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**MEMORANDUM OF THE PRESIDENT  
OF THE  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
TO THE EXECUTIVE DIRECTORS  
ON A  
TRANSITIONAL SUPPORT STRATEGY  
OF THE  
WORLD BANK GROUP  
FOR  
EAST TIMOR**

**November 3, 2000**

East Timor, Papua New Guinea and Pacific Islands Unit  
East Asia and Pacific Regional Office

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## **ABBREVIATIONS AND ACRONYMS**

AAA	Analytical and Advisory Activities
ADB	Asian Development Bank
AusAID	Australian Agency for International Development
BNU	Banco Nacional Ultramarino
CAP	Consolidated Inter-Agency Appeal
CAS	Country Assistance Strategy
CEP	Community Empowerment and Local Governance Project
CNRM	National Council of Maubere Resistance
CNRT	National Council of Timorese Resistance
CTF	Consultant Trust Fund
CY	Calendar Year
DFID	UK Department For International Development
DCEGP	Dili Community Employment Generation Project
ETTA	East Timor Transitional Administration
ECHO	European Community Humanitarian Office
ESW	Economic and Sector Work
ESRP	Emergency School Readiness Project
FALINTIL	Armed Forces for the National Liberation of East Timor
FRETILIN	Revolutionary Front for an Independent East Timor
FAO	United Nations Food and Agriculture Organization
FY	Fiscal year of East Timor: July 1- June 30
INTERFET	International Force for East Timor
JAM	Joint Assessment Mission
JICA	Japan International Cooperation Agency
NCC	National Consultative Council
NGO	Non Governmental Organization
OTI	Office of Transition Initiatives (of USAID)
PKF	Peace Keeping Forces
QIP	Quick Impact Project
SEP	Small Enterprises Project
TFET	Trust Fund for East Timor
TSS	Transitional Support Strategy
UDT	Timorese Democratic Union
UNAMET	United Nations Assistance Mission in East Timor
UNCHS	United Nations Center for Human Settlements
UNDP	United Nations Development Programme
UNFPA	United Nations Fund for Population Activities
UNHCR	United Nations High Commissioner for Refugees
UNOPS	United Nations Office for Project Services
UNSC	United Nations Security Council
UNICEF	United Nations Children's Fund
UNTAET	United Nations Transitional Administration in East Timor
USAID	United States Agency for International Development
WHO	World Health Organization

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# **East Timor Transitional Support Strategy**

## **Executive Summary**

i. East Timor is at a key juncture in its transition to statehood. The violence that laid waste to much of the territory in September 1999 has passed, although militia incursions from West Timor (Indonesia) have yet to be halted, and over 100,000 refugees remain across the border. Inside East Timor security is generally good; economic activity has begun to recover, and the United Nations Transitional Administration in East Timor (UNTAET) has agreed to power sharing arrangements with the East Timorese in the first steps towards self governance. The first elections, leading to a transition to full independence, are expected to occur before the end of 2001.

ii. The World Bank became involved early in the East Timorese transition, and the International Development Association is the trustee of the multi-donor Trust Fund for East Timor (TFET), managed in coordination with the Asian Development Bank (ADB). The TFET currently has pledged contributions of more than US\$160 million for reconstruction and development projects, approximately 45% of total estimated 3-year reconstruction needs. Under TFET funding, the World Bank has mobilized sector programs and projects in the areas of community empowerment, health, education, small enterprise development, agriculture and community employment. All TFET programs are guided by the principles of maximum East Timorese leadership and participation; effective donor coordination; and achieving the correct balance between fulfilling short and long term needs.

iii. In addition to TFET a second Trust Fund has been established by donors, mainly to finance the recurrent cost of the administration of East Timor. Both Trust Funds are complementary, and the success of TFET financed operations is crucially dependent on the provision of recurrent cost for the administration of East Timor. The IMF through its ongoing policy advice has been instrumental in supporting this integrated view, and the establishment of the Central Fiscal Authority in the second quarter of CY 2000 has been an important achievement in this regard.

### **Key Challenges**

iv. The state of affairs in East Timor is similar to that in some other post-conflict situations in which the World Bank has conducted rapid assistance programs, such as West Bank/Gaza, Bosnia/Herzegovina, Kosovo and Rwanda. Some lessons learnt from these operations are applicable to East Timor, but there are also substantive differences. In a positive sense, East Timor does not face internal conflict and the political leadership is relatively unified on crucial economic and reconstruction issues. The degree of destruction of basic infrastructure was however much greater, the institutions of the state suffered total collapse, and a strong cadre of East Timorese public sector managers are not yet in place. Security remains a long-term concern. UNTAET has a key role to play in building East Timorese institutions and effecting a transition of authority to the East Timorese. A critical challenge for the World Bank is to effectively complement the UN administration as a principal counterpart during the transitional period, while at the same time actively working with East Timorese society to achieve East Timorese ownership of the reconstruction agenda.

v. The context in which the World Bank operates is thus characterized by: (i) relatively strong, developmentally-oriented counterparts at the political level; (ii) weak institutional counterparts for project implementation and fragile financial control systems; (iii) pressing needs for rapid reconstruction activities in an environment where much of the normal transport and

communications infrastructure has been rendered non-operational, and; (iv) a large inflow of foreign aid.

vi. There is a strong inter-relation between political stability and economic development. Recovery of incomes and employment opportunities will be key to stability during the political transition. In the longer-term, sustained and equitable growth will be necessary to reduce high poverty rates. It is essential that externally-financed programs during the immediate post-conflict period find an appropriate balance between speedy provision of basic needs, sustainable private sector recovery and the creation of strong governance structures.

### **The World Bank's Transitional Support Strategy**

vii. The World Bank's Transitional Support Strategy is underpinned by five key objectives. These are:

*In the selection of activities for World Bank support:*

1. **In the short term, focus on the basics:** social safety nets, private sector recovery, provision of health and education. Through the Trust Fund for East Timor and other non-TFET resources, the World Bank will support programs during the transitional period for restitution of services in health and education, agricultural recovery, loans and training for East Timorese entrepreneurs, labor-intensive public works and economic activities at community level, and assistance to vulnerable groups and ex-combatants.<sup>1</sup> TFET resources will be disproportionately allocated into rural and productive sectors to counteract economic distortions caused by the presence of the international community. Projects will be designed using simplified technical and financial control mechanisms, with an emphasis on anti-corruption activities.

2. **As the transition approaches, help prepare for independence:** provide key macro-economic and baseline social data, undertake analysis of policy and options, and build institutional capacity. Through its program of economic and sectoral work, the World Bank will support data collection and policy analysis in the areas of export development, agricultural productivity, management of oil and gas revenues, the regulatory framework for investment, poverty reduction strategies and the fiscal implications of civil service reform. Through the TFET projects, resources will be made available for the development of policy options in health and education and for capacity-building to the central fiscal authority.

*In the way the World Bank works:*

3. **Build local ownership of the development process** at all levels, including the continuation of joint project planning and supervision missions, wide consultation with East Timorese leadership and civil society, and transparent and accessible financial and physical reporting.

4. **Foster effective donor coordination.** The World Bank will continue to support the Government in the application of a simplified comprehensive development framework, and sector-wide programming exercises.

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<sup>1</sup> The rehabilitation of transport, power, and water systems, which is also a critical area of basic reconstruction, is led by the Asian Development Bank under the TFET co-management agreement.

5. **Sequence interventions well to match program implementation with institutional capacity building and political developments**, including geographical flexibility in project implementation, progressive transfer of more project management functions to the public sector, and the allocation of resources to protect against economic instability during the political transition.

### **Conclusion**

viii. This Transition Support Strategy presents a framework for the activities of the World Bank until such time as East Timor becomes eligible to apply for membership of the IBRD/IDA. This is expected after East Timorese elections lead to full independence, envisaged to occur around the end of 2001. Once East Timor becomes a member of the World Bank Group a full Country Assistance Strategy would be presented to the Board of Directors that would supersede this Transitional Support Strategy.

## **I. Background**

1. East Timor comprises the eastern part of the island of Timor, the enclave of Oecussi (in the north-west), the island of Atauro (off the northern coast of Timor), and the island of Jaco (off the extreme eastern tip). The Portuguese arrived in Timor in the early sixteenth century, establishing settlements to exploit the island's sandalwood reserves. In 1701 the territory was established as a colony of Portugal, with a governor installed at Lifau on the north-western coast (now the enclave of Oecussi). The island was also coveted by the Dutch, who established a trading fort in the harbor of Kupang. The current border between East and West Timor (which remains a province of Indonesia) was established by treaty between Portugal and the Netherlands in 1913, after 250 years of intense rivalry for control of the island by these two European powers.

2. United Nations General Assembly Resolution 1542 (XV) of December 15, 1960 listed Portuguese administered "Timor and dependencies" as a non-self-governing territory within the meaning of Chapter XI of the Charter. Portugal accepted this position in 1974, and initiated a process of self-determination for the future of the territory. Political changes in Portugal in 1974 brought in a new government favoring complete and rapid withdrawal from its colonies.

3. In October of 1975 a coup by the Timorese Democratic Union (UDT) led to a brief period of civil war in the territory. The Portuguese civilian and military authorities withdrew to the island of Atauro, and East Timor came under the control of the Revolutionary Front for an Independent East Timor (FRETILIN), that declared independence. On December 7 of that year Indonesian forces invaded East Timor. In 1976, asserting that the people of East Timor had requested Indonesia "to accept East Timor as an integral part of the Republic of Indonesia", Indonesia enacted a law to incorporate East Timor as part of its national territory. The UN rejected this claim, and continued to recognize Portugal as the administering power of East Timor. Despite a huge numerical disadvantage FALINTIL, the armed wing of FRETILIN, retained control of over half the territory from 1975-1977. Up to 200,000 East Timorese civilians died as a consequence of the invasion and substantial numbers fled the territory, establishing strong Diaspora communities in Australia, Mozambique and Portugal.

4. Following the death or capture of the majority of its internal leaders in the late 1970s, the resistance movement retrenched and reformed in the 1980s. FALINTIL separated formally from FRETILIN in 1987 so that the armed struggle would not be constrained by partisan politics. De-linking of the armed forces also permitted increased cooperation between the main political parties who had been in competition at the time of the Indonesian occupation, under an increasingly unified pro-independence platform. The National Council of Maubere Resistance (CNRM) was set up as a political umbrella organization in 1987, and was transformed into the present day National Council for Timorese Resistance (CNRT) in 1998.

5. An international outcry following the 1991 massacre of over 200 civilians in Santa Cruz cemetery in Dili, together with the award of the 1996 Nobel Peace Prize jointly to Bishop Belo and Jose Ramos-Horta, repositioned the question of East Timor on the international community's agenda. With the appointment of Kofi Annan as UN Secretary General, talks between Portugal, Indonesia and the United Nations aiming at reaching an internationally acceptable solution to the conflict were revived. The economic crisis which engulfed South East Asia in the latter half of 1997 provoked a political crisis in Indonesia in the early part of 1998 that led to the resignation of President Suharto in May. On January 27, 1999, President Habibie announced that Indonesia was willing to grant the East Timorese people a choice between a special autonomy arrangement within Indonesia or a transition to independence.

## **II. Recent Developments**

### **The popular consultation and the establishment of UNTAET**

6. On May 5, 1999, Portugal, Indonesia and the UN reached an agreement on the modalities of this 'popular consultation'.<sup>2</sup> Following this agreement the UN Security Council authorized the United Nations Mission in East Timor (UNAMET) to organize and oversee the ballot.<sup>3</sup> Postponed once because of the security conditions in the territory, the popular consultation took place on August 30, 1999. About 99 percent of eligible voters took part in the ballot, with 78.5% of them rejecting the special autonomy proposal.<sup>4</sup> The announcement of the results triggered an orchestrated campaign of violence which resulted in the destruction of almost all physical infrastructure in East Timor. Many people were killed, and hundreds of thousands were displaced from their homes, both internally and to West Timor and neighboring Indonesian islands. During the violence FALANTIL remained within their agreed cantonment area which was critical in averting an escalation of the conflict.

7. The United Nations Security Council, with the agreement of the Government of Indonesia, authorized a multinational force (INTERFET) to restore peace and security in East Timor, under a unified command structure led by Australia.<sup>5</sup> The first elements of the force arrived on September 20. The United Nations Transitional Administration in East Timor (UNTAET) was established pursuant to United Nations Security Council Resolution 1272 (1999) of October 25, 1999. On February 28, 2000 the Australian led INTERFET force formally handed over the responsibility of the Peacekeeping operation to blue beret UNTAET troops.

8. The United Nations launched a large-scale emergency humanitarian relief effort, including assistance for the voluntary repatriation of refugees. To finance this effort, a Consolidated Inter-Agency Appeal (CAP) was launched on October 27 1999, and has to date resulted in donor contributions of over \$158 million for humanitarian initiatives. By early December 114,000 refugees had returned to East Timor, while over 120,000 remained outside.

### **The beginning of reconstruction and World Bank involvement**

9. World Bank involvement with the transitional process in East Timor began with the allocation of responsibility for forward planning in the territory to the Papua New Guinea and Pacific Islands Country Unit in February 1999. At that time, the World Bank established close contacts with the East Timorese leadership and the United Nations Department of Political Affairs that was responsible for the preparation of the consultation process. The Bank participated in a study of social and economic conditions in East Timor led by Columbia University and initiated a dialogue with Timorese leadership on reconstruction planning in anticipation of the August ballot. In August 1999 five East Timorese economists came to Washington for training in reconstruction planning.

10. On September 29, 1999 a meeting in Washington of donors, UN agencies and East Timorese representatives supported the World Bank's role in donor coordination, and endorsed a proposed Joint Assessment Mission (JAM) to East Timor. The JAM visited East Timor in October/November 1999. The mission identified priority reconstruction objectives and provided

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<sup>2</sup> The 'New York Agreements', comprising of an Overall Agreement and two supplementary agreements on modalities of the ballot and security arrangements.

<sup>3</sup> Security Council Resolution S/RES/1246 (1999).

<sup>4</sup> UN Press Release No. SC/6721.

<sup>5</sup> Security Council Resolution S/RES/1264 (1999).

estimates of external financing needs. The JAM adopted a comprehensive development framework approach, covering eight sectors, to form an integrated framework of priority interventions. The mission incorporated international technical expertise from five donor countries, the European Commission, UN agencies, the Asian Development Bank and the World Bank. East Timorese technical experts were paired with international experts in each sector. A concurrent mission of the International Monetary Fund accompanied the JAM to contribute to the macroeconomic assessment and recommendations. Close cooperation between the IMF and the World Bank to synchronize development funding with fiscal exigencies has been a cornerstone of the strategy since then.

***Box 1. The Trust Fund for East Timor***

- Following a legal opinion from the General Counsel<sup>6</sup> the Board of Executive Directors decided that World Bank assistance to East Timor during the transition to independence was in the best interests of the member nations of the World Bank. On December 9, 1999 the Trust Fund for East Timor (TFET) was established and the Board agreed to recommend to the Board of Governors the transfer of \$10 million of net income for use in East Timor.<sup>7</sup> At the Tokyo conference on December 17, 1999 donors endorsed the dual trust fund model (UNTAET/World Bank) as a coordination mechanism. Of the \$520 million over three years pledged at Tokyo, \$148 million was initially earmarked for TFET. TFET pledges have subsequently risen to \$166 million, sufficient to cover 45% of the estimated 3 year requirements. TFET cash receipts totaled \$48.9 million at end-October, with disbursements at almost \$15 million. Contribution agreements had been completed covering over US\$ 110 million.
- TFET priorities are determined every six months by key East Timorese counterparts. The first six month work plan was endorsed on January 14, 2000 by CNRT technical groups and the NCC, and was subsequently presented to the January 24, 2000 donors meeting for approval. The second six month work plan was endorsed by the NCC on June 9 and approved by the TFET Donor Council on June 21.
- The TFET resolution and amendment mandate TFET to be used for grant funding for economic development and reconstruction activities. The design of TFET projects has been guided by three overarching principles: (i) maximize East Timorese leadership and participation; (ii) encourage effective donor coordination; and (iii) achieving a balance between short-term and longer term needs.
- Donors also supported the association of the Asian Development Bank in TFET implementation. A Memorandum of Understanding was consequently signed on January 10, 2000 by the two institutions, to establish working arrangements and outline their respective areas of responsibility. The World Bank prepares projects in the sectors of health, education, agriculture (including irrigation), support to small and medium enterprises and economic capacity building, whilst the ADB takes the lead in micro-finance and infrastructure rehabilitation projects including roads, ports, power, water sanitation and telecommunications. Both institutions work together on community development projects.

<sup>6</sup> World Bank Assistance to East Timor: Legal Memorandum by the Acting Vice President and General Counsel, Sec M99-666.

<sup>7</sup> Resolution IBRD99-8 (IDA99-5) The Board of Governors Resolution No. 531 was adopted on March 13, 2000.

11. An International Donors' conference for East Timor was held in Tokyo on December 17, 1999. The findings of the JAM and overall financing requirements for East Timor over three years were presented at this conference.<sup>8</sup> These included: (i) requirements of humanitarian and emergency rehabilitation as identified through the CAP of October 27, 1999; (ii) budgetary support requirements, and; (iii) medium to long-term needs as identified by the JAM. Donors responded positively to this coordinated approach and pledged a total of about US\$ 520 million<sup>9</sup> in assistance to East Timor over three years, in addition to US\$ 700 million per annum reserved for UNTAET from the UN assessed contribution budget. The Tokyo meeting endorsed the concept of a Trust Fund for East Timor for sectoral reconstruction, under the trusteeship of the World Bank (see Box 1), to complement the UNTAET trust fund for recurrent expenditure, equipping the civil service and capacity building. The UN capacity building efforts have also been complemented by various bilateral initiatives, particularly in the areas of government administration and the judiciary (Annex F). By funneling core reconstruction funds through a single channel, TFET minimizes the number of bilateral funding relationships that need to be managed at a time when the local capacity for such management is critically limited.

12. The first full Donor's council review meeting of the TFET was held on June 21, 2000 in Lisbon together with a mid-term Donors meeting co-chaired by the World Bank and UNTAET. Donor countries focussed on the implementation arrangements between stakeholders in East Timor and the progress of the initial work plan. Donors reaffirmed their commitment to funding the priority reconstruction plan in East Timor, and their expectations of seeing a continued emphasis on implementation prior to the next donor's meeting in Brussels in December 2000.

### **III. Political and Economic Context**

#### **Governance structures**

13. **Government.** East Timor has been treated as a provincial outpost for most of its history. Under the Portuguese administration, East Timor was an overseas province of Portugal, controlled by a Portuguese governor (an army colonel) and mostly Portuguese senior officials, army officers, and magistrate-administrators who ran the 13 districts. East Timorese participation in the administration at senior levels was limited.

14. From December 1975 East Timor was administered as a province of Indonesia. Although many middle level and some senior civil servants were East Timorese, the majority of higher ranking officials were Indonesian. The territory had a provincial administrative structure, and none of the normal institutions of a nation state. Under Indonesian occupation, the civil service was characterized by (i) overstaffing: with 28,000 civil servants (nearly 50% higher than the Asia average per capita of population); (ii) multiple layers of bureaucracy; (iii) duplication of functions between line ministries and decentralized departments; (iv) a top down organizational culture, with active military involvement in administrative affairs, little community participation and marginalization of traditional local decision-making structures; (v) low pay levels, encouraging the establishment of legal and illegal fringe benefits; and (vi) widespread corruption and few effective controls.<sup>10</sup>

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<sup>8</sup> United Nations and World Bank 'Overview of External Funding Requirements for East Timor'.

<sup>9</sup> This included \$US 351.5 million in reconstruction funds through bilateral and multilateral sources, \$US 156.7 million in humanitarian funding and \$US 15 million in budgetary support for one year.

<sup>10</sup> East Timor Joint Assessment Mission – Governance Background Paper, November 1999.

15. The United Nations Transitional Administration in East Timor (UNTAET) was established pursuant to United Nations Security Council Resolution 1272 (1999) of October 25, 1999. UNTAET's mandate exceeds that of any previous UN mission. The Transitional Authority has been given overall responsibility for the administration of East Timor and full legislative and executive authority. UNTAET is responsible for security, law and order, the establishment of an effective administration, the provision of services, the co-ordination and delivery of humanitarian, rehabilitation and development assistance. UNTAET has been the recipient of TFET grants as the legal administrative authority.

16. The National Consultative Council (NCC) was established on December 2, 1999 to be the primary vehicle for the people of East Timor to participate in the decision-making process during the early stages of the UNTAET mandate. This council, consisting of ten East Timorese members and four UNTAET officials, was responsible, among other things, for the identification of priority programs and work plans for TFET resources. In October 2000 the NCC was replaced by a National Council (NC) with 36 East Timorese members drawn from the political, religious, NGO and private sectors.

17. UNTAET and the CNRT (see paragraph 21) agreed in June 2000 to the establishment of the East Timor Transitional Administration, a cabinet style government structure with eight portfolios, as a mechanism to increase East Timorese participation in the administration. Under this arrangement East Timorese were appointed to head departments of Internal Administration, Infrastructure, Economic Affairs and Social Affairs.<sup>11</sup> In line with its mandate UNTAET retained the portfolios of Finance, Justice, Police and Emergency Services, and Political Affairs and the Timor Sea. Progress in recruitment of senior East Timorese officials into the civil service lagged in the first three quarters of 2000, constraining capacity-building efforts.

18. Existing social capital in East Timor presents significant resources and opportunities, and a cornerstone of the World Bank's strategy is to focus on this capacity and enable it to drive the reconstruction agenda. East Timorese society presents significant advantages compared to other post conflict situations:

- A society largely unified by the independence struggle and committed to the viability of East Timor as an independent nation;
- Absence of significant internal violence;
- A development-oriented political leadership;
- Absence of an 'aid' culture characterized by long term dependence upon politically motivated assistance;
- Opportunities for strong governance reform due to the collapse of pre-crisis state structures; and
- Demonstrated wide external support for the developing political transition

19. Whilst good managerial potential exists in most sectors, shortages of professionals such as lawyers, doctors and economists need to be successfully addressed during the transition period for a durable development process to continue into independence.

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<sup>11</sup> The cabinet was expanded in October 2000 to include a new portfolio under East Timorese control for foreign affairs.

20. **Civil society.** The main political and civil society actors in East Timor are:

**National Council of Timorese Resistance (CNRT):** The CNRT was established as the peak body of the East Timorese people's resistance to the Indonesian occupation (as a successor to the CNRM) at a convention of 200 delegates in Portugal in 1998. It represents an umbrella group of pro-independence parties, civil society groups and individuals. This conference endorsed Xanana Gusmao as president, even though he was imprisoned in Indonesia at the time. The CNRT is the culmination of a series of stages of development of the resistance movement since 1975. It has since its formation been characterized by a broad and inclusive base (a wide range of parties, civil society groups and political persuasions were represented at the Portugal conference), fairly democratic internal structures (both conference delegates and office bearers were elected) and commitment to the building of a pluralist and democratic East Timor. However, recent months have witnessed some complaints from both internal and external groupings over the representativity and transparency of decision-making within CNRT, together with generational tension between older and younger leadership.

**Political Parties:** The principal political parties in East Timor are the Revolutionary Front for the Independence of East Timor (FRETILIN), the Timorese Democratic Union (UDT), the Social Democratic Party (PSD), the Timorese Socialist Party (PST), the Timorese Nationalist Party (PNT), Association of Heroic Sons of East Timor (KOTA), the Workers Party (Trabalhista), the East Timor People's Front (BRIT), the Popular Democratic Association of East Timor (APODETI), and the Christian-Democrat Union (CDU). FRETILIN and the UDT were the protagonists in the 1975 civil war, but came together in the CNRT to form the core of a united independence movement.

**Civil Society Organizations:** East Timor has a growing network of civil society organizations including the Catholic Church, advocacy and developmental NGOs, women's organizations and youth organizations, labor and employers associations.

21. While no fixed timetable exists for elections in East Timor and a final transition to independence, the earliest date which has been proposed for elections is the end of August 2001, implying a hand over date at the end of 2001. These dates will be dependent upon developments in the establishment of a formal constitution.

#### **Economic situation**

22. Prior to the conflict East Timor was primarily an agricultural economy, with a single significant export (coffee) and approximately 90% of the population living in rural areas. The territory was one of the poorest areas in south-east Asia, with an estimated GDP per capita of \$431 in 1996, and 30% of households – double the average for Indonesia – living below the poverty line. Although official recorded investment per capita ran at approximately double the Indonesian average, access to economic infrastructure and basic social services was lower than any Indonesian province. According to official figures East Timor was heavily dependent on external transfers, with approximately 85% of recurrent and capital expenditure coming from Indonesia, although the actual flow of resources is likely to have been considerably less.<sup>12</sup> The poor developmental outcomes are most probably the result of administrative inefficiencies, a high level of corruption, and the ongoing internal conflict.

23. Both the public and private sectors suffered an almost total collapse as a result of the violence in East Timor. The economy was hit with a dramatic supply shock due to disruption of the

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<sup>12</sup> Report of the Joint Assessment Mission – Summary Paper, November 1999.

agricultural cycle, the destruction of local inventories of basic manufactured goods, the closure of the border with West Timor and the lack of civilian access to port facilities to permit commercial imports from abroad. Acute shortages lead to spiraling prices in Dili, with an ad-hoc price survey indicating an increase in the consumer price index for poor households in Dili of some 200% between August and October 1999. Most buildings and infrastructure in the small modern sector were destroyed and equipment in every bank was ransacked or looted, thereby rendering inoperable all payments systems that enabled the public and private sector entities to pay for salaries, goods and services. The crisis caused a drastic shortage of skilled personnel for the secondary and tertiary sectors as most technical positions were occupied by Indonesians who left the country. As a result GDP is estimated to have fallen 40-45% in 1999 from an already low level.

24. The security situation by the border with West Timor and ongoing difficulties in the relationship with Indonesia have significantly disrupted the flow of tradable goods and services into East Timor. It is also currently impractical for East Timorese to travel to Indonesia to recover their deposits from the eight Indonesian commercial banks that previously operated in the territory. Other issues such as Indonesian assets in East Timor and portability of rights to accrued pension and compulsory savings by East Timorese in the previous administration also need to be addressed. Normalization of relations with Indonesia is of crucial importance for sustainable economic recovery.

25. Between January and July of 2000 there were significant improvements in the economic situation. Bilateral donors, NGOs and UN agencies combined efforts to provide a comprehensive humanitarian relief program that has largely met the immediate humanitarian needs of the population. The economy has also benefited from quick disbursing projects of both TFET and bilateral donors which have provided visible reconstruction activities at the community level. These activities, together with private investment, have had an impact in reducing the social pressures that were evident from unrest in Dili earlier in the year. During the first half of 2000 overall economic activity increased noticeably: over 2300 businesses were registered by the administration. The observed recovery of economic activities is in line with expected GDP growth of at least 15% in FY00/01, led by agriculture, commerce, basic services, and the reconstruction of public and residential buildings. Moreover, long term sectoral reconstruction programs have now started implementation and will have an increasing effect on the recovery of GDP. TFET and other bilateral and multilateral projects are expected to significantly increase disbursement levels in FY00/01.

#### **IV. Key Post-conflict Challenges**

26. Key post conflict challenges in East Timor include:

- **A smooth and durable political transition:** Durable economic recovery will depend on a stable and peaceful political transition. East Timor is fortunate in that it has a high level of internal security: it does not face the internal strife that so often threatens post-conflict countries. However the first multi-party elections will challenge relatively new values of tolerance, peaceful competition and respect for human rights.
- **Effective donor co-ordination:** East Timor is a small country with a development oriented and relatively unified political leadership, which forms an ideal counterpart for the international community. Quite literally, if effective international co-ordination cannot be achieved in East Timor it is doubtful that it is achievable anywhere else. The international

community recognized this early on and have put particular effort in improving co-ordination mechanisms.

- **Building institutions and capacity to allow for timely transition to independence:** East Timor is fortunate in that the nationalist struggle gave rise to a strong and focussed political leadership with a broad based popular support. However the institutions required for the administration of a state have not been developed throughout East Timor's history, and the physical infrastructure, institutional and human capital of the territory were heavily damaged by the violence. As a consequence the UNTAET administration, charged with unprecedented administrative responsibilities,<sup>13</sup> has had to fulfil the functions of an established government in an institutional void. Throughout the transition period it will be vital that the capacity of East Timorese institutions to develop and implement policy and provide public services be developed in pace with the imperative to respond to the needs of the population and make longer-term policy choices.
- **Economic sustainability:** The political and administrative transition in East Timor brings with it substantial economic challenges. Income per capita is at extremely low levels, and the economy will require sustained growth in order to make progress in poverty reduction. Political uncertainty remains a constraint to both foreign and domestic investment. The presence of large numbers of international staff in Dili creates a major demand side distortion, pulling capital and workers from rural areas. This migration will not be easy to reverse after the withdrawal of UNTAET, and could lead to urban unemployment and associated social problems. After independence the economy is likely to face a similar distortion caused by oil and gas revenues: both will require careful management. On the fiscal side, East Timor needs to reduce its primary budget deficit quickly from the high levels associated with the Indonesian occupation.

## V. The World Bank's Transitional Support Strategy in East Timor

27. By the end of August, 2000 the World Bank had signed grant agreements with UNTAET for six projects. These are (i) The Community Empowerment and Local Governance Project; (ii) The Dili Community Employment Generation Project (designed jointly with the ADB); (iii) The Small Enterprises Project; (iv) the Health Sector Rehabilitation and Development Project; (v) the Emergency School Readiness Project; and (vi) the Agricultural Rehabilitation Project. In addition, the ADB had signed grant agreements for (i) the Emergency Infrastructure Rehabilitation and Development Project and (ii) the Water and Sanitation Rehabilitation Project for funding from the TFET. Details of these projects can be found in annex D.

28. The Transition Support Strategy is underpinned by five key objectives that together provide the overall framework for an assistance program during the transition to independence. The framework is intended to complement reconstruction efforts of other development partners, and is based upon priorities determined by the East Timorese. The five objectives are:

### ***In the selection of activities for World Bank support:***

- In the short-term, focus on the basics: protection of the poor, private sector recovery, health and education.*
- As independence approaches, assist the Government and East Timorese civil society to debate key post-independence policy decisions by providing research and capacity building in key policy areas.*

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<sup>13</sup> Security Council Resolution S/RES/1272 (1999).

***In the way the World Bank works:***

- iii. Build local ownership of the development process at all levels.*
- iv. Foster effective donor co-ordination.*
- v. Sequence interventions well in order to match program implementation with institutional capacity-building.*

**i. In the short-term, focus on the basics.**

28. Provision of social safety nets, private sector recovery and effective state provision of health and education services are key to the reduction of poverty and social recovery in the short term. Through the TFET, the World Bank is supporting programs which:

- Provide a short-term social safety net through labor intensive works in rural and urban areas (the Community Empowerment and Local Governance Project; the Dili Community Employment Generation Project) and support to vulnerable groups (the Community Empowerment and Local Governance Project);
- Restore schools to a basic operating level (the Emergency School Readiness Project);
- Restore state-controlled health services, with a focus on primary and preventative care (the Health Sector Rehabilitation and Development Project);
- Support rapid private sector recovery in those sectors which will: (i) be sustainable, and; (ii) benefit the poorest (the Small Enterprises Project and the Agriculture Rehabilitation Project); and
- Invest reconstruction funds disproportionately in rural areas in order to compensate for the demand shock caused by the concentration of the international community in Dili.

**ii. As the transition approaches, help prepare for independence.**

29. As independence approaches, East Timorese society will face a number of new choices and challenges in economic management and sectoral policy. To assist in preparing for a smooth transition to independence, the World Bank will undertake advisory, analytical and capacity-building support to:

- Provide options on key post-independence economic issues through the production of a Country Economic Memorandum, including agricultural productivity, non-oil export development, the management of oil and gas revenues, public finances, anti-corruption issues and the fiscal implications of civil service development;
- Provide data and options for social protection, including assistance to a baseline household survey and the development of a poverty reduction note focusing on protecting the welfare of the poor during the transition to independence;
- Fund Government-executed studies on health policy and financing options (through the Health Sector Rehabilitation and Development Project) and on the post-independence education system and curriculum (through the Second Education Project);
- Train East Timorese civil servants in economic management, through a TFET program to build capacity in the Central Fiscal Authority and Central Payments Office (through the Economic Capacity-building Project); and
- Foster improved ties between developing East Timorese institutions and civil society groups and corresponding bodies in regional countries, including Indonesia.

**iii. Build local ownership of the development process:**

30. Ownership by the East Timorese of the development program is essential, both to ensure the quality of program design and its adaptation to local conditions, and the durability of post-conflict reconstruction programs and policy decisions. In implementing priority activities under the TSS, the World Bank will:

- Continue to conduct fully joint project design and supervision missions, to ensure East Timorese ownership of the process and build capacity on the job;
- Provide transparent and accessible reporting on the financial and physical progress of the Trust Fund for East Timor and other World Bank activities;
- Consult widely with the East Timorese Transitional Administration, East Timorese political leadership and civil society on the prioritization of TFET assistance, and on economic and sector work; and
- Undertake training and capacity-building, particularly in economic management-related issues (through the Economic Capacity-building Project, training associated with economic and sector work, and training within sector projects).

**iv. Foster strong aid co-ordination.**

31. Lessons learned from post-conflict situations (Bosnia and Herzegovina, West Bank and Gaza) have highlighted the importance of aid coordination. Nations emerging from conflict are often characterized by weak institutional mechanisms for coordination which, coupled with the rapid inflow of financial and material inputs, result in duplication and sub-optimal allocation of resources. A central principle of the World Bank's strategy in East Timor is to maximize the effectiveness of the considerable donor resources available in the short term by facilitating the coordination of aid flows.<sup>14</sup>

32. The World Bank will support effective donor coordination in close collaboration with the UNTAET Donor Coordination Unit by:

- Continuing to promote the trust fund structure to leverage effective coordination. The TFET has enhanced donor coordination in the early phase of reconstruction by consolidating approximately 45% of donor reconstruction resources in one fund. In tandem with the UNTAET Trust Fund for recurrent expenditure and civil service capacity building, TFET has provided a mechanism for donors to integrate much of their aid to East Timor, and has been an effective conduit to enable East Timorese control over development priorities. TFET also provides an opportunity to leverage additional coordination through the conduct of sector-wide project supervision missions. As implementation of the reconstruction program progresses, the benefits of TFET as a coordination mechanism are taken for granted, and there is a risk that sometimes donor programs may affect the high degree of coordination. Continued support by a broad range of donors to the TFET and strong commitment to the coordinated approach are crucial for success;
- Applying Comprehensive Development Framework principles from the planning stages of the development program. An overarching multi-sector approach allows appropriate resource allocation and ensures that individual sector programs are consistent with national budget and capacity constraints;

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<sup>14</sup> Annex F - Donor Coordination Matrix

- Promoting sector investment programs. Sector planning matrices were developed for each sector with TFET and bilateral donors in the first half of the year. Multi-donor joint project supervision missions will be implemented at six-monthly intervals, to identify cross-cutting issues in the sector, and update and adjust sector coordination. These will help to minimize demands on scarce counterpart resources and create a shared understanding of key directions and challenges in each sector; and
- Decentralizing operational coordination to the field. The World Bank, together with several of the key donors in East Timor, has strengthened the coordination role of field offices. The World Bank will continue to co-chair Field Donor Coordination meetings with UNTAET to enhance operational coordination between donors.

***Box 2. Donor Coordination in Practice – The Health Sector Rehabilitation and Development Project***

The health sector recovery program provides an example of how aid coordination mechanisms can be built in to project design:

- **The Joint Assessment Mission structure:** International experts from the World Bank, DFID, and WHO were paired with East Timorese representatives to form the assessment team. Despite the tight timeframe, the JAM health team coordinated with representatives of UNICEF, UNFPA, WHO, UNTAET, national and international NGOs, East Timorese Healthcare workers and CNRT representatives. The JAM Health Background document was drafted in coordination with JAM Infrastructure and macro-economic teams who provided cross-sectoral input. The document was widely disseminated prior to the Tokyo donor's conference, and its conclusions received broad based support as indicated by the subsequent donor pledges to TFET.
- **Donor input into program design:** Experts from the EC, AusAID, WHO and the World Bank were included in the Health Program design mission, and again international experts were paired with East Timorese counterparts. The project design was thus endorsed by donors and East Timorese from its earliest stages.
- **Sectoral Programming:** The TFET funded health project has been designed as a core project in an overall health program in East Timor. TFET resources are directed towards reconstruction and development investment and health policy development while UNTAET consolidated budget resources are used to fund recurrent expenditures, complemented by bilateral inputs for specialized services.
- **Joint monitoring missions:** In a first for a World Bank project, bi-annual joint monitoring missions with bilateral donors have been scheduled to monitor progress on the health program in East Timor *as a whole*. This coordinated approach significantly reduces demands on the limited capacity of the interim health authorities for project monitoring, increases shared understanding of priorities and challenges, and provide a mechanism to identify possible duplication of efforts.

v. **Sequence interventions to match program and policy timing with capacity.**

33. While the mandate for political development during the transition to independence is vested with UNTAET, there is a recognized importance that the economic development program be closely coordinated with the changing political environment. This has been underlined by the development experience in Bosnia/Herzegovina and more recently in Kosovo. In practice this means being conscious during the design process of the impact its implementation will have on

the course of political development, and of the institutional context in which it will operate. In planning its activities in East Timor, the World Bank will seek to:

- Recommend the allocation of TFET or other resources to cushion against predictable economic shocks which may occur at delicate periods in the political transition, for example safety net programs following the withdrawal of UNTAET, at the start of the rule of the new independent government;
- Prioritize institution building early. For example, the first TFET project launched was the CEP, which aims to build community level democratic councils which can then be supported as local counterparts across sector and donor initiatives.
- Avoid launching complex projects with policy implications until institutions are in place. Policy-related improvements in education and health, for example, will be primarily addressed in second phase projects after basic physical reconstruction and restoration of public services has been achieved;
- Plan a progressive hand over, linking economic to political development, of project responsibility and sectoral control to the public sector. Development financing will be synchronized with recurrent expenditures in a comprehensive framework that seeks to gradually substitute recurrent financing by donors with revenues; and
- Allow geographical flexibility in project design so that areas that progress faster than others are not constrained by slower areas.

#### **VI. Implementing the TSS: Lessons Learnt to Date.**

34. The World Bank has had an operational presence in East Timor since the Joint Assessment Mission of October/November 1999, arriving six weeks after the arrival of INTERFET. A Chief of Mission was formally appointed on February 1, 2000. Early engagement by the World Bank, the IMF, and other multilateral development institutions has considerably lessened the gap between the emergency relief and development phases of the crisis; planning for the transition has been accentuated by the in-country presence of the traditional development agencies. It remains too early to provide a comprehensive review of the lessons learned in the East Timor reconstruction program, which has been under implementation less than 10 months. It is possible however to highlight some key experiences:

- **Rapid ability to commit funds:** As the ability to commit TFET funds to projects is currently defined by the receipt of cash or promissory notes, time was lost in some cases, even when donor contribution agreements had been signed. When rapid mobilization is essential to stabilize a post-conflict situation, consideration should be given to the feasibility of making funding commitments from trust funds in advance of the actual receipt of contribution funds from the donor. Resource Mobilization and Co-financing, and other concerned units in the Bank, are currently working on this issue.
- **IDA procedures:** The Board Resolution establishing the TFET requires the application of IDA procedures to the processing of grants. OP 8.50 on Emergency Recovery Assistance was applied to the processing of grants, which permits combined identification/preparation/appraisal missions. It has assisted in accelerating project processing, which has taken an average of 3 months compared to around 9 months World Bank-wide. However, difficulties were still encountered due to: (i) the inability to pre-finance the procurement of urgently needed capital goods, such as vehicles and construction

equipment; (ii) the inability to use retroactive financing procedures in East Timor;<sup>15</sup> and (iii) the application of all IDA procedures, as required by the board resolutions, to preparation of projects regardless of the grant amount.<sup>16</sup>

- **Institutional understanding between the World Bank and the UN:** The World Bank and UNTAET began their respective operations in East Timor with differing expectations of the roles each other would play, and some confusion emerged once the focus turned from program design to implementation. In particular, this was related to the mandate of the UN to act as a Government as well as a UN mission. Improved mutual understanding between the institutions of their respective mandates and procedures, and detailed joint planning for project implementation would have averted some tensions.
- **Inclusion of local stakeholders:** Although the representativity of national leaders and organizations can be difficult to measure early on in post-conflict situations, it is imperative that such stakeholders have the means to have real input into economic and political development from an early stage. Perceptions within the East Timorese leadership that real inclusion in the administration was being unnecessarily delayed hampered cooperation in the early part of 2000, and resulted in parallel developmental efforts.
- **Resources required for post-conflict implementation:** World Bank task teams have been required to provide much more comprehensive input to project design and implementation than was foreseen. Task Managers need to spend more time in the field during project design and start-up. Priority must be given to establishing effective communication between project management units and World Bank Task Managers to facilitate the resolution of unpredictable problems that inevitably arise. Communications facilities need to be established fast.
- **Delegation of administrative authority to the field:** The rapidly changing environment demands maximum flexibility to adjust according to the situation on the ground. The concentration of financial control and procurement functions within UN DPKO in New York in the early stage of the operation constrained the functioning of the Governance and Public Administration pillar of UNTAET, which was the World Bank's key counterpart. Without effective delegation of administrative and budgetary authority to the field, the implementation of projects is severely hampered.
- **Balancing short-term and medium-term needs:** It is important to achieve a balance between the short-term urgent needs that require rapid action on the ground and the institution building that is critical for the medium-term development plan. For instance it has been argued that all project management services should be outsourced to mostly internationally hired consultants to increase speed. However, the reconstruction program offers an opportunity for capacity building and strengthening of accountability in the public sector. Failure to do so may result in a long-term imbalance with a weak state as a counterpart to strong international NGOs and agencies. Lessons learnt from Bosnia, Kosovo and Rwanda suggest maintaining a pragmatic approach to be implemented through a variety of partners according to comparative advantage. Implementation of projects in East Timor have thus been designed on a project by project basis with the Transitional Administration as the key counterpart, but involving the private sector and NGOs as appropriate to assist in ensuring rapid implementation.

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<sup>15</sup> IDA normally addresses the need for rapid procurement of capital goods and services through approval of a retroactive financing facility in each project, where government pre-finances the goods and services and is reimbursed once the legal agreement is signed. However, this is not practical in post-conflict countries led by a UN administration, where the administration itself may be strapped for cash and UN procedures do not permit commitment of funds before a legal agreement is signed.

<sup>16</sup> In hindsight drafting of the resolutions to allow some TFET funds to be used for small emergency grants would have been helpful.

- **Need for a strong communication strategy:** Lack of counterpart capacity has created an enormous external relations challenge as the World Bank seeks to engage with multiple partners, many of whom it is institutionally unfamiliar with. A comprehensive communication and outreach strategy for TFET has been developed that is providing monthly updates and a range of informal outreach activities to Timorese civil society stakeholders. During 2001, the Bank will support a wider communication strategy with the East Timorese population on reconstruction issues through the use of rural radio (through the second CEP), and through support to district and local workshops on reconstruction issues.

35. Lessons learned thus far in East Timor have provided valuable input into the design of second phase projects, currently underway. However a more comprehensive review of the joint operational experiences of the World Bank in collaboration with its partners would be extremely valuable as a tool to improve institutional responses to future post-conflict situations.

## VII. Key Risks

36. **Security and unrest.** As with many post conflict situations, ongoing security concerns continue to place World Bank supported activities at risk. Incursions by pro-integrationist militias from West Timor continue to impede reconstruction programs in the western provinces of Covalima and Bobonaro. While these activities are low level, there has been a notable failure to curb militia activities in the camps in West Timor and previous hopes that such violence would quickly cease have been disappointed. Failure to close the camps in West Timor and reintegrate refugees back into East Timorese society will undoubtedly hinder economic development. Furthermore, after the UN withdrawal East Timor will need to provide its own security arrangements that will not overburden a fragile national budget. Persistent tensions across the border will contribute to difficulties in attracting foreign investment. In the early stages of the reconstruction program there was sporadic civil unrest in Dili. Increasing civil unrest during the lead up to elections is a possibility that political leaders continue to address.

37. **Failure to develop counterpart capacity.** The importance of developing East Timor's political, economic and social institutions cannot be overstated. In the nascent stages of this process institutions are especially vulnerable, and corrupt and inefficient practices can take root. Progress in East Timor will be closely monitored by potential international investors, and confidence in the economy and access to investment capital is likely to be fragile for some time. Grasping the opportunity for extensive civil service capacity-building and early efforts to develop the role of Timorese civil society are key. The Community Empowerment and Local Governance project in particular has been designed to develop a culture of accountability and respect for democratic principles.

38. **Stalling of economic recovery.** As the stimulus provided by reconstruction expenditures inevitably declines continued growth will be dependent upon private sector expansion. If this expansion does not meet expectations there is a risk that economic growth will stall. In this scenario, support for UNTAET or the post-independence government could weaken and the continuing reintegration of refugees will become more problematic. Poor governance or poor implementation associated with the aid program could also result in reduced external support, which could jeopardize fiscal sustainability.

## **VIII. Concluding Remarks**

39. Although the devastation of 1999 shattered the territory, it also left in its wake a people united, a chance to rebuild institutions afresh and a profound enthusiasm to succeed in becoming a peaceful, independent nation. The international community must capitalize on the opportunities offered by the situation in East Timor to build a solid base for a successful transition. While there has been enormous progress since September 1999, there are numerous pitfalls on the road ahead to full economic and political independence. The transition period will be characterized by a level of international interest and support that presents a double edged sword: without external help the nascent East Timorese institutions of governance may flounder, but massive support poorly invested is likely to result in weak and opaque government perpetually dependant upon international aid. The World Bank's involvement in East Timor thus far has demonstrated that the World Bank can act rapidly and flexibly when called upon, and can build effective development partnerships in demanding circumstances. This Transitional Support Strategy serves as a guiding document by which the World Bank will continue to mobilize its resources to assist the East Timorese as they move into the final phase before independence.

James D. Wolfensohn  
President

By: Sven Sandström

Washington, D.C.  
November 3, 2000

September 30, 1999

## WORLD BANK ASSISTANCE TO EAST TIMOR

### Legal Memorandum by the Acting Vice-President and General Counsel<sup>16</sup>

This memorandum addresses the question of the legal status of the territory of East Timor and the legal basis of World Bank assistance to East Timor.

#### Historical Background

East Timor comprises the eastern part of the island of Timor, the enclave of Oé-Cusse Ambeno (in the northwest), the island of Atauro (off the northern coast), and the island of Jaco (off the extreme eastern tip). The capital is Dili.

East Timor had been under Portuguese rule since the sixteenth century. In 1951 East Timor became an "overseas province" and was regarded as an integral part of the Portuguese State. Under the Overseas Organic Law of 1972, the territory was formally designated an "autonomous region of the Portuguese Republic". Resolution 1542 (XV) of December 15, 1960, of the United Nations General Assembly listed territories then under the administration of Portugal (including "Timor and dependencies") as non-self-governing territories within the meaning of Chapter XI of the Charter. Portugal accepted this position in 1974. In July 1975 the Portuguese Government promulgated Constitutional Law 7/75, which provided for the formation of a Transitional Government in East Timor to prepare for the election of a Popular Assembly in October 1976. The Popular Assembly was to be responsible for determining the future status of the Territory.

Following internal disturbances in East Timor, on August 27, 1975, the Portuguese civil and military authorities withdrew from the mainland of East Timor to the island of Atauro. On December 7, 1975, the armed forces of Indonesia intervened in East Timor. On December 8, 1975, the Portuguese authorities departed from the island of Atauro, and thus left East Timor altogether. Since their departure, East Timor has remained under the effective control of Indonesia. Asserting that on May 31, 1976, the people of East Timor had requested Indonesia "to accept East Timor as an integral part of the Republic of Indonesia", on July 17, 1976, Indonesia enacted a law incorporating East Timor as part of its national territory. The claim that East Timor had been integrated into Indonesia was rejected by the United Nations, which continued to recognize Portugal as the administering power of East Timor as a non-self-governing territory under Chapter XI of the Charter. The Secretary-General of the United Nations has been engaged for years in a continuous effort, in consultation with all parties directly concerned, to achieve a comprehensive settlement of the problem.

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<sup>16</sup> Distributed to the Executive Directors on September 30, 1999.

On May 5, 1999, the Governments of Indonesia and Portugal signed an agreement on the question of East Timor (the Overall Agreement), which was witnessed by the Secretary-General of the United Nations. On the same date, two supplementary agreements, one on the modalities for a popular consultation of the East Timorese and one on security arrangements, were entered into among the Governments of Indonesia and Portugal, and the Secretary-General of the United Nations. (These supplementary agreements, together with the Overall Agreement, constitute the so-called "New York Agreements".)

Pursuant to the Overall Agreement, the parties requested the Secretary-General to put to the East Timorese people a proposed constitutional framework (attached as an appendix to the Overall Agreement) for special autonomy for East Timor within the unitary Republic of Indonesia, "for their consideration and acceptance or rejection through a popular consultation on the basis of a direct, secret and universal ballot" (Article 1). The Overall Agreement further provides that, if the East Timorese accepted the proposed constitutional framework, the Government of Indonesia would initiate the constitutional measures necessary for its implementation, and the Government of Portugal would initiate within the United Nations the procedures necessary for the removal of East Timor from the list of non-self-governing territories of the General Assembly, and the deletion of the East Timor question from the agendas of the Security Council and the General Assembly (Article 5).

On the other hand, if (as turned out to be the case) the proposed constitutional framework was not acceptable to the East Timorese people, Article 6 of the Overall Agreement requires that: (1) the Government of Indonesia takes the constitutional steps necessary to terminate its link with East Timor thus restoring under Indonesian law the status East Timor held prior to July 17, 1976; (2) the Governments of Indonesia and Portugal and the Secretary-General agree on arrangements for a peaceful and orderly transfer of authority in East Timor to the United Nations; and (3) the Secretary-General initiates, subject to the appropriate legislative mandate, the procedure enabling East Timor to begin a process of transition towards independence.

The popular consultation took place on August 30, 1999. On September 3, 1999, the United Nations Secretary-General informed the Security Council that the people of East Timor had rejected the special autonomy proposed by Indonesia by a majority of 78.5 per cent.<sup>17</sup> The next step under Indonesian law is that Indonesia terminates its links with East Timor as provided in said Article 6.

### **World Bank-Financed Activities in East Timor**

Under its lending program in Indonesia, the World Bank has financed agricultural, community health and nutrition, education, rural electrification, highways and labor intensive components in East Timor as part of projects covering all provinces of Indonesia or the Eastern region of Indonesia. The World Bank started to finance such activities after consulting Portugal and without prejudice to any claim of a member country.

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<sup>17</sup> See United Nations Press Release SC/6721.

## World Bank's Future Role

For purposes of the consideration of future World Bank activities in East Timor, three phases in the evolution of the status of East Timor may be identified which are significant from a legal point of view:

- Phase 1: no transfer of authority to the United Nations has yet occurred (this being the current situation).
- Phase 2: the authority in the territory is transferred to the United Nations.
- Phase 3: East Timor achieves independence and has not yet become a member of the IMF and the World Bank.

During Phase 1, the Governments of Indonesia and Portugal, and the Secretary General are to agree on arrangements for a peaceful and orderly transfer of authority in East Timor to the United Nations. During this phase, the Government of Indonesia is required to take the constitutional steps necessary in order to terminate its links with East Timor. It is uncertain how long this phase will last, but it does not present legal issues from the perspective of using World Bank resources or facilities in a non-member country because, irrespective of the precise definition of the current status of East Timor, the fact remains that both countries involved, namely Indonesia and Portugal, are members of the Bank and IDA. World Bank activities could continue in the territory in the same way as in the past, and in consultation with the parties to the New York Agreements.

The details regarding the transition to Phase 2, during which the authority in the territory will be vested in the United Nations, are currently being worked out among the Governments of Indonesia and Portugal and the Secretary-General. During this phase, and subject to the appropriate mandate, the Secretary-General will initiate the process leading to East Timorese independence. The exact status of East Timor during this phase will need to be assessed in light of the decision reached by the three parties.

During Phase 3, when East Timor is an independent country, East Timor will not be part of any member of the Bank and IDA, whether as the 27<sup>th</sup> province of Indonesia or as a non-self-governing territory under the administration of Portugal. This being the case, it is useful to refer to the legal analysis in the recent Legal Memorandum on World Bank Assistance to Kosovo.<sup>18</sup> It is explained there that, according to the Bank's Articles of Agreement, the primary purpose of the Bank is "to assist in the reconstruction and development of territories of *members*."<sup>19</sup> The Bank is also required to use its resources and facilities "exclusively for the benefit of *members*."<sup>20</sup> While it is clear from these provisions that Bank assistance is to be rendered to or for the benefit of its members, the

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<sup>18</sup> R99-178, Annex 1.

<sup>19</sup> Article I (i) of the Bank's Articles of Agreement. (Emphasis added.) Article I of IDA's Articles of Agreement contains a similar provision.

<sup>20</sup> Article III, Section 1 (a) of the Bank's Articles of Agreement. (Emphasis added.) Compare the similar provision in Article V, Section 1 (a) of IDA's Articles of Agreement, which reads as follows: "The Association shall provide financing to further development in the less-developed areas of the world included within the Association's membership."

Bank has developed mechanisms allowing the Bank, in exceptional cases, to assist non-members, while at the same time acting within the Articles' mandate.

World Bank assistance to non-member countries, or territories with a special status, has been provided to the (then) Soviet Union, West Bank and Gaza, and Bosnia and Herzegovina, and is proposed for Kosovo.<sup>21</sup> In all cases, the overriding consideration that ultimately led to the extension of Bank assistance was that the latter was to benefit the Bank's members, and in each case the benefits were identified and explained to the Executive Directors before the assistance was provided. The Executive Directors have the power to interpret the Articles of Agreement (Article IX), and their approval to assist in these situations confirmed that in their view the assistance to be provided was of benefit to the Bank and its members. The approval by the Executive Directors of assistance to East Timor within this framework would be required for any type of assistance, whether it is of a financial nature or is of a technical character or simply involves the administration of funds of others as trustee.

Financial assistance to non-member countries, or territories with a special status, has been provided through trust fund arrangements, e.g. trust funds provided by bilateral, multilateral or other donors and administered by the Bank as a trustee, or trust funds financed from the Bank's own resources, such as from net income and/or surplus, and administered by the Bank itself or IDA. The actual agreements providing for the assistance after establishment of the trust fund were entered into with the prospective member country,<sup>22</sup> or, in the case of territories with a special status, with bodies designated by the territories' local authorities.<sup>23</sup>

To conclude, a legal framework for the future governance of East Timor will need to be developed in the future after Indonesia, Portugal and the United Nations, pursuant to the Overall Agreement, agree on arrangements for a peaceful and orderly transfer of authority in East Timor to the United Nations. Under these circumstances, the modalities of World Bank assistance to East Timor will need to be developed and implemented in parallel with the development of the legal framework for the governance of East Timor. Although neither the Bank nor IDA is a party to the New York Agreements, the nature, objectives and instruments for World Bank assistance should be consistent with this legal framework, with due account being taken of the rights and obligations of all parties involved.

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<sup>21</sup> As requested by Executive Directors, the Legal Memoranda, distributed to the Board on the occasion of proposed assistance to the Soviet Union, West Bank and Gaza, and Kosovo, are attached for information [NB these documents are not attached]

<sup>22</sup> The Resolution establishing the technical assistance trust fund for the Soviet Union referred to agreements the Bank would enter into with the USSR to provide for the general terms and conditions for technical assistance.

<sup>23</sup> The administrator of the trust fund for Gaza was to enter into agreements with the Palestinian Economic Council for Development and Reconstruction, the agency designated by the Palestinian Authority as the appropriate agency.

# United Nations

S/RES/1272 (1999)

25 October 1999

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## RESOLUTION 1272 (1999)

Adopted by the Security Council at its 4057th meeting,  
on 25 October 1999

The Security Council,

Recalling its previous resolutions and the statements of its President on the situation in East Timor, in particular resolutions 384 (1975) of 22 December 1975, 389 (1976) of 22 April 1976, 1236 (1999) of 7 May 1999, 1246 (1999) of 11 June 1999, 1262 (1999) of 27 August 1999 and 1264 (1999) of 15 September 1999,

Recalling also the Agreement between Indonesia and Portugal on the question of East Timor of 5 May 1999 and the Agreements between the United Nations and the Governments of Indonesia and Portugal of the same date regarding the modalities for the popular consultation of the East Timorese through a direct ballot and security arrangements (S/1999/513, annexes I to III),

Reiterating its welcome for the successful conduct of the popular consultation of the East Timorese people of 30 August 1999, and taking note of its outcome through which the East Timorese people expressed their clear wish to begin a process of transition under the authority of the United Nations towards independence, which it regards as an accurate reflection of the views of the East Timorese people,

Welcoming the decision of the Indonesian People's Consultative Assembly on 19 October 1999 concerning East Timor,

Stressing the importance of reconciliation among the East Timorese people,

Commending the United Nations Mission in East Timor (UNAMET) for the admirable courage and determination shown in the implementation of its mandate,

Welcoming the deployment of a multinational force to East Timor pursuant to resolution 1264 (1999), and recognizing the importance of continued cooperation between the Government of Indonesia and the multinational force in this regard,

Noting the report of the Secretary-General of 4 October 1999 (S/1999/1024),

Noting with satisfaction the successful outcome of the trilateral meeting held on 28 September 1999, as outlined in the report of the Secretary-General,

Deeply concerned by the grave humanitarian situation resulting from violence in East Timor and the large-scale displacement and relocation of East Timorese civilians, including large numbers of women and children,

Reaffirming the need for all parties to ensure that the rights of refugees and displaced persons are protected, and that they are able to return voluntarily in safety and security to their homes,

Reaffirming respect for the sovereignty and territorial integrity of Indonesia,

Noting the importance of ensuring the security of the boundaries of East Timor, and noting in this regard the expressed intention of the Indonesian authorities to cooperate with the multinational force deployed pursuant to resolution 1264 (1999) and with the United Nations Transitional Administration in East Timor,

Expressing its concern at reports indicating that systematic, widespread and flagrant violations of international humanitarian and human rights law have been committed in East Timor, stressing that persons committing such violations bear individual responsibility, and calling on all parties to cooperate with investigations into these reports,

Recalling the relevant principles contained in the Convention on the Safety of United Nations and Associated Personnel adopted on 9 December 1994,

Determining that the continuing situation in East Timor constitutes a threat to peace and security,

Acting under Chapter VII of the Charter of the United Nations,

1. Decides to establish, in accordance with the report of the Secretary-General, a United Nations Transitional Administration in East Timor (UNTAET), which will be endowed with overall responsibility for the administration of East Timor and will be empowered to exercise all legislative and executive authority, including the administration of justice;

2. Decides also that the mandate of UNTAET shall consist of the following elements:

(a) To provide security and maintain law and order throughout the territory of East Timor;

(b) To establish an effective administration;

(c) To assist in the development of civil and social services;

(d) To ensure the coordination and delivery of humanitarian assistance, rehabilitation and development assistance;

(e) To support capacity-building for self-government;

(f) To assist in the establishment of conditions for sustainable development;

3. Decides further that UNTAET will have objectives and a structure along the lines set out in part IV of the report of the Secretary-General, and in particular that its main components will be:

(a) A governance and public administration component, including an international police element with a strength of up to 1,640 officers;

(b) A humanitarian assistance and emergency rehabilitation component;

(c) A military component, with a strength of up to 8,950 troops and up to 200 military observers;

4. Authorizes UNTAET to take all necessary measures to fulfil its mandate;

5. Recognizes that, in developing and performing its functions under its mandate, UNTAET will need to draw on the expertise and capacity of Member States, United Nations agencies and other international organizations, including the international financial institutions;

6. Welcomes the intention of the Secretary-General to appoint a Special Representative who, as the Transitional Administrator, will be responsible for all aspects of the United Nations work in East Timor and will have the power to enact new laws and regulations and to amend, suspend or repeal existing ones;

7. Stresses the importance of cooperation between Indonesia, Portugal and UNTAET in the implementation of this resolution;

8. Stresses the need for UNTAET to consult and cooperate closely with the East Timorese people in order to carry out its mandate effectively with a view to the development of local democratic institutions, including an independent East Timorese human rights institution, and the transfer to these institutions of its administrative and public service functions;

9. Requests UNTAET and the multinational force deployed pursuant to resolution 1264 (1999) to cooperate closely with each other, with a view also to the replacement as soon as possible of the multinational force by the military component of UNTAET, as notified by the Secretary-General having consulted the leadership of the multinational force, taking into account conditions on the ground;

10. Reiterates the urgent need for coordinated humanitarian and reconstruction assistance, and calls upon all parties to cooperate with humanitarian and human rights organizations so as to ensure their safety, the protection of civilians, in particular

children, the safe return of refugees and displaced persons and the effective delivery of humanitarian aid;

11. Welcomes the commitment of the Indonesian authorities to allow the refugees and displaced persons in West Timor and elsewhere in Indonesia to choose whether to return to East Timor, remain where they are or be resettled in other parts of Indonesia, and stresses the importance of allowing full, safe and unimpeded access by humanitarian organizations in carrying out their work;

12. Stresses that it is the responsibility of the Indonesian authorities to take immediate and effective measures to ensure the safe return of refugees in West Timor and other parts of Indonesia to East Timor, the security of refugees, and the civilian and humanitarian character of refugee camps and settlements, in particular by curbing the violent and intimidatory activities of the militias there;

13. Welcomes the intention of the Secretary-General to establish a Trust Fund available for, inter alia, the rehabilitation of essential infrastructure, including the building of basic institutions, the functioning of public services and utilities, and the salaries of local civil servants;

14. Encourages Member States and international agencies and organizations to provide personnel, equipment and other resources to UNTAET as requested by the Secretary-General, including for the building of basic institutions and capacity, and stresses the need for the closest possible coordination of these efforts;

15. Underlines the importance of including in UNTAET personnel with appropriate training in international humanitarian, human rights and refugee law, including child and gender-related provisions, negotiation and communication skills, cultural awareness and civilian-military coordination;

16. Condemns all violence and acts in support of violence in East Timor, calls for their immediate end, and demands that those responsible for such violence be brought to justice;

17. Decides to establish UNTAET for an initial period until 31 January 2001;

18. Requests the Secretary-General to keep the Council closely and regularly informed of progress towards the implementation of this resolution, including, in particular, with regard to the deployment of UNTAET and possible future reductions of its military component if the situation in East Timor improves, and to submit a report within three months of the date of adoption of this resolution and every six months thereafter;

19. Decides to remain actively seized of the matter.

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**RESOLUTION ESTABLISHING THE TRUST FUND FOR EAST TIMOR**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**RESOLUTION No. 99 - 8**

**RESOLUTION No. IDA 99 - 5**

**TRUST FUND FOR EAST TIMOR  
AND USE OF THE WORLD BANK FACILITIES  
TO ASSIST EAST TIMOR**

**WHEREAS:**

- (A) it is desirable to promote the purposes of the Bank and the Association (together "the World Bank) by using World Bank facilities to assist East Timor and by establishing a Trust Fund for East Timor (TFET), administered by the Association, in order to finance an emergency reconstruction and recovery program in East Timor;
- (B) the Executive Directors of the Bank have proposed to the Board of Governors of the Bank to adopt a resolution authorizing the transfer from surplus of \$10 million to the TFET; and
- (C) the Association is prepared to establish the TFET, to be trustee thereof and administer it on the terms and conditions set forth in this Resolution;

**NOW THEREFORE** it is hereby resolved:

That World Bank facilities may be used to assist East Timor, and

That, subject to the adoption by the Board of Governors of the Bank of the proposed resolution referred to in paragraph B of the Preamble:

1. The TFET is hereby established as a trust fund of the Association, constituted of the funds which shall from time to time be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the TFET.
2. The Association shall hold and administer such funds, assets and receipts in trust (in such capacity, the Trustee) for the benefit of the member countries of the Association by providing emergency reconstruction and recovery assistance for East Timor consistent with the Association's purposes; the Trustee shall manage and use such funds, assets and receipts only for the purpose of, and in accordance with, the applicable provisions of the Articles of Agreement of the Association and the provisions of this Resolution, keeping them separate and apart from all other accounts and assets of the Association. The Trustee shall exercise the same care in the discharge of its functions under this Resolution as it exercises with respect to its own affairs and shall have no further liability

in respect thereof. The privileges and immunities accorded to the Trustee shall apply to the property, assets, archives, income, operations and transactions of the TFET.

3. All amounts credited by the Bank to the TFET shall be used exclusively by the Trustee for the purpose of financing emergency reconstruction and recovery assistance in East Timor in the form of grants.

4. The Association shall enter into agreements with appropriate public and private entities to be identified as the recipients of grants, pursuant to such terms and conditions as may be provided pursuant to this Resolution.

5. The Trustee shall establish and maintain appropriate records and accounts to identify the resources of the TFET, the commitments and the reimbursement of expenditures to be financed out of the TFET, and the receipts and disbursements of funds in the TFET.

6. Pending the disbursement of financing from the TFET, the Trustee may invest funds held in the TFET in accordance with the investment authority of the Association. The income from such investments shall be credited to the TFET.

7. (a) The Trustee shall, as soon as practicable after the end of each fiscal year of the Association, furnish to the Executive Directors of the Association: (i) a report on projects financed from the TFET; and (ii) a management assertion together with an attestation from the Trustee's external auditors on the satisfactory performance of the procedures and controls used by the Trustee in administering trust funds. The costs of such attestations shall be borne by the Trustee.

(b) If all funds in the TFET have not been fully committed within three years from the effective date of this resolution, any remaining assets of the TFET shall, unless the Trustee decided otherwise by decision of its Executive Directors, be transferred to the Association.

(c) After all commitments from the TFET shall have been fully disbursed, the Trustee shall as soon as practicable furnish to the Bank a report on the operations financed from the TFET.

8. The Trustee is authorized to enter into arrangements, on such terms as shall be determined by the Trustee, with members of the Bank in order to co-finance assistance activities on a parallel basis with the TFET.

9. The functions of the Association as Trustee of the TFET shall terminate, except for action necessary for winding up the activities of the TFET in an expeditious and orderly manner, as the Executive Directors of the Association may decide. On the termination of the TFET pursuant to this paragraph, any surplus assets of the TFET shall be forthwith transferred to the Association.

**RESOLUTION AMENDING THE TRUST FUND FOR EAST TIMOR**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**RESOLUTION NO. 99-8/1**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**RESOLUTION NO. IDA 99-5/1**

**AMENDMENT TO THE TRUST FUND FOR EAST TIMOR**

**WHEREAS:**

(A) the Trust Fund for East Timor (TFET) was established by Resolution No. 99-8 and Resolution No. IDA 99-5 (the TFET Resolution) of the Executive Directors of the International Bank for Reconstruction and Development (the Bank) and the International Development Association (the Association), respectively, in order to finance an emergency reconstruction and recovery program in East Timor;

(B) the Executive Directors of the Association and the Bank expressed the desire to have the TFET Resolution modified to provide that the TFET be a multi-donor trust fund to accept contributions from bilateral and other donors as well as transfers from surplus from the Bank and to provide that both the Association and the Asian Development Bank (ADB) will act as implementing agencies under the TFET (the Implementing Agencies); and

(C) each of the Association and the ADB is prepared to perform the functions designated to it as set forth in this Resolution, subject to the approval of their respective governing bodies;

**NOW THEREFORE** it is hereby resolved that the TFET Resolution be amended and restated as follows:

**A. Establishment of the TFET**

1. The TFET is hereby established as a trust fund of the Association, constituted of the funds which shall from time to time be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the TFET.

2. The Association shall hold and administer such funds, assets and receipts in trust (in such capacity, the Trustee) and the Trustee shall manage and use such funds, assets and receipts only for the purpose of, and in accordance with, the applicable provisions of the Articles of Agreement of the Association and the provisions of this Resolution, keeping them separate and apart from the assets of the International Bank for Reconstruction and Development (IBRD) and the Association, but may commingle them with other trust fund assets maintained by the IBRD or the Association.

3. The Trustee is authorized to accept contributions to the TFET from IBRD and from other contributors. The Trustee shall enter into a contribution agreement with each such other contributor, in form and substance satisfactory to the Trustee, whereby each such contributor shall agree to pay its contribution to the TFET in accordance with the terms of this Resolution. Contributions to the TFET shall be denominated in United States Dollars or other currencies acceptable to the Trustee.

4. The Trustee shall exercise the same care in the discharge of its functions under this Resolution as it exercises with respect to its own affairs and shall have no further liability in respect thereof. The privileges and immunities accorded to the Association shall apply to the property, assets, archives, income, operations and transactions of the TFET.

5. All contributions to the TFET (collectively the "Contribution Funds") will be accounted for as a single trust fund. The Contribution Funds may be freely exchanged by the Trustee into other currencies as may facilitate their administration and disbursement.

**B. Payment of Contributions to the TFET**

6. Payment of each contribution shall be made as follows:

- (a) Payment shall be made in the form of cash, non-interest bearing notes or other similar obligations payable on demand and to the order of the Association, as Trustee of the TFET, and deposited with the depository of the Association in the member country concerned, or in the case of a non-member country contributor, as directed by the Trustee.
- (b) Payment of the full amount of each contribution shall be made at such time and in such manner as shall be agreed by the Trustee.

**C. Administration of the TFET**

7. The Trustee may invest the Contribution Funds pending their disbursement in any instrument in which the Trustee is authorized to invest its own funds. The Trustee shall credit any investment income to the TFET for use for the same purposes as the contributions to the TFET. In order to assist in the defrayment of the costs incurred by the Trustee with respect to the administration of the TFET, the Trustee is entitled to retain for its own account an amount equal to one percent of the Contribution Funds. In addition, in order to assist in the defrayment of the costs incurred by the Implementing Agencies with respect to the TFET since January 1, 2000, the Trustee may retain an amount up to five percent of the Contribution Funds calculated over the life of the TFET. The Trustee shall transfer to the Implementing Agencies amounts to which they are entitled pursuant to this paragraph in the manner agreed between the Trustee and the Implementing Agencies.

8. The Trustee shall establish and maintain appropriate records and accounts to identify the resources of the TFET, the commitments to be financed out of the TFET, and the receipts and disbursements of funds in the TFET.

9. The Trustee shall, as soon as practicable after the end of each fiscal year of the Trustee, furnish to the Executive Directors of the Association, the ADB and each of the contributors to the TFET: (a) a report on the operations financed from the TFET; and (b) a financial statement with respect to the TFET, together with a management assertion and

an attestation from the Association's external auditors on the satisfactory performance of the procedures and controls used by the Association in administering trust funds. The costs of such attestations shall be borne by the Trustee.

**D. Work Program and Allocation of Resources**

10. Each contributor to the TFET shall be entitled to appoint a representative to the TFET Donors' Council. The Implementing Agencies shall jointly submit to the TFET Donors' Council, at least semi-annually, a work program indicating projects and programs proposed to be funded from the TFET, the amount of TFET funding proposed for each such project and program, the identity of the proposed recipient of the TFET funding, and the identity of the Implementing Agency proposed to be responsible for such project and program. The amount of TFET funding proposed in a work program may not exceed the aggregate amount of contributions provided for in contribution agreements between the Trustee and contributors plus the amount of any contributions from IBRD and any investment income earned thereon, less aggregate amounts retained by the Trustee pursuant to Section 7 herein and of funding approved in prior work programs.

11. The TFET work programs shall be subject to the approval of the TFET Donors' Council at a meeting of the TFET Donors' Council and the Trustee shall only provide financing from the TFET for those projects and other activities in accordance with work programs that have been approved by the TFET Donors' Council. Decisions of the TFET Donors' Council shall be made, if possible, by consensus. In the absence of a consensus, each contributor shall be entitled to one vote for each United States dollar equivalent, as determined by the Trustee, of its paid-in contribution to the TFET and matters requiring a decision of the TFET Donors' Council shall be decided by the majority of the votes cast by contributors represented at the meeting of the TFET Donors' Council. Contributors represented at a meeting of the TFET Donors' Council holding a majority of all the votes of the contributors shall constitute a quorum for the transaction of business at a meeting of the TFET Donors' Council.

12. Each of the Implementing Agencies shall be solely responsible to the contributors for the use of TFET resources for the projects for which such Implementing Agency is responsible and the Association, in its capacity as Trustee, shall have no responsibility to the contributors for the actions of the Implementing Agencies.

**E. Operation of the TFET**

13. Except as otherwise provided in this Resolution, all amounts credited to the TFET shall be used exclusively for the purpose of making grants out of the resources of the TFET to recipients for projects and programs approved by the TFET Donors' Council for the purpose of financing reconstruction, recovery and development activities in East Timor.

14. In the case of the projects and programs for which the ADB is the Implementing Agency, the Trustee shall transfer the TEFT resources approved by the TEFT Donors' Council for those projects as agreed between the Trustee and the ADB.

15. Grants made by the Association, as Implementing Agency, shall be subject to the following:

- (a) each grant shall be administered in accordance with the applicable procedures of the Association;

- (b) each grant shall be evidenced by a separate agreement between the recipient and the Association, indicating in particular that the resources have been provided from the TFET;
- (c) grants will be denominated in United States Dollars; and
- (d) the selection and recruitment of consultants, and the procurement and financing of expenditures for goods, services and other items of expenditure under the grant agreement shall be done in accordance with the World Bank "Guidelines for Selection and Employment of Consultants by World Bank Borrowers" dated January 1997, revised in September 1997 and January 1999 and the World Bank "Guidelines for Procurement under IBRD Loans and IDA Credits" dated January 1995, revised January and August 1996, September 1997 and January 1999, except that the definition of "member countries" therein for purposes of such recruitment and procurement shall include East Timor and all donors and members of international organizations that have provided Contribution Funds to the TFET.

16. Grants made by the ADB, as Implementing Agency, shall be subject to the following:

- (a) each grant shall be administered in accordance with the applicable procedures of the ADB;
- (b) each grant will be evidenced by a separate agreement between the recipient and the ADB, indicating in particular that the resources have been provided from the TFET;
- (c) grants will be denominated in United States Dollars; and
- (d) the selection and recruitment of consultants, and the procurement and financing of expenditures for goods, services and other items of expenditure under the grant agreement shall be done in accordance with the ADB's procedures, except that the definition of "member countries" for purposes of such recruitment and procurement shall include ADB's members, East Timor, and all donors and members of international organizations that have provided Contribution Funds to the TFET.

**F. Termination of the TFET**

17. The functions of the Association as Trustee of the TFET shall terminate, except for any action necessary for winding up the activities of the TFET in an expeditious and orderly manner, as the Executive Directors of the Association may decide. On the termination of the TFET pursuant to this paragraph, except as each contributor and the Trustee may otherwise agree, the Trustee shall transfer the contributor's share of any uncommitted funds remaining in the TFET, including any applicable investment income, to the Association as part of its general resources.

18. After all commitments from the TFET shall have been fully disbursed, the Trustee shall as soon as practicable furnish to the Executive Directors of the Association, the ADB and the TFET Donors' Council a final report on the operations financed from the TFET.

**G. Amendment**

19. The Executive Directors of the Association may amend the provisions of this Resolution after consultation with the members of the TFET Donors' Council, and, to the extent that any such amendment would affect the ADB, after consultation with the ADB.

**H. Effective Date**

20. This Resolution will enter into effect on the date of its adoption by the Executive Directors of the Association and the Bank.

## The TFET Work Program

### Background

1. The Trust Fund for East Timor (TFET) was created and amended by two resolutions of the Board of the Executive Directors of the IBRD and IDA and a contribution of US\$10 million from the IBRD's net income. The International Development Association (IDA) is the Trustee. The multi-donor TFET provides grants for economic reconstruction and development activities in East Timor that are prepared and supervised by IDA and the Asian Development Bank (ADB).

2. Pledges to the TFET were one component of overall assistance promised for East Timor in a meeting of donors on December 16 and 17, 1999 in Tokyo (other components included bilateral assistance, pledges for humanitarian relief, and contributions to a UN Trust Fund). Since Tokyo there have been some additional pledges and contributions to TFET. Project or activity commitments are made via grant agreements with the UNTAET or other appropriate entities. In addition, the Trust Fund supports certain costs of the ADB and World Bank.

*Table 1. Actual and Anticipated TFET Pledges and Contributions to end of 2000*

<i>Donor</i>	<i>Pledge US\$ m</i>	<i>Concluded Contribution Agreement/Arrangement US\$ m</i>	<i>Cash Received or Promissory Notes Lodged (TFET Commitment Authority)</i>
European Union <sup>(a)</sup>	48.7	15.2	0
Portugal <sup>(b)</sup>	50.0	50.0	50.0
Japan TFET	26.0	14.1	14.1
Japan PHRD <sup>(c)</sup>	2.0	2.0	2.0
IBRD	10.0	10.0	10.0
United Kingdom <sup>(a)</sup>	7.3	7.3	4.5
Australia <sup>(a)</sup>	10.9	10.9	10.9
Finland <sup>(a)</sup>	1.5	1.5	1.5
Norway	1.0	1.0	1.0
United States of America	0.5	0.5	0.5
New Zealand <sup>(a)</sup>	0.3	0.3	0.3
<b>Sub Total by October 20, 2000</b>	<b>158.2</b>	<b>112.8</b>	<b>94.8</b>
<i>Anticipated by Dec 31, 2000</i>			
European Union <sup>(a)</sup>	-		7.6
United Kingdom <sup>(a)</sup>			1.5
Ireland <sup>(d)</sup>	0.4	0.4	0.4
<b>Sub total – Dec 31, 2000</b>	<b>158.6</b>	<b>113.2</b>	<b>104.3</b>

<sup>(a)</sup> Pledge was in a non-dollar currency; amounts not received have been converted at exchange rates at mid-June 2000.

<sup>(b)</sup> Portugal has contributed \$5 m in cash and lodged promissory notes of \$45 m.

<sup>(c)</sup> Japan's pledge was \$28 m of which \$2 m was awarded from the Japanese-funded Policy and Human Resource Development Trust Fund (PHRD) prior to establishment of the TFET.

<sup>(d)</sup> Contribution agreement under preparation.

## TFET Projects

3. As of October 20, 2000 eight grant agreements had been concluded for TFET projects. Of these five were prepared by IDA, three were prepared by ADB and one (the CEP) was jointly prepared by IDA and ADB. Table 2 provides a summary of current projects.

*Table 2. Current TFET Grant Agreements*

<i>Project</i>		<i>Grant Agreement Date</i>	<i>Grant US \$m</i>
Community Empowerment and Local Governance Project <sup>(a)</sup>	IDA/ADB	Feb 21, 2000	9.0
Dili Community Employment Generation Project	IDA	Apr 3, 2000	0.5
Emergency Infrastructure Rehabilitation Project	ADB	Apr 5, 2000	27.8
Small Enterprises Project	IDA	Apr 13, 2000	4.8
Health Sector Rehabilitation and Development Project	IDA	June 6, 2000	12.7
Emergency School Readiness Project	IDA	June 21, 2000	13.9
Agriculture Rehabilitation Project	IDA	June 21, 2000	6.8
Water and Sanitation Rehabilitation Project	ADB	Aug 24, 2000	4.5
<b>Total</b>			<b>80.0</b>

<sup>(a)</sup> Includes \$2 million in Japanese PHRD funding, including for project design. Joint World Bank and ADB project.

## Project Details

4. **Community Empowerment and Local Governance Project.** The CEP supports the creation of democratically elected village councils in order to build accountable and participatory local institutions. Through the councils, local communities receive grants to rehabilitate basic infrastructure and restart economic activities. The project includes special windows for local civil society, cultural heritage and vulnerable groups such as widows. (USD21.5 million over 2.5 years, USD7 million in the first grant agreement)

- **Accomplishments:** The project has supported the formation of over 408 village development councils in all districts with over 6,200 council members representing their communities. A total of 57 sub-district councils have been formed. Due to recent threats to security, council elections have been disrupted in three sub-districts on the border area in Suai. The project is currently funding 619 sub-projects of which approximately 43% are for community meeting halls, 15% for restoring household and productive equipment destroyed in the violence, 25% for feeder roads and rehabilitation of agricultural infrastructure, 10% for repair of water supply and 7% for schools or clinics. Technical facilitators have been trained and are deployed in all sub-districts. The District Project Accountants have been trained and fielded in all districts.
- **Work plan (October 2000 to January 2001):** The initial *emergency cycle* is now complete in all 13 districts (except those areas with security concerns), and a second round of grants is now active. These grants are larger and may include proposals for economic activities through revolving funds at the sub-district level. One man and one woman in each village are being provided with a small honoraria to cover their expenses as Village Facilitators for five months, an initiative which has already started in some areas. A small handbook is in

preparation and some regular training bulletins for Village Facilitators have started to be distributed. Training on proposal preparation and simple bookkeeping is being introduced to assist facilitators and council members in preparation for the second cycle. Training for women council members has been designed and tested and will be implemented widely in the coming months. Materials to support field work have been especially created for the project and are being disseminated to facilitators and council members. These include new operational manuals, forms to keep track of financial disbursements and progress of sub-projects, and communications materials such as posters and leaflets. Appraisal of the second CEP is ongoing.

**5. Dili Community Employment Generation Project.** The DCEGP, in partnership with UNDP, uses labor intensive public works to generate jobs for the poor in the capital city, bridging the employment gap as private sector activities revive. The project seeks to help communities organize and remove debris from Dili neighborhoods and manage solid household waste. (US\$499,000 over 5 months)

- Accomplishments: This short term project is currently operating in ten communities and has employed 3,288 people since March 30, 2000 and paid out US\$186,056 in actual salaries, representing 65,760 workdays. A community administration assistant has been employed and expendable equipment and material - such as protective gloves and masks - were procured at the start of the project, together with a vehicle for rubble and waste transportation. During September, work teams participated in the Clean up the World Day around Dili, for instance in the area around the Cristo Rei beach, in collaboration with the UNDP, the East Timor Scouts, local environment NGO 'Haburas, and the Transitional Administration's Environmental Protection Unit.
- Work plan (October 2000 to January 2001): It is projected that another 1,782 people will have been employed before the project closure in December 2000.

**6. Emergency Infrastructure Rehabilitation Project:** This project provides emergency repairs to key infrastructure (roads, ports and power). The first tranche funded maintenance works for roads and port rehabilitation and extension. The second tranche covers the letting of larger international competitive bid contracts for the year following October, 2000. In addition, ADB will assist UNTAET to complete and adopt cost recovery strategies for roads and port operations. (US\$29.8 million over 1.5 years, with US \$7.0 million in the first grant agreement).

- Accomplishments: Heavy rains caused the closure of many roads in May 2000 and US\$520,000 was spent on emergency road repairs to maintain communications throughout the country. Five emergency road contracts were awarded in June 2000, mainly aiming at rehabilitating roads in major slip areas. Under these contracts work is currently being performed on the Aituto to Betano road, the Bobonaro to Zumalai road, the Manatuto to Natarbora road, the Baucau to Beação road and in Oecussi. These projects are expected to continue until the end of October 2000. Work in the Same and Maliana regions has been disrupted by security concerns and the contractors responsible for those areas have moved to other work. Dili port's eastern hardstand was rehabilitated in August 2000 and the sea wall repaired. In September the concrete wharf of Dili was poured, completing this sub-project. A project to rehabilitate 15 rural power stations remains on hold because of the security situation in the border area, where the stations are located. Consultants have been contracted to survey each installation and provide specifications for the required restoration work.
- Work plan (October 2000 to January 2001): A pre-qualification exercise has been advertised internationally to provide a list of interested and capable contractors for further road

rehabilitation and repair contracts which are to be progressively designed and tendered over the next 12 months. Applications for pre-qualification closed on September 22, 2000. More than 70 applications were received, the majority of which were from East Timorese contractors. These contracts include small scale works designed to encourage the growth of local contracting capacity as well as larger projects, which will be undertaken by larger local and international contractors. A tender was called for the repair of 16kms of road at Maubara on the Dili Batugade road and bids were opened on October 16, 2000. This will be the first of the maintenance contracts undertaken using prequalified contractors. The project will provide for the establishment of 4 regional offices from where road maintenance activities will be administered by a Regional Manager. These managers are expected to be in place in November. They will also be responsible for assisting and training local counterparts. Expressions of interest have been sought from consulting firms. Until the Regional Managers are in place, the project is providing the District Administrators in Baucau, Viqueque, Liquica and Ermera with funds to carry out road maintenance and repairs on important district and feeder roads. Technical assistance will be provided for the financial management of the power sector. The services are expected to commence in January and a consultant has been appointed to assist with the preparation of a business plan.

**7. Small Enterprises Project.** The SEP aims to revive the local economy by restarting viable business activities in the private sector – through the provision of loans on commercial terms – and by creating jobs. SEP also includes a grant component to strengthen land and property administration system and to develop capacity building of the private sector in East Timor (US\$4.85 million in the first grant agreement)

- Progress to date: The first loans were approved on April 24, 2000 and disbursements began in early May. By the end of June, the project had received and reviewed applications totaling US\$30.4 million. Banco Nacional Ultramarino (BNU), the implementing agency, has employed a team of East Timorese credit assessors to review and process the more than 2,100 applications seeking funding from the US\$4 million in available loan funds. Loans, awarded in the range of US\$500 to 50,000, have since been extended to businesses in all of East Timor's 13 districts across more than 15 different business sectors. As of the end of September, loans in the total amount of close to US\$1,900,000 have been approved for the first phase, making the approved loan average of about US\$10,000. This is behind target by approximately US\$1,000,000. These loans support the establishment of enterprises which will create 900 new jobs in sectors like transportation, retail, mechanical agriculture, restaurants, carpentry, bakery, tailoring, brick manufacturing, fishery, photocopying, and cattle trade. Of the total approved loans, 34 represent projects submitted by women (18%). The loan repayments started at the end of July 2000 and currently loan repayment performance is above target. A needs assessment for small business training has been made and a UNCHS (Habitat) study focusing on strengthening land and property administration was completed at the end of August, with a UNCHS review mission carried out in September. The first edition of the monthly SEP newsletter, *The East Timor Entrepreneur*, was released in September.
- Work plan (October 2000 to January 2001): The first US\$4 million in available loan funds is scheduled to be disbursed by the end of November 2000 and a replenishment of loan funds is scheduled to follow. Small business training started in October, with the construction of the first Business Development Center scheduled for November and initial basic operations commencing in December. A dedicated SEP website was launched in October. A supervision mission presently in the field is appraising the second SEP.

**8. Health Sector Rehabilitation and Development Program:** The Health Sector Rehabilitation and Development Project supports the rehabilitation and re-equipment of health facilities and the development of the country's health policy and system. (US\$38 million over 3 years, US\$12.7 million in the first grant agreement)

- Accomplishments: The preparation of 12 District Health Plans (DHPs)<sup>24</sup> was completed in September, and agreement on these plans was reached between the Division of Health Services and the implementing agencies. Four of the DHPs have been launched – in Baucau, Bobonaro, Aileu and Liquica. A Memorandum of Understanding between the DHS and the health service providers has been drafted, specifying the roles of the implementing agencies and the Division of Health Services. District Health Committees, composed of district health officials, service provider agencies and community representatives have been established in 9 districts. An Essential Drugs List has been drawn up to ensure rational and cost-effective drug prescription. East Timorese health professionals have developed standard treatment, prevention and promotion guidelines. The national TB program has been re-established with the support of Caritas and WHO, and was operating in most districts by August, treating over 1,500 patients. Immunization activities have been intensified at the district level. A start has been made on policy development with international experts providing technical assistance, policy advice and holding seminars on financial issues and pharmaceutical regulation. The procurement process experienced delays in September, but is now well advanced on several important fronts: contracts have been awarded for the design and construction supervision of the Autonomous Medical Store (AMS) and for the supply of motorbikes to be used as mobile clinics, and was completed by mid-October for the design and supervision construction of the new health centers and the management of the AMS.
- Work plan (October 2000 to January 2001): The remaining eight DHPs were launched in October, and the MOUs signed. The work on policy development will continue, with completion of the health financing policy paper, and particular attention to options for the private sector, and aspects of human resource development. A start will be made on the process of promulgating the pharmaceutical regulations. A hospital needs assessment will be conducted, probably in two phases. In the first two weeks of November a national campaign aiming to immunize over 100,000 children against polio will be launched, with the second dose in the first two weeks of December. Vitamin A will also be distributed at the same time. The process of recruitment of health workers and managers is proceeding slowly, but should be complete by January 2000. Work will start on the design and construction supervision of the health centers, and of the AMS, and the AMS management company will begin operation. A site survey of all health facilities in the country will be undertaken, and the process of establishing a communications network begun. The mobile clinic motorbikes were delivered in mid-October. A joint donor supervision mission is planned for the second half of November.

**9. Agriculture Rehabilitation Project:** This project aims to restore priority productive assets, such as livestock, irrigation and rural infrastructure. (US\$20.7 million over 3 years, US\$6.8million in the first grant agreement)

- Accomplishments: A social team of six East Timorese and international experts was fielded in August and worked through September to generate the rules for beneficiary selection for livestock and household asset restitution. They held consultations in each district with Agricultural Officers, community and Church leaders as well as NGOs. Beneficiaries lists for livestock and hand tools restitution are currently being prepared at district level and will

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<sup>24</sup> Dili District is funded through other partners.

be sent to the PMU for review before they are posted in the districts to allow for complaints to be made prior to any distribution. In preparation for the immunization campaign, a livestock specialist has been appointed by each district – an additional three will reinforce each district team. Forty motorcycles and cold boxes to transport vaccines have been ordered. The Government of Indonesia has agreed to allow for the staggered export of 1,000 water buffaloes and 1,000 Bali cattle. Negotiations have been finalized with UNOPS to supply the livestock, with a trial shipment of 100 buffaloes expected in December. Shipments will then be accelerated in order to meet the planned targets. The design and feasibility studies necessary for community irrigation maintenance have been completed and urgent maintenance works started in late October.

- Work Plan (October 2000 to January 2001): Pending the advice of the social team, the project will proceed to the distribution of livestock and hand tools and start a vaccination campaign in districts before December 2000. In addition, components on the rehabilitation of rural roads and the provision of agricultural credit will start deliveries through the Community Empowerment Project and Small Enterprise Project respectively before the end of the year.

**10. The Emergency School Readiness Project:** The ESRP is the initial phase of the School System Revitalization Program and addresses East Timor's large educational needs. ESRP includes funding for the renovation of damaged schools and for the building of new ones. The project is implemented in close cooperation with UNICEF which manages funds for the re-roofing of schools in East Timor. (US\$13.9 million in the first grant agreement)

- Accomplishments: Textbooks procured in Indonesia for primary school students were reviewed to ensure cultural sensitivity, and thirteen contracts were consequently signed. A contract has been signed for the delivery of Portuguese language textbooks for junior and secondary students. Vehicles (60 motorcycles) and construction materials have been ordered and are expected to be delivered before December, 2000. To compensate for delays in the delivery of construction materials, sub-grants for rehabilitation, using local procurement, are being processed for the rehabilitation of a minimum of 50 schools, and will start disbursing during the second week of October. Contracts have been finalized both locally<sup>25</sup> and internationally to produce furniture. District engineers for the support of the reconstruction of schools, who received training in asbestos identification and handling in August, have inspected 852 classrooms. UNICEF has completed the re-roofing of 300 classrooms.
- Work plan (October 2000 to January 2001): Four prototype schools to replace demolished buildings will be designed and construction will begin before the end of the year.<sup>26</sup> The project aims to complete basic rehabilitation, distribute textbooks and teaching materials and furniture to 2,100 classrooms by January 2001.

**11. Water Supply and Rehabilitation Project:** This project aims to provide the people of East Timor with sustainable water supplies and sanitation services, by (1) providing assistance to rehabilitate and restore damaged and inadequate water supply and sanitation infrastructure; (2) by re-establishing human and institutional capacity to manage, operate and maintain water supply and sanitary infrastructure (US\$4.5 million).

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<sup>25</sup> AUSAID has contracted two consultants to assist the local furniture manufacturers with the quality monitoring of the production.

<sup>26</sup> While the TFET project will not provide roofing, it provides other rehabilitation work.

- Accomplishments: A water supply and sanitation study was completed in July and the report was circulated for comments. The Grant Agreement for the project was signed on August 24, 2000. The project management unit has been established.
- Workplan (October 2000 to January 2001): The project started its implementation on September 1 and quick response activities are underway to provide capacity assistance in all districts, and for provision of meters for domestic connections in Dili. Short-term consultants have mobilized to Dili and are preparing the strategic investment framework for the years 2000-2003 and the project implementation document (for FY 2000-2001 activities).

### **Proposed Work Program October 2000 - June 2001**

12. Table 3 summarizes the grant agreements expected to be signed for TFET funding before the end of June 2001. This priority work program was agreed by the National Consultative Council and presented to the TFET Donor's Council meeting in Lisbon. The signing dates of the grant agreements and the amounts of the grants will be dependant upon the inflow of donor resources.

*Table 3: Proposed TFET Work Program*

<i>Expected Date of signing</i>	<i>Activity/Project</i>		<i>Expected Grant (US \$ m)</i>
Nov 00	Microfinance	ADB	4.0
Dec 00	Economic Capacity Building	IDA	0.5
Dec 00	Second CEP	IDA	8.2
Dec 00	Second SEP, incl. agricultural credits	IDA	7.5
Jun 00	Second Education Project	IDA	14.0
Jun 01	Second Agriculture Project	IDA	6.0
Jun 01	Second Health Project	IDA	11.0
Jun 01	Second Infrastructure	ADB	2.0
Jun 01	Second Water/Sanitation	ADB	4.5
	<b>Total</b>		<b>57.7</b>

## East Timor: Selected Economic Indicators, 1997 - 2000

	1997	1998	Est. 1999	Proj. 2000	
GDP (in billions of rupiah)	708	1,272	1,878	...	
GDP (in millions of U.S. dollars) 1/	315	375	228	263	
GDP per capita (in U.S. dollars) 1/	374	424	304	...	
Population (in thousands)	843	884	750	..	
Of which: Displaced persons (thousands)	...	...	120	...	
(Percentage Change)					
Real GDP growth	4	-2	-38	15	
Inflation rate (CPI, Dili, based on rupiah pri	10	80	140	20	
(In percentage of GDP)					
Money and credit					
Broad money	41.2	38.7	29.9 2/	...	
Domestic assets (net)	35.5	36.8	26.1 2/	...	
Interest rates (percent)	19.8	38.5	36.0 2/	...	
(In millions of U.S. dollars)					
Exports	52	55	46	49	
Imports 3/	142	135	82	118	
Fiscal Year 4/					
	1997/98	1998/99	1999/2000	Jan-Jun 2000	
			Budget 5/	Prel. Budget 6/	Est. 7/
(In percentage of GDP)					
Fiscal balances					
Revenues	8.1	8.2	6.0 5/	3.2	1.1
Recurrent expenditures	13.0	14.6	13.0 5/	7.4	5.0
Capital expenditures	61.8	22.5	29.5 5/	21.0	6.9
Overall balance (deficit)	-66.7	-28.8	-36.5 5/	-25.2	-10.8

Sources: Indonesian authorities and IMF staff estimates.

1/ GDP in U.S. dollars at a constant purchasing power parity exchange rate using 1996 as a base.

2/ Figures for 1999 are for end-September.

3/ Includes imports through foreign aid, excludes projected UNTAET and OCHA imports in 1999, 2000.

4/ The fiscal year under Indonesia was from April 1 to March 31. There is no data on the actual execution of the 1999/2000 budget.

5/ Original Indonesian provincial budget for East Timor.

6/ Preliminary UNTAET budget for 2000, in US dollars, as presented in Tokyo.

7/ Based on actual data up to May 25, 2000.

**Reconstruction and Development Expenditure Program FY00/01 - FY02/03 ('000 US dollars) Annex E.2**

SECTOR AND PROJECTS	JAM 11/99	Total FY00/01 -FY02/03				TFET	UNTAET	Other a/
	2000-02	FY00/01	FY01/02	FY02/03	Total			
<b>1. COMMUNITY DEVELOPMENT/SAFETY NET</b>								
Grant for community recovery		6,050	4,500	4,500	15,050	15,050		0
QUIPS (quick implementation projects)		2,500	1,000	1,000	4,500	0		4,500
Local gov'ts capacity development		1,000	1,000	600	2,600	2,600		0
Dili employment project		499	0	0	499	499		0
Radio		500	500	0	1,000	1,000		0
Other - support to widows, rural radio, veterans and handicapped		850	1,400	1,380	3,630	2,880		750
SECTOR SUB-TOTAL	29,975	11,399	8,400	7,480	27,279	22,029		5,250
<b>2. EDUCATION</b>								
School buildings		10,775	22,812	21,960	55,547	31,216		24,331
School furniture		2,662	4,958	7,064	14,684	7,117		7,567
School text books		3,960	1,570	5,433	10,963	5,334		5,628
School curriculum development		639	1,706	760	3,105	1,452		1,653
Vocational/literacy		930	807	674	2,411	0		2,411
Post-secondary education		1,014	1,760	2,194	4,968	0		4,968
Teacher training		500	1,259	1,381	3,140	881		2,259
SECTOR SUB-TOTAL	57,782	20,480	34,872	39,466	94,818	46,000		48,816
<b>3. HEALTH</b>								
Restoration of basic health services		3,888	1,655	202	5,745	4,595		1,150
Rehabilitating and equipping health centers		5,384	6,538	0	11,922	10,872		1,050
Restoration of hospital services		45	4,646	5,600	10,291	3,891		6,400
Restoring admin, capacity building & community health		858	382	182	1,422	622		800
Health policy and systems development		1,495	2,020	3,325	6,840	5,590		1,250
Project implementation and management		810	960	960	2,730	2,730		0
SECTOR SUB-TOTAL	40,204	12,480	16,201	10,269	38,950	28,300		10,650
<b>4. AGRICULTURE</b>								
Priority productive assets restoration		2,845	800	200	3,845	2,845		1,000
Irrigation system rehabilitation		4,055	6,362	4,005	14,422	8,422		6,000
Pilot agricultural service centers		2,905	3,440	1,970	8,315	4,315		4,000
Fisheries		150	50	0	200	0		200
Farm mechanization		400	0	0	400	0		400
Coffee development		3,000	3,000	2,100	8,100	0		8,100
Other projects, including grain silos		600	560	420	1,580	0		1,580
Project management		503	333	291	1,127	1,127		0
SECTOR SUB-TOTAL	24,434	14,458	14,545	8,986	37,989	16,709		21,280
<b>5. INFRASTRUCTURE</b>								
Road network repair	31,532	20,130	20,350	9,500	49,980	40,130		9,850
Road repairs from assessed contributions b/		2,500	10,000	6,000	18,500	0		18,500
Port and maritime recovery	1,315	4,560	2,229	1,800	8,589	2,060		6,529
Passenger/cargo ferry		750	0	0	750	0		750
Airport and air traffic recovery	6,155	2,200	1,400	750	4,350	0		4,350
Housing - selective in remote areas	24,610	2,000	500	0	2,500	0		2,500
Water and sanitation	22,218	13,825	12,479	4,081	30,385	12,000		18,385
Power systems and utilities	7,281	5,455	4,830	4,000	14,285	2,760		11,525
SECTOR SUB-TOTAL	93,111	51,420	51,788	26,131	129,339	56,950		72,389
<b>6. PRIVATE SECTOR SUPPORT/ ECONOMIC MANAGEMENT</b>								
Revolving credit for small scale enterprises		5,400	2,000	0	7,400	7,400		0
Training and support for entrepreneurs		600	500	200	1,300	1,300		0
Rehabilitation and expansion of credit unions		780	1,850	300	2,930	2,600		330
Establishing microfinance bank		1,130	1,950	450	3,530	2,900		630
Training and TA in economic management		850	250	0	1,100	500		600
Statistical office - census and surveys		0	500	1,000	1,500	1,500		0
SECTOR SUB-TOTAL	16,200	8,760	7,050	1,950	17,760	16,200		1,560
<b>7. PUBLIC ADMINISTRATION</b>								
Education		2,700	1,000	1,000	4,700	4,700		
Health		500	1,000	1,000	2,500	2,500		
Agriculture		0	500	500	1,000	1,000		
Infrastructure		2,500	2,000	2,000	6,500	6,500		
Other Public Administration		4,050	2,000	2,000	8,050	8,050		
SECTOR SUB-TOTAL	38,121	9,750	6,500	6,500	22,750	22,750		TBD
<b>8. LAND AND PROPERTY</b>								
	0	1,600	0	0	1,600		1,600	TBD
<b>9. JUDICIARY AND LAW ENFORCEMENT</b>								
	2,935	4,250	3,250	2,750	10,250		10,250	TBD
<b>GRAND TOTAL c/</b>	<b>302,762</b>	<b>134,597</b>	<b>142,606</b>	<b>103,532</b>	<b>380,735</b>	<b>186,188</b>	<b>34,600</b>	<b>161,945</b>

a. Bilateral and non-trust fund multilateral. This is a combination of projects for which there are confirmed funds and other priority projects still unfunded.

b. It is hoped that this amount of further road repairs will be financed from the UN assessed contribution. But only 2.5 million has been confirmed for FY2000/01.

c. Total TFET is \$189.7 million (\$183.8 plus \$5.9 disbursed before June 30, 2000).

The Prerequisites for Sustainable Growth and Poverty Alleviation

		The Prerequisites for Sustainable Growth and Poverty Alleviation														
		Structural			Social and Human Development				Physical			Economic		Research		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)		
	Good and Clean Governance	Justice System	Economic Management	Social Safety Net and Social Programs	Education	Health and Population	Environmental and Cultural	Water and Sewage	Energy	Roads, Transport, Telecommunications	Rural Development/ Agriculture	Private Sector Development	Studies/Strategy Development			
Transitional Administration	UNTAET	Civic Education/Election and Constitutional Mechanisms	Management and Technical Assistance	Management and Technical Assistance	Labor Standards, Technical Assistance	Technical Assistance	Technical Assistance	Technical Assistance	Technical Assistance	Technical Assistance	Technical assistance, Radio spectrum management	Technical Assistance	Technical Assistance for Legal Framework	Transition Planning		
	ETTA	Civil Service Academy, Civil Registration	Police Training, Judicial Service Commission, Prosecutor's Office	Interim Regulatory Framework, CFA, CPO, Building, Equipment	Quick Impact Programs (QIPs)	Rehabilitation of Ministry of Education, Equipment, Teacher Training, School rehabilitation	Rehabilitation of Ministry of Health, Workers' Emergency services	Environment Protection Guidelines	Rehabilitation of Water Utility Building, Recruiting for the Water Svc. Dpt.	Recruitment of Staff	Rehabilitation of Administrative Buildings, Recruitment of Staff, Airport & Roads Rehab.	Rehabilitation of Administrative Buildings, Recruitment of Staff	Investment Promotion	All sectors		
Multilateral and Bilateral Institutions	PKF	SAPET/CAPEP, Border Service Capacity Building	Provision of 9 court Translators	CFA - Teams for Revenue and Budget Units	Community Assistance Scheme	TA, Scholarships, Teachers Training, Language, Voc. Training Design, University	Dental, Psych, Recovery, Nurse Training, TB/HIV, Reconstructive Surgery		Rural Water Rehabilitation and TA, Institution Strengthening	TA for Capacity Building	Emergency Road Repair - Phase II, Media	Support to Small Fisheries, Small Rural Dvt. Projects	Support to Income Generating Programs	Agriculture/Forestry Baseline Data Collection, Future of Armed Forces		
	Brazil	Civic Education, Media Support, Capacity Building	Advocacy through NGOs, Police Training	Revenue Service Capacity Building	Civil Society Support	Literacy, Dist. Learning and Vocational Training Progr.	Vaccination Methodology									
	Canada							Capacity Building in Resource Management	Rural Water Systems Rehabilitation		Suzra TL, Print Consortium and Radio Kinasek	Rural Development and Agriculture				
	China															
	UK/DFID	Support to Civil Society Groups (Democracy Fund)	Renovation of Oleso Prison			Scholarships				Power Generation and Distribution System	Emergency road repairs and road opening					
	ECHO				Shelter		Health service provision through NGOs, Malaria Vector Control		Water Supply and Sanitation Assistance							
	Germany/GTZ	Civil Registry							Rural Water Supply							
	Japan/JICA		Training in Indonesia of 25 Members of the Judiciary	Support to CFA and CPO through IMF		Support to ET Students in Indonesia, Schools Rehabilitation	Provision of Medical Supplies, Clinics Rehabilitation		Dili Water System Rehabilitation and Improvement Program	Maist, Komoro Power Station, Rehab. of Small Stations in Rural Areas	Rehab. of Dili Harbor, Road Rehab., Radio Distrib.	Hand Tillers, Irrigation, Seeds, Capacity Building, Maize, Rice, Aquaculture Community Firms, Organic Coffee Certification	Re-establishment of local newspaper	ET Markets Rehabilitation Project	Agriculture Master Plan	
	New Zealand	Customs and Immigration, Foreign Affairs	Prison management Police, judicial training		Social and Community Development	Early Childhood Policy, Scholarships, ELT, NGO		National Forestry and Watershed Action Plan								
	Norway		Prosecution and Police, Courts and Prison Systems			Two Post-Graduate Scholarships					Emergency Road Repair					
	Portugal	Civil Service Academy (Partnership for Timor)	Training of four Judges in Lisbon, Rebuild Dili Court		Humanitarian Assistance through NGOs	Portuguese Teachers, Teacher Training, Books, Scholarships, University	Health Service Provision through NGOs, Conf. on Health in ET	Rehabilitation of National Heritage Buildings	Water and Sanitation Rehabilitation Program	Electricity Rehabilitation Program	TA to Dili Harbor, Airport Mgt., Postal Svc., Radio Trans., Building Rehab.	Re-start and Expansion of NCRB Coffee Project, Community Sup. (TEP-II)	Hand Tillers, Irrigation, Seeds, Capacity Building, Maize, Rice, Aquaculture Community Firms, Organic Coffee Certification	GIS Mapping, Territorial Administration, Curriculum Development		
	United States	Media Support, Capacity Building, Civic Education, Human Rights	Training of Judges, Support to Serious Crime Unit, Mentoring Program		Transitional Employment Programs (TEP I & II), NGO Grants	Emergency Schools Readiness Project	Health Sector Rehabilitation Project		Community Water Supply (TEP II)	Community Empowerment Project (Rehabilitation of Cultural Center)	Community Empowerment Project (Rehabilitation of Cultural Center)	Community Empowerment Project (Rehabilitation of Cultural Center)	Support to Press (Print & Radio), Road Rehabilitation (TEP-II)	Re-start and Expansion of NCRB Coffee Project, Community Sup. (TEP-II)	TEP-II, Workshops, Provision of Equipment	
	IDA (TFET): Govt. of Australia, Japan, Finland, New Zealand, Norway, Portugal, UK, USA, European Commission, IRRD	CEP, Anti-corruption	TA for Economic Regulations	Financial Institutions Capacity Building	Community Empowerment Program (Widows and Vulnerable Groups), Ex-Combatants Demobilization				Community Empowerment Project (Rehabilitation of Cultural Center)	Community Empowerment Project (Rehabilitation of Cultural Center)	Community Empowerment Project (Rehabilitation of Cultural Center)	Community Empowerment Project (Rehabilitation of Cultural Center)	Assistance to Radio Fabeli/Voz de Esperanza	Agriculture Rehabilitation and Development Project	Small Enterprises Project	Economic Management, Poverty Reduction, Health, Education, Agriculture
	IMF		TA for economic regulation	TA Central Payments Office, Central Fiscal Authority, Currency, TA											Monetary and Exchange Policy/Tax options	
	ADB (TFET): Govt. of Australia, Japan, Finland, New Zealand, Norway, Portugal, UK, USA, European Commission, IRRD	Management Training			Poverty assessment TA				Rehabilitation and Management of Water and Sanitation Systems	Session Rehab. Metering/ Tariff TA	Emergency Road Rehab., Capital Works, Port Mgt., Telecom, Seaways, Institution Building			Microenterprise Credit Unit Project	Social and Economic Indicators, Poverty Reduction, Transport, Power	
UNICEF		Juvenile Justice, Rights Promot (Japan, France, As)		Children, Support to Women (NZ, USA, Au)	Early Childhood, Youth Leadership (Au, Japan)	EPI, Supplies to NGOs (Port, Japan, Au, Sw)		Sewage Rehabilitation (ECHO, Norway)						Ophiass, Domestic Violence (USA, Japan)		
UNHCR	Civic Education			Refugee, QIPs												
UNDP	Capacity Building for Public Sec. And NGOs, Advisors (Port, NZ, Germany)	Training for Judges and Prosecutors (Belgium)		Ball Community Employment Project (TFET/IDA)	Short-term Vocational Training		Environmental Assessment (Nordic Trust Fund)	Dili Water Supply Rehab., Institution Building (Portugal)	Rural Power Station Rehabilitation (Japan)	Road Repairs/Rehabilitation (New Au, Japan), Port Improvement (JICA)	Irrigation (Japan), Community Dvt (Japan), Mechanization (New)	Rehabilitation of Markets (Japan)	Civil Service Reform	Infrastructure Master Plan, Health Policy		
WHO						Health Sector TA, Training										
UNESCO							Rehab. Cultural Cr. (TFET/IDA)									
UNFPA						Reproduct. Health, Census								Women's Violence		
UNWFP				Vulnerable Group Feeding, Food-for-work	School Feeding	Feeding Hospital Patients								Vulnerability Analysis and Mapping		
FAO																
IOM				CAPA/Ex-Combatants												
Civil Society	International NGO's (25% own funding)	Civic Education, Human Right, Violence, Peace & Reconciliation	Justice & Peace Com., Support to Prisoners	Community Dvt, Family Tracing, Returnees, Women and Youth Groups, QIPs	Schools Rehab., Teacher Training, Vocational Training, School Feeding	Education, Health Service Delivery, TB/HIV/Malaria, Central Pharmacy, EPI	Asbestos	Water and Sanitation Rehab., Environmental Health Promotion		Emergency Road Repair, Shelter, QIPs	Seeds, Equipment Distr. And Repairs, Irrigation, Fisheries, Veg. Gardens	Support to Income Generating Activities	Medical			
	Church	Civic Education		Orphanage, Poor Children Program, Integrat. of Women	500 Schools, ET Students in Indonesia, Scholarships	Polyclinic, Mobile Nurses, TB/HIV, Nurse Training	Don Carlos Felipe Foundation (Culture & Sport)			Sears (monthly magazine), Radio Kinasek			Local Customary Laws, Registry, Right Abuses			
	East Timorese NGOs	Human Rights Advocacy	Legal Aid, Civic Education, Land Rights	Community Development, Orphans, Shelter	Early Childhood, Primary and Secondary Schools	Mobile Clinics, Small Clinics	Oral History, Sports		Small Water System Rehabilitation (Au)		Road Repairs	Agriculture Coop., Fisheries, Livestock, Agroforestry	Microcredit and Revenue Generating Programs			
	Women's groups	Civic Education		Widows Support (CEP)	Literacy Training		Artsan Groups					Women Agriculture Cooperative	Training, Credit to Women	Reproductive Health		
	Youth groups	Civic Education			Tertiary Student Support											
	CNRT	Civic Education/Support to Civil Society			Teacher Training			Sports and Cultural Programs				Mechanization Program (Norway/Macao)		Strategic Commission		
Private Sector	International									Mobile Telephones (Dili), Airport (Dili)		Joint ventures, Microcredit (Portugal)				
	Local entrepreneurs									Road Transport		Prof. Assoc., Trade Unions				



TFET Projects

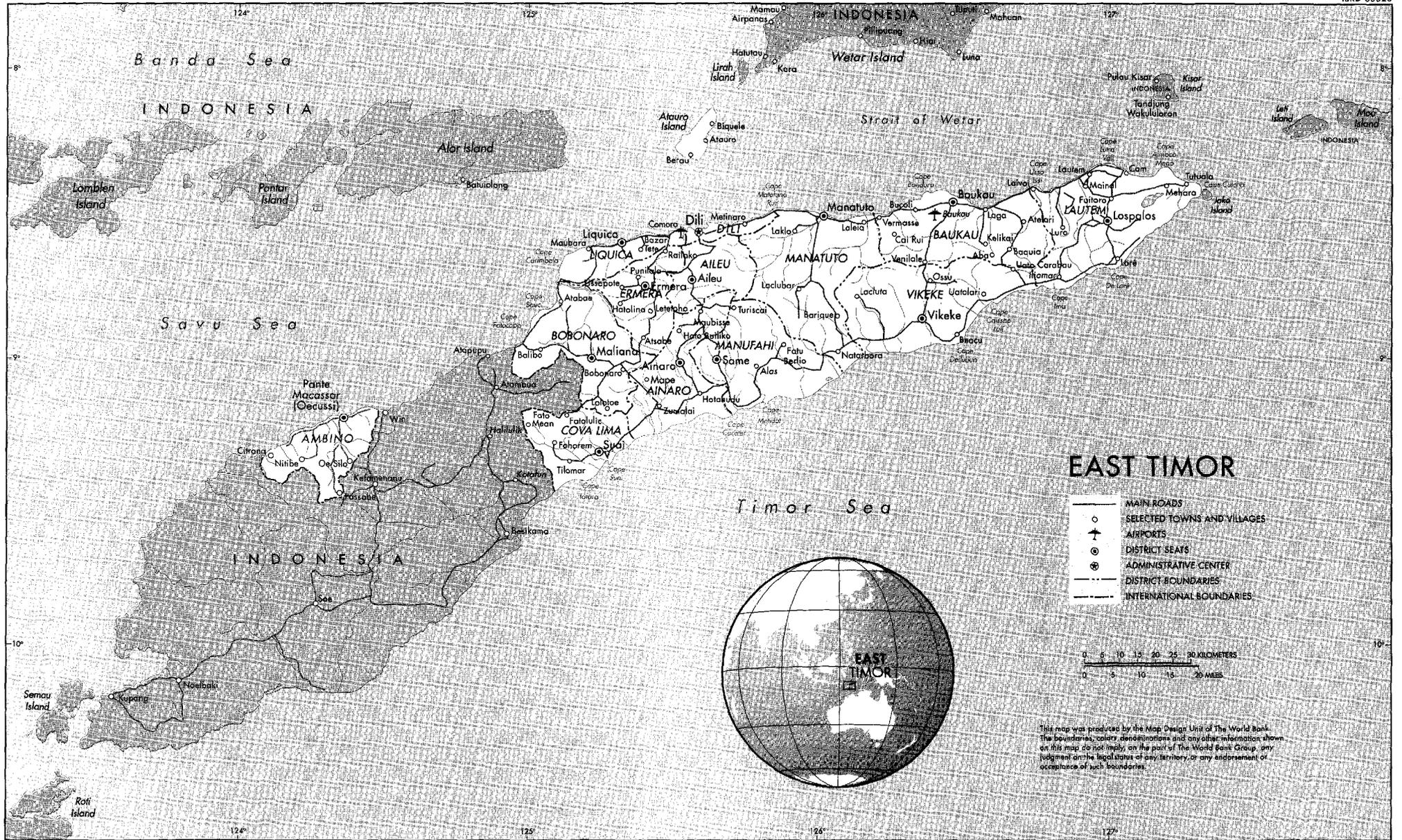
Additional Acronyms: CAPET  
CFA  
CPO  
IOM  
IMF

Capacity Building Project for East Timor  
Central Fiscal Authority  
Central Payments Office  
International Organization for Migration  
International Monetary Fund

PKF  
TEP  
SAPET  
UNESCO  
UNWFP

Peacekeeping force  
Transitional Employment Program  
Special Assistance Program for East Timor  
United Nations Educational, Social and Cultural Organization  
United Nations World Food Program





### EAST TIMOR

- MAIN ROADS
- SELECTED TOWNS AND VILLAGES
- ✈ AIRPORTS
- ⊙ DISTRICT SEATS
- ⊕ ADMINISTRATIVE CENTER
- - - DISTRICT BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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