

East Timor

The Development Challenge: East Timor has gone through three major transitions since its vote for independence. These include a political transition to a democratic government, an economic transition to a free and open market, and a social transition dealing with major social conflicts and reconciliation from 25 years of Indonesian occupation and reconciliation. Fundamental democratic and economic reforms have accompanied this transition period. As of May 20, 2004, the people of East Timor (Republica Democratica de Timor-Leste) will be completing their second year as an independent democratic country in Southeast Asia. The challenges of building a strong democracy and vibrant economy with fragile democratic institutions and limited human capital remain daunting over the next several years.

East Timor's budget revenues for the next three years are projected to be lower than previously estimated, creating an unexpected short-term financing gap from FY 2004 through FY 2006 of an estimated \$120 million. This financing gap is due to lower than expected oil and gas revenues to significantly cover core government expenditures through FY 2007. During this three-year period continued donor budgetary support financing is critical to narrowing the central government's revenue gap, maintaining stability and supporting the implementation of the National Development Plan.

East Timor's economy has declined significantly. United Nations staff is departing and foreign investments are not materializing due to the uncertainty in the investment climate, concern about regional security, and a weak judicial system. More than two-fifths of the population live on less than \$1 per day and only one in five families has access to electricity and only two in five families have access to clean water. Unemployment is rising and it is a major national concern. Urban youth unemployment is estimated around 40%. The declining local economy and expected lower economic growth levels over the next year will be unable to provide the number of new employment opportunities for workers entering the labor force. The country had a per capita income of \$430 in 2002, which is expected to decline in 2003, life expectancy of 57 years, high infant mortality, and a literacy rate of 43%. Food security remains a major problem for the majority of rural families facing inadequate access to basic food sources.

U.S. foreign policy interests in East Timor remain focused on assisting the country to establish a stable and secure democratic government and a growing market economy. As one of the first and largest foreign aid providers during East Timor's transition period, the United States is recognized by the Timorese as a reliable, credible and efficient source of outside advice and assistance. Continued funding levels through FY 2005 will enable the United States to continue its critical development support and central leadership role in East Timor.

The USAID Program: USAID's East Timor program focus on two objectives: 1) institutional and policy changes that support private sector development including the revitalization of the local economy; and 2) strengthening democracy and good governance. In FY 2004 funds will be used to implement the ongoing economic growth programs that support the expansion of coffee and vanilla exports, increased household incomes, technology transfers, diversification and sustainability of agricultural systems, expansion of technical/vocational training, and improved enabling environment for private sector growth and job creation. Also, ESF funds will sustain a network of critical health clinics providing basic health services to coffee workers and their families to maintain worker productivity and address basic family health care. ESF funds will be used to support a new micro enterprise activity that will expand rural families' access to critical rural markets (input, financial, and labor) to further stimulate the local economy and expand employment opportunities.

USAID plans to use FY 2004 funds to continue support of East Timor's democratic development by increasing public participation in good governance including strengthening of the judicial system, supporting the development of political parties, strengthening civil society, and fostering civilian oversight of uniformed forces.

The democracy program will improve citizens' access to justice through institution building in the judiciary system, training of 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 2004, USAID will continue to contribute to the World Bank-administered Transitional Support Program (TSP), which supports East Timor's nascent governing structures and provides critical support for the implementation of the National Development Plan supporting priorities in basic education, health, and poverty reduction. In response to the current financing gap facing the East Timor Government, due to unexpected shortfall in gas and oil revenues and a weaker than expected economy, the US government anticipates increasing its contributions to the TSP program in response to the East Timor government's request for assistance in narrowing the budgetary shortfalls in FY 2004 and FY 2005.

USAID plans to use FY 2005 funds to support the new strategy, which is focused on strengthening of the private sector and creating jobs with a significant emphasis on rural areas to further reduce poverty and improve rural livelihoods. In addition, USAID will maintain support for the strengthening of democratic values and good governance with a focus on rule of law and justice. In response to the increasing government financing gap due to delayed oil and gas revenues coming on line, USAID, in line with other donors, is planning to continue support to the central government, but likely at a reduced rate.

Other Program Elements: An NGO strengthening program, funded and managed by USAID's Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA), provides support for a set of NGOs in and around Dili to support their ability to provide continued and sustainable services to rural areas. A Victims of Torture program, funded through DCHA, trains rural community groups to address the needs of survivors of torture from Indonesian presence in East Timor. Through the Global Health Fund, East Timor receives funding for tuberculosis and malaria programs.

Other Donors: Coordination among donors is excellent with bi-annual development partners meetings, which have been held since January 2000. A donor coordination meeting is held monthly in Dili chaired by the Vice-Minister of Finance and Planning. The UN Mission of Support for East Timor is currently scheduled to close in May 2004 but may be extended in considerably smaller numbers to provide support to the security sector. Donors, including USAID, support the World Bank-managed Transitional Support Program, which provides direct support to the East Timor national budget with benchmarks linked to the five-year National Development Plan. TSP donors participate in a bi-annual review of the Government of East Timor's progress in meeting National Development goals and objectives. The United Nations agencies represent the largest multilateral donors, followed by the World Bank and the Asian Development Bank.

With respect to the bilateral donors, the top five bilateral donors are Australia, Japan, European Union, United States, and Portugal. Bilateral programs cover a wide array of development activities, including capacity building, budget support, health, education, and humanitarian assistance. These four areas account for 70% of the assistance provided to date to East Timor. Allocations for agriculture and rural development, basic infrastructure, water supply and sanitation, environmental protection and management, and private sector development have received much less support. The top five donors and the multilateral donors account for over 75% of the total external assistance. Since East Timor's vote for self-autonomy, over 35 official donors have provided assistance to East Timor and approximately 20 of these donors continue to be active.

East Timor PROGRAM SUMMARY

(in thousands of dollars)

Accounts	FY 2002 Actual	FY 2003 Actual	FY 2004 Current	FY 2005 Request
Economic Support Fund	25,000	24,838	22,367	13,500
Total Program Funds	25,000	24,838	22,367	13,500

STRATEGIC OBJECTIVE SUMMARY				
472-001 Economic Revitalization				
ESF	11,500	12,538	11,367	7,000
472-003 Support for Democratic Transition				
ESF	12,500	12,300	11,000	6,500
472-xxx ANE Regional HIV/AIDS Program				
ESF	1,000	0	0	0

Acting Mission Director,
James Lehman

Data Sheet

USAID Mission:	East Timor
Program Title:	Economic Revitalization
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	472-001
Proposed FY 2004 Obligation:	\$11,367,000 ESF
Prior Year Unobligated:	\$2,203,000 ESF
Proposed FY 2005 Obligation:	\$7,000,000 ESF
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2005

Summary: USAID's Economic Revitalization program is focused on promoting an enabling business environment that is open to free trade and foreign investment, increasing the production and quality of Timorese agricultural products, and improving market linkages and institutional capacity. Activities include the following:

- Strengthening the National Cooperative Federation in East Timor through the "Cooperativa Cafe Timor" (CCT) project and coffee cooperative activities to include expanding the export market of high-quality organic specialty coffee and vanilla and introducing other high-valued agricultural commodities such as livestock and forestry products;
- Improving Timorese management and business skills, particularly CCT staff;
- Providing technical and capacity building assistance to advance key economic issues such as foreign investment, administration of Timor Sea oil and gas resources, land reform, agricultural diversification, and microenterprise development; and
- Increasing the sustainability of cooperative health clinics that provide critical health services to cooperative members and families to maintain worker's productivity.

Funds from this Strategic Objective are also used to fund a Regional HIV/AIDS program managed from USAID/Washington. USAID's program is responsive to the Council of Ministers' priorities, which include supporting the development of the agricultural sector to ensure food security, developing trade through cooperatives, promoting health, and creating employment opportunities.

Inputs, Outputs, Activities:

FY 2004 Program:

Cooperative strengthening and exports (\$3,200,000 ESF). The USAID supported CCT project is providing three resident advisors, short-term technical assistance, farmer training, and cooperative management training in support of its seven activities. The CCT federation of coffee cooperatives is the largest private-sector employer in East Timor with over 3,500 employees of whom 800 are women, and provides support to approximately 20,000 organic coffee growers and 1,000 vanilla producers. CCT provides an opportunity for coffee and vanilla producers to export their products to expanded foreign markets through quality and Fairtrade/organic certification. In 2004, an additional 1,500 farm families will be trained and receive organic certification along with the recertification of the initial 19,600 farm families. CCT is expanding processing facilities and replacing several outdated coffee sorting and grading machines to process approximately 22,000 metric tons of red cherry beans in 2004. CCT staff and National Cooperative Business Association (NCBA) expatriate technical and training assistance will be used to support farmer demonstration activities that train farmers to improve pruning and plant density of coffee groves, replace old shade trees with new disease resistant Albizzia trees, improve vanilla cultivation and production using improved seedlings, improve the harvesting of vanilla and wet processing of coffee, and expand trade opportunities in 2004. The livestock fattening and export program will be expanded from 75 farm families to 125 farm families fattening approximately 250 Bali cattle using sustainable forage tree crop "Leucaena" as a green feed. Business education and cooperative management training of approximately 800 persons in the Klibur facility is anticipated in 2004. This will

lay the groundwork for increased Timorese management of CCT and its sustainability. Ten cooperative-health clinics and 25 mobile clinics will continue to provide quality health services for approximately 175,000 patient visits in the rural coffee-growing areas which result in improved worker productivity and family health. The primary grantee is the NCBA.

Policy, employment, and market linkage improvement (\$6,167,000 ESF, \$2,203,000 ESF Prior Year Unobligated). To help shape macro-economic policy decisions, USAID has provided a Senior Economic Advisor to the Office of the Prime Minister and a Senior Advisor on Investment to the Ministry of Development and Environment. USAID's Land Law activity is assisting both resident advisors to develop key land policies and legislation that will help direct East Timor's investment and business environment as well as train local staff and a cadre of graduate university professors and students to conduct land research. A new program focusing on small and micro-enterprise development will begin in 2004 expanding rural financial markets to low-income rural families to initiate new business activities. The USAID microenterprise program builds on the technical and financial support provided to approximately five key microfinance institutions to address the financial needs in rural areas. Additionally, a new value-added agricultural and market linkage support program will be developed to expand commercial agricultural activities and markets. These two programs will help address food insecurity and rising rural unemployment and will build on the current agricultural diversification and technology transfer programs with the Ministry of Agriculture. Strengthening farm-to-market linkages, expanding farm and non-farm enterprises, and strengthening micro-lending to help promote and broaden rapid economic revitalization, particularly in the depressed rural areas are foci. Primary grantees are ARD Inc., Nathan Associates, Louis Berger, and the University of Hawaii.

The Program support initiative for economic growth (PSI) (\$2,000,000 ESF). The PSI grant program will 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. USAID will provide administrative and technical support to award approximately 100 small grants which provide increased employment and income generating opportunities to Timorese living in urban communities and depressed rural communities. The principal contractor is Development Alternatives Inc.

FY 2005 Program:

Employment and income generating activities, health services, and small grants (\$7,000,000 ESF). Resources will be used to continue selected FY 2004 activities including support for employment and income generating activities, health services, and the small grants effort. FY 2005 funds will also be used to support long-term technical assistance, training, and institutional capacity building programs.

Performance and Results: In 2003 CCT purchased approximately 12,000 metric tons of coffee from approximately 20,000 farmers, for which CCT employed approximately 3,500 people to transport and process the coffee. This project directly increased participating families' household income by 25 to 30 percent for participating farmers. 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 clinics 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 activity continues to provide technology transfers to growers to ensure increased productivity and quality coffee. The USAID-supported senior-level advisors influenced several key investments, economic, and land policies and draft legislation developed in East Timor in 2003.

The Program Support Initiative (PSI) provided \$3.4 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 also provided increased employment opportunities to Timorese living in urban and depressed rural communities.

US Financing in Thousands of Dollars

East Timor

	DA	ESF
472-001 Economic Revitalization		
Through September 30, 2002		
Obligations	150	17,600
Expenditures	139	11,064
Unliquidated	11	6,536
Fiscal Year 2003		
Obligations	-11	10,197
Expenditures	0	4,062
Through September 30, 2003		
Obligations	139	27,797
Expenditures	139	15,126
Unliquidated	0	12,671
Prior Year Unobligated Funds		
Obligations	0	2,203
Planned Fiscal Year 2004 NOA		
Obligations	0	11,367
Total Planned Fiscal Year 2004		
Obligations	0	13,570
Proposed Fiscal Year 2005 NOA		
Obligations	0	7,000
Future Obligations	0	0
Est. Total Cost	139	48,367

Data Sheet

USAID Mission:	East Timor
Program Title:	Support for Democratic Transition
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	472-003
Proposed FY 2004 Obligation:	\$11,000,000 ESF
Prior Year Unobligated:	\$3,100,000 ESF
Proposed FY 2005 Obligation:	\$6,500,000 ESF
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2005

Summary: USAID's democracy program responds to East Timor's post-conflict development priorities. It includes four components:

- Increasing public participation in national and local governance by strengthening independent media, political parties and civil society organizations, and fostering civilian oversight of uniformed forces;
- Improving citizens' access to justice through judicial institution building and personnel training, expanding the reach of legal aid groups and increasing citizens' knowledge of rights, responsibilities and legal processes;
- Strengthening government and independent institutions, including local and national legislative and executive bodies, to implement democratic processes, adopt effective legislation and deliver services to communities; and
- Supporting the World Bank and Government of East Timor's Transitional Support Program (TSP) which provides budget support to the East Timorese government.

Inputs, Outputs, Activities:

FY 2004 Program:

Increasing public participation in governance (\$1,000,000 ESF, \$1,200,000 ESF Prior Year Unobligated). USAID will help civil society organizations in Dili and the districts develop advocacy and public outreach skills and build institutional capacity. USAID will support the efforts of community groups to strengthen local government responsiveness, political parties, and the National Parliament, while helping citizens solve their own problems without relying on government resources. USAID programs will enhance media professionalism, develop investigative journalism skills and sustainable management practices, and improve the legal environment. USAID will supplement technical assistance with small grants to local radio and newspapers. A successful program fostering constructive civil-military relations will be maintained. Prime grantees are Catholic Relief Services, International Republican Institute, Internews, and National Democratic Institute.

Improving citizen access to justice (\$1,300,000 ESF, \$500,000 ESF Prior Year Unobligated). To help develop East Timor's nascent judicial system, judges, prosecutors and public defenders in national and district courts will receive a mix of technical assistance and training. USAID will support legal aid services, efficient court administration, 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 monitoring and advocacy by civil society organizations. Principle grantees are The Asia Foundation, International Development Law Organization, and International Foundation for Election Systems.

Strengthening government and independent institutions (\$1,200,000 ESF, \$1,400,000 ESF Prior Year Unobligated). USAID's technical assistance to East Timor's new legislative and executive bodies will lead to transparent and well-informed legislative drafting procedures that reflect public input into the decision-making processes. USAID will support the development of the Public Broadcast Service (PBS) and the

establishment of a Government Information Office to improve transparency in governance. USAID will support institutions such as the Ombudsman's office, the President's Office and the State Secretariat for Social Services that address the needs of potentially vulnerable groups, including veterans. Principle grantees are The Asia Foundation, Foundation Hironnelle, and International Foundation for Election Systems.

The Program Support Initiative (PSI) (\$1,500,000 ESF). PSI is a small grants mechanism that supports the three above program areas with small grants and operational costs. These grants support local organizations, Timorese government, or independent institutions as specific needs arise. The prime contractor is Development Alternatives Inc.

Transitional Support Program (TSP) (\$5,000,000 ESF). The U.S. Government is a major contributor to the TSP program. USAID intends to transfer the remaining tranche to the World Bank-administered TSP to meet critical budgetary shortfalls facing the Government of East Timor following performance benchmarks jointly agreed to by donors and the Government of East Timor.

Operating Expenses (\$1,000,000 ESF). Congressional authority has allowed USAID to use up to \$1,000,000 to support USAID administrative and management expenses.

FY 2005 Program:

Rule of law and local governance (\$2,500,000 ESF) and Small grants (\$1,000,000 ESF). USAID's transitional country strategy ends in 2004, and USAID is developing the country strategy for 2005 - 2009. Based on stakeholder discussions and the preliminary findings of the recent Democracy and Governance Assessment, USAID proposes a narrowing of the existing program. USAID will focus on the critical areas of the rule of law and local governance and in providing small grants to support NGOs promoting citizen's participation and advocacy. Rule of law will emphasize the formal justice system and alternative dispute resolution while local governance will emphasize popular participation and improved service delivery.

TSP (\$2,000,000 ESF) and administrative expenses (\$1,000,000 ESF). In the critical years of budget shortfall prior to East Timor receiving significant gas and oil revenues, USAID will continue to contribute to the TSP. Administrative expenses to support program management and oversight will be required.

Performance and Results: Citizen Participation. A media monitoring unit was established to provide constructive and quantitative feedback to media managers, trainers and mentors. Over the first two quarters measured, media outlets improved accuracy, quality and management skills by 16.3%. A code of practice workshop resulted in all 16-community radio stations adopting a shared code of best practice. Several political parties formed a new platform alliance after participating in USAID training on platform development and coalition building. USAID assisted the majority party's youth organization in holding a national congress to elect leadership, develop a platform and strengthen youths' role within the party. As a result of participation in the civic forum, the 77 community organizing committees have successfully lobbied government officials for improved services with nearly 70% of their requests receiving a positive response. Targeted training for women led to a 12% increase in women's participation in the organizing committees. Training for civil society working groups produced seven reports analyzing social problems with recommendations for draft legislation. The reports were then discussed in parliamentary committees.

Access to justice and institutional building. The public defenders national office established regular visits to all prisons, improving information about individual cases to those detained and reducing the number of irregular detentions, particularly for juveniles. Legal education resulted in additional cases being brought to the formal justice system, especially those of domestic violence and land disputes. A legal glossary was developed to assist judicial, legal, law enforcement and others to improve the effectiveness of justice sector service in a multi-language environment. USAID's support for PBS allowed it to continue broadcasting, install a board of directors, and establish policies and procedures allowing PBS to run as an independent entity. The parliamentary commission held the first public hearing in the district of Oecusse on border security issues.

US Financing in Thousands of Dollars

East Timor

	DA	ESF
472-003 Support for Democratic Transition		
Through September 30, 2002		
Obligations	374	20,532
Expenditures	10	4,561
Unliquidated	364	15,971
Fiscal Year 2003		
Obligations	0	11,916
Expenditures	197	14,485
Through September 30, 2003		
Obligations	374	32,448
Expenditures	207	19,046
Unliquidated	167	13,402
Prior Year Unobligated Funds		
Obligations	0	3,100
Planned Fiscal Year 2004 NOA		
Obligations	0	11,000
Total Planned Fiscal Year 2004		
Obligations	0	14,100
Proposed Fiscal Year 2005 NOA		
Obligations	0	6,500
Future Obligations	0	0
Est. Total Cost	374	53,048