprises Project
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Second Small Enterprises Project (SEP II)
Estimated Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Loans for SMEs	4,000,000.00	0.00	4,000,000.00
2. Sub-Grants (Market Rehabilitation)	1,000,000.00	0.00	1,000,000.00
3. Goods (PSD Capacity Building)	350,000.00	0.00	350,000.00
4. Civil Works (BDCs)	150,000.00	0.00	150,000.00
5. Incremental Operating Costs	60,000.00	0.00	60,000.00
6. Consultant Services	1,600,000.00	75,000.00	1,525,000.00
7. Unallocated	340,000.00	0.00	340,000.00
8. CGD Account (to be allocated to component 1 above)	0	800,000.00	-800,000.00
9. Project Account (to be allocated to components 2-7 above)	0	700,000.00	-700,000.00
Total	7,500,000.00	1,575,000.00	5,925,000.00

HEALTH SECTOR REHABILITATION AND DEVELOPMENT PROGRAM

TF023768, USDUS12.7 million

Project Overview – April 2003

Project Objectives

The overall goal of the first Health Sector Rehabilitation and Development Program (HSRDP I) is to address immediate basic health needs of the population of Timor-Leste, while developing health policies and a health system appropriate to the country.

Major Donors Involved in the Health Sector

Donor	Area of Concentration
World Bank (TFET)	Health Sector Rehabilitation and Development
ECHO (now complete), JICA	Provision of Health Services (through NGOs)
WHO, AusAID	Technical Support and Training
AusAID	Oral and Mental Health
AusAID	TB, Vector Borne Disease, HIV/AIDS Prevention
UNICEF, UNFPA, WHO	Overall Program Support
UNICEF, AusAid, WHO	Immunization Programs
USAID	HIV/AIDS Prevention

Project Status

HSRDP I, administered by the World Bank, became effective July 25, 2000. The Ministry of Health (MOH) has requested a second extension—to February 28, 2004 (from June 30, 2003)—to allow for completion of phase II construction of health centers (with possible further extension to July 31, 2004). The extension request is pending resolution of financial management issues raised in the January 2003 project audit report and the appointment of key financial management and procurement staff to the PMU.

The project has three main components, which are described below; Box 1 provides greater detail on achievements and constraints under these components. Table 1 in the next overview shows achievements under HSRDP I and II.

Project Component Updates

[1] Restoring Access to Basic Health Services – This component supports a transitional strategy to provide services focused on accelerated delivery of selected high priority programs (e.g. immunization, tuberculosis, nutrition, maternal care, and health promotion). In the first year, this was done through a Memorandum of Understanding between the health authority and NGOs who performed as services entities at the district level. The component also supports repairs to buildings, some new buildings, and re-equipment. It aims to re-establish an administrative structure at the central and district levels, and provide training in service delivery, management, and administration.

[2] Health Policy and Health Systems Development – This component, through capacity building, studies and stakeholder consultation, supports the process of defining and developing appropriate health policies over the medium- to long-term. A strategy for human resource development is a key element of this component.

[3] Program Management Unit (PMU) – This component provides for program management and administration of TFET funds so that interventions at all levels of the health service delivery system are in keeping with the needs in Timor-Leste. The PMU is responsible for financial management, procurement, program planning, policy development, and implementation. In addition, the PMU facilitates communications between the Program Director—currently the Minister of Health—and the World Bank.

Box. 1 Health Sector Rehabilitation I: Some Achievements, Issues, and Lessons Learned

Restoring Access to Basic Services. After the violence of September 1999, international NGOs played a key role in the delivery of basic health services, until the MOH began to re-establish itself. An exit strategy for the NGOs guided their phase-out from September to December 2001. Timorese health staff assumed responsibility for the management and delivery of health services from January 2002, although with provision for international management and doctor support to the districts. This support, together with improvements in the operation of mobile clinics, has resulted in an extension of services provided by the MOH. The MOH intends to review how mobile clinics are working and how outreach programs—particularly the Expanded Program of Immunizations and Maternal and Child Health related services—can be strengthened. In addition, a study for rationalization of hospital services has been finalized, the Cabinet has approved a Hospital Configuration proposal from MOH based on this work, and a brief for the design and refurbishment of hospitals was completed in March 2003. An Autonomous Medical Store was completed in December 2001 and is operational; the contract with Crown Agents was extended to September 2002 and further extended to August 2003 (as planned and financed under HSRDP II). The installation of high frequency radios in health centers and hospitals continues and includes training.

Developing Health Policy. The health policy development process was revitalized after September 2001. A Health Policy Working Group assisted the MOH to adopt the first Health Policy Framework for Timor-Leste in June 2002. The framework was presented to and endorsed by the Council of Ministers in December 2002. Several regulations related to the health sector have been issued, including those related to pharmaceuticals. This policy process provided a firm basis for the MOH's participation in the formulation of Timor-Leste's National Development Plan. However, the framework now needs to be followed-up by micro-policy development to make it operational. This agenda is being reinforced by the Transitional Support Program.

Program Management. The project has experienced delays in procurement. During the May 2002 supervision mission, the PMU submitted a revised procurement plan linked to financial data, which provided a significantly improved mechanism for tracking implementation progress in greater detail than was previously possible. The procurement plan was further updated in November 2002 and in April 2003. Remaining procurement under the project includes:

- **Construction.** Construction of health centers is being undertaken in two phases. Although Phase I experienced delays due to the two construction companies capacity and/or cash flow problems, these were resolved in mid-2002. As of January 2003, all 21 Phase I Community Health Centers (CHCs) had been commissioned. A medical equipment logistics adviser was recruited in December 2002 to establish procedures for the MOH allocation of medical equipment to the CHCs as they were commissioned. Adequate supplies of water still have to be identified at several of the sites; funds have been allocated for this under the project's small works program, and all new facilities will be connected to water in 2003. Phase II CHCs, estimated to cost USD945,000, will involve construction of four Level 2 centers (without beds), two Level 3 centers (with beds), and the rehabilitation of the Bobometo Clinic. Bids for the construction of the CHCs were opened on March 19, 2003, and a firm to commence construction on five of the sites is expected to be mobilized by mid-June 2003. Construction is expected to be completed by end-January 2004. The MOH has requested that the construction contracts for the two remaining Phase II CHCs (in Occeusi District) be re-bid. MOH has requested a second extension of the project, to July 31, 2004, to allow for construction and the commissioning of the Phase II CHCs to be completed. The extension request, and hence a "no objection" to proceed with the Phase II CHCs, is pending resolution of financial management issues identified in the project audit report submitted for World Bank review in January 2003, and the appointment of key staff to the Project Management Unit.
- **Goods.** Two programmed activities have yet to be committed under signed contract: medical waste incinerators for Phase I CHCs and an oxygen plant for the Autonomous Medical Store. The first round of tendering for incinerators failed to produce a bid responsive to specifications. Specifications were revised and a request for quotations under International Shopping procedures for medical incinerators for Phase I CHCs was issued in December 2002. The Phase I incinerators are expected to cost USD143,000. Delivery for the majority of the 21 could be in phases during May and June 2003 however, as noted above, a "no objection" to proceed is pending resolution of financial management issues raised in the project audit report. The specifications for the construction of Phase II CHCs were revised to include the installation of a medical waste incinerator. The Trustee reviewed a proposal for the oxygen plant in February 2003 in which the MOH, based on an AUSAID report, recommended increasing the budget estimate from USD80,000 to USD220,000. The proposal further recommended that the oxygen plant take priority over a maintenance facility proposed in October 2002 and that the additional USD140,000 for the oxygen plant be accommodated through a reallocation of the budget proposed for the maintenance facility (USD123,000) and the reallocation of savings from estimated budgets for consultant services. Proceeding with the oxygen plant is pending resolution of financial management issues raised in the project audit report.

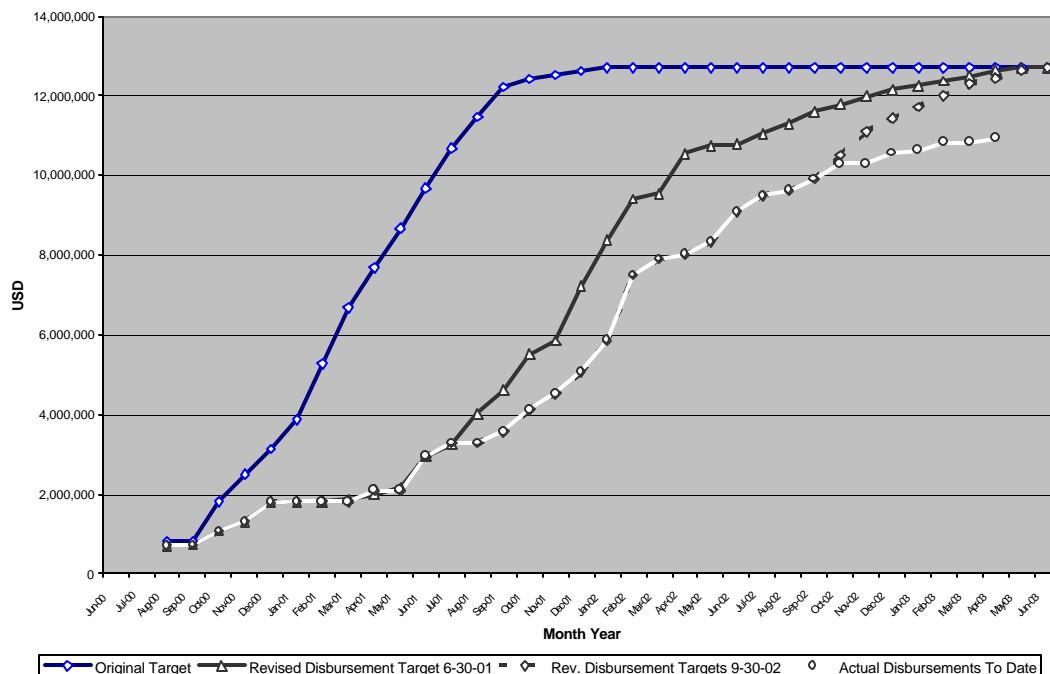
- **Technical Assistance.** The remaining contract to be let for consultant services to be financed under HSRDP I is for the design and supervision of Phase II CHC construction. A combined technical/financial evaluation of proposals was completed in the first week of March 2003. The evaluation indicated that the estimated budget of USD65,000 would be insufficient and, in consideration of the increased capacity within the Project Management Unit and MOH, MOH has proposed that supervision of Phase II CHC construction (when it proceeds after resolution of financial management issues) would be conducted with “in house” resources.

Some Overall Lessons Learned:

- More time and effort for training Timorese staff is needed to strengthen capacity.
- More time should be spent working with communities on project ownership and understanding of implementation issues.
- More time must be spent ensuring that selected contractors have the means (i.e. cash, equipment, manpower) to fulfil contract specification before the contract is awarded (i.e., post-qualifying).
- Increased circulation of advertisement for goods, services, works, and/or consultancies is needed to increase competition.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Health Sector Rehabilitation and Development Program
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Health Sector Rehabilitation Development Program (HSRDP I)
Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Civil Works	4,200,000.00	3,729,091.01	3,729,091.01
2. Goods/Transportation	2,300,000.00	1,916,819.04	1,916,819.04
3. Training/Fellowships/Workshops	1,000,000.00	190,164.53	190,164.53
4. Operating Costs	400,000.00	211,446.36	211,446.36
5. Consultant Services/Studies	4,200,000.00	4,253,497.32	4,253,497.32
6. Unallocated	600,000.00	0.00	0.00
7. Project Account (to be allocated to components above)	0	623,851.76	623,851.76
Total	12,700,000.00	10,924,870.02	10,924,870.02

SECOND HEALTH SECTOR REHABILITATION AND DEVELOPMENT PROGRAM
TF029888, USD12.6 million

Project Overview – April 2003

Project Objectives

The project objectives of the Second Health Sector Rehabilitation and Development Program (HSRDP II) are to assist Timor-Leste in rehabilitating and developing a cost-effective and financially sustainable health system to be responsive in the post-emergency period to the immediate basic health needs of the population and, within a well integrated and sustainable health policy framework, to prepare the health system to meet future needs.

Project Status

HSRDP II, administered by the World Bank, became effective December 2, 2001. The program is fully integrated into the overall budget of Ministry of Health (MOH) and aims to reinforce the sector-wide approach being pursued by MOH with development partners. The three main project components and recent progress are described below. Table 1 summarizes program achievements under HSRDP I and II. For reasons discussed below, it has been proposed to extend HSRDP II to December 31, 2006, from March 31, 2004.

Project Component Updates

[1] Supporting Ongoing Health Service Delivery – This component supports continued service delivery through the provision of technical assistance to the new district health management teams in the development and implementation of the district health plans; supply of 21 international doctors for up to two years for district health services; and support from specialized technical agencies. It also supports the provision of pharmaceuticals to health facilities. A joint donor mission reviewed the health program (HSRDP I and II) in April 2003. The technical support to the district health management teams is beginning to work well. The MOH is using the process of the production of District Health Plans by district health management teams (with the support of the District Health Management Support Officers) to ensure priority is given to the basic package of services and that the component parts of the package are implemented and funded through the budget as they are further refined. The District Medical Officers have provided critical support to district health services, but attrition levels have been relatively high. As planned, the MOH has begun the process of planning for these services to be taken over by the recurrent (CFET) budget in FY04 and subsequently, pending increased supplies of Timorese doctors. As reflected in Table 1, health indicators have continued to improve, although modestly. Outpatient visits per capita, a general indicator of health service utilization, has increased to 1.65, but this level still indicates generally low levels of health facility utilization. The average district health staff still sees less than five patients per day. Using consistent data over time, immunization rates are improving—and are above project targets nationally—but not in several districts. There is a need to boost immunization rates in excess of 80 percent; rates are currently well below this. MOH is also concerned about access, particularly given apparent population trends to relocate from villages, which adds to population dispersion. MOH has established a high-level committee to review outreach options and experience to-date, a welcome development as it is clear that there are problems with mobile clinics and that health posts as currently organized often have low utilization and low work loads for staff. MOH, through HSRDP II, is planning a health seeking behavior study to better understand the demand for health services.

[2] Improving the Range and Quality of Health Services and Development and Implementation of Health Support Systems – This component supports standardizing and enhancing the quality of delivery of the basic package of services, health promotion activities, and environmental health issues. A major activity will be strengthening referral systems and rationalizing the hospital system, which will be done with additional support from the European Commission (EC). EC funding for the hospital program has now been approved and, following some administrative delays, the World Bank and EC are now working to establish a trust fund to be administered by the World Bank according to the same procurement and financial rules as TFET. Originally expected to be €10 million, the EC grant is now planned to be €6.5 million and, in addition to the hospitals program, will support training and pharmaceutical supplies. The additional €6.5 million in support includes a commitment to fund recurrent budget activities (training and pharmaceuticals) that were originally programmed under CFET. A major achievement has been the Cabinet approval of a hospital configuration proposal, developed with support of HRSDP I, which sets out the location, size, and functions of the six hospitals to be developed in Timor-Leste. This provides a policy/strategy base for hospital development, financing, and staffing. Though this has taken much longer to put in place than originally planned, it involves a major change from the past (when there were many more hospitals, beds, and specialties that are no longer affordable) and now has strong ownership within the MOH as does the commitment to keep hospital expenditures to less than 40 percent of recurrent costs so as to ensure fiscal space for basic services. The detailed design brief for the hospital program and the central laboratory has now been finalized and will go to tender by May 15, 2003. Pharmaceutical and medical supply shortages in late 2002 and early 2003 have now been largely overcome, and procurement action for next fiscal year's initial six-month supplies are well advanced.

[3] Development and Implementation of a Health Sector Policy and Management System – This component includes support for a Demographic and Health Survey (DHS) to provide information on which to base policy, and assistance to capacity development in the formulation, promulgation, and implementation of policy. An important subcomponent supports the development and implementation of a Human Resource Management Strategy, including training and all other aspects of human resource management. The component also provides for audits, and supports the Health Program Management Unit's (PMU) running costs, including training for Timorese staff in financial management and procurement. The DHS is now underway. The MOH has made significant strides on the policy development front, additional to the hospital configuration study discussed above. The Cabinet has approved the Health Policy Framework and MOH has began serious work on the formulation of micro-policies around the implementation of a basic package of health services. A formal process is underway, and while the initial timetable for this to be completed (by June 2003) will not be met (in large part because it under-estimated how much work was involved), the basic package will be fully defined by June 2004. As discussed in the previous overview, the MOH is also reviewing options to improve outreach.

Procurement. Procurement under HSRDP II has been planned to achieve the greatest possible synergy with procurement under HSRDP I. A procurement plan covering both projects was prepared in February 2002 and updated in October 2002 and April 2003. Specific procurement actions currently in progress for the second project are summarized below.

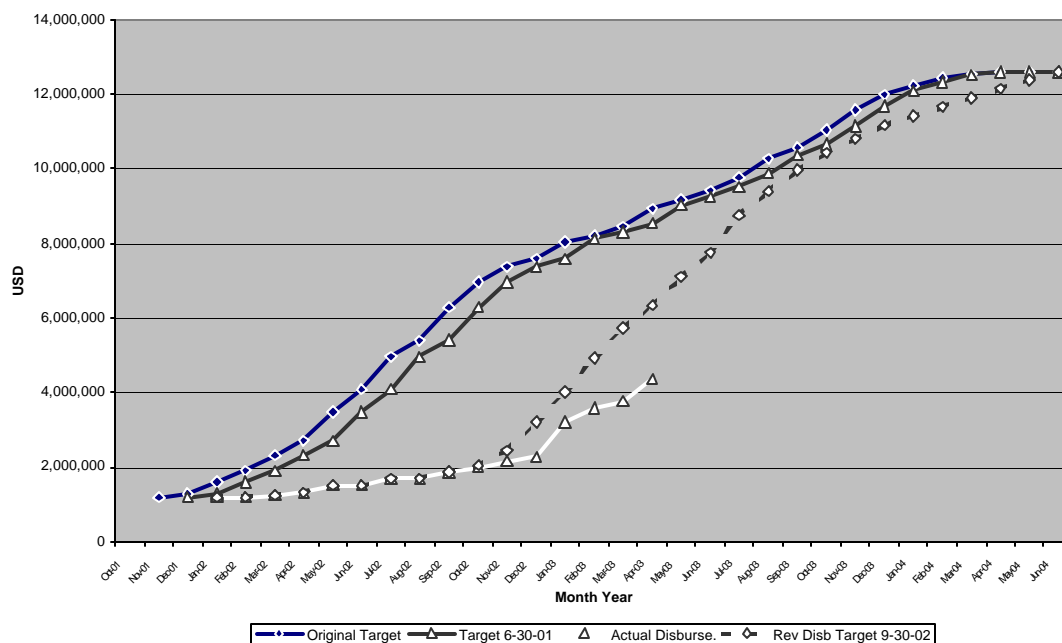
- The range of technical assistance to support program delivery is in place and almost at full strength. This included the Project Manager, 17 District Medical officers (DMOs), three District Health Management Support Specialists (a further DHMSS is expected to be recruited by June, 2003), a Project Architect, a Senior Construction Supervisor, a Health Policy and Management Specialist, a Personnel Management Coordinator, a Health Information Specialist, a Chief Financial Adviser, an Implementation and Budget Officer, an Assistant Accountant, a Medical Logistician and a Logistician, a Procurement Adviser and Procurement Assistant, all funded through TFET. A recruitment process to replace the Procurement Adviser and Chief Financial Officer who are scheduled to leave in May 2003 is expected to be completed by end-May 2003. Additionally, two, Surgeons, an Anesthetist, an Internist and a Locum, two Tropical Doctors, four Pediatricians, four Emergency Doctors, and an HIV/AIDS Counselor, all CFET-funded, and a Health Human Resource Planner, financed by WHO, are in place.

- The rehabilitation of the Centro Clinic in Dili was completed on schedule in March 2003.
- The Demographic Health Survey firm was mobilized in January 2003 and the study is on track to be completed as scheduled; a questionnaire has been designed and completed in accordance with international standards.
- An individual to prepare the final detailed design brief for hospitals was mobilized several weeks behind schedule in December 2002. The assignment was completed in early-April, 2003.
- A contract for preparation of detailed hospital design briefs (six hospitals, including bills of quantity) and the Central Laboratory will be put to tender by May 15, 2003.
- In April 2003 a review of on-going and expected future commitments and proposals put forward by MOH was conducted and resulted in some minor reallocations amongst project expenditure categories (see disbursement table at the end of this overview).

Indicator	Dec-00	Sept-01	Mar-02	Jun-02	Sept-02 ¹	Dec-02	Mar-03	Comments (April 2003)
% of children < 1 year immunized in each district by June 30, 2003: a) DPT3 > 50% b) Measles > 50%	10% 75%	26% 25%	42% 37%	51% 42%	54% 45%	53% 43%	59% 55%	Figures show coverage in the preceding quarter.
% of population with access to: a) basic health services within 2 hours of home (95% by completion); b) in-patient services within 2 hours from a source of basic health services (80% by completion).	79% Not yet available	76% Not yet available	78% Not yet available	78% 8 of 13 districts ≥ 80%	82% 8 of 13 districts ≥ 80%	82% Not available	86% Not available	
Health facilities appropriately utilized.	0.8	1.10	Est. last report 1.81; actual 1.54	1.47	1.39	1.56	1.65	Defined as number of outpatient visits per capita per year. Data for all facilities in Dili District included for first time in March 2002. Excludes Dili and Baucau hospital.
Health facilities with less than 2 weeks of stock-out of selected essential drugs over 3 month period (at least 90% by completion of both projects).	See comment	See comment	See comment	See Comment	See comment	See comment	See comment	Data on stock-out by individual facility is not available. MOH need to present disaggregated data.
% of births with skilled attendance by June 30, 2003: a) >35% nationally b) >20% in each district	25% 4%	25% 8%	27% 11%	n.a. n.a.	33% n.a.	41%	42%	These are rough estimates; quarterly reports need to be reviewed. March 2002 data included Dili District for the first time.
Options paper on health financing		Done						Has provided input into the health sector policy paper.
Options paper on role of private sector		Done						Has provided input into the health sector policy paper.
Regulations on pharmaceuticals				Plan agreed				Indonesian law applies; more work needs to be done.
Consultations with stakeholders and health policy framework			2	2			Policy framework completed and approved by CoM.	Two major stakeholder meetings in first half of 2002 and meeting on micro policies held in January 2003.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Second Health Sector Rehabilitation and Development Program
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Second Health Sector Rehabilitation Development Program (HSRDP II)
Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1a. Civil Works (hospital rehabilitation)	1,800,000.00	0.00	1,800,000.00
1b. Civil Works (refurbishment of Centro Clinic & Dili lab)	700,000.00	0.00	700,000.00
2a. Goods (hospital rehabilitation)	1,600,000.00	1,357,749.98	242,250.02
2b. Goods (refurbishment of Central Clinic & Dili lab)	128,000.00	0.00	128,000.00
2c. Goods (Other)	765,000.00	0.00	765,000.00
3. Incremental Operating Costs	277,000.00	46,309.82	230,690.18
4. Training/Fellowships/Workshops	795,000.00	27,824.67	767,175.33
5. Consulting Services	6,131,000.00	1,753,014.93	4,377,985.07
6. Unallocated	404,000.00	0.00	404,000.00
7. Project Account (to be allocated to components above)	0	1,200,000.00	-1,200,000.00
Total	12,600,000.00	4,384,899.40	8,215,100.60

EMERGENCY SCHOOL READINESS PROJECT
TF023824, USD13.9 million

Project Overview – April 2003
Project Closed – June 2002

Project Objectives

The main objective of the Emergency School Readiness Project was to assist the Government of Timor-Leste in providing school age children and youth with opportunities for education at a basic operational level, in safe school buildings, with basic furniture, blackboards, and books, and operating with teachers and principals having at least a minimal level of training. Other project objectives included promoting social mobilization and community participation for the creation of a modern school system; building the capacity of school system managers; and supporting policy development.

Major Donors Involved in the Education Sector

Donor	Area of Concentration
World Bank (TFET)	School rehabilitation
Portugal	Language training for teachers
Portugal, AusAID, JICA	Scholarships
UNICEF, USAID	Re-roofing of schools
Brazil	Vocational skills training, literacy program
World Bank, Brazil	Distance learning for youth and adults

Project Achievements

The project, administered by the World Bank, became effective August 2, 2000; the original closing date of June 30, 2001 was extended to June 30, 2002 to allow for the completion of construction and delivery of school furniture. Table 1 shows project achievements, and the five project components are described below. Box 1 discusses lessons learned as identified by the World Bank's Implementation Completion Report (ICR).

Table 1. Project Achievements

Indicator	Status at Project Close
No. of schools reconstructed	535 (from original target of 700, but more classrooms were built than originally planned)
No. of classrooms reconstructed	2,780 (versus 2,100 originally planned)
No. of primary prototype schools built	2 (Baucau, Manatuto)
No. of pre-secondary prototype schools built	3 (Maliana, Same, Oecussi)
No. of furniture sets provided for classrooms for students	72,484 sets (for up to 129,968 students: 38,368 two-seater desks for 76,736 primary students; 19,116 two-seater desks for 38,232 junior secondary students; 15,000 single-seat desks for senior secondary students)
No. of furniture sets provided for classrooms for teachers	2,000 (UNICEF provided a blackboard for each classroom)
No. of textbooks distributed	2,063,517
<i>o/w Indonesian</i>	<i>1,575,000</i>
<i>o/w Portuguese</i>	<i>232,000</i>
<i>o/w Picture Books</i>	<i>216,000</i>

[1] Rebuilding of School Physical Infrastructure – This component was comprised of the three subcomponents described below.

School Rehabilitation. The ICR rated this subcomponent satisfactory. Though completion was delayed by one year (mainly due to an unrealistic schedule set at appraisal), actual rehabilitation outputs exceeded project appraisal targets by 32 percent (see Table 1 for outputs). This is a significant achievement given the difficult circumstances. However, design and implementation weaknesses led to less than desirable outcomes. Original appraisal targets for classroom rehabilitation were based on best estimates at the time and assuming a two-shift school day. The Government did not end up adopting the two-shift approach, thus the actual number of classrooms in need of rehabilitation was much greater. In addition, school enrollment levels far-exceeded expectations due to the large number of refugees who returned to Timor-Leste. The Government has requested that the Trustee help ascertain the unmet demand for classrooms, especially at the primary level, through the follow-on Fundamental School Quality Project.

Provision of School Furniture. This subcomponent was rated satisfactory. The project provided basic furniture (desk, chair, cupboard, and blackboard) for 2,000 teachers and about 130,000 students. This latter number is far short of the appraisal target of 200,000 beneficiary students (100,000 for each of two shifts). However, the number exceeds the estimated total number of students (109,120) accommodated in the rehabilitated classrooms at project closing by more than 19 percent. Therefore, furniture was made available for some non-rehabilitated classrooms. During project preparation, the Recipient had envisaged procurement of 100,000 plastic sets/seats of pupil furniture immediately, which were to be replaced with a better quality within five years. During project implementation this proposal encountered resistance from district education authorities, other local stakeholders, and some of the international donors who felt that plastic was not of high enough quality and that the project had an opportunity to generate income and employment for local industry by having local carpenters supply wooden furniture. This change in plans stimulated the involvement of local carpenters/carpentry shops around the country, an important indirect benefit, though it also led to higher costs and delivery delays.

Construction of Prototype Schools. This subcomponent was rated satisfactory. Compared with the appraisal target of four prototype schools (two primary and two junior secondary schools), five schools were constructed (two primary and three junior secondary schools). Despite delays, construction was less expensive than expected—savings from this and from classroom rehabilitation allowed for the construction of the fifth prototype. By project closing, all five prototype schools had furniture and books, and were in use.

[2] Acquisition and Distribution of Student Materials and Teachers' Guides to Primary and Secondary Schools – Despite delays, the process of textbook procurement and distribution was handled efficiently and successfully. Over two million (2,063,517) books were distributed, including textbooks, workbooks, and teacher's guides for Portuguese language instruction (273,000) for students in grades 1–2 and senior secondary students; picture books (216,000) for grade 1 students; and textbooks on various subjects through the medium of Bahasa Indonesia (1,575,000) for students in all 12 grades. Although the books were delivered to students later than the school opening date of October 2000, the quantity and quality of books satisfactorily met appraisal targets. However, with the exception of the books for grades 1–2 and senior secondary students, no books for the instruction of official languages (Portuguese and Tetum) were ordered, and there were no books for social science (history and geography) at the junior and senior secondary levels.

[3] Social Mobilization and Communications – This component comprised the two subcomponents described below.

Identification of Audiences and Communication Media. This subcomponent included production of communication materials and organization of information campaigns. It was rated unsatisfactory. The audiences identified by the project were teachers, public administrators, parents, and students across Timor-Leste. Although the component had an implementation plan, the communications program as implemented showed little strategic focus for the different audiences. Some activities were directed at the general public, which was assumed to have television, newspapers, and videotapes. The project reports had no information as to how many and what kinds of people were reached with the different means of communication employed for reaching them.

Communications Activities. This subcomponent was rated unsatisfactory. Though materials—formal reports, printed press releases, video tapes, promotional clips and spot messages for TV and radio, and brochures in four different languages—covering a wide range of subjects (e.g. education as the foundation of the new nation, school maintenance, violence in school) were produced, the scarce resources (USD100,000) were spread thinly, putting effectiveness/impact of each activity in question. No formal evaluation assessed whether the communication activities achieved the specific objectives of the component: to influence positively the perceptions, attitudes, and behavior of local leaders, teachers, principals, parents, and students, to revitalize the school system; and to encourage participation in the project through dissemination of information on project rationale, community benefits, and project implementation strategies.

[4] Support for Policy Development – This component was rated unsatisfactory. The only output was the school mapping carried out by a contractor during the period May – September 2001. The mapping covered almost 100 percent of school facilities, both operational and non-operational. The maps were the best demographic snapshot of the time, but since the mapping was conducted during a period of flux, the data gathered could now be obsolete. In retrospect, the consultants could have been asked to work closely with the Project Management Unit engineers who were surveying school facilities at about the same time; the collaboration would have made the identification of schools to be rehabilitated more efficient and more credible. The Project Management Unit staff could have also been trained in the school mapping technology, enough to sustain the exercise into the future. The mapping did guide formulation of the follow-on Fundamental School Quality Project, serving as the basis to establish the priority schools to be targeted. In addition to the school mapping, the component included development and carrying out of workshops, study tours, and preliminary studies, but none of these activities were attempted under the project as there was no time to carry them out. Although the mainstay of the project was rehabilitation of school buildings and the provision of furniture and learning materials, the project made modest institutional development impact on various parts of the education sector as demonstrated by this component and the component above.

[5] Management and Implementation Support – This component provided technical assistance to support the Project Management Unit (PMU) and was rated satisfactory. At closing, the PMU prepared an ICR, which became the basis for the October 2002 joint donor mission consultative field visits and for the World Bank's own ICR. Initially, all the key PMU staff (except the finance officer, project manager, and the Construction Management Sub-Unit) were UNTAET Education Division staff concurrently working for the project. This did not pose serious problems and had advantages such as coordination between the Division of Education and the PMU. However, full-time attention, particularly at the critical start-up phase, could not be given to the project and may have contributed to delay in meeting effectiveness conditions. The PMU was strengthened through technical assistance. Staffed by experienced international consultants, the Contract Management Sub-Unit (CMU) managed architectural and engineering designs, construction supervision, and procurement of construction and learning materials and school furniture. These consultants also trained a group of local architects and engineers not only on-the-job, but also through organized formal training courses and seminars. International consultants of the CMU were disengaged in April 2001, and the smooth transition of the CMU to the local staff was the result of the training and technical assistance provided by the consultants. The other key posts of the PMU (project director, finance officer, and procurement officer) were also staffed by international consultants. Satisfactory attainment of project outputs owed to the quality and dedication of the strengthened PMU staff.

Box. 1 Lessons Learned from the Emergency School Readiness Project

Reconstruction projects need both physical and institutional components. In a post-conflict emergency, it is important that project design strike the right balance between the rehabilitation of physical infrastructure and the development of policies for public services, such as education. Although the former will take precedence and have higher priority in the short-run, institutional development over the medium-term should not be neglected.

Social mobilization and communications should be targeted. The broad objective of social mobilization and communications for the general audience did not lead to concrete results, and effects could not be measured easily. It would have been better if the campaigns had specific objectives focused on selected audiences, using media selected for the purpose. For example, the organization of community school councils or school rehabilitation committees for participation in classroom rehabilitation could have been the objective, rural communities the target audience, and individual promoters hired on contract basis the delivery medium.

Monitoring and evaluation are important, even in emergency projects. Monitoring and evaluation schemes and indicators could have proved useful for redirecting project implementation. The project design included innovative ideas requiring improvisation during implementation. However, there was neither effective feedback-gathering on the effectiveness of those ideas under project implementation nor the effects of those ideas after project completion.

Materials distribution is problematic and must be carefully planned. In ensuring that books and furniture arrive complete and on time at intended schools, this project confronted the very same problems of many similar projects with learning materials components. Any appraisal of projects involving textbook or furniture provision should pay special attention to arrangements for distribution, when possible requiring pilot-testing of proposed mechanisms.

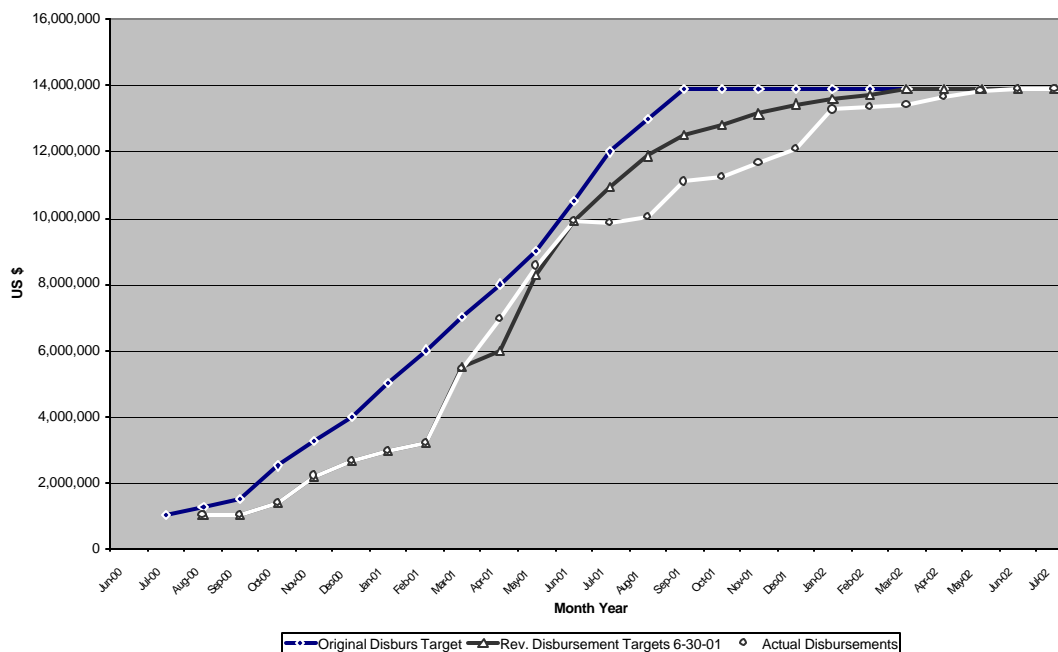
In an emergency project, though selecting local suppliers without competition may not bring optimum results, it may be appropriate in the context of local employment generation. Under this project, the locally supplied furniture was found to be not necessarily of better quality or acquired at more advantageous prices—in fact, prices were remarkably similar between imported and locally supplied furniture. Though some indirect costs were incurred in connection with the locally supplied furniture in terms of quality, delivery, technical assistance, and timeliness, and it is debatable whether limiting competition and purchasing furniture locally resulted in a higher rate of return to the Recipient, such issues must be weighed against the benefits to local communities in terms of employment generation.

Management of education projects, even those mostly concerned with construction, should include educators. The Project Management Unit was staffed mainly with engineers and architects for managing the rehabilitation of physical infrastructure, but lacked full-time educators. This imbalance in staffing resulted in lags in the development of the educational components of the project, i.e., education policy-making and system management. While buildings were being put in place, educational programs were not, especially in the areas of organizational structure of school management; curriculum formulation and teacher training; and learning materials distribution, replenishment, and future development.

Consultation with major stakeholders is important in a post-conflict situation. Although the principal project stakeholders, i.e. the Timorese authorities, were consulted during project preparation and negotiations, implementation was still plagued by proposals, changes, objections, and other interventions. Timeliness of stakeholder engagement/intervention is extremely important in post-conflict situations.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Emergency School Rehabilitation Project
Actual vs. Revised Disbursement Targets as of April 30, 2003
(Project Completed)**



**Emergency School Readiness Project
Expenditure by Category as of April 22, 2003 (USD)
(Project Completed)**

Category	Allocated	Disbursed	Undisbursed
1. Civil Works	1,200,000.00	1,741,867.84	-541,867.84
2. Goods/Transportation	9,330,410.08	8,722,069.38	608,340.70
3. Sub-Grants	1,800,000.00	1,203,533.00	596,467.00
4. Project Auditing Costs	60,000.00	6,500.00	53,500.00
5. Consultant Services/Studies	1,200,000.00	2,105,900.09	-905,900.09
6. Incremental Operating Costs	300,000.00	110,539.77	189,460.23
7. Project Account (to be allocated to components above)	0.00	0.00	0.00
Total	13,890,410.08	13,890,410.08	0.00

FUNDAMENTAL SCHOOL QUALITY PROJECT
TF050152, USD13.9 million

Project Overview – April 2003

Project Objectives

The objective of the Fundamental School Quality Project (FSQP) is to support the Government of Timor-Leste in maintaining the existing level of primary education enrollment, to restore junior secondary enrollment to the pre-1999 level (with the possibility of increase), and to continue to recover quality in primary and junior secondary education by rehabilitating physical facilities and providing textbooks and instructional materials.

Project Status

The project, administered by the World Bank, became effective May 1, 2002 (after some delay in the Government's adoption of a land acquisition and resettlement policy framework). The project's scheduled closing date is November 30, 2003, although an extension is expected, to make up for the above delay. A February 2003 midterm review called for revisions in the design of schools to be constructed/rehabilitated under the project, with a view to reducing unit costs, thereby increasing the number of schools that can be built. The midterm review also increased the project's emphasis on policy development, policy studies, and management support to the Ministry of Education, Culture, Youth, and Sports (MECYS).

Table 1 summarizes project status under the five project components as they are to be revised per the midterm review. Project components are also described below.

Table 1. Status of FSQP

Indicator	Status
Rebuilding School Infrastructure	
Construct 2 and upgrade 2 integrated schools (<i>Escolas Básicas</i>) Upgrade 65 primary schools	A contract for the first Escola Básica was signed in April 2003; bidding documents for the other 3 are expected to be released in mid-May 2003. Construction has started on 6. Negotiations to incorporate midterm review revisions are being conducted with recommended bidders for the next 12. National competitive bidding for the following 6 is expected to be completed by mid-June 2003.
Providing Teaching -Learning Materials	
Procure & distribute textbooks, and other teaching-learning materials	52,000 Portuguese language books for 4 th grade have been distributed for this academic year. Portuguese language textbooks for 5 th grade are expected to be in schools by the start of the next academic year, in October 2003.
Social Mobilization	
Produce & disseminate promotional materials	A new information campaign, to keep communities informed of which schools are to be built, is under preparation, reflecting recommendations of the midterm review.
Support for Policy Development	
Produce technical & empirical studies on education policy options	<ul style="list-style-type: none"> • Education Congress: preparation committees being formed. • Primary School Achievement Study: data collection completed in February 2003. • Curriculum development: local task force of 6 teams has started work.
Management and Implementation Support	
Support to the Project Management Unit	Midterm review conducted and project staffing and implementation schedules adjusted.

Project Component Updates

[1] Rebuilding School Physical Infrastructure – Following the midterm review, the adjusted targets of this component include the construction of two Escolas Básicas (integrated primary and junior secondary schools) at the district level, upgrading of two selected primary or junior secondary schools to the standard of Escola Básica, and upgrading of up to 65 primary schools to fundamental quality standard. The schools will be provided with furniture, water supply, and toilets. Estimates show that construction costs will be higher than the current grant provides. The Government has requested that USD6 million in TFET supplemental grants allocated for education be applied to this component. The midterm review also called for revisions in the design of the schools, to achieve further economies in construction. However, plans for the first six primary schools were not changed as the bidding process was too far advanced. Negotiations to incorporate the revisions were conducted with recommended bidders of the succeeding 12 Primary Schools and for the first Escola Básica (in Ainaro).

Escolas Básicas. A contract for the first Escola Básica (Ainaro) was signed in April 2003 and construction is under way. Bidding documents for the other three Escola Básicas (Hera, Los Palos, and Gleno) are expected to be released in mid-May 2003.

Primary Schools. During the preparation of this project in 2001, it was believed that many primary schools would only need minor refurbishment and only USD2.3 million in minor works was allocated for primary schools. Later surveys showed that the scope of work—in design, siteworks, construction, and supervision of works for the 65 primary schools—would be much greater, at USD12.6 million, because the sites chosen were in difficult terrain and had unsound or completely destroyed structures that needed to be replaced rather than refurbished. In October 2002, a joint donor mission assisted the Government in preparing the final evaluation report of the previous Emergency School Readiness Project. The report revealed a continuing shortage in primary school classrooms because the previous project's target of 2,100 classrooms assumed a double-shift school schedule (i.e., the classrooms were to be used by two sets of students daily), which was implemented in some urban areas only. In accordance with the joint donor mission's recommendations, MECYS instructed that priority attention be paid in this follow-on project to increasing the supply of primary classrooms. Following the October 2002 mission, the project undertook major changes in the design and scope of work, to reduce unit costs in order to build more classrooms. During the midterm review of the project in February 2003, it was estimated that the cost reductions and the inclusion of additional amounts from the supplemental grants would enable the project to complete upgrading of the 65 primary schools to fundamental quality standard and to provide an additional 13 primary schools, one per district, in poor but populous locations. Work is ongoing to evaluate the possibility of maximizing local and community content of the works.

[2] Providing Teaching-Learning Materials – This component includes the acquisition and distribution to primary and junior secondary schools of textbooks, workbooks, and teacher guides for language learning, learning kits in science and mathematics, and other instructional materials, and minor equipment, including typewriters, computers and peripheral equipment, software, and media. 52,000 fourth grade Portuguese language books were received in early January 2003 and have been distributed. Draft bidding documents in respect of 5th grade Portuguese language textbooks have been submitted to the World Bank for approval, and the books are expected to be in the schools by the start of the next academic year.

[3] Social Mobilization and Communications – This component includes production and dissemination of promotional materials including television programs (about 8 hours of programming so far, broadcast more than once); a booth at the international Expo; public meetings to explain the work and aims of the project; consultation with communities on where construction is to take place; development of a radio program (in the pipeline); and responding to requests for information from, and liaising with, NGOs.

[4] Support for Policy Development – This component includes technical and empirical studies on education issues and policy options, and data management and dissemination of knowledge regarding the development of the education sector. Critical studies have been identified, several of which were recommended by the October 2002 joint donor mission. These include:

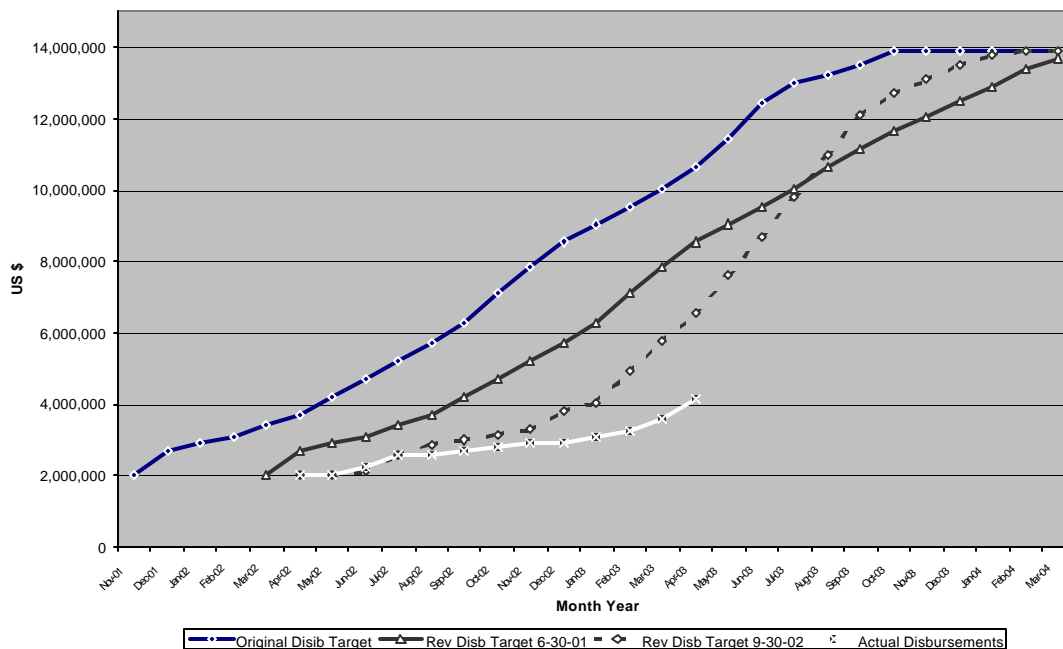
- **National Education Congress.** This event is intended to provide a venue for discussing the education policy framework with stakeholders, an action agreed under the Transitional Support Program and a continuation of the consultative process begun among high-level ministry officials and directors in November 2001. Teachers, school heads, and district education officials, parents and community leaders, the Church, other NGOs, political parties, and the business community will be organized into workshop discussion groups on sector issues, needs, and priorities. Their recommendations will help the MECYS formulate policy goals and provide operational instructions for implementing those goals. The organizing committee is being formed and the Congress is expected in late October 2003. Technical assistance will be provided so that existing policy studies can be summarized and translated as input to the Congress.
- **Primary School Achievement Study.** The study will identify school and home characteristics related to school attainment that are most sensitive to policy intervention. The study will also build MECYS and the national university's education research capacity. As part of the study, in January 2003 tests were administered to approximately 3,500 children in 95 schools, and interviews were conducted with parents, teachers, and principals. The international consultant who developed the tests and trained Timorese in test administration is analysing the data, and the report is expected at the end of June 2003.
- **Need for Curriculum Development and Teacher Support.** While the education sector of Timor-Leste has undertaken operations to restart primary and secondary schools following the devastation of 1999, the desired education efficiency and quality may not be achieved unless fundamental curriculum guidance can be provided; teachers recruited and deployed in adequate numbers; and teachers provided with adequate professional support. A coordinated program to address these critical issues—and associated funding—is urgently needed. The Government has requested that a TFET supplemental grant for education in the amount of USD700,000 (approved at the December 2002 Timor-Leste and Development Partners' Meeting) be applied to curriculum development. A local team is working on preparation of the curriculum. Technical assistance is still needed to assess the current situation and, for the longer term, to help MECYS coordinate curriculum development activities, including those of bilateral assistance.
- **Other Policy Areas.** The midterm review identified the following additional areas for policy studies: instructional materials, such as science kits and minor items of equipment; school network; human resources planning for education; improvement of language instruction; policy for textbooks and other materials; teacher training needs; monitoring and evaluation system. Work in the first two areas has already begun.

[5] Management and Implementation Support – This component includes support to the Project Management Unit (PMU) and MECYS. The October 2002 supervision mission revealed that implementation was progressing at a slower pace than originally planned, and that there were significant differences between appraisal cost estimates and the latest PMU estimates in the provision of physical facilities. Actions to address these issues were reviewed at midterm, and alternatives for restructuring the project were also discussed, taking into account MECYS priorities for achieving the Millennium Development Goals and National Development Plan objectives. TFET resources available for restructuring include: (i) the original grant amount of USD13.9 million (including the USD1.9 million disbursed or committed as of January 31, 2003); (ii) two supplemental grants totaling USD6.0 million; and (iii) a third supplemental grant of USD0.7 million for curriculum development. Using these resources, FSQP components were restructured to respond to priority needs, especially the provision of primary school classrooms; strengthening MECYS capacity to undertake policy research studies; and initiation of a process for developing Timor-Leste's school curriculum, taking into consideration assistance provided by other multilateral and bilateral donors.

The PMU staffing profile has shifted toward further 'Timorisation', with the official appointment of the Director-General of MECYS as Education Coordinator, the appointment of a counterpart to the procurement officer, transfer of greater responsibility to the local finance officer and architects, and plans to hire an additional five to seven engineers.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Fundamental School Quality Project
Actual vs. Revised Disbursement Targets as of April 30, 2000**



**Fundamental School Quality Project (FSQP)
Estimated Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1a. Civil Works (Upgrading 65 primary schools)	2,500,000.00	107,669.00	2,392,331.00
1b. Civil Works (Other)	5,500,000.00	150,000.00	5,350,000.00
3. Sub-Grants	2,000,000.00	203,727.22	1,796,272.78
4. Project Auditing Costs	2,300,000.00	1,480,049.71	819,950.29
5. Consultant Services/Studies	300,000.00	206,796.60	93,203.40
6. Incremental Operating Costs	1,300,000.00	0.00	1,300,000.00
7. Project Account (to be allocated to above components)	0	2,000,000.00	-2,000,000.00
Total	13,900,000.00	4,148,242.53	9,751,757.47

AGRICULTURE REHABILITATION PROJECT
TF023824, USDS6.8 million

Project Overview – April 2003
Project Closed – September 2002

Project Objectives

The first Agriculture Rehabilitation Project (ARP I) had two objectives: (i) improving food security of selected poor households; and (ii) increasing agricultural production in selected areas and promoting rural growth. The project was implemented by the Ministry of Agriculture, Forestry and Fisheries (MAFF) of Timor-Leste.

Major Donors Involved in the Agriculture Sector

Donor	Area of Concentration
ACIAR	Seeds for Life, Rehabilitation of Agriculture Faculty of Timor-Leste University
ADB (TFET)	Hera Port Rehabilitation
AusAID	Rural Development, Fisheries Management, GIS, Community Watershed Management
Brazil	Coffee
CARITAS/Australia	Rural Development, Reforestation
CIDA	Community Development, Integrated Agriculture, Irrigation, Natural Resources
China	Management, Aquaculture, Food Security, Provision of Inputs
EU	Rural Development and Forestry (under discussion)
FAO	Capacity Building and Training, Rice, Soil Analysis, Fisheries Management Training
Germany BMZ/DW	Rural Development, Agricultural Centers
World Bank (TFET)	Agriculture Rehabilitation Projects I and II
JICA	Integrated Agriculture Development Study, Capacity Building, Reforestation, Community Based Natural Resource Management, District Agriculture Assistance
New Zealand	Policy Advice
Portugal	Horticulture and Coffee, Capacity Building, Reforestation, Aquaculture
Oxfam	Rural Community Development
UNDP/UNOPS	Ainaro and Manatutu Community Activation Program, Irrigation
USAID	Economic Recovery Program, Coffee/NCBA, Agriculture NGOs Assistance
World Vision	Food Security

Project Achievements

ARP I, administered by the World Bank, became effective on August 22, 2000 and closed on September 30, 2002. It substantially met its objectives and was rated satisfactory at completion by both the World Bank and Government evaluation teams.¹ Some key activities have been carried over for implementation under the Second Agriculture Rehabilitation Project (ARP II). Table 1 summarizes ARP I achievements; the outputs and constraints under the four project components are described below. Box 1 presents lessons learned.

¹ The project was evaluated in June 2002 by the Government and World Bank teams, headed by independent team leaders; the satisfactory rating reflects the conclusions of both teams. The World Bank's implementation completion report (ICR) is publicly available.

Table 1. Project Achievements

<i>Project Activity</i>	<i>Original Target</i>	<i>Achieved (by End-of-Project)</i>
Overall Project Outcome:		
Institutional Development Impact		Satisfactory ²
Performance by: World Bank		Modest ²
Government		Satisfactory ²
Sustainability		Satisfactory ²
		Likely ²
Impact Indicators:		
Increased availability of eggs, poultry, meat and rice		Reduction of months with limited food supply among poor households from 7 to 5 (based on May 2002 survey).
Reduction of cattle, buffalo, pigs and chicken mortality	12%	68% of respondent farmers indicated reduced mortality as result of vaccination.
Off-farm employment created		51% of surveyed farmers in project areas participated in community projects; irrigation and roads generated an estimated 120,000 person-days of labor (ca. USD 478,000).
Increase in rice and maize yields of poorest farmers' rice and maize	10%	Yield increases could not be measured accurately within the life of the project.
Farmers have access to essential high-demand services		Project established 3 Agriculture Service Centers; impact still to be determined.
Output Indicators:		
Livestock vaccinated		168,380 cattle and 99,076 buffalo (in 2 campaigns), 233,250 pigs; 816,600 doses of Newcastle disease vaccines for chickens distributed.
Cattle and buffalo distributed	2,000	2,552 (1,094 cattle; 1,458 buffalo)
<i>Number of beneficiary families</i>	2,000	2,552
Chicken distributed	100,000	71,065
<i>Number of beneficiary families</i>	20,000	14,134
Farm tools distributed	20,000	76,959
<i>Number of beneficiary families</i>	4,000	20,658
Community irrigation rehabilitated (hectares)	2,000	7,742
<i>Number of beneficiary families</i>		7,000 (in 76 communities)
Access roads rehabilitated (in km)	100	109
Feasibility study for light- to medium - damaged irrigation schemes (hectares)	5,000	6,000
Light-to medium - damaged irrigation schemes rehabilitated (hectares)	0	1,090
Agriculture Service Centers established	5	3
Community radios established	2	0
Number of radios distributed		1,000
Design of agriculture laboratory and field stations		Design of laboratory completed; field stations incomplete.
Local staff trained	15	90 (trained in 1 or more courses)

Notes:

¹ Impact indicators were revised at midterm review (May 2001).

² Overall project outcome was assessed jointly by World Bank and Government ICR teams led by independent evaluators. Institutional impact, performance, and sustainability were rated by the World Bank ICR team.

[1] Priority Productive Assets Restoration – This component sought to restore lost or destroyed productive assets (such as agricultural tools and livestock) to selected farming households and to improve information to farmers. The overall performance of this component was rated satisfactory. Outputs of subcomponent activities are reviewed below.

National Vaccination Campaigns. This was one of the most successful activities supported by the project, and it was rated highly satisfactory. It laid the foundation for national vaccination campaigns against hemorrhagic septicemia in buffalo and cattle, hog cholera in pigs, and Newcastle disease in chickens. MAFF staff trained 118 private vaccinators for the buffalo, cattle, and pig vaccination campaigns, and a core group of people in most villages to vaccinate chickens. Project staff rectified problems experienced early on regarding timely notification to farmers of vaccination start dates, proper vaccine refrigeration, and training of villagers to vaccinate chickens. MAFF staff coordinated the vaccination of an increasing percentage of livestock and poultry, and the follow-on ARP II supports continuation of the vaccination programs.

Distribution of Chickens. The output of this activity was unsatisfactory. While the original intent—to distribute six-week old chicks to poor families—had merit, distribution difficulties and lack of post-handling care led to very high mortality (sample surveys indicate a mortality of 30-50 percent, and in some villages closer to 70 percent). The activity was suspended following the bankruptcy of the chicken farm (Austim) and increasing reports of high mortality. This reinforces the general experience of the extreme difficulties of successfully procuring and distributing livestock and poultry in harsh conditions with poor infrastructure. Since there were about 6,000 beneficiaries (among the poorest) who did not receive chickens, it was agreed that ARP II would complete this distribution by procuring older chickens locally to avoid distribution-related mortality.

Distribution of Buffalo and Bali Cattle. Despite procurement and distribution problems, this activity successfully distributed buffalo and cattle to 2,552 poor farm families. Transport and distribution mortality rates were around two percent, lower than for such components under similar projects. While MAFF staff handled transportation and delivery difficulties well, the activity took a long time to complete. Though there were initial problems with the beneficiary lists not always following the required poverty criteria, in most cases this was corrected before distribution. Nevertheless, distribution of valuable livestock to a limited number of families seems to have been an inappropriate choice for the project (and it added little in draft power to farmers' land preparation methods).

Distribution of Simple Farm Tools. This component was satisfactorily implemented—tools distributed (hoes, shovels, sickles, crowbars, pick-axes) assisted farmers in cropping activities. Tool distribution benefited 20,658 families, exceeding the original target of 4,000. While the first batch of tools had quality problems, staff ensured that subsequent procurements were of good quality and met farmers' needs. In some villages the project distributed tools to up to 40 percent of farm families.

Farmer Information Campaigns. This component was generally unsatisfactory as the project was late in starting the campaign and informing farmers concerning project activities. Additionally, on occasion, the information distributed did not fit well with farmers' seasonal activities. Some printed material was produced overseas and took too long to arrive in Timor-Leste and to be distributed. Project staff did, however, conduct some good informational workshops in project districts.

[2] Irrigation and Rural Infrastructure Rehabilitation and Maintenance – This component aimed to rehabilitate community irrigation schemes and rural roads. Overall performance was rated satisfactory. The project outputs—partial or full rehabilitation of 7,742 hectares of community irrigation schemes and rehabilitation of 109 kilometers of access roads—greatly exceeded the original targets of 2,000 hectares of community irrigation schemes and 100 kilometers of access roads. In addition, the project rehabilitated some 1,100 hectares and established Water User Associations (WUAs) in four light- to medium-damaged irrigation schemes that had been scheduled for rehabilitation under ARP II. These achievements are significant, particularly considering the initial conditions of limited data availability, difficult access to remote irrigation schemes, and a limited period during which construction works could be undertaken to avoid the rainy season. Additionally, the works contracts awarded to communities provided much needed cash in many villages (estimated at 120,000 person-days, or USD478,000, in direct benefits).

Rehabilitation of rural roads is unlikely to be sustainable without a regular maintenance program, however investment in road culverts is likely to be sustainable and beneficial over many years since this requires little maintenance. Rehabilitation of community irrigation schemes had an immediate impact on the beneficiaries and, where the community has the capacity to maintain and control the diversion of water into the main canals, the systems are likely to be sustainable. However, where these community irrigation schemes require substantial diversion channels to be constructed annually in the wide meandering rivers, the schemes are unlikely to be sustainable.

[3] Pilot Agriculture Service Centers – This component aimed to establish farmer-owned service centers to provide agriculture inputs and services to selected areas, and to study the feasibility of laboratory and field research facilities. All three subcomponents described below were rated satisfactory.

Agriculture Service Centers (ASCs). Three pilot ASCs were established—in Aileu, Bobonaro, and Viqueque Districts—specializing in coffee and maize, rice, and candlenut and coconut, respectively. Implementation of this subcomponent was difficult because: (i) most farmers were subsistence-oriented and they operated outside a market system; (ii) there was no experience with farmer-run commercial enterprises; (iii) Timor-Leste’s legal system was only partially developed; and (iv) government departments are not ideal institutions to establish commercial enterprises. Nevertheless, the ASCs assisted in stimulating market developments in agriculture and helped to market farmers’ products and supply agricultural inputs. ARP II will continue operational assistance to the three ASCs until such time as the centers can cover their operating costs out of net revenue from sales of agricultural products and transporting services (an estimated period of a year).

Support to the Faculty of Agriculture at the University of Timor-Leste. The project undertook a needs assessment study, which recommended that MAFF share a laboratory (located within the premises of the Dili Hospital) with the then Environmental Protection Agency. This agreement did not prove feasible, leading MAFF to finance the construction of a laboratory using its own (CFET) funds. While the design of the laboratory was ultimately successful, the splitting of this subcomponent into a phased program created confusion and resulted in a waste of staff time and effort.

Establish Community Radio Stations and Procure Radios for Farm Families. This activity was satisfactory, but since the Community Empowerment and Local Governance Project (CEP) was also establishing community radio stations, it was agreed that CEP take the lead, with MAFF responsible for developing agriculture radio programs. The decision was deemed appropriate since MAFF had no expertise in constructing radio stations. The reduced component successfully distributed 1,000 radios to project area villages.

[4] Project Management Unit (PMU) Strengthening – This component aimed to build MAFF’s capacity to undertake project management and monitoring and evaluation. The overall performance of this component was satisfactory. A PMU was established to facilitate the implementation of project activities and build project management capacity within the Division of Agriculture Affairs (later MAFF). The outputs from this component included: (i) recruitment of 14 local and expatriate personnel working full or part-time on the project; (ii) provision of technical assistance in procurement, financial management, irrigation, and WUA formation; (iii) training of 14 Timor-Leste staff on project design, monitoring, procurement, and financial management; and (iv) procurement of goods and services for the project. About 90 MAFF staff and district officers were trained in one or more courses. Since project activities have been integrated into MAFF operations, MAFF staff have acquired technical and managerial skills during the implementation of ARP I that will be applied to ARP II and to MAFF general operations. However, institutional development impact is considered modest because essential planning and analytical inputs were provided mostly by consultants.

Box 1. Lessons Learned from ARP I

Phased programs are appropriate, but avoid overlaps between phases. A phased approach to agriculture rehabilitation is appropriate, provided there is sufficient time between phases to review and apply lessons learned. The seven month overlap between ARP I and ARP II significantly increased the supervision burden on project staff.

Need for quick adjustments. In post-conflict situations, project design must be kept flexible and adjustments made quickly to respond to changing circumstances. Key adjustments made during implementation (such as a reduction in the number of ASCs and shifting community radios to CEP) allowed the project to remain relevant and focused on high-impact activities that could be implemented within the project timeframe.

Avoid competition between national consultants and public servants. Where project activities need to be sustained, public servants (and not national consultants) should be given responsibilities for implementation. The hiring of many national consultants under ARP I may have prevented good candidates from joining the public service and hampered future institutionalization of selected activities.

Vaccination programs are appropriate. Introducing or restarting national livestock vaccination programs can be a powerful tool to reduce livestock mortalities. However, vaccination campaigns should be on a fixed schedule, and villagers should be given timely notice of program start.

Procurement of farmers' tools should involve selection by farmers. The first batch of agriculture tools that ARP I procured—based solely on price—was of sub-standard quality. For the second batch, project staff invited farmers to sample the tools, and this helped ensure their ultimate suitability.

Distribution of livestock should be avoided. Procurement and distribution of livestock, particularly in emergency situations, is a difficult, slow operation. Unless there are compelling reasons to do so, post-conflict projects should not include such operations.

Invest time in a fair identification of beneficiaries. Project staff spent many months collecting beneficiary lists and ensuring that they were independently verified by District Agricultural Officers, church members, and representatives of women and youth groups. While this substantially delayed the distribution of assets, it ultimately resulted in smoother delivery, particularly for highly-valued buffalo and cattle, over which conflicts regarding distribution had been expected.

Favor community grants over input provision. The community irrigation and roads rehabilitation activities, which relied on grants to village groups to undertake their own works and provide local materials, were well received by farmers. By contrast, the complications that ARP I experienced with beneficiary identification and asset distribution illustrate the inherent difficulties of providing a limited number of valuable, free inputs to a large number of needy farmers. Such a model put the burden of beneficiary selection and quality assurance on project staff—rather than on communities—resulting in inputs that did not fully meet beneficiaries' expectations. This lesson was taken into account in the design of ARP II.

Consider gender issues. Even in emergency situations that call for fast responses, project design must consider gender, environmental, and social issues. Weak attention to gender issues and female staff recruitment led to relatively poor targeting of women beneficiaries under ARP I.

Plan activities according to season. Rehabilitation works need to be completed before the planting season. Agriculture projects must be scheduled with harvesting and rainy seasons in mind, and allow solid margins for procurement delays.

Integrate procurement and financing with activity planning. Project staff need early training in procurement to carry out realistic planning and timely delivery. At the same time, the Government and World Bank should review procurement regulations and procedures to resolve any potential conflicts.

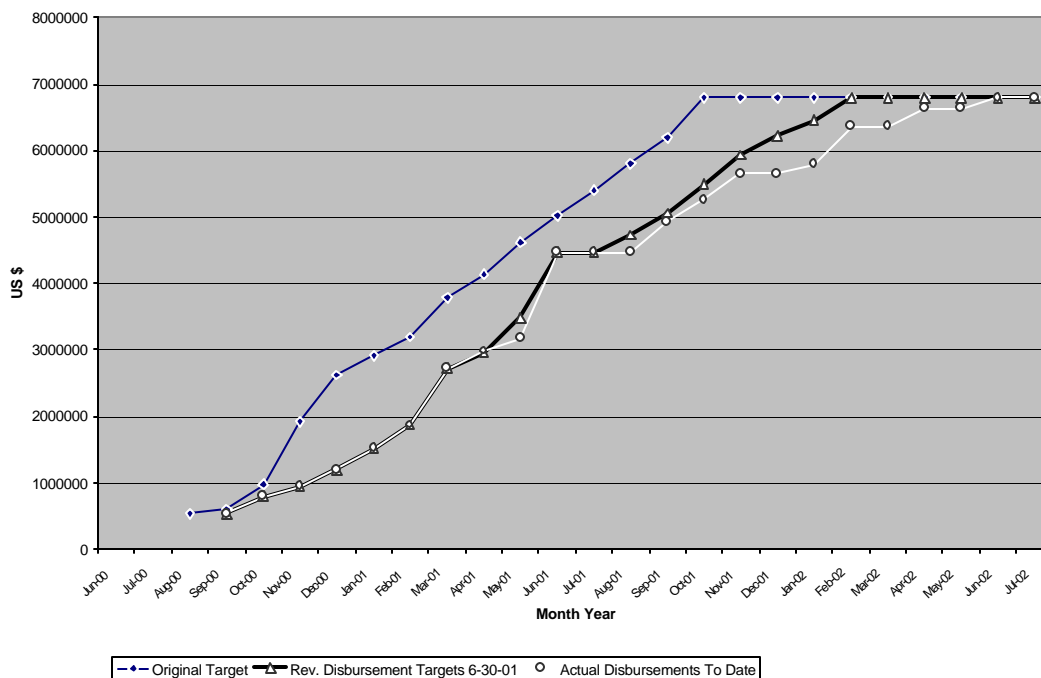
Invest early in farmers' organizations...and then supervise heavily. Strengthening of Water User Associations on larger irrigation schemes should commence in parallel with the design of the schemes (and not at the time of their rehabilitation) to ensure that communities become true 'owners' and are prepared to take on responsibility for the schemes' operation and maintenance. At the same time, project staff should review the schemes in full to determine total feasibility (and not restrict the review to only those components that the communities request).

Agriculture Service Centers should focus first on output marketing, not input supply. The initial design of the ASCs called for the centers to focus on the supply of inputs to farmers. It quickly became apparent that Timorese farmers lacked the cash for this initial investment, and that the ASCs would need to first concentrate on helping them market their products. Hence, ASC design was restructured to focus first on output marketing.

Move toward long-term sustainability, and invest in quality. While ARP I concentrated on a quick response to an emergency situation, the follow-on ARP II was designed with a stronger focus on quality (rather than quantity) and ensuring sustainability of program activities.

The table below shows project expenditures by category; the chart below depicts actual versus target disbursements.

Agriculture Rehabilitation Project (ARP I)
Actual vs. Revised Disbursement Targets as of April 30, 2003
(Project Completed)



Agriculture Rehabilitation Project (ARP I)
Expenditure by Category as of April 22, 2003 (USD)
(Project Completed)

Category	Allocated	Disbursed	Undisbursed
1. Civil Works	1,700,000.00	1,603,589.99	96,410.01
2. Goods/Transportation	2,750,000.00	2,747,674.02	2,325.98
3. Training/Fellowships/Wkshps/etc	230,000.00	220,784.22	9,215.78
4. Operating Costs	200,000.00	191,693.44	8,306.56
5. Consultant Services	1,920,000.00	1,848,839.01	71,160.99
6. Unallocated	0.00	0.00	0.00
7. Project Account (to be allocated to components above)	0.00	187,419.32	-187,419.32
Total	6,800,000.00	6,800,000.00	0.00

SECOND AGRICULTURE REHABILITATION PROJECT
TF050151, USD8.0 million

Project Overview – April 2003

Project Objectives

The Second Agriculture Rehabilitation Project (ARP II) aims to improve food security of rural families and increase sustainable agriculture production in selected areas. The project is implemented by the Ministry of Agriculture, Fisheries and Forestry (MAFF).

Project Status

ARP II, administered by the World Bank, became effective on December 11, 2001. The midterm review, carried out January 27-February 1, 2003, found that the project remains on track to achieve its development objectives. At MTR, the project had disbursed USD3.96 million, or 50 percent of the project funds, and achieved an estimated 52 percent of its outputs (see Tables 1 and 2). While the project has done well in achieving its targets, the MTR concluded that future efforts need to focus on ensuring project impact, quality, and sustainability. This will require a stronger focus on organizing and training farmers' groups (particularly women farmers), sending inter-sectoral teams to the field, and shifting efforts from the quantity to the quality of interventions. A detailed Action Plan addressing these aims was agreed with MAFF and project staff during the MTR.

While most project components are expected to close by December 31, 2003, component 1 may be extended until the end of 2004, subject to availability of funding. The Agriculture Services Centers subcomponent may be extended for 6-12 months, to allow for the establishment of two new Centers. With an extension of the closing date, ARP II and ARP III (projected to start in early 2004) are likely to overlap. Given that only USD3.0 million will be available under ARP III, it will likely be designed as a continuation and consolidation of ARP II activities; no new activities are envisaged under ARP III. Pre-appraisal of ARP III is planned for May/June 2003.

Table 1. Project Achievements at Midterm Review

<i>Key Project Indicators</i>	<i>Target by Midterm</i>	<i>Achieved by Midterm</i>	<i>End-Project Target</i>	<i>% Relative to End Target</i>	
<i>Impact Indicators:</i>					
Average rice yields (in rehabilitated areas)	1.5 MT/ha ¹	Insignificant	1.8 MT/ha	TBD	
Production of other food crops (maize, cassava, beans) relative to 1999 levels (in productivity)	100 % ¹	Some increase (not quantified)	120%	TBD	
Reduction in # of households with critically low food reserves in project areas	--	Some reduction, but sensitive to drought	20%	TBD	
<i>Output Indicators:</i>					
Component 1: Pilot Participatory Development and Natural Resource Management					
# of upland and coastal villages assisted	14	14	30	47	
% of proposals submitted by women groups	20	21	50	42	
<i>Component 1: Estimated Completion (%)</i>				22	
<i>Component 1: Expenditures to date (US\$ million)</i>			0.16	0.9	18
Component 2: Rapid Infrastructure Rehabilitation					
# ha rehabilitated in community irrigation schemes	1,000	1,659	2,100	80%	
# ha rehabilitated in light-to-med damage schemes	600	1,000	1,430	70%	
Water User Associations established	7	10	11	39% ²	
# km of access roads rehabilitated	50	65	100	65%	
<i>Component 2: Estimated Completion (%)</i>				66	
<i>Component 2: Expenditures to date (US\$ million)</i>			1.76	2.6	68
Component 3: Services to Farmers					
% of adult cattle and buffaloes vaccinated	80	78	80	48% ³	
% of pigs vaccinated	80	97	80	50% ³	
# Village Livestock Workers trained	50	95 VLW selected	200	50% ⁴	
# of ASCs established	3 operational	3 operational	5 est.	57% ⁵	
<i>Component 3: Estimated Completion (%)</i>				46 ⁶	
<i>Component 3: Expenditures to date (US\$ million)</i>			0.86	2.7	33
Component 4: Program Management					
Policy Option Notes completed	3	3 subst. complete	4	56 ⁷	
# agriculture staff and NGO partners trained	15	164 ⁸	30	85 ⁷	
% trained farmers and beneficiaries who are women	10	7	30	23	
<i>Component 4: Estimated Completion (%)</i>				53 ⁹	
<i>Component 4: Expenditures to date (US\$ million)</i>			1.18	1.9	63
<i>Estimated Total Project Completion (%)</i>			100	52	
<i>Total Project Expenditures to date (%)</i>			3.96	100	50

Notes: Estimated component completions are the weighted average of output indicators for the component, taking into account both qualitative as well as quantitative achievements.

¹ – Represents a recovery to pre-project levels.

² – Weighted assessment at MTR. This takes into account all steps needed to properly establish WUAs.

³ – Since the project includes two vaccination seasons, this rating reflects 100% achievement for first season of vaccination.

⁴ – Assessment by livestock team at MTR.

⁵ – Weighted assessment by ASC team at MTR

⁶ – Estimated completion by subcomponent weighted by the funding allocated to each of the three subcomponents.

⁷ – Assessment by MAFF management team at MTR.

⁸ – Number of participants taking one or more courses.

⁹ – Estimated completion by subcomponent weighted by the funding allocated to each of the two subcomponents.

Table 2. Summary of Component Expenditures and Achievements by Midterm Review

<i>Component</i>	<i>Total Budget (US\$'000)</i>	<i>Total Spent by MTR (US\$'000)</i>	<i>% Spent (Dec-2002)</i>	<i>Weight Based on Budget %</i>	<i>% Achievements by MTR (Jan-2003)</i>	<i>Overall Weighted Achievements (%)</i>
1. Participatory Development and NRM	900.4	161.3	18%	11.2	22%	2.5
2. Rapid Infrastructure Rehabilitation	2,601.4	1,757.0	68%	32.4	66%	21.4
3. Total Services to Farmers	2,652.4	866.2	33%	33.1	46%	15.2
3.1 Information to Farmers	435.6	135.4	31%	5.4	18%	1.0
3.2. Animal Health Services	1,082.5	332.5	31%	13.5	46%	6.2
3.3. Agriculture Service Centers	1,134.3	398.3	35%	14.1	57%	8.0
4. Total Program Management	1,866.0	1,180.8	63%	23.3	53%	12.4
4.1. Policy and Strategy	265.0	148.4	56%	3.3	56%	1.8
4.1. Project Mgt & Capacity Bldg	1,601.0	1,032.4	64%	20.0	53%	10.6
Total Project	8,000.0	3,964.9	50%	100		52%

Project Component Updates

[1] Pilot Participatory Development and Natural Resources Management – This component aims to strengthen poor farming communities’ resilience in 14-30 pilot villages (in 7 districts) by helping them improve natural resources management and diversify sources of income. (Other donors are following a similar approach in remaining districts.) At midterm review, most of the 14 pilot communities had begun field activities, including small nurseries, vegetable plots, food storage facilities, living fences, and fish ponds. Community grants for natural resource management and participatory development activities were financing 53 small projects, ranging from USD230 to USD14,148, involving an estimated 3,061 farmers and 103 groups (65 percent of sucos’ population).

Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> Strengthen selection and training of facilitators involved in helping communities plan, implement, and monitor community grants. Strengthen training/organization to farmers’ groups. Improve financial management of community grants. Change incentives to maximize amount of grants. Improve communities’ awareness of project criteria/objectives. Simplify Operational Manual. 	<ul style="list-style-type: none"> Ministry to centralize selection of next community grant facilitators (NGOs to be considered). Ministry to mobilize Community Development Trainer. Project Management Unit Financial and Component 1 Teams to arrange financial management training for community grants; next disbursement of grants will require posting prior public notice and signature of Treasurer of Conselho do Suco. Existing pilot villages demonstrating effective implementation can develop additional proposals (to USD20,000 per suco); budget ceiling per proposal and per suco to be eliminated in expansion areas; unused funds to be available for training. Component 1 and Information Teams to collaborate in producing information materials to increase project awareness. Component 1 Team to revise/simplify Operational Manual.

[2] Rapid Infrastructure Rehabilitation – This component includes continuation of community-based irrigation rehabilitation and repair of farm-to-market access roads, rehabilitation of light- to medium-damaged irrigation schemes, a feasibility study for major-damaged schemes, establishment of Water User Associations (WUAs), and training of farmers and MAFF staff. At MTR, six light- to medium-damaged schemes (covering 1,000 hectares) had been rehabilitated, ten WUAs had been established, and the feasibility study for four major-damaged schemes was nearly complete. In addition, MAFF reviewed the 76 community irrigation schemes rehabilitated under ARP I and approved 11 schemes for remedial works; five others are scheduled for remedial works in 2003. MAFF also allocated community grants for rehabilitation of 17 small irrigation schemes (covering 1,679 hectares) and USD131,032 (11 grants) for rehabilitation of 68 kilometers of farmer-to-market rural roads. In about 70 percent of community irrigation and road scheme areas farmers are planting second crops, but these should be revisited post-rainy season to assess sustainability.

Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> WUAs in need of strengthening. Training for farmers in crop production extension is needed. Irrigation scheme rehabilitation needs to be reviewed. 	<ul style="list-style-type: none"> Ministry to recruit international expert to oversee WUA training and assign local WUA Officer and Agricultural Extension Officer full-time to Maliana, Viqueque, and Oecussi. Crop, Irrigation, Forestry and Research, and Extension Divisions to carry out joint field visit to rehabilitated schemes to assist farmers in improving production; Irrigation Division and Information Team to provide information to farmers in irrigated areas. Package 5 rehabilitation on hold pending evidence that rehabilitated light- to medium-damaged schemes are economically viable; funding for rehabilitation of Caraulun scheme (not originally included) to be discussed with bilateral donors.

[3] Services to Farmers – This component aims to provide essential services to farmers and help them overcome transitional difficulties associated with lack of information, unavailability of inputs, and poorly working markets. It has three subcomponents: (i) Information to Farmers; (ii) Sustainable Animal Health Services; and (iii) Support for Agriculture Service Centers.

Information to Farmers. Progress has been made in producing and disseminating information materials, particularly in support of vaccination campaigns, Village Livestock Workers (VLWs), and WUAs. The Radio Champion continues to produce a weekly agriculture radio program, and the CGIAR Secretariat Liaison is now operational. Two mobile video units have been procured, and guidelines for their official use were issued by MAFF.

Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> • Structure of Information Unit hindering progress. • More training needed. 	<ul style="list-style-type: none"> • Ministry to place Information Team, CGIAR Secretariat under Research and Extension Center; Director of Research and Extension Information now Team leader; Team members formally seconded from Ministry units. • Information Team and Communications/CGIAR Adviser to identify priority training needs for inclusion in Ministry training plan.

Animal Health Services. At MTR, the first of two seasons of vaccination for pigs (against hog cholera) and cattle and buffalo (against hemorrhagic septicemia) had been completed. Chicken vaccines (for Newcastle disease) had also been distributed. Ninety-five Village Livestock Workers have been identified to be trained in simple veterinary services.

Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> • Village handling facilities for vaccination needed. • Cold chain storage equipment for vaccines and medicines needed. • Transport for vaccinators needed. • Information campaign and monitoring in need of improvement. • Regulation and standards for Village Livestock Workers needed. 	<ul style="list-style-type: none"> • Livestock Team to encourage communities to build village yards before vaccination campaign. • Project Management Unit to supply generator-powered refrigerators and replacement cold boxes in remote areas. • Project Management Unit and Livestock Team to assess need/budget for replacement motorcycles; if accepted, logistics officer to develop guidelines for use. • Monitoring to be strengthened through collection of receipts from animal owners and information on impact (e.g. reduction in mortality rates). • Ministry to develop code of ethics for Village Livestock Workers; Livestock Team to establish network of advisers.

Agriculture Service Centers (ASCs). Three ASCs—in Bobonaro, Viqueque, and Aileu Districts—are operational. Though they need to operate for at least another cropping season to prove their viability, they have been successfully renting transportation services. They have also sold most of the agriculture produce bought from farmers (though sales have been hampered by farmers’ reluctance to sell surplus in a drought year and competition from private buyers). Sales of inputs at the Bobonaro ASC have been lower than expected due to farmers’ lack of access to cash, and competition from the black market on the Indonesian border. The Bobonaro ASC Manager is now funded from profits, while support to Viqueque and Aileu ASCs will continue through June 2003.

Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> • Additional training needed. • Need to expand marketing network. • Explore establishment of new ASCs. 	<ul style="list-style-type: none"> • ASC Team to arrange further training for managers, officers, farmers. • ASC and Information Teams and Community Development Trainer to improve information campaign and expand marketing network (possibly through satellite purchasing stations). • Ministry to proceed with feasibility study for two new ASCs (possibly Covalima and Lautem).

[4] Program Management – This component aims to assist the Government in evaluating key policy options on agriculture and natural resources management and strengthening implementation of its agricultural program. It has two subcomponents: (i) Policy and Strategy Development; and (ii) Project Management and Capacity Building.

Policy and Strategy Development. At Midterm Review, a revised forestry strategy and policy was in draft form, a food security policy was nearly complete, and a coastal fisheries baseline study was being finalized. Funds are earmarked for a legal drafter to help finalize key legislation (e.g., quarantine regulations) and for a local consultant to support a New Zealand-funded water policy study. Given the limited budget, the midterm review team recommended that the rural development study be postponed to ARP III.

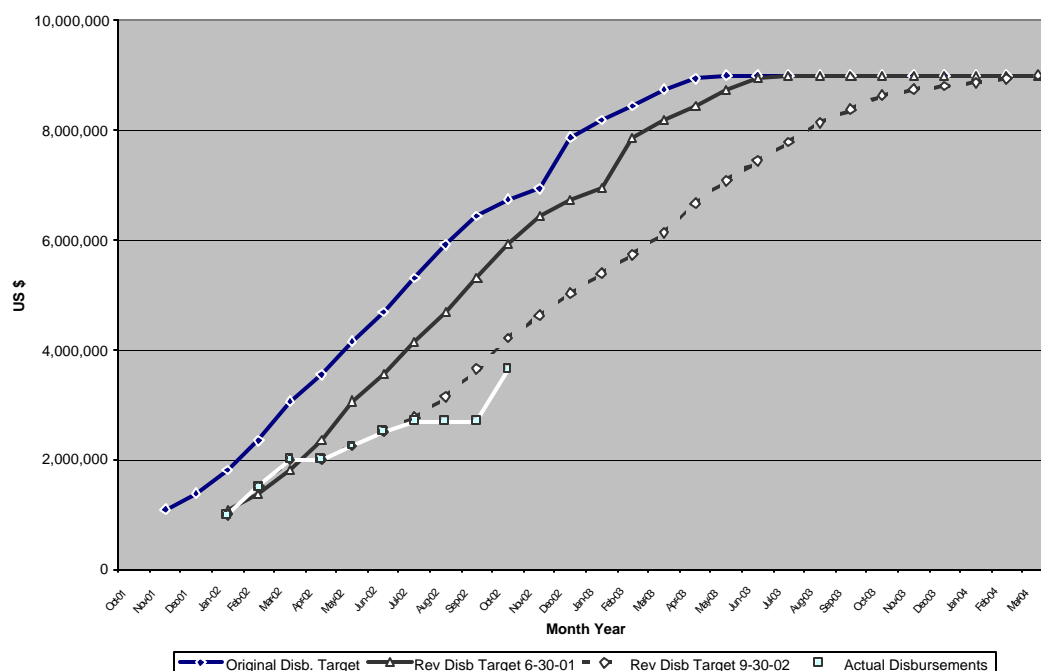
Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> • Food security policy study to be completed. • Consultations on forestry policy and strategy needed. • Fisheries Baseline Study to be finalized. • Rural development study to be postponed. 	<ul style="list-style-type: none"> • Senior Agriculture Adviser to return for a fourth short-term assignment. • Forestry Division to arrange public consultations to discuss forestry policy. • Fisheries Baseline Study Adviser to return to analyze and finalize the study. • Ministry to request amendment deleting rural development study from ARP II.

Project Management and Capacity Building. At appraisal, it was envisaged that the Project Management Unit would require only 12 person-months of foreign advisory inputs. This proved insufficient to build capacity within MAFF for project management, procurement, and financial management as capacity building activities have been only partially successful. ARP II has trained 76 MAFF and district agriculture staff in one or more training courses, however the quality of the training has generally been weak.

Issues at Midterm Review	Agreed Actions
<ul style="list-style-type: none"> • Project management. • Financial management. • Procurement. • Monitoring and Evaluation. • Training. 	<ul style="list-style-type: none"> • Ministry to appoint replacement Program Management Adviser and Deputy Project Management Unit Director. • Financial Management Adviser (shared with Small Enterprises Project) to be mobilized. • Ministry to appoint counterpart procurement specialist. • Ministry's Monitoring and Evaluation Specialist to undertake routine tasks and use budget for back-up support; Specialist attended international training course in March 2003. • Training provided by Lincoln International to be suspended pending evaluation; training team to prioritize revised training plan.

The table below shows project expenditures by category; the chart below depicts actual versus target disbursements.

**Second Agriculture Rehabilitation Project (ARP II) with Hera Port
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Second Agriculture Rehabilitation Project (ARP II)
Estimated Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1a. Civil Works	1,550,000.00	1,345,727.29	204,272.71
1b. Civil Works (Community)	160,000.00	90,489.35	69,510.65
2. Goods/Transportation	1,400,000.00	660,762.68	739,237.32
3. Sub-Grants	600,000.00	213,683.00	386,317.00
4. Incremental Operating Costs	300,000.00	202,575.30	97,424.70
5. Training/Workshops/etc	650,000.00	235,077.11	414,922.89
6. Consultant Services	2,260,000.00	1,742,978.53	517,021.47
7. Unallocated	1,080,000.00	0.00	1,080,000.00
8. Project Account (to be allocated to components above)	0.00	1,000,000.00	-1,000,000.00
Total	8,000,000.00	5,491,293.26	2,508,706.74

**ADB Hera Port Rehabilitation Project (part of ARP II)
Estimated Expenditure by Category as of April 22, 2003 (USD)**

Category	Allocated	Disbursed	Undisbursed
1. Civil Works	680,000.00	760,786.60	-80,786.60
2. Goods	150,000.00	150,000.00	0.00
3. Consultant Services	36,000.00	36,000.00	0.00
4. Unallocated	134,000.00	0.00	134,000.00
5. Project Account (to be allocated to components above)	0.00	0.00	0.00
Total	1,000,000.00	946,786.60	53,213.40

WATER SUPPLY AND REHABILITATION PROJECT - PHASE I
TF024314, USD4.5 million

Project Overview – April 2003
Project Closed – December 2002

Project Objectives

The overall strategic goal of Phase I of the Water Supply and Rehabilitation Project was to provide the people of Timor-Leste with adequate, affordable, and sustainable water supply and sanitation services using appropriate technology and good management systems. As a means of working toward this goal, the project aimed to provide assistance to rehabilitate and restore damaged and inadequate water supply and sanitation (WatSan) infrastructure throughout the country, and concurrently re-establish human and institutional capacity needed to manage, operate, and maintain that infrastructure.

Project Achievements

Phase I activities, administered by the Asian Development Bank, began in September 2000 and were completed by project closing on December 31, 2002. All implemented infrastructure and fixed assets not required for Phase II have been handed over to the Government Water and Sanitation Service (WSS). Table 1 summarizes project achievements; a description of achievements and constraints under the four main project components follows. Box 1 presents some lessons learned.

Table 1. Project Achievements*

Number of Local Beneficiaries	
No. of persons directly benefiting from improved WatSan services	Approx. 96,000
No. of person days of local direct employment created	Approx. 2,100
No. of person days of local employment created through contracted activities	Approx. 24,000
Capacity & Institution Building Outputs	
Preparation of Sector Management and Investment Framework	
Repair and outfit of WSS District Buildings (all districts)	
Supplied 13 vehicles, 1 motorbike, and 13 tool sets for WSS District Operations	
Supplied two-way communications equipment for WSS operations	
Produced Water Supply Tariff Study and recommendations	
Supplied public relations assistance for WSS Customer Services Division	
Prepared guidelines and procedures for WSS Infrastructure and Community Divisions	
Prepared Urban Solid Waste Management Plan and improvement recommendations	
Prepared Urban Water Treatment Study for WSS district operations	
Infrastructure Activity Outputs	
Bidau Santa Ana (Dili) water supply system construction	
Becora transmission main & Bekosi deep well construction	
Three deep wells (Dili)	
Hera water supply system construction	
Viqueque transmission pipeline rehabilitation (river crossing)	
Two deep wells (Suai)	
Various NGO contracts for urgent rehabilitation of water supply systems in Manatuto, Los Palos, Same, Zumalai, Suai, Bobanaro, Ermera, and Liquicia	
Various Quick Response Facility activities, including to complement and enhance activities of other donors	

*A locality map showing all Phase I activity locations, details, and beneficiaries is attached separately.

[1] Project and Sector Management - The purpose of this component was to assist WSS in implementing the project and to plan for the future development of the WatSan sector. A Project Management Unit (PMU) was established comprising a local Project Manager, two full time international staff (Community Development Adviser and Technical Adviser), a part time international Finance Officer, and five other local technical and administrative staff. An existing building beside the WSS was reconstructed to house the PMU. A four-person team of international consultants was engaged to assist the PMU in the development of a detailed work program and preparation of a Sector Management and Investment Framework (SMIF). The SMIF was circulated to donors as a reference for the development of short-term future rehabilitations and developments within the sector.

[2] Capacity Building and Institutional Development - The purpose of this component was to assist WSS to replace, repair, and rehabilitate priority institutional infrastructure in Dili and district centers, and to re-establish strategic institutional frameworks. Twelve WSS district operations buildings (office/store/workshop) were reconstructed and equipped with essential operational and maintenance tools, equipment, materials, and a pick-up vehicle. Radio equipment was purchased for installation in district centers. Institutional capacity building proceeded more slowly than originally planned due to a lack of available counterpart staff within WSS. Although staff numbers have increased to near government-imposed levels, numbers are still below regional benchmarks for provision of similar services. This shortage of staff has impacted operational and maintenance activities and the sustainable level of service that can be provided, particularly in smaller communities and rural areas.

Institutional development activities included preparation of a WatSan **legal and regulatory framework** and draft legislation (i.e. Water Resources, Water Services and Sanitation Management). Although the still evolving higher-level legal framework has prevented enactment of the draft legislation to date, the policies and draft legislation have been widely accepted by stakeholders and are guiding WSS activities. A **tariff study** provided recommendations and an implementation plan for future cost recovery scenarios at different levels of service. WSS has used this study as a basis for the development of its more recent tariff proposals. **Technical guidelines** establishing operational standards and procedures have been prepared to assist the orientation of new WSS staff and the implementation of project-contracted infrastructure activities. Other studies include a **solid waste management plan** and a **water quality improvement plan**. An information, education, and communications specialist was engaged to assist WSS in re-establishing effective communications with customers and to develop a widespread stakeholder understanding of WSS institutional functions and responsibilities as determined by its strategic plan, the draft legislation, and budget allocations.

[3] Infrastructure Rehabilitation - The purpose of this component was to implement priority WatSan infrastructure emergency repairs and rehabilitation in Dili and 12 district centers. Subcomponents are described below.

Quick Response Facility (QRF). QRF was established to undertake urgent repairs that addressed unforeseen needs emerging during project implementation. The major QRF works undertaken included five water supply deep wells in Dili and Suai, repair of the Viqueque water supply transmission main over the Cuha River, and stabilization of the riverbank to prevent undermining of the Benemauk water treatment plant in Dili. The QRF assisted WSS with procurement for many minor but urgent works during the difficult government transition and establishment period. The QRF also assisted WSS with procurement, to maximize the benefits of major works being implemented by other funding agencies, particularly the Japanese Government.

Dili Water Supply Repair and Rehabilitation Program. Under this program rehabilitation work was undertaken using small, local contracts and construction contracts for deep well drilling, as well as improving water supplies in urban and peri-urban low-income areas through works such as repair and rehabilitation of public taps and other water points. Major areas of coverage included Bidau Santa Ana and Becora, where approximately 9,000 persons benefited from improved water supplies. Four thousand water meters were procured to allow the re-introduction of water supply user charges; some 2,000 have been installed by WSS in preparation for the re-introduction of water charges.

[4] Districts' Water Supply Repair and Rehabilitation. This provided a range of immediate assistance activities to address the water supply and sanitation needs of smaller urban and rural communities throughout the 13 districts of Timor-Leste, through contracting local and international NGOs. Processes of environmental health, gender awareness, and community participation and planning were used during implementation to ensure sustainability and equity. An estimated 32,000 persons benefited directly through improved water and sanitation facilities, implemented jointly by NGOs and communities. The capacity of local NGOs has been enhanced through the issuance of contracts and co-implementation with international NGOs.

Box 1. Water Supply and Rehabilitation Phase I: Some Lessons Learned

Greater Investment Required. Most water supplies in urban and rural areas have generally been restored to pre-conflict service levels. However, since service levels are still inadequate to achieve Timor-Leste's public health and economic development goals, more sector investment is required.

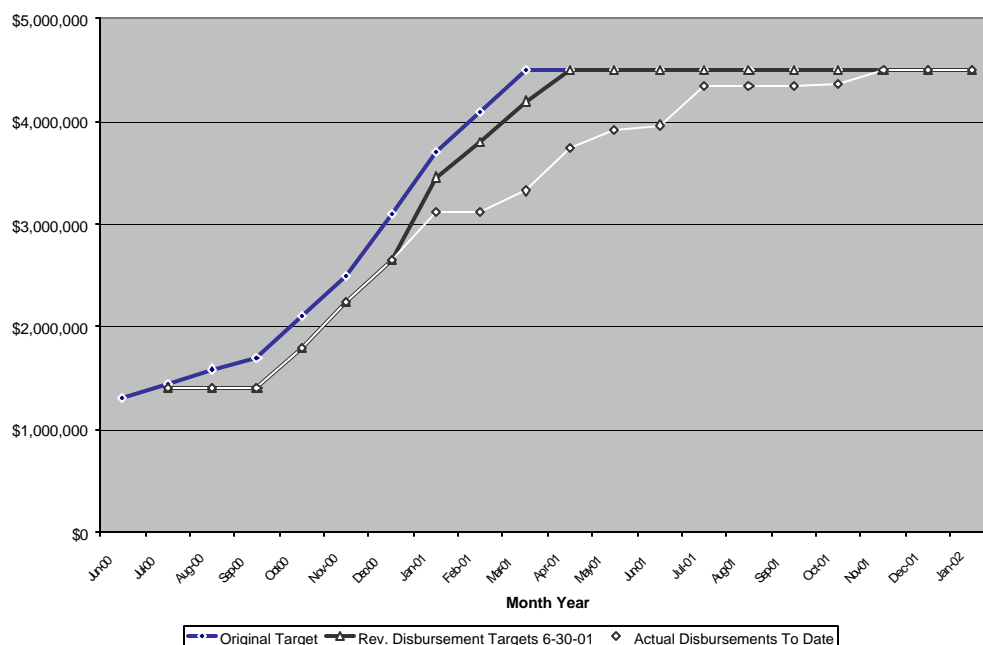
Long-term Planning Needed. The emergency phase is over and longer-term planning is needed. Greater emphasis should now be given to data collection and analysis for sector benchmarking and more effective targeting of limited resources.

Capacity Building Priorities. Capacity building should be undertaken in a manner that supports local ownership and understanding. The highest priorities are water supply level of service improvements and recovery of costs from water users.

Uniform Approach to Empowerment. Differing approaches have been adopted by support agencies in their community-based water and sanitation programs. A uniform—and improved approach to local empowerment and utilization of social capital—will enhance equity and sustainability.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Water Supply and Sanitation Project – Phase I
Actual vs. Revised Disbursement Targets as of April 30, 2003
(Project Completed)**



**Water Supply and Rehabilitation Project - Phase I
Expenditure by Category as of April 22, 2003 (USD)
(Project Completed)**

Category	Allocated	Disbursed	Undisbursed
1. Water Supply/Sector Management	570,000.00	673,799.61	-103,799.61
2. Capacity Building/Institutional Development	974,000.00	813,314.01	160,685.99
3. Districts Water Supply	2,918,000.00	1,612,886.38	1,305,113.62
4. Unallocated	38,000.00	0.00	38,000.00
5. Project Account (to be allocated to components above)	0.00	1,400,000.00	-1,400,000.00
Total	4,500,000.00	4,500,000.00	0.00

WATER SUPPLY AND REHABILITATION PROJECT - PHASE II
 TF50162, USD4.5 million

Project Overview – April 2003

Project Objectives

As with Phase I, Phase II of the Water Supply and Sanitation Rehabilitation Project aims to provide assistance to rehabilitate and restore damaged and inadequate water supply and sanitation (WatSan) infrastructure throughout the country, and concurrently re-establish the human and institutional capacity needed to manage, operate, and maintain that WatSan infrastructure. All activities will be undertaken in a manner consistent with Government Water Sanitation Service (WSS) strategies, plans, and guidelines.

Project Status

Phase I of the project provided assistance to strengthen the institutional capacity of the WSS and to repair and rehabilitate priority public and community water supply works in Dili and in district centers. Phase II, also administered by the Asian Development Bank (ADB), became effective August 27, 2001. It continues and extends the capacity building and rehabilitation activities of Phase I, incorporating experience and lessons learned. Physical completion of all activities was delayed by lengthy approval processes; all activities are now expected to be complete by August 31, 2003. Table 1 presents the status of project achievements; progress under the four main project components as of the February 28-March 7, 2003 project review mission are described below.

A Joint Sector Donor Coordination Mission undertaken in late March 2002 reviewed Government goals, policies, priorities, and institutional arrangements within the WatSan sector, and identified constraints and risks to the achievement of the goals of externally-funded projects in the sector. The mission confirmed that there is a requirement for substantial long-term investment in the WatSan sector to achieve National Development Plan target service levels and to support improved public health outcomes, and that the Government does not have the resources to fund the required investment. The mission report made several recommendations for improved sector planning, coordination, and capacity building activities. These recommendations were well received by the Ministry/WSS and other sector stakeholders. A follow-up Joint Mission is planned for June 2003.

Table 1. Project Achievements*

Expected Number of Local Beneficiaries	
No. of persons directly benefiting from improved WatSan services	Approximately 149,600
No. of person days of local direct employment created	Approximately 3,380
No. of person days of local employment created through contracted activities	Approx. 36,000
Status of Capacity & Institution Building Outputs	
Legislation Development	Completed
5-Year Sector Development Plan (needs continual updating)	Completed
Training	Ongoing
Infrastructure Asset Management System	Completed
Dili Water Supply Master Plan update	In Progress
Re-introduction of Water User Charges	In Progress
Dili Drainage and Wastewater Management Strategy	In Progress
Community Water Supply & Sanitation Guidelines revision	Completed
Water Resources Planning and Management	Deferred
Information Technology & Communications	Deferred

Status of Infrastructure Activity Outputs	
Quick Response Facility (small procurement, urgent pump repairs, electrical repairs, drafting, rainfall harvesting guide)	Ongoing
Dili Water Supply Rehabilitation & Repair (warehouse construction, complementary activities for GoJ project)	Construction commenced
District Towns Water Supply Rehabilitation (Gleno, Liquica, Maliana, Oecussi, Suai and Viqueque)	Construction commenced
Community Water Supply & Sanitation Improvements (15 NGO contracts, including health & hygiene promotion)	In progress (four complete)
Urban Sanitation Improvements (urban drainage and wastewater improvements)	In progress

*A locality map showing all Phase II activity locations, details, and beneficiaries is attached separately.

Project Component Updates

[1] Water Supply and Sanitation Implementation Program

Under Phase II, expert technical assistance will support the WSS to further develop policy and legislation, re-introduce water supply user charges, efficiently manage its infrastructure assets and water resources, and improve the water supply levels of service in Dili and district centers. A more detailed sector development plan (forward five years) will expand on the broad Sector Management Investment Framework prepared in Phase I and will assist WSS to best target external assistance. Priority activities will be undertaken to complement the Government of Japan funded Dili Water Supply Urgent Rehabilitation Project and other donor projects. A Quick Response Facility will again be provided to undertake urgent and unforeseen needs that may emerge during project implementation. District capital water supplies will be further improved and community based water supplies and sanitation facilities will be implemented with local and international NGO assistance. Initial activities to improve the safe collection and disposal of wastewater will be implemented, along with improved solid waste management through the active encouragement of private sector involvement. Status of the subcomponents is described below.

Quick Response Facility. Materials and other urgent procurement have been undertaken to assist the smooth implementation of other agency support projects, particularly the Government of Japan funded Dili Water Supply Urgent Rehabilitation Project and various projects supported by the United States group in Timor-Leste. Period Drafting Contracts have been established to support the infrastructure projects. A submersible pump has been urgently procured and commissioned to replace a near-new pump installed at Bidau Santa Ana water supply zone that burned out due to the fluctuating power supply. Electrical supply upgrading has been undertaken at a number of water pumping stations in Dili, with back-up generators installed at some key sites. An opportunity to develop a *Timor-Leste Domestic Rainwater Harvest Guide* has been accepted. Recent WSS tariff proposals were reviewed by a tariff specialist. Drain cleaning and manhole rehabilitation in Dili was funded under TFET, but managed by WSS under supervision by the Project Management Unit (PMU) as a capacity building exercise. To further build capacity, nine university students of advanced standing, representing various disciplines, have been employed (each for at least one month) to assist WSS-PMU staff and technical advisers in the execution of their duties, providing the students with an opportunity to gain work experience in a professional office and knowledge and skills in the sector.

Dili Water Supply Rehabilitation and Improvement. Local consulting engineering firms have been commissioned to design and supervise minor construction to overcome missing links in Dili's water supply network. The activity has been planned to include a significant capacity building component for WSS staff and local employees of the domestic consulting engineering firms. In-house design and documentation for the warehouse at Dili Distribution Depot is well advanced, with input by a Timorese architect.

District Towns (Public) Water Supply Repair and Rehabilitation Program. International consultants have been engaged to design and supervise construction of water supply systems in Viqueque, Suai, Liquica, Oecussi, Gleno, and Maliana. The remaining contract administration under each of these projects is being undertaken by Timorese engineers with one international consultant mentoring them and providing capacity building support. Rehabilitation of part of the transmission main for Viqueque has been completed. Construction of new intake, transmission main, reservoir, and distribution main in Lauhata (Liquica) has been completed. Construction of a new transmission main and installation of a new submersible pump in Suai has been completed. Construction of a new bore in Oecussi was completed, while installation of a new transmission main, reservoir, and distribution mains are in progress. Construction of intake improvement works were completed at principal surface water sources for Gleno and Maliana. Installation of a new reservoir for Gleno is almost complete. Rehabilitation of the transmission main and construction of a new reservoir for Maliana is in progress.

Community Water Supply and Sanitation Rehabilitation and Improvement. Ten local and five international NGOs have been contracted to implement USD750,000 of community participation water supply and sanitation projects in small communities in rural areas. The average unit cost for these activities is USD233 per benefiting household (approximately USD33/person). The projects generally include health and hygiene promotion components. To enhance sustainability of the outcomes, the benefiting communities are required to commit social capital to construction and ongoing operation and maintenance activities before the physical activities commence. Expected outcomes include the provision of basic water and sanitation services for many small communities; enhanced community empowerment through local participation, accountability, and organization; and greater local NGO capacity to undertake similar activities in the future.

Urban Sanitation Improvement. Consultants are working in WSS assisting staff to prepare strategic plans, designs, and implementation contracts for drainage and wastewater improvements. Discussions have resolved the delineation of responsibilities between WSS and the Division of Roads, Bridges and Flood Control for drainage works in Dili. Contracts have been awarded for priority works to improve the operation of the central Dili drainage system between the Maloa and Lahane streams. One contract comprises clearing and repair of road inlet pits and cover replacement. A second contract includes clearing open channels and piped drains to remove accumulated sediment and solid waste from several years of neglected maintenance, as well as some minor structural repair work to drains. Extensive field survey work was required to assess the condition of Dili's drainage assets.

[2] Capacity Building and Institutional Development – The purpose of this component is to provide training and other assistance in priority areas, assist in key policy development initiatives, and generally strengthen the capacity of WSS to coordinate overall development assistance for the sector. Status of the subcomponents is described below.

Training. Several training activities have taken place under the project.

- Eight local staff from WSS Rehabilitation and Development section plus two local technical officers from national NGOs took a course in using EPANET software (computer modeling of hydraulic behavior within a pressurized pipe network). Held over three half-days and presented by a local consulting engineering firm, the course used a real-life network as the subject of design. Preparation and delivery of the course was a capacity building exercise in itself since one of the international consultant staff worked with one of the local staff to jointly present the course in English and Bahasa Indonesian. One output was hydraulic design of the pipes that will be needed to complete another of the missing links in Dili's water supply network.
- Four technical officers from national NGOs received on-the-job AutoCAD training in the WSS-PMU office while working on preparation of new standard drawings for the revised community water supply guidelines. The technical officers worked in the WSS-PMU office, which provided them with an opportunity to learn from each other and exchange ideas. An AutoCAD specialist from the WSS-PMU undertook short, formal, daily training sessions and addressed learning difficulties on-the-spot.

- The project funded airfares for three senior WSS officers to attend the International Training Course on Water Supply Technology at the National Water Technology Training Institute in Bangkok. The United Nations' Economic and Social Commission for East Asia and the Pacific absorbed the participants' in-country expenses.
- Two senior WSS officers attended the Australian Water Association/Mt Eliza Business School Pricing and Asset Management Master Class at project expense. This trip included side visits to Sydney Water and the Power and Water Authority in Darwin.
- Two senior WSS officers attended the Sustainability of Water Resources Conference at Perth's Murdoch University at project expense. While passing through Darwin, the participants visited the Power and Water Authority.
- Four WSS-PMU staff received formal, in-house English language training.
- Two WSS-PMU staff and two WSS finance staff are receiving in-house training in book-keeping.
- Two local administrative staff have received training in FreeBalance, the accounting package adopted by the Government.
- Two WSS local staff attended the International Water Association 3rd International Congress and Exhibition in Melbourne, during which a separate stream was devoted to developing countries.
- Support was provided for attendance at High-Level Consultations on Water Resources ² in Fiji, in preparation for the World Summit on Sustainable Development in Johannesburg.

Capacity Building and Technical Assistance. Individual consultant assistance has been provided to WSS in three separate inputs, to facilitate the further development and promulgation of **Water Resource Management Legislation, Water Services Legislation, and Sanitation Management Legislation**. While the policy issues have already been accepted, the dynamic political environment, legislative formatting, and Portuguese translation issues have impeded promulgation. The legislation has been translated into, and reformatted for, Portuguese. The Water Services Legislation and details of the Water Tariffs has recently been presented to the Council of Ministers (the outcome of their deliberations was not known at the time of this writing). Submission of the remaining two pieces of legislation to the Council of Ministers was imminent.

The previously proposed **Water Resources Planning and Management** assistance has been deleted pending the provision of similar assistance from the ADB Water, Environment and Natural Resource Technical Assistance package.

A consulting firm has been commissioned to assist WSS with the **Reintroduction of Water User Charges** in Dili. Implementation progress has been reasonable, but full achievement of objectives and timing in the terms of reference were not met due to capacity problems within WSS, uncertainty about tariff structure, and lack of legislation. The billing system has been set up and is capable of producing invoices, but lack of a legal tariff structure has prevented issuance of bills. Training for WSS customer service staff is continuing. Installation of replacement water meters is about to commence.

An individual consultant has recently completed implementation of an **Infrastructure Asset Management System (IAMS)** in WSS. The major activity has been the development of the Infrastructure Asset Management Plan. This document describes the WSS organizational framework, asset base, levels of service, demand projections, and the IAMS, together with the Capital, Operation, and Maintenance Sub-plans. Asset data collection must be a continuing activity, which will require senior management support.

² An outcome of these consultations was the recent ADB fact-finding mission for Project AOTA: ETM 35451-01- Water, Environment and Natural Resource Management in Timor-Leste (USD700,000 Technical Assistance package).

Sector Coordination and Development assistance has been provided by an individual consultant who assisted WSS to prepare its input into the draft National Development Plan and to prepare a **5-Year WatSan Sector Development Plan**. This input has been effective in ensuring that appropriate sector goals and activities are included in the National Development Plan and recent budget submissions. Subsequent technical assistance experts will be required to update the 5-Year WatSan Sector Development Plan as sector planning progresses.

The proposed activity of Environmental Monitoring and Evaluation has been deleted from the project since this is already being implemented through ADB Technical Assistance to Timor-Leste's Environment Protection Unit.

An individual consultant has recently completed **Revision of the Community Water Supply and Sanitation (CWSS) Guidelines and Procedures**. This activity was undertaken in cooperation with the AusAID CWSS Project. That project will provide additional input to refine the guidelines, in particular a generic community consultation process including details on how WatSan solutions can be developed with the community.

A consultant has recently been mobilized, and is assisting WSS to review and update the current **Dili Water Supply Master Plan**. The consultancy requires: capacity building, training, and mentoring for Timorese staff to help them understand the issues and management of the Dili water supply system; master planning to assist WSS to create a base for development of a water supply system able to provide safe and reliable water supply to Dili residents in the period to 2020; and provision of a document that can be used to support requests for donor funding for future water supply development.

As part of the consulting services to **Improve the Management and Operation of WSS Urban Drainage and Wastewater Services**, consultants are assisting WSS in the preparation of strategic plans. Following production of an Urban Wastewater Strategy Working Paper, the consultancy implemented a Sanitation Survey to provide better quality data on existing facilities and community expectations for improvement. This work was undertaken by a local NGO under contract to the WSS-PMU. The Public Works laboratory has been commissioned to carry out percolation tests across Dili to assist in assessing appropriate technology options for on-site disposal of wastewater effluent. Production of the Urban Wastewater Strategy Report is well advanced.

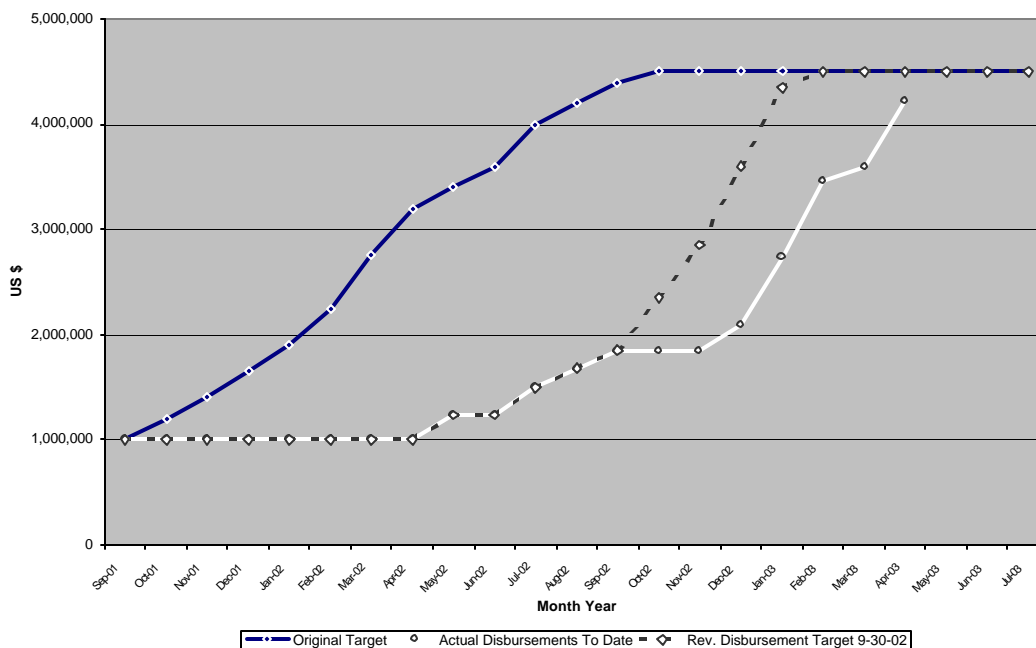
Information Technology (IT) and Communications Equipment. This activity was proposed to assist WSS with IT and communications following the transition from UNTAET to Government-operated services. The Government has now proposed to hold over this activity pending the further development of government systems.

[3] Sector Management and Project Management Unit – The Phase II PMU was established in October 2001, but was predominantly occupied with the completion of Phase I activities. Initially two international staff were engaged: a Team Leader/Sector Development Adviser and a Chief Technical Officer. The Phase II contract of the Team Leader/Sector Development Adviser was terminated on November 15, 2002 and the Chief Technical Officer assumed the Team Leader's responsibilities. The PMU now comprises a local Project Manager, international Chief Technical Adviser/Team Leader, and five local support staff, including a Finance Officer, a Community Development Officer, and a Technical Officer. Several other local staff are engaged on short-term contracts.

The Phase II PMU prepared a detailed list of project activities as part of the Project Inception Report. This was undertaken in close consultation with WSS and other stakeholders. In accordance with the lessons learned from Phase I, this activity list is viewed as an active matrix that will be subject to regular review and such modifications as the Recipient and ADB may from time to time agree.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

Water Supply and Sanitation Project – Phase II
Actual vs. Revised Disbursement Targets as of April 30, 2003



Water Supply and Rehabilitation Project - Phase II
Estimated Expenditure by Category as of April 22, 2003 (USD)

Category	Allocated	Disbursed	Undisbursed
1. Water Supply & Sanitation	2,775,000.00	2,399,414.53	375,585.47
2. Capacity Building	585,000.00	366,497.49	218,502.51
3. Project Management	486,000.00	454,484.50	31,515.50
4. Unallocated	654,000.00	0.00	654,000.00
5. Project Account (to be allocated to components above)	0.00	1,000,000.00	-1,000,000.00
Total	4,500,000.00	4,220,396.52	279,603.48

ECONOMIC INSTITUTIONS CAPACITY BUILDING PROJECT
TF027826, USD0.6 million

Project Overview – April 2003

Project Objectives

The Economic Institutions Capacity Building Project addresses the scarcity of needed skills in Timor-Leste which is constraining the operation and effectiveness of key economic and financial institutions—particularly the Ministry of Planning and Finance, the Banking and Payments Authority, and the Census and Statistics Unit—that should provide data for economic analysis and policy making. The project aims to strengthen institutional capacity through the establishment of accounting systems, core economic systems, and training for Timorese, with a focus on the key financial institutions of government.

Major Donors Involved in Supporting Economic Capacity Building

Donors	Areas of Concentration
ADB (TFET)	Basic training
IMF, Australia, Portugal, Japan	Higher-level training abroad
IMF, World Bank (TFET)	Statistics
Australia	Budget preparation and management, taxation, and revenue issues
Canada	Revenue service and government accounting systems

Project Status

The project, which became effective in May 2001, formally commenced activities in the second half of 2001, though significant work had begun earlier in accordance with retroactive financing provisions. All activities are expected to be completed by September 30, 2003. Table 1 presents project achievements; the status of three main project components as at March 31, 2003 is described below.

Table 1. Project Achievements

Indicator	Midterm Target	Completion Target	Progress as of End-March 2003
Number of staff trained in finance, economics, and public expenditure analysis	30 or more	50 or more	57 Timorese officials completed the training course (32% women). On-the job training commenced in March 2003, targeted at finance, administration officers in line agencies, and Treasury officials.
Macroeconomic aggregates for Timor -Leste	Methodology established/data collection initiated	Baseline action accounts prepared up to FY2000/2001	Completed April 2002; pursuing further funding to continue technical assistance in preparing future accounts.
Integrated government accounting system established	Chart of accounts established	Asset Register established	Chart of accounts established; Procurement and Asset modules procured, installed, and implemented.
Number of government departments/agencies utilizing the integrated government accounting system	12 or more	32 or more	Treasury and Procurement regularly using system, and ready access granted to all government departments; network connectivity delayed with UN withdrawal—Transport and Communications working on establishing government-wide network.

Project Component Updates

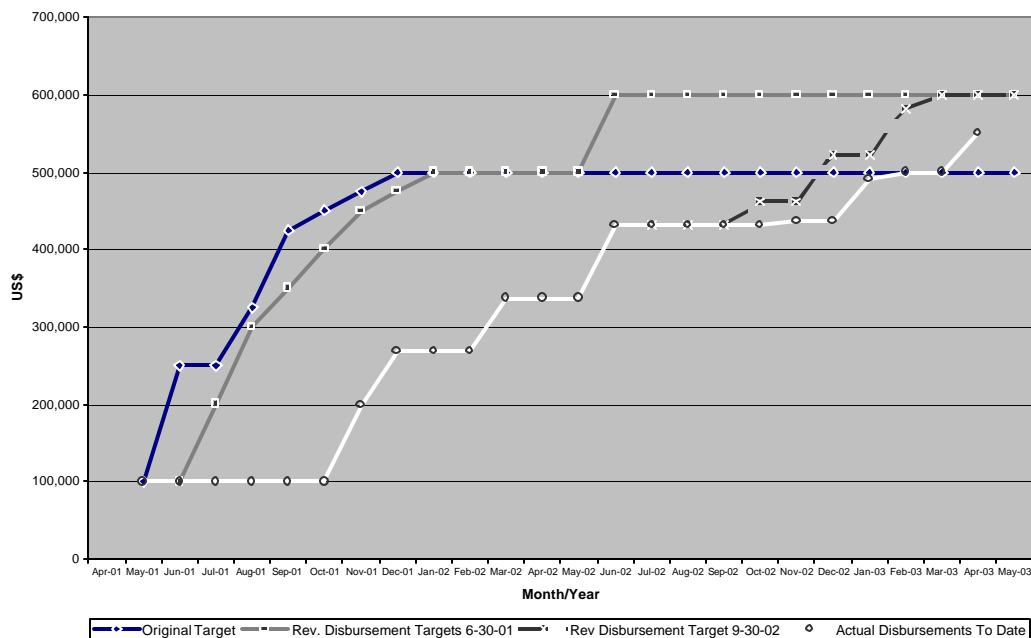
[1] Integrated Government Accounting Systems – The implementation of the FreeBalance system under this component is progressing well. The FreeBalance modules of Appropriations, Expenditure, Purchasing, and General Ledger have been implemented for CFET. The Assets module has also been configured and is being tested before full implementation. During the last quarter, over 25 Timorese staff have been trained (and some retrained) in the system. Special inputs are being given to Purchasing and Assets staff to meet training needs. The FreeBalance system has been configured for TFET projects in Agriculture, Health, Education, and Transportation, and work has commenced for data entry in some of these projects. All TFET project staff have been given an orientation course and supplemental training was provided for Agriculture and Fundamental School Quality Projects. The customized reports (Crystal Reports) have been finalized, and Treasury is awaiting delivery from FreeBalance. Overall, the system has attained the desired stability and provides reliable, accurate, and up-to-date information about treasury and procurement operations.

[2] Development of a System of National Accounts – This component aimed to prepare estimates of the national accounts for 2000, establish a methodology for the future beginning with 2001, and train Statistics Unit staff in survey design, execution, and compilation of national accounts. It was completed in April 2002. GDP estimates for 2000 were revised to take account of the availability of improved import statistics, and GDP estimates were also prepared for 1999. It has become evident that the task of compiling future estimates will require expert supervision for some time to come due to human resource capacity constraints. Furthermore, the structure of the economy is experiencing another shift, with the rapid withdrawal of the United Nations and other foreign nationals.

[3] Economics Training – A supplementary grant agreement of USD100,000, signed on July 23, 2002, paved the way for this component to proceed. Following completion of detailed terms of reference for the assignment, including a syllabus outline for the training course, two consultants were selected. Under the first stage, a pilot of the course was held over the three weeks to October 30, 2002. A total of 19 students commenced the course, with three withdrawing early due to work commitments. All 16 remaining students completed the course and obtained a passing grade. Six of the 16 students were women (38 percent). A period of evaluation and adjustment to the pilot course was undertaken, and the full course was launched in November 2002 and delivered to an additional 49 students, of which nine withdrew early due to work commitments. Of the 40 officials that completed the course, 12 were women (30 percent). An additional two-day course was delivered to 27 officials from the Department of Defense. The on the job training/mentoring component commenced in March 2002 and will be completed by May 2003. This component is focusing on: basic computer skills; audit activities; project management; reconciliation processes; FreeBalance data export and manipulation for reporting purposes; and public expenditure management and procurement processes. Specific on-the-job training for Treasury Officials commenced in March 2003 and is anticipated to be completed by the end of September 2003.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Economic Institutions Capacity Building Project
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Economic Institutions Capacity Building Project
Expenditure by Category as of April 22, 2003**

Category	Allocated	Disbursed	Undisbursed
1. Consultant Services, Training, etc.	565,000.00	471,085.81	93,914.19
2. Incremental Operating Costs	25,000.00	0.00	25,000.00
3. Unallocated	10,000.00	0.00	10,000.00
4. Project Account (to be allocated to components above)	0.00	78,914.19	-78,914.19
Total	600,000.00	550,000.00	50,000.00

MICROFINANCE DEVELOPMENT PROJECT
TF027834, USD4.0 million

Project Overview April – 2003

Project Objectives

The main objective of the Microfinance Development Project is to help reduce poverty in Timor-Leste by creating an environment that will facilitate community-based opportunities for income generation and employment through the provision of accessible financial facilities and services. The project seeks to establish a sustainable microfinance institution that will continuously provide financial services to low-income households. The project also aims to assist in reviving and rehabilitating credit unions, including strengthening the Credit Union Federation (CUF).

Project Status

The project, administered by the Asian Development Bank, formally began December 18, 2000 and is expected to close December 31, 2003. Table 1 presents some project achievements as of March 2003. The status of the three main project components at the time of the March 27-April 4, 2003 review mission is described below. Box 1 presents some issues being addressed under the project.

Table 1. Project Achievements

Indicator(s)	Status as of March 2003
Establishment of a microfinance institution	Head office and Dili branch launched May 2002; operating license as quasi-bank financial institution issued Sept-2002.
No. of branches/offices established	Head office plus 3 branches (Dili, Gleno, Maliana); Dili branch ransacked Dec. 4, 2002 relocated to new site in Dili.
No. of Timorese staff employed	28
Loans disbursed	USD410,000
No. of borrowers	1,700 (80% women)
Saving/deposits mobilized	USD600,000
No. of savers/depositors	2,600
No. of credit unions revived	5
New credit unions participating	6
Additional formal training and conferences conducted since last reporting period	4
Other activities	Participated in ASEAN Confederation of Credit Unions (ACCU) on credit union management in Bangkok, Thailand.

Project Component Updates

[1] Establishment of a Microfinance Institution – The operation of the Instituicao de Microfinancas de Timor-Leste was formally launched in May 2002, in time for the May 20, 2002 independence day celebrations. The Banking and Payments Authority (BPA) issued the final license to the institution as a quasi-bank financial institution on September 4, 2002, after reviewing the institution's initial operations, systems and procedures, and conducting a thorough inspection of its facilities and physical set-up. A head office and three branches are now in operation: the head office and the Dili main branch, the Gleno (Ermera District) branch, inaugurated September 17, 2002, and the Maliana (Bobonaro District) branch, inaugurated November 22, 2002. All branches and offices are computerized using the UN-FAO Microbanking software and have their own power generators.

During the December 4, 2002 riots the head office and Dili main branch, including the Project Management offices, were ransacked and looted. Some USD100,000 worth of office furniture and fixtures, banking equipment, computer servers and workstations, inventories and stocks of printed forms, office supplies and materials were destroyed, burned, or looted/stolen, creating a terrible loss of momentum. For almost two weeks the institution's Dili branch operated from a temporary space provided by the BPA within its own premise before moving to a temporary office at Colmera, Dili on December 18, 2002. Negotiations are ongoing with the Ministry of Justice for an unused government building to permanently house the head office and Dili branch.

By the end of March 2003, USD410,000 worth of small and short-term microfinance loans had been disbursed with an outstanding balance of USD220,000. The loans have been extended to around 1,700 small borrowers, made up of villagers formed into financial groups, farmers, market vendors, stall holders, and the low-level district civil servants. Around 80 percent of the borrowers are women. The average amount of loan per borrower is USD240. Some USD600,000 worth of savings from 2,600 depositors has been deposited with the institution, demonstrating the increasing confidence of borrowers and savers in the institution's capability to protect their funds.

[2] Revival/Rehabilitation of Credit Unions and Strengthening of Credit Union Federation – The project distributed USD23,000 to assist four qualifying credit unions in Ailieu, Bobonaro, Atsabe, and Same to reconstruct their burned offices. Upon completion in June 2002, office furniture, cash safes, typewriters, credit union business forms and supplies were provided to jumpstart their operations. From July-December 2002 a project-hired, short-term credit union development adviser was deployed to focus on credit union and federation matters. The adviser took over from the domestic credit union training consultant to pursue efforts to revive and strengthen the credit union operations; the business operations and the internal system and procedures of the CUF were also considered. The adviser identified the following factors deterring progress of credit unions and the CUF: low membership; absence of effective savings mobilization and capital build-up; absence of effective and sufficiently knowledgeable trainers and CUF technical staff; lack of promotional efforts to improve credit union and CUF image; lack of expansion plans into other sectors (or lack of implementation if plans exist); lack of good governance within the CUF; and lack of budget and transparency in financial dealings with the project.

The CUF has received technical and logistical support from the project since July 2001 in the form of transport equipment, office equipment and furniture, computers, supplies, and training manuals and materials. In addition, subsidies for administrative and personnel costs have been provided, and educational tours and networking with other credit union organizations within the region have been supported by the project. Ten credit union leaders and federation officers went on a study tour of the credit union operations in the Australian Northern Territory in November 2001. The project also funded the participation of two CUF officers in a regional conference held by the Asian Confederation of Credit Unions (ACCU) September 16-21, 2002. The CUF officials attended the credit union executives' conference and management training sessions. In March 2003 the project invited the Chief Executive Officer of the ACCU to take an independent, expert view of conditions of the credit unions and CFU in Timor-Leste.

[3] Project Management – The Project Management Unit (PMU) is headed by a Project Manager/Microfinance Adviser. To keep close supervision of the project, PMU offices are located in sites where the institution operates. The Project Coordination Committee (PCC), chaired by the Prime Minister in his concurrent capacity as Minister for Economic Affairs and Development, provides policy guidance to the PMU. Recently, a Vice-Minister for Economic Affairs and Development was appointed and specifically tasked to set-up a unit to oversee the developments in the cooperative and microfinance sector. It is likely that the vice-minister will be tasked to supervise and liaise with the project as well. A formal designation from the Prime Minister's office for the vice-minister to chair the PCC was requested during the wrap-meeting of the last project progress review mission.

Box 1. Issues Being Addressed Under the Microfinance Development Project

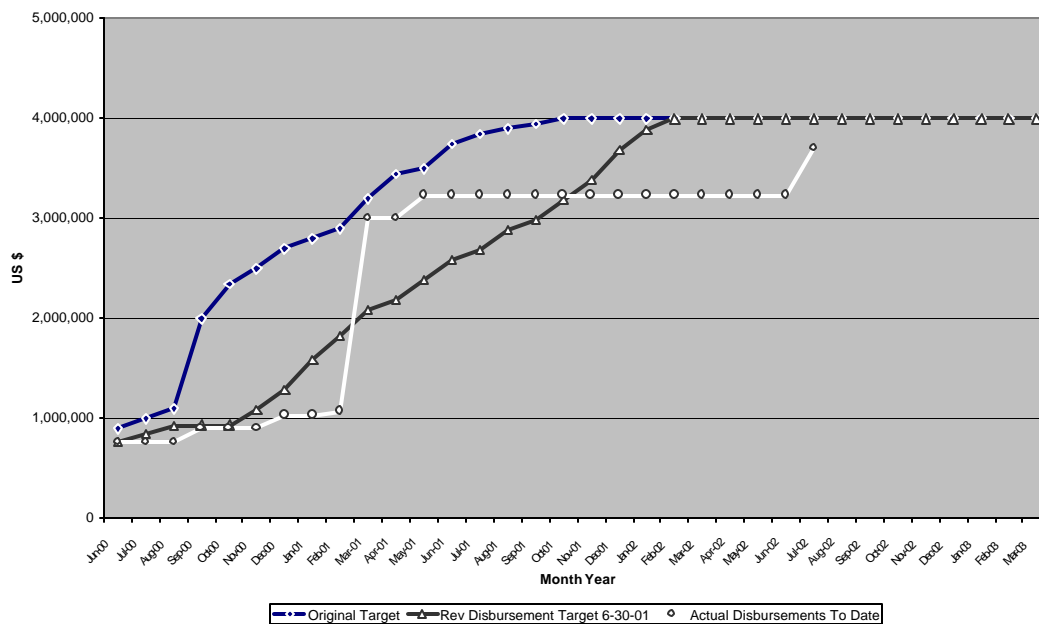
Regulatory Framework. A credit union law has yet to be promulgated by parliament. In all likelihood, such a law will not be promulgated separately from a proposed general cooperative law. With a law governing cooperatives (credit unions fall under the category of credit cooperatives), the promotion and organization of new credit unions without a financial past, rather than reviving old credit unions organized under Indonesian laws and registering bodies, could be more viable and less expensive.

Human Resources. Local capacity to handle efficiently and manage prudently the financial institution need to be upgraded. In the case of the Instituicao de Microfinancas de Timor-Leste, accounting, financial, and IT skills have to be continuously sharpened and improved. Problem-solving, decision-making, situation-analysis, and similar areas also need further improvement. Literature on new trends, developments, innovations, and approaches in microfinance, agricultural credit, “banking” with the poor, and so on should be made available, and absorbable, to the Timorese management and board of directors.

Stability and Ownership. The recent review mission reiterated that, in anticipation of project closure, there is a need for a divestment plan and ownership-design of the institution. These will have to be approved by the Foundation for Poverty Reduction, which is effectively the current “owner” of the financial institution. The country’s position and views need to be solicited and conveyed formally to the Foundation before the project’s scheduled closure at the end of 2003.

The chart below depicts actual versus target disbursements; the table below shows project expenditures by category.

**Microfinance Development Project
Actual vs. Revised Disbursement Targets as of April 30, 2003**



**Microfinance Development Project
Expenditure by Category as of April 22, 2003**

Category	Allocated	Disbursed	Undisbursed
1. MFI Equity/ Credit Line	2,300,000.00	2,188,964.79	111,035.21
2. Credit union/ Federation support	150,000.00	17,826.41	132,173.59
3. Training.	200,000.00	95,447.48	104,552.52
4. Consultant Services	80,000.00	500,523.60	-420,523.60
5. Vehicle, Equipment - Goods	360,000.00	110,022.04	249,977.96
6. PMU Administrative support	160,000.00	26,099.19	133,900.81
7. Unallocated	4,470,000.00	0.00	4,470,000.00
8. Project Account (to be allocated to components above)	0.00	772,000.00	-772,000.00
Total	7,720,000.00	3,710,883.51	4,009,116.49

PETROLEUM TECHNICAL ASSISTANCE PROJECT I
TF050894, USD0.24 million

Project Overview – April 2003

Project Objectives

The objectives of the first Petroleum Technical Assistance Project are to provide (i) just-in-time support to the Government of Timor-Leste in its negotiations with oil companies and neighboring countries for the development of the Bayu-Undan natural gas/liquids condensate field; (ii) technical and fiscal advice on negotiations with neighboring countries related to the development of the Sunrise natural gas field; and (iii) financial advice on projected Bayu-Undan and Sunrise revenues.

Project Description

Timor-Leste has substantial petroleum potential, and revenues from oil and gas will permit the Government to finance a modest public sector in the medium- to long-term. The prospect of future revenue depends critically on the successful outcome of a set of difficult, complex negotiations with international oil companies and neighboring countries, and on the ongoing drafting of sector legal, contractual, and fiscal arrangements. Given Timor-Leste's limited institutional and human resource capacity to conduct such negotiations and to draft a legal framework for the sector, the project is financing expert industry consultant services to support the Government's Timor Sea Office (TSO) in these tasks. The ultimate objective is to strengthen the capacity of Timor-Leste's petroleum sector.

Project Status

The project, administered by the World Bank, became effective December 10, 2002 and is expected to close December 31, 2003. To date, the project has supported a consulting appointment for legal assistance to the TSO on development of the Bayu-Undan field and a consulting appointment for financial/business analysis on the Bayu-Undan and Sunrise fields. With the signing of the International Unitisation Agreement for the Greater Sunrise field and the ratification of the Timor Sea Treaty in March 2003, development of the Bayu-Undan field is proceeding. Consultant services financed under the project continue to support work on the development plan, downstream agreements, and production sharing contract for Bayu-Undan.

A second TFET-funded Petroleum Technical Assistance Project (USD1.28 million) is under preparation. It aims to continue support to—and capacity building of—Timor-Leste's petroleum sector.

The table below shows project expenditures by category.

Petroleum Technical Assistance Project I
Expenditure by Category as of April 22, 2003 (USD)

Category	Allocated	Disbursed	Undisbursed
1. Consultant Services	240,000.00	159,537.83	80,462.17
Total	240,000.00	159,537.83	80,462.17