

East Timor

The Development Challenge: The people of East Timor (Democratica Republica de Timor-Leste) celebrated full independence on May 20, 2002, completing a rapid transition from UN administration to self-rule which included development of a constitution, election of President Xanana Gusmao, transformation of the Constituent Assembly to the National Parliament, and inauguration of the new Prime Minister and Cabinet of Ministers. The challenges of building a strong democracy and vibrant economy with fragile institutions and limited human capital remain daunting. The country was launched with high optimism for its future, fed in part by the remarkable progress since devastation wrought during its separation from Indonesia. Escalating expectations represent a potentially destabilizing factor in the political equation, as the December 2002 riots in Dili clearly illustrated.

East Timor begins with the advantage of being debt-free, but its resources are limited and its first three-year budget remains dependent on foreign assistance to meet current expenditure needs. The country has largely rehabilitated the infrastructure destroyed in September 1999 after the vote for independence, but remains one of the poorest countries in Asia. Per capita GDP is estimated at \$478 in 2001 and the departure of international personnel after independence is predicted to reduce the real GDP by an estimated one percent in 2002. Rural and urban poverty continue to be a major problem. Increasing urban unemployment, fed by migration from economically depressed rural areas, significantly contributes to urban unrest and social tensions.

U.S. foreign policy interests in East Timor focus on helping the Timorese transition to a stable democratic government and growing and open market economy. Normalizing East Timor's relationship with Indonesia, its closest neighbor and largest trading partner, and building new trade and investment ties within the region are key priorities. As one of the first and largest foreign aid providers during East Timor's transition period, the United States is recognized as a reliable, credible, and efficient source of outside advice and assistance by the Timorese. Projected funding levels through FY 2004 will enable the United States to continue its development support and central leadership role in East Timor.

The USAID Program: USAID will devote \$19 million ESF funding in FY 2003 and is requesting \$13.5 million in FY 2004 ESF to achieve two primary objectives: strengthening the economic recovery and supporting post-conflict democratic development. FY 2003 funds for the economic recovery program will be used to continue USAID's technical and training assistance to the coffee cooperative program, now working with over 20,000 families. The program has increased employment and household incomes from coffee, East Timor's primary cash and export commodity. This program also sustains a network of rural cooperative-linked health clinics providing basic health services to about 20 percent of the population. Other economic recovery programs include expanding agricultural diversification and technology transfer; strengthening microenterprise and small business development; and providing technical and capacity building assistance to advance key economic transition issues such as foreign investment, administration of Timor Sea oil and gas resources, and land reform.

FY 2003 funds will continue support for East Timor's democratic development by increasing public participation in national and local governance, strengthening independent media, supporting the development of political parties, strengthening civil society, and fostering civilian oversight of uniformed forces. The democracy program will also improve citizens' access to justice by strengthening the judiciary institutions, training judicial personnel, and expanding the reach of legal aid groups. Furthermore, USAID will support increasing citizens' knowledge of rights, responsibilities, and legal processes; and the strengthening of government and independent institutions, including new legislative and executive bodies, to implement democratic processes, adopt effective legislation, and deliver services to communities.

In FY 2003 and FY 2004, USAID will continue to contribute to the World Bank-administered Transitional Support Program, which supports East Timor's nascent governing structures and provides initial support for the implementation of the National Development Plan. FY 2004 funds will continue providing critical technical and advisory support and training assistance to programs enhancing the development of East Timor's democratic government and civil society, while simultaneously assisting with the development of

robust market and public institutions supporting the growth and development of the agricultural and business sectors. USAID's program also provides key support to NGOs and local communities building their strategic planning, financial management, and technical capacities to provide support and deliver services to rural areas.

Other Program Elements: A rule of law program, funded and managed by USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance, has provided support to the judiciary, particularly in regard to the establishment of the Serious Crimes Unit and training for judges, prosecutors and public defenders. These activities have ended in FY 2002. USAID has begun a broader justice sector support to build on these initial activities.

Other Donors: Coordination among donors is excellent with twice-yearly conferences through May 2003. After that, the donor coordination conferences will be held annually. A donor coordination meeting is held monthly in Dili chaired by the Vice Minister of Finance and Planning. The United Nations Transitional Administration of East Timor (UNTAET) closed operations in May 2002 and put into place a much-reduced successor: the UN Mission of Support for East Timor (UNMISSET). UNMISSET remains engaged in the security sector and is providing personnel to fill 100 core stability advisor positions for the newly independent government. Donors support the World Bank-managed Transitional Support Program, which provides support to the East Timor national budget with benchmarks linked to the five-year National Development Plan. The International Monetary Fund, World Bank, and Asian Development Bank are engaged in the management of economic policy as well as the development of broad strategic objectives. In addition to the U.S., major bilateral donors include Japan, Portugal, and Australia.

East Timor PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2001 Actual	FY 2002 Actual	FY 2003 Prior Request	FY 2004 Request
Economic Support Fund	24,945	25,000	19,000	13,500
Total Program Funds	24,945	25,000	19,000	13,500

STRATEGIC OBJECTIVE SUMMARY				
472-001 Economic Revitalization				
ESF	13,603	11,500	9,000	6,000
472-003 Support for Democratic Transition				
ESF	11,342	12,500	10,000	7,500
472-xxx ANE Regional HIV/AIDS program				
ESF	0	1,000	0	0

Data Sheet

USAID Mission:	East Timor
Program Title:	Economic Revitalization
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	472-001
Status:	Continuing
Proposed FY 2003 Obligation:	\$9,000,000 ESF
Prior Year Unobligated:	\$2,185,000 ESF
Proposed FY 2004 Obligation:	\$6,000,000 ESF
Year of Initial Obligation:	FY 2000
Estimated Completion Date:	FY 2004

Summary: USAID's Economic Revitalization objective has four major components: (1) strengthening the National Cooperative Federation in East Timor through the "Cooperativa Cafe' Timor" (CCT) project and coffee cooperative activities including expanding high-quality organic specialty coffee for export, introducing other high-valued agricultural commodities to member producers, and developing small retail enterprises; (2) improving Timorese management and business skills, particularly CCT staff; (3) providing technical and capacity building assistance to advance key economic issues and stimulate economic growth such as foreign investment, administration of Timor Sea oil and gas resources, land reform, agricultural diversification, and microenterprise development; and (4) expanding the network and sustainability of cooperative health clinics that provide affordable health services to cooperative members and families, including HIV/AIDS prevention information and services.

USAID's economic revitalization program is responsive to the Council of Ministers' development priorities, which include supporting the development of the agricultural sector ensuring food security and enhancing access to markets; developing trade through cooperatives; promoting health; and creating employment opportunities.

Inputs, Outputs, Activities:

FY 2003 Program:

CCT Project (\$4,000,000 ESF). The USAID supported CCT Project is the largest private-sector employer in East Timor. The CCT project contributes significantly to economic recovery and long-term economic development by generating immediate employment opportunities and increasing the income of rural families producing coffee. While the focus in recent years has been on the coffee component of the project, USAID will emphasize research and demonstration projects to develop other profitable agricultural crops and trade opportunities in FY 2003. At the same time, USAID will expand the coffee component to more geographic areas and increase membership in the coffee cooperative by approximately 4,000 farmers to a total of 24,000. Business education and training will lay the groundwork for increased Timorese management of the project. USAID support to purchasing cooperatives of small-scale retail outlets will help lower prices and improve access to consumer goods in rural areas. Two new cooperative health clinics will increase the availability of affordable and quality health services in rural coffee-growing areas and assist the Ministry of Health in carrying out an HIV/AIDS education and awareness program. Primary contractors and grantees are: National Cooperative Business Association and Family Health International.

Promoting Economic Recovery (\$5,000,000 ESF). To help shape macro-economic policy decisions, USAID will fund the Senior Economic Advisor to the Office of the Prime Minister and the Senior Advisor on Foreign Investment in the Ministry of Investment, Tourism, and Environment. Technical assistance and training will build the capacity of the Office of the Timor Sea to administer the significant revenues expected from Timor Sea oil and gas resources. USAID will provide technical expertise in border demarcation to support East Timor's negotiations with Indonesia. An assessment of rural banking and the prospects for re-establishing profitable financial service operations will be conducted, as will a major

land reform study to serve as a blueprint for future policy changes. USAID is planning to develop new innovative pilot projects supporting agricultural diversification and technology transfer; strengthening farm-to-market trade linkages; expanding rural enterprises, and strengthening micro-lending to help promote and broaden rapid economic recovery, particularly in the depressed rural areas. Primary contractors and grantees are: Development Alternatives and The Asia Foundation.

FY 2004 Program:

USAID intends to use FY 2004 resources to support ongoing activities mentioned below and provide initial support to broaden economic growth activities that will be identified during the development of a new country strategy for FY 2005-2009.

CCT Project (\$2,000,000 ESF). USAID intends to concentrate and focus its CCT assistance strengthening Timorese managers' capacity to assume overall management of the project, by reducing the number of expatriate advisors. Depending on the success of agricultural diversification demonstration/outreach activities and an external evaluation, USAID may expand this component to focus on promising high-valued export crops such as vanilla into the new strategy period.

Economic Recovery Program (\$4,000,000 ESF). Based on assessments to be carried out this year, USAID may initiate programs to help East Timor implement land reform and programs to spur private sector development in rural areas through stronger market based financial institutions, increased credit access, and agricultural development. USAID is planning to continue its technical and advisory support to the government and to continue new pilot programs initiated in FY 2003 that are intended to strengthen rural development and economic recovery.

Performance and Results: The 2002 coffee harvest generated \$6 million for the USAID supported East Timor CCT farmers and those involved in the transport and processing of the coffee. The project directly benefited one in ten Timorese families by generating increased household income for farmers, cooperative staff, seasonal workers, and health clinic personnel. Increased income is critical to moving families above the poverty line and increasing the demand for rural products and services. Incremental income generated from value added processing and specialty, organic and fair trade premiums amounted to nearly half of the \$6 million. Nearly 12,000 people per month received critical basic health services from the cooperative's eight fixed and 24 mobile clinics. In addition to the nearly 20,000 farmers annually receiving extension services in organic farming, 2,300 other Timorese received business education and training through the cooperative's training center. The project continues to provide technology transfer to growers to ensure increased productivity and quality coffee.

In FY 2002, USAID/Office of Transition Initiatives (OTI) provided \$2.38 million in small grants to strengthen critical rural infrastructure and community supported activities; strengthen microfinance businesses; improve rural and agricultural market linkages; encourage private sector development; improve government revenue generation and management; and support local research and analysis. These small grants have provided increased employment opportunities to Timorese living in urban communities and depressed rural communities. USAID also assisted the East Timor government in negotiations leading to the signing of the Timor Sea Treaty in May 2002, a significant milestone toward economic independence.

US Financing in Thousands of Dollars

East Timor

	DA	ESF
472-001 Economic Revitalization		
Through September 30, 2001		
Obligations	150	12,100
Expenditures	114	6,984
Unliquidated	36	5,116
Fiscal Year 2002		
Obligations	0	5,500
Expenditures	25	4,080
Through September 30, 2002		
Obligations	150	17,600
Expenditures	139	11,064
Unliquidated	11	6,536
Prior Year Unobligated Funds		
Obligations	0	2,185
Planned Fiscal Year 2003 NOA		
Obligations	0	9,000
Total Planned Fiscal Year 2003		
Obligations	0	11,185
Proposed Fiscal Year 2004 NOA		
Obligations	0	6,000
Future Obligations	0	0
Est. Total Cost	150	34,785

Data Sheet

472-002: No Summary and/or Pillar information entered for this SO.

Data Sheet

USAID Mission:	East Timor
Program Title:	Support for Democratic Transition
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	472-003
Status:	Continuing
Proposed FY 2003 Obligation:	\$10,000,000 ESF
Prior Year Unobligated:	\$2,316,000 ESF
Proposed FY 2004 Obligation:	\$7,500,000 ESF
Year of Initial Obligation:	FY 2001
Estimated Completion Date:	FY 2004

Summary: USAID's program to support East Timor's post-conflict democratic development includes four components: (1) increasing public participation in national and local governance by strengthening independent media, political parties, advocacy-oriented civil society organizations, and fostering civilian oversight of uniformed forces; (2) improving citizens' access to justice through strengthening judicial institutions, training judicial personnel, expanding the reach of legal aid groups, and increasing citizens' knowledge of rights, responsibilities and legal processes; (3) strengthening government and independent institutions, including new legislative and executive bodies at the national and local level, to implement democratic processes, adopt effective legislation, and deliver services to communities; and (4) support for the World Bank's Transitional Support Program, which provides budget support to the East Timor government. USAID's democracy program is responsive to the Council of Ministers' development priorities which include strengthening administrative structures and elective authorities, and strengthening the justice system, including customary and formal systems.

Inputs, Outputs, Activities:

FY 2003 Program:

Increasing Public Participation in Governance (\$2,000,000 ESF). Civil society organizations in both Dili and the districts will receive assistance to develop advocacy and public outreach skills and build organizational and institutional capacity, leading to greater citizen engagement in national and local governance. USAID will support the efforts of community groups to strengthen the responsiveness of local government, political parties, and the National Parliament, while helping citizens articulate and solve their own problems without relying on government resources. Technical assistance will help establish an enabling legal environment for civic organizations. USAID media programs will enhance the professionalism of editors and journalists, develop sustainable management practices, improve the legal environment, and support the establishment of a Public Broadcasting Service. USAID will supplement technical assistance with small grants to local radio and newspapers. A successful program fostering constructive civil-military relations will be maintained. Principal contractors and grantees are: National Democratic Institute (prime), Catholic Relief Services (prime), Internews (prime), International Republican Institute (prime).

Improving Citizen Access to Justice (\$1,500,000 ESF). USAID will help East Timor develop its nascent judicial system. Judges, prosecutors and public defenders in national and district courts will receive a mix of technical assistance and training to improve skills and capacity. USAID will support legal aid services, more efficient court administration and procedures, alternative dispute resolution, and public information campaigns to further citizens' knowledge of justice. Small grants will provide essential materials and equipment to the formal justice sector and support judicial monitoring and advocacy by civil society organizations. Principal contractors and grantees are: Asia Foundation (prime), International Development Law Organization (sub), International Foundation for Election Systems (prime).

Strengthening Government and Independent Institutions (\$1,000,000 ESF). USAID's technical assistance to East Timor's new legislative and executive bodies will lead to legislative drafting procedures

that are transparent, well-informed, and reflect public input into decision-making processes. USAID will support institutions such as the Ombudsman's office and the State Secretariat for Social Services that address the needs of potentially vulnerable groups, including veterans. Principal contractors and grantees: Asia Foundation (prime), International Foundation for Election Systems (prime).

The Program Support Initiative (PSI) (\$1,500,000 ESF). PSI supports the three program areas above with small grants and operational costs. These grants can be provided directly to local organizations or Timorese government or independent institutions as specific needs arise to support USAID's strategic objective of strengthening democracy. Principal contractor: Development Alternatives Inc., (prime).

Transitional Support Program (\$4,000,000 ESF). USAID will transfer \$4 million to the Transitional Support Program, a World Bank-administered fund that serves as the new East Timor Government's recurrent cost and capital spending budget.

FY 2004 Program:

USAID intends to use FY 2004 resources to support ongoing activities mentioned below and provide initial support to possible new democracy activities that will be identified during the development of a new country strategy for FY 2005-2009:

- Increasing Public Participation in Governance (\$1,000,000 ESF). USAID plans to maintain support for civil society organizations, the media, and political parties to increase citizen participation.
- Improving Citizen Access to Justice (\$1,250,000 ESF). USAID will continue to support justice sector programs to address economic governance issues including anti-corruption initiatives and government public information capacity and mechanisms.
- Strengthening Government and Independent Institutions (\$1,250,000 ESF). USAID intends to support public participation in policy development and legislative drafting, and may place additional emphasis on the development of local government structures.
- Transitional Support Program (\$4,000,000 ESF). USAID intends to transfer a final tranche of \$4 million to the World Bank-administered Transitional Support Program.

Performance and Results: USAID played an important role in the development and ratification of East Timor's constitution in FY 2002. Constitutional experts provided technical assistance and training to the newly elected Constituent Assembly, charged with drafting the constitution. The USAID team helped prepare options papers on key issues such as anti-corruption, land and property, and judicial independence. USAID programs promoted broad and informed public participation by producing information materials for the Constituent Assembly to use in its public consultations on the Constitution; providing training and resources to strengthen the Constituent Assembly's press office in its interaction with the public; bringing in observer groups representing civil society and the University of East Timor; and organizing dialogue sessions for civil society groups, journalists, and government officials on constitutional issues.

After the adoption of the constitution, USAID supported the Constituent Assembly as it transitioned into the National Parliament. USAID programs helped develop basic parliamentary rules and procedures, such as the establishment of committees, public hearings, and effective press relations. USAID support to civil society groups increased understanding about the role of parliament and facilitated constructive community interaction with national and local public and elected officials in 12 of East Timor's 13 districts on community interests and priorities such as health, education, water, and security.

USAID assistance contributed to Presidential elections in April 2002 that "clearly met international standards for freeness and fairness" according to international observers. Through effective domestic election observer programs, political party poll watcher training, and promotion of women's participation, USAID helped ensure active citizen participation and high voter turnout (86 percent). A weekly radio show and community discussion groups on the role of the President as defined by the Constitution played key roles in raising public awareness and understanding of the elections. USAID media partners provided professional and objective coverage of the elections.

US Financing in Thousands of Dollars

East Timor

	DA	ESF
472-003 Support for Democratic Transition		
Through September 30, 2001		
Obligations	0	5,057
Expenditures	0	1,263
Unliquidated	0	3,794
Fiscal Year 2002		
Obligations	374	15,475
Expenditures	10	3,298
Through September 30, 2002		
Obligations	374	20,532
Expenditures	10	4,561
Unliquidated	364	15,971
Prior Year Unobligated Funds		
Obligations	0	2,316
Planned Fiscal Year 2003 NOA		
Obligations	0	10,000
Total Planned Fiscal Year 2003		
Obligations	0	12,316
Proposed Fiscal Year 2004 NOA		
Obligations	0	7,500
Future Obligations	0	0
Est. Total Cost	374	40,348

Data Sheet

472-xxx: No Summary and/or Pillar information entered for this SO.