

## **TFET Report of the Trustee, March 31, 2006**

### **Executive Summary**

- i. The multi-donor Trust Fund for East Timor (TFET) has supported reconstruction and development activities in Timor-Leste since the beginning of 2000. Since the last Report of the Trustee in April 2005, 1650 hectares of irrigation schemes and 42 km of access roads were rehabilitated under the Second and Third Agriculture Rehabilitation Project; with the assistance of the Fundamental School Quality Project the Ministry of Education and Culture finalized its Strategic Plan for Universal Primary Completion (SP-UPC), and 65 new primary schools and one new Escola Basica were constructed; construction of four new hospitals in Maubisse, Oecussi, Maliana and Dili has commenced and 7 micro-policies were drafted under the Second Health Sector Rehabilitation and Development Project; the Cassa Bridge was completed under the Emergency Infrastructure Rehabilitation Project; the Petroleum Technical Assistance Project supported the adoption of legislation for petroleum production, taxation, and revenue management and capacity building for the Timor Sea Tax Division; and the Second Small Enterprises Project rehabilitated 22 markets and delivered entrepreneurial and financial training to 3,000 people.
- ii. Financial management performance for TFET projects has broadly improved. The financial management ratings for ARP III and FSQP have been upgraded to satisfactory since the last Report of the Trustee. The financial management rating for SEP II was downgraded slightly to moderately satisfactory following shortcomings in the timeliness of reporting and reconciliations. The quality of procurement in the TFET portfolio has improved. All projects have been rated at least satisfactory on procurement, and the procurement management of HSRDP II and FSQP has been rated highly satisfactory. The Government and the World Bank are following up on possible misprocurement of small works in SEP II and alleged collusion in a bidding process for small rehabilitation works in FSQP. Disbursement rates have increased despite the winding down of several projects, but they are expected to slow for the remainder of the life of TFET.
- iii. All projects, whether in the pipeline or active, continue to be aligned with the NDP, the Stability Program and the Sector Investment Programs. In addition, where feasible construction methods and procurement procedures focus on enhanced local content without affecting quality. The integration of Project Management Units (PMU) into line ministries continues. Line ministry personnel, with support from international advisors where necessary, are assisting both TFET and Consolidated Fund for Timor-Leste (CFTL) activities to an increasing degree. Since the last Report of the Trustee, TFET PMUs and advisors have actively helped the implementation of the CFTL budget. The construction of Dili National Hospital is co-financed by TFET and CFTL and financial management, procurement and construction supervision are undertaken by the TFET funded PMU. Fifty-five primary schools financed by CFTL are being constructed with direct support from the FSQP PMU. In the Ministry of Agriculture, Forestry and Fisheries, all ARP-funded advisors are supporting the full range of Ministry programs.
- i. As of February 28, 2006, USD 178.16 million<sup>1</sup> had been contributed to TFET and USD 177.85 million had been committed to projects. Thus, TFET is running a small surplus of approximately USD 0.31 million. An additional amount of USD 0.12 million is

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<sup>1</sup> Include cash receipts, promissory notes, and investment income.

available as a result of a refund to TFET due to misprocurement in HSRDP I,<sup>2</sup> bringing total surplus funds to USD 0.43 million. In alignment with the Sector Investment Programs, the Government has expressed a preference to allocate this surplus to the Gas Seep Harvesting Project, which supports the generation of electricity in major population centers in the southern part of Timor-Leste. The Government requests that the Council endorse this allocation on a no-objection basis.

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<sup>2</sup> This matter is currently under consideration by Government and will be resolved as soon as possible.