

COUNTRY STRATEGY PAPER

EAST TIMOR

2002-2006

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EAST TIMOR AT A GLANCE

Land area 19,000 sq. Km (= half Belgium)	Population 787,000 (2001)	Population density 41 per sq. km
Population of main town Dili: 60,000 (1998); rising to 140,000 approx. (Sept 2001)		
Annual population change (% per year)		
1997/8: +4.8%	<u>1998/9: -15%</u>	1999/0: +4% 2000/1: +1%

Political situation

Colonial territory and overseas province of Portugal until 1975. Occupied by Indonesia December 1975 until September 1999. Voted 78.5% on 30 August 1999 in a UN-managed referendum against offered autonomy within Indonesia i.e. for independence. September 1999 Indonesian integrationists and militia rampaged killing over 1000, and displacing 250,000+ persons, going mostly to West Timor. Three-quarters of the infrastructure and housing destroyed. Australian-led UN INTERFET peace-keeping forces admitted (by Indonesia). Peace re-established. October 1999 UN Security Council established UN Transitional Administration for East Timor (UNTAET) led by Mr Sergio Vieira de Mello as UN Transitional Administrator. UNTAET has governed East Timor since then. 30 August 2001 Constituent Assembly elected to elaborate and adopt a constitution within 90 days. Probably a presidential republic system will be agreed. September 2001 Mr Sergio de Mello appointed Second Transitional Government of East Timor to reflect balance of Constituent Assembly. UNTAET is progressively handing over the administration to East Timorese leaders and administrators. Independence 20 May 2002 after presidential elections 14 April 2002. Period of phasing out of UNTAET and peace-keeping mandate and presence is an open question for UN and East Timorese.

Economic Summary

Indicator	Pre-crisis		Crisis year	Post-crisis	
	1997	1998	1999	2000	2001
Real GDP growth (%)	4	-2	-38	15	15
GDP US\$ millions (p.p.p.)	315	390	245	290	344
GDP per capita (\$)	374	441	327	387	437
Inflation % CPI Dili in rupiah	+10	+80	+140	+20	
Exports US\$ millions	52	54	49	16	30
Imports US\$ millions	142	142	89	100	161
Fiscal deficit (% GDP)	-67	-29	-37	-17.6	-34.0

Over the last two years East Timor has passed rapidly from being a relatively neglected, very poor eastern province of Indonesia, through a catastrophic period of social and economic crisis, into the present phase when huge amounts of aid and expenditures by peace-keeping and UN and donor personnel are occurring. The above figures highlight the level of donor dependence to finance the domestic and external deficits. The previously basically rural, mainly subsistence, economy produces only one product, coffee, that can be considered an international export cash crop (\$15 m. exports in 1998) - the other of exports are traditional products sent to nearby islands such as copra. Possibly significant revenues from offshore oil and gas fields in the Timor Sea may come onstream in 2004/5, thereafter alleviating East Timor's financing problems. East Timor is a small, least-developed, island society whose development challenge is compounded by the wholesale destructions of 1999, by the challenge of establishing institutional systems and frameworks, a need for reconciliation, and by its very limited economic base and market size.

Selected Social Indicators¹

Indicator	Pre-crisis		Crisis year	Post-crisis	
	1997	1998	1999	2000	2001
Adult literacy rate over 15s %		47			
Primary school enrolment %	83	70			
Secondary school enrolment %		39			
Life expectancy at birth				57	
Underweight children <5 (%)			35		
<5 mortality rate (per 1,000 live births)	124				
Maternal mortality rate (per 100,000 live births)		420		300 to 850	
Children <2 fully immunised (%)	56				
Infants <1 fully immunised (%)					12
Births supervised by trained personnel (%)		15	40	20	
Households with access to safe water (%)		48			

¹ One of the most difficult problems for strategic analysis of East Timor is that the destruction of previous archives, and of most administrative systems and structures has meant that economic and social statistical data are incomplete, or totally lacking - see main text and Annex 1 for further commentary.

SUMMARY

East Timor is emerging from the transitional phase of its separation from Indonesia that began in earnest with the referendum vote for independence in August 1999. Since then East Timor's volatile situation has been stabilised by massive external assistance delivered under the umbrella of UN peace-keeping and the UN transitional administration. The major challenges faced by East Timor are being addressed in the following sequence:

Emergency Aid to meet Security and Basic Needs. The widespread violence and destruction in September 1999 and subsequent social, economic and administrative disruption required emergency aid to provide security, shelter and basic needs. This remained the first priority for external assistance throughout 2000 and is only now beginning to be phased out as the international community is addressing the needs for reconstruction.

Rehabilitation. During 2001, 2002 and into 2003 rebuilding damaged infrastructure, and the creation of new public administrative systems are the priorities necessary to lay the foundations for nation-building and for longer term development. Accordingly this Country Strategy allocates substantial resources in 2002 and 2003 to physical rehabilitation and to helping establish public institutional capacities. Since September 1999, the international community has mounted a massive humanitarian and rehabilitation operation for East Timor. The European Community has already massively (€ 109 millions) contributed to: humanitarian relief; the setting up of the UN transitional administration; voter education and electoral observation; and to rehabilitation programmes implemented through the Trust Fund for East Timor managed by the World Bank and the Asian Development Bank. With the rehabilitation period coming towards an end in 2002/2003, there is a need to elaborate a more long term, development-oriented relationship. The proposed strategy for Community support is tailored to cover this transition from a rehabilitation mode to a long term development focus.

Nation building. This is essentially the sovereign task of the East Timorese, but it must be taken into account in external assistance. It is a question of identity: overcoming the wounds of internal conflicts (civil war 1974-1975, Indonesian occupation 1975-1999, the violence and population movements of 1999); reconciliation with leaders and partisans of the pro-Indonesian integration movement; creating a stable social tissue, and positioning East Timor as a stable factor in the SE Asian context all pose challenges to this (soon to be) the latest addition to the Community of Nations.

Long Term Development. Since East Timor is a least-developed, small, isolated, island and is a new nation, the creation of a sustainable economic base poses a daunting challenge. This Country Strategy focuses on poverty alleviation, basic needs and the creation of the necessary basic public structures. It proposes a focus initially on rehabilitation and health; and in the medium term on health and rural development, with capacity-building in the public sector as a cross-cutting theme. The strategy is designed to assist East Timor to develop and manage its own resources in a manner suited to its challenging situation and modest prospects.

The present paper proposes that the **two focal sectors** for Community development assistance for East Timor be **health** and **rural development**. The Commission has ongoing sectoral expertise and experience in both sectors. **Health** would also in the long term remain the lead sector for EU funding for the whole of the 2002-2006 period. In addition to health, and in order to reinforce a more long term-development orientation over the entire period of this Country Strategy the second major sector of focus would be **rural development** defined broadly to include forestry and environmental management, training and support to local especially rural administrations, and encouragement of the development of rural enterprise, employment and society. These are activities in which the Commission has already been involved in the framework of the TFET. There is thus a strong theme of **continuity** in these proposed sectors of focus so that the Commission should be in a position relatively rapidly to propose specific implementation project follow-up taking a holistic, sectoral approach.

Within the frame of these two sectoral foci, East Timor's assistance should at the same time address the **cross-cutting themes** of poverty reduction (PRSP), food security, conflict prevention, human rights, good governance, encouragement of civil society, resettlement of uprooted peoples, employment creation, and environmental protection as themes to be integrated into all programmes. Given East Timor's low levels of education and of institutional development, and its ongoing transition to becoming a newly independent nation all programmes should include training and **capacity building** (particularly in the **public administrations**).

Finally, despite the limited scale of the local market, promotion of enterprise, **economic development and employment creation**, particularly in rural areas, should not be neglected since East Timor needs to develop and diversify its economic base to alleviate dependence on external financing. Technical assistance support can be made available to help East Timor develop and implement a strategy for its international trade and economic relations.

Care needs to be taken in the design of all projects and programmes, and their policy framework, so that they are not over-specified and do not lead to unsustainable recurrent costs and maintenance burdens in the long run.

1. EU CO-OPERATION OBJECTIVES

The legal basis. Article 177 of the EU Treaty sets out the three broad objectives for Community development co-operation. These are

- fostering of sustainable economic and social development,
- the smooth and gradual integration of the developing countries into the world economy,
- the fight against poverty.

Community policy should contribute to the general objective of developing and consolidating democracy and the rule of law and encouraging the respect of human rights and fundamental freedoms. The Council and the Commission have further discussed and specified these principles and objectives for **European Community Development**

Policy and laid them out in their joint statement dated 10 November 2000 following the Development Council's discussion of the Communication from the Commission to the Council and the European Parliament dated 26.4.2000 COM (2000) 212 final on The European Community's Development Policy². This Country Strategy Paper is drafted in the light of these policy guidelines. The **Council ALA Regulation**³ applies to East Timor. The focus is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy. For East Timor for several years rehabilitation will remain important. Its legal basis is the **Council Regulation**⁴ **on Rehabilitation**. It aims at swift interventions, but with an intermediate development goal. To date, there is no bilateral Co-operation Agreement with East Timor.

It is against this background that the EU co-operation with East Timor must be examined.

Objectives for the coming five years are therefore:

- to complete the rehabilitation programme in East Timor, ending new commitments in 2002 and 2003;
- in parallel, to help launch a long term development programme, particularly for the health and rural sectors;
- to maintain the Commission's position as a partner of substance for East Timor, ensuring the visibility of Community assistance; and,
- help East Timor to develop a strategy for its external trade and economic relations.

2. EAST TIMOR'S POLICY AGENDA

The United Nations Transitional Administration for East Timor (UNTAET) is presently still formally in charge of policy. It is progressively transferring this responsibility to the East Timorese leadership and administration which is being consolidated. Elections for the Constituent Assembly took place on 30 August 2001 and on 20 September the UN Transitional Administrator appointed an all-Timorese Second Transitional Government headed by Mr. Mari Alkatiri as Chief Minister. At present (November 2001) and until independence is declared probably in May 2002, East Timor continues to be governed by the Special Representative of the UN-Secretary General/Transitional Administrator⁵ assisted by the Second Transitional Government.

² See joint Statement dated 10 November 2000 by the Council and the Commission on "The European Community's Development Policy" following the Development Council's discussion of the Communication from the Commission to the Council and the European Parliament dated 26.4.2000 COM (2000) 212 final on The European Community's Development Policy.

³ Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America

⁴ Regulation (EC) N° 2258/96 of 22 November 1996 on rehabilitation and reconstruction operations in developing countries.

⁵ Mr Sergio Vieira de Mello.

His main task is to create a national administration, to achieve rehabilitation within the UN-mandate, and to prepare for political independence.

This implies that until May 2002 there will be no permanent indigenous government to elaborate East Timor's development priorities. The national policy agenda, as described below, has therefore been collated from various sources: - from UNTAET/ETPA⁶, as the current administrative bodies; from the World Bank and the Asian Development Bank, as the leading partners, through the Trust Fund for East Timor, in the implementation of the rehabilitation programme; and, through Commission research, Commission participation in the Trust Fund for East Timor Donors' Council, its Correspondent Office in Dili, and various official missions to East Timor including contacts with EU Member States, other donors and with civil society organisations.

Development Programme. In the absence of a single national development programme, UNTAET/ETPA has been working on the basis of various planning documents produced since East Timor's separation from Indonesia in 1999. The National Planning and Development Agency, the World Bank, the IMF and the ADB particularly contribute to these documents which are presented and discussed in the regular donor meetings of the Trust Fund for East Timor (TFET) Donors' Council (Tokyo, December 1999; Lisbon, June 2000; Brussels, December 2000; Canberra, June 2001; and planned for Oslo in December 2001). The next East Timor Donors' Council is scheduled to meet in Oslo, Norway in December 2001. The first, and until now still the most comprehensive, country policy analysis is the Common Country Assessment, published in November 2000 by the UN country team⁷, but other analyses and sources of data have also been made available and taken into consideration in this CSP.⁸

Rehabilitation 2000-2003. The achievement of the aims of the medium term rehabilitation programme executed by UNTAET and TFET since 1999 has to be considered as an essential pre-requisite for successful longer term development. The rebuilding of society, public institutions and infrastructure are clearly the necessary foundations for a sustainable socio-economic basis for the longer term.⁹

Benchmarks for development. Given the drastic decline in the economy and in welfare levels during 1999-2000 any progress in longer-term development has to be measured against the pre-September 1999 level, when East Timor was still a province of Indonesia and before the widespread destruction and destabilisation of September 1999. (Although the administrative and economic policies before 1999 were far from ideal.) The most thorough on-the-ground analysis of the physical and economic living conditions available is still "Social and Economic Conditions in East Timor" dated

⁶ East Timor Public Administration.

⁷ East Timor: Building Blocks for a Nation, The Common Country Assessment (CCA) prepared for East Timor by the UN East Timor-based country team assisted by UNTAET and ETTA and East Timorese and International NGOs. Dili, November, 2000.

⁸ Such as the Transitional Support Strategy for East Timor, World Bank, Nov 3, 2000; IMF Canberra Papers, June 2001; Draft of The Survey of Sucos in Timor Loro Sa'e, August 2001, ETTA, IMF, WB, UNDP, Mid-year report, Unicef, 2001; and The Food and Nutrition Situation in East Timor, J. McComb, AusAid, June 2000.

⁹ The Commission's Communication COM(2001) 153 final on Linking Relief, Rehabilitation and development has been taken into consideration in this context.

1 November 1999¹⁰. Even before the setbacks of 1999 East Timor was already at **least-developed** levels of income and welfare. Donors and consultants report that in 1999/2000 there was a severe decline in welfare levels and suggest that it is expected that East Timor, both under UNTAET and in the first years of independence, will only reach the pre-crisis levels of economic income and physical welfare by 2002/2003 at the earliest. If this target is met, it will in large part be due to the economic "spin-offs" of the huge local expenditures on peace-keeping and on donor administration which are distorting the local economy in the short run and are not sustainable sources of wealth-creation in the long term.

Link with poverty reduction strategy (PRSP).¹¹ In May 2002 the World Bank is expected to release its East Timor comprehensive poverty survey and reduction strategy - at the time of writing, January 2002, this was not yet available. It is the Commission's clear objective to work in accordance with these findings and the relevant PRSP policy framework when they become available. This country strategy is sufficiently poverty-focussed and flexible to accommodate these findings as they become available.

National priorities for development. From the above mentioned sources, the following sequential priorities, as broad aims for development, can be identified: rehabilitating essential infrastructure; establishing the capacity of the government institutions and of local administrations; alleviating poverty, especially in rural areas; and, increasing employment, again mostly in rural areas.

A Country Strategy Paper for an established country would normally be drafted together with the partner government. In the absence of such, this CSP reflects donor co-ordination mainly in the framework of TFET such as at the bi-annual Donor Councils, as well as in regular meetings between donors and UNTAET and the East Timorese in Dili. The present document will need to be revised during its intended life cycle, thus allowing for an adaptation to the further and evolving needs of an independent East Timor.

3. COUNTRY ANALYSIS

3.1 POLITICAL SITUATION

A New Start. Following the September 1999 violence and the subsequent departure of much of the civil service staff to West Timor, East Timor was left without any working institutions. This distinguishes it from other war-torn territories, as all administrations and institutions have to be constructed *de novo* rather than reconstructed. (Annex 2 gives a detailed historical and political background history of East Timor.)

The results of the colonial period followed by Indonesian occupation results in huge political challenges today: (1) the **rehabilitation** and the reconstruction of destroyed infrastructure, has to be completed; (2) introducing **democracy, justice and nation**

¹⁰ Social and Economic Conditions in East Timor, by Jon Pedersen, Marie Arneberg and David L. Philips of the Fafo Institute of Applied Science, Oslo, Norway; and School of International Affairs, Columbia University, New York, USA.

¹¹ Poverty Reduction Strategy Paper.

building, i.e. coping with past human rights abuses and psychological wounds of numerous families, and reconciling the various antagonistic social groups of society, while creating appropriate, democratic mechanisms for conflict resolution; and (3) encouraging **long-term development**, i.e. mainly dealing with poverty and capacity building; and creating a sustainable livelihood for the population.

West Timor. The issue of remaining East Timorese refugees in West Timor (aid agencies estimate the amount as around 70,000+) remains a matter of concern. Recent aid agency estimates suggest that about half of these would like to return to East Timor. In December 2001, the Commission has concluded a grant agreement of Euro 6 millions with UNHCR covering a wide range of activities to assist in the repatriation and resettlement of this population.

Human rights. Under Indonesian rule, massive human rights violations took place, mostly by the armed forces. The post-referendum violence in September 1999 led to an intensification of gross human rights violations, with an estimated death toll of ca. 1,000. It is therefore evident that Indonesia has the main responsibility to investigate past human rights violations. For that purpose, the Indonesian government and UNTAET have signed a memorandum of understanding. However, little progress has been made, and the establishment of an international tribunal is still a possibility. In East Timor, UNTAET has established a special panel on serious crimes and a human rights monitoring unit.

Legal issues. East Timor, as a non-self governing territory, does not yet adhere to international Treaties. However, it is expected that the future government will carry over existing UNTAET legislation (which includes some Indonesian legislation), and those bilateral country agreements signed so far. UNTAET has not comprehensively tackled land title and property issues which are crucial for long term reconciliation and development.

International relations. East Timor is situated between two big neighbours, Australia and Indonesia (see map in preface). Furthermore, informal links with Portugal have been maintained and formalised and much intensified since the referendum in August 1999. The East Timorese leadership has declared that it will apply for ASEAN membership and ASEAN members have already signalled a positive attitude. The possibility of East Timor's accession to the ACP group is a matter that may arise after full independence is achieved. Relations with Indonesia are complicated by the remaining open questions; investigating human rights violations (e.g. the Dili massacre of November 1991, and the killings of East Timorese in the aftermath of the referendum in 1999), West Timor, the restoration of public records and cultural artefacts, the continuation of studies in Indonesia, the payment of pensions to former civil servants, and access to the Oecussi enclave. President Megawati has declared that she recognises East Timor's right to independence and that she would like to normalise diplomatic relations after East Timor's independence is achieved.

3.2 ECONOMIC AND SOCIAL SITUATION

3.2.1 STRUCTURE AND PERFORMANCE

East Timor previously a part of Indonesia. Like adjacent provinces in Eastern Indonesia, East Timor was already very poor in 1999, with an estimated GDP per capita of \$ 441 in 1998, falling drastically to \$ 327 in the crisis year 1999¹². The IMF has estimated that GDP per capita only got back to 1998 levels towards the end of 2001.¹³ Roughly half of the population (and most of the women) was living below the internationally established criteria for poverty. Real GDP had grown an average of 10% from 1994 to 1996, led by growth in construction, public administration and other services. But these activities benefited mostly the urban population and rural-urban income differentials had started to widen, encouraging migration to the towns, particularly Dili whose population has doubled since 1998 to 120,000 now.

The crisis. Following the referendum vote for independence from Indonesia in August 1999, the destruction and violence in September 1999 left the territory with hardly any infrastructure intact, and with a large part of its population displaced. Thousands of public servants, health workers, and teachers left the territory for Indonesia. Although many were forcibly displaced to West Timor, only a very small percentage of public sector workers returned after the security situation had stabilised. Thus, along with the widespread devastation of infrastructure, East Timor found itself deprived of public administration, of workable schools and of social services. Economic activity was completely disrupted and immediate emergency and humanitarian help started to come in. By mid-2000, \$ 135 million in humanitarian aid funds had been provided to East Timor.

Rehabilitation and recovery. Following the crisis, the international community undertook one of the most comprehensive rehabilitation operations in history. This vast operation is a clear success story for the international community, and in particular for the UN. Some macro-economic signs of recovery have since emerged, mainly stimulated by the huge inflow of foreign funds related to the UN Peacekeeping exercise, UNTAET and the rehabilitation activities of the donors to the Trust Fund for East Timor. These funds flows are obviously a one-off stimulus to the economy and the challenge is to get the long term local economic base growing again.

Structural issues and poverty. East Timor is one of the poorest countries in the world. This is despite earlier development efforts by Indonesia, whose finance was mostly directed to infrastructure, health and education, but substantially wasted through corruption, mismanagement and over-scaled and over-specified infrastructures with insufficient maintenance, recurrent costs, and management support.

The economy is now characterised by several factors. Firstly, the territory has very low levels of development in rural areas. Most of the population currently still relies on subsistence farming, or on fishing, with uncertain and low incomes. Inequality of income distribution has been and still is low, given the generally very low incomes of

¹² See annex 1 for more complete economic and social data.

¹³ IMF, Canberra Donor Council (June 2001) papers.

nearly all the population. But the difference between urban and rural incomes is beginning to open up.

Secondly, East Timor's social economy was highly segmented in the past, with a few influential (although not wealthy) clans controlling most of the land; a vast majority of poor rural farmers; and a separate, better-off, urban economy, benefiting primarily Indonesians. Since 1999 the presence of numerous international UNTAET staff and aid workers has exacerbated this urban-rural split in society, but is at least stimulating the growth of the small service sector in the capital Dili.

Thirdly, with an extremely low domestic tax revenue base (in 2001 \$19 millions local revenues versus \$65 millions public expenditure, not including TFET rehabilitation costs) East Timor will remain dependent on external aid at least until 2004/2005 when the hoped-for revenues from the Timor Gap oil and gas fields may begin to come on line significantly - but these are uncertain (see annex 4 for details).

Economic potential. Until 1999 East Timor was heavily dependent on support from Indonesia. After independence East Timor's prospects are very difficult and depend on alternative external sources of support. Whether East Timor will have in the future the resources to finance its own development will depend on; firstly, external aid flows over the next few years; secondly, the development and coming on line of the revenues from the Timor Gap offshore oil and gas fields (but these will not begin until 2004/2005 and could encourage unsustainable and wasteful expenditures); finally, and in the very long term, the development of agriculture and the rural economy to offer some possibilities for adequate employment-creation and developing a self-generating and sustainable economic base.

Long term plans underline the importance of agriculture, which is currently contributing 30% of GDP and absorbing 80% of the workforce. There should be good prospects for the growth of coffee production and exports, which could command a premium price in international markets, owing to its organic standard and high quality. Past over-logging has led to the disappearance of sandalwood as a natural resource. Only minor teak plantations still exist. Until now in rural areas, and in a closed cycle of poverty, farmers have been assuring their own food security, with low yields and ecological degradation. The question of land ownership also remains a crucial unresolved issue.

Over time, the surplus of labour in agriculture could be pulled into the industrial and service sectors. But the very limited potential of such a small, and isolated production base and market will limit development of these sectors which will never absorb all of the labour available. The variety of East Timor's landscape, parts of which have great scenic beauty, could hold some labour intensive tourist potential, but this is likely only in the much longer term, and anyway tends to have undesirable social and import-generating effects.

The Timor Sea is thought to be rich in oil and gas deposits. An agreement reached in July 2001 with Australia provides for East Timor to receive 90% of the tax revenues from these fields. Actual revenues from the Timor Sea were US\$ 13 millions in the year 2000/2001. But these revenues do not become really significant until after 2004 when these revenues are projected to come more fully on stream in the years following 2004 (see annex 4 for details).

The balance of foreign trade, even before the 1999 crisis, was drastically in deficit with imports more than double exports and the gap made up until 1999 by Indonesian transfers and from 2000 by external aid inflows. Major donors, like Australia and Japan, supply the expatriate colony with important items, but exports from East Timor, apart from coffee, are negligible and all in the basic agricultural category supplying neighbouring island markets. East Timor qualifies as a Least Developed Country and should benefit from the EU's "Everything But Arms Initiative".

3.2.2 SOCIAL DEVELOPMENTS

Modest past achievements. Since 1975, twenty-five years of modest economic growth, under Indonesian rule, have resulted in equally modest social achievements. Despite an Indonesia-wide overall reduction of poverty and decreasing child mortality, East Timor remained by all standards the poorest province of Indonesia¹⁴. Like neighbouring Indonesian provinces, the high rate of population growth remained a serious problem. In this poverty-stricken environment and relatively closed, subsistence economy, the social impact of the Asian financial crisis of 1997-98 was hardly felt.

Social Services and Health. Earlier Indonesian health policies emphasised the provision of basic care, which was, and still is, free for poor people. But the Indonesian health system was characterised by high levels of input, staffing, and infrastructure, and, due to inefficiencies, relatively low levels of outputs and outcomes. The 1999 crisis left East Timor without an adequate network of accessible basic health care, which was in the aftermath of the 1999 crisis provided by various international NGOs.

A series of joint assessment missions, including the Ministry of Health with the participation of Commission and World Bank staff, has elaborated a national health programme. Important issues to be addressed include a continued high risk of maternal death, a lack of care during pregnancy and delivery, chronic malnutrition, poor reproductive health status and limited access to family planning services. The programme also plans the institutional set-up of basic health care and referral services.

Gender issues. At the current developmental level of East Timor, gender issues are only beginning to become a major concern. Yet poverty levels are considerably higher among females and mothers - and traditional attitudes remain. Nevertheless, since the vast majority of the population is Catholic, religious traditions constrain the status of women less in East Timor than in some parts of the Indonesian archipelago.

3.2.3 PUBLIC FINANCE AND SECTORAL POLICIES

Until independence is declared, two multilaterally-managed trust funds constitute the main elements of public finance in East Timor.

¹⁴ All statistical data, including the Indonesian annual socio-economic survey SUSENAS 1999, point to considerably lower availability and standards of social services in Eastern Indonesia and especially in rural areas.

CFET. Currently, the operational/recurrent budget of UNTAET is financed through the Consolidated Trust Fund for East Timor (CFET - or the UNTAET Trust Fund). CFET will ultimately become the national budget of the new country¹⁵. It covers currently the budget of the East Timorese public service, some rehabilitation activities, and some limited quick-impact projects.

There is a tendency to deficit budget financing. According to figures circulated at the donor co-ordination meeting on 16 August 2001, the total CFET appropriations for the year 2001/2002 amount to US\$ 65 millions. Projected ETTA revenue for 2001/2002 in the budget is US\$ 25 millions including US\$ 6 millions from Timor Sea revenues. Even with a carry-over of US\$ 20 millions from 2000/2001 this still leaves a US\$ 20 millions financing gap for the year 2001/2002. Total expenditures have been projected to increase to \$80, 99, and 103 millions, in the years 2002/3, 2003/4, and 2004/5 respectively.

There is also a tendency for recurrent expenditures to become a larger and larger proportion of the total. The IMF has said that "the main concern is the downward rigidity introduced by embarking on a high and self-propelling expenditure path."¹⁶ Clearly, CFET suffers from insufficient tax revenues and relies on donors to cover its current deficit. This is unsustainable in the longer term. There is, however, the possibility of significantly increasing its potential, with oil and gas tax revenues coming on stream after 2004/2005.

TFET. In parallel, the Trust Fund for East Timor (TFET) is the donor-funded common vehicle for the rehabilitation of East Timor. The World Bank and the Asian Development Bank are managing this Fund which was created after the Tokyo December 1999 Donor Conference as one major component of rapid short term non-emergency assistance to East Timor. Its portfolio concentrates on basic post-conflict reconstruction, including physical rehabilitation of essential social and economic infrastructure and support to recovery of the private sector. By February 2002, approximately \$ 167 millions had been committed and \$ 77 million has been disbursed through TFET. To date, six sector programmes (for community development and governance, health, education, agriculture, infrastructure and water and sanitation) and five smaller projects have been launched and partly completed.

The TFET is a clear success story. Besides encouraging donor contributions, and facilitating transparent donor co-ordination, it has allowed East Timorese counterparts increasingly to be involved in identifying priorities. However, rapid implementation has not been easy. Most programmes have faced a trade-off between building institutional capacity, training and involving East Timorese staff versus rapid delivery. Slow transfer of funds from donors has also caused some financial difficulties.

¹⁵ By contrast, the UN Assessed Budget covers the salary of UNTAET staff (international and local) and other costs of the mission itself.

¹⁶ IMF staff statement to the Donors' Meeting on East Timor, 14-15 June 2001, Canberra see www.imf.org.

In 2003, TFET should have completed its work programme. The relevant sectors should have reached by then their reconstruction goals and projects and programmes moving towards longer-term development goals relating to agriculture, enterprise promotion, health, water, sanitation, and roads. Eventually, a merger of CFET and TFET within the framework of an East Timor national budget is probable.

The financial and banking sector is at a rudimentary stage of development. Since 20 August the US dollar is the only legal currency for monetary transactions. All the main businesses in Dili adhere to this. Huge quantities of US currency were imported earlier in 2001. In practice the Indonesian rupiah is still used in rural areas and at markets, but there is pressure to eradicate and repatriate all rupiah to Indonesia. The payments system is working well, but otherwise commercial banking is little developed and credit is almost negligible due to lack of collateral. Almost all the available credit in East Timor comes through the Small Enterprise Project funded by TFET. The Microfinance project is engaged in establishing a microfinance bank and in reforming defunct credit unions throughout East Timor.

3.2.4 EXTERNAL ENVIRONMENT

As a non self-governing territory, East Timor has never been the object of a WTO trade policy review. The East Timorese transitional leadership the intention for their country to become a member of ASEAN and to join the West Pacific Forum. These formal decisions, usually followed by a request to be accepted as observer to the organisation, can only be undertaken once independence has been declared, after all other ASEAN-partners have agreed. Another possibility is to join the ACP group. These possibilities are not necessarily mutually exclusive.

3.3 SUSTAINABILITY OF CURRENT POLICIES

Fiscal and Budgetary Sustainability. Given the low local tax base, the main challenge for East Timor is the prudent management of the budget while addressing development financing needs. While loan arrangements cannot be excluded for the future, the East Timorese leadership has indicated that this should be put off as far as possible. In 2001/2002, the budget shows a deficit of \$ 20 million, to be covered by donors. Such deficits are likely to persist until the hoped-for oil and gas revenues come on line after 2004/2005. But the IMF has commented that since "there is a considerable risk attached to oil and gas resources, ensuring fiscal stability will therefore require taking very decisive steps to mobilise domestic resources, to maintain a tight rein on the level and composition of expenditure, and adopt a prudent financial strategy."¹⁷

Environmental issues. Except for possibly large stocks of oil and gas in the Timor Sea, East Timor is endowed with modest natural resources. Environmental problems are already serious. Forestry, agriculture, fishery/marine environment, and urban development (waste) are the areas most affected and poor legislation and weak law enforcement do not yet provide an adequate framework for regulation. The transitional administration leadership has, however, shown its readiness to tackle these problems.

¹⁷ IMF statement to Canberra Donors Council, June 2001.

3.4 MEDIUM TERM CHALLENGES

Creating and maintaining political stability. With UNTAET progressively withdrawing, the first government of a newly independent East Timor will have to take and explain difficult decisions, concerning policy directions, and especially budget priorities under an extremely tight budget. The faith of the local population in peaceful democracy and the new administration is likely to be tested as the initially high expectations of independence meet long term economic realities.

Avoiding social conflict. East Timor's population is far from homogeneous, with different cultural and linguistic orientations within a relatively small territory. Optimistic expectations have been engendered by huge external assistance during the recent period of reconstruction and transition to independence. External assistance is bound to decline and stabilise in the medium term, leading the East Timorese to depend more and more on their own limited resources. Open discussion of these constraints, of the harsh trade-offs necessary, and the agreement and communication of clear objectives by the new leadership will be necessary in the new democracy.

Foreign policy orientation and regional integration. Concerning national external security, East Timorese leaders have rightly underlined that good-neighbourly relations will count more than an armed national defence. ASEAN-membership is a relevant option (see supra 3.2.4).

Economic policies. In the near future, the economic policy agenda will have to follow stringent requirements, leaving little room for manoeuvre. Macroeconomic stability must be ensured, with carefully controlled expenditures and encouraging a broader tax base, therefore containing inflation and lowering interest rates.

Capacity building in the public sector. Creating a competent public service in East Timor for the most basic public services is a Herculean task. Under Indonesian rule, higher posts in the administration were almost exclusively occupied by non-East Timorese, as well as around 50% of the lower positions. As the non-East Timorese officials left the territory, the shortfall in administrative capacity became serious. The administrative transition from UNTAET to an Independent East Timorese Government comprises the gradual "timorisation" of posts. However, this requires the transfer of skills, a task that needs time and external support. Thanks to UNTAET's efforts, this process has begun, particularly in the capital city, Dili. In rural areas, and at district level, severe shortcomings are a major problem. The poor delivery of public services, along with the lack of job opportunities in the countryside, incites young people to come to Dili, thus aggravating existing social problems. Limiting the scale, and at the same time improving the performance, of the newly-recruited civil service is a most challenging task - particularly outside Dili.

Citizenship. The new government will have to pass legislation concerning the right to East Timorese citizenship. Until now, there is no document that establishes the persons eligible to receive East Timorese citizenship.

Land rights. Before Portuguese rule, systems of customary law governed land attribution. Following colonisation, these old systems were eroded through colonial titles. Under Indonesian rule, legal recognition for customary law was definitively removed. Communal land became state land, and certain privileged old situation important families plus some companies with plantations obtained rights. The 1999 destruction of the archives has further clouded the situation. Only in Dili and surrounding areas are some of these land titles clear. And returning residents may try to take back ancestral land.

4. PAST AND ONGOING EC CO-OPERATION

4.1 OVERVIEW

The EC contributions to East Timor, since September 1999, amount to € 109 millions and are summarised as follows: **WORLD BANK (TFET): ~ € 47,4 millions:** contributions to the Trust Fund for East Timor (TFET), particularly to establish health services and rehabilitate infrastructure; € 19 millions in 2000 contribution and € 28,4 millions in 2001. **UNTAET: € 10 million:** direct financial support to the United Nations Transitional Administration in East Timor, disbursed May 2000; **ECHO: € 42 millions:** through contracts with International NGOs, International Governmental Organisations and UN Agencies; assists in alleviation of emergencies, especially in health and food supply; approx. € 28 millions disbursed by the end of June 2001; **FOOD AID: € 8.5 millions:** in view of East Timor's dependency on external supplies, early assistance to alleviate food shortages; delivery of approx. 11.000 tons of cereals and 1300 tons of vegetable oil; implemented through the World Food Programme; **ELECTIONS: € 1 millions:** contribution to civic and voter education and constitutional consultation in addition to an electoral observation mission for the August 2001 elections to the Constituent Assembly.

4.2 PAST EXPERIENCES AND LESSONS

Co-ordination among donors. From the outset, donor co-ordination for East Timor has been remarkably good. The TFET formal Donors' Council meets at six-monthly intervals, continuous day-to-day practical co-ordination occurs in Dili in the framework of the TFET, Joint Assessment Missions involving various donors have occurred for several sectors and the semi-annual donor conferences¹⁸ have given a transparent picture of all the donors' activities.

Speed of delivery. Every effort should be made to decrease delays between programming of activities and their implementation.

Past funding and future budgetary constraints. The 1999-2001 level of Commission funding for East Timor (€ 54+ Millions per year) cannot be sustained in the medium to long term. As long term development programmes take over and rehabilitation is phased out, levels of assistance to East Timor will become more comparable to those for other countries of similar size and with similar developmental challenges.

¹⁸ Tokyo (December 1999), Lisbon (June 2000), Brussels (December 2000), Canberra (June 2001), and foreseen for Oslo in December 2001.

Capacity shortages. East Timor has always lacked indigenous organisational and management capacity, and since the 1999 crisis it faces even greater challenges in this regard. Hence, it will be important to maintain a focus on capacity development.

Small scale projects. Grass-roots local access to financing is an essential element in stimulating a sense of ownership through small-scale developments. This has been made available to date through ECHO funding, via INGOs. In the future, the NGO co-financing budget line and the Human Rights budget line can be used for this purpose, and similar elements can also be built into ongoing development programmes. Particularly in rural areas it is necessary to encourage the development of civil society, and indigenous social and economic organisations.

EU visibility in East Timor. Partly due to Portugal hosting the Lisbon (June 2000) and the Commission hosting the Brussels (December 2000) donor conferences, the EU has succeeded in getting a high visibility on the international stage for its assistance to East Timor. But, clearly the scale of European Commission financing has not yet been matched by an equivalent conceptualisation of the EU in East Timor itself. Recent information provided in publicity materials from the Commission about the EU's objectives, values, institutions and working methods is beginning to fill this gap¹⁹ Future bilateral projects and innovative co-financing arrangements can also increase visibility. The Commission intends to maintain, in the medium-term, a correspondent office in Dili. This presence²⁰ must be visible to the extent necessary to represent the level of EC support to East Timor.

4.3 PROGRAMMES OF EU MEMBER STATES AND OTHER DONORS

EU Member States have been strongly involved in the reconstruction effort. Due to its long historical links with East Timor, Portugal has been at the forefront of this effort. Other Member States have also contributed to a greater or lesser extent. A summary of these inputs is included below:

Support from EU Member States up to end June 2001.²¹

Country	Contributions (US\$ millions)			
	TFET	CFET	Humanitarian	Bilateral
Portugal	50.0	6.0	10.6	>US\$ 50 million; directed at many sectors, including education, civil service training, water and sanitation, power, airport management, agriculture, electoral assistance and public administration.

¹⁹ See an example brochure in annex 6. This was produced and distributed from July 2001 onwards.

²⁰ Should include an appropriate EC office and accommodation commensurate with other major donors and the Member States. An UNTAET rehabilitated building will, in the longer term, revert to the government, if the Commission has no continuing presence.

²¹ Figures valid to end June 2001. Based on data from Donor Coordination Unit. Not including EC assistance.

United Kingdom	7.4	3.5	9.0	US\$ 1.3 million; focused initially on emergency power and road repairs, currently education, good governance, civil service capacity development, community development and micro business projects.
Germany	-	-	4.1	>US\$ 3.0 million; focused on civil registration, commodity aid to CFA and water supply;
Finland	3.0	1.5	-	US\$ 0.3 million, mainly through NGOs for capacity building, child protection, gender affairs and media.
Ireland	0.4	0.45	0.5	>US\$ 3; concentrated on education, community development and capacity building.
Sweden	0.0	5.3	2.6	0.8 education and maternal health

OTHER DONORS

The largest of the other donors are Japan, Australia, Norway and the US. Their contributions are summarised below.

Support from other major donors until end-June 2001.

Country	Contributions (US\$ millions)			
	TFET	CFET	Humanitarian	Bilateral
Japan	16.0 (total pledge 28.0)	9.3	33.2	>30 million (US\$ 60 million pledged); sectors assisted include agriculture, institutional, education (scholarships), infrastructure (transport, water and power), community development and health.
Australia	12.4	8.8	18.0	>US\$ 16.0 million for 2000-01. Sectors include education, training, health, agriculture, water supply and sanitation, and governance.
United States	0.5	4.0	65.0	> US\$25 million; sectors include coffee, media training

				and equipment, human rights and justice.
Norway	2.0	2.5	6.5	>US\$3.5; Sectors include health, governance and election support, capacity building and agriculture

East Timor is not yet an independent country and so cannot be a member of either the World Bank or the Asian Development Bank. However, the World Bank is trustee of the TFET and initially contributed US\$ 10 million of own funds. The Asian Development Bank implements some of the TFET projects on behalf of the World Bank, specifically those dealing with infrastructure, water and sanitation, and micro-finance. ADB has also contributed grant funds in the form of Technical Assistance.

All UN Member Countries are contributing to the UNTAET mission through their assessed contributions, parts of which are spent directly on reconstruction and rehabilitation projects. Many UN agencies are active in East Timor. UNDP is involved in capacity development and electoral assistance among others and also acts as co-ordinator for WHO, UNICEF, UNHCR, UNOPS, UNWFP and Human Rights.

5. EU RESPONSE STRATEGY

5.1 PRINCIPLES AND OBJECTIVES

For the moment, East Timor cannot be considered a normal developing country in that two thirds of its infrastructure was comprehensively destroyed in September 1999. At the same time most of the local public administrative systems and social service institutions collapsed as most of their staffs left the territory to West Timor²². East Timor is currently governed by a transitional UN administration while preparations for the formal declaration of independence in 2002 are in process. The entire bureaucracy of government is being built up from nothing. And, as Indonesians held most middle-to-senior level positions during the last 25 years and these fled the territory both before and immediately after the popular consultation, local administrations and public service provision agencies have to rebuilt. **The first priority task of building a new national administration, and rebuilding physical infrastructures from the ground upwards is enormous, especially since the local technical, educational and institutional capacities to manage this are minimal.**

As the work of the TFET projects has progressed in 2000/2001, **sectoral approaches** have been adopted. Individual joint TFET donor assessment missions not only review the individual project per se, but also the complete sector (e. g. community development and governance, health, agriculture, education) including the inputs of other, bilateral donors. This aims at achieving a co-ordination of inputs, the design of a sustainable strategy for the long-term development of the sector and highlighting those areas where further assistance is required.

²² The Commission has made available € 6,000,000 via UNHCR/UNDP to assist in the voluntary repatriation and resettlement of some of these refugees, some of whom will be returning civil servants.

The overall approach in all sectors has been designed to **build the capacity for East Timorese themselves to begin to manage their own affairs**, to support essential institutions and services (particularly those directed towards the rural poor) and to stimulate indigenous income-generating activities that will bring employment and benefits to the largest number of people. A common theme throughout this approach is to protect the fragile natural environment of the country, very much neglected during the Indonesian occupation.

Forecasts of future annual commitments. Total EC financing commitments over the twenty-four month period 1999-2001 amounted to more than € 109 million (i. e. € 54+ millions per annum). This is clearly an unsustainable level of financing over an extended period when East Timor's population of 800,000 is compared to that of Asia and to the amount of EU development co-operation financing for the rest of Asia.

The following table, covering the period 2002-2006, is indicative and the figures given do not pre-empt the budgetary authorities' decision-making prerogative. The Commission has taken into account the overall budgetary envelope for Asia, the long term absorption capacities of East Timor, and the expected oil and gas revenues coming online in 2004/5. Around 2004/5, a revision of continued assistance will allow a re-assessment of needs, in view of probable own oil/gas revenues from the Timor Sea.

YEAR OF COMMITMENT	BUDGET (€ MILLION) B7-300	BUDGET (€ MILLION) B7-304
2002	-	28 ²³
2003	10	-
2004	8	-
2005	5	-
2006	4	-

5.2 PRIORITIES FOR CO-OPERATION

The sector already given particular support during 1999-2001 by EU funding through the TFET has been **health**, as well as the urgent rehabilitation of physical infrastructures. It is proposed that in 2002, through final contributions via the TFET, to continue to work in those sectors - health and infrastructure rehabilitation - already funded via the TFET and where the Commission has ongoing sectoral expertise and experience. **Health** would also in the long term remain the lead sector for EU funding for the whole of the 2002-2006 period.

²³ B7 304: Aid to the Rehabilitation and Construction of East Timor. The Commission proposed (APB) € 14 millions for 2002 and the Council and the Parliament in their first reading of the 2002 Budget increased this amount to € 28 millions.

In addition to health, and in order to reinforce a more long term-development orientation over the entire period of this Country Strategy the second major sector of focus would be **rural development** defined broadly to include forestry and environmental management, training and support to especially rural administrations, and encouraging development of rural civil society and enterprise.

These are activities in which the Commission has already been involved in the framework of the TFET. There is thus a strong theme of **continuity** in these proposed sectors of focus so that the Commission should be in a position relatively rapidly to propose specific project follow-up following a holistic, sectoral approach, co-ordinated with other donors.

General emphasis will be placed on **public institutional capacity building** as a cross-cutting theme. The inclusion of health administration, public administration, rural environment and health sector infrastructure maintenance provides cross-cutting elements to meet the short-term requirements within the public service and to help complete and consolidate the post-crisis reconstruction effort launched by the TFET.

5.2.1 Crosscutting Issues²⁴.

The overlap and synergy between the two sectors of intervention - health and rural development - and the cross-cutting theme of support to consolidating public administration - tie together the proposed co-operation strategy. The overriding, and key, cross-cutting issue of **long term capacity building in public administration** will be included in all specific health and rural sector actions to be financed. Emphasis will be put on establishing viable operating self-sustaining systems scaled to the local technical and financial capacities rather than on developing over-specified infrastructures or systems which may lead to unsustainable recurrent costs burdens in the long term.

The crosscutting issues set out below will be reflected in the design of all actions as appropriate.

- **Poverty Alleviation:** is the overarching goal of all EC development programmes;
- **Good Governance:** responsible, effective and transparent management of public affairs;
- **Capacity Building:** improving the capability of public services, the private sector and NGOs to manage their responsibilities efficiently and in a way that responds to the needs of the East Timorese people;
- **Civil Society and Gender:** encouraging and facilitating the fullest participation of people in all aspects of democratic life and respect for human rights.
- **Economic, environmental and social sustainability:** given East Timor's low base level in these terms, from the very start these factors shall be taken account of in design of support actions.

²⁴ The specific relevance of all these issues in East Timor is set out in more detail at the end of Annex 2. History, Land and People.

At the present juncture in view of the historical factors outlined above, addressing cross-cutting issues relating to poverty alleviation, good governance, capacity building, civil society and gender is particularly important for the longer term development of East Timor.

Poverty Alleviation. In view of its importance as the primary goal of the entire EC development co-operation effort world-wide, it is necessary to define Poverty Alleviation more precisely. Poverty is the primary symptom of underdevelopment. In the East Timor context, the fight against poverty means addressing the basic issues leading to the impoverishment of the population and inequalities in the distribution of income and resources. When it is available the findings of the World Bank Poverty Reduction Strategy Paper will be taken into account. This may also include aspects of the empowerment of women, and the issue of improving the long-term economic position of relatively disadvantaged groups in the economy. All poverty alleviation activities should contribute to the protection of basic human rights. The sectoral focus on health services and rural development is in itself a focus on poverty alleviation. Clearly the rural sector focus will give a framework in which to take account of food security needs in accordance with the Commission's recent Communication on this.²⁵

Good Governance is an essential element of nation building in East Timor. It aims at professional government institutions and a strong civil society representation as a balance to strong government, and deals with corruption and human rights abuses. The Commission has already funded civic and voter education and electoral observation in 2001, and could consider doing so again, as appropriate, in this planning period. The provisions of the Commission's Communication on The European Union's Role in Promoting Human Rights and Democratisation in Third Countries²⁶ are pertinent in this regard.

Capacity Building is already a central element in the TFET projects. In the sector-oriented approach, the aim is to ensure that capacity-building and human resource development will be integrated elements also in all sectors. Even at East Timor's modest level of development and small domestic market size, economic co-operation and enterprise development could contribute towards the capacity of its economy to be self-sustaining.

Civil Society and Gender. The broad concept is based on the active role civil society can play, supporting ideals of pluralism, religious and ethnic tolerance, human rights and the empowerment of vulnerable and disadvantaged groups. NGO activities are to be supported inasmuch as they credibly aim to translate these ideals into practice, taking into account the cultural, religious, ethnic, etc. context. Furthermore, the EC will envisage co-operation with the whole range of local partners and organisations, such as human rights groups, women's and youth organisations, child-protection organisations,

²⁵ Evaluation and future orientation of Council Regulation (EC) no: 1292/96 on Food Aid Policy and Food Aid Management and Special Operations in Support of Food Security, COM(2001) 473 final of 5 Sept 2001.

²⁶ COM (2001) 252 final of 8 May 2001.

environmental movements, trade unions, economic operators and the media. The provisions of the Commission's Communication on Conflict Prevention COM(2001) 211 final of 11 April 2001 provide particularly relevant indications and guidelines for a post-conflict society such as East Timor. Already the uprooted peoples budget lines have been used to finance actions related to East Timor and the provisions of the European Parliament and Council Regulation of 29 October 2001 on Aid to Uprooted Peoples in Asian and Latin American Countries developing countries will be directly pertinent.

Economic, environmental and social sustainability. Given East Timor's low base level in these terms, from the very start these factors shall be taken account of in design of all support actions. As the economy and society of East Timor moves from a rehabilitation phase to a long term development mode, then elements of enterprise and employment promotion including economic co-operation will be included into all the support actions. At the same time account will be taken of social and environmental sustainability issues.

5.2.2 Sectors of Intervention.

The programme will in the long term focus on two major sectors: **health**; and **rural development**. It will also initially respond to the urgent and ongoing cross-cutting need for capacity development in the public administration. These latter activities will be concentrated in the first two years of the planning period and will not remain as priorities after 2003. Towards the end of the planning period attention will shift more towards cost limitation, cost-recovery and income-generating elements.

Focal sector 1: Health

This sector has been a particular focus of attention for EC assistance to East Timor since October 1999 and should continue to absorb a significant portion of the funding expected during the period of this strategy through until 2006.

The 1999 crisis left East Timor without an adequate network of accessible basic health care, which was in the aftermath of the 1999 crisis provided by various international NGOs. The initial ECHO interventions ensured the emergency restoration of basic health services and facilities. Subsequently, ECHO was the main channel of funds to the INGOs who became the principal deliverers of health services in 12 of the 13 districts of East Timor. ECHO financing has also enabled the design of the system of preparation and implementation of district health plans through one lead NGO per district.

Prior to 1999, Indonesian health policies emphasised the provision of basic care, which was, and still is, free for poor people. But to rebuild the Indonesian system is not a viable, sustainable option for East Timor, due to the lack of physicians and trained staff, and the recurrent costs implications. The Indonesian Health System was characterised by high levels of inputs in staffing and infrastructure, but inefficiency and low levels of outputs and outcomes.

The Commission has been heavily involved in the design of the TFET project on health – The Health Sector Rehabilitation and Development Project (HRS DP). The programme also plans the institutional set-up of basic health care and referral services at appropriate levels to take account of management and recurrent costs constraints. The approach chosen and supported by the EC has been innovative in the sense of being a sector-wide

approach to post-conflict rehabilitation. Being an appropriate response to limited capacity while avoiding duplication and enhancing donor co-ordination this approach should be maintained into the development co-operation phase. Important issues being addressed include a continued high risk of maternal death, a lack of care during pregnancy and delivery, chronic malnutrition, poor reproductive health status and limited access to family planning services.

The EC has made known its desire to see the health sector receive its share of the trust fund disbursements and a senior EC public health expert has followed the implementation of the HSRDP through a series of joint donor review missions. The May 2001 joint assessment mission preparing the second phase of the HSRDP has identified a serious shortfall in the capacity of TFET, as presently funded, to complete the programme of development of the health service countrywide including rural areas. A vacuum therefore exists which is seen as a national priority by all parties – UNTAET, ETPA, donors and civil society. Continued involvement of the EC in the sector would thus be a logical extension of investments already made and help bridge the gap between TFET and the time when the East Timor administration takes over full management.

The objectives of such involvement would be to complete a programme designed to restore basic health care, to develop and implement a national health policy and to put in place a referral system with access to hospital care. It is the last, essential component, which must be addressed if the overall approach is to be successful. Co-ordination with other donors and a continued, successful sectoral approach would be a prerequisite for any involvement. In order to avoid disrupting the existing administrative and financial systems operating in the sector under TFET, it would be desirable if a formula could be found to continue support to the sector – at least initially - through the TFET mechanisms, while also ensuring that allocated funds reach their desired target. One possible way to achieve this is to create a parallel or successor fund to TFET (e.g. the EU Health Fund for ET) to be administered under the same procedures as TFET. If EU member states were also interested to intervene in this sector it might be possible to envisage a genuine EU Health Fund for East Timor co-ordinating EU interventions and improving their visibility.

Focal Sector 2: Rural Development

Given the minimal income levels of the majority of the East Timorese population and the urban/rural divide already beginning to deepen during the UNTAET presence, there is an urgent need to concentrate development funds in the rural areas. This would aim not only to increase the income of the current rural poor, but also entice those who have migrated to the urban areas – particularly Dili – to return to their sub-districts; or at very least to halt this trend of urbanisation which is already beginning to cause social conflict and an increase in crime.

The rural development sector programme could comprise three programme vectors with synergy between them to consolidate rural development: (1) institutional and training support to **public administrations particularly in rural areas**; (2) a **forestry, environmental and watershed protection** programme; and, (3) in the medium term, flexible support to the new government's **Poverty Reduction Strategy and National Development Plan**.

Public Administration. The development of public service capacity is one of the most crucial themes in the administrative transition from UNTAET to an independent East Timorese government. Capacity building is to be included in all ongoing projects in the long-term priority sectors of Health and Rural Development throughout the proposed EC programme, however, it deserves particularly direct attention in the early stages.

Almost 50% of the middle-level management in the previous administration were Timorese and have now returned to the civil service. However, the work ethic developed under the Indonesian system was fraught with problems, lacking innovation and fostering a climate of corruption, with low self-esteem, and a lack of conflict resolution and team building skills. Combined with a generally low educational level, this results in the need for an initial approach which sees the public service delivering a simple level of service to the public before any attempt is made to introduce complexities into the system.

Due to already scarce human resources, it is not recommended to remove people from the system for long-term overseas training. Rather, these people are needed to oversee the transition, to establish the new administration and to consequently receive long-term coaching and mentoring in East Timor. Given the low starting level, a three-phase approach has been recommended to ETTA, covering the immediate (by January 2002), medium term (to June 2004) and long-term (5-10 years) development of capacity.

Forestry/Watershed Protection: Another component of the rural sector focus that has been identified is forestry and watershed environmental management and protection. It is an area where existing ETTA, TFET and bilateral donor interventions are seriously lacking. From a Commission perspective, the EU has a particular expertise in tropical forestry, particularly in the ASEAN region. The sector has the potential to generate sustainable economic development in a medium to long-term perspective and to create employment at a local level.

In order to target the poorest elements of the rural population, interventions in forestry should include the upland areas and should immediately focus on community forestry initiatives, in addition to other, longer-term aspects. Policy development can also bring additional benefits to East Timor in the form of access to other sources of funding such as the Global Environmental Facility (GEF). Of particular importance in the broader rural development context would be the protection of already-fragile river catchment areas whose deforestation has led to serious flooding, soil erosion and destruction of irrigation scheme infrastructure, with resultant loss of property, income and subsistence crops.

Support to Poverty Reduction Strategy and National Development Plan. This intervention would aim to provide flexible support to the new government in the period just following independence and before expected revenues from the Timor Sea begin to be realised. In conjunction with other major donors, the Commission is assisting the emerging government (specifically the newly-created National Planning Commission) in late 2001 to prepare a National Development Plan with real East Timorese ownership. Donors and the IFIs are concurrently discussing with the new Council of Ministers appropriate funding modalities and implementation mechanisms to help achieve the medium-term economic and social-sector goals to be elaborated in the NPD.

Commission support to this process will allow the East Timorese to build the foundations of the new nation towards improved living standards, enhancement of economic conditions, sustainable management of natural resources and good governance, while also maintaining its own role and visibility as a partner of substance during the first, critical years.

Expected results would be rural income generation/enhancement and employment generating activities in the areas of microfinance, agricultural marketing, feeder road rehabilitation, irrigation systems etc implemented through local partners; local communities would also be encouraged and empowered to sustain and expand their livelihood activities or enterprises, and access further services from government agencies, the private sector and NGOs. Implementation would be based on the broad principles of decentralised management and making best use of local human and natural resources, while involving civil society, local and international NGOs to the maximum.

5.3 COHERENCE WITH EU POLICIES

The above analysis and the conclusions reached in terms of areas for possible support take into account the main concepts of EU policies: the focus on poverty alleviation and the coherence with environmental policies. It also reflects the strong desire within the EU to continue co-operation with East Timor during its transition to independence and through its development as a self-reliant nation with its own clear identity in the regional and global context.

5.4 COMPLEMENTARITY WITHIN THE EU AND WITH OTHER DONORS

In order to ensure the effectiveness and the impact of EC development assistance, it will be necessary to continue the close co-ordination with other donors, in particular with the World Bank, Japan, Australia and other bilateral donors, particularly EU Member States. Better co-ordination can achieve more easily a critical mass of assistance in important sectors. It is also easier for the fledgling government to plan the allocation of the national development budget if the messages received from the donor community are well harmonised.

Hitherto, co-ordination has taken place in the context of the TFET, the six-monthly meetings in the capitals of the main donor countries and in a number of informal donor forums in Dili. With the arrival of independence, the completion of TFET projects and the finalisation of the major reconstruction phase, the issue of effective donor co-ordination will become more central to EC development assistance to East Timor.

NATIONAL INDICATIVE PROGRAMME

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NATIONAL INDICATIVE PROGRAMME

2002-2004

EAST TIMOR

1. PURPOSE AND SCOPE

1.1 Political and economic situation of East Timor

Since 1998, several external factors helped to begin the process of East Timor's separation from Indonesia. In 1999, the East Timorese people – for many centuries the object of history, without a chance to shape their own fate – could undertake creating its own country.

Major challenges in this difficult and long process are the **rehabilitation** (this phase should end in the near future), **development**, and **nation building** (i.e. overcoming the wounds of conflicts).

Since September 1999, the international community has mounted one of the largest humanitarian and rehabilitation operations ever. Co-ordination among donors has been exemplary. The European Commission has massively contributed to humanitarian relief, to the set up of the UN-administration (UNTAET), and to the rehabilitation programme implemented through the Trust Fund for East Timor.

Political situation. In 2001 and 2002, a systematically planned and implemented transition from a UN-administered territory to an independent country is taking place. After the elections to a constituent assembly (30 August 2001), a constitution is being elaborated. A democratic pluralistic, multi-party system is taking shape.

Economic situation. At present, East Timor is one of the poorest places in the world. Most people live in the countryside, as subsistence farmers. In terms of public revenues, East Timor will remain dependent on external financing for some time to come. Significant tax cash-flows from the exploitation of the oil and gas reserves in the Timor Sea (i.e. the sea lane between Timor island and Australia) are expected to begin around 2005, thus providing tax revenues from royalties and the sale of products. In the interim, East Timor and its donors face the task of laying the foundations for sustainable, self-financing development that will have to be based essentially in rural areas in order to create employment.

1.2 Rehabilitation regulation, ALA regulation, East Timor Strategy

The years 1999 to 2001 have already seen a transition from emergency and humanitarian aid towards rehabilitation and reconstruction programmes. For East Timor in the medium term a transition towards a developmental mode assistance must be planned. But for

several years rehabilitation will remain important. Its legal basis is the **Council Regulation²⁷ on Rehabilitation**. It aims at linking emergency interventions and longer term development programmes. This indicative programme provides a link from rehabilitation and reconstruction into longer term sustainable development.

The **Council ALA Regulation²⁸** applies to East Timor and is appropriate to the longer terms development support actions. The focus is on strengthening the co-operation framework and on making an effective contribution, through institutional dialogue, economic and financial co-operation, to sustainable development, social and economic stability and democracy.

The concept of sustainable development is an over-riding co-operation objective. It refers to the equilibrium between economic growth, social development and environmental conservation. It is therefore distinctly greater than traditional development (i.e. 'sustainable' foreign aid).

The proposed strategy in East Timor is to focus long term on two major sectors: **health**; and **rural development** defined broadly to include support to the environment, and to social, institutional and production systems. **The support** will in these sectors particularly respond to the urgent and ongoing cross-cutting need for capacity development in the public administration, and civil society - as well as in the longer term consolidating rural production, employment and social systems.

2. SUMMARY OF THE STRATEGY AND PRIORITIES

Since September 1999, the Commission has focused its intervention on massive humanitarian aid and contributions to the rehabilitation and reconstruction. Increasingly the need is for a more mature, long-term development-oriented relationship. With independence to arrive probably in May 2002, UNTAET will give way to a national government.

The present Work Programme follows the strategic options outlined in the Country Strategy, however still in the absence of a permanent indigenous government. Areas of future EC development co-operation with East Timor will be **health** and **rural development**. Programmes in these two sectors should focus on poverty reduction and capacity building particularly in the public administration as key cross-cutting issues, while good governance and civil society issues should not be neglected. The reasons for this strategic choice are outlined in the Country Strategy Paper and the content of proposed actions in 2002-2004 is outlined in sections 4 and 5 below.

3. INDICATIVE BUDGET

²⁷ Regulation (EC) N° 2258/96 of 22 November 1996 on rehabilitation and reconstruction operations in developing countries.

²⁸ Regulation (EEC) N° 443/92 of 25 February 1992 on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America.

3.1 Global amount

From September 1999 to September 2001, € 109 millions of EC budget funds have been committed to East Timor, including emergency and humanitarian aid, food aid, contributions to the UN administration, elections observation, and to the Trust Fund for East Timor.

The indicative budget for 2002-2004 is based on the Commission's political commitment expressed at the December 1999 Tokyo Donors Conference, and is reinforced by the budgetary authority's desire to ensure a high level of funding in 2002 during East Timor's rehabilitation phase.²⁹ The budget to come from budget line B7 300 for the following years attempts to bring East Timor slowly into line with other comparable countries in Asia receiving long term development support from the Commission.

YEAR OF COMMITMENT	BUDGET (MILLION EURO) B7-300	BUDGET (MILLION EURO) B7-304
2002		28
2003	10	-
2004	8	-
2005	5	-
2006	4	-

The evolution from B7-304 funding in 2002 to B7-300 funding thereafter reflects the planned shift from a rehabilitation to a long term development mode of assistance. Part of the B7 304 funding in 2002 will be used to finance studies and preparation of actions to be committed in subsequent years.

3.2 Percentage per priority sector for the planning period 2002-2004

YEAR	HEALTH		RURAL DEVELOPMENT	
	€ million	%	€ million	%
2002*	10*	36	18*	64
2003	0	0	10	100
2004	8	100	0	0
Total 2002-4	18	39	28	61

²⁹ For budget line B7-304 : Aid for the rehabilitation and construction of East Timor, the 2002 budget amount proposed by the Commission was €14 millions, however, the Council and the Parliament in the first reading of the 2002 budget increased this amount to €28 million.

* The €28 million total credits foreseen for budgetary year 2002 commitments come from budget line B7-304. Thereafter, from budget line B7-300

3.3 Sources and uses of budgetary funds 2002-2004

The provisional breakdown of the sources, uses and years of commitments credits funding under this National Indicative Programme is as follows:

PROJECT/ ACTION	B7 304	B7 300
	€ million	€ million
Total for 2002	28	
TFET 2002	9	-
Health 1	10	-
Rural/Public administration	2.5	-
Rural forestry/poverty	6.5	-
Total for 2003	-	10
Rural poverty reduction	-	10
Total for 2004	-	8
Health 2		8

4. SECTORAL PRIORITY: HEALTH

4.1 Strategy context/justification

Since 1999 health has been the core area of the Commission's humanitarian assistance for East Timor, extending well into the current rehabilitation phase. With the latter coming to an end in 2002/2003 it is proposed to continue supporting the health sector through budget line B7 304 in 2002, and thereafter moving to a longer term, developmental perspective to continue the funding from budget line B7 300.

The transparent sector analysis and donor co-ordination by UNTAET and TFET has identified future shortcomings in health matters and financial shortfalls in donor funding, and has allowed the Commission in close co-ordination with UNTAET, the East Timorese and the World Bank (in TFET) to begin already appraising future actions for

financing. The full rationale for the focus on the health sector is given in the East Timor Country Strategy Paper.

Specific elements proposed for the Health Sector 2002 to 2004 National Indicative Programme for East Timor are elaborated below.

4.2 Action no. 1: EU-Health Programme for East Timor 1 **(support to completion of the TFET Health Programme)**

Objective. To rehabilitate and develop East Timor's health system to be responsive to the needs of the population.

***Purpose.** To complete the health sector rehabilitation programme of East Timor, as established in the Joint Assessment Mission plan of May 2001, and as agreed with other donors and the East Timorese authorities, with particular reference to the hospital referral system.*

Expected results.

1. On-going health service delivery supported,
2. Range and quality of services improved,
3. Support services developed and implemented,
4. Health sector policy and management services developed and implemented.

Activities. Co-financing (with the Trust Fund for East Timor, TFET) of elements of the above mentioned health plan in all 13 districts. Hospitals to be built will be located on the basis of a needs assessment to maximise coverage and accessibility to the greatest number of people. Health centres and mobile clinics will provide for more immediate needs. The whole population will therefore benefit. Activities in detail:

- Support implementation of district health plans in all 13 districts of East Timor,
- Standardise and enhance the quality of delivery of basic services,
- Develop health promotion activities,
- Address environmental health issues,
- Strengthen referral system and develop a rational hospital system,
- Rehabilitate/reconstruct regional hospitals, community health centres, central medical laboratory,
- Refurbish/equip upgraded hospitals and centres,
- For policy development, conduct demographic and health surveys for base data,
- Support development of HR management strategy,
- Develop administrative infrastructure and processes at central and district level.

Implementation. It is proposed to set up a Trust Fund, under the name of "EU Health Programme for East Timor". The details and mechanisms of this fund are currently being

elaborated with the World Bank, to achieve the stated objectives and results, through the agreed activities, while providing clear visibility for the European Union.

Risks and conditionalities.

- That Government does not continue its policy development strategy with broad stakeholder involvement. There is an active policy working group within the DHS, with strong East Timorese ownership. This will be further strengthened with the completion of the recruitment process for civil servants and the commencement of training, study tours etc.
- That improved quality will not increase demand and utilisation. Surveys by DHS and others are providing information on health-seeking behaviour. Mobile clinics, availability of transport etc. are bringing increased contact with the health system. Improved transport and communication will strengthen referral systems, ensuring access to higher levels of care when needed.
- That Government may tend to over-specify the infrastructure and equipment needs with inadequate attention to long term recurrent costs and maintenance capacities. Hence donors need to take into account the appropriate scale and type of design of health facilities and delivery systems in the East Timorese context.

Performance/Outcome indicators.

- Health sector hospitals and clinics designed, implemented and functional
- Improved infant and maternal mortality rates over time
- Effective and sustainable health policies developed and implemented
- Per capita recurrent health expenditure approaching norm for countries with similar socio-economic conditions
- Use of health care facilities close to norm for countries with similar socio-economic conditions

Financial envelope. EC commitment of € 10 millions (to be financed out of budget line B7-304 2002 credits).

Indicative timeframe. This action is to be launched during 2002 and to be completed by end 2004.

4.3 Action no. 2: EU-Health Programme for East Timor 2

Objective. After a mid-term evaluation of Action No 1, to continue the support for the EU Health Programme for East Timor, as stated above.

Expected results. As above, but with the emphasis moving away from hospital rehabilitation, given the expected outputs of health action No. 1 .

Activities. As above, to be detailed or changed following the evaluation.

Implementation. Move to a bilateral project with direct implementation in cooperation with the Ministry of Health. Appropriate management and technical assistance arrangements will be decided and defined in light of the mid-term review.

Risks and conditionalities. As above.

Performance/Outcome indicators. As above.

Financial envelope. Total expected cost € 13 million, to be committed in two tranches of € 8 (2004) and 5 million (2005) to be funded out of Budget line B7-300 credits for the respective years, following the evaluation and the progress of earlier activities.

Indicative timeframe. After an evaluation of Action No 1 in early 2003, this activity should start in 2004 and extend well into 2005-6.

5. SECTORAL PRIORITY: RURAL DEVELOPMENT

5.1 Strategy context/justification

In predominantly rural and agricultural East Timor, rural development has to be understood as a wide sector. Supporting rural development allows for flexible development assistance, including to areas like support to: public administration, civil society, agriculture, rural employment creation, forestry, and natural resources, thus addressing at the same time the problem of widespread poverty. The rationale for support to the rural sector is fully explained in the East Timor Country Strategy Paper.

Specific elements proposed for the Rural Sector 2002-2004 National Indicative Programme for East Timor are elaborated below.

5.2 Action no. 1: Support to TFET in 2002

Objective. To allow the Trust Fund for East Timor to finalise its operations, as agreed among donors. Although formal earmarking of Commission contributions for specific sectors is not possible, an understanding with the World Bank should be reached to ensure the equivalent of our contribution to be used in the rural development sector. This includes the project areas of infrastructure, rural water and sanitation, microfinance and agriculture.

Expected results. TFET to finalise its planned operations, as per the agreed work plans.

Activities. As before and in line with TFET approved projects.

Implementation. Transfer of EC contribution to the World Bank's TFET account.

Risks and conditionalities.

- That TFET does not continue its efficient operations. Continued donor co-ordination has to make sure that new commitments, disbursements and reporting are maintained at the current level.

Performance/Outcome indicators. TFET to provide detailed documentation on project activities, to be checked against the agreed work plans.

Financial envelope. Commission commitment of € 9 million to TFET (to be funded out of credits from budget line B7-304 for 2002).

Indicative timeframe. Implementation to start in 2002 for an estimated period of time extending to 2004 - thus maintaining the continuity and momentum of Commission leadership in support of East Timor's reconstruction.

5.3 Action no. 2: Rural Development: capacity building in public administration and in civil society

Objective. Develop a competent, democratic administrative system in rural areas, at the same time encouraging the involvement of local populations and civil society.

Purpose. Increase the appeal of rural areas for living, and discourage poor segments of society from migrating to urban areas, because of a lack of public support. Develop and strengthen basic cross-sector capacities within the East Timorese public administration, to enhance their service delivery capacity.

Expected results.

- Essential basic capacities needed to support service delivery to the population developed;
- Basic capacities expanded through application in service delivery activities and consolidation of government institutions;
- Range of services expanded through improvements in programming, expertise and capacity.
- Greater involvement of East Timorese individuals and civil society groups in the management and political direction of their polities at local and national levels.

Activities. Activities will cover several areas of public administration, including senior and middle management, basic service delivery, financial resources management, linkages to private sector and civil society. The direct beneficiary is therefore the administration, while the entire population with benefit indirectly through the enhanced quality of the expanded services. Activities will comprise a series of sub-projects, covering capacity development, and delivered over two time frames –by covering a first period to 2005, and a second period which may extend to beyond 2010. Target groups in the administration are senior and middle managers (mostly in local government),

supervisors, office managers. Target groups in the general population would include civil society organisations and individuals. Main activities will include:

- Operational planning and budgeting,
- Legislative review,
- Development of skills in human resources management,
- Training (coaching and mentoring) by international advisers,
- Records management and document control,
- Use of information technology in management, administration and operation,
- Increase the capacity of the Civil Service Academy,
- Rationalisation of local administration.
- Creation and setting off of consultation and civil debate and information systems.
- Publicity and education in public affairs and participation mechanisms.
- Voter and civic education.

Implementation. It is envisaged to have the programme implemented by UNDP (through co-financing with other donors to the Governance and Public Sector Management Programme/GPSM of UNDP).

Risks and conditionalities.

- There is a risk that the government formed on independence may change the national agenda on capacity development. This is unlikely given the politically neutral nature of capacity development proposals and their flexibility to respond to different government priorities. There is a sufficient level of donor interest in capacity development, given the level of investment by all major donors to date and their desire to see this investment bear fruit under the new, independent government.

Performance/Outcome indicators.

- Clients and beneficiaries of government programmes are clearly defined and their needs are met in a timely manner according to pre-agreed quality standards.
- Strong internal communications and relationships exist within all levels of government – between central and local administrations and vertically within administrations.
- Strong external communications and relationships exist with the private sector, civil society and the donor community;

Financial envelope. Given the open-ended nature of capacity development in the context of an independent East Timorese administration, the total cost of the whole programme is not yet estimated. A first EC commitment of € 2.5 million is foreseen from B7 304 budgetary credits for 2002.

Indicative timeframe. EC financing would relate to the activities foreseen for the first time period as indicated above.

5.4 Action no. 3: Rural Development - Forestry

Objective. *Forest resources of East Timor, including watersheds, forest lands and protected natural areas, are sustainably managed.*

Purpose. *Sound forestry policy implemented through an integrated conservation and development approach.*

Expected results.

- National Forest policy developed through multi-stakeholder participation;
- Sustainable approaches to forest land utilisation developed for replication;
- Protected natural areas – including watersheds – conserved;

Activities. Activities will include all aspects of forestry planning and management, with a particular emphasis on reaching the rural poor. The following is proposed:

- Review current forest policy,
- Discuss approaches proposed in consultative forums,
- Revise policy as necessary based on feedback received,
- Develop pilot projects in areas such as community forestry, reforestation, agro-forestry (including applied research), with a focus on the rural poor located in upland areas,
- Review current management of protected forest areas, including environmentally important watersheds, and develop appropriate management techniques,
- Explore applicability of the Model Forest Concept to the East Timorese situation and develop as appropriate.

Implementation. *The programme will be implemented with appropriate Technical Assistance support to the Forestry Unit of the Division of Agriculture. A project Steering Committee, chaired by the Division of Agriculture, will overview the work, bringing together representatives of the stakeholders.*

Risks and conditionalities.

- Government may decide not to consult all stakeholders and to proceed with unsustainable forestry policies. This is unlikely, given the work to date under the transitional administration in line with the Agricultural Rehabilitation Project (ARP) of TFET. Inclusive workshops have indicated a willingness to take on board the full range of stakeholder viewpoints.
- The approach of the new government of an independent East Timor to land ownership and customary law issues could have a significant effect on the development of the sector. Further study of this issue is required, and this question and its implications for the rural economy and society should be addressed in the studies and preparations.

Performance/Outcome indicators.

- Coherent and sustainable national forestry policy enacted and under implementation,

- Local communities empowered to sustainably manage their forest and watershed resources and to meet at least their subsistence needs,
- Reforestation and sustainable land management policies implemented,
- Conditions in place to allow the commercial forestry potential of East Timor to be sustainably utilised,
- Biodiversity of East Timor's protected areas is maintained.

Financial envelope. EC commitment of € 6.5 million to be financed from budget line B7-304 credits for 2002.

Indicative timeframe. Commence work on this programme in 2002, begin implementing in early 2003, for 3 – 5 years.

5.5 Action no. 4: Support to the Poverty Reduction Strategy/National Development Plan of East Timor

Objective and Purpose. Provide flexible support to the new Government of East Timor in the aftermath of independence and prior to receipt of expected significant Timor Gap revenues to begin implementing its medium term strategy for poverty reduction and economic and social development.

Expected Results.

- Improved living standards and better access to social services for East Timorese – especially the poorer sections of society;
- Economic conditions enhanced and opportunities for sustainable livelihoods increased;
- Sustainable approach adopted to management of natural resources;
- Governance capacity improved;

Activities:

To be defined with Government following production of the National Development Plan during the second half of 2002.

Implementation:

Possibilities to be explored with government and other major donors. A flexible approach to be adopted to react to prevailing conditions. Modalities of funding to be likewise elaborated.

Risks and Assumptions

A main concern will be the fiscal regime of the new government and its ability to tightly manage available resources. Oversight by the international financial institutions is foreseen;

Performance/Outcome Indicators

Performance and outcome indicators will be defined at the formulation stage.

Financial Envelope

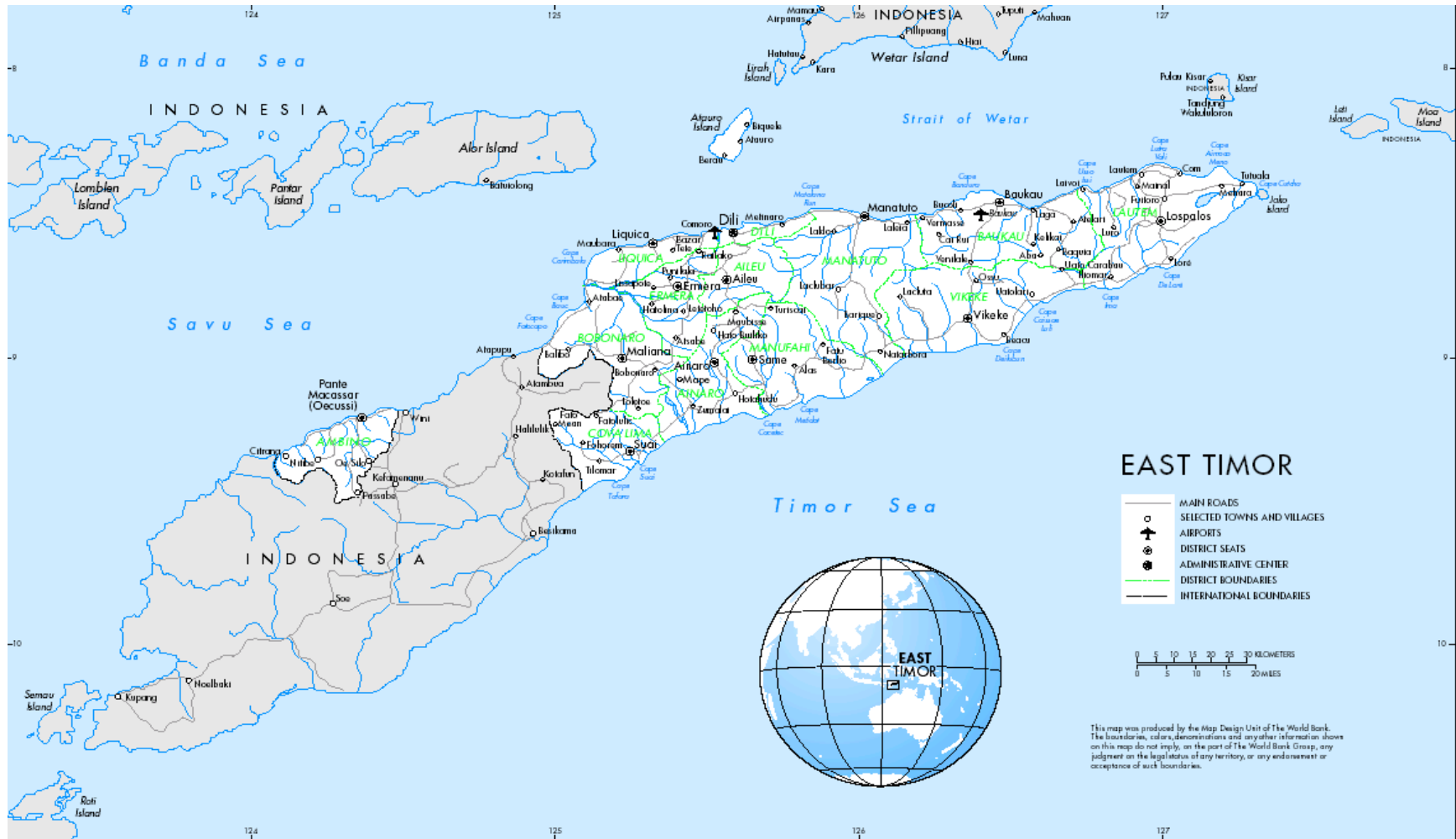
€ 10 million EC grant to be committed from B7 300 credits in 2003.

Indicative timeframe

Ongoing discussions with the National Planning Commission and all local and international actors during the preparation of the National Development Plan will lead to definition of required inputs during the second half of 2002. A financing decision in early 2003 would see quick disbursement of funds from B7 300 credits for implementation in the period 2003-2005.

6. REVISION

This Work Programme will be revised in 2003.



MAP OF EAST TIMOR

GLOSSARY OF TERMS

ADB	Asian Development Bank
CFA	Central Fiscal Authority (of Department of Finance)
CFET	Consolidated Fund for East Timor (also called UN Trust Fund)
CSP	(EC) Country Strategy Paper (for East Timor)
DAA	Division of Agriculture Affairs (ETTA, Dept. of Economic Affairs)
DHS	Division of Health (ETTA, Department of Social Affairs)
EC	European Commission
EOM	Election Observation Mission
ET	East Timor
ETDF	East Timor Defence Force
ETTA	East Timor Public Administration
ETPA	East Timor Transitional Administration
EU	European Union
IMF	International Monetary Fund
IOM	International Organisation for Migration
MS	Member States (of the European Union)
NC	National Council
NPDA	National Planning and Development Agency
OCPI	(UNTAET) Office for the Coordination of Press and Information
PKF	(UN) Peace Keeping Force
SRSG	Special Representative of the (UN) Secretary General
TFET	Trust Fund for East Timor
TNI	Indonesian Military
ToR	Terms of Reference
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNTAET	United Nations Transitional Administration in East Timor
WB	World Bank

EAST TIMOR: SUMMARY STATISTICAL DATA

Indicator	Pre-crisis		Crisis year	Post-crisis	
	1997	1998	1999	2000	2001
Real GDP growth (%)	4 ^a	-2 ^b	-38 ^b	15 ^b	15 ^b
GDP US\$ millions (p.p.p.)	315 ^a	390 ^b	245 ^b	290 ^b	344 ^b
GDP per capita (\$)	374 ^a	441	327	387	437
Inflation % CPI Dili in rupiah	+10 ^a	+80 ^b	+140 ^b	+20 ^b	
Exports US\$ millions	52 ^a	54 ^b	49 ^b	16 ^b	30 ^b
Imports US\$ millions	142 ^a	142 ^b	89 ^b	100 ^b	161 ^b
Fiscal deficit (% GDP)	-67 ^a	-29 ^a	-37 ^a	-17.6 ^{*b}	-34.0 ^{**b}
Surface area km ² (= half Belgium)	19.000				
Population East Timor 000s	843 ^a	884 ^a	750 ^{***a}	779.567 ^c	787.340 ^d
Population Dili District 000s					120.474 ^d
Adult literacy rate over 15s % (female / male)		47 (54/40) ^c			
Primary school enrolment % (female / male)	83 (81/84) ^c	70 (69/71) ^c			
Secondary school enrolment % (female / male)		39 (39/39) ^c			
Life expectancy at birth 57 ^c Female / male 58.6/55.3 (1985)					
Underweight children <5 (%)			35 ^f		
<5 mortality rate (per 1,000 live births)	124 ^c				
Maternal mortality rate (per 100,000 live births)		420 ^c		300 to 850 ^c	
Children <2 fully immunised (%)	56 ^c				
Infants <1 fully immunised (%)					12 ^e
Births supervised by trained personnel (%)		15 ^c	40 ^c	20 ^c	
Households with access to safe water (%)		48 ^c			

Source: ^a Transitional Support Strategy for East Timor, World Bank, Nov 3, 2000.

^b IMF Canberra Paper, June 2001 (Figures for 1999, 2000 and 2001 are estimates).

^c Building Blocks for a Nation, November 2000, UN ET country team Common Country Assessment.

^d Draft of The Survey of Sucos in Timor Loro Sa'e, August 2001, ETTA, IMF, WB, UNDP.

^e Mid-year report, Unicef, 2001.

^f The Food and Nutrition Situation in East Timor, J. McComb, AusAid, June 2000.

* Jan/June 2000

** July 2000/ June 2001

*** Of which 120,000 displaced persons.

Annex 2 – HISTORY, LAND, PEOPLE

East Timor is the Eastern part of Timor island, with a total area of 19,000 km² (about half the area of Belgium). Its only land border is with Indonesia (West Timor).

PEOPLE

Population. Due to the extreme security uncertainties, and fluid situation since 1999 figures are very unreliable. End-2001 probably around 800.000 population, with currently probably a declining annual rate of growth. Average life expectancy of 57 years. Most people live in rural areas. The capital city, Dili, had approximately 140,000 inhabitants in August 2001; more than doubled from the 60,000 figure of 1998 due mainly to rural-urban migration. East Timorese society is remarkably heterogeneous. Besides a dozen ethnic groups with their own languages and dialects, a variety of distinct local cultures exist, and in addition traditional clans and *mestizos*.

Religions. Main religions are Roman Catholicism (90%), Islam and Protestantism.

Language. Most of the population is bilingual. In practice, the vast majority, especially those under 30-40, speaks *bahasa* Indonesia/*bahasa Malay*. Tetum is the most widely used local dialect, but a large number of other locally spoken dialects exist. The intellectual leadership and elderly people still speak Portuguese. English is the working language of UNTAET and is spoken by most international staff. The declared (September 20, 2001) language policy of the Second Transitional Government of East Timor is that Portuguese is the national language, with Tetum and English as secondary languages. *Bahasa* is likely also to remain as a language for regional communication.

Education. Compared to the situation until 1974/75 – with an extremely low availability of school facilities – the East Timorese made some progress over the last two decades in the numbers completing elementary and secondary education. However, the poor quality and relevance of the education offered in elementary schools and gaps in access to basic secondary education remained deficiencies. A national plan for the development of the sector exists. Since 1999 many students have not been able to continue their later studies in Indonesia in *bahasa*. Language is a delicate issue. In the colonial period Portuguese was the *lingua franca*, and the recently declared policy of the Second Transitional Government is that Portuguese is the official language, with Tetum and English as secondary languages. Recently there has been a growing use of English arising from increased contacts with Australia and the international aid community in Dili.

TRANSITIONAL INSTITUTIONS

CNRT. The National Council of Timorese Resistance was founded only in April 1998, at an East Timorese National Convention in Portugal. Most political parties, with the exception of FRETILIN and UDT, have until now co-ordinated their actions under the umbrella of CNRT. The CNRT was formally dissolved in June 2001.

UNTAET. The United Nations Transitional Administration for East Timor³⁰ is currently the governing body of the territory. In July 2000, UNTAET established the

³⁰ Created by UN SC Resolution 1272 of 25 October 1999.

East Timor Transitional Administration (ETTA), succeeded in September 2001 by the East Timor Public Administration (ETPA).

ETPA operates – within and under UNTAET – comprising the cabinet structure of the Second Transitional Government of East Timor and is a developing local administration. Essential functions are progressively being handed over to East Timorese officials.

National Council. This nucleus of a future assembly was established on 23 October 2000 and consisted of 36 representatives³¹, which were appointed by the Transitional Administrator/Special Representative of the UN Secretary-General. It had only advisory powers, but was consulted on major issues. It was dissolved on 15 July 2001, and in September was succeeded by the subsequent Constituent Assembly and the Second Transitional Government of East Timor.

Constituent Assembly. UN-managed elections for a Constituent Assembly occurred on 30 August 2001. Annex 5 gives a detailed table of the results of these elections. UNTAET established the Constituent Assembly on 15 September with the task of elaborating and agreeing a constitution for East Timor by the end of 2001. FRETILIN with 55 out of the total 88 seats does not have a two thirds majority and so is obliged to discuss and agree with other parties on the proposed constitution. It is probable that a presidential republican form of constitution will be agreed.

Second Transitional Government. On 20 September 2001, the UN Transitional Administrator appointed the Second Transitional Government of East Timor with a ministerial cabinet representative of the results of the Constituent assembly's composition. It includes a significant number of independents, as well as preponderance of FRETILIN party members. The transitional government is led by Mr Mari Alkatiri as Chief Minister (he is also Secretary General of FRETILIN).

Political Parties. 16 political parties campaigned for the 30th August 2001 elections. The principal political parties in East Timor on the basis of the results of 30 August include the Revolutionary Front for the Independence of East Timor (FRETILIN), the Timorese Social Democratic Association (ASDT), the Social Democratic Party (PSD), and the Democratic Party (PD). A splinter group of Fretilin (RDTL) maintains that the 1975 proclaimed independence was not affected by the Indonesian occupation. This group is highly critical of the UN role in East Timor, and organises fundamental opposition to the political process. Annex 5 provides a detailed table of the political parties' shares in the voting and the results of the 30 August 2001 elections.

HISTORY.

Portuguese East Timor. The Portuguese occupied East Timor in the 16th century, looking to trade in spices, and discovered large quantities of sandalwood.

In 1859, after numerous border conflicts, the limits between Dutch West Timor and Portuguese East Timor were officially defined. Japan occupied East Timor from 1941 to 1945.

In 1951, the Salazar regime undertook a constitutional revision, changing its colony denomination to “overseas provinces”. This change in vocabulary was ostensibly

³¹ 13 from districts, 7 from civic organisations, 13 from political parties and three from religious groups. The National Council has several standing committees.

aiming at avoiding the application of the UN-charter on non-self governing territories (as classified in several resolutions). However, it was not until the Carnation Revolution, which marked the end of the Salazar regime (1926–1974), that Portugal considered formal de-colonisation. Internally, Portugal enacted a new law repealing the old territorial definition. On the international front, Portugal sent the Secretary General of the United Nations a memorandum, re-affirming its obligations under the UN Charter and committing itself to the application of the various declarations and resolutions, relevant to territories under Portuguese administration.

Uncompleted de-colonisation. At the time of the Carnation Revolution, no national liberation movement existed in East Timor. In May 1974, the governor of East Timor created a Commission for the self-determination of East Timor. Three main political associations formed, mostly among the urban elite and members of middle-class families of partially Portuguese descent. The União Democrática Timorese (UDT), was in favour of links with Portugal and progressive evolution towards independence, and with a more conservative programme. The Associação Social Democrática Timorese (ASDT), later becoming Frente Revolucionária de Timor Leste Independente (Fretilin) was pushing for immediate independence; with José Ramos-Horta, Abílio Araújo, Roque Rodrigues and Xanana Gusmão among the founding members. The party had catholic leanings, but was influenced by Marxist trends in other Portuguese colonies. The Associação Popolar Democrática Timorese (Apodeti) favoured to become a part of Indonesia, at least at a transitional stage.

A consultative council, created by the governor, failed as the three parties refused to participate. However, a law was enacted decreeing that Portuguese sovereignty would end in October 1978. Discussions within the various Timorese factions were being exacerbated, and the shadow of civil war had been cast over East Timor.

Civil War. After Fretilin won local elections, UDT launched a “coup d’Etat”, and requested immediate independence. Fretilin counter-attacked and the violence intensified. A negotiated solution to the conflict failed and the Portuguese authorities fled to Atauro island, north of Dili. In November 1975, Fretilin unilaterally declared independence, a move rejected by Portugal. Two days later, Apodeti, in turn declared the independence of the territory and its integration into Indonesia.

Integration in Indonesia. On 7 December, Indonesian troops penetrated East Timor. This invasion, clearly against international law was tolerated – or even encouraged – by the West, particularly by Australia and the USA, who feared regional repercussions from the Vietnam war. In the absence of precise figures, some observers estimate the number of deaths, caused directly or indirectly by the Indonesian invasion, at 60.000 in the first three months. The Indonesian Government, after formally incorporating East Timor as a province, expanded efforts and money to improve the then basic economic (subsistence farming) and social infrastructure of East Timor, especially in schools, roads and medical services. The economic upturn benefited the immigrants from other Indonesian provinces. However, attacks from armed guerrillas countered the continued armed forces’ policy of repression. Again without clear figures, lost lives among the East Timorese are only estimated at 200.000 for the period up to 1999. 5.000 Indonesian soldiers lost their lives; thousands were maimed and injured. The atrocious behaviour by parts of the Indonesian military, acts of brutality and corruption, had antagonised even those East Timorese who were initially favourably disposed. The “Dili massacre” of 12 November 1991, constituted a turning point: Indonesian soldiers, fearful that a

demonstration was getting out of hand, panicked and killed a substantial number (100?). The army culprits were court martialled and punished; but the incident, video-taped by a foreigner, put East Timor back into the international spotlight.

The turning point. The Asian financial crisis, which led to the downfall of the Soeharto administration in Jakarta, contributed indirectly to a fresh opportunity for a solution. The government of President Habibie agreed in principle, in January 1999, to a UN-led consultation of East Timor's population on autonomy or independence. While Portugal and the Catholic Church in East Timor had already signalled acceptance of a 10-year autonomy period, followed by a referendum, the Indonesian leadership suddenly wanted to accelerate this process. For reasons which still await elucidation, Mr Habibie agreed on a "popular consultation" to be held still in 1999 (5 May agreement, between Indonesia and Portugal, under the auspices of the UN-SG). In April 1999, anticipating violence before and after the ballot, pro-Indonesia and pro-independence groups and the local military command signed an agreement. The signatories pledged to stop hatred and intimidation, and to promote reconciliation. The Commission for Peace and Stability, provided for in the agreement, never became operational.

Popular Consultation and Scorched Earth. To prepare for the referendum, the UN established a mission in East Timor (UNAMET). The popular consultation took place on 30 August 1999. It resulted in a clear vote of 78,5% against the offered autonomy within Indonesia, therefore in favour of independence. Following the referendum, integrationists and militia (armed by parts of the Indonesian military) rampaged through the territory. This scorched earth campaign left approximately 1,000 dead, 250,000 people forcefully displaced, mostly to West Timor, and destroyed 75% of the infrastructure and homes (in 2001, still 80,000 displaced persons remain in West Timor, and the return of some of them to East Timor is to be expected over time).

UN-administration towards independence. This wave of violence prompted the international community to dispatch an international peace force to restore order. On 12 September, President Habibie admitted the Australia-led INTERFET peacekeepers to arrive in East Timor. A month later, the Indonesian Parliament nullified the former decree on the integration of East Timor into Indonesia.

The UN, on 25 October 1999 (UN-SC Resolution 1272/1999) set up the transitional administration for the territory (UNTAET). The mandate of UNTAET was to "establish an effective administration" in the territory and "to exercise all legislative and executive authority including the administration of justice". The UN-SG nominated Mr Sergio Vieira de Mello as Transitional Administrator for East Timor.

The Constituent Assembly, elected on 30 August 2001, will adopt a constitution. Presidential elections are expected in March 2002, followed by formal independence on 20 May 2002. At present, UNTAET is progressively handing over the administration to East Timorese leaders.

Annex 3 – Overview of External Assistance (incl. 2001)

European Commission

Contributions in € million

Trust Fund for East Timor	47,4	to establish health services and rehabilitate infrastructure
UNTAET	10	direct financial support to the Transitional Administration
ECHO	42	contracts with International NGOs, International Governmental Organisations and UN Agencies; assists in alleviation of emergencies, especially in health and food supply
WFP	8.5	approx. 11.000 tons of cereals and 1300 tons of vegetable oil
Elections	1	contribution to civic and voter education and to constitutional consultation, plus: electoral observation mission

EU-Member States

Contributions in US \$ million*

Portugal	TFET: CFET: Humanitarian: Bilateral:	15 (+ 35 in promissory notes) 6 10.6 > 45 (education, civil service training, water and sanitation, power, airport management, agriculture, electoral assistance and local administration.
United Kingdom	TFET: CFET: Humanitarian: Bilateral:	7.3 3.5 9 1.3 (initially power and road repairs, currently education, civil service capacity development, community development and micro-business projects)
Germany	Humanitarian: Bilateral:	4.1 1 (water supply)
Finland	TFET:	3
Ireland	TFET: CFET: Humanitarian: Bilateral:	0.4 0.4 0.5 > 5 (education, community development, capacity building)
Sweden	CFET Humanitarian Bilateral	5.3 2.6 0.8 education and maternal health

* The table does not include Member States contributions to the UN (e.g. CivPol, PKF, administrative support)

Other Countries/multilateral institutions

Japan	TFET: CFET: Humanitarian: Bilateral:	16 (total pledge 28) 9.3 33.2 29 (pledged 60, agriculture, institutional, education, transport, water, power, health)
Australia	TFET: CFET: Humanitarian: Bilateral:	11 5.4 18 > 81.5 (over 4 years, education, training, health, agriculture, water supply and sanitation, and governance)
United States	TFET: CFET: Humanitarian: Bilateral:	0.5 4 65 > 25 (media training, equipment, human rights justice)
World Bank*		10

* East Timor is not yet an independent country and so cannot be a member of either the World Bank. However, the World Bank is trustee of the TFET and initially contributed US\$ million of own funds

ANNEX 4 – FUTURE POSSIBLE REVENUES FROM THE TIMOR GAP TREATY

Introduction. The importance of the Timor Sea is manifold: it reflects the link between international law and natural resources within East Timor's maritime boundaries, it was an integral factor in the often tense relationship between Australia and Indonesia (and now, East Timor). Most importantly, the size of revenues from its oil and gas resources will influence the economic future of East Timor. The Timor Sea is to be East Timor's main source of revenue for the next decades, while 80% of the population still depend upon agriculture. However, as from 2005, revenues from oil and gas royalties could be twice the country's current budget.

The Timor Gap Treaty. In 1972, Australia attempted to demarcate its sea boundaries in the Timor Sea, with Indonesia and then Portuguese Timor. Using the continental shelf argument, Australia managed to get agreement on a boundary that was actually closer to Indonesia than to its own coastline, and obtained 85% of the ocean territory separating the two countries. In 1979, Australia and Indonesia began negotiations on an agreement over a relatively small area of the Timor Sea between Darwin and the Timor Trench, thus excluding the median line approach enshrined by the UN Convention on the Law of the Sea. The agreement reached in 1989, signified Australia's formal endorsement of Jakarta's claims over East Timor, while no other country in the West had yet recognised Indonesian *de jure* sovereignty over the territory. The "Zone of Co-operation", covered by the Timor Gap Treaty was divided into three Areas. In Area A, a 50:50 royalty revenue sharing was stipulated, in Area B, Australia was responsible for the exploitation of the petroleum, and in Area C, Indonesia was responsible. Had the median line approach been used, however, all revenues would have gone to Indonesia – the price it paid for recognition of its political sovereignty³².

Unforeseen complications. The signing of the Treaty was an important gesture by both parties toward the development of good relations generally. Nevertheless, more significantly, the Timor Gap Treaty is the only legal agreement anywhere that effectively recognised Indonesia's right to rule East Timor. In February 1991, Portugal, considered the administering power for East Timor by the UN, launched an action against Australia in the International Court of Justice (ICJ). It claimed that Australia, by entering negotiations with Indonesia over the Gap, had breached its duty to respect the rights of the people of East Timor to self-determination. Australia was named as the respondent because it acknowledged the jurisdiction of the ICJ, while Indonesia did not. Portugal's claim was that East Timor had a right to the resources on its seabed which extended to the median line under the 1982 UN Convention on the Law of the Sea, and that Australia had interfered with the rights of Portugal as the administering power and with the rights of the people of East Timor.

³² In 1997, altering their maritime boundaries in accordance with the new international regulations, Australia and Indonesia decided that the median line, already accepted for the purposes of fishing rights, would become the new boundary line. Nonetheless, it would not apply to seabed resources, which would continue to be governed by the terms of previous agreements, such as the Timor Gap Treaty.

The ICJ decision, handed down in 1995, was not a decision on the substance. The Court concluded that it could not rule on Australia's part in the Treaty without deciding on the legality of Indonesia's occupation of East Timor, and since Indonesia did not recognise the authority of the court it could not make such a determination.

All sides saw this as a victory. The Australian government took it as a signal to proceed with the implementation of the Treaty. The East Timorese resistance welcomed the decision "inasmuch as the highest UN legal body has endorsed the right of the people of East Timor to self-determination". (Ramos-Horta 1995). The Portuguese government said that the ruling actually reinforced Portugal's political-diplomatic capacity.

A new agreement between UNTAET and Australia. In October 1999, Indonesia confirmed that it was no longer involved in the Timor Gap. Renegotiation of the Timor Gap Treaty revolved therefore around the successor state concept. Negotiations commenced in March 2000. Initially, Australia wanted the Treaty to remain in force, and only to transfer Indonesia's rights to East Timor. The East Timorese leadership saw the Treaty as inapplicable, as East Timor would not become a successor state to Indonesia. In January 2000, Australia changed its strategy. It agreed to a new treaty, and focused on a revenue sharing deal (50:50, or 60:40 for East Timor), while warning the East Timorese that any changes in the sharing of royalties would play into the overall size of Australian aid. Representing the territory in external matters, UNTAET responded with a threat to take the case to the ICJ if the negotiations failed. On 5 July 2001, UNTAET concluded an arrangement on the sharing of revenues from oil and gas resources in the Timor Sea with Australia. The East Timorese Transitional Cabinet had given its prior approval to the Arrangement. The revenue sharing will be 90/10 in favour of East Timor. The Arrangement should run for thirty years and maintains the contractual terms of existing exploration contracts in the Timor Sea, with the exception of the rates of tax to be applied to production companies. This last aspect continues to be a considerable source of debate. Formally, the Arrangement will enter into force with East Timor's independence.

How much oil? Claims about the potential of the various fields and the deriving income have varied greatly over the years, thus not allowing for a reliable forecast of production and potential revenues. Conservative estimates point to recoverable reserves at approximately 400 million barrels of liquids (condensate and Liquid Petroleum Gas) and 3.4 trillion cubic feet of gas.

The two main oil and gas fields are the larger and potentially more profitable – but still unexploited – Bayu-Undan field and lesser one, the Elang-Kakatua field. There are some smaller fields, such as Sunrise-Loxton and Troubador. In 1998, Australia and Indonesia made US\$ 1.1 million from oil royalties from the Timor Gap. In October 2000, East Timor received its first royalty payment worth over US\$ 3 million – more than had been expected. Revenues should sharply increase after 2004-05, when extraction of liquefied petroleum gas and condensate starts in the Bayu-Undan field. However, considerable fluctuations in oil product prices make revenue predictions impossible. The US\$ 50 million expected from 2004 onwards assumes an average oil price of US\$ 18. Altogether, the Timor Sea oil and gas revenues will play an important role in the future East Timor economy. This fact can pose a great danger to a newly independent nation. A very serious dependency can

develop on the one source of revenue. If that source is somehow imperilled, or dries up, the entire economy may suffer.

**ANNEX 5. Summary of Constituent Assembly Election (30th August 2001)
Results.**

Party/Candidate	National		District Seats	Total Seats
	% vote	Seats		
podeti Pro. Ref – Associação Popular Democrática de Timor – Popular Democratic Association Timor Pro Referendum	0.60	-	-	-
ASDT – Associação Social-Democrata Timorese	7.84	6	-	6
FRETILIN – Frente Revolucionária do Timor-Leste Independente	57.3	43	12	55
KOTA – Klibur Oan Timor Asuawin	2.13	2	-	2
PARENTIL – Partido Republika Nacional Timor Leste – National Republican Party of E Timor	0.54	-	-	-
PD – Partido Democrático – Democratic Party	8.72	7	-	7
PDC – Partido Democrata Cristão – Christian Democrat Party	1.98	2	-	2
PDM – Partai Demokratik Maubere – Maubere Democratic Party	0.49	-	-	-
PL – Partai Liberal – Liberal Party	1.10	1	-	1
PNT – Partido Nasionalista Timorese – National Party of Timor	2.21	2	-	2
PPT – Partido do Povo de Timor - Peoples Party of Timor	2.01	2	-	2
PSD – Partido Social Democrata – Social Democratic Party	8.18	6	-	6
PST – Partido Socialista de Timor – Socialist Party of Timor	1.78	1	-	1
PTT – Partido Trabalhista Timorese – Timor Workers Party	0.56	-	-	-
UDC/PDC – Partido Democrata Cristão de Timor – Christian Democratic Party of Timor	0.66	1	-	1
UDT – União Democrática Timorese – Timorese Democratic Union	2.36	2	-	2
National Independent Candidates	N/A	-	-	-
District Independent Candidates (Oecussi)			1	1
Totals	100	75	13	88

ANNEX 6 - EU VISIBILITY: Brochure on the EU and East Timor



The European Union (EU) and East Timor

East Timor was ruled by Portugal (a Member State of the European Union) for over 400 years. It was annexed by Indonesia in 1975 and ruled from Jakarta until a referendum on 30 August 1999 in which 78.5% of the electorate chose not to remain within Indonesia.

In response, pro-Indonesian militias carried out a systematic destruction of property and forcible displacement of East Timorese civilians. On 25 October '99, the UN Security Council issued a resolution establishing the United Nations Transitional Administration in East Timor (UNTAET), to oversee the reconstruction of the country and pave the way to independence.

The European Union – including the European Commission and many of its Member States – responded very quickly to the crisis in East Timor. From early 1999 until June 2001, the combined EU support has amounted to more than € 250 million. Of this, the Commission has delivered more than € 100 million in the following areas:

Multi-donor trust fund: The European Commission (EC) has been active in establishing the Trust Fund for East Timor (TFET), administered by the World Bank and the Asian Development Bank. This fund is used to rehabilitate and develop all aspects of the social and economic life of East Timor. EC has so far committed € 45 million to TFET.

Humanitarian Assistance: The EC Humanitarian Aid Office (ECHO) began evaluating the needs of the people of East Timor in early 1999 and gradually increased its activities in the aftermath of the September '99 violence. To date, approximately € 38 million has been committed with almost € 28 million disbursed. A further € 8.5 million has been channelled through the World Food Programme in the form of food aid.

Consolidated Fund for East Timor: A contribution of € 10 million has been disbursed to UNTAET to help finance its operations – and those of the fledgling East Timorese Administration – in the transition to independence.

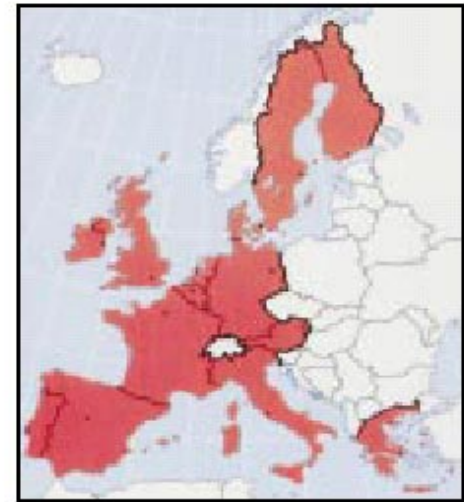
Elections 2001: EC is also financially supporting the emerging democracy through a programme of voter/civic education, constitutional commissions and an election observation mission around the 30 August poll. Total value € 1 million.

The Future: The European Union will remain a committed partner of substance to an independent East Timor. Its assistance programme will focus on building a mature, developmental relationship. To initiate this process, a programming exercise for the period 2002-06 has already been launched with all major stakeholders in East Timor.



European Union and the European Commission

The European Union is the result of a process of cooperation and integration which began in 1951 between six countries (Belgium, Germany, France, Italy, Luxembourg and the Netherlands). After almost 60 years and four separate



enlargements (1973: Denmark, Ireland and the United Kingdom; 1981: Greece; 1986: Spain and Portugal; 1995: Austria, Finland and Sweden), the EU today has 15 Member States and 375 million people and is preparing for its fifth enlargement, this time towards Eastern and Southern Europe. The European Union's mission is to organise relations between the Member States and their peoples in a coherent manner and on the basis of solidarity.

The European Commission is the executive body of the EU, with the right to initiate legislation. Among its many functions is the delivery of development cooperation assistance on behalf of the EU, with three broad objectives:

- fostering sustainable economic and social development;
- the smooth and gradual integration of developing countries into the world economy;
- the fight against poverty



Overview of European Commission Support to East Timor

-----Past and Ongoing: € 102 million

TRUST FUND FOR EAST TIMOR: € 45 million

Contribution to the TFET, particularly to establish health services and rehabilitate infrastructure;

€ 19 million in 2000 and € 26 million in 2001.

UNTAET/CONSOLIDATED FUND FOR EAST TIMOR: € 10 million

Direct financial support to the operational budget.

HUMANITARIAN: € 38 million

By ECHO, through contracts with International NGOs, International Governmental Organisations and UN Agencies; alleviation of emergencies, especially in health and food supply; approx. € 28 million disbursed to date.

FOOD AID: € 8.5 million

In view of East Timor's initial dependence on external supplies, early assistance to alleviate food shortages; delivery of approx. 11,000 tons of cereals and 1,300 tons of vegetable oil; implemented through WFP.

ELECTIONS: € 1 million

Contribution to civic and voter education and constitutional consultation in addition to an electoral observation mission, around the 30 August 2001 election to the Constituent Assembly.

-----and Future:

TRUST FUND FOR EAST TIMOR:

Continuing contributions

EU HEALTH FUNDING:

Earmarked funds to complete the health sector programme.

BILATERAL PROJECTS:

Possible sectors include health, rural development, infrastructure and public administration.



European Commission

Contact Details

Rua St. Antonio de Motael No. 8, Farol,
Dili, East Timor

Phone: +670-390-325 171/2

Fax: +670-390-324 687

Mobiles: +61-438-839100

+61-418-361218

E-mail: ectimor@arafura.net.au

echotimor@arafura.net.au



