

EAST TIMOR

NATIONAL DEVELOPMENT PLAN

After independence on 20 May 2002, the draft Plan will be presented to the Parliament for consideration and adoption.

Planning Commission
Dili
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Table of Contents

LIST OF ACRONYMS AND GLOSSARY.....	III
Foreword.....	VI
Foreword.....	VII
VISION.....	VIII
EXECUTIVE SUMMARY	
INTRODUCTION	1
DEVELOPMENT STRATEGY	1
POVERTY REDUCTION STRATEGY	2
CAPACITY BUILDING FOR PLAN IMPLEMENTATION	3
MONITORING, EVALUATION, AND PLANNING REVIEW	5
MACROECONOMICS AND PUBLIC FINANCE POLICY FRAMEWORK.....	5
MEDIUM TERM ECONOMIC AND FINANCING OUTLOOK	6
POLITICAL DEVELOPMENT, FOREIGN RELATIONS, DEFENCE AND SECURITY.....	7
POVERTY REDUCTION, RURAL AND REGIONAL DEVELOPMENT.....	8
HUMAN DEVELOPMENT: EDUCATION AND HEALTH	9
AGRICULTURE, FISHERIES AND FORESTRY	10
NATURAL RESOURCES AND ENVIRONMENT	11
INDUSTRY, TRADE AND THE PRIVATE SECTOR.....	11
INFRASTRUCTURE	12
PART 1 VISION AND STRATEGIES	
1. INTRODUCTION	
BACKGROUND.....	14
THE PLANNING PROCESS.....	14
ORGANIZATION OF THE DOCUMENT.....	15
2. VISION, GOALS, PRINCIPLES AND INDICATORS	
THE LAND AND THE PEOPLE.....	17
THE ECONOMY.....	18
THE DEVELOPMENT VISION	19
DEVELOPMENT GOALS.....	20
GUIDING PRINCIPLES	21
KEY DEVELOPMENT INDICATORS	23
3. THE DEVELOPMENT STRATEGY	
INTRODUCTION	24
THE DEVELOPMENT STRATEGY	25
Poverty Reduction.....	25
Gender Mainstreaming and Empowerment of Women	25
Human Resources Development.....	26
Language and Communication	27
Transforming Subsistence Production into a Market-based Economy.....	27
Improving Productivity and Modernising Production	28
Creating an Enabling Environment for the Private Sector to Flourish	28
Managing Public Finances.....	29

Administration of Oil and Gas Revenues	30
GOVERNANCE AND MACROECONOMIC MANAGEMENT	30
Governance	30
Macroeconomic Management.....	30
4. POVERTY REDUCTION STRATEGY	
INTRODUCTION	32
POVERTY IN EAST TIMOR	33
CAUSES OF POVERTY	34
CONSEQUENCES OF POVERTY	35
POVERTY REDUCTION STRATEGY	36
Opportunities for Economic Participation	37
Basic Social Services	38
Security	38
Empowerment	40
CONCLUSIONS	41
5. CAPACITY BUILDING FOR PLAN IMPLEMENTATION	
INTRODUCTION	42
GOVERNMENT AND GOVERNANCE	42
DECENTRALISATION	44
EMPLOYMENT	44
EDUCATION AND LITERACY	44
HEALTH	45
INFRASTRUCTURE	45
THE JUDICIARY	45
CONCLUSION	46
6. MONITORING, EVALUATION, AND REVIEW	
INTRODUCTION	47
MONITORING PERFORMANCE AND OBJECTIVES	48
Monitoring at the National Level.....	49
Sector-level Monitoring	50
Program-level Monitoring	50
Project-level Monitoring.....	50
EVALUATION OF PERFORMANCE RESULTS.....	51
Planned Objectives	51
Measurable Benchmarks.....	52
Methods of Analysis	52
Correction Process	53
PLANNING REVIEW	54
INSTITUTIONAL SETTING: MODEL OF PLANNING, MONITORING AND EVALUATION	54
CONCLUSIONS.....	55
PART 2 ECONOMIC OUTLOOK.....	57
7. MACROECONOMIC POLICY FRAMEWORK	
VISION	58
INTRODUCTION	58
GOALS	59
General Goals	59
Macroeconomic Goals	59
Public Finance/Fiscal Goals.....	59

GUIDING PRINCIPLES	59
CONSTRAINTS	60
OVERVIEW OF POLICY CHALLENGES	61
GOALS, POLICY ACTIONS AND PERFORMANCE INDICATORS	62
Goal No. 1: Institutional Strengthening	62
Goal No. 2: Poverty Reduction	62
Goal No. 3: Pursuit of Economic Growth	63
Goal No. 4: Pursuit of Low Inflation	64
Goal No. 5: Pursuit of more employment	65
Goal No. 6: Pursuit of stronger banking and finance sector	65
Goal No. 7: Pursuit of a stronger external sector	66
Goal No. 8: Pursuit of improved revenue collections	67
Goal No. 9: maximise collections and savings from timor sea revenues	67
Goal No. 10: pursue creative and effective expenditure programs	68
Goal No. 11: pursue appropriate deficit and financing policies	68
SUMMARY OF PROGRAMS / PROJECTS SPECIFIC TO MACROECONOMICS	
/ PUBLIC FINANCE SECTOR	70
 8. MEDIUM TERM ECONOMIC AND FINANCING OUTLOOK	
INTRODUCTION	72
ECONOMIC GROWTH	73
EMPLOYMENT/UNEMPLOYMENT	75
PRICES AND WAGES	77
FISCAL/BUDGET	78
Domestic Revenues	78
Timor Sea Oil and Gas Revenues	78
Total Expenditures	80
Recurrent and Capital / Development Shares of Total Combined Sources Expenditure..	82
Financing the Deficit and Aid	86
BANKING AND FINANCE	87
EXTERNAL/BALANCE OF PAYMENTS	87
TWO CRITICAL FINANCING ISSUES	88
PROPOSED MANAGEMENT APPROACHES AND OUTLOOK FOR OIL AND GAS REVENUES	89
Introduction	89
Proposed Management Approaches	89
Financial Outlook	91
AID MANAGEMENT POLICY AND THE PREFERRED FORWARD ODA PROGRAM	91
CFET Budget Support	91
Aid Policy	92
Future ODA Programs and Projects	93
 PART 3 STRATEGIES FOR NATIONAL DEVELOPMENT: SECTORAL PLANS	105
 9. POLITICAL DEVELOPMENT, FOREIGN RELATIONS, DEFENCE AND SECURITY	
VISION	106
INTRODUCTION	106
GOALS	107
OBJECTIVES	108
GUIDING PRINCIPLES	109

KEY DEVELOPMENT INDICATORS	111
Parliament	111
Public Administration	111
Security and Defence Forces	111
Foreign Affairs.....	111
Public Prosecution and Defence	111
Ombudsman's Office.....	111
Promotion of Gender Equality	112
Media	112
Civil Society	112
PROBLEMS AND CONSTRAINTS	112
General constraints:	112
More specific constraints:.....	113
STRATEGIES	113
POLICIES	114
General Policies	114
Public Administration and Democratisation Policies	114
Security and Defence Forces	115
External Relations.....	115
Justice, Human Rights and Gender Equality	115
PROGRAMS	116
Public Administration and Governance	116
<i>Transparent governance</i>	116
<i>Institutional Development</i>	117
<i>Decentralisation and Participation</i>	117
Media Development.....	117
Security and Defence Forces	117
<i>Defence program</i>	117
<i>Police and Security Service Programs</i>	117
External Relations.....	118
Capacity Building Program	118
<i>Policy Development Program</i>	118
<i>Action Program</i>	118
Justice, Human Rights and Gender Equality	118
<i>Institutional Development Program</i>	119
<i>Legislative Program</i>	119
<i>Reconciliation Program</i>	119
<i>Rights and Equality Program</i>	119

10. POVERTY REDUCTION, RURAL AND REGIONAL DEVELOPMENT

VISION	121
INTRODUCTION	121
Poverty Reduction.....	121
Rural Development	122
Regional Development	122
GOALS	123
GUIDING PRINCIPLES	124
KEY DEVELOPMENT INDICATORS	125
PROBLEMS AND CONSTRAINTS	125
Resource Constraints	125
Social Aspects.....	126
Gender aspects	126
Capacity	126
Infrastructure.....	127

Rural-urban and regional disparities	127
Private sector	127
Governance	127
STRATEGIES AND POLICIES INCLUDING PROGRAMS AND PROJECTS	128
POVERTY REDUCTION	128
Creating economic opportunities	128
Providing social services	130
Enhancing security including disaster preparedness and safety nets	130
<i>Security</i>	130
<i>Disaster preparedness</i>	131
<i>Vulnerable groups</i>	132
<i>Empowering the people</i>	133
<i>Gender dimensions</i>	134
RURAL DEVELOPMENT	135
REGIONAL DEVELOPMENT	137
CIVIL SERVICE	138
Immigration Service	140
National Archives	140
Labour	141

11. SOCIAL AND HUMAN DEVELOPMENT: EDUCATION AND HEALTH

VISION	143
BACKGROUND AND STATUS	143
Education	143
Health	144
Gender	145
GOALS	145
GUIDING PRINCIPLES	145
KEY DEVELOPMENT INDICATORS	146
Education	146
Health	146
Labour	147
Economic, Social and Culture	147
Gender Equality	147
PROBLEMS AND CONSTRAINTS	148
Problems And Constraints Common To Both Sectors	148
<i>Literacy</i>	148
<i>Culture</i>	148
<i>Poverty</i>	148
<i>Poor nutrition</i>	148
<i>Infrastructure</i>	149
<i>Quality of services</i>	149
<i>Resource constraints</i>	149
<i>Legal Framework</i>	149
<i>Gender related issues</i>	149
<i>Sector Specific Problems And Constraints</i>	149
Education	149
Health	151
OBJECTIVES	152
Education	152
Health	153
POLICIES	154
Education	154
Health	154
STRATEGIES	155

Overall Strategies.....	155
<i>Education.....</i>	<i>155</i>
<i>Health</i>	<i>155</i>
<i>Gender</i>	<i>155</i>
Specific Strategies.....	156
<i>Education.....</i>	<i>156</i>
<i>Health</i>	<i>157</i>
PROGRAMS AND PROJECTS	160
Education	160
<i>Program 1: Expand Access and Improve Internal Efficiency.....</i>	<i>160</i>
<i>Program 2: Improve the Quality of Education</i>	<i>160</i>
<i>Program 3: Build Internal Management Capacity and Improve Services Delivery</i>	<i>161</i>
<i>Program 4: Non-Formal Education and Adult Literacy.....</i>	<i>161</i>
<i>Program 5: Develop Tertiary Education</i>	<i>162</i>
<i>Program 6: Promote East Timorese Culture and the Arts.....</i>	<i>162</i>
<i>Program 7: Promote Youth Welfare</i>	<i>162</i>
<i>Program 8: Promote Physical Education and School Sports</i>	<i>162</i>
Program Priorities	163
Health.....	163
<i>Program 1: Child Health.....</i>	<i>163</i>
<i>Program 2: Maternal Health.....</i>	<i>163</i>
<i>Program 3: Reproductive Health.....</i>	<i>163</i>
<i>Program 4: Health Promotion.....</i>	<i>163</i>
<i>Program 5: Communicable Diseases Control, including:.....</i>	<i>163</i>
<i>Program 6: Environmental and Occupational Health.....</i>	<i>164</i>
<i>Program 7: Specialised Services Programs</i>	<i>164</i>
<i>Program 8: Medical Supplies Program.....</i>	<i>164</i>
<i>Program 9: Laboratory Services</i>	<i>164</i>
<i>Program 10: Health Facilities Rehabilitation and Development</i>	<i>164</i>
<i>Program 11: District Health Services</i>	<i>164</i>
<i>Program 12: Health Sector and Management Programs</i>	<i>164</i>
<i>Program 13: Health Policy and Planning Development</i>	<i>164</i>
<i>Program 14: Support to Administration and Finance functions.....</i>	<i>165</i>
<i>The Second Health Sector Rehabilitation and Development Project.....</i>	<i>165</i>
PERFORMANCE INDICATORS	166
Gender Mainstreaming	169

12. AGRICULTURE, FISHERIES AND FORESTRY

VISION.....	171
INTRODUCTION	171
Poverty and the Agriculture Sector.....	172
MISSION.....	174
GOALS	174
GUIDING PRINCIPLES	175
Sustainability	175
Efficiency.....	175
Equity.....	175
Self-reliance	175
Values	175
Participatory Development	175
KEY DEVELOPMENT INDICATORS	175
PROBLEMS AND CONSTRAINTS	176
Capacity	176
Management and Entrepreneurial Skills.....	176
Data and Information	177
Financial Resources	177
Poor Transport, Communication, Marketing and Processing Infrastructure	177

Low Productivity.....	177
Poor Quality Produce	177
State of Irrigation Schemes	177
Land Tenure	177
Comparative Advantage and Diversity	178
Fisheries Legislation and Management.....	178
Forest Degradation	178
Forestry Legislation	178
Quarantine	178
STRATEGIC POLICY DIRECTIONS	178
PROGRAMS AND PROJECTS	179
Mission Statement.....	180
Problems, Goals and Policies.....	180
Crop Production Division	181
Program 1: Enhancement of Food Crops Production.....	181
Program 2: Enhancement of Horticultural Crop Production	182
Program 3: Enhancement of Industrial Crops Production	182
Program 4: Support to Farmers' Associations	183
Program 5: Crop Protection	183
Livestock Division	184
Program 1: Development of Livestock Production	184
Program 2: Prevention and Eradication of Livestock Diseases.....	184
Irrigation Division.....	185
Program 1: Rehabilitation of Existing Irrigation Schemes.....	185
Program 2: Establishment of Rural Water Harvesting Systems	186
Program 3: Maintenance and Repair Work.....	186
Performance Targets	186
Program 4: Sector Management Recovery and Development.....	186
Department of fisheries and marine environment.....	187
Mission Statement.....	187
Problems, Goals and Policies.....	187
Program 1: Fisheries and Marine Environment Management	189
Program 2: Fisheries Industry Development	189
Program 3: Aquaculture	189
Measurement.....	190
Department of forestry	190
Mission Statement.....	190
Problems, Goals and Policies.....	190
Program 1: Reforestation and Forest Rehabilitation.....	191
Performance Targets	192
Program 3: Forest Production and Utilisation.....	193
Research And Extension Centre	193
Program 1: Research and Laboratory.....	194
Program 2: Information and Extension	194
Program 3: Geographic Information System.....	195
Cadastral Unit	195
Program 1: Geography and Cadastre.....	196
Policy and Planning Unit	196
Program/Projects	200
APPENDIX 12.1: OVERVIEW OF DONOR FUNDED PROJECTS IN THE	
AGRICULTURE SECTOR	205
TFET PROJECT 1 OVERVIEW.....	205
BILATERAL PROJECTS OVERVIEW.....	206
MULTILATERAL PROJECTS OVERVIEW	209

13. NATURAL RESOURCES AND ENVIRONMENT	
VISION	210
INTRODUCTION	210
Poverty, Natural Resources and Environment	211
MISSION.....	212
GOALS	212
GUIDING PRINCIPLES	213
Sustainability	213
Efficiency	213
Equity	213
KEY DEVELOPMENT INDICATORS	213
Department of Natural and Mineral Resources	213
Division of Environment	213
PROBLEMS AND CONSTRAINTS	214
Capacity	214
Legal and Regulatory Frameworks	214
Data and Information	214
Financial Resources	214
Acknowledgment and Independence	214
GOALS OF EACH AGENCY	215
Department of Natural and Mineral Resources	215
Division of Environment	215
POLICIES	216
Department of Natural and Mineral Resources	216
Division of Environment	216
PROGRAMS AND PROJECTS	217
Department of natural resources and Minerals	217
Program 1: Institutional and Capacity Building.....	217
Program 2: Enabling Legal and Regulatory Framework	218
Program 3: Sectoral Development and Promotion.....	218
Division of environment	219
Program 1: Environmental Governance Framework for East Timor.....	219
Project 1: Development & implementation of environmental legislation.....	220
Project 2: Policy development for catchments and coasts.....	220
Project 3: Development of National Environmental Policy.....	220
Program 1: Environmental Governance Framework for East Timor.....	220
Department of Natural Resources & Minerals	222
Division of Environment	223
14. INDUSTRY, TRADE AND THE PRIVATE SECTOR	
VISION	224
INTRODUCTION	224
WORKING GROUP RESULTS	227
Key Development Indicators for the Five-year Plan:	228
Issues and Constraints.....	228
OFFICE OF THE DIRECTOR-GENERAL (ODG) – OVERVIEW.....	230
OFFICE OF THE DIRECTOR-GENERAL– PROGRAM SUMMARY	230
Programs of the ODG	230
Key Objectives:.....	230
Key Strategies:	231
Program 1: Coordination of Divisional Promotions	231
Program 2: Coordination of Policy and Regulatory Development.....	231
Program 3: Institutional Capacity Building	232
OFFICE OF THE DIRECTOR-GENERAL – OBJECTIVES	232

OFFICE OF THE DIRECTOR-GENERAL – STRATEGIES	232
OFFICE OF THE DIRECTOR-GENERAL – PROGRAMS AND PROJECTS	233
<i>Program 1: Coordination of Divisional Promotions</i>	233
<i>Program 2: Coordination of Policy and Regulatory Development</i>	233
<i>Program 3: Institutional Capacity Building</i>	234
OFFICE OF THE DIRECTOR-GENERAL – PERFORMANCE INDICATORS	235
DIVISION OF INDUSTRY (DoI) – OVERVIEW	235
DIVISION OF INDUSTRY - PROGRAM SUMMARY	236
Programs of the DoI	236
Objectives:	236
Strategies:	237
<i>Program 1: Industrial Development</i>	237
<i>Program 2: Policy and Regulatory Development</i>	237
<i>Program 3: Divisional Training and Development</i>	237
<i>Program 4: Micro-enterprise and SME Development</i>	238
DIVISION OF INDUSTRY - OBJECTIVES	238
DIVISION OF INDUSTRY - STRATEGIES	238
DIVISION OF INDUSTRY – PROGRAMS AND PROJECTS	239
<i>Program 1: Industry Promotion</i>	239
<i>Program 2: Policy and Regulatory Development</i>	240
<i>Program 3: Divisional Training and Development</i>	240
<i>Program 4: Micro-enterprise and SME Development</i>	240
DIVISION OF INDUSTRY – PERFORMANCE INDICATORS	241
Objectives	241
Performance Indicators	241
DIVISION OF INVESTMENT – OVERVIEW	242
DIVISION OF INVESTMENT – PROGRAMMATIC SUMMARY	243
Programs of the DI	243
Objectives:	243
Strategies:	243
<i>Program 1: Investment Promotion</i>	244
<i>Program 2: Policy and Regulatory Development</i>	244
<i>Program 3: Divisional Training and Development</i>	244
<i>Program 4: Foreign Investment Management</i>	244
DIVISION OF INVESTMENT - OBJECTIVES	244
DIVISION OF INVESTMENT - STRATEGIES	245
DIVISION OF INVESTMENT – PROGRAMS AND PROJECTS	245
<i>Program 1: Investment Promotion</i>	246
<i>Program 2: Policy and Regulatory Development</i>	246
<i>Program 3: Training and Development</i>	247
<i>Program 4: Foreign Investment Management</i>	247
DIVISION OF INVESTMENT – PERFORMANCE INDICATORS	248
DIVISION OF TOURISM – OVERVIEW	249
DIVISION OF TOURISM – PROGRAM SUMMARY	249
Programs of the DT	249
Objectives:	249
Strategies:	250
<i>Program 1: Tourism Promotion</i>	250
<i>Program 2: Policy and Regulatory Development</i>	250
<i>Program 3: Divisional Training and Development</i>	251
DIVISION OF TOURISM - OBJECTIVES	251
DIVISION OF TOURISM - STRATEGIES	251
DIVISION OF TOURISM – PROGRAMS AND PROJECTS	252
<i>Program 1: Tourism Promotion</i>	252
<i>Program 2: Policy and Regulatory Development</i>	252
<i>Program 3: Divisional Training and Development</i>	253

DIVISION OF TOURISM – PERFORMANCE INDICATORS	254
DIVISION OF TRADE - OVERVIEW	255
DIVISION OF TRADE – PROGRAM SUMMARY	256
Programs of the Division of Trade	256
Objectives:	256
Strategies:.....	256
<i>Program 1: Trade Promotion</i>	256
<i>Program 2: Policy and Regulatory Development</i>	257
<i>Program 3: Divisional Training Development</i>	257
DIVISION OF TRADE - OBJECTIVES.....	257
DIVISION OF TRADE - STRATEGIES	258
DIVISION OF TRADE – PROGRAMS AND PROJECTS	258
<i>Program 1: Trade Promotion</i>	258
<i>Program 2: Policy and Regulatory Development</i>	259
<i>Program 3: Divisional Training and Development</i>	260
<i>Program 4: Business Registration</i>	260
DIVISION OF TRADE – PERFORMANCE INDICATORS	262

15. INFRASTRUCTURE

VISION	263
INTRODUCTION	263
MAJOR GOALS OF INFRASTRUCTURE	264
GUIDING PRINCIPLES FOR DEVELOPMENT	265
DIRECTOR-GENERAL, DEPARTMENT OF WATER & PUBLIC WORKS (MINISTRY FOR WATER AND PUBLIC WORKS)	265
PUBLIC WORKS DIVISION	266
Public Works Objectives	266
Constraints, Problems, and Issues.....	267
Public Works Strategies.....	267
Public Works Programs & Projects	268
<i>Program 1: Institution Building</i>	268
<i>Program 2: Urban Planning</i>	268
<i>Program 3: Slums Improvement</i>	269
<i>Program 4: Provision of Government Buildings</i>	269
<i>Program 5: Public Education and Training</i>	269
ROADS, BRIDGES AND FLOOD CONTROL DIVISION.....	271
DRBFC Objectives	271
Constraints, Problems and Issues.....	271
DRBFC Strategies.....	272
DRBFC Programs & Projects.....	273
<i>Program 1: Road & Bridge Rehabilitation and Maintenance</i>	273
<i>Program 2: Flood Control and Erosion Prevention</i>	274
WATER AND SANITATION DIVISION.....	275
WSS Division Objectives	275
Constraints, Problems and Issues.....	276
WSS Division Strategies.....	276
WSS Division Programs and Projects	277
<i>Program 1: Institution and Capacity Building</i>	277
<i>Program 2: Urban Water Supply</i>	278
<i>Program 3: Urban Sanitation</i>	278
<i>Program 4: Community Water and Sanitation</i>	279
<i>Program 5: Water & Sanitation Support and Public Safety</i>	279
RESEARCH AND DEVELOPMENT DIVISION	281
Research and Development Division Objectives.....	281
Constraints, Problems and Issues.....	281

Research and Development Division Strategies	281
Research and Development Division Programs and Projects	282
<i>Program 1: Development of Appropriate Technology</i>	282
<i>Program 2: Material and Construction Testing</i>	282
DIVISION OF ENERGY (MINISTRY OF ECONOMIC AFFAIRS & PLANNING)	284
Division of Energy Objectives	284
Division of Energy Constraints, Problems and Issues	285
Division of Energy Strategies	285
Division of Energy Programs and Projects	286
<i>Program 1: Institutional Development</i>	286
<i>Program 2: Improvement of Services</i>	286
<i>Program 3: Capacity Building</i>	287
DEPARTMENT OF COMMUNICATIONS AND TRANSPORT	288
DIVISION OF LAND TRANSPORTATION	288
Division of Land Transportation Objectives	288
Constraints, Problems and Issues	289
Division of Transportation Strategies	290
Division of Transportation Programs and Projects	290
<i>Program 1: Institutional and Staff Development</i>	290
<i>Program 2: Traffic Management</i>	290
<i>Program 3: Vehicular Regulation and Safety</i>	291
DIVISION OF SEA TRANSPORTATION	292
Division of Sea Transportation Objectives	293
Constraints, Problems and Issues	293
Division of Sea Transportation Strategies	294
Division of Sea Transportation Programs and Projects	294
<i>Program 1: Institutional Development</i>	294
<i>Program 2: Port Rehabilitation and Development</i>	295
<i>Program 3: Port Services</i>	295
<i>Program 4: Capacity Building</i>	295
DIVISION OF CIVIL AVIATION	297
Division of Civil Aviation Objectives	298
Constraints, Problems and Issues	298
Division of Civil Aviation Strategies	298
Division of Civil Aviation Programs and Projects	299
<i>Program 1: Institutional Development</i>	299
<i>Program 2: Comoro Airport Operations</i>	299
<i>Program 3: Improvement of National Services</i>	300
<i>Program 4: Capacity Building</i>	300
TELECOMMUNICATIONS (SUB-SECTOR TO DIVISION OF TELECOMMUNICATIONS AND POST)	302
Telecommunications Objectives	302
Constraints, Problems and Issues	303
Telecommunications Strategies	303
Telecommunications Programs and Projects	304
<i>Program 1: Regulation</i>	304
<i>Program 2: Telecommunications Operations</i>	304
<i>Program 3: Capacity Building</i>	304
POSTAL SERVICES (SUB-SECTOR TO DIVISION OF TELECOMMUNICATIONS AND POST)	305
Postal Services Objectives	306
Constraints, Problems and Issues	306
Postal Services Strategies	307
Postal Services Programs and Projects	307
<i>Program 1: Restoration and Development</i>	307
<i>Program 2: Human Resource Capacity</i>	307
<i>Program 3: Innovations and Expansion</i>	308
DIVISION OF METEOROLOGY	309

Division of Meteorology Objectives.....	309
Constraints, Problems and Issues.....	310
Division of Meteorology Strategies	310
Division of Meteorology Programs and Projects.....	311
<i>Program 1: Operational Infrastructure</i>	<i>311</i>
<i>Program 2: Capacity Building.....</i>	<i>311</i>

LIST OF ACRONYMS AND GLOSSARY

ABBREVIATION	WORD DEFINITION
ADB	Asian Development Bank
ARP	Agricultural Rehabilitation Project
ASCs	Agriculture Service Centres
ASEAN	Association of South-East Asian Nations
AusAID	Australian Agency for International Development
BDCs	Business Development Centres
BDP	Bilateral Development Projects
BOT	Build, Operate and Transfer
BPA	Banking and Payments Authority
BRN	Business Registration Unit
CCCS	Consultative Commission for Civil Society on Development
CFET	Consolidated Fund for East Timor
CGIAR	Consultative Group for International Agriculture Research
CHCs	Community Health Centres
CIDA	Canadian International Development Agency
Clandestinos	Members of Clandestine Resistance Network
CoC	Chambers of Commerce
COM	Council of Ministers
CPLP	Community of Portuguese Speaking Nations
DAL	Department of Agriculture and Livestock
DI	Division of Investment
DLP	Distance Learning Program
DNMR	Department of Natural and Mineral Resources
DoE	Division of Environment
DoF	Department of Forestry
DoI	Division of Industry
DoL	Division of Labour
DoT	Division of Trade
DRBFC	Division of Roads, Bridges and Flood Control
DT	Division of Tourism
EDTL	Electricity Authority of East Timor

EIA	Environmental Impact Assessment
ESCAP	Economic and Social Commission for Asia and the Pacific
ESD	Ecologically Sustainable Development
FALINTIL	Armed Forces for the National Liberation of East Timor
FDI	Foreign Direct Investment
FDTL	East Timor Defence Force
FIL	Foreign Investment Law
FME	Department of Fisheries and Marine Environment
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information System
HIV/AIDS	Human Immune Deficiency Virus/Acquired Immune Disease Syndrome
HRD	Human Resources Development
ICAO	International Civil Aviation Organisation
IEC	Information, Education and Communication
IMCI	Integrated Management of Childhood Illness
IMF	International Monetary Fund
IT	Information Technology
JPDA	Joint Petroleum Development Area
LDCs	Least Developed Countries
LPG	Liquid Petroleum Gas
MAF	Ministry of Agriculture and Fisheries
MCT	Ministry of Communications and Transport
MDGs	Millennium Development Goals
MEAD	Ministry of Economic Affairs and Development
MFAC	Ministry of Foreign Affairs and Cooperation
MoE	Ministry of Education
MoF	Ministry of Finance
MoH	Ministry of Health
MoJ	Ministry of Justice
MPFS	Macroeconomics and Public Finance Sector
MTFF	Medium Term Fiscal Framework
MWPW	Ministry of Water and Public Works
NCBA	National Cooperative Business Association
NEMP	National Environmental Management Plan
NGO	Non-government Organisation

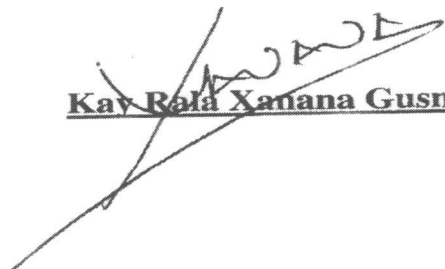
NICs	Newly Industrialised Countries
NRM	Natural Resources and Minerals
NTB	National Tourism Board
ODG	Office of Director-General
PA	Poverty Assessment
PNA	Protected Natural Area
PPA	Participatory Potential Assessment
SEP	Small Enterprise Project
SMEs	Small and Medium Enterprises
SSTL	Suco Survey of Timor Leste
STD	Sexually Transmitted Disease
STI	Sexually Transmitted Infections
TB	Tuberculosis
TBA	Traditional Birth Attendant
TEC	Trade Exposition Centre
TERADP	Timor Economic Rehabilitation and Development Project
TFET	Trust Fund for East Timor
TLSS	Timor Living Standard or Household Expenditure Survey
TSA	Timor Sea Arrangement
UNAMET	United Nations Mission to East Timor
UNTAET	United Nations Transitional Administration in East Timor
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNOPS	United Nations Office of Projects Services
USAID	United States Agency for International Development
VLW	Village Livestock Worker
WB	World Bank
WSS	Water Supply and Sanitation Division
WTO	World Trade Organisation

Foreword

Our National Development Plan charts an ambitious path to transform the lives of our people. The process of preparing the Plan gave thousands of East Timorese, from school children to elderly people, the opportunity to think about the kind of future they want for themselves and for future generations. For so many of them – in government, in civil society and in communities all over the country – it was the first chance they have had to share their aspirations with others and to think broadly about our nation's development.

The vision which sprang from people's participation in the planning process encapsulates all that is fundamental to development – peace, security, freedom, tolerance, equity, improved health, education, access to jobs and food security. Making the vision real is a bold and challenging task. It will require a sustained and combined effort from the public and private sectors and from civil society. It will also require the sustained help of our development partners – bilateral donor countries, the United Nations family, the International Financial Institutions and non-government organizations.

I am honoured to have led the consultation with our people which fed so directly into the Plan and now, as President-elect, I am committed to ensuring that this Plan and all that it represents be translated into actions that will transform people's lives. In the year 2020, I hope that we will look back with pride on the development path we followed from our Independence.



Kay Rala Xanana Gusmão

Foreword

As Chief Minister and Chair of the Planning Commission, I am privileged to have overseen the production of our country's first National Development Plan.

This Plan is another milestone in our long journey to build our new nation. In this journey we have faced many challenges, but none that we have failed to overcome. As full independence approaches we find our responsibilities increasing, and these bring with them a host of new difficulties and new challenges. But I am confident that as a Government and as a people, we will remain undaunted by the need to make hard choices. Our Plan reinforces this belief.

As our struggle for independence is transformed into our striving for development, we continue to honour all the sacrifices that have been made by our people to bring us to this moment in our history, as we finally fulfil our destiny as a free people. The National Development Plan demonstrates that we remain faithful and true to the ideals that have for so long guided us, showing us the path we may follow to achieve our vision for the future of our nation.

Our planning for the medium-term will also enable donor agencies to effectively plan their programs for East Timor over the medium-term. As a Government we uphold principles of accountability and transparency, and the open, participatory and inclusive nature of our planning process is clear evidence of this. Moreover, just as the Government is keen to satisfy external agency requirements for accountability, each of our departments is learning how better to satisfy, and be accountable to, its own clients – the people of East Timor – the public who ultimately own, use and benefit from services Government provides.

East Timor's first National Development Plan reflects my Government's absolute commitment to involving all East Timorese in a planning process that will benefit all East Timorese. Over 120 Government officials have worked tirelessly throughout the planning process, in what was to many a new experience of learning by doing. Led by my team of Ministers, they examined, they analysed, they discussed and they debated the issues and problems now confronting East Timor. In the process of searching for solutions, we moved beyond the notion of looking for ways of how to better serve the public, to involving the public in the design of the service itself; the shape of services that they will actually receive over the next five years. We invited representatives of the Church and members of Civil Society, national and international NGOs, the private sector and public interests groups to become involved in a suite of National Sector and Cross-Sector workshops led by Government to help debate and formulate policy options, program priorities and implementation strategies for the National Development Plan.

Given the time-frame, what they have collectively accomplished is truly impressive. I must commend all involved and especially the Secretariat and staff of the Planning Commission. In particular, I pay tribute to our colleagues in the international community for their assistance. They stood by us in the past, and they stand with us now. I know we can rely on their friendship and solidarity for many years to come as we all work together to develop our new nation.

Mari Alkatiri

1st May 2002

VISION

FOR THE NEXT GENERATION, IN THE YEAR 2020

- ◆ East Timor will be a democratic country with a vibrant traditional culture and a sustainable environment;
- ◆ It will be a prosperous society with adequate food, shelter and clothing for all people;
- ◆ Communities will live in safety, with no discrimination;
- ◆ People will be literate, knowledgeable and skilled. They will be healthy, and live a long, productive life. They will actively participate in economic, social and political development, promoting social equality and national unity;
- ◆ People will no longer be isolated, because there will be good roads, transport, electricity, and communications in the towns and villages, in all regions of the country;
- ◆ Production and employment will increase in all sectors – agriculture, fisheries and forestry;
- ◆ Living standards and services will improve for all East Timorese, and income will be fairly distributed;
- ◆ Prices will be stable, and food supplies secure, based on sound management and sustainable utilization of natural resources;
- ◆ The economy and finances of the state will be managed efficiently, transparently, and will be free from corruption; and
- ◆ The state will be based on the rule of law. Government, private sector, civil society and community leaders will be fully responsible to those by whom they were chosen or elected.

EXECUTIVE SUMMARY

INTRODUCTION

1 The first National Development Plan (the Plan) for East Timor is a watershed event in the history and development of the world's newest nation. It is the first time that the people of East Timor have voiced their views about the future of their nation, based on democratic ideals and self-determination. The Plan has been a participative process, involving constituents in every sector of the economy to identify the problems they face and to suggest solutions to those problems. A vast number of people across the country participated in surveys and meetings to help shape a "national vision" for the new country. A Countrywide Consultation was conducted to reach thousands of people in every district and walk of life, resulting in the vision presented at the outset of this document

2. This planning document represents the views and efforts of those individuals who came together as "working groups" assisted by teams of planning consultants under the Planning Commission. It is important to emphasize that the Plan is the work of East Timorese people. For many, it is their first experience of planning on such a scale. It represents, therefore, the first important step in a process through which the development plan grows, matures, and improves over time.

3. The people of East Timor have many expectations, but these focus strongly on two over-riding development goals:

- a) To reduce poverty in all sectors and regions of the nation, and
- b) To promote economic growth that is equitable and sustainable, improving the health, education, and well being of everyone in East Timor.

DEVELOPMENT STRATEGY

4. East Timor's Development Strategy as described in this plan is to design programs and pursue initiatives that systematically address its main development goals. The first set of tasks during this early transition stage is to establish government capabilities, enabling legislation, and the institutions required to pursue development priorities. These are significant challenges that become unmistakably visible in each of the Plan sector strategies where the ministries and their directorates emphasize these priorities.

5. A second set of priority tasks is for every sector of government to pursue development activities that help reduce poverty. These are very often interdependent with priorities of economic growth, through which the nation's productive capacity is strengthened to create new jobs and higher levels of earned income, and, in time, a vibrant middle class. As the Plan shows, many economic development plans cannot be implemented without legal foundations and



governance that ensures private sector opportunities with a national infrastructure to support growth. Each sector addressed in the Plan has identified programs or projects that can help alleviate poverty while also supporting economic development priorities.

6. A third set of priority tasks consists of an extensive list of barriers that face every sector and all government agencies. These barriers are monetary, social, cultural, and structural impediments to economic growth and to the nation's efforts to reduce poverty. Many sector-specific objectives are subsequently focused on reducing or eliminating these barriers, so that progressive development programs can be implemented.

7. The overall structure of the Development Strategy orchestrates these high-priority development tasks, recognizing that they must be pursued concurrently. The Plan represents two phases of development. In the short-term, legislation and institutional capabilities will be addressed, together with progress in infrastructure, education, and health. In the longer-term, development can accelerate on the basis of these foundations.

8. The short-term phase is also a time of fragile and uncertain development. It is a period when funds are scarce, there are few industrial opportunities for growth or employment, demand on all government resources far outweighs the ability to supply, and questions of trade, investment, and foreign relations are unresolved. The nation will face its most severe challenges during the early years after independence. The longer-term stage represents a time of promise, when oil and gas revenues may provide the monetary base required for sustained growth, and when the nation can emerge from its early adversities with a strong sense of hope.

9. As the Plan unfolds and the nation progresses, the plans, goals, and aspirations will change, mature, and improve. The Plan therefore represents a starting point, particularly as it begins to be implemented. This document emphasizes that the Plan itself is organic – alive and capable of growing – yet only if government nurtures it and empowers people to take ownership of their own development initiatives.

POVERTY REDUCTION STRATEGY

10. A Poverty Reduction Strategy is focused on improving the productivity of the poor by achieving strong economic growth within an enabling environment. This will catalyze and sustain contributions of the poor to national development. Government is faced with providing basic social and economic services to the poor, nurturing and promoting their entrepreneurial initiatives, and prohibiting discrimination based on gender, ethnic origin, language, or geographic location. These issues recur throughout the Plan.

11. Because poor people in East Timor are engaged primarily in agriculture (including fisheries and forestry), improving productivity in this sector is a high priority. Proposed initiatives include rehabilitation and construction of irrigation systems and their improved operation, introduction of water harvesting techniques, wider distribution of improved seeds of cereal crops, fruits and vegetables, improved livestock health, improved management of fishing, and sustainable management of forests and other natural resources. These initiatives will be undertaken with the participation of the communities that depend on them. Improvements in marketing and infrastructure are also planned.

12. The micro-enterprise segment of society (a substantial part of the informal economy) has been an important contributor to growth in developing nations. A large number of people work in micro-enterprises or pursue very small independent activities to subsist. Expansion of

opportunities and productivity improvements in this sector are crucial, not only for rural families but for those in urban slums. Both dimensions of poverty are addressed in this plan, including proposals for training, quality-improving technologies, support services, and micro-credit.

13. A critical requirement for poverty reduction is to strongly enhance opportunities in the formal private sector, where growth and employment can be achieved in manufacturing, construction, trade, transport, tourism, and many domestic services. Priority policies and legislation are being formulated to improve the private sector and the ability of East Timor to sustain both domestic and foreign investment.

14. Poverty reduction cannot occur without the provision of infrastructure that includes an effective network of roads and bridges, efficient seaports and airports, reliable electric power, a telecommunications system, and postal services. Agricultural and business developments are crucially dependent on this infrastructure, and trade, tourism, and foreign investment cannot be encouraged without it. Consequently, a poverty reduction strategy is an integrated process that requires a pervasive effort by government and international donors who will play a major role in assisting East Timor's development.

CAPACITY BUILDING FOR PLAN IMPLEMENTATION

15. Promoting economic growth to reduce poverty will require the government to facilitate the delivery of basic social and economic services. This delivery will itself require enabling laws and regulations, and the empowerment of the population through community management and participation.

16. Currently, East Timor needs virtually everything – infrastructure, technology, training, capital and access to markets. To build capacity to meet all these needs during the next five years is clearly impossible. Consequently, prioritising needs for capacity building is essential for planning, as is the sequencing of the introduction of activities designed to provide these needs.

17. The Plan presents the main areas for capacity building and training, in several of its programs, in different sectors. These programs address both short-term implementation needs and capacity requirements for the coming years, at the central, district and local levels. Capacity building will be based extensively on government partnerships with civil society organizations, the church, non-government organisations (NGOs), the private sector, traditional institutions, informal networks, and mutual-help groups, particularly at the village level.

18. Capacity building at the government level is crucial for East Timor. The vast majority of current civil servants are neither adequately experienced, nor trained for the roles they will have to undertake. To address this problem, the former Cabinet endorsed a comprehensive ten-year program for Governance and Public Sector Management developed by the National Planning and Development Agency (NPDA) in 2001, with support from UNDP. The Plan builds on, and develops this program, by stressing the need to develop organizational and managerial values within a framework that respects East Timorese cultural values, whilst pursuing open, cost effective and accountable systems of government.

19. The Plan sets out strategies for developing and strengthening institutions for the post-transition period. It outlines how capacity can be built to enable the Government to assist in the development of a market-based economy. For each sector, the plan also provides strategies for strengthening capacities in policy development, co-ordination, and the core skills required for management. It shows how the East Timorese government can provide an enabling economic environment, deliver appropriate services, and establish relevant legal frameworks during the

post-independence period, outlining how capacity can be built within the civil service for drafting legislation, developing policy and upgrading skills at different levels.

20. The need for political decentralization is stressed in East Timor's Constitution. The Plan requires that capacity be built for this, through the provision of training for the administration of regional offices in some of the ministries, backed up by regional coordinating bodies with representatives from government, community groups, NGOs and civil society organizations. To further these proposals, training is required to improve the management skills of district and deputy district administrators, local development officers, and sub-district coordinators. In addition, at the suco level, there is a need to develop programs to increase village capacity for plan implementation, and to provide support for developing capacity in local training institutions to provide sustainable assistance to local administrators. NGOs, church organizations and civil society groups can assist in this process, as well as developing civic education programs to facilitate local communities to monitor plan outcomes, in relation to their original "vision" statements in the Countrywide Consultation.

21. Entrepreneurial, technical, and vocational skills are lacking in every sector of the East Timorese economy. To meet their needs, the Plan argues for an extension of the current on-the-job training undertaken in informal economy workshops throughout the country, the design and implementation of basic training programs by employers in the formal sector, and a further development of existing donor and church programs in vocational training. In addition, community-based training centres are to be set up in the countryside, to train people in the skills needed in the local informal economy, and to provide advice on employment.

22. Currently, standards of education in East Timor are among some of the lowest in the world. Consequently, the Plan focuses on capacity building for reconstructing and developing the education system – through prioritising strategies for teacher training, increasing primary school enrolment, improving retention rates, modernizing the curriculum, and enhancing community involvement in the management of schools. In addition, one of the most difficult tasks for schools in the years ahead will be to extend both the use of Portuguese language and the standardization of Tetun for use in schools. Again, the Plan offers programs and projects through which this can be achieved. Most importantly, the Plan also details projects to design a literacy manual, to extend existing donor literacy campaigns, and to develop new campaigns for implementation by the Ministry of Education.

23. Standards of health in East Timor are poor, and existing health provision is weak. To build capacity in this area will be extremely difficult, and the focus necessarily will be on the provision and delivery of services to meet basic needs. The Plan presents policies, and short and longer-term strategies for this. It prioritises ongoing, long-term programs in child, maternal and reproductive health. It also focuses on current needs to build capacity for the provision of support services and management systems for the delivery of these programs.

24. Infrastructure is in a poor state, and capacity in this sector is extremely weak. This is an issue of overarching importance for all sectors of the economy and society, since infrastructure is a key determinant of agricultural productivity, poverty reduction, investment, human development and government capacity to deliver services. The Plan specifies detailed programs for building capacity in the key areas of water supply and sanitation, road reconstruction, and the restoration of basic transport and communication facilities. For the longer term, it specifies programs for the development of a sustainable power infrastructure, with an accompanying institutional framework.

25. A crucial area for East Timor's development is an effective judicial system. Developing the judiciary will require rapid capacity building to prepare proposals for legislation and draft legislation, in addition to preparing legal opinions and advice.

26. In most of the areas for capacity building outlined above, during the coming years, East Timor will need continuing international support. At least in the short term, to further capacity building and human resource development, there are positions which need to be filled by international advisers, working closely with local staff. For plan implementation, it is crucial that the knowledge and skills appropriate for the attainment of economic growth, poverty reduction and human development be transferred and developed in an East Timorese context.

MONITORING, EVALUATION, AND PLANNING REVIEW

27. The Plan is a starting point for a structured planning process that includes monitoring and evaluation as critical components of successful national development. Ensuring that policy objectives are met – through program and project activities – requires adherence to a sound process of monitoring and evaluation. In addition, such a process meets the requirements of government, donors and other stakeholders for transparency and accountability. The main outcomes of strengthened monitoring and evaluation capabilities are improvements in project implementation and management, but most importantly, improvement in the Plan itself.

28. An institutional planning process is presented in this Plan as one that empowers the nation's leaders with responsibility for strategic planning. The process itself must ensure continuity of monitoring and evaluation, provide timely feedback on actual performance, and provide realistic analyses of what the nation faces in the coming years. This planning process also will permit adaptation of the existing plan, its goals, objectives, and strategies.

29. The planning process should not be budget-driven nor subordinated to international financial mandates. Instead, it should address the social, economic, and human development priorities of East Timor and, with appropriate diligence, consider what can be realistically accomplished given budget constraints. Ministries and their directorates are part of this on-going process with incremental annual action plans and achievable performance benchmarks. A process of periodic monitoring and evaluation reporting is suggested with annual planning reviews under an independent government body overseeing implementation in co-operation with government ministers, civil society organisations and the major stakeholders.

MACROECONOMICS AND PUBLIC FINANCE POLICY FRAMEWORK

30. The sector vision focuses on growth, employment, improved living standards and better public services delivery. Sustaining the culture and environment are important. Sound and transparent economic and financial management is essential.

31. The starting point for independent economic management is difficult and a period of consolidation is needed, particularly as the United Nations withdraws, before longer-term development is likely to take hold. The continuing support of donors in the transition phase before significant oil revenues begin to flow will be important.

32. Several core sector goals have been identified. These relate to: capacity building; poverty reduction; economic growth; low inflation; employment growth; a stronger banking sector; strengthening the external situation; improving revenues to enhance self reliance; effectively

managing oil revenues; responsibly managing budget expenditures; and effectively managing budget financing, especially aid.

33. Broad guiding principles revolve around an open market economic system but with important strategic and regulatory roles for government. The private sector (including agriculture) is provided with important responsibilities in the development effort. Provision of equal opportunities and improving living standards are important. Preservation of the environment and traditions are also important. Economic management will be transparent and corruption free.

34. Many constraints have been identified as needing to be addressed in the policy formulation stage. Without being exhaustive these include: coping with social and physical destruction; recognizing difficulties in transforming subsistence agriculture; limited experience in economic management; low domestic revenue base; a very weak banking and credit sector; an increase in wage levels under UNTAET along with a very strong US dollar has weakened international competitiveness; the private sector is weak as is the institutional and legal environment in which it operates; education, health and infrastructure services all need big improvements to support the development effort.

35. A detailed policy matrix is presented where the eleven core goals are assigned policy actions and performance indicators to measure the success of policies over time. A full range of macro, micro and institutional policies will need to be effectively implemented if the sector goals are to be achieved. Important policies that are set out include: budget policies (revenues; expenditures and financing); monetary and currency policies; wages policies; trade and investment policies; institutional and structural policies as well as capacity building initiatives.

36. The chapter concludes by setting out likely program and project funding for the sector during the plan. Significant additional resources are not called for and relatively speaking the sector should use less national resources over time. A large number of new project initiatives have been set out, the great bulk of which relate to systems and human capacity building measures in the Ministry of Finance (MoF) and the Banking and Payments Authority (BPA).

MEDIUM TERM ECONOMIC AND FINANCING OUTLOOK

37. This chapter provides the medium term economic and financing outlook. Many plans fail because they make unrealistic assessments of economic conditions and of domestic and foreign resources available. The links between medium term plans, budgets and economic policy frameworks are important ones. A base outlook for key components of the macro-economy is presented and indicates:

- a) Largely due to the phased withdrawal of UNTAET and TFET, economic growth is projected to be negative in 2002 and 2003, before commencing recovery in 2004. By the end of the plan there are prospects for solid, broadly based growth of 6% p.a.;
- b) The worst hit sectors during the downturn in late 2002/2003 are expected to be Transport, Communications, Trade, Hotels, Restaurants, Utilities, Construction, Finance, Rents, Business and Government Services;
- c) The sharp contraction is a reflection on the recent economic management period and makes a good argument for ongoing donor budget and project support to help smooth what will be a difficult transition;

- d) Sharp reductions in formal unemployment will be challenging to achieve. Excluding agriculture, around 40,000 private sector jobs will need to be created over the course of the plan if the open unemployment rate is to halve. Agricultural and informal employment will remain important social safety nets;
- e) Prices are expected to remain stable with inflation averaging 2% to 3% per annum. Public sector wage growth will be targeted at levels below that of inflation;
- f) Domestic revenues while growing will remain small. For FYs 2003 and 2004, donors are being asked to contribute around US\$40 million per annum to recurrent and capital budget support. Oil revenues are expected to strengthen sharply from FY 2005 and to average almost US\$100 million a year in the last 2 years of the Plan;
- g) Total sources expenditure will contract sharply over the course of the plan as UN and TFET contributions withdraw. After rapid growth in FY 2003, CFET expenditures are targeted to grow smoothly at 8% per annum nominal for the remainder of the Plan.

38. The Plan asks donors to maintain bilateral projects at around US\$75 million per annum throughout the Plan period. This is higher than levels previously discussed but is critical both for short-term economic management and long-term nation building. It also presents a case for significantly changing the composition of CFET expenditures over time, especially to find more resources for the key plan priorities of agriculture, education, health and infrastructure development. During the plan the BPA will develop the capacity to manage an independent monetary and currency policy.

39. Providing the stance of no public sector borrowing is maintained the external situation should remain manageable with a reasonable build-up in oil revenues saved in the offshore account (estimated to be US\$84 million by end 2007).

40. The Plan presents policies for the planned utilization and saving of oil revenues so as to preserve capital and earnings values for future generations. It also outlines aid policies and approaches to be pursued, which are critical both for short and medium term economic and financial management.

POLITICAL DEVELOPMENT, FOREIGN RELATIONS, DEFENCE AND SECURITY

41. The development of an effective administrative and governance structure to serve the needs and interests of the people and the nation is one of the most critical national priorities. Given the existing environment the priority medium-term programs will have to be the establishment and strengthening of the organs of state and of public administration, laying the foundations of good governance, creating the avenues for popular and community participation, developing the legal and regulatory framework, building the human resources capacity for policy formulation and execution as well as service delivery, strengthening oversight institutions and fostering the press and civil society.

42. The Plan emphasizes that transparency in governance is essential, including development of public information programs for civil service, activities of Parliament, and functions of the ministries. This will be reinforced by programs that reintroduce Portuguese and standardize Tetun as working languages of Parliament and public administration.

43. Decentralization and participation are critical to mobilize regional, community, and civil society organizations and entities. The Plan presents programs that will empower communities and strengthen grass-roots democracy. These are inclusive strategies that preserve the opportunity for everyone to have a voice in self-government.

44. The Plan also addresses civil priorities, such as identifying veterans and providing training and other assistance to re-integrate them into society. The plan underlines the importance of utilizing networks of diaspora organizations to represent East Timorese interests abroad.

45. The importance of a legislative agenda cannot be overstated as vital to the nation's ability to establish a society based on the rule of law, to foster domestic and foreign investment, to support private enterprise growth, and to protect the interests of the impoverished and disadvantaged.

46. The Plan includes the creation of an Ombudsman's office to raise the level of awareness of citizens' rights and respect for the law, to defend citizens from any abuse of power by public administration entities, and to safeguard against practices of corruption, nepotism and other abuses of power.

47. Not least of all, the Plan articulates development of protective services through the creation of refuge centres and support systems for victims of violence, and by creating programs for assistance and training of youth and women, particularly those who have become displaced by conflicts and inequitable social barriers.

POVERTY REDUCTION, RURAL AND REGIONAL DEVELOPMENT

48. More than two fifths of East Timorese live in poverty. The poorest households are those with little land, and no education. They are most likely to be farmers and fishers. More than three-quarters of the population live in rural areas. Poverty also occurs unevenly, with the western and central areas being poorer than the eastern areas

49. The main goals of poverty reduction within the Plan are to achieve rapid economic growth to deliver training and health services, establish social safety nets, and create skilled and professional human resources for an effective use of labour. Rural development will be integrated and regionally balanced, and governance for this development will be competent, efficient, accountable and transparent.

50. Rural and regional development will ensure the involvement of households and communities in all development activities in the villages. It will be integrated, equitable, and non-discriminatory.

51. The main resource constraints for rural development are detailed in the Plan. They focus largely on social and gender issues, but also list the main areas for capacity building, both within the Government and civil society organisations. Infrastructure constraints are viewed as particularly severe, limiting access to markets. The private sector has no meaningful framework for enabling rural development, and governance is restricted by limited co-ordination, inadequate targeting, a lack of transparency, and limited accountability.

52. Based both on the overall strategy for poverty reduction, outlined in chapter four, and on the mainstreaming of poverty in the Plan, the most important areas through which poverty can be reduced in the rural sector are presented and elaborated. Strategies are outlined for the creation of

economic opportunity, the provision of specific social services, the enhancement of security, capacity building for disaster preparedness, the provision of assistance to vulnerable groups, the empowerment of villages and communities, and the creation of equal opportunities for women in work, training and participation in business and private sector organisations.

53. Balanced regional development will be achieved through focusing on reducing imbalances in education, strengthening the economic bases of districts, improving access to infrastructure for relatively disadvantaged areas, allocating central government resources to districts based on population, land area, level of development and specific locational problems.

54. To promote balanced regional development, strategies are presented for strengthening the civil service locally, and for improving the immigration service and national archives.

55. Strategies for a fuller use of rural labour are outlined. These include improving the functioning of the labour market through employment exchanges, business consultation forums and the use of the media. A labour market database will be established, and manpower planning introduced.

HUMAN DEVELOPMENT: EDUCATION AND HEALTH

56. Human development priorities for both education and health are concerned with short-term reconstruction and long-term sustainable development. These represent two phases of program activities, which the Plan has endeavored to address as among the most important national goals of East Timor.

57. In the short-term over a two to three year period, education strategies will aim to consolidate the efforts and achievements of reconstruction. This will be done through rationalizing educational provision in relation to the needs of different areas of the country, and by developing human resources within the educational sector as a whole. Institutional capacity will be strengthened within the ministry, to promote reforms and to plan and develop educational programs.

58. In the longer term, education strategies will aim to promote reforms in key areas of the sector, as well as developing measures for institutional strengthening to achieve the provision of universal primary school education. Curricula will be designed and implemented, promoting high quality teaching. Institutional capacity will be strengthened with the aim of an efficient management of the educational system.

59. The education programs proposed in the Plan reflect a priority need to recruit and train competent teachers at all levels, but essentially for primary schools where the next generation of children can emerge as literate individuals with realistic opportunities to pursue higher education, meaningful jobs and careers. In line with teaching needs, programs focus on development of school facilities and educational materials, systematically improving teacher-student ratios, access to texts, support for school sports, and cultural development.

60. East Timor has one of the lowest literacy rates in the world. The Plan presents programs and projects for designing literacy manuals, and implementing campaigns to improve adult literacy, with a particular emphasis on women

61. Health priorities are among the most crucial in the Plan. Development strategies have been devised to emphasize the importance of providing adequate access to primary health care, focusing on prevention and clinical support in underserved areas. Health planners will develop a

system of primary health care, universally accessible to individuals and families in the community through household participation, and at a cost that the community and country can afford to maintain at each stage of its development.

62. Longer term health sector priorities are to ensure that health providers and clinical specialists can sufficiently meet the needs of the country's health system within the framework of overall social and economic development. In order to accomplish this, short-term activities include recruitment and staff training activities, a national plan for regional and rural health services, and an epidemiological approach to preventive medicine, inoculations, public health information, and improved hygiene.

63. A major concern is to solve the situation of women disadvantaged particularly by the mass displacement during the Indonesian period, but also suffering from domestic violence. Currently there are no laws either ensuring the protection of women's fundamental rights or addressing the social and cultural obstacles favoring men's access to opportunities.

64. The goal of promoting gender equality and empowering women must entail changes in attitudes, government social institutions and private sector practices. The overall strategy in the Plan is focused on mainstreaming gender equality in all areas and at all levels of education and health, thus ensuring that policies and programs respond to the needs and interests of women as well as men, and distribute benefits equitably.

65. Gender objectives in education and health emphasize the need for gender awareness campaigns at all levels, to remove obstacles to a full participation of girls in the educational process, and to ensure women's rights to health. This is particularly focused on reproductive health and on the prevention of health hazards.

AGRICULTURE, FISHERIES AND FORESTRY

66. The agricultural sector is pre-eminent, with the majority of the population deriving their livelihood from agricultural activities. The key position of agriculture in the economy means that there remains a strong imperative to ensure food security, rebuild to provide employment and income generating opportunities, and to expand opportunities for exports.

67. Agriculture in 2001 was the main source of income in 94 percent of sucos. Forty one percent of East Timor's population suffers from poverty, with those in rural areas more likely to be experiencing it. Agricultural policy and strategies, therefore, need to recognize the likelihood of seasonal food shortages and accord suitable priority to programs to overcome those shortages. Unfortunately, East Timor has little or no comparative advantage in agricultural commodities, and current wage levels coupled with the US dollar as the medium of exchange will constrain efforts to become internationally competitive.

68. The Plan presents strategies to efficiently deliver services to agricultural, fishing and forestry communities that improve their productivity and income-earning potential. These will also improve social welfare in rural areas and enhance human capital. Export development will be an uphill struggle, yet the Plan identifies a broad range of initiatives that provide funding and assistance opportunities to alleviate poverty as a first priority, and systematically enhance domestic livelihoods.

69. Agriculture and rural development continue to receive support under emergency rehabilitation funding arrangements, through TFET, bilateral donors and multilateral agencies.

They are substantial, yet as the Plan illustrates, they are not sufficient to meet East Timor's pressing needs.

NATURAL RESOURCES AND ENVIRONMENT

70. East Timor is relatively poorly endowed with natural resources apart from the oil and gas reserves of the Timor Sea. Fishery stocks are poorly understood, but might also comprise an important economic resource. Strategies proposed in the Plan recognize these limitations, but seek to develop sustainable domestic capabilities that optimize natural resources while also protecting the natural environment.

71. Natural resource development, environmental interventions, and the primary goals of poverty reduction and economic growth are inextricably linked. These are addressed within the sector plans that include: (1) improvement in people's health due to poor access to resources; (2) enhancement of the livelihoods of poor people, particularly in rural areas where they depend on land, water, forests and biodiversity; and (3) reduction of vulnerability to natural disasters such as violent storms, floods and fires.

72. The Department of Natural and Mineral Resources is not an implementing agency, but it is the administrative authority for pursuing legislation relating to minerals, energy and extractive industries, and thereby regulating development to utilize the nation's resources efficiently, whilst preserving its environment.

73. Programs within the Plan reflect environmental and resource priorities, and the need to encourage private development without exploitation. This responsibility requires inter-ministry cooperation, particularly concerning oil and gas resources and the related infrastructure that is essential to support national development.

INDUSTRY, TRADE AND THE PRIVATE SECTOR

74. The programmatic initiatives of the sector are divided into five divisions, each concerned with policy and regulatory priorities and capacity building that encourages private development of industry, investment, tourism and trade. Successful private sector development will be a key driver of economic growth and poverty reduction. In the near-term, the principal role of government will be to provide the best possible enabling environment for private sector development.

75. The transition to economic independence will be the main challenge confronting government during the next five years. This is particularly true as international spending may decline over the next few years, and revenues from oil and gas production in the Timor Sea may then subsequently increase. Both of these changes pose risks and opportunities to private sector development. The Government has committed itself to a market-based economy, but during the early years, this will be difficult to achieve without an open approach to foreign investment and foreign trade that will help build East Timor's international competitiveness.

76. During the UNTAET period, government policy has successfully fostered a rapid recovery of private investment and business activity, such that the supply of the vast majority of goods and services has been restored. Consequently, the first task of government in this sector is to continue this momentum and, in terms of early actions, provide positive signaling effects to the market.

77. The largest portion of East Timor's private sector is made up of its micro-enterprises and SMEs. Accordingly, their specific needs formed the backdrop of most of the policy options undertaken during the preparation of the Plan. Specific attention is given in the NDP to strategies that would most equitably distribute income and make available services to rural areas, thus addressing the priority goal of poverty reduction. These strategies are linked to the need to increase demand for domestic agricultural produce, and to improve domestic market linkages through consistency and quality of supply.

INFRASTRUCTURE

78. Infrastructure is an issue of overarching importance to society. It includes the physical capabilities and service systems that provide the population with the essentials of electric power, water, sanitation, postal services, telecommunications, roads, air and sea transport facilities, and various support services. Infrastructure has perhaps the strongest cross-sectoral implications for national development. Having an effective system of physical infrastructure and services is crucial for agricultural productivity and poverty reduction, but it is also a key determinant of business investment, is vital to human development, and the foundation for private sector development.

79. Although significant progress has been made to restore infrastructure, the quality and level of services remain woefully inadequate. The infrastructure sector plan emphasizes national priorities for economic development and a strong commitment to poverty reduction throughout its department activities, but the first priority is to restore or establish required physical capabilities and public services.

80. This focus will not detract from efforts to meet the needs and aspirations of those disadvantaged by poverty, remoteness and difficulty of access to infrastructure services. On the contrary, the ten divisions represented as the infrastructure sector in the Plan have systematically proposed programs that account for these needs.

81. The ultimate responsibility of each directorate is to provide a program of infrastructure development that ensures safe services, equitable prices, and maximum opportunities for economic development that improves human welfare. Most programs, however, are capital intensive and the Plan presents alternatives for development, including private sector investment, foreign investment, build-operate-transfer (BOT) options, and public service contracts. Sector strategies are heavily reliant on these alternatives and on subsequent assistance from the international donor community.

PART 1

VISION AND STRATEGIES

Chapter 1. INTRODUCTION

Chapter 2. VISION, GOALS, PRINCIPLES AND INDICATORS

Chapter 3. THE DEVELOPMENT STRATEGY

Chapter 4. POVERTY REDUCTION STRATEGY

Chapter 5. CAPACITY BUILDING FOR PLAN
IMPLEMENTATION

Chapter 6. MONITORING, EVALUATION AND REVIEW



1. INTRODUCTION

"The people of East Timor prepared the National Development Plan. It belongs to them and reflects their values, needs, ideas, aspirations and priorities."

BACKGROUND

1.1 The release of the National Development Plan (the Plan) for the new nation of East Timor is a milestone in its history. It is the first time in more than 450 years that the East Timorese have participated as free people in formulating a twenty-year vision, identifying key development challenges, and evolving strategies and programs of action for the next five years (2002 – 2007) to take the nation forward economically, socially, and politically. The Plan is not the end of the planning and development process; it is only the beginning. The important work of preparation and implementation of annual action plans, including programs and projects, has begun and will proceed during the next five years.

THE PLANNING PROCESS

1.2 The process of formulation of the Plan began in earnest in September 2001, after the Second Transitional Government took office. A range of initiatives from the Government, civil society organizations and ordinary men and women fed into the planning process. These included activities within (a) the Poverty Assessment; (b) the Countrywide Consultation undertaken by the Consultative Commission for Civil Society on Development (CCCS); (c) intensive work over a period of three months by Government officials in eight sector working groups, each chaired by the relevant Ministers; and (d) discussions and feedback at, and following, a two-day stakeholder workshop on the Plan.

1.3 The Poverty Assessment (PA) comprised three components:

- c) a Suco Survey (SSTL) covering all the sucos (villages) in the country, which compiled an inventory of existing social and physical infrastructure, the economic characteristics of each suco, and the coverage of public services, based on information obtained from suco and aldeia (hamlet) chiefs, teachers and other local leaders;
- d) a Household Expenditure Survey (TLSS) which obtained information from the members of a sample of 1,800 households spread throughout the country, and collected data on household demographics, housing and assets, household expenditures, agriculture and the labour market, basic health and education, subjective perceptions of poverty, incomes and social capital; and
- e) a Participatory Potential Assessment (PPA) that assisted the communities in 48 aldeias in the 13 districts of the country to take stock of their assets, skills and strengths, identify the main challenges and priorities, and formulate strategies for tackling these within their communities.

- f) The Plan draws upon the results of the PA.¹ The SSTL Report was released in October 2001 whilst the reports on the PPA, the TLSS, and the composite PA (incorporating the findings from all three components), are expected to be published in mid-2002.

1.4 The Countrywide Consultation undertaken by the CCCS covered more than 38,000 East Timorese citizens – men, women, secondary school students and youth. The consultation captured the twenty-year vision (to the year 2020), as well as current priorities, initiatives the people can take, and how they think civil society and the Government can address their concerns. The results are incorporated in the vision, goals and strategies as well as in the sector interventions of the Plan. A popular version of the Plan entitled “East Timor 2020 - Our Nation, Our Future” outlining the vision, priorities and expectations of the population is being released simultaneously.

1.5 The eight working groups convened to work on the Plan involved more than 120 senior officials of the Government, including Ministers and Vice Ministers. They worked long days and weekends to formulate a homegrown Plan that takes into account the aspirations of the people, present realities and future prospects. Preparation of the *State of the Nation Report* has been the first major task accomplished by the working groups². It enabled the East Timorese to take stock of the position in which the nation finds itself prior to its independence, and provides the backdrop to the Plan. The working groups formulated a 20-year vision (to 2020), presenting the goals, guiding principles, strategies, policies, programs, projects and legislation necessary for the country to move ahead with its development over the next five years. There was a high degree of congruence between the vision and priorities identified by the people in the Countrywide Consultation and those formulated by the working groups. The working papers of the groups were presented by Ministers, and discussed at a two-day workshop for stakeholders, including NGOs, civil society organisations, interest groups, the Church, political parties and donors. The feedback from the workshop has been incorporated into the Plan.

1.6 The people of East Timor prepared the Plan. It belongs to them, and reflects their values, needs, ideas, aspirations and priorities. It is an amalgamation of inputs from the various stakeholders. The extent of citizen participation and the inclusive process adopted in preparing the Plan are unique, especially for an incipient country. Most importantly, this process has been crucial in building confidence and capacity among East Timorese Government officials, civil society organisations and communities.

ORGANIZATION OF THE DOCUMENT

1.7 The Plan provides a road map for the development of the country over the next five years within a twenty-year perspective. It is presented in three parts. Chapters 2 to 6 comprising Part I of the Plan provide an overview of the twenty-year vision, goals, strategies, and capacity development needs of East Timor, and monitoring, evaluation and review arrangements for the Plan. Part II presents a synopsis of the Macroeconomic Policy Framework and Medium-term Economic and Financing Outlook in Chapters 7 and 8, which are prepared by the Working Group on Macroeconomics and Public Finance. The remaining sector chapters prepared by the Working Groups on Political Development, Foreign Relations, Defence and Security (Chapter

¹ Only the preliminary results from the Household Expenditure Survey were available and fed into the Plan.

² Unless otherwise specified all the figures quoted in the Plan are from the State of the Nation Report.

9), Poverty Reduction, Rural and Regional Development (Chapter 10), Social and Human Development: Education and Health (Chapter 11), Agriculture, Fisheries and Forestry (Chapter 12), Minerals and Natural Resources and the Environment (Chapter 13), Industry, Trade and the Private Sector (Chapter 14), and Infrastructure (Chapter 15) form Part III of the Plan. The Plan organises and presents the outputs of the East Timorese as faithfully as possible.

2. VISION, GOALS, PRINCIPLES AND INDICATORS

“The formulation of the Development Vision for the country to the year 2020 was carried out in full consultation with the people, civil society organisations and government officials. The vision is an amalgamation of the inputs and tries to reflect accurately and fully the aspirations of all East Timorese”

THE LAND AND THE PEOPLE

2.1 East Timor is situated on the eastern part of the island of Timor, the easternmost of the Lesser Sunda Islands. It is bordered on the west by the Indonesian province of Nusa Tenggara Timur (or West Timor). The Savu Sea and the Strait of Wetar lie to the north of the island while Australia is to the south, about 500 kilometres across the Timor Sea. Also, the enclave of Oecussi in the western part of Timor Island is a part of the national territory of East Timor, as are the islands of Ataúro and Jaco.

2.2 The country has a land area of approximately 14,610 square kilometres (sq km), with a surprisingly varied topography and a diverse ecology. A core of rugged hills and mountains form a mountainous spine that divides the northern part of the country from the southern region. About 21% of the land is less than 500 metres above sea level, 41% between 500 and 1,000 metres and the rest (35%) more than 1,000 metres above sea level, with the last including Mount Tatamailau at approximately 3,000 metres. Around 44% of the territory has a slope of approximately 40% which, combined with heavy rainfall, contributes to soil erosion. The rainfall pattern is varied with the mountains receiving more rain than the coastal plains. The southern region receives more rainfall (2,000 millimetres or more) and has two harvests, while the northern part with less rain (between 500 to 1,000 millimetres) often has one harvest. The country is affected by the periodic El Niño-related weather anomalies.

2.3 The climate is hot, with an average temperature of 21°C, and a high humidity (about 80%). The dry months from May to October experience moderate winds and slightly milder temperatures – about 18°C on the coastline and 10°C or lower in the mountains. During the monsoon season (November to April), the rivers become torrents due to the extremely high rainfall in the mountains.

2.4 The country is organized into 13 districts, 67 postos (sub-districts), 498 sucos (villages) and 2,336 aldeias (hamlets). The districts have been grouped into three regions – the enclave district of Oecussi and the border districts of Bobonaro and Covalima forming the Western region, the districts of Aileu, Ainaro, Ermera, Liquica and Manufahi in the Central region, and the districts of Baucau, Lautem, Manatuto and Viqueque in the Eastern region – and the capital Dili. At present, the local government (administration) is organized at the district and sub-district levels although the traditional structures at the suco and aldeia levels continue via suco and aldeia chiefs. The districts have District Administrators with a small complement of staff and sub-district co-ordinators at the postos.



2.5 The last population census of East Timor Province was in 1990, and a population census of the new country has yet to be conducted. The 1990 Census placed the population at 747,557, which included 47,000 non-East Timorese (mainly Indonesians from other provinces of whom almost half were from West Timor). The rate of growth of population at about 2.5% per annum was high compared to that in the rest of Indonesia. The capital, Dili, had more than 14% of the population. The population density ranged from 48 persons per sq km in the Eastern region to 52 in the Central region with Dili at 271 persons per sq km. Estimates from the 2001 Suco Survey place the population at about 790,000 in mid-2001, with females accounting for 49.75% of the total. This figure does not include the approximately 120,000 East Timorese who were then still living in refugee camps in Indonesian Timor, following the aftermath of the 1999 paramilitary rampage. Since then, many of these refugees have returned to the country. In April 2002, some 60,000 refugees remained in the camps, but many are returning, with the approach of independence. The proportion of the population in Dili appears to have increased considerably in recent years, and unofficial estimates place it at more than 20% of the total. More than three-quarters of the population live in rural areas.

2.6 East Timor has a young population, with about 48.1% below the age of 17. This will place a considerable demand on education and health services, at least for the next decade. Also, the relatively high fertility rate implies a continued high population growth rate in the next decade or more, unless policies are introduced for family planning and health education. The labour force participation rate is about 74% overall with that for women estimated to be more than 50%. About three-quarters of those employed are in agriculture. Open unemployment, a recent phenomenon especially among youth, is in excess of 16%.

2.7 The ethno-linguistic diversity of the population is significant, with more than 30 languages or dialects in use. The major local languages include Tetun, Mambae and Macassae, each spoken by more than 10% of the population. The main language, Tetun, is understood by a large majority (about 80% according to some estimates) of the population, with about 40% able to understand and use Indonesian, approximately 5% able to understand Portuguese, and about 2% English. Indonesian was the working language for the government and the medium of instruction in schools during the more than 20 years of Indonesian rule. The new official languages are Portuguese and Tetun, with Indonesian and English accorded the status of working languages. This poses unique challenges of communication within the Government, between the Government and the people, and within the education system.

THE ECONOMY

2.8 The economy of East Timor was devastated by the 1999 violence. It has recovered somewhat in 2000, and further in 2001. The nominal gross domestic product or GDP, which is a measure of the value of all goods and services produced in the country at prevailing prices, was US\$321.2 million in 2000 (Boston Institute) and US\$380.0 million in 2001 (IMF)³. The GDP declined by 2.1% in 1998 and 34% in 1999; but grew by 15% in 2000 and 18% in 2001. The size of the real economy (i.e. GDP at constant prices or adjusted for price inflation) in 2001 was only about 88% of the 1997 level (IMF). Based on population data provided by the Government Statistics Office, nominal per capita non-oil GDP was estimated at US\$412 in 2000 and US\$452

³ The estimates of GDP and population vary between different sources and may not be strictly comparable. One set of estimates are available from the Boston Institute for Economic Studies (USA) and another from the International Monetary Fund (IMF).

in 2001 (IMF).⁴ This places East Timor in the low-income country category by international standards.

2.9 In 2001, the output of the agricultural sector accounted for 26.5% of non-oil GDP, with manufacturing industry at 2.5%, construction 13.3%, trade, hotels and restaurants 8.3%, transport and communications 7.4%, finance, rents and business services 6.3%, and Government services 33.5%. Almost three-quarters of the labour force (73.8%) were employed in agriculture and 16.8% were openly unemployed. All other sectors combined employed less than 10% of the labor force. Private consumption has been very high, reaching 100% of GDP in 2000, and private investment has been low. The large net external inflows (aid) played a significant part in the financing of domestic consumption and investment in the two years.

2.10 Inflation was very high in 1998 (80%) and 1999 (140%), but decelerated in 2000 (20%), reaching a low 3% in 2001. Data on recent private sector wages is poor. However, evidence from the 2001 Suco Survey indicates that wages for the unskilled in the coffee industry may have tripled since 1999 from around US\$1 a day to more than US\$3 a day. Anecdotal evidence suggests that these increases may have fed through into wage increases elsewhere in the private sector, especially in skilled areas. Allowing for inflation, real wages probably have remained the same since 1999.

THE DEVELOPMENT VISION

2.11 The formulation of the development vision for the country to the year 2020 was carried out in full consultation with the people, civil society organizations and government officials. The vision presented below is an amalgamation of their different inputs, and tries to reflect accurately and fully the aspirations of all East Timorese:

2.12 For the next generation, in the year 2020:

- a) East Timor will be a democratic country with a vibrant traditional culture and a sustainable environment;
- b) It will be a prosperous society with adequate food, shelter and clothing for all people;
- c) Communities will live in safety, with no discrimination;
- d) People will be literate, knowledgeable and skilled. They will be healthy, and live a long, productive life. They will actively participate in economic, social and political development, promoting social equality and national unity;
- e) People will no longer be isolated, because there will be good roads, transport, electricity, and communications in the towns and villages, in all regions of the country;
- f) Production and employment will increase in all sectors – agriculture, fisheries and forestry;
- g) Living standards and services will improve for all East Timorese, and income will be fairly distributed;

⁴ The GDP from oil and gas was estimated to be US\$71.4 million in 2000 and US\$63.9 million in 2001.

- h) Prices will be stable, and food supplies secure, based on sound management and sustainable utilization of natural resources;
- i) The economy and finances of the state will be managed efficiently, transparently, and will be free from corruption; and
- j) The state will be based on the rule of law. Government, private sector, civil society and community leaders will be fully responsible to those by whom they were chosen or elected.

DEVELOPMENT GOALS

2.13 This vision is to be realized through the achievement of goals and development targets (quantitative and qualitative indicators). The Countrywide Consultation undertaken by the CCCS identified education, health and agriculture as the population's main priorities for the development of the country. Responding to the wishes of the people, the Government also accords high priority to these sectors. The main goals include the following:

- a) Improve the education, health and nutritional status of the people of East Timor; promote gender equality and the empowerment of women; improve the economic, social and cultural well being of individuals, families and communities in East Timor; create human resources that are skilled and professional in accordance with the interests and talents in each field; and ensure equal opportunities to obtain work and effective utilization of labour.
- b) Transform the subsistence economy into a market economy; achieve food security; and protect the environment.
- c) Achieve and sustain rapid economic growth, utilizing to the optimum the country's human, financial and natural resources; with low inflation and increased employment adequate to cater to the growing labour force; a stronger banking and finance sector; maintain a competitive real exchange rate with more exports and less imports; create equitable business opportunities and increase incomes, especially in rural areas.
- d) Reduce poverty among women and men; establish a social safety net to reduce the burden on those in society who are unable to work/help themselves.
- e) Promote private initiatives, innovation and investments by creating enabling and supportive environments - including policies, legislation and regulations, reliable supplies of electricity, water, roads and transport, marketing and banking systems, and a competent, productive and disciplined labour force.
- f) Secure and maintain the unity, territorial integrity and sovereignty of the nation; create and maintain durable internal peace, security and stability; prevent crime and involve the community in the reduction of crime; and make the country attractive and safe to citizens and visitors.
- g) Promote integrated rural development to generate remunerative employment and sustainable livelihoods, increase rural incomes, reduce poverty, accelerate economic growth and reduce the gap between rural and urban areas.

- h) Promote an orderly development of cities and towns that are pleasant (e.g. with parks and playgrounds), not crowded, affordable and friendly to the environment.
- i) Achieve balanced regional development to reduce poverty, improve the lives of East Timorese in all regions, enhance and exploit complementarities between regions and agro-ecological areas, accelerate economic growth, and reduce regional disparities.
- j) Achieve growth in government (budget) revenues to improve financial independence; effectively manage oil and gas revenues and savings to benefit present and future generations; and ensure responsible, efficient and productive management of government (budget) expenditures to promote poverty reduction and growth.
- k) Develop and administer an effective, accessible and impartial system of justice, which is prompt and transparent, and in conformity with the positive values and cultural heritage of East Timor; create an effective and independent system to oversee, monitor and remedy the potential excesses of the government and its functionaries.
- l) Strengthen an already robust civil society, and create opportunities for its constructive engagement and participation in national life, and enhance the participation of citizens in public and national affairs.
- m) Foster a culture of respect for human rights (particularly for women, children and other vulnerable groups, including the poor) and the rule of law; create public trust in a fair and just public administration; establish control mechanisms to monitor levels of responsibility amongst government officials and public authorities.
- n) Promote good governance through popular participation; a responsible and responsive government including a lean, efficient, effective, accountable and transparent civil service and effective, professional, non-political defence and police forces; a decentralized administration with simple and transparent norms, so that governance and public administration is closer to the people; a socially responsible private sector; transparent and accountable civil society organizations; and a responsible, independent and effective media.
- o) Foster a robust multiparty democratic system; establish and sustain a system of checks and balances between the judiciary, the legislature and the executive (i.e. the Courts, the Parliament, the Council of Ministers and the President).
- p) Build and strengthen regional and international political, economic, scientific and cultural cooperation.

GUIDING PRINCIPLES

2.14 A number of principles have been identified to guide actions and progress in achieving these goals. The important guiding principles adopted by the East Timorese are listed in the following. As can be expected in such exercises, there is some overlap between the goals and the guiding principles.

- a) Participation of all citizens in economic, social and political processes and activities.

- b) Gender equality between women (girls) and men (boys) in access to opportunities, services, goods and privileges.
- c) Equitable development between population groups (e.g. able-bodied and disabled, young and old, rich and poor and different ethnic groups) and areas (e.g. rural and urban, accessible and remote).
- d) Equality and non-discrimination in access to jobs, other opportunities, goods, services and privileges, for diverse population groups in different areas.
- e) Honesty, impartiality, professionalism, integrity, hard work, efficiency, transparency and accountability in public service.
- f) Respect for, and preservation of, the values and culture of the various groups comprising East Timorese society.
- g) Integrated development, ensuring synergies between different interventions to generate benefits that are larger than the sum of the benefits of each intervention.
- h) Cultural, religious and gender sensitivity.
- i) Environmental, economic, social and political sustainability.
- j) Democracy, sovereignty, respect for human rights and the rule of law, and equality before the law.
- k) Self-reliance, social solidarity, peace and national unity.
- l) Creativity, innovation and quality.

2.15 A number of additional principles are to be adopted in the management of the economy, and for the overall development of the country. They are:

- a) A market economic system with strategic and regulatory roles for Government, including the provision of social safety nets.
- b) A strong role for the private sector in development.
- c) A role for government to ensure that physical and social infrastructure and services are provided, and to provide a growth enabling policy and legal environment, including the maintenance of monetary and fiscal stability.
- d) Effective, transparent and corruption free management of the economy and public finances.
- e) Pursuing a fair and equitable economy and society with equal opportunities and improved living standards for all.
- f) Developing in ways that preserve the beautiful environment, traditions and customs of East Timor.

KEY DEVELOPMENT INDICATORS

2.16 The key development indicators have been identified by the East Timorese population. They include economic indicators, such as growth in income (aggregate and per capita GDP), inequality in income distribution, labour force participation and employment, and poverty incidence; social indicators including food availability, access to and use of education, health, water and sanitation services; indicators of security including personal and food security as well as security from shocks and disasters; empowerment indicators such as the number of voluntary people's associations and voting in elections; and indicators of gender equity and empowerment of women. A detailed list of the indicators is provided in Annex 2.1.

2.17 The indicators for East Timor draw upon those presented in the global Millennium Development Goals (MDGs) adopted by more than 175 countries at the United Nations Millennium Assembly in September 2000 (see Annex 2.2). The MDGs use 1990 as the base year, and build upon the targets adopted at previous UN Conferences including those on Children, Environment, Food, Population, Social Development and Women. The Goals to be achieved by the year 2015 include:

- a) reduction of poverty and hunger by half,
- b) achievement of universal primary education with gender equality at all levels (i.e. primary, secondary and tertiary),
- c) reduction of mortality of children under five years old by two-thirds, reduction of maternal mortality by three-quarters, and the halting and reversal of the incidence and spread of HIV/AIDS, malaria and other major diseases,
- d) ensuring environmental sustainability,
- e) reducing by half the proportion of people without access to safe drinking water,
- f) improving significantly the lives of urban slum dwellers,
- g) developing global partnerships for development,
- h) developing and implementing strategies for decent and productive work for youth,
- i) making available new technologies, especially information and communication technologies, in cooperation with the private sector, and
- j) addressing the special needs of the Least Developed Countries (LDCs) and small island states.

3. THE DEVELOPMENT STRATEGY

“....the overriding goals for the development of the country (East Timor) are to reduce poverty.....and to promote rapid, equitable and sustainable economic growth.....”

INTRODUCTION

3.1 As an independent nation emerging from war and transition from the UN administration, East Timor faces many challenges and opportunities. It needs virtually everything. In the process of formulating the Plan, the Government has taken stock of the situation and identified nine key challenges confronting the country in the *State of the Nation Report*.⁵ These key challenges are:

- a) Helping the sizeable number of poor Timorese to help themselves, and to reduce poverty;
- b) Improving the position of women to achieve gender parity;
- c) Improving human resource capacities in the Government, private sector and civil society to manage and administer a nation state in the Twenty-first Century;
- d) Sorting through the multitude of local languages in use and resultant communication problems, and facilitating an orderly and cost-effective transition to the new official languages of Portuguese and Tetun;
- e) Transforming the agrarian subsistence production to a market-based economy;
- f) Improving productivity in all sectors through the introduction of appropriate technologies and practices, reducing risk and modernising production processes;
- g) Creating an enabling environment for the private sector (including farmers, fishermen, small, medium and large investors and entrepreneurs, traders and others) to generate the jobs and economic growth necessary to improve the welfare of the people;
- h) Managing public finances in an efficient and pragmatic way to enhance good governance and attract adequate budgetary support from donor partners, to provide essential services during the next three to five years, until significant revenue flows from the exploitation of oil and gas reserves begin to materialise; and
- i) Sound administration and sustainable utilisation of the oil and gas revenues to benefit present and future generations of East Timorese.

3.2 The above challenges are in tune with the priority constraints identified by the people in the PA during 2001 and the Countrywide Consultation undertaken by the CCCS in early 2002. These challenges underpin the strategy for national development during the next five years (2002/03 to 2006/07), which is seen as the first step towards achieving the twenty-year development vision of the people of East Timor.

⁵ Planning Commission, *The State of the Nation Report*, Dili, East Timor, April 2002.

3.3 Through a participatory planning process, the people of East Timor determined that the overriding goals for the development of their country are to reduce poverty in all sectors and regions, and to promote rapid, equitable and sustainable economic growth that reduces poverty and improves the well being of all the people.

3.4 Whilst these goals are clear, the question remains, “*How to get there – how to achieve the goals and objectives?*” The development strategy tells us, in broad terms, what the general approach will be, and how the goals and objectives will be achieved. The strategy helps decision-makers to focus on the main approaches to, and outcomes of, national development. The development strategy for East Timor addresses the nine key challenges identified by the people. These challenges are to be met through the strategies outlined below. These strategies are elaborated in the relevant sector chapters.

Poverty Reduction

3.5 More than two-in-five East Timorese are living below the national poverty line of US\$0.55 per capita per day. This poverty line has been set to fulfil the food requirement of 2,100 kilocalories per day and other expenditures on education, health and housing, taking into account normal consumption patterns in the country. In addition to expenditure, the other dimensions of poverty as mirrored by social indicators reflect an equally austere picture. For example, literacy levels are low, access to and use of education services modest, and health services meagre, reflecting both supply and demand constraints. Considering the significant number of poor people and the central role of poverty reduction in the development strategy, a detailed presentation of the poverty reduction strategy is provided in the next chapter.

Gender Mainstreaming and Empowerment of Women

3.6 Women constitute almost half the population of East Timor (49.75% according to the 2001 Suco Survey). Women are key economic and social agents. They are also important actors in caring for the young and the old, managing the household, and moulding the values and behaviour of children who are the future leaders. The active participation of women in national development as equal partners with men is crucial for the overall improvement of the welfare of the people.

3.7 Many East Timorese do not yet seem to fully appreciate women's rights or to embrace gender equality. Women (including girls) continue to be discriminated against in the ownership of assets, access to social and economic services, and participation in making decisions affecting their lives. The prevalence of a multitude of traditional practices and the absence of statutory laws make the identification and enforcement of women's rights difficult. The ingrained orientation of men towards the traditional roles of women in East Timorese society needs to be changed through education and sensitisation. A campaign of education and awareness raising on gender is essential, throughout the country and particularly in rural areas. Gender awareness and equity should be incorporated in school curricula. The print and audio-visual media should be mobilised to get the message across to all areas of the country.

3.8 East Timor has made a good start in recognising and promoting the role of women. For example, women constitute about 25% of the members of the Constituent Assembly (legislative

body).⁶ Drawing upon the recommendations of the Women's Congress in 2000, the Second Transitional Government of East Timor has included in the draft Civil Service Law a target of at least 30% representation of women in the civil service and has already achieved 25%. Many women are active in civil society organizations including non-government organisations (NGOs). However, there is a traditional division of gender roles that does not always work to the promotion of gender equality. Many activities in and outside the household are divided by gender including in farming. Women's participation in petty trade has been traditionally an important means to augment family income.

3.9 Gender parity appears to have been achieved in primary school enrolment. Yet the female participation rate in education at secondary and tertiary (including university) levels is low, and the gender gap wide. Successful experiences from other developing countries could be drawn upon and adapted to suit the conditions in East Timor, to bridge this gap. Health facilities that serve the specific needs of women need considerable improvement. Maternal health services are critical not only for mothers but also for children. Resource allocation to these services is inadequate, and should be augmented. Women are at greater risk than men from HIV/AIDS because of their subordinate position within the household. The campaign to halt the spread of HIV/AIDS should pay particular attention to the vulnerable situation of women, their reproductive role in transmission of the virus to children, and to their special needs.

3.10 Recognising the importance of gender dimensions, the Second Transitional Government set up an Office for the Promotion of Equality, and appointed a Gender Adviser reporting directly to the Chief Minister. This has facilitated significant sensitisation and inputs into the gender dimensions of the Plan formulation process. Additionally, the Countrywide Consultation undertaken by the CCCS provided for consultation jointly, with women and men, and separately with women and with women's groups, in order to capture fully women's vision for their country, and their national priorities.⁷

3.11 Programs proposed in the Plan also include those on women's economic empowerment. Gender dimensions are also incorporated in the Plan's education and health programs. The recently adopted Constitution has several provisions protecting the rights of women and promoting gender equality. Formulation, adoption and enforcement of necessary statutory laws prohibiting discrimination and violence against women and girls are planned. Civic and political leaders and opinion makers can set role model examples in their personal behaviour, promoting gender equity. After independence, the Government intends to ratify a series of international conventions including the Convention on Elimination of Discrimination of All Types Against Women (CEDAW). Gender inequality is the surest way to transmit poverty to future generations of men and women. Therefore, reducing gender inequality and enhancing women's productivity will be integral elements of the country's development and poverty reduction strategies.

Human Resources Development

3.12 East Timor has human capacities, informal and formal institutions, and social and exchange arrangements, which have evolved over many years, and withstood the onslaught of colonialism and occupation. While these are well suited to the past circumstances, many are

⁶ In August 2001, 24 women were elected to the 88-member Constituent Assembly accounting for about 27% of the total. However, two women members resigned since bringing down the proportion to 25%.

⁷ There is substantial agreement between women and men on the relative importance of education, health and agriculture – the top three priorities mentioned by the largest proportion of people consulted. However, there are significant differences on the other aspects. For example, women often mentioned "helping vulnerable groups" as the next priority while men ranked "roads and bridges".

inadequate for managing and developing a modern nation state in the Twenty-first Century. The modest capacity in the country is insufficient to meet its myriad needs. East Timorese in the government, private sector and civil society will need to acquire new knowledge and develop new skills to administer a modern nation state and build a more diverse and developed economy. Yet it will be difficult to build the capacity to meet all these needs during the next decade. Consequently, prioritising needs for capacity building is essential for planning and plan implementation, as is the sequencing of the introduction of activities designed to provide these needs.

3.13 The Plan presents the main areas for capacity building and training in different sectors. Human resource development strategies focus on capacity building within the Government, private sector and civil society organizations, in such areas as management, supervisory skills, office management and administration, gender awareness and equity, human rights, information technology, Portuguese language and translation. Training programs for district and village staff are also envisaged. Entrepreneurial, technical, and vocational skills are in short supply, and are to be augmented through training programs and projects, including technical and vocational training.

3.14 During the past two decades, a sizeable number of the youth have joined the struggle for independence and missed the opportunity to attend school. The Plan visualises training programs for these veterans and other youth to impart productive skills for wage or self-employment.

3.15 Training and capacity development through formal education programs in primary and secondary schools and tertiary institutions are proposed to be expanded with particular attention to increasing the participation of the poor and girls. Simultaneously, campaigns to improve adult literacy and numeracy are envisaged, since these are crucial for productive employment and economic growth. In the health sector, capacity building is likely to be time consuming, costly and difficult, and the focus necessarily will be on the provision and delivery of services to meet basic health care needs. Similar efforts on strengthening capacity are visualised in other sectors. Capacity building efforts should go hand in hand with an efficient and effective utilization of scarce human resources. (See Chapter 5 for more details on capacity building.)

Language and Communication

3.16 There are at least 30 local languages or dialects being used in different parts of the country. Almost 80% of the people of East Timor can speak or understand Tetun, with more than 40% able to use Indonesian. Portuguese is understood by about 5% and only 2% can operate in English. The Constitution formalised the adoption of Portuguese and Tetun as the official languages with Indonesian and English to be used as working languages as long as needed. The strategies for improving proficiency in Portuguese include the introduction of the language as the medium of instruction in grades 1 to 3 and as a second language in grades 3 and above. This is to allow time for training of teachers and development of the curriculum and textbooks in Portuguese language. The process of introduction of the Portuguese language as the medium of instruction in grades 4 onwards will be gradual and flexible to allow for a smooth transition. Also, language training in Portuguese is to be provided to civil servants and promoted in the private sector and in civil society. Simultaneously, development of Tetun as a written language for daily use, and for judicial and technical purposes is being pursued. This is a pragmatic approach to tackling a difficult challenge.

Transforming Subsistence Production into a Market-based Economy

3.17 East Timor is an agrarian society with a largely subsistence economy in which much of the production is consumed by producers (home consumption). About 76% of the people live in rural areas, and the poor among them account for 85% of the nation's poor. Most of the rural residents depend on agriculture, and productivity in the sector is low. However, there is potential to increase productivity and production, promote specialisation in niche commodities to take full advantage of the agro-ecological diversity, to enhance market exchange and expand exports. In the short and medium term, the sector is not only an important driver of economic growth, but is also a key vehicle for poverty reduction in the rural areas. Recognising this, the Plan provides for introduction of improved technologies and practices, enlarged support services, and better functioning markets. There is a wealth of successful experiences in the Asia-Pacific region, showing how the agriculture sector could be mobilized to accelerate economic growth in the initial stages of economic development, and transformed from a subsistence to a market-based system. Additionally, integrated rural development is seen as a vehicle to supplement and augment initiatives in the agriculture sector to transform the rural economy.

Improving Productivity and Modernising Production

3.18 Low-input low-output technologies and processes typify production in virtually every sector of the economy. They rely on locally available and often home-produced inputs. Emphasis on risk minimisation is the norm for much of the production intended for home consumption, with only a small portion passing through market channels (see paragraph 3.17). Introduction of productivity enhancing technologies and processes is to be promoted through public support services (e.g. in agriculture) as well as through private and civil society initiatives (e.g. domestic and foreign direct investment and the promotion of micro, small and medium enterprises in informal and formal production, and in the service sectors). East Timor is fortunate to have access to modern off-the-shelf technologies in many sectors, ranging from agriculture to information technology. The initiatives put forward in the Plan visualise the adaptation and propagation of technologies to suit the ecological, economic, social and cultural conditions of East Timorese society.

3.19 Modernisation of production requires markets both for the supply of inputs and for the sale of products and services. Strengthening existing markets and developing new markets is feasible through improved infrastructure, reduction of transaction costs, improved access to information, and the promotion of competition. The important role of good infrastructure including roads and bridges, ports and airports, electricity and water supply, transport, telecommunications including radio, TV, telephone and internet and post are recognised. The Plan provides for rehabilitation, improvement and construction of improved infrastructure to promote the modernisation of the economy and better serve the needs of the people.

Creating an Enabling Environment for the Private Sector to Flourish

3.20 The private sector in East Timor comprises among others farmers, fishermen, and micro, small and medium size entrepreneurs. It is in a nascent stage of development and needs a nurturing environment to develop. Much of it has been geared to fulfil domestic consumption needs, and to serving the demands of the government during the past quarter century. The principal role of the Government is shifting from driving the economy to create an enabling environment - including laws, regulations, and enforcement mechanisms (e.g. police, courts and other institutions) and arranging for the delivery of essential support services for the private sector to gain confidence and strength, and to become the engine of economic growth. The Plan incorporates measures to introduce enabling policies, laws, regulations and enforcement

mechanisms in such areas as land ownership, occupancy and lease/rental (tenancy), corporate and bankruptcy laws, banking and insurance, and appropriate security and enforcement mechanisms including well functioning civil and criminal courts and efficient police and security services. Initiatives to strengthen the capacity of the private sector, especially that of small entrepreneurs, is visualized through pilot testing and the adoption of successful approaches in other countries (e.g. in micro finance, small and medium industries development and tourism services).

3.21 The Government intends to strengthen the provision of essential infrastructure including reliable electricity and water supply, telecommunications and transport through a combination of public, private, civil society organisations and community partnerships. Already, the private sector is the major actor in the provision of such services as transport, communications, agro-processing and manufacturing, tourism and hospitality services (e.g. hotels and restaurants), and marketing, including the supply of inputs and sale of output. As it gains strength and matures, the private sector will play an increasingly important role in the provision of infrastructure, education and health services, side by side with the Government and civil society organisations including the Church and NGOs. The Government will focus on its core functions, and will avoid involvement in commercial activities unless there is clear evidence that the private sector is unable to provide essential goods and services (market failure), and that such non-provision impedes poverty reduction and economic growth.

Managing Public Finances

3.22 While the size of the Government will be smaller than in previous years, it will still have a critical role to play in managing public finances, ensuring the rule of law and good governance, and in implementing development priorities. In the short and medium-term, East Timor is confronted with the twin problems of a limited capacity to raise domestic revenues and a relative lack of skilled human resources. Since the mid-1970s, many of the resources required for government operations in the territory were provided by the central government in Jakarta and more recently by the UN and other donors. The Government will have to tackle the dual problems of a lean civil service⁸ that is not yet fully competent in government, and inadequate resources to fund all its priority programs. Effective management of the limited staff, and careful and efficient use of the scarce financial resources must take centre stage in governance during the next few years.

3.23 Efforts to prioritise programs and spending during 2002/03 are already under way. The exercise emphasises prioritisation and sequencing of expenditures and investments, and ensuring complementarities and synergies between programs to generate benefits that exceed the sum of those resulting from individual programs. A cross-sectoral approach should ensure efficient resource use, and generate commensurate benefits. At the same time the continual updating of strategies within sectors and agencies will be important. Also, a three-year medium term fiscal framework (MTFF) incorporating a results-based management approach is being developed for adoption.

3.24 By mid-2002, the departure of the bulk (about 70%) of the foreign personnel and the local counterparts engaged by UNTAET will leave a major gap in the capacity of the

⁸ The civil service strength (excluding the military and security forces and the police) is expected to reach about 12,000 by the end of 2002, which is less than half of the approximately 28,000 under the Indonesian rule. The former is considered to be adequate (if fully competent and equipped) to perform government functions and is barely affordable by the country, given its present circumstances.

Government. To facilitate a more orderly transition, this gap is planned to be filled at least temporarily by about 300 foreign personnel with expertise in finance, management, development administration and other technical fields. They are to be deployed in various line ministries (including the Ministry of Finance) and departments at the centre in Dili, and in the districts. This should ease the situation and allow time for building the capacity of the civil service in the next twelve to eighteen months. The financial crunch on budget resources is expected to ease somewhat, once significant revenues from oil and gas begin to materialise.

Administration of Oil and Gas Revenues

3.25 The projected flow of significant oil and gas revenues currently expected to begin in 2004/05 or shortly thereafter, is a blessing to the people of East Timor. It will allow them to more fully address their development needs and priorities, further strengthen their human resources, consolidate the gains achieved so far, accelerate and sustain economic growth, reduce poverty and improve the welfare of all East Timorese. According to present indications, the flow of significant oil and gas revenues is expected to be of limited duration – between 20 to 30 years – depending on the types of petroleum products extracted, world prices and new discoveries. Prudent management, saving, investment and utilization of the windfall in oil and gas revenues provides a valuable opportunity for East Timor to build its human, physical and economic capacities, and graduate to a middle-income country. The thrust will be to utilise the resources for the benefit of present and future generations of East Timorese, and curb the temptation to squander the windfall in ostentatious consumption. The Government is already benefiting from the advice and assistance of Norway on the latter's experience in managing petroleum revenues in a sustainable way.

GOVERNANCE AND MACROECONOMIC MANAGEMENT

Governance

3.26 East Timor is fortunate in having a vibrant civil society and an enthusiastic people that are eager to move on with nation building. However, development in East Timor is constrained by a lack of appropriate legislation, regulations, institutions and other elements of a national governance structure. As indicated in the foregoing, the Development Strategy includes a focus on developing, as soon as possible, priority legal, institutional and governance structures that support poverty reduction, gender mainstreaming, human resources development, private sector development and overall economic growth.

3.27 The strategy considers and incorporates the social and cultural values and norms underpinning society. These include areas such as religion and the role of the Church, the cultural and social context in which productive, social and community activities occur, and the impact of development on the natural environment. Emphasis will be accorded to strengthening and maintaining an environment of peace and security. The development strategy will build upon the extensive participation of the people in formulating their national vision and development priorities. It will promote continued participation of the people in translating the Plan into action (implementation), monitoring and evaluation while seeking accountability from public institutions and functionaries, the private sector, civil society organisations and the media.⁹

⁹ The baton of government will pass from UNTAET to the Government on 20 May 2002. Use of the future tense in this and other paragraphs should be seen in this light.

Macroeconomic Management

3.28 Appropriate macroeconomic policies will underpin the development strategy. These policies will be designed and managed to be pro-poor. Examples of pro-poor policies include:¹⁰

- a) equitable tax and revenue policies,
- b) priority to public spending on services that are most used by the poor (e.g. primary education, basic health care, rural water supply, and urban slum upgrading),
- c) reducing rural urban gaps in access to, and affordability of, basic social services (e.g. education and health care) and essential economic services (e.g. extension, technology, training, credit and markets),
- d) curbing price rises (low inflation),
- e) ensuring banking, credit and microfinance services are available to all, including the poor and women, and
- f) implementing trade and investment policies that promote growth of production and employment to benefit the poor.

3.29 All the macroeconomic policies (including fiscal policy, monetary policy, exchange rate policy, trade policy, investment policy and wages policy) will be framed as a consistent package that will promote growth and poverty reduction. The package will be designed to establish and strengthen the international competitiveness of East Timor. The economy will be open to trade and investment, with adequate safeguards to nurture and develop domestic industries that are competitive. The macroeconomic and sector policies will aim to promote the development of a strong and dynamic private sector, leading the growth process. Foreign investment will be encouraged, especially in sectors that contribute to strengthening East Timor's economic infrastructure and human skills and facilitate the transfer of technology.

3.30 In the initial stages, growth is likely to be led by labour-intensive activities and businesses employing unskilled and semi-skilled labour, particularly in the transformation of agriculture. Macroeconomic policies will be conducive to moving to more mature stages of growth, including high technology and high skills businesses, as investment demand and relevant skills emerge. The policies will be conducive to maintaining the competitiveness of East Timor with its neighbours and in international markets. Higher domestic saving and investment will be encouraged. The banking and financial sectors will be developed to provide adequate services to all the people, and especially to rural residents, following prudent principles and practices.

¹⁰ The details on the macroeconomic policies are presented in the chapter on the Macroeconomic Framework.

4. POVERTY REDUCTION STRATEGY

“.....poverty reduction in East Timor should be seen primarily as a means to accelerate and sustain economic growth.”

INTRODUCTION

4.1 Poverty is multidimensional and manifests itself in different forms. It is more than a problem of inadequate income. It includes a lack of access to basic social and essential economic services and life choices, including opportunities to participate in economic, social and political processes. The many characteristics of poverty include malnutrition and illness, shortened lives, illiteracy, social exclusion and the lack of appropriate means to improve one's situation. These dimensions may be experienced in different combinations. For example, men and women view and experience poverty differently. Often, women have less access to, and control over, assets such as land and economic (e.g. credit and extension) and social services (e.g. education and healthcare), and limited participation in decision-making in and outside the household.¹¹ Thus, gender inequality is considered to be one of the most important causes of poverty among women.

4.2 On a more general level, inequality can manifest itself in the ownership of land, in the distribution of wealth and income, in access to economic and social goods and services as well as to remunerative jobs, in participation in social and political processes, and in other life choices. Virtually all such inequalities are present in different combinations across regions and over time. They contribute to poverty and to the unequal distribution of income and the benefits of development.

4.3 Consequently, poverty can be defined in both money (expenditure or income) and human terms. However, many of the quantitative measures in use are based on poverty lines defined in expenditure (income) terms, supplemented by other indicators on aspects such as access to and use of education (including literacy), health, water, sanitation and housing. Gender dimensions are also incorporated in poverty measurement. National poverty lines are constructed based on data generated from household expenditure surveys covering a sample of the households in the country. The head-count ratio of poverty measuring the proportion of people below the poverty line in the total population is the most commonly used index. A poverty gap measure (the ratio or percentage of the amount required to bring the expenditures of the poor to the poverty line, relative to the total expenditures of the poor at the poverty line) is used to measure the intensity of poverty.¹²

¹¹ The ranking of development priorities may differ between men and women. For example, while the results of the Countrywide Consultation show almost complete agreement between men and women on the top three development priorities (education, health and agriculture), significant differences emerge on ranking the other priorities. Also, the differences in ranking between men and women vary by district. For example, in Aileu which is one of the poorest districts, women ranked “helping vulnerable groups” while men indicated “roads and bridges” as the fourth priority.

¹² For example, the poverty line in East Timor is US\$0.55 per person per day and about 341,000 East Timorese are below the poverty line. Preliminary results from TLSS indicate the average expenditure of the poor to be \$0.48 per person per day. Based on the above, the poverty gap is estimated to be about 13% $[(0.55 - 0.48) \times 341,000 \div (0.55 \times 341,000)]$.

4.4 Understanding the causes and consequences of poverty are important to design appropriate means to address it. The poor are not a single homogenous group. People view and experience poverty in different ways. The perceptions of the poor, their neighbours, community leaders and local officials on poverty, the constraints faced by the poor, and the potential that exists are valuable in understanding the situation on the ground. Often, these perspectives are captured through consultations, participatory appraisals, surveys and/or focus group discussions with these groups, through participatory poverty (potential) assessments (PPAs).

POVERTY IN EAST TIMOR

4.5 The people of East Timor have survived harsh and difficult conditions and successfully overcome both colonial and occupation regimes. Their rich experience in the political liberation of their country has been widely recognised. However, the stark reality is that the country is one of the poorest in the region, with not only low income, but also poor performance on social indicators such as, education, literacy and health. Thus, there is an urgent need for economic, social and cultural liberation to empower the people to exercise and enjoy fully their newfound political freedoms and rights.

4.6 Recognising the imperative of poverty reduction, the East Timor Transitional Administration (ETTA) in partnership with four donors¹³ undertook a poverty assessment during 2001-02. The assessment comprised a survey of all the sucos (villages) in the country, a living standards measurement (or household expenditure) survey, and a PPA. Based on the preliminary results from the household expenditure survey undertaken in September 2001, a national poverty line at the equivalent of \$0.55 per person per day was formulated. Around two-thirds of this was allocated to food, sufficient to provide 2,100 kilocalories per day, and the rest to non-food items including education, health, clothing and housing. Using this benchmark, it was estimated that about 41% of the population fell below the poverty line, with the incidence higher in the rural areas (46%) than in the urban centres (26%). The lowest poverty rate is in the urban centres of Dili and Baucau (14%).

4.7 The vast majority of the poor (85%) live in the rural areas. Of these, the poorest groups are in households that have small landholdings or are headed by fishermen. Additionally, households with many children, or those with a large number of elderly or other dependent relatives are most likely to be poor. Poverty incidence is higher among households headed by those with no schooling, and it declines with a rise in the educational achievement (level) of the household head.

4.8 Poverty in East Timor is also related to inequality in income distribution. The generally used measure of inequality is the Gini-coefficient, which varies between 0 (absolute equality) and 1 (one person receives all the income). In 1995, the Gini-coefficient in East Timor was at 0.363, which was higher than in some of the other poor provinces of Indonesia (see Table 1). This can be explained in part by the low productivity of agriculture, which reduced rural incomes. Although three quarters (73%) of workers were employed in agriculture, they generated less than one-third (around 30%) of the gross domestic product (GDP). Agricultural output per worker in East Timor during the mid-1990s was less than half that in most other provinces during the Indonesian administration.

¹³ These are the Asian Development Bank, the World Bank, the United Nations Development Programme and the Japan International Cooperation Agency.

4.9 The majority of the urban workers were either employed by the government or other service providers and probably had earnings similar to those elsewhere in urban Indonesia. Thus, in the mid-1990s the per capita income in Dili was 73% higher than that for East Timor as a whole while that for the poorest district, Lautem, was 42% lower than the national average. In other words, the per capita income in Dili was about three times that in Lautem. The departure of Indonesian officials in 1999 was followed by an influx of foreign experts under UNTAET and other donor and NGO programs. As a result, the Gini-coefficient increased marginally to 0.37 in 2001.¹⁴ This effect may be moderated somewhat after the scaling down of UNTAET operations after independence on 20 May 2002.

Table 4.1. Inequality and Agricultural Productivity, 1995¹⁵

	Gini-coefficient	Agricultural output per worker (Rp. Millions)
East Timor	0.363	0.847
W. Nusa Tenggara	0.286	1.706
E. Nusa Tenggara	0.296	0.961
Maluku	0.269	2.026
Irian Jaya	0.386	2.007

4.10 An additional frequently used measure of inequality is the ratio of the proportion of income captured by the richest 20% of the population to that accruing to the poorest 20%. In 1998, this ratio for East Timor was estimated to be about 3 by the Boston Institute for Developing Economies (USA). The inequality in income distribution in East Timor is considered to be low to moderate as compared with that in other countries at a similar stage of development.

CAUSES OF POVERTY

4.11 The more apparent causes of poverty in East Timor include the following:

- a) rapid population growth (estimated to be around 2.5% per annum),
- b) lack of ownership and/or access to adequate productive assets, including land (for example, 24% of the families owned less than 0.5 ha of agricultural land and 60% between 0.5 and 2.0 ha),
- c) lack of productive skills (including literacy),
- d) lack of remunerative employment or jobs (the open unemployment is more than 16% and especially high among the youth, and there may be significant underemployment in the agriculture sector),

¹⁴ Preliminary estimate from the 2001 TLSS.

¹⁵ Reproduced from Booth, A. (2001), "Poverty, Equity and Living Standards in East Timor: Challenges for the New Nation," in Hill, H. and J. Saldanha, East Timor: Development Challenges for the World's Newest Nation, Institute of Southeast Asian Studies, Singapore, p. 244.

- e) lack of or inadequate access to social and economic services (e.g. access to schooling is low especially in the poorer districts, and the rural residents have to walk on average 70 minutes to reach the nearest health facility; and access to extension services low and markets difficult),
- f) lack of information about the rights and obligations of citizens (this has been improving in the last two years),
- g) political, social and economic turmoil, resulting particularly from the violence of 1999,
- h) discrimination, particularly against women, in the economic, social, political and legal arenas,
- i) natural shocks including drought, flood and fire,
- j) unexpected death and illness, including Malaria, TB, and STD and HIV/AIDS,
- k) manmade shocks such as revenge killings and violence, displacement and fear/insecurity,
- l) social breakdown, including breakdown of marriage, family and social support systems, and
- m) increase in the prices of basic necessities (e.g. food, clothing and fuel) and services particularly during 1999-2000, partly resulting from introduction of the US dollar.

4.12 Some of these causes may be accentuated by poverty thereby creating a vicious circle.

CONSEQUENCES OF POVERTY

4.13 The effects of poverty on the poor are degrading and devastating, especially for women and children. The consequences of poverty are also detrimental to society. These include the following:

- a) the meagre resources of the poor are not adequate to subsist, let alone to save and invest,
- b) the poor are forced to over-exploit renewable and non-renewable resources (e.g. forests including mangroves) for sheer survival, thereby contributing to environmental degradation,
- c) the sub-optimal development of the productive potential of the poor, women and other vulnerable groups, results in a reduction or loss of their full contribution to economic growth and social development, and
- d) the poor may impose negative externalities such as crime, spread of diseases, social unrest, and political instability.¹⁶

¹⁶ Environmental degradation is another negative externality mentioned already.

4.14 Poverty reduction should be addressed through policies and programs that help redistribute the growing assets and opportunities, income, services and choices to the poor. Disaffection of the poor and the disadvantaged may lead to social unrest and political instability, in addition to economic disruption. Therefore, poverty reduction is not only sound economics but also good politics. East Timor can ill afford to ignore the potential and aspirations of its poor and women.

POVERTY REDUCTION STRATEGY

4.15 Economic growth and poverty reduction are the overall goals of the development of East Timor. The people – including farmers, fishermen, traders, labourers, workers, and micro, small and large investors – are the main actors that generate economic growth through their innovation, skills and work. The Government is primarily a facilitator in this process. The assets and efforts of the poor are necessary for the country to accelerate its economic growth, and to sustain development. This is all the more significant, since the poor constitute more than two-fifths of the population. The East and Southeast Asian countries mobilised the efforts of all their peoples – rich and poor, men and women, skilled and unskilled – in order to generate and sustain rapid economic growth and achieve the status of newly industrialised countries (NICs). They treated their people as their most valuable resource. This is an important lesson from which East Timor could benefit. Indeed, during the PPA in November – December 2001 and the Countrywide Consultation undertaken by the CCCS in January – February 2002, the people of East Timor wanted to convey the important message to the Government that they should be seen as an asset rather than a liability.

4.16 A large majority of the poor people in East Timor is capable of contributing to the country's economic growth and development.¹⁷ The challenge is to provide the enabling environment for them to participate in, and partake of the benefits of development, while assisting the few that cannot help themselves. Thus, poverty reduction in East Timor should be seen primarily as a means to accelerate and sustain economic growth. The Poverty Reduction Strategy of the country is formulated on the basis of this approach. It is understood that rapid economic growth is a prerequisite for sustained poverty reduction in East Timor. The main elements of the Poverty Reduction Strategy comprise the following:

- a) Create an enabling environment to generate opportunities for the economic participation of the poor, improving their productivity and enhancing their incomes;
- b) Provide and/or encourage and help others to provide basic social services to the poor on affordable terms;
- c) Provide or help to provide security of person and property, and protection from unforeseen shocks and disasters (vulnerability), including food security at both the household and national levels; and
- d) Empower the poor and other vulnerable groups through popular participation in deciding upon and managing development in their aldeias, sucos, postos, districts and the country.

¹⁷ Only a small minority (including orphans, the disabled, widows, and other vulnerable groups) require either temporarily or on a continuing basis direct transfers of income or other help to lead a reasonable life by the standards of the East Timorese society.

4.17 Elaboration of these four elements of the strategy and their links with activities undertaken in the various planning sectors are illustrated in the following sections:

Opportunities for Economic Participation

4.18 The experiences of the Asian NICs show that the initial thrust for rapid economic growth emanated from the agricultural sector, especially from productivity improvements in small-scale agriculture. About three-quarters of the labour force in East Timor is dependent on small-scale agriculture, and improving their productivity is critical for accelerating the country's economic growth. Almost half of this labour force is poor, and a majority of the poor are women.

4.19 The poor in East Timor are engaged primarily in agriculture – in cultivating crops, animal husbandry, fisheries and forestry. Improving productivity in the sector is recognized as a high priority. Traditionally, East Timorese farming families have attempted to minimize risks from crop failure due to adverse weather or other unforeseen events through the practice of intercropping and low seeding rates.¹⁸ Other approaches to risk minimisation such as the use of drought resistant varieties, improved water use including irrigation management, and high yielding crop varieties are feasible. Proposed initiatives for this within the Plan include rehabilitation and construction of irrigation systems and their improved operation, introduction of water harvesting techniques, wider distribution of improved seeds of crops, fruits and vegetables, protection of livestock, improved fishing and sustainable management of forest and other natural resources, through community participation. Improvements in marketing and infrastructure are also planned. Provision of support services is expected to materialize through public and private initiatives in agriculture, and in other sectors.

4.20 The informal sector has been an important contributor to growth in the Asian NICs. Alongside agriculture, a large proportion of the employed in East Timor are dependent on the informal sector, in both the urban and rural areas,¹⁹ and a majority of them may be poor. Consequently, increasing opportunities and improving productivity in this sector are crucial for enhancing the country's economic performance and reducing poverty. Initiatives proposed in the Plan include training, introduction of appropriate technologies, and other support services including the supply of micro credit.

4.21 A third important area is the formal private sector, in manufacturing, construction and real estate, trade, transport, tourism, and financial and other services. Priority policies and legislation are being drafted to improve the policy environment, and to encourage both domestic and foreign private investment in the country.

4.22 A fourth area is the provision of infrastructure – including roads and bridges, ports and airport(s), electricity, telecommunications and postal services. These are critical for the movement of people and goods, an orderly and efficient functioning of markets, and for a sustainable development of the country. A number of interventions are proposed to improve the country's infrastructure, drawing primarily upon aid resources.

¹⁸ For example, many small farmers grow three or more crops (e.g. sweet potato, maize and beans) on the same plot of land simultaneously.

¹⁹ For example, a 1993 survey by BPS, the Indonesian statistical agency, showed that about a third of the farm household income came from off-farm sources including wage income and self-employment in manufacturing, trade, transport, other transfers (e.g. pensions), etc. (Cited in Booth, A. (2001), *Poverty, Equity and Living Standards in East Timor: Challenges for the New Nation*, in Hill, H. and J. Saldanha, East Timor: Development Challenges for the World's Newest Nation, Institute of Southeast Asian Studies, Singapore, p. 249.)

4.23 The final area relates to macroeconomic policies and the management of public finances, including public expenditure allocation. In this area, pro-poor macroeconomic and public expenditure policies will be implemented.²⁰

Basic Social Services

4.24 Enhanced access to and use of basic social services is an urgent need in East Timor. Almost half the adult population is illiterate, with women considerably disadvantaged relative to men. Whilst access to schooling improved considerably during the Indonesian period, when compared with the latter years of Portuguese rule, the quality of teaching and learning was low. Currently, about a third of children are not enrolled in primary school, and up to 20% of those reported as enrolled do not attend classes. Access to and use of public health services is minimal, due to the inadequate number of trained personnel, facilities, medicines and supplies (supply constraints), coupled with poor access and cost (demand constraints). For example, in the rural areas, reaching the nearest health facility requires - on average - a 70 minute walk. After reaching the facility, there is no guarantee that a doctor and/or nurse will be available. Additionally, each visit costs about two dollars (US\$2). Access to safe water and sanitation is also low, and the quality of much of the housing stock is inadequate.²¹

4.25 The provision and effective use of basic social services is an important means to break the poverty cycle. Education and literacy are prerequisites for introduction and adoption of modern productivity enhancing technologies. The Plan incorporates programs to improve school participation rates, especially for children from poor families, and to improve the quality of teaching and learning. Adult literacy programs are also proposed. Evidence from other countries shows that education of girls and women have multiple benefits, affecting their welfare, and that of their children, families and future generations. The delivery of basic health care is to be improved by addressing both the supply and demand constraints. These are key ingredients for improving not only the productivity of the population but also the welfare of the society.

4.26 Ensuring access to, and affordability of basic social services is an important task for the Government. This does not mean that the Government should deliver all the services. As in many countries in the region, NGOs and religious organizations in East Timor have been involved in the delivery of some of the basic social services. The Church is prominent in education, some NGOs have been involved in healthcare delivery (until mid-2001), and others are involved in supporting community water supply and sanitation. The private sector has also been active in the delivery of services to those who can pay in other countries. For example, almost half the health services in the Philippines are delivered by private clinics and hospitals.

4.27 Under present circumstances in East Timor, the delivery of quality primary, junior secondary and senior secondary schooling, and primary health care (including preventive care such as immunization and health, hygiene education and curative care) are given priority within the Plan. With regard to water supply and sanitation, the overall approach is to address the provision of the services in urban areas on a cost recovery basis, whilst community ownership and operation is the norm in rural areas. The challenge is to build partnerships and strengthen complementarities between public and private entities – in this case mainly with the Church and

20 The UN World Summit for Social Development (Copenhagen, March 1995) recommended the adoption of the 20/20 Compact for mobilisation of resources for financing basic social services. The basic social services include primary education and adult literacy, basic healthcare, safe water and sanitation. These services are considered essential for combating the worst manifestations of poverty and deprivation and improve human development. The Compact calls for devoting at least 20% of public expenditures (government budget) and 20% of ODA to providing basic social services.

21 The phenomenal destruction of property in the 1999 violence greatly reduced the modest stock of relatively better quality housing.

the NGOs – to deliver services to the population at large, and to the poor in particular, with gender equity.

Security

4.28 The third element of the Poverty Reduction Strategy, is concerned with ensuring the security of person and property (against violence, destruction and theft), food security, livelihood or job security, and protection against unforeseen calamities - including natural disasters such as floods and droughts, as well as economic shocks and political and social disturbances. Security of person and property has been a major concern for many East Timorese families during much of the 25 year occupation, and particularly in September 1999. The security situation has improved considerably since September 1999. Proposals are included in the Plan to consolidate, improve and sustain the current relatively stable and peaceful situation in the country, with the participation of its constituent communities. Interventions include precautionary measures (monitoring/intelligence), police and law enforcement activities, and efforts to promote reconciliation and reintegration of refugees and other groups at risk.

4.29 Food security is an important concern for the population in general, and for the poor in particular. The findings from the 2001 SSTL and the TLSS show severe stress in food availability during December and January – the lean months preceding the harvesting of maize and rice, the major food crops – with significant stress during November and February. Coping strategies mentioned by the people include reducing consumption (eating two meals a day instead of three), substituting maize for rice and cassava and sweet potato for food grains, selling livestock, and borrowing from relatives and friends. There have been some improvements in national food security in the last two years resulting from better harvests of rice and maize. However, food security is still a major concern at the household level.

4.30 Interventions outlined in the Plan for the agriculture sector will enable a consolidation and further improvement in overall food availability in the country. They will also contribute to improving food security at the household level. Further targeted interventions may be necessary to strengthen food security at the community and household levels, including strengthening traditional community structures such as caring and sharing arrangements. However, it is important to recognise that food scarcities may adversely affect all households in a poor community, and there may not be enough to share and alleviate the hunger. Often children and women are at greater risk. This takes on increased significance when viewed in the context of almost half the children in the country being underweight, and a quarter malnourished. Examples of interventions included in the Plan at the program level include school feeding and the distribution of milk and food supplements to pregnant and lactating women. Continuation of the current practice of augmenting food availability through imports in the short and medium-term, and timely distribution to vulnerable groups is also envisaged.

4.31 Insecurity of livelihood or employment is pervasive in the traditional, informal and formal sectors.²² This can arise from lack of recognition of ownership and tenancy of agricultural land, from traditional access to such resources as forests, or other public lands for collection of food, fodder and other products, and from delineation and lease or sale of common property resources (e.g. fishing grounds and pastures). In most cases, it is the poor and vulnerable that are at risk. The proposed legal frameworks and policies on agricultural land, fisheries and forestry should minimize such risks. Additionally, employment arrangements in the informal and formal

²² Also, open unemployment is in excess of 16% of the labour force with a much higher rate among youth and veterans who participated in the struggle for independence. A significant proportion of the labour in rural areas may be underemployed.

sectors for unskilled (and often poor) labourers may be insecure, due to economic or market developments (e.g. cheap imports) or other events, with unscrupulous employers exploiting workers for long hours of menial work with low wages. Some protection of the workforce in terms of fair wages and working conditions is envisaged, without these creating disincentives for employment.

4.32 Security from natural and man-made disasters is a further dimension that needs to be addressed. There is a wealth of experience on these aspects in other countries in the region, and in other regions of the world. It includes disaster forecasting, preparedness, prevention and mitigation. Employment in public works, including community maintenance of roads, is already being implemented in East Timor. Other initiatives in this direction are proposed in the Plan. They stress the importance of community involvement and the strengthening of community resilience, in addition to material help from the Government, donors and NGOs. These interventions and arrangements may be refined, based on experience during the first two to three years of plan implementation.

4.33 Security from economic shocks is an area that also needs attention. One of the more significant, imminent economic shocks is the scaling down of UNTAET operations, and the departure of a large number of foreign staff. This will be felt not only in the urban areas of Dili and other district towns, but also in the hinterlands that provided goods and services to foreigners. Some short-term and medium-term training and employment measures are contemplated to cushion the adverse impacts of the UNTAET contraction.

Empowerment

4.34 The fourth dimension, empowerment, embraces the provision of “voice”, and the participation of the poor in making decisions about their future and the future of their communities, on economic, social, cultural and political issues.

4.35 As the experiences in the formulation of the Plan demonstrate, popular participation is a widely accepted norm in present day East Timor. Many initiatives proposed in the Plan intend to consolidate and build upon this enthusiasm. Examples include community decision-making and management of water supply, infrastructure and natural resources. Successful examples of community management of schools and health facilities in other countries should be drawn upon in piloting and testing similar approaches in East Timor.

4.36 Decentralisation is an important means to ensure the sustained participation of the people in general, and the poor and women in particular, in local affairs. The degree of decentralisation can be at three levels: deconcentration, delegation and devolution.²³ For example, prior to 1999, “deconcentration” was the rule, with the central government delegating responsibility for implementation of policies and programs decided by Jakarta to administrators at the local level. It was a top-down system with little room for decision making at the local level or the flow of information from the bottom up, let alone people’s participation. Delegation involves the transfer of some decisions and functions to local organisations including those at the village level. For example, the ongoing Community Empowerment Project (CEP) delegates responsibility for a number of decisions and functions to elected Village Development Councils. The Plan aims to build upon the experiences and lessons learned in the CEP, and to expand and replicate the more successful approaches in other areas. Devolution is the next level of decentralisation, and involves the transfer of significant authority for decision-making, finance

²³ UNDP, *East Timor Human Development Report 2002*, second draft, Dili, April 2002.

and management to elected local governments, often with the power to impose taxes and raise revenues. Significant capacity building at the local level is a prerequisite for the introduction of devolution. This is a gradual process, which the Government intends to pursue.

4.37 Informed participation of the people requires civic education and improvements in education and communication. The recent highly successful experience of voter education resulting in high levels of participation in the Presidential election - with a turnout of more than 86% of eligible voters - is an excellent example of civic education, which can be replicated in other areas. Civil society organisations, including the Church, have been important facilitators in the voter education process. School curriculum development is expected to incorporate civic education. Also, separate programs on civic education are to be promoted through the mass media, in partnership with civil society organisations.

4.38 The challenge of formulating and implementing an information, education and communication (IEC) strategy focusing on all the people is recognised. This is critical for informing and educating the people on the roles, functions and activities of the different organs of the Government, donors, NGOs and other civil society organisations. At the same time, viable channels need to be evolved to facilitate the flow of information from the people on the ground to policy makers, other Government functionaries and other stakeholders. This is especially important for the poor, women and other vulnerable groups. In this regard, the institutionalisation of the recent successful political and popular participation and consultation approaches may be appropriate. The Plan incorporates initiatives that go some distance in this direction (e.g. information and education on the role and activities of the Parliament, organisation of communities and provision of audio visual equipment). It is necessary to examine the initial experiences in the different sectors in formulating the IEC strategy and in designing appropriate coordination mechanisms.

CONCLUSIONS

4.39 The implication of the preceding analysis is that improving the productivity of the poor is essential for East Timor's economic growth. It should be an integral part of the interventions in all the sectors of the economy to achieve and sustain rapid economic growth and improvements in the welfare of all Timorese. Creating an enabling environment for catalysing and sustaining the contribution of the poor to national development is an important task for the Government. It will entail both providing, and helping others provide basic social and essential economic services to the poor, nurturing and promoting the entrepreneurial initiatives of the poor, and prohibiting discrimination based on gender, ethnic origin, language, or geographic location.

4.40 Enforcing the rule of law, creating a secure environment, and a sound management of fiscal and monetary affairs are important ingredients for economic growth and overall development. Discretionary decision-making must give way to rule-based procedures, with reduced opportunities for corruption and favouritism. The role of Government should be limited to providing those essential services that the private sector and civil society organizations are not in a position to deliver. These are important ingredients for poverty eradication, gender equity and economic advancement of the country.

4.41 In particular, there is a need to link closely governance and poverty reduction, to enable the people to seek solutions to their development problems, and to exploit all available opportunities. East Timor must create a conducive political, social, economic and legal environment for the poor to mobilise their resources, to realise their potential, and to build sustainable livelihoods.

5. CAPACITY BUILDING FOR PLAN IMPLEMENTATION

“East Timorese in the government, private sector and civil society will need to acquire new knowledge and develop new skills to administer a modern nation state, and to build a more diverse, developed economy.”

INTRODUCTION

5.1 Promoting economic growth to reduce poverty will require the Government to facilitate the delivery of basic social and economic services. This delivery will itself require enabling laws and regulations, and the empowerment of the population through community management and participation.

5.2 To build capacity to meet East Timor’s significant needs in infrastructure, technology, training, capital and access to markets during the next five years is clearly impossible. Consequently, prioritizing needs for capacity building is essential for planning and plan implementation, as is the sequencing of the introduction of activities designed to provide these needs. East Timorese in the government, private sector and civil society, will need to acquire new knowledge and develop new skills to administer a modern nation state, and to build a more diverse, developed economy.

5.3 In this process, criteria for prioritization should centre on the importance of capacity building for essential, sustainable, and affordable service delivery. It is vital that the most crucial areas for capacity building be agreed at the earliest stage of plan implementation. The Plan presents the main areas for capacity building and training, in several of its programs, in different sectors. These programs address both short-term implementation needs, and capacity requirements for the medium term at the central, district and local levels. They recognize a crucial point: that capacity building will have to be based extensively on government partnerships with civil society organizations, the church, NGOs and the private sector. Additionally, capacity building must take into account the roles performed by existing traditional institutions, informal networks, and mutual-help groups, particularly at the village level. These were critical in maintaining communities during the struggle for freedom, and will continue to play an important part in capacity building at the local level.

5.4 On the basis of these requirements, several areas are prioritized in the Plan. These can be summarized, as follows:

GOVERNMENT AND GOVERNANCE

5.5 Capacity building at the government level is crucial for East Timor. During the Indonesian period, limited indigenous expertise was developed in senior and middle management, supervisory level skills, and in office management and administration. Additionally, many of the East Timorese trained in these areas left the country during 1999, and have not returned. Consequently, as outlined in *The State of the Nation* Report, the vast majority of current civil

servants are neither adequately experienced, nor trained for the roles they will have to undertake. Yet East Timor will have to depend heavily on its civil service to manage the transition to an independent, democratic, and economically viable society. To address this problem, the former Cabinet endorsed a comprehensive ten-year program for Governance and Public Sector Management developed by the National Planning and Development Agency in 2001, with support from the UNDP. This program was well received by donor countries. The Plan builds on, and develops this program, by stressing the need to develop organizational and managerial values within a framework that respects East Timorese cultural values, whilst concomitantly pursuing open, cost effective and accountable systems of government.

5.6 The Plan sets out strategies for developing and strengthening institutions for the post-transition period. It outlines how capacity can be built to enable the Government to assist in the development of a market-based economy. For each sector, the Plan also provides strategies for strengthening capacities in policy development, co-ordination, and the core skills required for management. It shows how the East Timorese Government can provide an enabling economic environment, deliver appropriate services, and establish relevant legal frameworks during the post-independence period. It stresses the need for transparency, and outlines how capacity can be built within the civil service for drafting legislation, developing policy and upgrading skills. In this, it cites as most crucial: the development of operational planning and budgeting; the development of organizational and supervisory skills at middle and supervisory levels; training in records management and document control, information technology, Portuguese language and translation; training programs for district and village staff; gender awareness and equity training, and human rights training. In meeting these aims, additional, basic skills need to be developed at a number of levels within public service. For example, at the senior and middle management level, there is a need to develop the ability to put together operational plans and budgets, to develop capacity in advising ministers on legislation and regulations, to create operational programs from policies, and to link government with the private sector, NGOs, and civil society organizations. Similarly, at the office management and administrative levels, skills need to be developed in areas such as records management, drafting documents, and communication. Only through developing skills such as those outlined above, will East Timorese be able to genuinely own their administration, and begin to build capacity themselves.

5.7 The Capacity Development for Governance and Public Sector Management Programme, outlined above, suggested 75 areas of development, implementation of which was regarded as important for institutional and human resource development in East Timor. Some of the more crucial of these have already been specified, notably for improving capacity for service delivery in the Civil Service Academy, improving human resource skills and capacity for the development of policies, legal and regulatory frameworks for civil service personnel management, and for servicing the government with cost-effective, efficient human resources systems. Donor support for these, and for other areas such as records management, policy, guideline and procedure development, legislative review, planning and budgeting, the operation, maintenance and management of Information Technology will be important in strengthening governance and public sector management capacities. The aim of such support, and one of the essential goals for building capacity for plan implementation is to develop a professional, efficient and effective civil service, capable of monitoring and guiding long-term development. This is linked directly to poverty reduction, to optimising the delivery of services to the public, and to enabling the development of a vibrant private sector.

DECENTRALISATION

5.8 The need for political decentralisation is stressed in East Timor's Constitution. Decentralisation aims to provide more efficient delivery of services and decision making, with priority given to communities who understand their local needs and circumstances. The Plan proposes that capacity be built for this, through the provision of training for the administration of five regional offices for several ministries, backed up by regional coordinating bodies with representatives from government, community groups, NGOs and civil society organizations. To further these proposals, training is required to improve the management skills of district and deputy district administrators, local development officers, and sub-district coordinators. Such training could be developed and provided through the Office of District Affairs. Sector managers working at the district level also require relevant training, to implement, monitor and evaluate plan activities in their respective areas. Additionally, at the suco level, there is a need to develop programs to increase village capacity for plan implementation, and to provide support for developing capacity in local training institutions to provide sustainable assistance to local administrators. NGOs, church organizations and civil society groups can assist in this process, as well as developing civic education programs to facilitate local communities to monitor plan outcomes, in relation to their original "vision" statements in the Countrywide Consultation.

EMPLOYMENT

5.9 Entrepreneurial, technical, and vocational skills are lacking in every sector of the East Timorese economy. The Plan stresses that one of the most important challenges for East Timor, both currently and in the foreseeable future, is to create an adequate number of both formal and informal employment opportunities to meet the needs of the country's youth. Some 15-20,000 young East Timorese enter the working age population each year, far more than the anticipated number of jobs in the public sector. To meet their needs, the Plan argues for an extension of the current on-the-job training undertaken in informal economy workshops throughout the country, the design and implementation of basic training programs by employers in the formal sector, and a further development of existing donor and church programs in vocational training. To facilitate the development of technical and vocational training, the Plan proposes that the Government establish a unit responsible for Technical and Vocational Education and Training. The Labour Code passed by the Constituent assembly, due to be enacted on May 1st, 2002, requires that the Department of Labour and Solidarity establish a Division of Vocational Training and Employment, comprising three units – for skills development and upgrading, employment services, and labour market assessment. Additionally, community-based training centres are to be set up in the countryside, to train people in the skills needed in the local informal economy, and to provide advice on employment. These centres will also develop a basic skills-employment matching service.

EDUCATION AND LITERACY

5.10 Currently, standards of education in East Timor are among some of the lowest in the world. Illiteracy prevents approximately 50% of the population from participating fully, socially and politically. It also restricts the attainment of improved health standards. Most importantly, however, it limits national development, since literacy and numeracy are crucial for productive employment and economic growth. Consequently, the Plan focuses on capacity building for reconstructing and developing the education system – through prioritizing strategies for teacher training, increasing primary school enrolment, improving retention rates, modernizing the curriculum, and enhancing community involvement in the management of schools. One of the

most difficult tasks for schools in the years ahead will be to extend both the use of Portuguese language and the standardization of Tetun for use in schools –as required in the country’s Constitution. Again, the plan offers programs and projects through which this can be achieved – through language training for teachers and administrators, and the production of texts in the two languages. Most importantly, the Plan also details programs and projects to design a literacy manual, to extend existing donor literacy campaigns, and to develop new campaigns for implementation by the Ministry of Education.

HEALTH

5.11 Standards of health in East Timor are poor, and existing health provision is weak. Life expectancy ranges from 50-58, and is combined with high infant mortality rates of 78-149 per 1,000 live births, and under-5 years mortality rates of 124-201 per 1,000 live births. Women bear an unacceptable burden of maternal mortality and morbidity, with maternal mortality rates at 350-800 per 100,000 live births. Only 30% of births have any skilled birth attendance. Approximately 3-4% of children aged 6 months to 5 years are acutely malnourished, whilst 1 in 5 are chronically malnourished. About 45% of children under 5 are underweight. Almost all health facilities were destroyed in 1999, and there are acute shortages of doctors, nurses and midwives. To build capacity in this area will be extremely difficult, and the focus necessarily will be on the provision and delivery of services to meet basic needs. The Plan presents policies, and short and longer-term strategies for this. It prioritises ongoing, long-term programs in child, maternal and reproductive health. Crucially, it also focuses on current needs to build capacity for the provision of support services and management systems for the delivery of these programs.

INFRASTRUCTURE

5.12 As detailed in the *State of the Nation Report*, infrastructure is in a poor state, and capacity in this sector is extremely weak. This is an issue of overarching importance for all sectors of the economy and society, since infrastructure is a key determinant of agricultural productivity, poverty reduction, investment, human development and government capacity to deliver services. The Plan specifies detailed programs for building capacity in the key areas of water supply and sanitation, road reconstruction, and the restoration of basic transport and communication facilities. For the longer term, it specifies programs for the development of a sustainable power infrastructure, with an accompanying institutional framework. The substantial expenditures required for these programs highlight the crucial issue of financial constraints on infrastructure development. Here - perhaps more than in other sectors - there is a pressing need for prioritization and sequencing. Many of the programs suggested to the Planning Commission for funding may be necessary when viewed in the context of the developmental needs of the country over the next twenty years, but the key questions for the sector are, which programs are needed currently, which in five, and which in ten or twenty years from now. On this basis, a series of programs have been selected and designed in the Plan, focusing specifically on infrastructure needs in both the short and longer term.

THE JUDICIARY

5.13 A crucial area for East Timor’s development is an effective judicial system. Building capacity for this currently is a major problem. As outlined in the *State of the Nation Report*, one of the most pressing problems is a shortage of legal personnel. There are very few trained East Timorese judges, prosecutors and public defenders, and the courts have few resources. Developing the judiciary will require rapid capacity building in three areas: i) simplification of

legal procedures in both civil and criminal law to replace the current overlapping system with its heavy emphasis on procedure; ii) the creation of an independent, skilled judiciary, possibly through the formation of a judicial council to train and supervise judges; and iii) the development of a legal association to certify and train lawyers, establishing admissions criteria, and regulating legal conduct.

CONCLUSION

5.15 In most of the areas for capacity building outlined above, during the coming years, East Timor will need continuing international support. At least in the short term, to further capacity building and human resource development, there are positions which need to be filled by international advisers, working closely with local staff. Particularly crucial are positions with a high technical content, such as financial management, engineering, legal and judicial expertise. It is vital that this mentoring continue, particularly for the next five years, whilst East Timorese are in tertiary education, on leave of absence to learn requisite skills. For implementation of the Plan, it is crucial that the knowledge and skills appropriate for the attainment of economic growth, poverty reduction and human development be transferred and developed in an East Timorese context.

6. MONITORING, EVALUATION, AND REVIEW

“A comprehensive planning process with effective monitoring and evaluation will take into account what decision-makers need to know to make timely corrections..... the process must be participative, not one of unilateral decision-making by a small cadre of Ministers.”

“This is East Timor’s first Plan,....., it is important that it is reviewed at certain times to see if the overall strategic direction remains valid or if changes should be made.”

INTRODUCTION

6.1 Planning for the future is an ongoing concern, and the National Development Plan is only the beginning of a structured planning process. The heart of the Plan is the national vision that reflects the hopes and aspirations of East Timor’s people. It is a statement to indicate long-term commitment to human principles and constitutional concepts that provide leaders with a philosophical framework for development. However, the vision does not, in itself, provide insights about how to plan, to grow, to address poverty, or to adapt to an ever-changing world. East Timor faces all these challenges and many more, not least of all how to manage its financial resources during a very critical time of transition.

6.2 The Plan is, however, an initial framework that will grow, change, mature, and become systematically better with time and attention. This section of the Plan includes a description of a process that can ensure an effective monitoring and evaluation process, provide timely information to senior ministers who must decide the nation’s goals and strategies, and establish administrative control of planning activities. The process will reduce the risk of the nation becoming entrapped by unexpected circumstances or untimely events. It will allow the nation’s leaders to recognise unexpected opportunities or to act upon favourable circumstances. The ultimate aim is to nurture the nation’s vision, bringing the nation and its people consistently closer to their aspirations for health, peace, equality, and prosperity.

6.3 Preparation of the Plan also involved policy development and the formulation of programs and projects. Experience from elsewhere shows, however, that the focus of planning has been largely on formulation, design and appraisal of programs and projects, without placing equal importance on monitoring and evaluating development plans and the implementation of their policies, legislative initiatives, programs and projects. That experience shows also that the lack of emphasis on monitoring and evaluation has led to major delays in implementation, underperformance of programs and projects, and a failure to learn from the lessons of past activities.

6.4 Monitoring and evaluation are critical components of successful national development planning exercises. Ensuring that policy objectives are met – through program and project activities – requires adherence to a sound process of monitoring and evaluation. Additionally, such a process meets the requirements of



Government, donors and other stakeholders for transparency and accountability. The main outcomes of strengthened monitoring and evaluation capabilities are improvements in program and project implementation and management.

6.5 Consequently, an institutional planning process is essential, one that empowers the nation's leaders with responsibility for strategic planning. The process itself must ensure continuity of monitoring and evaluation that will result in a living development plan, one that grows with the nation itself. First, it will provide timely feedback on actual performance by every agency within the Government's authority. Second, it will provide realistic projections and analyses of what the nation faces in the coming year, the next few years, and perhaps the long term. And third, the planning process will permit adaptation of the existing plan, its goals, objectives, and strategies. The key agency responsible for the various planning activities, including monitoring and evaluation, is characterised generically here as a 'Planning Commission', although it might be a quite different body to the currently existing Planning Commission.

6.6 The Plan, as noted above, is simply the beginning of the planning process. Planning responsibilities will now fall to a senior person in each 'sector' (Ministry, agency, or office of Director-General). Actual planning will continue on the model developed through the first national planning process, but include specific one-year action plans devised at department and division levels to implement the comprehensive long-term plan. This might consist of working groups and key managers at division level, with at least quarterly planning duties, and comprehensive long-range planning on an annual basis (these points are addressed below). No new staffing would be required. Indeed, the planning function is an appropriate responsibility for managers in these positions, although the planning activities should be highly participative.

MONITORING PERFORMANCE AND OBJECTIVES

6.7 Monitoring and evaluation are complementary yet different activities. Monitoring is the tracking and information gathering process that provides the data, insights, or descriptions of results in a systematic manner throughout a plan's life. This is a communication and reporting procedure, which is proposed here on the basis of quarterly 'feedback' and annual 'consolidation.' In contrast, evaluation is the process of analysing the information obtained through monitoring to determine what progress is being made, what problems exist, what successes have been achieved, and how task-related activities compare against planned outcomes. In this section, 'monitoring' is addressed separately from 'evaluation,' which follows in the subsequent section.

6.8 Monitoring involves the continuous assessment of program and project activities in the context of implementation schedules, and the use of program/project inputs by targeted populations in the context of design expectations. It is an internal program/project activity, an essential part of good management practice, and an integral part of day-to-day management.

6.9 Monitoring, therefore, is an important management tool, one that provides the basis for corrective actions to improve plan, policy, program and project design and implementation, along with the quality of results. It is a continuous assessment of the progress of policies, legislative initiatives, programs and projects with the aim of ensuring they achieve their policy objectives. Monitoring assists organisations – the Government and its Ministries and other agencies in this instance – to assess:

- a) the relevance of policy, program and project goals and objectives, along with legislative initiatives and reforms, on a continuing basis;
- b) efficiency in the delivery of inputs;
- c) effectiveness in the production of planned outputs and in fulfilling immediate objectives of policies, programs and projects;
- d) timeliness of policy, program and project activities and the adherence to the implementation schedules that have been developed; and
- e) problems encountered in the development process and possible remedial actions.

6.10 Consequently, a consistent and reliable monitoring process that addresses task-level performance indicators is essential. This will be achieved on several levels, including national, sector (Ministry or agency level), program, project and activity level. Monitoring (and evaluation) therefore requires a regular routine of preparing progress reports. The following reports and activities will comprise the ‘backbone’ of monitoring and evaluation in East Timor:

- a) quarterly policy, program and project performance reports;
- b) six-monthly or semi-annual policy, program and project performance reports;
- c) program/project site visits;
- d) annual review reports for sector-level activities;
- e) progress performance reports of large donor-funded programs and projects, as well as policies and legislative initiatives; and
- f) progress performance reports on policies, legislative initiatives, programs and projects.

6.11 Pro-formas need to be developed for each report to simplify the process of monitoring (and evaluation) and to ensure consistency in report preparation.

Monitoring at the National Level

6.12 The present Plan combines the outcomes of two separate but closely related visioning exercises – the Countrywide Consultation and the Ministry-level work of the Working Groups. Follow-up planning exercises could usefully follow the same format, with some activities being conducted on a nationwide basis and others being performed at Ministry level.

6.13 Some activities at national level will have a monitoring function. The TLSS, for example, provided a very detailed snapshot of living and working conditions in all regions and for all social and economic segments of the population. The Countrywide Consultation provided qualitative insights on the concerns and aspirations of a broad cross-section of society. Follow-up exercises at regular intervals, perhaps every 3-5 years, would be useful in measuring the progress being made in different areas and across a broad spectrum of indicators.

6.14 There is also a need for regular and close monitoring of macroeconomic indicators as these provide guidance on the general health of and changes in the economy. Such monitoring must be supported by monitoring policy development and implementation of policies. A Macroeconomic Policy Unit is proposed for the Ministry of Finance (MoF) for this purpose,

while such a Unit would also take responsibility for coordination with other key financial institutions such as the central bank (currently the Banking and Payments Authority – BPA). Macroeconomic skills are, however, in short supply, and capacity building and support in this area will be needed in support of national development.

Sector-level Monitoring

6.15 Each Ministry or agency, through the Working Group process, established development goals and long-term policies within a framework of guiding principles that reflect priorities of the sector under the national vision. In many instances, they extended a sector-specific vision to reinforce their commitment to national development. Because development goals and policies are long term and therefore do not change significantly over time, the reporting Ministry or agency should make a thorough review of its achievements with recommendations for changes at least annually. Interim reviews on a quarterly basis would be ideal but require additional resources.

Program-level Monitoring

6.16 Not all agencies or divisions within departments have formal programs to monitor. The offices of the Directors-General, for example, have activity responsibilities and priorities that they would pursue as part of their administrative roles. The Plan lists many of these as ‘programs’ with descriptive titles. Monitoring at this level will entail descriptive progress reports without specific performance benchmarks. For activity-specific programs that exist in line divisions, there are performance indicators or descriptive benchmarks associated with each relevant objective. Program managers should, therefore, be accountable for reporting quarterly on performance results or describing progress with respect to each objective for which they are responsible.

Project-level Monitoring

6.17 A ‘project’ is distinct from a ‘program’, comprising a well-defined set of tasks to be accomplished within a specific time frame and with a specific budget. In contrast, programs are commonly considered ongoing activities with a sense of permanence, such as a ‘trade promotion program.’ A project under trade promotion may be to establish trade legations with primary trading partners within one year. Therefore, all projects should have clearly defined and measurable performance objectives. There should be no ambiguity about whether a project is making progress, falling short, or has succeeded.

6.18 There are three categories of projects for East Timor. The first concerns projects that are budgeted and implemented entirely within the capabilities of the Government. The second comprises projects funded and implemented through the donor community. The third includes ‘all others,’ which may be the result of one-off bilateral agreements with a specific country, a contract with an international company for a turnkey project, or projects with allocations under trust funds or joint-development programs. In each instance, however, the projects will have well-articulated objectives and performance indicators that should be tracked quarterly and reported. Donors and bilateral participants not subject to direct reporting to government should make their progress reports available to the Planning Commission to ensure transparency and effective planning.

EVALUATION OF PERFORMANCE RESULTS

6.19 Evaluation may be defined as an assessment, which is as systematic and objective as possible, of an ongoing or completed program, project or policy, its design, implementation and results. Normally, evaluation occurs at the completion of a program or project, or at the completion of a particular stage of such a program or project. Consequently, the purposes of evaluation are

- a) to provide an objective basis for assessing the performance of programs, projects, policies and activities;
- b) to improve programs and projects through feedback on the lessons learned; and
- c) to provide accountability, including provision of information to Government, donors and other stakeholders, including the general public.

6.20 A formal evaluation process must be developed in East Timor to provide the Council of Ministers with a consistent and accurate assessment of results throughout the government sectors. Donors invariably structure their projects with internal reporting and evaluation systems and, while all donors have their own methods of evaluation, their evaluation framework is similar. They will provide government planners with realistic summations of their activities and projects on a timely basis that will be sufficient for the CoM to fully comprehend how all programs and projects are progressing.

6.21 The challenge, therefore, is for East Timor to create a comparable system. This is not necessary to simply placate donors (yet donors will want periodic verification of how the recipient ministries and agencies are performing), but to provide East Timor's leaders with the most accurate diagnostics possible to help them steer their country toward its goals. Such a system cannot be driven by financial priorities – a plan that is forced into a budget is not a plan at all, but an 'allocation process.' The system must produce scenarios of both social and economic performance, and subsequently be judged in light of all development indicators. Budgets are vital, first of all, as 'tools' for tracking, keeping score, and quantifying results in universally understood terms. They are equally important for allocating resources, but only within a fundamental framework of an effective national development plan. Financial budgets become the standards for allocation and the mechanisms for assessing time-phased activities. An effective evaluation system must have the components of planned objectives articulated in measurable benchmarks, a method of analysis, and a correction process. These components are addressed below.

Planned Objectives

6.22 Objectives, as defined in the Plan, are the operational results to be achieved. They are typically described within programs or projects, or as role expectations for managers (such as directorates' responsibilities to draft bodies of regulations). Objectives also are typically defined within a time frame and are measurable. For example, an educational development plan or a program for reducing poverty, have individual time-phased objectives, but must also be orchestrated with all other governmental activities and, therefore, considered within a budgeted resource and finance framework.

Measurable Benchmarks

6.23 Performance indicators are the predominant benchmarks used in program and project management. These are both quantitative and qualitative results that not only define when objectives are met, but provide timely points of assessment to ensure that planned activities are being effectively implemented. Similar patterns of performance benchmarks, dealing with such matters as timeliness of implementation, cost and project results, are required for every program and project and, indeed, for any initiative that occurs through government for which the political leadership is responsible.

6.24 Benchmarks should be appropriate to measure the intended performance, sufficient to inform decision-makers as to the results (or to corrections needed to remain on-course), and feasible within the constraints and abilities of those accountable for results. Consider, for example, the national goal of ‘reducing poverty’ and one task-related objective to be ‘to reduce the number of people living below the poverty line.’ This objective may be further refined to a measurement such as ‘reducing the number of people living below the poverty line by five percent within one year.’ The appropriate benchmark would be to count the number of people currently living below the poverty line, and count that number again at the end of one year. This measurement may also be sufficient to inform decision-makers as to the results, but perhaps it may not. Decision-makers may also want to know where progress has been made (who was affected, who benefited from poverty reduction programs), how they achieved the added income to rise above the poverty line (by earned income, a currency manipulation that distorted results, or a per-capita GDP measurement that averaged out national product when only a handful of the elite made windfall profits and most people remained poor). Consequently, an appropriate benchmark is one (or a set) of performance indicators that provide sufficient information to decision-makers about the real results of planned activities. Finally, the measurement must be feasible. That is to say, the objective must be attainable (five percent reduction in the number of people below the poverty line in one year may be unrealistic or perhaps even too modest), and the programs implemented to achieve this must have the human, material, and financial resources to succeed.

6.25 The role of budgets, as indicated earlier, is critical to all plans. However, there are different types of budgets used in planning, but budgets should not drive plans. A financial budget is essential to allocate scarce monetary resources, and it subsequently becomes a numerical measurement on which to track and analyse performance. The role of a budget office, however, is to carefully accumulate data and to address all aspects of transactions and financial data monitoring. Analysis may be delegated to a budget office or to another unit (as discussed in the next section). The point here is that a financial budget is only part of the evaluation equation. Operational budgets are also required, and often they are equally important to financial budgets. They include staff mobilisation plans and targets for staff resources (measured in person days per project, number of work hours, levels of effort, and many other criteria). They include material budgets and procurement levels, time budgets, and various measurements on social issues (such as access to or distances from health clinics). The important point is that almost all activities and resources can be budgeted in measurable terms such as money, time, numbers, percentages, or quality standards, among others. They still must be appropriate, sufficient, and feasible to qualify as useful performance indicators.

Methods of Analysis

6.26 Designing and implementing a monitoring and evaluation system is a significant project requiring experts in planning and monitoring systems, and specialists in developing analytical procedures. A budget office can be highly effective for tracking and evaluating financial budget

performance. The reason should be clear. Financial budgets comprise only a small part of the total planning and monitoring system. Human resource capabilities, asset management, regulatory performance, trade activities, foreign affairs, and many other issues make up a majority of the components within a national development plan. Each of these has its own set of tasks and objectives, and each must have performance indicators or means of describing whether they are being effectively implemented.

6.27 For most development programs and a majority of donor projects, the methods are similar. They will define the benchmarks and performance indicators, and establish a time-phased system of tasks required to accomplish their objectives. This system will be broken down into stages, such as quarterly increments of task activities, and the indicators will be prorated to each of these incremental stages. Therefore, reports will provide assessments of partial task results and compare these against ‘budgeted’ or expected results for each operational period. The techniques of evaluation will almost always take the form of variance analysis, and be reported in easy-to-understand statistics. Variances can be calculated as absolute numbers (so many dollars under or over-budget, so many under or over-utilised staff compared to staff schedules, and so on), or by percentages (a certain percentage under or over budget for purchased assets, number of people trained, and so on). More sophisticated economic models are often necessary for variances in monetary or fiscal performance, trends in income, trade, or investments, asset depreciation, technology development, industry capacity, and other macro factors.

6.28 A nation’s development, however, cannot be entirely reduced to numbers and analyses. A great many objectives are concerned with social, cultural, and behavioural dimensions. Poverty, for example, may be reduced to a definition of per capita income, yet the form of that income may be meaningless; a depreciating monthly cash income, even if the nominal amount is rising rapidly, may translate to even more wretched conditions for the individuals caught up in these circumstances. Cash money, even if sufficient to a rural family that cannot access health care or schooling for children seems hollow. A fully employed economy – if such a thing could exist – may still be abhorrent if the population is ruttled in meaningless work and destitute conditions. Measurements of legislative endeavours, regulatory reforms, types of foreign investment, East Timor’s presence in the region as a trading nation, political stability, cultural preservation, environmental protection, national security, and many other similar concerns require very creative methods of evaluation. These cannot be addressed fully in this report, yet they will be required for East Timor to have an effective and complete national planning, monitoring, and evaluation system.

Correction Process

6.29 The correction process completes the cycle, and it is where the CoM, with support and information from donors, from the budget office, and from the body set up to oversee planning implementation, will steer the ship of state. In order to meet their responsibilities, they must have ready access to crucial information that is accurate and reliable, and they must have that information when it is needed. The ‘instrumentation’ of monitoring and evaluation provides that assortment of information. The ultimate objective is to have informed and enlightened decision-makers capable of correcting the direction of the plan.

6.30 Corrections are essential to remain realistically on course but, most importantly, to avoid major and unforeseen disasters. Without regular feedback and appropriate analysis, they cannot make such decisions, and the timing of information can vary significantly. For example, feedback from a nationwide survey of the population’s perceptions about social and economic development may be important, but it may not be critical enough to cause planning to be repeated more than every few years. In contrast, a program aimed at repatriating indigent

refugees may require monthly or even weekly monitoring. Those situations of higher risk than others require more deliberate monitoring intervention, and those that could have greater consequences than others require greater attention.

6.31 A comprehensive planning process with effective monitoring and evaluation will take into account what decision-makers need to know to make timely corrections. In addition, the process must be participative, not one of unilateral decision-making by a small cadre of Ministers. They will need to work with the planning specialists, donor representatives, and budget analysts to fully address each issue, then to communicate decisions with a consensus of agreement on changes or adaptations. Ministers will need to work closely with their department heads and directorates to share information and to involve them in the planning and evaluation system. This not only builds capacity systematically throughout government, but also progressively advances the plans and all task activities toward achieving the nation's development goals. In effect, each iteration of the monitoring and evaluation cycle improves the plan, improves operational performance, sharpens objectives and their related indicators, improves human resource capabilities, and moves the nation steadily toward fulfilling the vision for national development.

PLANNING REVIEW

6.32 'Review' and 'evaluation' are often used interchangeably. However, a distinction can be made between them, with that distinction relating mainly to the purpose, timing and level at which the activity occurs. As noted above, evaluation tends to be focused on assessing how well programs, projects or policies are performing, and it may occur at various stages during the lifetime of an activity. Review tends to occur at a higher level and may influence the overall strategic direction being taken by the organisation which, in this case, is the Government of East Timor. This is East Timor's first Plan and, consequently, it is important that it is reviewed at certain times to see if the overall strategic direction remains valid or if changes should be made. Two matters are important here:

- a) because the national budget is based on a three-year, medium-term fiscal framework, the national strategic plan needs to be reviewed each year so that it 'rolls forward' and remains consistent with the Budget; and
- b) because the Plan is East Timor's first, it should be subject to a full review after its first year of operation (meaning that the review would be due in July-August, 2003). The review should involve external support and personnel, along with domestic inputs and personnel in a team approach.

6.33 As the Plan's policies, programs and projects are implemented, user surveys and other means should be used to monitor the outcomes of the programs against the intended results, according to the performance indicators or benchmarks established in the Plan. Such evaluations should focus on the cost-effectiveness of spending, analysing and explaining reasons for any cost overruns or shortfalls in outcomes that may have occurred.

INSTITUTIONAL SETTING: MODEL OF PLANNING, MONITORING AND EVALUATION

6.34 On completion of the Plan, the Planning Commission will be disbanded. There is, however, a need for a Government body with responsibility for overseeing national development planning functions, particularly monitoring and evaluation. In many countries such a body is

located either in the Prime Minister's Office, in the Ministry of Planning, or - less frequently - in the MoF²⁴. In East Timor, there is a need to find a suitable institutional location for such a body. It should be located within an institution or office which can have an overview both of planning operations, and of the role of government, civil society and community organizations in plan implementation. For it to be credible, this organization must have a significant degree of autonomy, and be able to involve stakeholders in implementation, monitoring, and assessment. The location of the government body overseeing implementation of the Plan should be decided after independence, and should involve discussions with government ministers, civil society organizations and the main stakeholders already involved in the planning process. The body set up must ensure that adequate participatory processes are established to enable all stakeholders to be involved in the monitoring of plan implementation. Since the vision statements of the East Timorese population were crucial in designing and giving direction to the Plan, it is vital that groups representing their interests within the community and civil society are fully represented in monitoring and evaluation of plan implementation. Those monitoring the plan should be trained in participatory methods, and indicators devised for this monitoring should be based upon participatory approaches and techniques

6.35 Individual ministries will also require some planning capability, including the capacity to undertake monitoring. The use of pro-formas will allow individual officers to undertake regular monitoring. However, at least in the larger ministries, the establishment of an internal policy and planning unit could support project preparation, implementation, monitoring and evaluation, and review. Such a unit could also provide the link to the national-level monitoring body, outlined above, as well as a contact point for donors and other stakeholders.

6.36 The routine involvement of stakeholders, outlined above, and other partners, notably the donor community, will be instrumental in ensuring that planned future donor activities be based on an accurate knowledge of experience with current programs, and a regularly updated awareness of the Government's priorities. Regular joint sector missions by donors could be planned to take place shortly after quarterly updates become available. Such missions could be provided with the latest information, to avoid placing a supplementary reporting burden on the government.

CONCLUSIONS

6.37 Following independence, the Government should establish a new body with responsibility specifically for overseeing national development planning functions, particularly monitoring and evaluation. This should have a significant degree of autonomy, and should be located within an institution or office which can have an overview of planning operations, the role of government, agencies, and civil society and community organizations in plan implementation. This new body will have to draft a policy statement that captures its responsibilities, relationships with the budget office, donor coordination, and respective line ministries. A general framework for planning and reporting should be instituted so that a pervasive process can be implemented with consistent models of quarterly and annual reports that follow upward from project and program levels to ministries or agencies, and then to the new overseeing body.

²⁴ The monitoring and evaluation suggested here has a much broader focus, and is distinct from that which will be undertaken for the medium term fiscal framework (MTFF)

6.38 The reports submitted to the organisation overseeing plan implementation should be aggregated summaries, and they should include both the quantitative and qualitative analyses of results prepared through monitoring and evaluation. The overseeing body will have to have capabilities for economic evaluation and forecasting, social and environmental evaluations, and various specialised analytical tasks. The budget office within the MoF will be responsible for financial monitoring and analyses, and a statistics division will be accountable for such issues as population and demographics, healthcare, education, employment, and labour data.

6.39 Each division would be responsible for annual plans (action plans) that capture program and project activities, structured with quarterly performance indicators that meet the full criteria of being appropriate, sufficient, and feasible. Line ministries would have aggregated plans that reflect these annual action plans that, taken together over time, could provide the basis for long term (five-year) national development plans. In effect, at the end of each year, the process of rolling these annual plans forward can generate new ‘five-year’ plans (not merely second or subsequent years to one five-year plan that eventually must be replaced with new and extensive long-term criteria). This can be achieved by extending the fifth year every year as a new annual plan emerges. However, this is a policy decision. At minimum, the annual results should produce a revised set of plans for the upcoming year whilst also providing the overseeing body with greatly enhanced information on subsequent years.

6.40 Ultimately, the planning process should not be budget-driven, nor be subordinated to international financial mandates. It should address the social, economic, and human development priorities of East Timor and, with appropriate diligence, consider what can be realistically accomplished given budget constraints. All proposed programs and projects put forward by the divisions in all sectors should remain within the development plans, even if they cannot be feasibly pursued in the near term. They should not be lost for current lack of resources or capacity, but simply prioritised given the nation’s limitations. Finally, the planning process should be fully participative, linking each level of government, and fully involving civil society and community organisations in planning, monitoring, and evaluation activities.