

Trust Fund for East Timor (TFET)

Report of the Trustee
and
Proposed Work Programme for July 2001 – June 2002

TFET Donors' Council Meeting
Canberra, 13 June 2001

Executive summary

- i. The Trust Fund for East Timor (TFET) has now been in operation for 15 months. In this period, TFET funds have been used to launch six sector programs (for community development and governance, health, education, agriculture, infrastructure and water and sanitation) and five smaller projects. These programs, together with bilateral and other multilateral interventions, have helped ensure a smooth transition from humanitarian aid after the crisis to the developmental initiatives which will be necessary to support economic growth and poverty reduction after independence.
- ii. The Brussels TFET donor council meeting in December 2000 noted the acceleration in TFET disbursements, and stressed the need for continued rapid implementation progress to meet basic needs. The first semester of 2001 has seen a steady increase in disbursements, estimated at \$US 55 million at end June.
- iii. Funds spent during this period have provided for a wide variety of reconstruction initiatives, including a second nation-wide round of community-managed local reconstruction initiatives, maintenance of satisfactory road access throughout the 2000/01 rainy season, a rapid increase in operational school facilities and materials, continued provision of emergency health services through NGOs and work on longer term health management and policy, vaccination of livestock and repair to irrigation systems and feeder roads, over \$US 3.5 million in loans to small Timorese enterprises, and the automation of treasury functions in the Central Fiscal Authority.
- iv. The last six months have also seen the start of larger, more complex reconstruction works, including contracts for major irrigation system rehabilitation, new health clinics and a new medical store, a school mapping exercise and new prototype schools. Payment for these works will exhaust the TFET funds committed in the first year of operation before the end of the year.
- v. Continued progress in implementation has not always been easy. Some programs have suffered from high turnover in staff, and have faced difficult trade-offs between capacity-building and rapid service delivery. Program management units have also faced difficulties in operating new procedures, in particular in the procurement area. These problems have largely been overcome, and the lessons learnt incorporated into the design of second generation programs. Finding the right balance between capacity-building and delivery, together with maintaining implementation momentum during the political transition, will be the principal challenges for the TFET in the coming months.
- vi. Donor representatives in Brussels also focused on the importance of ensuring sustainability of capital reconstruction programs, through close attention to recurrent liabilities and integration with the CFET budget. Multi-donor sector missions in March-April 2001 took this on board by focusing on the combined sources budget for FY 2001/02. This has allowed a continuous improvement in combined sources budgeting, and explicit treatment of future recurrent obligations.
- vii. The multi-donor missions also identified components for the second generation TFET programs endorsed by the Brussels donor meeting. Activities under these programs will be important to continue reconstruction efforts and to ensure economic stability over the transition. Grant agreements endorsed at Brussels have been signed for community empowerment and are pending for health, education, small enterprise

support, water and sanitation and infrastructure. The TFET work programme for the remainder of the year, which will be proposed to the Donors Council in Canberra, includes supplemental allocations for agriculture, infrastructure and education. These supplements will complete basic reconstruction for some sectors, which will then move into development mode.

- viii. The TFET faces two financial constraints at the time of the Canberra meeting. Firstly, rapid realisation of pending contribution agreements is necessary to start programs on time, including some of the programs endorsed at the time of the Brussels meeting. Secondly, for the first time since the beginning of the TFET process, new pledges will be necessary to close the financing deficit for the Canberra workprogram, which totals \$14.2 million.
- ix. The Canberra Donors Council meeting is well-timed to start looking ahead to the post-independence period. The independence transition provides an opportunity to move from a emergency reconstruction mode to a more structured medium-term development strategy and financing framework. The process of developing this strategy must be first and foremost a Timorese process, and can only intensify after the constituent elections are completed. The donor community can help, by providing technical assistance where needed and by signalling support for a post-independence integrated budget. IDA is looking to concentrate its own post-independence assistance in support of a strong national poverty reduction program and associated medium-term expenditure framework, and will seek to dialogue with Timorese leadership and international partners over the coming weeks and months to discuss this approach.

I. Background

1. East Timor is nearing the end of its long transition to independence. The political process has accelerated fast in the last few months, with agreement on an electoral timetable and law, and registration of political parties and voters well underway. East Timor's reconstruction and development is not directly linked to the political timetable, with support for economic and social development likely to continue long after independence. Yet the success of reconstruction efforts will impact the political process, just as a successful political transition will make reconstruction more sustainable. Strong economic recovery and efficient delivery of government services will assist in promoting social stability and is a vital support to the political transition.
2. The overall environment for reconstruction has improved markedly over the last year. Whilst accurate economic data will not be available until the completion of household survey¹ and national accounts exercises later this year, rapid assessments indicate that economic recovery has been strong in the past semester. This is primarily driven by high demand for services in Dili and continued agricultural recovery. Favourable economic developments reflect first and foremost the natural recovery of the market, and the efforts of Timorese families and firms to rebuild their livelihoods. Strong demand created by the international reconstruction effort and specific donor-support to the private sector have helped.
3. East Timor faces an enormous challenge in simultaneously undertaking a fundamental political transformation and the building of new nation state institutions. Progress against the key benchmarks of the administrative transition has accelerated in recent months, with fast civil service recruitment. However, the administrative transition still lags behind the political transition: at the time of independence most civil servants will have been in place for less than twelve months, with financial and administrative systems still new and fragile. Limited management and absorptive capacity continue to pose a challenge for the implementation of reconstruction programs.
4. The multi-donor Trust Fund for East Timor (TFET) was created as one component of overall assistance promised for East Timor in a meeting of donors on December 16-17 in Tokyo. TFET activities are identified by Timorese counterparts in coordination with the World Bank, ADB, TFET donors and other stakeholders through joint sector missions, and are implemented by government with support from the World Bank and the Asian Development Bank. The TFET portfolio concentrates on basic post-conflict reconstruction, including physical rehabilitation of key social and economic infrastructure and support to recovery of the private sector². Reconstruction activities started in the first semester of 2000 when the humanitarian program was still at its height, and have built up steadily over the following year.

¹ See Box on East Timor Poverty Assessment

² IDA focuses on Community Development and Governance, Private Sector Development, Health, Education, and Agriculture while the ADB focuses on Infrastructure (Roads, Ports, Power), Water Supply/Sanitation, and Microfinance. East Timor is not yet a member of either ADB or the World Bank.

II. What has been achieved to date?

5. Overall, the TFET portfolio has progressed well in the last six months. Start-up problems have been overcome and a sustained increase in both activities on the ground and disbursements achieved. Detailed progress reports by project are given in the technical appendices to this report.
6. **Core sectoral reconstruction.** The core government sector programs of the first half of 2000 – infrastructure, water and sanitation, health, education and agriculture – are now roughly two-thirds of the way through their implementation cycles. Disbursements under these programs accelerated in September 2000 and have subsequently remained at a steady level, reflecting strong implementation efforts in emergency reconstruction. This includes school rehabilitation, textbook and furniture provision, emergency road and water system repairs and backlog maintenance, community irrigation and agricultural feeder road repair, distribution of hand tools and livestock to farmers, and vaccination campaigns in both the health and agricultural sectors.
7. At the same time, each program has completed the design/feasibility studies and contracting arrangements necessary for more complex rehabilitation work, including large irrigation systems, new health clinics, school mapping and new prototype schools, and the outsourcing of the pharmaceutical distribution system. Work under these contracts will continue in the coming months, and is expected to fully utilise funds committed under the first generation programs before the end of the year.³ Each program has also started work on longer-term sectoral policy options. This was a lower priority in the first year of TFET due to the emphasis on rapid reconstruction. Health, agriculture and water and sanitation are ahead of the other sectors and have already conducted intensive policy discussions. Further work in this area will be a priority for the remainder of the year.
8. **Community reconstruction.** The principal community-managed project in the TFET portfolio, the Community Empowerment Project, had a satisfactory performance over the first semester of 2001. The second round of community block grants commenced across the country, financing hundreds of small road and water projects and credits for primarily agricultural activities. Sporadic governance problems – in particular capture of project decision-making by local elites – have been identified and addressed. Physical reconstruction and financial controls have proved to be satisfactory, and the project enjoys widespread support from Timorese communities.
9. **Private sector recovery.** Projects for small enterprises and micro-finance have proceeded more slowly than planned, due in part to constraints in the business environment. For example, the small enterprise project received over US\$30 million worth of loan applications but found only 10% of these to be viable business projects. To preserve a sustainable business culture, it is important that good repayment rates are maintained, and that the temptation to finance unsustainable business ventures is avoided. It is estimated that all remaining loan funds from the first small enterprise project will be committed before the end of the financial year. For similar reasons, the microfinance project is investing several months in institutional strengthening of credit unions and creation of an appropriate regulatory environment before starting to disburse loans.

³ At end of June, it is estimated that disbursements will total \$US 55 million, against a target of \$US 63 million. Most of the programs approved at the post-Tokyo and Lisbon Donor Council meetings will be left with small balances at the end of the fiscal year, as their activities move to completion (see annex 1). The exceptions are health and infrastructure. The infrastructure program is currently disbursing fast, and it is estimated that activities will be completed by early 2002. The health program suffered delays in procurement for major works caused by staff turnover and new procedures early this year: these problems have now been resolved, and all available funds under the health program should be fully utilised by the end of 2001.

10. **Employment-generation.** In addition to their reconstruction objectives, the TFET-financed projects have generated substantial employment. Over the past year, it is estimated that over 1.6 million person-days of work were generated (equivalent to keeping slightly over 6,500 workers employed full time for one year). This employment safety net for poor families, primarily in rural areas, is an important benefit of the reconstruction program. It will continue over the transition and should assist in absorbing the impending loss of demand caused by the withdrawal of international personnel.
11. **Problems encountered.** Continued progress in implementation has not been easy. Some of the UNTAET/ETTA project management units set up to manage TFET programs have suffered from rapid turnover in personnel, both Timorese and international. Most programs have faced a trade-off between capacity-building for new Timorese staff and rapid service delivery. This situation will improve somewhat as ETTA recruitment stabilises, but remains a challenge in coming months. The introduction of new government procedures for procurement initially caused some delays, as turnaround times and relations to IDA/ADB procedures were resolved. Some project components, which required more complex institutional arrangements - such as the agricultural service centres - have been rescheduled to give sufficient time to build these institutions, bringing forward faster labour-intensive components.
12. **Programs approved in the Brussels workprogram.** The lessons above have been taken on board in the design of the second generation programs approved in Brussels. Since Brussels, new programs have been signed for community empowerment, and prepared and appraised for water and sanitation, health, education, emergency infrastructure and agriculture. These programs build on the first generation projects, continuing physical rehabilitation and economic recovery efforts while at the same time strengthening capacity-building and laying the groundwork for longer-term policy development. Drawing lessons from the first programs, they emphasise simple institutional arrangements and procurement instruments, and make provision for TFET-funded staff to boost the capacity of project management units. The principal design components of the programs approved at Brussels are laid out in the technical appendices.
13. **Moving towards an integrated budget.** The Brussels donor council meeting urged further integration between the TFET and the recurrent budget, to ensure the sustainability of TFET programs. This was taken on board by the multi-donor joint sector missions, which were timed to coincide with CFET budget preparation. The missions assisted sector departments and the Central Fiscal Authority to produce budget submissions and analyse future recurrent liabilities created by TFET or bilateral reconstruction programs. This has permitted more accurate forward budget projections, informing debates on fiscal sustainability. Recurrent funding of road maintenance remains an issue and raises questions about the future shape of the road network.
14. **Coordination.** The last six months have seen a number of multi-donor sector missions take place, strengthening coordination between the TFET and other bilateral and multilateral programs. Full sector missions have been conducted in education, health and agriculture, with extensive consultation in the infrastructure sector. These missions have helped to build a common understanding of sectoral objectives, priorities and problems, and have minimised gaps or duplication between reconstruction initiatives.

III. What is needed in the next six month workprogram?

15. The workprogram for the next six months focuses on physical infrastructure, through supplemental grants to agriculture, infrastructure and education. The workprogram was developed under a context of TFET financial constraints (discussed in section V). It does not therefore include all activities which could be conducted if funds were freely available, but it does reflect the priorities of Cabinet given scarce resources.⁴ If only part of the financing required to start these activities is forthcoming, the supplemental grant agreements will be prioritised in the order shown in table 1.

Table 1. Proposed Work Programme July – December 2001

Activities	Expected date of Grant Agreements	Grant Agreement * \$US million
Agriculture supplemental I	1 December 2001	3.0
Infrastructure supplemental I	1 December 2001	3.0
Education supplemental I	1 December 2001	3.0
Agriculture supplemental II	1 December 2001	3.0
Infrastructure supplemental II	1 December 2001	6.0
Education supplemental II	1 December 2001	3.0
Operating Costs	1 December 2001	1.0
Total		22.0

*Grant agreements may vary by 20% above or below proposed amounts at the discretion of the Trustee and Recipient, without recourse to the TFET Donors Council

16. The activities covered by this work-programme are laid out below.

Agriculture supplement I (\$US 3 million). This will provide funding for the rehabilitation of the port at Hera and associated training in fisheries (\$US1 million); and rehabilitation of 8 irrigation schemes in 3 districts - Baucau, Viqueque and Bobonaro (\$US 2 million). The rehabilitation of irrigation schemes will include physical rehabilitation of systems, and training for farmers in community management to improve access to inputs, maintenance and marketing of crops. The **Agriculture supplement II (\$US 3 million)** will provide for the rehabilitation of more complex irrigation schemes at Seical, Maliana and Oatalari, following feasibility studies (already funded in previous TFET project) to ensure that they are economically viable.

Infrastructure supplement I (\$US 3 million). The supplementary funding will intensify and extend the objectives of the ADB TFET Emergency Infrastructure Rehabilitation Project, and focus on stabilising the road network, leaving it in a condition which can be maintained. The Project will devote this supplemental funding to (i) further sustainable road works to reduce the annual emergency rehabilitation requirement, (ii) support to establishment of a road maintenance regime, (iii) detailed engineering, and (iv) project management services and training. The **Infrastructure supplement II (\$US 6 million)** will continue these activities.

⁴ Cabinet met on 16th May to prioritise new grant agreements, under agreed sectoral programs, to be proposed to the donors' council in Canberra. The Trustee explained that funding for the full \$US31.0 million indicative work programme presented in Brussels for July - December 2001 would be difficult to mobilise over this period. It was recommended that Cabinet cut at least \$US10.0 million from the indicative work programme presented at Brussels. Cabinet recommended postponing request for funds for microfinance II and community empowerment III, on the basis that these projects would have sufficient cashflow to run until the beginning of 2002.

Education supplement I (\$US 3 million). This will provide for the construction of “Escola basicas” in three – four districts. The Escola Basica is an integrated primary and junior secondary school, covering grades 1 – 6 and grades 7 – 9. The second education project will have already constructed or remodelled these schools in ten districts: the supplement makes it possible to construct in the three remaining districts and start construction or remodelling at sub-district level. The **Education supplement II (\$US 3 million)** will continue this work in more populous sub-districts which experienced highest destruction. Selection of school after district capitals are completed will depend on the results of the school mapping exercise now taking place.

IV What will be the main challenges in implementing this workprogram?

17. The TFET programs face two main challenges in the next semester. The first of these is the trade-off between institution-building and service delivery. All the TFET projects have faced difficulties in finding the right balance between achieving rapid service delivery and building Timorese institutional capacity for the longer-term. This has evolved in different ways in different sectors. For example, in education, agriculture and infrastructure, reconstruction has accelerated markedly in the past six months but is ahead of work on longer-term policies, plans and financing. Conversely, in the health sector good progress has been made in policy development, institutional capacity building and setting service standards, but implementation of core rehabilitation has suffered delays.
18. Less pressure on project timelines over the next year, as more government services are functioning, should allow more emphasis on institution and capacity building. The second generation TFET programs have taken into account the views of Timorese counterparts that pressure for fast disbursement in the first generation programs mitigated somewhat against national ownership and skill-building. This is reflected in the design of the second generation programs, most of which have an implementation period of 18 months, allowing for a better balance of capacity-building objectives with outputs and service delivery. Sectors which have made good progress in policies, institutions and management capacity-building should focus on improving service delivery performance; sectors which have a longer way to go in institutional capacity-building will need to make this a priority in the coming months.
19. The second challenge will be to maintain progress in implementation during the political transition. At the time of the distribution of documents for the Canberra meeting, arrangements for executive decision-making during and immediately following the campaigning and electoral season were not yet decided. Whilst project management units are capable of ensuring consistent technical management, effective implementation often depends on rapid decision-making at a higher level to troubleshoot the diverse problems which inevitably arise in a post-conflict environment. Any weakening of executive authority over the transitional period, given the fragile nature of the new government institutions, thus poses a risk for implementation progress. The fundamental political transformation which will occur over the coming months also poses a risk of lack of ownership of TFET programs by the new government, as some national counterparts change and international counterparts progressively withdraw. The two Banks are maintaining consultations with a wide range of Timorese stakeholders and counterparts to minimise these risks.

V. What financial constraints does the TFET face?

20. Under IDA rules, the Trustee may only sign grant agreements after receipt of cash or promissory notes: these form the TFET's "commitment authority". The project cycles for the TFET, like all capital projects, involve a rising disbursement profile to accommodate necessary procurement and institutional-set up activities at the beginning of each project. To make this cycle work, commitment authority must be requested several months in advance of project start-up to allow for certainty in project preparation and appraisal. Transfer of funds must occur before the signing of grant agreements. These funds will then be spent over the project cycle, normally peaking 6-9 months into project implementation.
21. **Commitment authority required.** As of May 31st 2001, twelve grant agreements had been signed for a total of \$US 95.4 million. Operating expenses totalling \$US 1.9 million net of interest has been withdrawn by the Trustee for use by IDA and ADB. A further six programs approved at Brussels are in final appraisal or negotiations, bringing the total commitment authority necessary to proceed with the Brussels workprogram to \$US 140.3 million. The addition of the Canberra workprogram brings this total to \$US 162.3 million.

Table 2. Existing and Scheduled TFET Grant Agreements

Activity/Project/Grant	Grant Agreement Date	Grant Agreement \$US million
Human Resources Survey	18 January 2000	0.4
Community Empowerment	21 February 2000	9.0
Dili Community Employment	3 April 2000	0.5
Emergency Infrastructure (ADB)	5 April 2000	27.8
Small Enterprise [1]	13 April 2000	4.9
Health [1]	6 June 2000	12.7
Education [1]	21 June 2000	13.9
Agriculture [1]	21 June 2000	6.8
Water and Sanitation	15 August 2000	4.5
Microfinance [1] (ADB)	15 December 2001	4.0
Economic Capacity Building	26 February 2001	0.5
Community Empowerment [2]	21 May 2001	8.5
Interest Income		(2.3)
Project Preparation and Supervision		4.2
Sub Total		95.4
<i>Pending Agreements approved by Brussels Donors Council</i>		
Water and Sanitation	–	4.5
Education [2]	–	13.9
Emergency Infrastructure (ADB)	–	2.0
Small Enterprise [2]	–	7.5
Health [2]	–	11.0
Agriculture [2]	–	6.0
Total Work Program from Lisbon, Tokyo and Brussels		140.3
<i>Canberra workprogram</i>		
Agriculture supplemental I & II		6.0
Infrastructure supplemental I & II		9.0
Education supplemental I & II		6.0
Operating Costs		1.0
Total Work Program from Lisbon, Tokyo and Brussels		162.3

22. Table 3 presents the actual and pending pledges and contributions to TFET. The accumulated commitment authority by the end of May 2001 is \$US 118.4 million. This includes amounts from four new contribution agreements signed since the Brussels Meeting – UK for \$US 2.9 million, Finland for \$US 1.5, Norway for \$US 1 million and Australia for \$US 1.5 million. Realisation of other pledges has been somewhat slow over the past six months.

Table 3. Actual and pending TFET Pledges and Contributions (\$US million equivalent)

Donor	Pledges	Contribution Agreement	Cash Received or Promissory Notes Lodged ^(a)
Portugal ^(b)	50.0	50.0	50.0
European Commission ^{(c)(d)}	51.5	15.9	15.9
Japan TFET	26.0	14.1	14.1
Japan (PHRD) ^(e)	2.0	2.0	2.0
Australia ^(f)	12.4	12.4	12.4
World Bank	10.0	10.0	10.0
United Kingdom ^(d)	7.4	7.4	7.4
Finland	3.0	3.0	3.0
Norway	2.0	2.0	2.0
United States of America	0.5	0.5	0.5
Ireland	0.4	0.4	0.4
IDA-PCF	0.4	0.4	0.4
New Zealand	0.3	0.3	0.3
Total commitment authority by 31 May 2001			118.4
Commitment authority needed including Brussels workprogram			140.3
Financing deficit for Brussels workprogram			21.9
<i>Pending agreements</i>			
Japan ^(d)	-	11.9	11.9
European Commission ^(b)	-	17.8	17.8
Total commitment authority pending			148.1
Commitment authority needed including Canberra workprogram			162.3
Financing deficit for Canberra workprogram			14.2

^(a) This constitutes TFET Commitment Authority

^(b) Portugal has contributed \$US15 million in cash and lodged promissory notes of \$US35 million

^(c) A second agreement with the European Commission for \$17.8 million is pending. The commission has not yet confirmed budget allocation of the remainder of the pledge to TFET, and the amount allocated will not be available as commitment authority in the period of this workprogram.

^(d) For pledges made before June 2000, when pledge was in a non-dollar currency; amounts not received have been converted at exchange rates of the first contribution agreement.

^(e) Japan's pledge was \$US28 million of which \$US2 million was awarded from the Japanese-funded Policy and Human Resource Development Trust Fund (PHRD) prior to establishment of the TFET.

^(f) Australia has also contributed \$US 650,000 in co-financing of the first TFET education program.

23. This leaves a gap of \$US 21.9 million to complete the activities endorsed at the Brussels Donor Council meeting. The contributions agreements necessary to close this gap are already in process. A contributions agreement for \$US 11.9 million with the government of Japan is pending. Budget allocation has been confirmed for a second grant agreement with the European Commission for an estimated \$US 17.8 million, and the transfer is expected in two tranches over the next four months. The preparation of second generation projects endorsed at Brussels has been timed to allow for a smooth transition from one phase to the other. Appropriate timing of donors' contribution will therefore be key if a gap between the end of one phase and the beginning of the next is to be avoided, in particular for the infrastructure, health and small enterprises programs.
24. Endorsement of the Canberra workprogram will increase commitment authority needed to \$US 162.3 million. This leaves a deficit of \$US 14.2 million to be financed at or shortly after Canberra. This is lower than the amount given in the background paper to the Canberra Donors' Meeting primarily because of agreement that the last \$US 10 million of the contribution from the Government of Portugal - which has been the largest contributor to the Trust Fund to date - may be used as commitment authority for the current workprogram⁵. A further contribution from the Government of Australia received after release of the background paper has also helped to close the gap. Further efforts to bridge the deficit will be dependent on new pledges from donors. If sufficient funds are not received, activities will be delayed into next year following the order of priority determined by Cabinet and outlined in section III.
25. In summary, the TFET faces two types of financial constraint at the time of the Canberra meeting. Firstly, the timing of contributions is critical: if existing pledges are not rapidly realised, it will not be possible to proceed with several pending grant agreements, including some of those endorsed by the Brussels Donor Council. Secondly, even after the transfer of funds against existing pledges, \$14.2 million in new pledges and commitment authority would be necessary to complete all the activities proposed to the Canberra Donors Council.

⁵ The last promissory note lodged by the Government of Portugal is for 2003. Although this may be used as commitment authority, it may cause cashflow problems for projects completing their activities before the end of 2002. IDA is currently considering extending closing dates of projects to accommodate this constraint.

VI. What does this mean for the achievement of core reconstruction goals?

26. The TFET was designed to provide for the core reconstruction needs identified after the post-ballot violence, in conjunction with activities financed by other multilateral and bilateral donors. The Canberra meeting, almost 18 months after the establishment of the TFET, is a good opportunity to examine how far this core reconstruction has progressed.
27. Monitoring progress against the broad reconstruction program presented at the Tokyo meeting in December 1999 is complicated by three factors. Firstly, baseline data collection (such as the joint poverty assessment – see box), and detailed design and feasibility studies for the more complex reconstruction exercises, are refining the activities and costs presented at the beginning of the reconstruction program. In some cases these may limit reconstruction activities in order to ensure sustainability of interventions; in others new priorities or higher unit costs emerge. Several of these activities are still on-going – for example, school mapping – and a full picture of the sustainable level of core reconstruction activities will not be available until this work is finished.

East Timor: Poverty Assessment
A Partnership of the ETTA, ADB, World Bank and UNDP

The National Planning and Development Agency (NPDA), part of ETTA, together with ADB, the World Bank and UNDP are currently working on a Poverty Assessment Study that should ensure the timely availability of reliable poverty data. The Poverty Assessment Study comprises the design, conduct and analysis of three types of data.

(A) Survey of Sucos (Villages): This survey has been conducted in all 500 villages in the country. Data has been collected on (i) population, access to infrastructure (electricity, water supply, irrigation, roads, markets); (ii) availability of health and education services; (iii) humanitarian and reconstruction programs operating in the sucos; (iv) other aspects of the local economy.

(B) Household Survey: The survey will identify the key characteristics of poor households, to understand the determinants of income, assess constraints which prevent poorer households from raising their living standards and evaluate the impact of social and economic projects and programs on the poor. Data will be collected from approximately 1500-2000 households.

(C) Participatory Poverty Assessment: The primary objective of this assessment, which will complement the two quantitative surveys, is to further understand the nature, causes and consequences of poverty in East Timor. Detailed research will be conducted in around 25 communities on the constraints faced by the poorest families.

28. Secondly, even in Tokyo the TFET comprised less than half of the funds pledged for reconstruction. The gradual coming on stream of more bilateral programs is changing the components planned for TFET projects, where bilateral programs are supporting some core reconstruction activities. The multi-donor sector missions have assisted in co-ordinating this, but some activities in which bilateral donors have expressed interest are not yet confirmed. This evolving balance between TFET and bilateral programs will affect the balance of reconstruction needs which TFET must address.
29. Lastly, the line between reconstruction and development is not always black and white. Many of the sectors have aimed to combine quality improvements and reform of the previous system into their core reconstruction programs. This is logical: it would not make sense to perfectly reconstruct the previous system if a more suitable one can be built instead. In addition, elapsed time creates new needs which are not directly related to the post-ballot violence. In the two years after the ballot, population growth alone has produced a further 40,000 school children who need to be accommodated in the school

system. This means that there is not a sequential process where all reconstruction is completed before any forward-looking, developmental activities occur.

30. Some general conclusions can however be drawn on activities outstanding. Once the program activities financed by the Canberra workprogram have been completed (at end 2002 or early 2003), some sectors will have fully attained their reconstruction goals and moved into a development mode. This applies to agriculture, where the irrigation rehabilitation contained in the Canberra supplements will complete core physical rehabilitation. It should also be true for the health sector, provided that a co-financing agreement currently under discussion with the European Commission is finalised to complete hospital rehabilitation. Finalising the sustainable level of educational infrastructure reconstruction will depend on the school mapping exercise: it is clear that the current workprogram will still leave some educational infrastructure needs outstanding. The water and sanitation service and the roads sector will have completed their core reconstruction goals after the Canberra supplements are completed, although these are of course sectors which will require developmental interventions for many years to come.

31. With regard to community and private sector reconstruction – which are as central to the overall TFET portfolio as the core public sector programs – the picture is mixed. With funding on both the community empowerment program and the microfinance program postponed during Cabinet discussions on the Canberra workprogram, the two programs will urgently require additional resources early in 2002 if they are to complete their initial objectives and avoid cutting back planned activities. Private sector recovery for larger enterprises is however already well underway, and the small enterprise program is unlikely to need any further support after completion of the project currently being negotiated.

VII. What are the priorities post-independence?

32. Canberra also offers an opportunity to look forward to the post-independence period, and the role of a coordinating mechanism such as the TFET. The reconstruction program is not itself dependent on the political timetable. However, it is desirable that reconstruction activities continue smoothly over the independence period and beyond to support continuity and social stability. Financing and implementing what remains of the core reconstruction program is thus the first priority.
33. Looking ahead at the additional challenges posed after independence, two things stand out. Firstly, whilst aid coordination in East Timor has been very strong by post-conflict standards, the ratio of project-based to programmatic aid is still fairly high. An opportunity exists to support the new East Timorese government in developing an integrated growth and poverty reduction program which provides a basis to further strengthen the aid coordination process.
34. Secondly, analysis of aid flows shows that East Timor faces a potentially large imbalance between capital and recurrent programming, with significant inflows for development projects but scarce resources to support the core operations of government. This often means that development gains are lost because insufficient funds are available to staff or maintain facilities. While domestic revenues are rising, they are not projected to meet expenditures until mid-decade. Containing fiscal pressures and prioritising scarce resources will thus continue to be important after independence. It is important that a post-independence growth and poverty reduction strategy be accompanied by a medium-term expenditure framework, which matches planned activities to resource constraints. Within this type of sustainable framework, donor-financed budgetary support will be vital to maintain the social and economic gains made since the crisis, and to support the new government to be a credible force for development in the difficult years immediately after independence.
35. IDA is looking to concentrate its own post-independence programme towards a strong national poverty reduction program and associated medium-term expenditure framework, and will seek to dialogue with Timorese leadership and international partners over the coming weeks and months to discuss this approach.

IV. Donors' Council Approval of the TFET Work Program

36. I recommend to the Donors' Council that it approves the proposed work programme for commitments listed in Table 1. Projects will be signed as funds become available according to the priority order established by the ETTA Cabinet.

Klaus Rohland
Representative of the Trustee

Annexe

1. TFET Disbursements to Date

Technical Appendices

1. TFET Project Overviews

Annex 1 – Disbursements to date

TFET Projects to date (All figures are in \$US million)	Grant Agreement Date	Grant Agreement Value	Cumulative Disbursement by 30 June 2001	Balance as of 30 June 2001
Human resources Survey	18-Jan-00	0.40	0.38	0.02
Community Empowerment [1]	21-Feb-00	9.00	8.28	0.72
Dili Community Employment	3-Apr-00	0.50	0.49	0.01
Emergency Infrastructure (ADB)	5-Apr-00	27.80	13.50	14.30
Small Enterprise [1]	13-Apr-00	4.85	3.71	1.14
Health [1]	6-Jun-00	12.70	3.24	9.46
Education [1]	21-Jun-00	13.90	10.34	3.56
Agriculture [1]	21-Jun-00	6.80	4.42	2.38
Water and Sanitation [1] (ADB)	15-Aug-00	4.50	3.77	0.73
Microfinance [1] (ADB)	15-Dec-01	4.00	0.97	3.03
Economic Capacity Building	26-Feb-01	0.50	0.10	0.40
Community Empowerment [2]	21-May-01	8.50	1.10	7.40
Project Preparation and Supervision		4.20	4.20	
Total (agreed to date)		97.7	54.5	43.2

Trust Fund for East Timor (Summary)
Progress Against Disbursement Targets as of May, 2001

