

TIMOR-LESTE / EUROPEAN COMMUNITY

COUNTRY STRATEGY PAPER

and

NATIONAL INDICATIVE PROGRAMME

for the period 2006-2007



GENERAL PROVISIONS

The Government of Timor-Leste and the European Commission hereby agree as follows:

- (1) The Government of Timor-Leste, represented by its Prime Minister, H.E. Dr. Mari Bin Amude Alkatiri, and the European Commission, represented by the European Commissioner for Development and Humanitarian Aid, Mr. Louis Michel, hereinafter referred to as the Parties, held discussions in Brussels on 30 May 2005, with a view to determining the general orientations for co-operation for the period 2006-2007.
- (2) The Country Strategy Paper and an Indicative Programme of Community Aid in favour of Timor-Leste were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. Discussions held in Dili completed the programming process in Timor-Leste.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- (3) As regards the indicative programmable financial resources which the Community envisages to make available to Timor-Leste for the period 2006-2007 an amount of € 18 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement. This allocation is not an entitlement and may be revised by the Community in accordance with Article 5.2 of Annex IV of the ACP-EC Partnership Agreement.
- (4) The allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community Assistance. The Indicative Programme under Chapter 6 concerns these resources. It also takes into consideration financing from which Timor-Leste benefits or could benefit under other Community resources. It does not pre-empt financing decisions by the Commission.
- (5) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement (see Chapter 6 for further details).
- (6) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Country Support Strategy and the Indicative Programme.

The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme will be regarded as definitive within eight weeks of the date of its signature, unless either party communicate the contrary in writing before the end of this period.



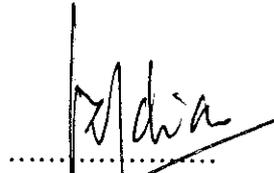
Signatures

For the Government of Timor-Leste



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PART A

COUNTRY STRATEGY PAPER

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EXECUTIVE SUMMARY

On 16 May 2003, the EU Council of Ministers approved the accession of Timor-Leste to the ACP-EC Partnership Agreement, the Cotonou Agreement. Timor-Leste duly ratified that Agreement on 19 December 2005. An amount of €18 million has been allocated to Timor-Leste for the two years remaining under the 9th European Development Fund (EDF). Timor-Leste will also be included in the programming provisions for the 10th EDF. Hitherto, Timor-Leste has been receiving development assistance provided under the Council Regulation 443/92 (Asia-Latin America Regulation) **This present strategy paper has been designed to provide a framework for a two-year bridge (2006-2007) out of the 9th EDF to cover Timor-Leste's transition from Asia-Latin America budget line to cooperation assistance under the 10th EDF.** As such, there is a good deal of continuity in the approach of this strategy and the previous strategy under the Asia-Latin America budget line. The framework is based on EU/ACP co-operation objectives (notably the reduction of poverty and integration of developing countries into the world economy), the Government of Timor-Leste's (GoTL) own development policies, an analysis of the political, social and economic situation in the country, and an assessment of past co-operation programmes with the EC and other donors.

Timor-Leste's National development strategy

The National Development Plan 2003-2007 (NDP), the Stability Program and the Sector Investment Programs establish the Government's vision for national development. The NDP has two strategic pillars of i) poverty reduction and ii) equitable and sustainable economic growth. The Stability Program targets activities under the objectives of job creation, good governance and poverty reduction (the latter through education and health). The Sector Investment Programs link the budget progress directly to the NDP, providing transparent planning for all ministries, for a 5-year expenditure cycle.

Challenges

Timor-Leste is a young, fragile nation which has emerged sovereign after a colonial period of underdevelopment and a struggle to gain independence from Indonesia. The new country needs to address a number of challenges, i.e. to alleviate widespread and structural poverty, particularly in rural areas, to create sustainable livelihoods for its population and to build human and institutional capacities. Timor-Leste is just beginning to benefit from substantial off-shore oil and gas reserves, a situation which offers both great economic potential but also the danger of mismanagement and corruption. In terms of identity and nation-building, Timor-Leste will need to address its turbulent past, human rights' violations of past administrations and to work for constructive relations with its neighbours.

Main objectives and implementation sectors (Indicative programme: € 18 million)

1) Sustainable rural development: socio-economic development of the poorer rural areas, in order to achieve sustained poverty reduction and food security and improved service delivery. This supports the GoTL's own sector investment plan for agriculture, forestry and fisheries. Indicative allocation: € 12 million.

2) Institutional capacity building, which is in line with the GoTL's goal of achieving sustainable national capacity for effective planning and financial management and improved service delivery. Indicative allocation €6 million.



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CHAPTER 1. EC CO-OPERATION OBJECTIVES (CFR ANNEX 1)

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CHAPTER 2. THE POLICY AGENDA OF TIMOR-LESTE AND PERSPECTIVES FOR EC CO-OPERATION

POLICY AGENDA

In 2002, building on extensive consultation throughout the country, Timor-Leste published its first five-year National Development Plan 2003-2007 (NDP) which expresses the country's strategies for sustainable growth and poverty reduction. The NDP has two strategic pillars of i) poverty reduction and ii) equitable and sustainable economic growth. The Stability Program targets activities under the objectives of job creation, good governance and poverty reduction (the latter through education and health). The Sector Investment Programs (SIPs) link the budget progress directly to the NDP, providing transparent planning for all ministries, for a 5-year expenditure cycle. Recently, the NDP, Stability Program, and SIPs were presented to the Boards of the World Bank and International Monetary Fund (IMF) and endorsed as the country's Poverty Reduction Strategy Paper (PRSP).

The Government has since then focused on implementing the NDP in the face of some difficulties: the lack of a credible cost-recovery system in the power sector; severe subsisting weaknesses in the judiciary; a lack of support systems for day-to-day personnel management; and general weaknesses in financial management in line agencies.

Some important achievements have been made since the adoption of the NDP. These include the preparation and promulgation of key legislation for improved governance; steps to enhance service delivery in the health and education sectors; the maintenance of a relatively sound core financial management system; legal criteria for titles to immovable property, the law on citizenship and the immigration laws and progress towards a medium-term solution for the management and cost recovery problems in the power sector. The GoTL has also developed a positive action programme for women. Some efforts have been made on environmental protection, but a good deal remains to be done on that front.

Within the overall goals of the NDP, improving the productivity of the Agriculture, Fisheries and Forestry sectors is given high priority, as well as improving the capacity to deliver services of the Ministry of Transport, Telecommunications and Public Works (MTCPW). In the Sector Investment Program (SIP) for the Agriculture, Forestry and Fisheries sectors, the GoTL emphasises improving the livelihood of rural communities, the integration of land and forest management in a watershed management approach, and improved service delivery. This includes rehabilitation of irrigation systems, improved seeds distribution, improved livestock health, management of fisheries and forestry, and improvement in marketing and infrastructure facilities.

(cfr Annex 12 for more details of the Sector Investment Program for these sectors).

Many challenges remain for the execution of this National Development Plan and the budget. Consequently continued assistance from the donor community will be important to strengthen the Government's capacity with a view to promoting growth and employment and delivering services, particularly in rural areas.



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PERSPECTIVES FOR CO-OPERATION

Timor-Leste is a new ACP country, and as such, will need a good deal of guidance and follow-up in this transitional stage. The present Country Strategy is a bridging strategy, to cover this two-year transitional period under the 9th EDF, before the 10th EDF takes over in 2008. It is important that the present strategy factors in the weak institutional capacity of Timor-Leste, which will be exacerbated by the fact that the country has no previous knowledge of the EDF and its procedures. It will also be important to focus and concentrate EC co-operation, in order to avoid difficulties in implementation in the short time remaining for the 9th EDF.

Sound preparation for the 10th EDF, programming and implementation, will be crucial with a particular emphasis on sound Public Finance Management, human rights and good governance. It will be important to facilitate the full participation not only of government institutions but also Non-State Actors and local community. The 10th EDF will also need to include a migration profile for Timor-Leste.

CHAPTER 3. ANALYSIS OF POLITICAL, ECONOMIC AND SOCIAL SITUATION

3.1 Political Situation

The country is situated on the eastern half of Timor Island, with a single land border to Indonesia (West Timor). The current political situation is the result of a long colonial past, and the ensuing period of occupation and military presence. Timor Leste had and still has to overcome a difficult legacy.

The Portuguese occupied the country in the 16th century. A border between Dutch West Timor and Portuguese East Timor was defined in 1859. Japan occupied East Timor from 1941 to 1945. After the Carnation Revolution in Lisbon, ending the Salazar regime (1926 – 1974), Portugal considered formal de-colonisation. No national liberation movement existed, but three main political associations formed, mostly among the urban elite and middle-class families. The parties (Fretilin, Apodeti, UDT) refused to participate in a consultative council, created by the governor. Formally, Portuguese sovereignty was to end in October 1978. After Fretilin won local elections, UDT attempted to take over power and requested immediate independence. With Fretilin's counter-attacks, the violence intensified. The Portuguese authorities fled from Dili, and Fretilin unilaterally declared independence in November 1975. Two days later, Apodeti, in turn declared independence and integration into Indonesia. On 7 December, Indonesian troops penetrated East Timor. This invasion, clearly against international law was tolerated – or even encouraged – by the West, particularly by Australia and the USA, who feared regional repercussions from the Vietnam War. In the absence of precise figures, some observers estimate the number of deaths, caused directly or indirectly by the Indonesian invasion, at 60.000 in the first three months. The Indonesian Government expanded efforts and money to improve the then basic economic (subsistence farming) and social infrastructure of the new province, especially in schools, roads and medical services. The economic upturn benefited the immigrants from other Indonesian provinces. However, attacks from armed guerrillas countered the continued armed forces' policy of repression. Lost lives among the locals are estimated at 200.000 for the period up to 1999. 5.000 Indonesian soldiers lost their lives; thousands were maimed and injured. The acts of brutality and corruption had antagonised even those Timorese who were initially favourably disposed.

The Asian financial crisis led to the downfall of the Soeharto administration in Jakarta. In January 1999, President Habibie, having agreed in principle to a 10-year autonomy period, followed by a UN-led popular consultation on autonomy or independence, wanted to accelerate this process. A "popular consultation" was held in 1999, under UN auspices (UNAMET). It resulted in a clear vote of 78,5% in favour of independence. Following the referendum, integrationists and militia (armed by parts of the Indonesian military) rampaged through the territory. This scorched earth campaign left an estimated 1.000 dead, 250.000 people displaced, and destroyed large parts of the infrastructure. This wave of violence prompted the international community to dispatch an international peace force to restore order. On 12 September, President Habibie admitted the Australia-led INTERFET peacekeepers to East Timor. A month later, he nullified the decree on the integration of East Timor into Indonesia. Most Indonesian citizens departed, resulting in a severe shortage of qualified professionals, weak institutions and limited institutional capacity. The return of exiled intelligentsia partly compensated these problems.



The UN transitional administration for the territory (UNTAET) established an administration and exercised legislative and executive authority. The Democratic Republic of Timor-Leste gained its independence on May 20, 2002, after electing a Constituent Assembly, adopting a Constitution and holding presidential elections under UN supervision. The Constituent Assembly became the National Parliament. President José Alexandre Kay Rala "Xanana" Gusmão was elected President by over 80%, and Marí bim Amude Alkatiri was appointed Prime Minister. The cabinet is dominated by the FRETILIN party. From 2002, a 900-person UN Mission of Support in East Timor (UNMISSET) focused on peace-keeping, training and support to the police force. In 2005, UNMISSET was succeeded by a smaller UN Office in Timor-Leste (UNOTIL).

At the time of gaining independence, the country had practically no institutions and system of governance on its own and no comprehensive legal framework. With the help of the international community Timor-Leste has made remarkable progress. The Constitution provides for human rights and fundamental freedoms in a democratic and pluralistic society. In particular, it ensures the right to elect and to be elected, the freedom of political participation as well as the freedom of the media. Regarding State institutions, the Constitution foresees the President; the Parliament; the Government; the courts and the judiciary; the Prosecutor General and the office of the Provedor (ombudsman). Progress has indisputably been made, but institutions responsible for the rule of law, in particular the judiciary and police, show some weaknesses, leading to unlawful arrests and detentions, excessive use of force, procedural delays, institutional inertia and inconsistent rulings. Local government still needs improvement.

In order to help improve the situation, cooperation should mainstream human rights and good governance, and sound public financial management – all needed to help bolster the stability of the government.

Shortcomings in public administration and governance are acknowledged in the analysis of the Transparency and Accountability Initiative launched by the Prime Minister. This initiative was supported by Transparency International, the UN the World Bank and others.

Parliament needs to strengthen its legislative and oversight functions, including with regard to the Petroleum Fund. The next Parliamentary and Presidential elections in 2007 will be the first elections at this level to be managed by the independent Timor-Leste. Their solid preparation is important for the medium and long term stability of the country. In particular, education of voters, media and political parties, voter registration, and national and international observers are components for which the Government seeks to mobilise resources from the international community. A positive example was a series of village elections held from January to September 2005. These elections, financially supported by the EC, were the first ones managed by the government. They generated a good turnout, and were held in a fair and peaceful way and with acceptable standards of organisation.

The office of the President requires more capacity, mainly to better address the promotion of reconciliation and veterans' recognition and to improve relations with the armed forces, the army and the Police. Overall, government is fully aware of the needs.

Today, the country has an independent judiciary and a transparent legal framework. Fundamental freedoms are respected. Portuguese and Tetum have been chosen as official languages. Bahasa Malay and English are working languages.



An effective way to support good governance in Timor-Leste is by strengthening Public Finance Management and by creating independent and accountable electoral management bodies. The country's experience in successfully carrying out local elections is a positive asset. However challenges still remain in updating voter registration, the preparation of the electoral law, ensuring the independence of the National Election Commission and the preparation of voters through NGOs and the media, all of which might be considered for funding by the Commission.

Geo-politically, Timor-Leste is situated between two large and powerful neighbours, Australia and Indonesia, and hence needs to actively develop links with them. Relations with Australia are improving, following an agreement on the sharing of oil and gas resources in the Timor Sea and the maritime boundary. With regard to Indonesia, mostly questions about past human rights' violations – in a joint Truth and Friendship Commission – and the remaining border demarcation need to be addressed in a realistic manner.

Timor-Leste was accepted into the ACP group of countries in 2003. Parliament ratified the Cotonou Agreement in November 2005. The country has observer status in the Pacific Island Forum, but wants also to develop relations with ASEAN. In 2005, Timor-Leste became a member of the ASEAN Regional Forum (ARF).

The colonial period and following occupation result in huge political challenges today. Most important are the long-term development, mainly dealing with poverty, and capacity building; and creating a sustainable livelihoods for the population. Given its tempestuous history, Timor-Leste has made remarkable progress in nation-building and political stability. Local government is still weak and in its infancy, but the administration managed to organise in 2005 a series of fair and peacefully held village elections. The Presidential and Parliamentary elections in 2007 will be Timor-Leste's first major elections in the absence of UN support, and will constitute a test of the country's ability to manage political transition. Timor-Leste's nation-building and the creation of its own identity will also depend on the development of solid relationships with the country's two big neighbours.

Structure and participation of Non State Actors and local decentralised authorities

Timor Leste' non-State actors encompass religious organisations, mass organisations, cultural and traditional associations, community and sports organisations as well as developmental organisations and self-help groups, more commonly referred to as NGOs.

During the Indonesian period, indigenous political associations, while formally proscribed, survived underground or were incorporated into Indonesian organisations. Most of the clandestine organisations operated under the supervision of the CNRT (National Council of the Timorese Resistance). In the new, independent environment much of the *raison d'être* for these groups has disappeared, but has left a political legacy.

The Catholic Church is influential, as 98% of Timor-Leste's population is catholic. The Constitution praises the historic merits of the Church in its preamble but does not privilege any religion. Throughout the country, the Church has a communication and social service network.

Civil society organisations and media have grown autonomously since 1999, and play a constructive and increasingly important role. Most of them are Dili-based. A number of non-governmental organisations (NGOs) undertake monitoring, advocacy, education and advisory services regarding human rights, justice, gender awareness, the environment and international

assistance. The print media has grown to several dailies and weeklies, but only a small part of the population accesses them. National and community radio reaches a wide audience and provides a popular forum for interactive debate. NSAs are growing in numbers and strength, but still need support.

A mapping study of NSAs is essential in order to assess their characteristics, needs, level of participation to political dialogue, support from other donors. This is relevant for all EC focal areas. It is understood that this study will be financed from the TCF.

Local authorities are not sufficiently described in the text. A description of them should be included in the mapping study.

3.2 Analysis of the Economic Situation, including Trade

(Cfr Annex 4: Timor Leste at a glance, for more economic indicators)

Timor-Leste is one of the least developed economies in the region and is essentially agriculture-based, with over two-thirds of the population living in rural areas, and at least one-third engaged in subsistence agriculture. Agricultural productivity is very low and suffers from insufficient diversification. Figures for 2004 (source: Asian Development Bank) give GDP per capita at around USD 366, but it is probably much lower in the more isolated rural areas. Unemployment is estimated to be 5% nation wide, and 20% in the capital, Dili. About 10,000 young people join the labour market every year. Inflation fell to 1.8% in 2004, and is expected to remain at around 2.4% on the basis of low international inflation and limited pressure on domestic demand. Growth in GDP is low at 1.8%. GoTL pursues an active policy of avoiding national debt.

The major change in Timor-Leste's macroeconomic situation and possible **destabilising factor** are the huge revenues it can expect from the petroleum and gas reserves in the Timor Sea. At independence, Timor-Leste signed the Timor Sea Treaty with Australia securing 90% of revenues from the "Joint Petroleum Development Area", an arrangement which however excluded most of "*Greater Sunrise*", a larger and more lucrative gas field, due to a difference of interpretation of respective maritime boundaries. After a series of sometimes bitter talks, Australia and Timor-Leste finally signed an agreement on 12 January 2006 on the sharing of natural resources from the Timor Sea, allocating 50% of the revenues to Timor-Leste. The revenues to be obtained under the agreement of the *Bayu Undan* field alone could deliver USD 11 billion in the next 20 years at current oil prices, with an expected USD 10 billion for the *Sunrise* field. Parliament has adopted a strong legal framework for on- and off-shore petroleum production. The Petroleum Law, passed unanimously by Parliament, commits the Government to saving most of its petroleum revenues in a state-of-the-art petroleum fund designed to yield a sustainable income in perpetuity. This legal framework makes Timor-Leste a leading model in the Extractive Industries Transparency Initiative.

Oil and gas revenues could dramatically change the economic perspectives for Timor-Leste. The established Petroleum fund can provide revenues to support part of the necessary investment by GoTL. However one of the challenges for Timor-Leste country will be the capacity to invest the revenue from its non-renewable resources in order to develop more sustainable resources. It will also have to guard against the risk of corruption and mismanagement of the fund, and deliver on the population's expectations of growing wealth. Over the next three years, Timor-Leste faces a rapid expansion in petroleum sector revenues, which risks putting tremendous pressure on its public financial management system. A

rapidly growing budget could boost the delivery of public services and promote growth, and construction activities under the capital development budget could contribute significantly to employment creation. Nevertheless, this new wealth will require careful management. Sound PFM will become even more important, and this issue should be addressed under the 10th EDF as an effective way to support good governance in Timor-Leste. One of the crucial future challenges for the Government is to be able to justify to the population the choices it makes in the use of the growing petroleum revenues, to avoid conflict over use of resources. It is essential that the Government programme continues to be pro-poor, aimed at eradicating malnutrition and hunger, and at creating employment and an environment that is free from corruption.

Against this buoyant outlook for the public fiscal position, the prospects for private sector are discouraging. Non-oil GDP growth was only marginally positive in 2004, but growth will be difficult to stimulate, given unpredictable weather conditions for rural production and lack of local micro-credit. Timor-Leste's economy is uncompetitive due to i) small, isolated markets, ii) high costs of transportation, iii) low skills base and iv) poor physical infrastructure and weak or incomplete government institutions and financial and banking sector.

The agriculture sector, which could potentially transform non renewable resources into a sustainable economy, has suffered for lack of resource allocation. Until 2004 agriculture received 2.1% of the total budget. During the period 1999-2004 a total of \$72.5 Million was spent by donors and Government on programs within the sector. Agriculture and livestock accounted for US \$ 66 million. Donors contributed 92% of the total program. It was only from 2005-06 that the sector was allocated 4.7% of the total budget. The current SIP envisages total expenditure of US 67 Million.

Structure of public sector finance and main sectoral policies

The public financial management system in Timor-Leste has made steady progress since the restoration of independence, but remains fragile, and funds flows to the districts are especially weak, seriously undermining service delivery. In addition to a general shortage of technical skills at all levels, the GoTL also lacks seasoned managers. The GoTL therefore wants to move beyond the transitional substitution of international for local expertise and focus on an integrated approach to government-wide institution building that relies on three pillars: skills and knowledge, systems and processes and attitudes and behaviour.

In the Fiscal year 2005-06, the financing of the public sector has continued to privilege the social sectors with education and health being allocated 32.5%. Of these primary education receives 45.9% and Hospitals Expenditures are limited to 38.2%. Agriculture has been increased to 4.7% while security has been kept at 20.1%.

Trade structure

Timor-Leste is at present not a member of the WTO. However, it is a member of the World Customs Organisation (WCO) and has asked for observer status with ASEAN and its free trade agreement called AFTA.

As regards the Pacific region, Timor-Leste is not party to any agreement with the rest of the Pacific ACPs at this point in time. It has observer status at the Forum, but is not a member of the Forum Secretariat or any of the other regional co-operation/integration organisations.

The main factor endowments of Timor-Leste are marine and fish resources, untouched environment (eco-tourism) and agriculture. However, the general economic environment places huge constraints on optimal trade conditions.

Timor-Leste has a narrow export base, and what little trade there is exists mostly in agricultural produce, e.g. green coffee beans. There is a huge trade deficit (mostly with Indonesia) which expanded to USD 187 million in 2004, amounting to about 56% of GDP. Non-oil exports rose to USD 8 million, of which USD 7 million was coffee. Coffee export revenues are however expected to rise over the medium term in response to higher international prices and improved marketing.

High local price levels make labour costs in Timor-Leste lose the normal competitive advantage of an LDC and reduce the country's attractiveness to foreign investors. Hence Foreign Direct Investment (FDI) in the productive sector is limited – FDI received until now is USD 1.7 billion, and 94% of that destined is for the oil and gas sector.

To encourage inward investment and FDI there is a need to improve the enabling environment. The GoTL has developed a Private Sector policy with a legal framework and a Sector Investment Program (SIP). It is the intention to increase further commercialization of agriculture and the production of marketable surpluses for domestic and export markets. Increased agricultural productivity and improved rural livelihoods translate into increased demand for off-farm goods and services. This requires increased private investment that leads to diversification of the economic base.

The benefits to Timor-Leste of membership of the Cotonou agreement are potentially significant but likely to appear only in the longer-term. However, to realize them, Timor-Leste will have to start to prepare itself now, studying the issues at stake and beginning to develop its capacity in trade. The Ministry for Development in Timor-Leste, responsible for trade, is conscious of its need for institutional capacity-building, both in terms of personnel, skills, and systems and also the preparation of a Trade Policy coordinated at inter-ministerial level.

(cfr Annex 8 for more details on trade development in Timor-Leste).

Private Sector Development

The country's economy is dominated by the private sector which accounts for two thirds of GDP. Excluding oil and gas, the private sector already accounts for 60% of the GDP. However the agriculture sector provides employment for three quarters of the country's labour force with very low productivity and represents only 27% of GDP. Generation of non-farm employment, which at present absorbs only a total of about 60,000 people, needs to be accelerated in order to absorb the 10,000 new entrants into the labour market every year.

3.3 Analysis of social situation

(Cfr Annex 9: Timor-Leste: Selected Social Indicators¹, 1990-2004, for more details)

The most recent comprehensive poverty data available still remains the national household and village survey conducted in 2001. Timor-Leste's Human Development Index has been put at around 0.4, placing it between Rwanda and Benin. As outlined above, its economy is

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

dominated by agriculture. Its GDP per capita is low (366 USD), and poverty is more widespread in rural (40%) than in urban areas (14%), and may have increased in recent years since the crisis in 1999. Wealth distribution is unequal (Gini coefficient 0.37). Lack of non-farm income increases the vulnerability of households, and malnutrition is a key issue. Women are important producers in the farms, but their access to land rights is very much limited by tradition. In general land tenure is uncertain, given that out of 200,000 land parcels, only about 25% have undergone some form of registration.

About 70% of the urban population has access to relatively safe drinking water and electricity, while in rural areas only 43% of the population has access to safe drinking water. Electricity in rural area is provided for a limited time at night and only to about 11% of the population.

The total fertility rate increased from 7.8 in 2001-2003 to 8.3 in 2003, possibly the highest in the world. Social services delivery is improving only gradually, and social indicators remain among the lowest in the region, including gender-related indicators.

The Office for the Promotion of Equality has been established under the Prime Minister's Office. Some of the ministers occupying prominent positions in the Government are women (e.g. Minister and Vice-Minister of Planning and Finance; Minister of State Administration) and 26% of the Members of Parliament are women. With the support the EC provided through UNIFEM, women candidates participated in local elections and some of them were elected.

In general Timor-Leste has succeeded in increasing primary school attendance (75%), but the level of education is low by regional and international standards, and the quality of teaching is poor. At present, only 58% of the population has had some education, and the percentage of students attending secondary school is only 20%. A proliferation of private Universities (17) which sprang up from private initiative at independence are not contributing very much to making adequate use of teachers and facilities for a tertiary student population of about 10,000.

Health indicators are still among the lowest for Asia. Under-five child mortality caused by infections, premature births and low utilization of skilled assistance is still 124 per 1,000 live births (although it has been halved since 89-93). It is estimated that 12% of children are wasted, and that 45% of the under five children are underweight. Malaria and Tuberculosis are widespread while there are recurrent dengue epidemics. There is a very low prevalence of **HIV/AIDS is low, but increasing**. Decrease/increase in HIV/AIDS could be one of the indicators in the rural development programme.

The population of the capital, Dili is considered to have increased 39% since 2001 to about 160,000 people (census 2004) and more than 50% of the population is under the age of 18. Youth employment in urban areas is very low, due to a large part to a lack of skills and vocational training.

3.4 Analysis of the environmental situation

Timor-Leste's economy is heavily dependent on its natural resources. Land, water, forests and coastal zones provide a livelihood, or are the major source of income, for at least three-quarters of the population. They are the basis for social and economic security and growth. Mineral and petroleum deposits are expected to provide a significant source of income and foreign revenue for many years to come. Finally, many of Timor-Leste's resources – for example, its pristine coastal ecosystems, its stands of sandalwood and its remaining primary forests – are a world heritage in need of protection. Besides the stocks of oil and gas in the

Timor Sea and onshore gas, Timor-Leste is endowed with modest fishery stocks, and forestry resources. The rainfall pattern – particularly in the north with long dry periods followed by intensive, short rainfalls – is conducive to erosion, which has been further increased in many areas by deforestation and over-grazing. The Government is aware of the need to develop its resources in a sustainable way, avoiding short to medium term benefits that could jeopardize the longer term future. GoTL is also aware that the development of these resources will depend for the time being mainly on private sector initiatives and investments. The main efforts in environmental conservation so far have been concentrated on building a strong information data base on the resources, on preparing legislation and on preparing community management mechanisms. Despite some efforts, there are still problems of deforestation, land degradation, loss of biodiversity, urban pollution and waste management, and there is a need for reinforced regulatory framework and monitoring if this trend is to be reversed. The Commission's rural development programme will address a number of these issues, in particular the sustainable development of natural resources.

It will also address the country's vulnerability to natural disasters. Timor Leste, like most of the Pacific Island countries, is exposed to natural disasters, which together with heavy reliance on a limited range of economic sectors, worsen the country's vulnerability to external circumstances.

Timor-Leste is prone to the vagaries of weather (extensive periods of drought and short and intensive rainy seasons), floods, land-slides, etc. These are exacerbated by climate change.

An upturn in economic activity and increase in private investment has the potential to lead further to environmental degradation which will weaken the very foundation of Timor-Leste's sustainable development, impacting negatively on agriculture, tourism, and food security, thereby increasing poverty.

At present, Timor-Leste is almost totally dependent on imported petroleum products and domestically produced firewood to meet its energy requirements and there is no National Energy Policy. It is essential for the country to have an energy policy that provides the basic Road Map for movement towards the objective of stable, secure and sustainable sources of energy.

It is essential that GoTL and donors take into consideration measures to mitigate and adapt to climate change effects. To date, the main focus of the Ministry of Natural and Mineral Resources and the Secretary of State for Environment has been on establishing the framework for effective environmental governance, on developing capacity at the national level, and on pollution. For the next four years, the Government is proposing a significant increase in spending on natural resources and the environment. The Sector Investment Program for the Natural Resources and Environment will facilitate and promote private sector and community development, whilst at the same time assuring the long-term protection of Timor-Leste's land, forests, waters, air, urban areas and biodiversity.

3.5 Regional approach

The present '*Pacific ACP*' under the 9th *EDF Regional Indicative Programme (RIP)* are the 14 archipelago states (only Nauru and Niue are single islands) scattered across the southern and central Pacific with their millions of km² of Exclusive Economic Zones. All are small island developing states (*SIDS*) which gained independence between 1962 and 1994 and which gather once a year with Australia and New Zealand as the *PACIFIC ISLANDS FORUM (PIF)*. The Forum is also the occasion for a formal *Dialogue* with external political



players, including the EU. The Forum's permanent secretariat (*PIFS*) is entrusted with policy advice, coordination of regional cooperation and executive tasks in the areas of security, governance and trade and economic integration. It has observer status at the UN. The *PIFS* is RAO for the European Commission's RIP on behalf of the Pacific ACP and provides technical support to the Pacific ACP's participation in EPA negotiations.

These countries face the increasingly urgent problem of how to cater for the needs of a rapidly growing population in the face of sluggish economic growth/stagnation due in part to the inherent problems of smallness, distance, isolation, ecological fragility, vulnerability to catastrophes, pollution, climate change, lack of natural/human resources, *AIDS*/malaria and in part to the exogenous problems of policy and governance.

Confronted with these challenges, the EU's current overall strategy for the Pacific is above all *regional* i) € 12 million to support islands' efforts to create scale economies between them and thereafter to open-up to the outside world; ii) € 27 million for sustainable development of shared natural resources such as fish and tourism and iii) € 20 million to support the development of the necessary human capital through education. The strategy for Timor-Leste for the next two years is fully compatible with this approach: it will also be addressing trade capacitation, institutional and human capacity building and the sustainable use of natural resources.

3.6 Cross-cutting issues

Gender: Socio-cultural factors contribute to high female adult illiteracy, with low enrolment and high dropout rates of female secondary education. There is gender segregation in the paid labour force, an emerging gender gap in wages, one of the highest maternal mortality rates in the world and domestic violence against women is common. Around one third of females are malnourished. Nevertheless, the GoTL's affirmative action strategy has contributed to the empowerment of women: women constitute 25% of parliamentarians and civil servants, and for the first time women were elected during the local elections, the latter's participation supported by the European Commission. The proposed rural development programme should contribute to raising rural income and health indicators, with particular attention to mother and child welfare. There are still many barriers to local rural women participating in secondary and informal education, and in benefiting from rural development programme activities. These barriers include social taboos, the low status of rural women and their domestic and reproductive work loads. Agricultural extension workers must include women who speak the local dialects.

Involvement of Non-State Actors (NSAs) and civil society: Involvement of NSAs is important to reinforce democracy and establish local ownership, to ensure that service delivery meets the expectations of the final beneficiaries and to build a good basis for sustainability. Preparation of voters through NGOs and the media could therefore be considered. Given the weakness of NSAs in Timor-Leste at the present time, and scarcity of information on those operating at district, sub-district and community level, it is suggested that part of the NIP be allocated to carrying out a mapping study of NSAs at those levels in Timor-Leste. This study could then form the basis for assessing future more concrete interventions involving NSAs under future NIPs.

Environment: The proposed sustainable rural development programme will address a number of critical issues for the environment, in particular the sustainable development of natural resources. The environmental dimension should also be mainstreamed in the capacity-building programme.

hpl

Education/culture: Timor-Leste is a newly formed and fragile state, and issues such as education and dominant culture of the population will be crucial to its sustainability. Issues such as training in the local language and protection of the Timor-Leste culture and mores should be mainstreamed in the EC's programme.



CHAPTER 4. AN OVERVIEW OF PAST AND ONGOING EC CO-OPERATION, COORDINATION AND COHERENCE

4.1 Overview and lessons learned

Overview

After the emergency phase between 1999 and 2002, EC support has focussed on health and rural development, with capacity building, democracy and good governance as the main cross-cutting issues.

The EC approved contributions to Timor-Leste, since September 1999, amount to **€203.50 million** which can be summarised as follows:

- **Humanitarian assistance, emergency, relief and rehabilitation, food security (including contributions to multi-donor Trust Funds and UN agencies)**
(€142 million)
- **Rural development including** support for rural infrastructure, private sector employment generation (€34.5 million)
- **Support for the health sector** (€24.5 million)
- **Capacity building** to the line Ministries as well as for education, the judiciary and tourism sectors, and women's leadership, support to elections (€2.5 million)

This has been provided through the ALA Budget line, ECHO, food security and health budget lines.

(Cfr Annex 11 for a more detailed breakdown of the above).

The Commission's approach to now has been a good example of linking relief, rehabilitation and development. After the initial emergency phase (1999-2002) and with the definition of the CSP in 2002, food security, rural development and health have been the backbone of the EC support while capacity building, gender and good governance have been the main crosscutting issues. Currently ECHO is addressing malnutrition and its underlying causes. The ongoing short-term impact projects include therapeutic feeding, supplementary feeding, nutrition and hygiene education, small-scale food security projects, as well as water and sanitation infrastructure. In terms of linking relief, rehabilitation and development, ECHO is closely coordinating its interventions with other financing instruments of the Commission and will re-assess the need for short-term humanitarian projects when longer-term development projects are launched.

(Cfr Annex 10 for more detailed information on ECHO's current programme).

Lessons learned

These have been sourced mainly from implementation reports and EAMR and JARs. As yet there has been no evaluation of EC co-operation, and it is recommended that this be addressed by a future evaluation to prepare the 10th EDF. After the establishment of emergency services in the initial relief phase, the main areas of cooperation of the

Commission in the 2002-2005 Country Strategy Paper have been threefold: rural development, health and capacity building.

The Commission has followed a clear-cut strategy of financing the Trust Funds established to assist the UN missions and the multi-donor Trust Fund managed by the World Bank (TFET). This has facilitated implementation and coordination, and avoided fragmentation of aid whilst providing support for a new and weak administration. Programming jointly with other donors also ensures complementarity of aid (a total of 5 Member States and 5 international donors co-financed the TFET). The main reasons for the EC's participation in TFET were (i) better donor coordination; (ii) higher efficiency resulting from the use of uniform procedures (particularly in financial matters such as procurement and disbursement) and the elimination of the administrative burden to have a large ground capacity in Timor-Leste; and (iii) to have a voice in the mechanism in which most donors participate. The Commission continues to believe that our assistance is best provided in coordination with other donors and if possible through pooling mechanisms such as the TFET.

In the future, direct budget support might be envisaged, if conditions are fulfilled. It will be particularly important to monitor sound Public Finance Management (PFM), given the future rise in oil/gas resources. Budget Support is an excellent method of evaluating PFM and getting the GoTL to commit to conditionalities. At present however, the country's low administrative and management capacity excludes this option. The CSP under the 10th EDF should address the ever more important issue of sound PFM, transparency and good governance.

The following are common lessons learned from previous EC supported programmes in the rural development and other sectors in Timor-Leste:

1) **The continuing necessity to support rural development.** Agriculture and livestock production accounts for one quarter of non-oil GDP. Farming is the sole source of income for about 80% of rural households, and will remain the main source of employment and income for the majority of the population for the foreseeable future. Any significant improvements in food security will only come from increased efforts in upland and dryland areas, which produce the bulk of food supplies, but remain the poorest in the country. Past programmes demonstrate that these areas have responded well to investments aimed at improving food security and increasing productivity in the Eastern rural part of the country, provided that the necessary plans and resources are deployed. The previously-supported pilot project could now be extended to the Western part of Timor-Leste and other poor upland and dryland areas. It is also noted that coordination between the two main ministries (MAFF and MFPW) is excellent, and assists in sustainability of operations.

2) **The need for continued institutional capacity building** to the Ministry of Agriculture, Forestry and Fisheries (MAFF) and other key line ministries. Despite the economic importance of agriculture in the overall economy, MAFF currently only receives 2.1% of total government appropriations. Moreover, its weak institutional capacity would render it difficult for it to absorb more funds. To combat this weakness, MAFF requires assistance in budget programming, planning and execution, and coordination with other ministries, including technical assistance until appropriately trained local staff is in place. One of the main challenges remaining lies in the decentralization of responsibility to the regions, in particular service provision.



Most ministries in the GoTL are weak in all aspects of budget management and delivery, and that includes the Ministry of Planning and Finance (MPF) and the Ministry of Development, which is responsible for trade (the latter being exceptionally weak, due to a lack of specifically qualified personnel).

Since institutional capacity building requires a good deal of coordination and long-term planning, it is best provided in close coordination with other donors. This programme may therefore consider contributing to a Trust Fund for a multi-donor capacity building programme.

3) **Governance, Democracy/conflict prevention.** Civic education and voter information remain the most neglected areas of electoral support, whilst being the most visible. Equal opportunities to voting access and the general concepts of the importance of participation and representation are key areas to achieve empowerment of minority groups, women and the disadvantaged. Support to electoral complaint institutions is another key area for the establishment of accountable elected institutions, and very much linked to the promotion of the rule of law, and long term stability. The country's ability to manage public finance efficiently, transparently and to deliver basic services to the poorer areas will be crucial to long term stability.

4) **Gender.** There are still many barriers to local rural women participating in secondary and informal education, and in benefiting from rural development programme activities. These barriers include social taboos, the low status of rural women and their domestic and reproductive work loads. Agricultural extension workers must include women who speak the local dialects.

5) **Education and Culture.** Timor-Leste is a newly formed and fragile state, and issues such as education and dominant culture of the population will be crucial to its sustainability. Issues such as training in the local language and protection of the Timor-Leste culture and mores should be mainstreamed in the EC's programme.

Given the present efforts of the government and the various donors, the **Commission's added value** for the purposes of this programme is:

- its strong coordination with the World Bank and other donors, good dialogue with the government and with NSAs;
- its wide experience in rural development and trade assistance.

4.2 Programmes of other donors (coordination and complementarity)

(cfr Annex 3, Donor Matrix).

In addition to the multilateral agencies, there are 19 main bilateral donors to Timor-Leste, though not all are physically present. The EC is the fourth largest donor after Portugal, Australia and Japan, while the EC and the Member States combined represent about half of the overall contributions made so far to Timor-Leste. Since December 1999, there have been six-monthly and, since 2004, yearly donor coordination meetings, during which bi- and multilateral donors and NGO's meet and discuss in order to enhance coordination according to GoTL priorities and avoid overlapping or conflicting activities in the sectors or regions.

In order to ensure the effectiveness and the impact of EC development assistance, it will be necessary to continue the already close co-ordination with other donors, in particular with EU Member States, with other major donors such as Australia, USA, Japan, UN agencies, WB and IMF. Coordination has been increased among the EU Member States present in Timor-Leste (Portugal, UK, Ireland, France) through the sharing and discussion of cooperation priorities, the sharing of cooperation data, the presentation of identified priorities during EC financed missions and workshops, the joint preparation of the common statement during the annual Development partners meeting and a series of other consultations jointly with other donors and agencies (Consolidated Support Programme; TFET; Sector meetings and working groups etc). This close coordination among donors has greatly assisted the GoTL in preparing its Sector Investment Programs. As already noted, coordination between the main ministries working in rural development has been good so far.

Complementarity among Member States and the EC has been achieved mainly in the common participation and financing of TFET, managed overall by the World Bank. Coordination has been particularly active in the preparation of the Stability Programme and the Sector Investment Programs and Sector Working Groups including donors, which were recently established by GoTL.

4.3 The policy mix analysis (coherence)

This CSP is fully compatible with other EC policies. As far as trade policies are concerned this relates to the effective participation of Timor-Leste in international trade fora and agreements, in particular WTO, the promotion of the trade dimension in the national development plan and capacity-building for the line ministry responsible for trade. As far as agricultural and fisheries is concerned, the rural development programme should ensure that activities are fully compatible with EC policy, and attention will also be paid to current guidelines on transport and energy, which will also be addressed in the context of rural development.

Wherever relevant EC policies/guidelines concerning cross-cutting issues such as human rights and democratisation, gender, conflict prevention/security and the environment have been taken into consideration, and efforts have been made to create synergies between the national development plan, the proposed strategy, and the programmes of other donors.

CHAPTER 5. THE EC RESPONSE STRATEGY (INTERVENTION SECTORS)

5.1 Justification of the choice of focal sectors

The EC response strategy is derived from the economic and social analysis of the local context, the government strategy and activities of other development co-operation partners, taking into account the views expressed by civil society groups. In November 2005, a meeting was held with a wide range of NSAs active in Timor-Leste in order to explain to them the role of NSAs under the Cotonou Agreement and to share with them the results of the discussions with the GoTL.

The response strategy supports the GoTL's National Development Plan and Sector Investment Program in agriculture. The strategy has also been designed to improve the GoTL's own capacity to manage its country in the future, and particularly its capacity to manage its growing oil and gas resources, which has been identified by the major donors as one of the biggest challenges. A total of €18 million are available for the strategy, over 2006 and 2007.

The components of the strategy are therefore strongly interlinked and mutually reinforcing, and are the following:

5.1.1. Sustainable Rural Development

The National Development Plan (2003-2007) of GoTL has two overall goals:

- To reduce poverty in all sectors and regions of the nation; and
- To promote economic growth that is equitable and sustainable, improving the health, education and well being of everyone in Timor-Leste

Within these overall goals, improving the productivity of the Agriculture, Fisheries and Forestry sectors is given high priority, as well as improving capacity to deliver of the Ministry of Transport, Telecommunications and Public Works (MTCPW).

Agriculture is the primary economic activity in Timor-Leste, accounting for around 26% of Gross Domestic Product, and employing about 80% of the population. Notwithstanding this high priority, the Ministry of Agriculture, Forestry and Fisheries currently receives only a small percentage of total government appropriations. Much of the future growth in the agriculture sector is likely to come from small and medium enterprises focusing on niche markets, processing and value added. Moreover, poverty alleviation will require a diversification of household income outside primary agriculture. The achievement of increased economic growth and a significant reduction in rural poverty will depend fundamentally on improvements in the agricultural sectors, including infrastructure. The proposed sustainable rural development programme to provide support to agricultural communities will concentrate on increasing food security through improved agriculture quality, quantity and diversification, improving rural infrastructure, increasing farmer's income and improving access to markets and credit, as well as improving delivery of local services. The programme will build on the experience of previously financed programmes, and will complement the Commission's ongoing Rural Development Programmes (2003 and 2005) under the Asia-Latin America budget line as well as the nutrition and food security programmes. Its sustainability should be assisted by the second component of the CSP, capacity building to GoTL.



Risks (political, economic, social, external)

Ownership of the programme by the GoTL and the farmers, sufficient budgetary resources to ensure maintenance of infrastructure, Public Finance Management remains corruption free, stable political situation and favourable climatic conditions.

5.1.2 Institutional capacity-building

This choice of sector is in line with the Government of Timor-Leste's expressed goals i) in the National Development Plan, to achieve sustainable national capacity for effective planning and financial management and improved service delivery and ii) the needs acknowledged in the analysis of the Transparency and Accountability Initiative launched by the Prime Minister. This could also include creation of and/or support to independent electoral management bodies, in order to foster stability. The Programme could also consider technical assistance to assist domestic observers' organisations to improve their ability to monitor the entire range of election-related activities support to local media and electoral dispute mechanisms.

Risks (political, economic, social, external)

The most important risk factors are maintaining political stability in country, continuing non-confrontational relations with Indonesia, and the possibility of growing corruption at all levels due to the oil factor, lack of qualified staff and absorption difficulties.

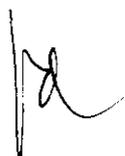
Comparative advantage

The EC's comparative advantage in these sectors is its previous experience in the rural development field, its coordination with other donors, and excellent dialogue with both GoTL and NSAs.

Cross-cutting issues for these sectors:

Ensure that

- i) agricultural extension and service delivery is gender sensitive, eg regarding land tenure and providing gender-disaggregated data, and addressing the needs of the most vulnerable sections of the population. Government should also be facilitated in providing more stringent legal framework to protect the most vulnerable, such as women, children and the disabled;
- ii) Sustainable rural development programme promotes environmentally sound techniques (and through environmental impact assessments if necessary), and that GoTL 's capacity to protect and monitor the environment is promoted;
- iii) Democracy and stability are fostered by providing support for the electoral process. Specific attention should be given to ensure the involvement of those traditionally excluded, for eg people who for reasons of mono-lingualism lack the literacy to fully participate in national elections, and to remove obstacles to the inclusion of people who are handicapped or geographically isolated and might become further marginalised in the development process.
- iv) Involvement of NSAs, to ensure local ownership, and build in sustainability (including, if appropriate, strengthening their capacity to carry out civic/voter information and education. The Programme could also consider Technical Assistance to assist domestic observers' organisations to improve their ability to monitor the entire range of election-related activities, support to the local media, and support to NGOs involved in civic/voter information and education.



v) Timor-Leste is a newly formed and fragile state, and issues such as education and dominant culture of the population will be crucial to its sustainability. Issues such as training in the local language and protection of the Timor-Leste culture and mores should be mainstreamed in the EC's programme.

A total of €18 million has been earmarked for the programme, indicatively allocated as follows:

- €12 million for rural development
- €6 million for capacity building (including a Technical Co-operation Facility).

5.2 Focal sectors

The components of the strategy are the following:

5.2.1: Sustainable Rural Development

Objective

To expand and consolidate the current Rural Development Programmes financed by the Commission to other priority geographic and/or thematic areas emphasizing food security, agriculture extension and diversification (agri-business) and rehabilitation and improvement of rural infrastructure to improve access to market and health indicators, and strengthening local service delivery.

Expected results

- Improved agricultural techniques and diversification;
- Increased agricultural output and consumption in rural areas, in particular for women farmers and those with special needs, to improve their living conditions and status;
- Increased earnings in rural areas (improved access to markets and credit, especially for those traditionally excluded from credit);
- Improved access to clean water and sanitation;
- Strengthen ability of Ministry of Agriculture, Forestry and Fisheries to deliver services to the remoter areas.

Assumptions

The GoTL remains committed to rural development as a priority, and allocates sufficient resources, in particular for maintenance of infrastructure. Farmers take ownership of the programme.

Activities

- Agricultural production and extension activities , including training and sensitization in sustainable techniques for conserving natural resources, diversification, and possibly deforestation and integrated water resources management
- Development of agri-business via links between producers and traders and appropriate financial institutions



- Development of village-based infrastructure and/or improved rural infrastructure
- Strengthening the extension and support services of MAFF to improve service delivery

5.2.2. Institutional capacity-building

Objective

The specific objective is to contribute to i)improving the quality and efficiency of GoTL in managing its budget and delivering services in a pro-poor fashion, and building its ability to manage EDF funds; ii) developing a trade policy to take advantage of regional trade options and iii) improved management of the electoral process.

Expected results:

- The GoTL's ability to manage Public Finance (both preparation and execution) is enhanced so as to improve delivery of pro-poor and engendered basic services (MPF, line ministries, agencies and district level)
- T-L budget reflects the National Development Plan and MDGs
- GoTL's ability to access and manage EDF resources is maximised, notably at NAO level
- GoTL is assisted in designing and implementing a trade policy; and is supported during EPA negotiations, if required
- Electoral management improves.

Assumptions

Macro-economic and political stability continues. The GoTL remains committed to reform, and continues best practice in investing oil revenues for future generations. Monitoring and evaluation strategies are based on sets of feasible and relevant indicators. Donors continue coordination on strategy, and are willing to co-operate/pool funds.

One of the main assumptions of the programme is the capacity of the Government to attract, recruit and retain people with higher categories in the above key services. It is also assumed that corruption due to increasing oil revenues does not grow significantly.

Activities

The programme's core activities will be to:

- Contribution to training to improve budget planning and execution and service delivery by Ministry of Planning and Finance (MPF), Ministry of Development (Trade) and other key line ministries, agencies and local government
- Assisting in the establishment of monitoring and evaluation systems of Public Finance Management, *inter alia*
- Assist in the implementation of a transparent electoral process through, for example, voters' registration, education and sensitization
- Training on EDF systems and procedures, in particular support to the NAO office..




Conclusions

It is concluded therefore that rural development should continue to be a focal sector, particularly since so few donors are working in this area (cfr Donor Matrix, Annex 6). Institutional capacity-building should be increased, given the weak administrative capacity of the government, and the urgency of decentralizing responsibility to the regions. Included in this should be support for the development of a sound trade policy, to ensure Timor-Leste is able to take advantage of different trade options (eg EPA), and support for the electoral process. The latter will be particularly important in the run-up to the presidential and parliamentary elections in 2007. This will be the first time the GoTL will organise such elections without outside assistance.

For the purposes of this CSP/NIP it is proposed to exit from the health sector, as the Ministry of Health already has absorption problems with the funds available. Other donors active in this sector are Germany, Ireland, Portugal and the UK, as well as Australia, Japan, the US and Norway (cfr Donor Matrix, Annex 3). It is therefore suggested that no money is allocated to this sector under the present NIP.



PART B

NATIONAL INDICATIVE PROGRAMME



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6.1 Introduction

Based on the Cooperation Strategy presented in Part A and in accordance with the provisions of Article 4 of Annex IV to the Cotonou Agreement, the Indicative Programme has been drawn up in a series of tables presenting the intervention frameworks for each sector, the indicative timetable for commitments and disbursements and a chronogramme of activities for all programmes envisaged.

Amounts mentioned in this chapter indicate the global breakdown of funds between the focal sectors, macroeconomic support and other programmes. The breakdown can be modified in the context of operational, performance or *ad hoc* reviews.

6.2 Financing instruments

The implementation of the EC's cooperation strategy with Timor-Leste will be financed from the 9th EDF, and possibly other financial instruments. The following indicative amounts are presently envisaged:

6.2.1 9th EDF allocation (€18 million).

This indicative allocation is destined to cover the long term development activities identified in the context of the response strategy. The following programmes have been identified on an indicative basis:

- Focal sector 1: Sustainable Rural Development (indicative allocation €12 million, or 66%)
- Focal sector 2: Institutional Capacity building (indicative allocation €6 million (33%) (This will include a Technical Co-operation Facility which will address different issues on the basis of government needs and priorities – cfr point 6.5 below)).

6.2.2. Investment facility

Apart from the above-mentioned financial instruments, the 9th EDF includes also the "Investment Facility" as a financing instrument managed by the European Investment Bank. The Investment Facility does not form part of the Indicative Programme.

6.2.3. Other financing instruments

Specific complementary activities may be supported through the various Community budget lines, including, inter alia, NGO co-financing, decentralised cooperation, European Initiative for Democracy and Human Rights, food security and disaster prevention, and humanitarian and emergency assistance. Financing under these lines will be decided in accordance with the procedures in place for each financing instrument and will be subject to the availability of funds.

6.3 Focal Sectors

6.3.1 Focal sector 1 – Sustainable Rural Development

Strategy context/justification

To expand and consolidate the Rural Development Programme initiative financed under the Asia-Latin America Budget Line (B-7 19 10 01) to other priority areas emphasizing

sustainable agriculture production, diversification and rural infrastructures rehabilitation. As an indicative amount, approximately €12 million will be set aside for this sector.

Objectives

The **specific objectives** are to achieve sustained poverty reduction and food security as a result of a positive contribution to rural livelihoods and rural socio-economic development and improved services. This will also contribute to the government's strategy (as outlined in National Development Plan and the Sector Investment Program (SIP) for the Agriculture, Forestry and Fisheries sectors) which emphasises improving the livelihood of rural communities, the integration of land and forest management in a watershed management approach, and improved service delivery (for more details cfr the Sector Investment Program enclosed at Annex 11).

The main actions proposed are development of rural food security, household income and employment, improved access to market, improvement in health indicators due to better infrastructure, and improved local capacity to deliver services to the rural areas.

Lessons learned (there are no previous evaluations or impact assessments – these lessons are learned from annual reports and other ad hoc reports)

1) **The continuing necessity to support rural development.** Agriculture and livestock production accounts for one quarter of non-oil GDP. Farming is the sole source of income for about 80% of rural households, and will remain the main source of employment and income for the majority of the population for the foreseeable future. Any significant improvements in food security will only come from increased efforts in upland and dryland areas, which produce the bulk of food supplies, but remain the poorest in the country. Past programmes demonstrate that these areas have responded well to investments aimed at improving food security and increasing productivity in the Eastern rural part of the country, provided that the necessary plans and resources are deployed. These lessons could now be extrapolated to the Western part and other poor upland and dryland areas.

2) **The need for continued institutional capacity building** to the Ministry of Agriculture, Forestry and Fisheries (MAFF) and other key line ministries. Despite the economic importance of agriculture in the overall economy, MAFF currently only receives 2.1% of total government appropriations. Moreover, its weak institutional capacity would render it difficult for it to absorb more funds. To combat this weakness, MAFF requires assistance in budget programming, planning and execution, and coordination with other ministries, including technical assistance until appropriately trained local staff is in place. One of the main challenges remaining lies in the decentralization of responsibility to the regions, in particular service provision.

3) **Gender.** There are still many barriers to local rural women participating in secondary and informal education, and in benefiting from rural development programme activities. These barriers include social taboos, the low status of rural women and their domestic and reproductive work loads. Agricultural extension workers must include women who speak the local dialects.

Expected Effects

Result

- Improved agricultural techniques and diversification
- Rural communications improved



- Improved access to clean water and sanitation
- Strengthening the Ministry of Agriculture, Forest and Fisheries (MAFF) ability to deliver services to remoter areas (eg reduction in delay of transferring budget to local instances, internal coherence between NDP and national budget improved)

Impact

- Increased agricultural output and consumption for rural communities in the target areas, with improved food security
- Increased earnings for rural communities in the target areas due to improved access to markets and credit
- Improved quality of life through better access to clean water and sanitation
- Improved service delivery.

Possible activities (specific components will be defined after an identification/appraisal mission, including measurable indicators):

- Agricultural production and extension activities , including training and sensitization in sustainable techniques for conserving natural resources, and possibly deforestation and integrated water resources management
- Development of links between producers and traders and appropriate financial institutions
- Development of village-based infrastructure and improved rural infrastructure
- Strengthening the extension and support services of MAFF to improve service delivery.

The implementation of the Programme will be defined during the formulation stage.

Integration of cross-cutting issues

Gender: Maternal mortality is one of the highest in the world in Timor Leste, and is particularly concentrated in the rural areas. The programme will contribute to an improvement of the status of women living in rural areas and those with special needs through income-generation, improved access to clean water and sanitation, and access to health infrastructure. The programme should also include strategies to remove barriers to participation in programme activities, and to improve the status of women, via income-generation, for example.

Environment: Within the rural development programme, due attention will be paid to environmental education as a mean to support sustainable development. It is strongly recommended that environmental impact assessments are carried out on all major components of the rural development programme.

Good governance: The programme will be part of a wider government strategy to deliver services equitably and efficiently.

Conflict prevention/ human rights: War veterans are a constant source of instability, and many are living in rural areas with no income. This project will concentrate on raising the standard of living in rural areas, combating exclusion and providing income and employment, and thereby contributing to political stability.

Culture and Education: Due attention should be paid to issues such as re-integration of war veterans into mainstream activities, and providing extension activities in local language.



Involvement of civil society: involvement of Non-State Actors is important to reinforce democracy and establish local ownership, to ensure service delivery meets the expectations of the final beneficiaries and to build a good basis for sustainability. Given the weaknesses of NSAs in Timor-Leste at the present time, and scarcity of information on them, it is suggested that part of the NIP be allocated to carrying out a mapping study of NSAs in Timor-Leste. This study could then form the basis for assessing future interventions under the 10th EDF involving NSAs.

Risks & assumptions

Risks:

- Corruption
- Instability (e.g. war veterans)
- Climatic conditions
- Lack of maintenance of infrastructure due to lack of Government ownership.

Assumptions:

- Macro-economic and political stability.
- The GoTL pursues a clear rural development strategy, including expenditure framework
- Monitoring and evaluation strategies are based on sets of feasible and relevant indicators
- Donors working along the same strategy – willing to co-operate/pool funds/provide support

Main Indicators (cfr logical framework)

During the identification/appraisal mission, improved indicators that can be monitored will be developed, including explicit reference to the MDGs in terms of improved access to water and sanitation, improvement of maternal and child mortality, increased GDP/capita in rural areas, reduced ratio of malnutrition. The refined indicators should cover the three main areas of the sector: government financial commitments (input), system delivery (output) and outcomes. The identification/appraisal mission will also assess outputs in terms of percentage increases.

6.3.2 Focal sector 2 - Institutional Capacity Building

Strategy context/justification

There is a need to strengthen significantly and at a rapid pace the institutional and human resources capacity in Timor-Leste, to improve its management systems (including Public Finance Management) notably to support growth in the productive sector, and to take advantage of improved terms of trade. Capacity building is also required to ensure the country derives maximum benefit from the allocated EDF resources through a sound knowledge of EDF procedures and systems, and early involvement in programming for the 10th EDF. The country could also benefit from some assistance in management of the forthcoming parliamentary and presidential elections in 2007 (eg voter registration and sensitization). These elections will be crucial to the stability of this new state, and they will be the first to be organised without outside support.

As an indicative amount, approximately €6 million will be set aside for this sector.

Objectives

The **specific objective** is assist the Government of Timor-Leste's goal in building sustainable national capacity to manage and execute the budget and EDF resources, develop a sound trade policy and organise elections.

This will be done by contributing to i) improving the quality and efficiency of GoTL in managing its budget and delivering services in a pro-poor fashion, and building its ability to manage EDF funds and to deliver basic services; ii) developing a trade policy to take advantage of regional trade options and iii) improved management of the electoral process. To that end, the main actions proposed are the following:

- Strengthen the capacity of government departments to effectively manage Timor-Leste's growing resources in a sustainable, self-sufficient and transparent fashion, and according to their own pro-poor agenda (NDP), with particular attention to Public Finance Management and Trade capacitation.
- Strengthen the capacity of government departments to effectively access and manage EDF resources both in the context of the current NIP and in view of the 10th EDF programming
- Improve the GoTL's ability to organise general elections with as full participation as possible.

Lessons learned (there are no previous evaluations or impact assessments – these lessons are learned from annual reports and other ad hoc reports)

Institutional capacity of present administration in Timor-Leste:

As already mentioned, key ministries are still weak in all aspects of budget management and delivery, and that includes the Ministry of Planning and Finance (MPF) and the Ministry of Development, which is responsible for trade (the latter Ministry is exceptionally weak, due to a lack of specifically qualified personnel). The country's ability to manage public finance efficiently, transparently and to deliver basic services to the poorer areas will be crucial to long term stability. Civic education and voter information remain the most neglected areas of electoral support, whilst being the most visible.

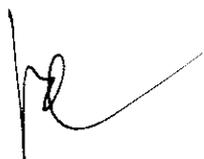
Expected effects

Result

- GoTL budget reflects the National Development Plan and MDGs
- GoTL's ability to access and manage EDF resources is maximised, notably at NAO level
- GoTL is assisted in designing and implementing a trade policy; and is supported during EPA negotiations, if required
- Improvements to civic education, voter information etc

Impact

- The GoTL's ability to manage Public Finance (both preparation and execution) is enhanced so as to improve delivery of pro-poor and engendered basic services (MPF, line ministries, agencies and district level)
- EDF resources utilised efficiently



- GoTL able to elaborate proposals in the context of the 10th EDF programming exercise.
- Terms of trade improve
- Electoral management improves

Possible activities (Specific components will be defined after an identification/ appraisal mission):

- Contribution to training to improve budget planning and execution and service delivery by Ministry of Public Finance, Ministry of Development (Trade) and other key line ministries, agencies and local government
- Assisting in the establishment of monitoring and evaluation systems of Public Finance Management, *inter alia*
- Assist in the implementation of a transparent electoral process through, for example, voters' registration, education and sensitization
- Training on EDF systems and procedures and support to NAO office.

The implementation of the Programme will be further defined during the identification and formulation stage, but the Commission's lack of implementation capacity in the field should be borne in mind, and appropriate implementation mechanisms are crucial (eg contributing to a multi-donor framework, and a flexible Technical Cooperation Facility allowing ad hoc short/medium term expertise and training services to be called on.).

Cross-cutting issues

Gender – GoTL will be encouraged to develop management systems that can collect and handle gender disaggregated data.

Conflict prevention/good governance –Timor-Leste's population has growing expectations of the GoTL's ability to distribute the equitably the increasing oil revenue. It will be crucial for the stability of the government and the country as a whole to ensure transparent and sound management of these funds, particularly with a view to the number of unemployed war veterans (some of whom still carry arms).

Democracy– During the forthcoming elections, specific attention should be given to ensure the inclusion of people who for reasons of mono-lingualism lack the literacy to fully participate in national elections, and to remove obstacles to the inclusion of people who are geographically isolated and might become further marginalised in the development process.

Integration of non-state actors - Given the weakness of NSAs in Timor-Leste at the present time, and scarcity of information on them, it is suggested that part of the NIP be allocated to carrying out a mapping study of NSAs in Timor-Leste. This study could then form the basis for assessing future interventions under the 10th EDF involving NSAs.

Culture and Education: Institutional capacity building is a form of education, and the programme should be sensitive to cultural issues such as the use of the local language, and re-integration of war veterans.

Risks & assumptions

Risks:

- Corruption
- Instability (eg war veterans)
- Absorption difficulties
- Lack of enough qualified staff in government

Assumptions:

- Macro-economic and political stability
- The GoTL remains committed to reform
- Continuing best practice in investing oil revenues for future generations
- Monitoring and evaluation strategies –based on sets of feasible and relevant indicators
- Donors working along the same strategy – willing to co-operate/pool funds

Main Indicators (cfr logical framework)

Improved indicators that allow monitoring will be developed during the identification/appraisal mission

6.4 Macroeconomic support

The Indicative Programme does not foresee macroeconomic support. However, in the light of current needs, it may be decided to reallocate funds from other headings in the Indicative Programme to this type of support. Such a decision can be taken through a specific agreement between the Chief Authorising Officer and the National Authorising Officer or in the context of an operational, performance or *ad hoc* review.

6.5 Other Programmes

Within the above mentioned allocations, the following actions may be included:

- Institutional support for non-state actors, including identification of the types of non-state actors eligible for financing and types of activities (see Article 6 of the Cotonou Agreement)
- ²The Technical Co-operation facility, particularly support to the NAO office
- Reserve for insurance against possible claims and to cover cost increases and contingencies.
- When needed, the appropriate type of environmental assessment (SEA or EIA) will be carried out.

² The TCF could include for example :

- Support to NAO (Technical Assistance / Training)
- Support for elections / civic education (Technical Assistance / Training)
- Mapping of NSA (Technical Assistance / Conference)
- Support to trade policy and EPA negotiations (Technical Assistance)
- Etc.



6.6 Intervention framework of the 9th EDF Indicative Programme

Intervention logic	Government commitments in the Agriculture, forestry and fisheries sector (cfr Annex 11, Sector Investment Program (SIP))	Performance indicators	Sources of verification	Major assumptions
<p>Global Objective To contribute to poverty alleviation and socio-economic development in particular in the poorer rural areas in Timor-Leste via rural development and capacity building of GoTL</p>	<p>MAFF's Policy and Strategic Framework includes the following objectives:</p> <ul style="list-style-type: none"> ▪ Improve the level of food production ▪ Improve the quality of food supplies ▪ Promote increased income for rural communities ▪ Encourage the development of agriculture-based industries by the private sector ▪ Promote the development of off-farm employment ▪ Provide effective agricultural planning based on improved data ▪ Increase the amount and quality of information services to farmers <p>SIP also highlights the importance of:</p> <ul style="list-style-type: none"> ▪ Increased efforts in capacity building, programme management and institutional development ▪ Increased and appropriately trained staff at regional and district level ▪ Improved Coordination with NGOs and donors <p>In the medium-term, continuing technical assistance from the development partner community to assist in implementation of programmes</p>	<ol style="list-style-type: none"> 1. Percentage increase in household consumption and income. 2. Percentage improvement in MDG indicators, including less percentage of HIV/AIDS. 	<p>GoTL statistics Donors reports</p>	

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Intervention logic		Performance indicators	Sources of verification	Major assumptions
<p>Programme purpose</p> <p>To assist the GoTL in the following:</p> <ol style="list-style-type: none"> 1) improving the capacity to manage and execute the budget and enhance the efficient delivery of services in particular to the rural areas 2) socio-economic development of rural areas 3) developing a trade policy 4) managing elections 5) improve capacity to access and manage EDF resources 		<ol style="list-style-type: none"> 1. Observed increase in GoTL's institutional capacity, particularly in PFM and service delivery 2. Measured increase in standard of living in rural areas. 3. Improved trade statistics. 4. Elections held in 2007 5. 100% commitment of A envelope by December 2007 	<p>Donors reports</p> <p>EC programme monitoring</p> <p>UNDP and other donor election monitoring reports</p> <p>NGO's reporting (Transparency international, Human Rights Watch, etc)</p>	<p>Political and macro-economic stability</p> <p>No major environmental disasters</p> <p>Continued GoTL commitment to developing its potential</p> <p>Corruption does not spread</p>
<p>Specific objective n°1</p> <p>Sustainable Rural Development</p> <p>To expand and consolidate the progress of the current rural development</p>		<ol style="list-style-type: none"> 1. Percentage increase in household consumption, income and employment in the agriculture sector 2. Number of household with improved access to markets in rural areas 3. Percentage rise in MDGs indicators due to more and better infrastructure (e.g clean water and sanitation, possibly provision of energy) 	<p>Donor reports</p> <p>Project reports and <i>ad hoc</i> monitoring by EC Delegation</p>	<p>Continued GoTL commitment to developing its potential, in particular regarding rural development and appropriate budget allocations to the relevant ministries</p>
<p>Expected results:</p> <ul style="list-style-type: none"> • 1) Improved agriculture techniques, diversification and output for consumption 		<ol style="list-style-type: none"> 1. Percentage increase in agricultural productivity, including development of suitable cash crops. 	<p>MAFF statistics</p> <p>Donor reports</p>	<p>Farmers assume ownership of the programme, no major climatic disasters</p>

<p>and sale for rural communities in the target areas</p> <ul style="list-style-type: none"> • 2) Increased earnings for rural communities in the target areas due to improved access to markets (rural roads) and to private sector³ (eg micro-credit institutions) • 3) Extend and/or improve access to clean water, sanitation and energy sources in targeted rural areas 		<p>2. Number of rural roads improved or built.</p> <p>Number of links created between farmers and markets, and increased availability of micro-credit.</p> <p>Percentage increase in average rural household income and standard of living.</p> <p>3. Number of villages with improved infrastructure and services.</p> <p>4</p>	<p>EC reporting and <i>ad hoc</i> evaluations</p>	<p>Sufficient linkages of supply and demand side</p> <p>Adequate maintenance by GoTL of rural infrastructure</p> <p>Adequate maintenance and management of community facilities</p>
<p>Activities:</p> <ul style="list-style-type: none"> • Agricultural production and extension, including training of village populations • Development of village-based and rural infrastructure • Foster links between producers and traders, and with financial institutions • Strengthen the service delivery of the MAFF, and Min. of Public Works, 				

³ EC cannot directly subsidise micro-credit schemes.

<p>including at district level</p> <p>Specific objective n° 2: Capacity building To assist the state of Timor-Leste in building up its capacity to manage and execute the budget and EDF resources, develop a sound trade policy and organise elections</p>		<p>PFM indicators improves</p> <p>How quick and efficient budget preparation, planning and delivery are</p> <p>Measurable improvement in terms of trade</p> <p>Number of people voting</p> <p>Number of ruined vote papers</p> <p>Election management strengthened</p> <p>Human Rights established on paper</p> <p>EDF resources 100% utili. €d</p>	<p>Government Annual action plans and statistics from major ministries and donors (e.g. World Bank, IMF)</p> <p>EC-TL Joint Annual Reports</p>	<p>Internal stability is maintained, particularly vis-a-vis Indonesia</p> <p>International cooperation is not reduced in the short term</p> <p>No natural disasters occur</p> <p>The Government is able to recruit and maintain managerial staff for vacant posts</p>
<p>Expected results:</p> <p>1) The GoTL's ability to manage Public Finance and delivery of basic services is improved</p> <p>2) Budget is better linked to NDP and MDGs</p> <p>3) GoTL is assisted in developing and implementing a trade policy and in EPA negotiations if required</p> <p>4) GoTL ability to manage elections in 2007 is enhanced</p>		<p>1. WB reports on sound PFM; budget planning preparation, delivery and monitoring</p> <p>2. MDGs directly addressed by budget appropriations</p> <p>3. How sound the trade policy's development and implementation are and if T-L is assisted in EPA's negotiations (if required)</p> <p>4. Percentage reduction of administrative obstacles to participation in elections in 2007</p>	<p>Reports by IMF and World Bank</p> <p>Budget execution and MDG indicators</p> <p>Reports by Ministry of Development</p> <p>Monitoring and evaluation by Commission, Delegation reports</p>	

<p>5) Government is able to access and manage EDF resources</p> <p><u>Activities:</u></p> <ul style="list-style-type: none"> • Training to improve budget planning, execution, delivery and monitoring by MPF, line agencies and districts • Establishing systems linking the National Development Plan, planning and budget preparation • Targeted assistance to Ministry of Development to participate in EPA negotiations (if required) and to develop and implement a sound trade policy • Assist in the implementation of a transparent electoral process via voter education and sensitization, registration, publicity etc. • Training in EDF procedures • Availability, on request, of TA inputs for project formulation and preparation 		<p>5. Knowledge of EDF systems and procedures enhanced Preparation of 10th EDF can start promptly</p>	<p>IMF and World Bank reports</p> <p>Budget execution</p> <p>Reports on trade situation</p> <p>Reports by NGOs such as Transparency International UNDP report on elections And other election monitoring bodies</p> <p>Commission monitoring and evaluation reports, Delegation reports</p>	<p>Macro-economic and political stability</p> <p>GoTL remains committed to reform</p> <p>Monitoring and evaluation strategies based on feasible and relevant indicators</p> <p>Donors all work to same strategy – fund-pooling continues, in order to achieve synergy</p> <p>Corruption does not increase, war veterans remain peaceful</p>
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6.7 Indicative time for commitments and disbursements

Forecasts of commitments and disbursements

Indicative Commitments forecast (in € million)

Timor-Leste	Indicative total	
	2006	2007
Rural development		12
Capacity building		6
TOTAL (cumulated)		18

Indicative disbursements forecast (in € million)

Timor-Leste	Cumulative payments				
	2007	2008	2009	2010	2011
Rural development		2	3	3	4
Capacity building		1	1	2	2
TOTAL	18	3	4	5	6

6.8 Chronogramme of activities

Titles	Amount (in € million)	Identification	Appraisal	Financing decision
Rural development	12	September 2006	March 2007	October 2007
Capacity building	6	September 2006	March 2007	October 2007

This timetable depends heavily on the choice of aid delivery method (eg Trust Fund, TCF – other methods would inevitably take longer).

ANNEX 1

EC CO-OPERATION OBJECTIVES

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development cooperation shall foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy,
- the campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, and revised in Luxembourg on 25 June 2005. The overarching objective of the *Cotonou Agreement* is to promote the development of a common strategic approach to poverty reduction, consistent with the objectives of sustainable development and the gradual integration of ACP countries into the world economy. Cooperation between the Community and Timor Leste shall pursue these objectives, taking into account the fundamental principles set out in Article 2, in particular the encouragement of "ownership" of the strategy by the country and populations concerned, and the essential elements and fundamental element as defined in articles 9 and 11b of the Agreement.

In their statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

On 20 December 2005, the European Consensus on Development was adopted. This is a development policy statement adopted jointly by the Council and the representatives of the governments of the Member States meeting within the Council, the European Commission and the European Parliament. The Declaration is divided into two parts: the EU common vision on development and the policy guiding the implementation of the vision at the Community level. The first part of the statement, the 'European Union vision of development' sets out common objectives and principles for development cooperation. It reaffirms EU commitment to poverty eradication, ownership, partnership, delivering more and better aid and promoting policy coherence for development. The primary and overarching objective is the eradication of poverty in the context of sustainable development, in line with the international agenda, the Millennium development Goals (MDGs) in particular.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development

policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in Chapter 2 constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

ANNEX 2

ENVIRONMENT PROFILE

1. STATE OF THE ENVIRONMENT

The area of Timor-Leste is approx. 14,874 km² (half Belgium) with a total length of approx. 265 km, and a maximum width of 97 km. Timor-Leste includes the eastern end of the island of Timor, the enclave of Oecusse (2,500 km²), and the islands of Atauro (144 km²) and Jaco (8 km²).

The Timor island is the easternmost of the Lesser Sunda islands. To the north lies the Banda Sea, and to the south, the Timor Sea. The distance to Australia in the southeast is only approx. 500 km.

Geologically, Timor is part of the Australian continental plate, and the bedrock is mainly sedimentary calcareous rock. This differs from most of the other islands of Indonesia, which are volcanic in origin. This means the island has relatively unproductive, low fertility, fragile soils. In most areas, this low fertility is compounded by the rapid decomposition of organic matter due to the tropical climate. The soils tend to be relatively thin, and with low water holding capacity. The topography of the island has a profound effect on the vegetation and contributes to high levels of erosion. Almost half the land has a slope of 40 percent or more shallow soils and susceptible to erosion. Several mineral deposits have been recorded. The most important at present may be the mineral oil, which is found both on land and in the Timor Sea. The rainfall pattern – particularly in the north with long dry periods followed by intensive, short rainfalls – is also conducive to erosion. Deforestation and over-grazing is thought to have further increased the susceptibility to erosion in many areas.

Particular issues for Timor-Leste

Timor-Leste's economy is heavily dependent on its natural resources. Land, water, forests and coastal zones provide a livelihood, or are the major source of income, for at least three-quarters of the population. They are the basis for social and economic security and growth. Mineral and petroleum deposits are expected to provide a significant source of income and foreign revenue for many years to come. Finally, many of Timor-Leste's resources – for example, its pristine coastal ecosystems, its stands of sandalwood and its remaining primary forests – are a world heritage in need of protection.

These resources can certainly be exploited to a far greater extent – if well managed. However, as with other countries throughout the region, some of Timor-Leste's natural resources have been degraded through over-harvesting during the periods of colonisation and occupation. Forests have suffered in particular. These threats are currently on the increase. Natural resource degradation – for example, of water and of productive land – is already limiting economic opportunities in many areas. It is also leading to significant direct economic costs, for example, by damaging infrastructure, increasing floods and contributing to health problems. Finally, there are localized threats to Timor-Leste's air, coasts and remaining biodiversity.

Situation of Lands There is no comprehensive, up-to-date information available on land use and land cover in Timor-Leste.

Forests

Forests have always been important to the economy of Timor-Leste. Very valuable sandalwood has been harvested for centuries and, at other times, honey, beeswax and other timbers such as teak. There is no up-to-date and comprehensive information of the forests of the country. Maps for forest cover produced by the Australian Government funded ALGIS project continue to rely on information collected during the Indonesian period for the 1993 inventory. While accurate data are not available, it is generally believed that the forests have been severely over harvested and degraded in recent times. It is likely that not all the open and poor quality forests now to be seen have actually been badly degraded, especially in steep land. Skeletal soils and poor moisture relations have produced extensive areas of natural savannah formations.

Fuel wood collection, land-clearance, high levels of shifting cultivation and over-grazing are thought to be the source of the problem. Within Timor-Leste there is a strong demand for fuel wood for household. Anecdotal evidence suggests that small industries also use large amounts of fuel wood. Reliance on fuel wood, especially in urban areas, has increased substantially.

Water

Generally speaking, areas north of the central mountain range are in a rain shadow, with a short rainy season that begins around November and extends to March-April, usually accompanied by a westerly monsoon. Total annual rainfall ranges from under 1,000 mm to 1,500 mm in the drier coastal areas. The rainy season is short and intensive. Dili, for example, may receive up to 30 percent of its annual rainfall (900 mm) in one day. The steep slopes and geological conditions mean that many northern areas are unable to store water effectively. Given the long dry season, many northern areas, particularly in the uplands, traditionally experience seasonal water shortages. This is a limiting factor in agricultural production and a source of food insecurity and poverty.

As in many other countries water is used for many purposes often in conflict one with the other. Timor Leste is no exception and there is not yet an integrated management of the water resources.

Fisheries

Timor-Leste is surrounded by sea on three sides, has a coastline of about 700 km and a potential exclusive economic ocean zone of approximately 75,000 km², although the precise boundaries of this zone have not yet been determined. Fisheries resources may be considered in four zones or styles of fishing operation. These zones are not exclusive as there is some overlapping of resource use. The offshore zone supports a level of industrial fishing using large vessels (length 15 m or more) operating over an extended period of time. The near shore zone, 1-12 km from the coast, has been exploited by motorized (outboard motors) vessels with a capacity to hold catches suitable for local markets. The inshore zone is dominated by smaller boats operating close to shore with the catch either being sold or used for family consumption. Finally, subsistence fishery is focused on the utilization of the reef flats or beach areas, but sometimes from small vessels off the beach or reefs. The present state of the fisheries resources is unknown.

Biodiversity

Little is known of Timor Leste's genetic biodiversity, although the probability that Timor Island is the centre of origin of the sandalwood tree indicates that the island's sandalwood, at least, may contain valuable genetic characteristics. General observations indicate that the

status of much of Timor-Leste's biodiversity is better than many places in the region. The most likely exception is the forest biodiversity, which has suffered due to the high levels of primary forest loss. The biodiversity of Timor-Leste is poorly documented and poorly studied. The country is known to have good quality, rare and possibly unique terrestrial, lake and marine ecosystems which originates from the unique geological and meteorological conditions. Many important terrestrial animals are found, including deer, cuscus, wild pigs, monkeys, crocodiles, snakes and lizards. A recent survey tentatively identified eight ecosystem and species diversity.

Solid Waste and Sewerage

Solid waste, mostly associated with increased consumption, is a major concern in urban areas, particularly in Dili. The consumption patterns of the large international community based in Dili in recent time are believed to have influenced both the scale and nature of the solid waste. The size of this community has been steadily declining along with some reduction of solid waste disposal. Solid waste contains a mixture of organic, non degradable and hazardous waste, each posing specific threats, and each requiring specific management or treatment. In Dili, waste is collected by the formal system and taken to the Tibar landfill site.

Economic Impact of Resources degradation

Environmental degradation is a major concern because of its impacts on economic growth and poverty. There is not sufficient information available to determine the costs of these impacts in Timor-Leste and their ultimate impact on GDP. The following are believed to be among the more important costs:

- Land degradation leads to losses of agricultural production, to damaged waterways, and to increased costs of water treatment and water supply systems.
- Water pollution leads to health costs, and to reductions in productivity in the fishery, agriculture and tourism sectors.
- Air pollution leads to health costs and associated economic losses.
- Biodiversity loss leads to short-terms losses in the health and food sector, and possibly huge long-term losses covering many sectors.
- Floods, landslides and fires cause severe economic damage, and are in part a result of environmental degradation.
- Climate change may have significant implications on economic development in Timor-Leste.

The further development of the country's natural resources will depend primarily on private sector initiatives and investment. The opportunities can be available for diverse groups, including: local communities and farmers; small and medium-sized, locally owned businesses; and international investors, including large multinationals, especially in oil and gas. The key role for the Government is to create, as soon as possible, the enabling conditions for this investment and to manage and regulate the activities of the private sector in a way that protects the environment, the resource base and the heritage of the country.

The Government is well aware of the potential trade-offs in this sector. Short- and medium-term social and economic gains can be made at the expense of medium and long-term

environmental degradation, thereby limiting social and economic possibilities in future years. The Government further recognizes that in the past years of colonization and occupation, this trade-off was badly managed and, as a result, the natural resource base of the country has been depleted; the degradation is now imposing substantial additional costs on the country, contributing to widespread poverty and food insecurity. Finally, the Government is aware of the equity issues involved - growth and prosperity for one section of the community should not come at the expense of decreased environmental security and poverty for other sections of the community.

2. ENVIRONMENT POLICY, LEGISLATIVE POLICY AND INSTITUTIONAL FRAMEWORK

In the short time since Independence, the Government of Timor-Leste has made progress on the overall strategies to manage natural resources and the environment. For the petroleum and minerals sectors, the Government has created a strong governing framework and has promoted private sector investment laws. In agriculture, forestry and fisheries, these approaches are complemented by efforts to develop joint and community management mechanisms in rural and isolated areas. The Government has also made a start in establishing a strong regulatory and management framework for environmental protection. Until now, efforts have focused on developing laws and policies, establishing and strengthening institutions, training and capacity building. Some efforts have been undertaken to develop information databases and to develop a cross-sectoral mechanism for management of natural resources.

Petroleum and Mineral Sector

The strategy of the Government is to manage minerals, energy and extractive activities in a consistent, fair, environmentally sustainable, transparent and timely fashion as mandated in the National Development Plan. The guiding principles to this are sustainability, efficiency of resource use and equity. The Government has set out its strategy for achieving these objectives in the NDP and in its Strategic Plan. The approach, for both minerals and petroleum, is to create as quickly as possible an enabling environment that will encourage the domestic and foreign private sector to invest. With the successful creation of this environment, the role of the Government will be limited to oversight and regulation and to continued investment promotion. In formulating its strategy for offshore development of resources, the Government decided to proceed immediately to invite investors to bid on exploration and revenue sharing contracts based on existing information. Partnerships have been established with international private companies to initiate the exploration and exploitation of these resources. In the JPDA, contractual arrangements have been established with Conoco-Phillips (operator for the *Bayu-Undan* field) and with Woodside (operator for the Greater Sunrise field). As a result of the off-shore program, the petroleum sector is expected to be the main source of revenues for Timor-Leste within the next five years, generating about \$ 250 million of revenues annually during the decade 2005 to 2014. In addition to these revenues, careful management and development of this sector can bring other benefits, including job creation, skills development, institution building and foreign direct investment.

In the case of the on-shore and near-shore resources, the Government has decided to adopt a phased approach, first investing in more sophisticated seismic/exploration information, the results of which, have been shared with potential private investors launching a tender for the resource exploration and extraction .

The National Environmental Legislation enhanced so far are:

- Law on the Petroleum Fund
- Law on Petroleum Taxation
- Petroleum Act;
- The tender protocol for off shore resources

Energy

At the present time, Timor-Leste is almost totally dependent on imported petroleum products and domestically produced firewood to meet its energy requirements. Petroleum products are the single largest import of the country. According to the trade data released by the National Statistics Directorate, Timor-Leste imports about \$36.8 million of petroleum-related products per year – equal to a quarter of all merchandise imports. Informal estimates indicate that the power sector now consumes the equivalent of 450 barrels of oil a day, while the transport sector uses the equivalent of 600 barrels a day. The commercial development of domestic petroleum sources could therefore have a significant economic impact that, among other things, could result in a substantially lower merchandise trade deficit, which was almost \$140 million last year.

At present there is no National Energy Policy for Timor-Leste. It is essential for the country to have an energy policy that provides the basic Road Map for movement towards the objective of stable and secure sources of energy.

Environmental Protection and Management

As recognized in the National Development Plan, “real lasting poverty reduction is only possible if the environment is able to provide the service people depend on, and if natural resources are used in a manner that does not undermine long-term development”. Accordingly, the Government’s main goals for protecting and managing the environment are :

- Manage extractive activities in an environmentally appropriate fashion.
- Protect and enhance the natural environment.
- Raise community awareness about the importance of protecting the environment.
- Integrate environmental considerations into policies, programs and plans.
- Ensure accountability to the government and the community for environmental aspects of the extractive industries.

As the earlier discussion indicates, the main environmental issues are water pollution, land degradation and biodiversity loss, together with a growing threat to the marine and coastal ecosystems. An upturn in economic activity and increase in private investment has the potential to exacerbate these threats. For example, there are some 600 investment projects waiting to start up after the new Investment Law is promulgated. An important challenge for the Government is to build capacities for quick approval of these proposed investments, while at the same time ensuring that they are consistent with the environmental laws and regulations and that they do not have adverse social and economic impact.

In the first country report on the Timor-Leste’s Millennium Development Goals in 2004 three indicators have been identified as being especially relevant for the sustainable development of the natural resources of Timor-Leste and sound management of the environment. These are:

- Energy use per unit of GDP
- Carbon dioxide emissions per capita
- Population using solid fuels

No specific targets have been set for these indicators as yet. A start is being made in developing capacities for periodic monitoring of these aspects of environmental management.

Firewood is the major source of fuel for about 80 percent of the households. This compares with an average of 75 percent of households in all developing countries that use solid fuels. Approximately 1.6 million cubic meters (JAICA-Report) of fuel wood is consumed each year in Timor-Leste. With the elimination of fuel subsidies the use of firewood is growing. No reliable data is available on commercial energy use in Timor-Leste. Commercial energy consumption for Timor-Leste may range between 300 and 400 kg of oil equivalent per \$1,000 of GDP, which is similar to many other developing countries.

There is a direct relation between the amount of energy use and the CO₂ emissions. As carbon dioxide (CO₂) is mainly generated from the burning of the fossil fuels, this includes also fire wood.

Existing Governance Framework

To date, the main focus of the Ministry of Natural and Mineral Resources and the Secretary of State for Environment have been on establishing the framework for effective environmental governance, on developing capacity at the national level, and on pollution or the 'brown side' of environmental management. The following laws have been approved.

- Law on Fishery and Aquaculture (Decreto-lei n° 6/2004)
- Law on Water Distribution (Decreto-Lei n° 4/2004)
- Quarantine Law (Decreto-Lei n° 21/2003)

Timor-Leste is also a party to the UN Convention on Desertification and Land Degradation (UNCCD). However it has not yet decided on the other conventions making it eligible to the Global Fund for Environment.

The Institution responsible for coordinating environmental issues is the State Secretariat for the Coordination of the Environment, the Arrangement of the Territory and the Physical Development. However the Secretary of State refers directly to the Prime Minister who is also Minister for the Natural and Mineral Resources and for the Energy's Policy. However a number of Ministries (Agriculture, Development, Public Works, Transport and Communication, Planning and Finance, Health and Education) are also concerned at different levels with environment.

3. SUPPORT TO THE SECTOR

The support to the environment is provided by different donors through the different Ministries concerned with the sector. It is provided through the recurrent budget and through investment projects. From Fiscal Year 1999/00 through FY2003/04, the total support amounted to US \$ 10 millions. Donors accounted for about 90% of both modalities. The petroleum sub-sector accounted for almost two third of the total spending. This was due to the large support of Norway, USA, China and which included capacity building for the Timor Sea development program and the launch of onshore and near shore survey by Petro-China.

For the next 4 years, the Government is proposing a significant increase in spending on natural resources and the environment. Most of these outlays are aimed at laying the foundations for an increase in private investment in resource related industries by improving the enabling conditions for this investment, improving the understanding of the resource base of the country and its prudent management, and strengthening the legal, regulatory and environmental management capacities of the Government. The proposed level of expenditures is \$21 million during FY2004/05 through FY2008/09, some \$7 million of which is related to donor programs ongoing and under preparation and currently planned budget allocations.

Disbursements from proposed new projects and programs amount to \$13 million over the same period, along with a small amount of additional budget counterpart funding for the environment program. About 36.3% are allocated to the development of on shore and off shore Petroleum sub-sector; 15% for mineral resources; 7.3% for renewable energy; 23.6% for the completion of on-going legal and regulatory framework for environment, improvement of environmental management and awareness campaign; 17.8% for integrated resource management.

4. CONCLUSIONS AND RECOMMENDATIONS

Despite the ongoing efforts, many weaknesses still remain across the natural resources sectors. Some of the more notable ones include the overall absence of reliable, comprehensive up-to-date information, the lack of technical and management capacity, and difficulties in empowering local communities and in implementing participatory approaches. Lack of funds, working laws and equipment exacerbate these weaknesses.

The Sector Investment Program for the Natural Resources and Environment has prioritized and sequenced measures that, if implemented in the mid term, will establish a strong governance framework for the natural resources sector. These programs will facilitate and promote private sector and community development, whilst at the same time assuring the long-term protection of Timor-Leste's land, forests, waters, air, urban areas and biodiversity. Some of the Government proposed investments are relatively high cost. Many are not, and will have high social returns for small investments (as for example the proposal to support the technical and coordination activities of the newly created, high-level, inter-sectoral resource management working group). This can help Timor-Leste avoid the costly sector-specific approaches that have led to many problems in other countries in the Region.

There has also been progress, albeit uneven, in developing the policy framework required to pursue the objectives. In almost all areas of natural resource and environmental management, agency staff must work closely with officials in other agencies, with local communities, with the private sector, the media and other members of civil society. Much work remains to be done in building the skills of staff in these important areas. A particular concern is building capacities at the district and local level to ensure that there are effective mechanisms for collaboration with local communities in the management of local resources and the environment. The EC, through the Trust Fund and through other single donors agreement with the WB, has been supporting the development of strategies and legislation mainly related to the Agriculture sector and to water and sanitation. Technical assistance and capacity building has been provided to the Ministries responsible for Rural development, Health and to the Timor Sea Office responsible for Petroleum. The last generation of EC support includes the development of forestry inventory, reforestation and agribusiness development.

ANNEX 3. DONOR MATRIX *(in thousands €) contributions since independence*

Donor	EC	Bilateral donors EU Member States							
		Belgium	Finland	Germany	Ireland	Italy	Portugal	UK	Sweden
Budget policy							5070		
Industry, mining and construction							3309		
Energy									
Transport				9585			4183		
Education							31545	3619	5051
Health	24500			1653	151		381	101	
Water				4520	108		1236	24	168
Child protection									
Women in development					201				
Environment/rural development	34500								25
Poverty monitoring									
Agriculture and fisheries				3700	110		2167		
Private sector and NGOs		18	813				2985		
Culture, youth, communication				409	52		3194		
Government and civil society	2500	1044	6374	7946	7778	800	168845	4585	7327
Emergency and relief	85500		1510	516	1170		2221	10275	
Comodity assistance			5605		8725			30730	4507
Administrative costs			745				4437	34	
Bank and financial services					129		818		18
Social services and infrastructure				614	1046		7910		14
Food security	56500	71		6159					
Bussiness and trade					6		691		
Tourism							182		
Multisectoral							111976		
Total	203500	1133	15047	34692	19576	800	351150	49368	17110

Donor	Bilateral donors/outside EU						Multilateral		
	Australia	Brasil	Japan	New Zealand	Norway	USA	World Bank		
Budget policy									
Industry,mining and construction			690		3714	1505			
Energy			17193		8852	3618	25		
Transport	552		36951		410	117			
Education	15036		11370		778	1447			
Health	11255		4728		1505	10342			
Water	19950		31326		343	648			
Child protection									
Women in development			9		146	17			
Environment/rural development	168		1020		170	139			
Poverty monitoring					12				
Agriculture and fisheries	12348		15014			18761			
Private sector and NGOs	365					4024			
Culture, youth, communication	4001		195			7439			
Government and civil society	108421		3493		10301	30216			
Emergency and relief	8270		1656		423	117	4318		
Comodity assistance	48741		36874		11621	14307	16304		
Administrative costs	1316				29				
Bank and financial services	635		3			852			
Social services and infrastructure			196		1117	1001	1395		
Food security	122					589			
Bussiness and trade			27		42	2801			
Tourism	196		36			64			
Multisectoral	182		85		1712				
Total	231557	5609	160866	12799	41285	94745	22042	568907	16.10

ANNEX 4: TIMOR LESTE AT A GLANCE

Land area	Population	Population density
15,000 sq Km (= half Belgium)	926,000 (2004 Census data)	61.7 per sq km
Population of main town Dili:		
60,000 (1998); rising to 140,000 approx. (Sept 2001); 167,000 (2004 Census data)		
Annual population growth rate (%)		
1975-2002: 0.3	2002-2015: 2.8	

Political situation

Timor-Leste was a colonial territory and overseas province of Portugal until 1975. It was occupied by Indonesia December 1975 until September 1999. On 30 August 1999 in a UN-managed referendum, 78.5% of participants voted against the offered status of autonomy within Indonesia, and thus for independence. In September 1999 Indonesian integrationists and militia responded to this result with an outburst of indiscriminate violence, killing over 1000 persons, causing the forced displacement of more than 250,000 others and leaving three-quarters of all public infrastructure, private housing, telecommunications and valuable public archives destroyed. The Australian-led UN INTERFET peace-keeping forces (admitted by Indonesia) re-established peace. In October 1999 the UN Security Council established UN Transitional Administration for East Timor (UNTAET) until the Parliamentary and Presidential elections and the restoration of independence on 20 May 2002. Three successive UN Peace keeping missions have provided, with gradually decreasing human and financial resources, support to security, the justice systems and to other state building activities. The present UN mission (UNOTIL) is carried out under the jurisdiction of the UN Political Affairs Department and will end in May 2006. The present Government is made up of 17 Ministers, 14 vice Ministers and 10 State Secretaries. Village elections were held by the Government in 2004/05, while both National Parliamentary and Presidential Elections are due in 2007.

Selection social and economic indicators

Indicator	2000	2001	2002	2003	2004
Gross Domestic Product (US\$ millions)	316	368	343	336	331
Real annual GDP growth (%)	15.4	16.6	-6.7	-6.2	1.8
GDP per capita (US\$)					366
Inflation % (US\$ based CPI for Dili)	3.0	-0.3	9.5	4.2	1.8
Unemployment rate (%)		6.2			8.5
Exports growth rates (%) ⁽¹⁾			50.0	16.7	14.3
Imports growth rates (%) ⁽²⁾			2.6	-12.0	-9.3
Non-petroleum exports (USD millions)					8.1
Current account balance				43	
Trade deficit (USD million)					179
Fiscal balance ^a (% GDP) ^{(3) (4)}	-52	-53	-48	-33	29

Land Area	15,000 sq. km (= half Belgium)			
Population Timor-Leste 000s	779.567 ^b	787.338 ^c		924.000
Population Dili District 000s		120.474 ^c		167.777
Adult Literacy Rate (% age 15 and above)			58.6	
Primary school enrolment %		75		
Secondary school enrolment %	20			
Life Expectancy at Birth – Female/Male (years)	57		49.3	55.2
Life Expectancy at Birth – Female (years)			50.2	56.6
Life Expectancy at Birth – Male (years)			48.5	54.5
Underweight children for age (% under age 5)			43	
Under 5 mortality rate (per 1,000 live births)			126	124
Maternal mortality rate (per 100,000 live births)				800
Immunisation rate (%) ⁽⁵⁾ - Measles			47	60
Immunisation rate (%) ⁽⁵⁾ - DPT				70
Births supervised by trained personnel (%)	20		24	
Households with access to safe water (%) rural/urban average			52	

Sources: Economic indicators: International Development Association, *Country Assistance Strategy for the Democratic Republic of Timor-Leste for the period FY06-FY08*, July 26, 2005.

Socials indicators: UNDP, *Human Development Report 2005*, 2005.

Others: ^a IMF, Democratic Republic of Timor-Leste: Selected issues and Statistical Appendix, May 31, 2005.

^b UN Common Country Assessment, *Building Blocks for a Nation*, November 2000.

^c ETTA, IMF, WB, UNDP, *Sucos Survey in Timor Loro Sa'e*, August 2001.

Notes: ⁽¹⁾ Merchandise exports nominal growth rate. Excludes oil/gas revenues.

⁽²⁾ Merchandise imports nominal growth rate.

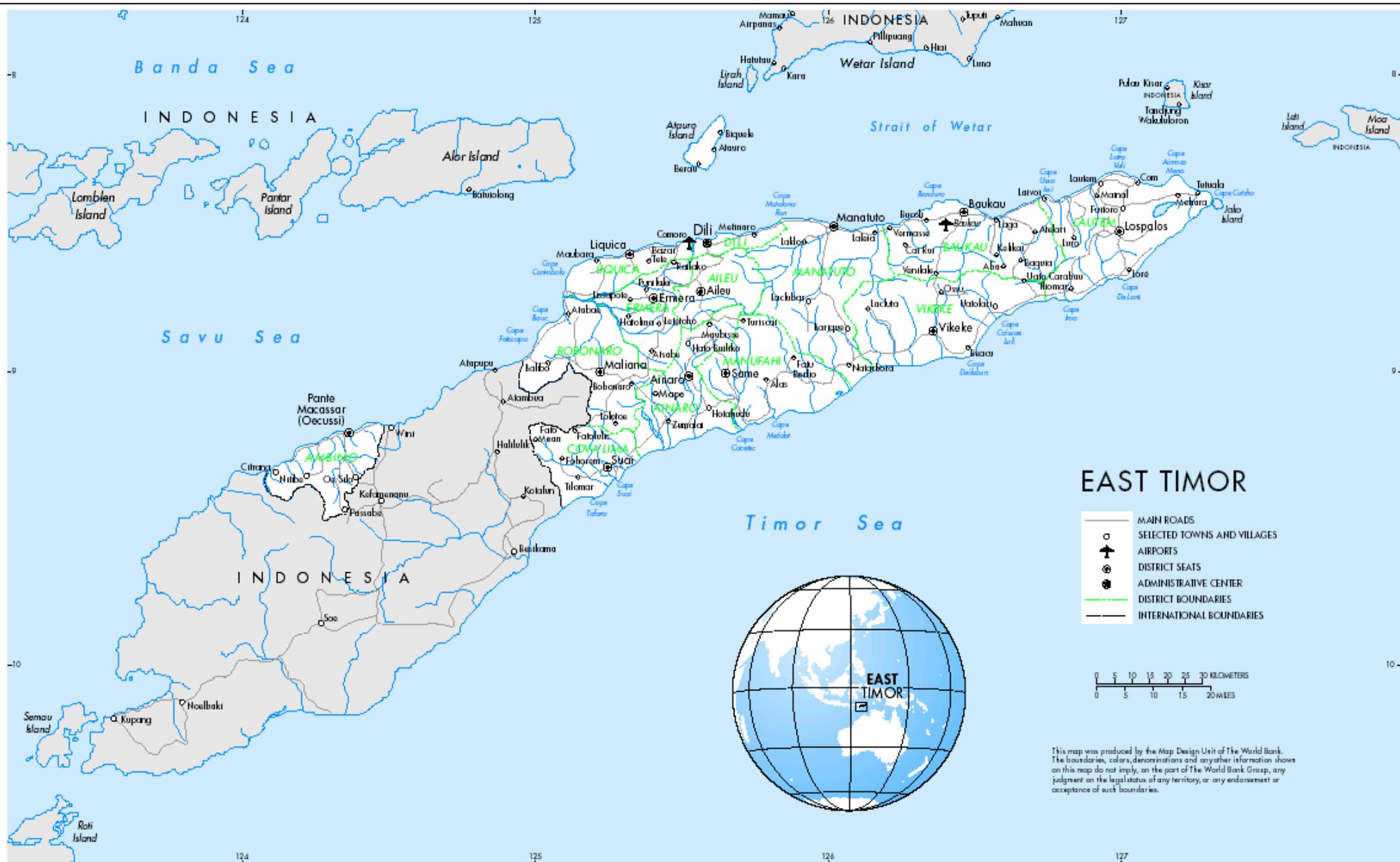
⁽³⁾ Fiscal year basis (July-June); for example, 2000 refers to FY2000/01.

⁽⁴⁾ Includes fiscal and quasi-fiscal expenditure programs undertaken by bilateral donors and international financial institutions, outside the central government budget. The sharp revenue decline in FY 2005/06 reflects the adoption of the new savings and petroleum fund policy according to which only the sustainable income from the oil wealth is transferred to the budget.

⁽⁵⁾ % of children ages 12-23 months.

Timor-Leste has made some impressive achievements. It has succeeded in adopting the most urgent legislation, it has gradually established most of the institutions foreseen in the Constitution and has established a clear orientation toward sustainable development through a National Development Plan (NDP), a Stability Program (SP) and 17 Sector Investment Programs (SIPs). The country has benefited from the support of donors who have provided financial contributions amounting to up to 40% of recurrent expenditure and more than 100 million USD per year for investment programmes and projects. Successful negotiations with Australia on sharing mineral resources in the Timor Sea mineral resources have also raised the perspectives of increased local revenues and future self-reliance. However, population growth is one of the world's highest and is offsetting the non-oil GDP growth. Formidable problems still exist. The downsized and weak public sector is called to promote the production of non oil revenues and to provide adequate services to the population. Farmers are expected to diversify and improve their production without any subsidy and very often without the support of agriculture extension. Likewise, the private sector is expected to solve the huge unemployment problem, while local capital is not available and the business environment is not yet attractive to foreign investment except for oil-gas and telecommunications.

ANNEX 5: MAP OF TIMOR-LESTE



ANNEX 6: ACRONYMS

AAP	Annual Action Plans
ACP	African, Caribbean and Pacific (Group of States)
ADB	Asian Development Bank
ANZ	Australian and New Zealand Bank
ASEAN	Association of South East Asia Nations
BNU	Banco Nacional Ultramarino
CAVR	Commission for Reception, Truth, and Reconciliation
CFA	Central Fiscal Authority
CFET	Consolidated Fund for East Timor (also called UN Trust Fund)
CSO	Civil Society Organization
CSP	(EC) Country Strategy Paper (for Timor-Leste)
CSP	Consolidated Support Program
EC	European Commission
EDF	European Development Fund
EPA	Economic Partnership Agreement
ETPA	East Timor Public Administration
ETTA	East Timor Transitional Administration
EU	European Union
ICJ	International Court of Justice
IDP	Internally Displaced Persons
IMF	International Monetary Fund
MS	Member States (of the European Union)
NDP	National Development Plan
NGO	Non Governmental Organization
NPDA	National Planning and Development Agency
PIF	Pacific Island Forum
PKF	(UN) Peace Keeping Force
PMU	Programme Management Unit
SCU	Serious Crime Unit
SIP	Sector Investment Plan
TFET	Trust Fund for East Timor
TSP	Transitional Support Program
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNMISSET	United Nations Mission of Support in East Timor
UNOTIL	United Nations Office in Timor-Leste
UNTAET	United Nations Transitional Administration in East Timor
WB	World Bank
WFP	World Food Programme

ANNEX 7: CONSULTATION OF NON-STATE ACTORS AND LOCAL DECENTRALISED AUTHORITIES

In November 2005, intense discussions between the Commission and the authorities of Timor-Leste were carried out to prepare a Country Strategy Paper. During that period, a meeting was held with a wide range of NSAs active in Timor-Leste in order to explain to them the role of NSAs under the Cotonou Agreement, and to share with them the results of the discussions with the Government of Timor-Leste. The NSAs felt that they had been consulted a little too late in the process, but it was explained that Timor-Leste is a complicated case, as it only ratified the Cotonou Agreement November 2005. Nevertheless, there was general consensus that both capacity building and rural development were priorities for the country.

Once a final draft CSP has been prepared, it will be circulated to a wide range of NSAs and local decentralised authorities, , who will again have an opportunity to comment.

ANNEX 8

DEVELOPMENT OF TRADE IN TIMOR-LESTE

The following are some of the constraints to trade that have been identified:

- Terms of trade are affected negatively as flexible management of monetary and interest policy is not possible (USD currency)
- High factor costs of production as expensive e.g. local skilled labour, high energy, water and transport cost
- Poor rural market facilities and poor rural access roads limit domestic trade, and lack of microfinance has led to a cash based economy.
- Enterprises are predominantly micro and small and medium sized enterprises (SMEs), most work under donor funded government contracts
- The domestic market is negligible in terms of volume and purchasing power.
- The concentration of businesses around Dili reduces opportunity for rural employment
- A complicated business registration procedure and corporate taxation system further reduce investor interest
- Poor port and road infrastructure increases the cost of production
- Lack of skills in terms of craftsmanship and management, and in agricultural production (quality cannot be guaranteed) and difficulties with complying with international standards.

The following facilities could be of particular interest to Timor-Leste in boosting trade and investment:

- A €24 million facility to ensure that ACP countries are ready for negotiation of EPA
- A €12 million facility to assist ACP States deal with WTO issues;
- A €10 million programme to promote foreign direct investments and entrepreneurship (PROINVEST, managed by the Centre For Development of Enterprise (CDE), including support for:
 - Investment and technology flows to enterprises
 - Intermediary organisations and professional associations
 - The development of enterprise partnerships
- A €20million Enabling Environment Facility
- TA €44 million ACP horizontal Fisheries programme to assist in meeting sanitary standards and development in the fisheries sector
- A €29 million ACP Pesticides Initiative Programme to assist in meeting sanitary standards and development in the horticultural sector
- The €2.2 billion “Investment Facility” managed by the EIB which facilitates loans, equity and guarantees for investment projects

- A €50 million programme under Trade.com. Main components:

- (i) A facility to reinforce local analytical and research capacity for trade policy formulation including stakeholder participation;

- (ii) A facility to provide immediate assistance for ongoing negotiations through the recruitment of a pool of more than 55 ACP trade experts and training for negotiators;

- (iii) A facility to promote catalytic pilot initiatives for institutional reinforcement in the area of trade support services, which can then be developed through other financing mechanisms, with special attention to ensuring an enabling regulatory environment to overcome Technical barriers to Trade and Sanitary, Phyto-sanitary and Biotechnology barriers to trade.

ANNEX 9: SELECTED SOCIAL INDICATORS AND PROGRESS TOWARDS MDGs

The GoTL's National Human Development Report assesses poverty against the MDGs as follows:

- i) 4% per annum economic growth is the minimum requirement to achieve targets on eradicating extreme poverty, and stronger policies on food security and more support for mothers are required to achieve targets for maternal and child health
- ii) significant additional investment will be needed to meet the 2015 requirement of 100% primary school enrolment
- iii) gender equity targets in primary and junior secondary school enrolments are likely to be achieved, but not for senior secondary school
- iv) reducing child mortality to 96 per 1000 by 2015 is realistic
- v) HIV prevalence is low in Timor-Leste, whereas malaria, dengue and other diseases remain prevalent, and will need investment
- vi) measures are not in place to reverse environmental degradation: the GoTL must contribute more to achieve water supply and sanitation targets.

Selected social indicators for Timor-Leste, 1990-2004

Indicator					Estimate
	1990-93	1996	2001-02	2003	2004
Total population	750	840			924
Annual population growth (% change)	3.5	2.4			4.7
Total fertility rate	5.7	5.1	7.8		8.3
Maternal mortality rate (per 100, 000 live births)	800	850			800
Life Expectancy at Birth (years)					
	52	53		55.2	58
Female	53.7	55		56.6	61
Male	50.7	52		54.5	55
Adult Literacy Rate (% age 10 and above)	35.6	40.4	58		
Primary school enrolment %	83		75		75
Secondary school enrolment %			20		38
% Urban population with access to safe water	68		73		73
% Rural population with access to safe water	26		50		43
% Urban population with access to sanitation	49		65		
Underweight children for age (% under age 5)			43		42
Under 5 mortality rate (per 1,000 live births)	250		126	124	
Immunisation rate (%) ^(a) – Measles			47 ⁽¹⁾	60 ⁽¹⁾	
Immunisation rate (%) ^(a) – DPT				70 ⁽¹⁾	
Births supervised by trained personnel (%)	20		24		

Source: UNDP, *Human Development Report 2005*, 2005 and UNDP Country Strategy, Sept. 2005

⁽¹⁾ International Development Association, *Country Assistance Strategy for the Democratic Republic of Timor-Leste for the period FY06-FY08*, July 26, 2005.

Note: ^(a) % of children ages 12-23 months.

ANNEX 10

Timor-Leste - Humanitarian Profile

1. Humanitarian Situation

The main humanitarian problem faced by the population of Timor-Leste is the **high prevalence of global acute malnutrition across the country**, which is close to the emergency threshold (15%) as a national average. The following table summarizes the results of several nutritional surveys undertaken during the past three years.

	Wasting %		
	Total	Moderate	Severe
UNICEF MICS – 2002 (Country level)	12.0	9.9	2.1
GTZ Survey – 2003 (East: Baucau & Viqueque)	19.0	13.7	5.3
Demographic Health Survey – 2003 (Country level)	12.0	9.3	2.7
Oxfam Survey – 2004 West: Oecussi	17.8	14.1	1.7
CARE/Epicentre survey 2004 West: Liquica, Bobonaro & Covalima	LL : 14.5 HL : 12.9	12.1 10.9	2.4 2.0

Global acute malnutrition is caused by several factors, **the most important of which is the structural food shortages** (rice, maize) that affect two thirds of the rural population due to the cyclical nature of food availability and which are particularly acute between November and February. Even though the local population has developed coping mechanisms to adapt to this situation under normal circumstances, successive poor harvest results from 2002 to 2004 have depleted the coping capacity of the poorest sector of the population. In addition to food shortages, other underlying causes of malnutrition are poor water and sanitation (50 % of the population does not have access to a safe water supply), insufficient crop diversification, poor nutritional practices and deficient health services.

In June 2004, The World Food Programme (WFP) and the Food and Agricultural Organization of the United Nations (FAO) estimated that the 19,870 households in 57 villages required emergency food aid. This was further confirmed by a Vulnerability Assessment and Mapping (VAM) mission of the World Food Programme (WFP) carried out in April 2005, which found that some 350,000 people were food insecure (not being able to meet the minimum requirement of 2,100 Kcal by day) and that prevalence of global acute malnutrition at national level was still between 12 and 14 %.

2. The Commission's Humanitarian Aid Department response and targeting

The objective of the Commission's Humanitarian Aid Department (DG ECHO) in Timor-Leste is to **act in the short-term to contain and reduce the prevalence of acute malnutrition**. In parallel, other Commission's instruments will act on the mid and long term in order to address the root causes of malnutrition in a sustainable way.

DG ECHO has been increasingly involved in fighting malnutrition since October 2003, when it restarted its programmes in Timor-Leste in response to a Government's appeal for

international aid launched after the 2003 food shortages. DG ECHO's response was channelled through a EUR 2 million Emergency Decision which included the following components: food aid, nutrition and agricultural rehabilitation.

The emergency response was followed in 2004 by a targeted supplementary and therapeutic feeding project implemented by CARE Austria in the western districts of the country (Bobonaro, Liquiça and Cova-Lima). By 2005 **this intervention had successfully reduced prevalence of malnutrition from 20% to 8% on average in project sites.**

In the second half of 2005, a new EUR 2.5 million Decision was adopted to extend the nutritional intervention to the central districts of the country. Five projects started on the last quarter of 2005 and humanitarian actions will continue in 2006 and 2007 targeting more than 100,000 people. The nutritional intervention has three main components: providing supplementary feeding for acutely malnourished children under five years old and to pregnant and lactating mothers, improving safe water supply in rural areas and enhancing livelihoods in Sucos affected by acute malnutrition.

Furthermore, ECHO is also implementing its Disaster reduction policy in Timor Leste through DIPECHO (that stands for Disaster Preparedness in ECHO) projects aiming at reinforcing the local coping capacities and the awareness on risks together with providing small-scale mitigation activities. A third DIPECHO Action Plan is currently under implementation in the region (2004-2006) and a fourth Action Plan is under preparation where Timor Leste has been once more identified as a country for intervention (2006-2007), especially in the context of the food security situation. Currently the priority regions are Oecusse, Covalima, Liquiça, Bobonaro, Lautem and south-west coastal areas where targeted hazards are hydro-meteorological, drought and slow-onset floods. The activities implemented in these projects have to be as much as possible incorporated in long term initiatives so as to promote Disaster reduction management in an integrated, complimentary and sustainable manner.

3. Linking relief, rehabilitation and development (LRRD)

Decreasing the prevalence of malnutrition in Timor-Leste requires both short and long term interventions. DG ECHO funds humanitarian actions that have a quick impact and save and preserve the life of the beneficiaries by reducing acute malnutrition in the short term. However, **in order for humanitarian actions to have a sustainable impact they need to be complemented by longer term efforts** addressing the underlying causes of malnutrition.

The Commission's humanitarian aid has been planned in coordination with the Commission's longer term programmes. Once current longer-term development projects start producing results, the Commission plans to discontinue provision of humanitarian aid to Timor-Leste, whilst continuing with its medium-term disaster reduction strategy (DIPECHO initiatives) for at least the period 2006-2007/8.

ANNEX 11

SUMMARY OF EC CO-OPERATION

Relief and rehabilitation (€85.5 million)

- €55.4 contribution to the multi-donor Trust Fund for East Timor (TFET)
- €30.1 million contributions to :
 - UNTAET Trust Fund which supported the UN missions (2000)
 - food aid through the World Food Programme in 1999-2000.
 - repatriation and re-integration of East Timorese refugees wishing to return from West Timor implemented through UNHCR. €1.7 million of this grant has gone to the Special Fund to pay the pension and separation indemnities of former East Timorese employees of the Indonesian government and €317,000 to the Commission for Reception, Truth and Reconciliation.

Humanitarian Assistance and Food security (€56.5 million)

The EC Humanitarian Aid Office (ECHO) has provided €44 million of humanitarian assistance through NGOs and UN Agencies for the following:

- medical assistance, including mental health and training for health workers
- water and sanitation projects, a large portion of which was for the rehabilitation of school water and sanitation systems
- shelter and non-food items
- food and logistics
- protection and transport of refugees and displaced persons
- disaster reduction (DIPECHO)
- nutritional support and combating the consequences of 2002-2003 drought
- Food security (€6 million)
- Support for NGOs (€6.5 million)

Rural development (€34.5 million)

The EC allocated €25.5 million for 2003 to support the Government of Timor-Leste in attaining its overall objectives of poverty reduction and promotion of economic growth. The programme addresses priorities for the development of the rural areas' agriculture; off farm employment-generation; women's empowerment; rural infrastructure. The programme started in March 2004.

In 2005, the EC committed €9 million to the EC-Timor-Leste Rural Development Programme 2005. The overall objective of the programme is to attain food security and sustainable livelihoods for poor rural communities in Timor-Leste, and particularly in the poorest districts located in the border area of Timor-Leste and Indonesia (Bobonaro and Covalima).

Health sector (€24.5 million)

- Support for the health referral system, training and drugs, approved in 2002
- Support the Implementation of the Health Sector Investment Programme, 2004.

Capacity building, including election support (€2.5 million)

Several actions have been financed in support of capacity building of different institutions and NGOs, such as:

- Support for civic education and electoral observation for the Constituent Assembly and the Presidential elections (via UNDP)
- contribution to the “200 Development Posts” as part of the capacity-building programme managed by the UNDP, approved in 2002
- Support for the Justice sector through the NGO “Lawyers Without Borders”
- Support of the promotion of Children’s Rights through CARE
- Support to the Teachers Training Colleges through Caritas Sweden
- Support of women’s development through NGOs Horizon/Timor Aid
- Support of regional information systems for East Timor
- Support for a Trade Needs Assessment

AGRICULTURE, FORESTRY & FISHERIES

PRIORITIES AND PROPOSED SECTOR INVESTMENT PROGRAM



MINISTRY OF AGRICULTURE, FORESTRY AND
FISHERIES



APRIL 2005

PREFACE

This final version of the Sector Investment Program (SIP) for the Agriculture, Forestry and Fisheries Sector has been prepared under the direction and guidance of the Ministry of Agriculture, Forestry and Fisheries, in close collaboration with the Ministry of Planning and Finance. The document, which is a revised version of the provisional SIP (November 2003), incorporates the directions of the Policy and Strategic Framework that was approved by the Council of Ministers in September 2004.

The document is part of a larger exercise undertaken by the Government of Timor-Leste. Final versions of the SIP have been prepared for the following sectors:

- A. Basic Service Sectors
 - Education and Training
 - Health Care
- B. Production-related Sectors
 - Agriculture, Forestry and Fisheries
 - Natural Resources and Environment
 - Private Sector Development
- C. Basic Infrastructure and Housing Sectors
 - Communications
 - Power
 - Transport
 - Water Supply and Sanitation
 - Housing and Urban Development
- D. Governance-related Sectors
 - Public Sector Management
 - Local Government and Civil Society
 - Rights, Equality and Justice
 - Security, Peacebuilding and Reconciliation
 - External Relations and Cooperation

Supporting expenditure data and analysis has been provided by the Ministry of Planning and Finance. Unless otherwise specified, these data are drawn from two sources. CFET budget appropriations data has been provided by the Budget Office of the Ministry of Planning and Finance for FY2001/02 onwards. CFET data for FY1999/00 and FY2000/01 are rough estimates based on aggregate data for CFET expenditures included in the National Development Plan. Information about external assistance to Timor-Leste that is included in the reports is obtained from the Registry of External Assistance (REA) database of the Ministry of Planning and Finance. Data for external assistance are as of December 31, 2004. These data have been made available through the generous cooperation of Timor-Leste's Development Partners. Donor data has been supplemented with information provided by individual government agencies that have responsibilities for particular donor-funded projects and programs. The information about these programs includes assistance channeled by donors through international and local NGOs, as well as programs implemented directly by individual donors. Some data provided by donors is provisional and subject to change as work on individual projects and programs progresses.

The data presented in these reports covers capital and recurrent expenditures and therefore aims to present a total picture of development spending in Timor-Leste. However, as the report indicates, information on these two categories is incomplete in a number of areas. Estimates have been made based on the information that is available.

This report reflects policies and programs for this sector as of February 2005.

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ABBREVIATIONS AND ACRONYMS

ACIAR	Australian Council for International Agricultural Research
ADB	Asian Development Bank
ALGIS	Agricultural Landuse Geographic Information System
AMCAP	Ainaro-Manatuto Community Activation Project
ARP	Agricultural Rehabilitation Project
AusAID	Australian Agency for International Development
CBRM	Community-based Resource Management
CCT	Cooperativa Café Timor
CGAIR	Consultative Group for International Agricultural Research
CFET	Consolidated Fund for East Timor
DPPPS	Division of Policy, Planning and Program Services
EEZ	Exclusive Economic Zone
EU	European Union
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
JICA	Japan International Cooperation Agency
MAFF	Ministry of Agriculture, Forestry and Fisheries
MDE	Ministry of Development and Environment
MPF	Ministry of Planning and Finance
NCBA	National Cooperative Business Association
NDFA	National Directorate for Fisheries and Aquaculture
NDFWR	National Directorate for Forest and Water Resources
NDP	National Development Plan (Planning Commission 2002)
NGO	Non-governmental Organisation
NTFP	Non Timber Forest Product
NMDO	National Disaster Management Office
NRE	Natural Resources and Environment
PNA	Protected Natural Area
R&D	Research and Development
RDTL	Republica Democrática de Timor-Leste
SIP	Sector Investment Program
TA	Technical assistance
TFET	Trust Fund for East Timor
TLSS	Timor-Leste social survey (conducted in 2001)
TSP	Transition Support Program
UN	United Nations
UNDP	United Nations Development Program
UNTAET	United Nations Transitional Administration for Timor-Leste
UNTL	University of Timor-Leste
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Agriculture is the primary economic activity in Timor-Leste, accounting for about 26 percent of Gross Domestic Product (GDP) and employing about 80 percent of the labor force. The dominance of the sector will continue for the foreseeable future. It is therefore imperative to develop agriculture as a thriving sector, both to provide food security and to maximise the potential for commercial development and economic growth. In addition, it is most important in the short run to assist rural communities to improve their standard of living and reduce their vulnerability, while working towards the sustainable management of natural resources.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) faces the challenge of managing the transition from a highly centralized, government-driven rural economy in Indonesian times, to an open society driven by the private sector and community demand. This transition is still far from complete, but has important implications for the role of government, particularly in agricultural, forestry and fisheries development.

The rehabilitation and transition programs after the events of 1999 are nearly complete. MAFF has recently developed a new policy and strategic framework as the basis for its operational programs. The results of the policy review process set new directions in response to concerns about fragmented donor support, limited implementation capacity and lack of coverage of important areas.

MAFF has undertaken significant initiatives to develop the policy, legislative, and regulatory framework in agriculture, forestry and fisheries as follows

- MAFF's organic law was promulgated in November 2003
- The Fisheries Decree Law was promulgated in April 2004
- MAFF's Policy and Strategy was reviewed and approved by the Council of Ministers in September 2004
- Provisional drafts of the Forestry and Food Security policies have been prepared.

The proposed Sector Investment Program (SIP) is designed to support the implementation of MAFF's new Policy and Strategic Framework. The Agriculture and Livestock SIP places particular emphasis on improving the livelihood of rural communities in upland and dryland areas, the integration of land and forest management in a watershed management approach, and the gradual expansion and better coordination of service delivery. In fisheries and forestry, establishing the basic building blocks for sustainable resource management will have immediate priority as, for example, the development of resource inventories.

During FY1999/00 through FY2003/04, a total of \$72.5 million was spent by donors and Government on programs for the Agriculture, Forestry and Fisheries Sector, with Agriculture accounting for \$66 million of the total. Donors funded 92 percent of the total program. The proposed program for the five-year period ending FY2008/09 amounts to \$67 million, \$42 million of which would go to the Agriculture Sector. Under the proposed program annual expenditures in agriculture, forestry and fisheries would decrease from about \$19 million in FY 2003/04 to about \$5.5 million from FY2007/08. This decrease can be attributed mainly to the end of a major donor project in the coffee industry and scaling-down of investment in irrigation. Expenditures in the forestry and fisheries sectors would double in the same period.

Despite the economic importance of agriculture in the overall economy, MAFF currently receives only 2.1 percent of total government CFET appropriations. MAFF's CFET budget is unable to absorb the recurrent costs for major services already programmed and funded by donor projects, especially to the livestock vaccination program and the rehabilitation and maintenance of irrigation schemes. MAFF's budget allocation is clearly inconsistent with the contribution that the sector is expected to make to the sector. The under-funding of the sector

presents a threat to the national poverty reduction strategy due to the central role that successful agricultural development plays in promoting food security and income generation. MAFF will need an increase in its CFET budget, or additional resources from other sources, to meet its obligations for service delivery to rural communities.

Meeting the challenges outlined above will require MAFF to increase its efforts in capacity building, program management and institutional development. Staffing at regional and district levels will increase, and coordination with NGOs and donor programs will be strengthened. MAFF will continue to rely on technical assistance from the development partner community to implement the new programs.

Part A: AGRICULTURE AND LIVESTOCK

I. OVERVIEW OF SECTOR AND PROGRAMS

The Setting

Timor-Leste is a predominantly rural economy with a majority of the population heavily dependent on agriculture for their livelihood. Three-quarters of the population, or almost 700,000 people, live in rural areas. The mountainous, erosion-prone terrain, poor soils and variable rainfall mean that much of Timor-Leste is less than ideal for agriculture, yet it remains the nation's most important sector.

Agriculture and livestock production accounts for one quarter of non-oil GDP, most of which comes from crop production. Subsistence production of staple food crops, including maize, cassava, rice and sweet potatoes dominates, while smallholder coffee is an important cash crop. Farming is the sole source of income for about 80 percent of rural households. It is clear that agriculture will remain the main source of employment and income for the majority of the population of Timor-Leste for the foreseeable future.

About 90 percent of rural households own livestock, most commonly chickens and pigs. Cattle and buffalo number about 250,000, but only one in ten households owns cows or buffaloes. The livestock sector accounts for about five percent of agricultural output. However, besides land, livestock is in many cases the most important asset for rural households.

Rural areas are substantially poorer than urban areas. Some 300,000 of these rural dwellers – 44 percent of the rural population – are below the national poverty line. The average rural household owns 1.2 hectares of land, or 0.4 hectares per capita. Land ownership is widespread, with only six percent of the rural population being landless. However, ownership is distributed unevenly under a variety of tenure systems, and formal property rights are still being established. The empirical evidence on gender bias is mixed with regard to poverty status. However, males are consistently better off in education than women and dominate resource allocation decisions through traditional systems and cultural norms.

Overview of Policies and Programs

Agriculture and livestock will continue to be the most important sources of livelihood for the majority of the population and the principle economic activity in Timor-Leste for the next 10 to 15 years. These sectors therefore make an important contribution to the objectives of the National Development Plan and the Millennium Development Goals.

The rehabilitation and transition programs that were necessary after the events of 1999 are almost complete. The Ministry of Agriculture, Forestry and Fisheries (MAFF) has recently developed a new policy and strategic framework for the sector, which was submitted and approved by the Council of Ministers in September 2005. This policy and strategic framework provides the basis for a set of program and project proposals for the short-term that have been prepared under the government's national Sector Investment Program (SIP) initiative.

In its **Policy and Strategic Framework**, MAFF sets out new policy directions as follows.

- Increased emphasis on improving the productivity of farming systems in upland and dryland areas. Investing in upland and dryland agriculture and improving the productivity of food crops is a precondition for a general improvement in **food security**, and reduced vulnerability to adverse seasons. These measures will provide a social safety net for the vast majority of the rural population. Thus, support to subsistence agriculture will have a distinct focus on the **social functions of agriculture**.

- MAFF is clearly expected by government to be more than a regulatory and data-gathering agency. It has to be actively engaged in the provision of key services to farmers, NGOs, the non-farm private sector including agribusiness, communities and rural based organisations. MAFF must develop its functions around these key services and build its capacity gradually. MAFF's indicative strategy is to coordinate field activities better, and to provide support to NGOs and donors for engaging communities in land and forest management based around a combination of traditional community boundaries and watersheds. Appropriate **service delivery models** will be identified and gradually expanded.
- MAFF sees its role in the development of vigorous internal and export market oriented industries as facilitator and regulator. This provides for a market-responsive rather than a supply-driven approach to services, and avoids the traditional focus on production issues only. The supply-chain approach also offers a basis on which MAFF's technical specialists and information systems might be better aligned with the industries they serve. Currently, the most important sector is coffee export, but there is a potential to develop other commodities along these lines.
- MAFF is adopting a much more integrated and participatory approach to rural development, working with rural communities to increase food production, and improve forest rehabilitation, watershed protection, fisheries management, and biodiversity conservation.
- MAFF will continue to develop and refine the policy, legislative, and regulatory framework in agriculture and livestock.

The Agriculture and Livestock SIP places particular emphasis on improving the livelihoods of rural communities in upland and dryland areas in order to achieve food security through improved and sustainable production systems, along with strategies to cope with food emergencies. SIP programs will integrate land and forest management on a watershed basis. SIP programs also support improved water use efficiency and management in irrigation schemes and the development of commodities with market potential, such as coffee and livestock, including continuation of the livestock vaccination program. MAFF is also taking steps to improve the delivery and coordination of services to rural communities, including decentralization through the establishment of three regional centres. Specific projects are proposed to strengthen MAFF's human resources and internal administration systems, including capacity building in the policy and planning areas. Coordination with NGOs and donor programs is also being strengthened.

Many factors constraining agricultural productivity fall outside the mandate of MAFF, and steps have been taken to improve inter-sectoral planning and coordination. These cross-sectoral programs include rural roads, water resources, communication, credit, education and health. Much remains to be done to develop national systems for the effective coordination of these sectors in rural development, and this has commenced under the SIP process. MAFF has recently taken the initiative in planning for the development of three vocational schools for post-secondary agricultural education.

Under the proposed program, total expenditures on agriculture and livestock programs would amount to \$42 million during FY2004/05 through FY2008/09, which would represent a sharp decline from the \$66 million of spending in the sector over the past five years. Annual expenditures in the agriculture and livestock sector would drop from about \$17 million in FY 2003/04 to about \$6 million by FY2007/08. This decline is mainly due to the end of the major USAID funded project in the coffee industry, and scaling-down of investment in irrigation.

Meeting the challenges outlined above will require MAFF to strengthen its capacity in both technical and management areas, with particular attention to effective service delivery and coordination in the Districts.

II. GOALS AND OBJECTIVES OF THE SECTOR

The National Development Plan (NDP) for the five-year period 2002-2007 has two overriding objectives: to reduce poverty in all sectors; and to promote economic growth that is equitable and sustainable and improves the health, education and well being of everyone. These goals have been supplemented by the commitment of Government to the Millennium Development Goals, which again accords the highest priority to poverty reduction. In responding to these national imperatives, MAFF sees its role in addressing food security as an essential step towards poverty reduction, and in facilitating the transition from subsistence agriculture towards more profitable and sustainable agriculture.

As outlined in MAFF's recently drafted **Policy and Strategic Framework**, the immediate sector objectives are to:

- Improve the level of food production to provide better food security.
- Improve the quality of food supplies to reduce malnutrition.
- Promote increased incomes for rural communities from broad-based and sustainable improvements in agricultural productivity that strengthens the resilience of farmers and encourages more market-oriented activities.
- Encourage the development of agriculture-based industries by the private sector.
- Promote the development of off-farm rural employment opportunities.
- Provide effective agricultural planning based on improved data, and
- Increase the amount and quality of information services to farmers in the upland and dry lowland areas, which will require increased effort directed to capacity building.

MAFF expects that improved production and productivity in agriculture will greatly enhance access to food and cash income of those rural people who suffer from food insecurity. With more food of better quality, especially in terms of nutritional value, available, an important contribution to the **Millennium Development Goals** of reducing the prevalence of underweight children and increasing the dietary energy consumption of the population can be made.

III. ISSUES, CHALLENGES AND PROGRESS

Four Key Challenges

There are essentially four priority issues in agriculture in Timor Leste:

- lack of access to sufficient quantity and adequate quality of food in certain areas and seasons; deficits can be either seasonal or caused by natural disasters;
- rural poverty due to poorly developed, market-oriented agriculture and agro-industries;
- lack of data to support planning, with weak capacity to carry out policy analysis and planning and provide essential regulatory services; and
- inadequate service delivery to farm households.

Food insecurity can be broken down into two aspects: inadequate total production of foodstuffs, and poor food quality, which leads to malnutrition. Improving long-term food security remains the biggest single challenge for MAFF and other ministries. Food insecurity is widespread and two-thirds of the rural population, about 600,000 people, experience food deficits at some time during the year. The major urban centers typically have access to enough food throughout the year. Droughts, floods and natural disasters render subsistence farmers vulnerable to intermittent food crises, requiring external food aid.

The underlying causes of food insecurity include low yields of staple crops, vulnerability to unfavorable seasons and natural disasters, lack of cash incomes to purchase food during periods of shortfall, post-harvest losses and low market and distributional capacity. Drought is a recurring feature of Timor-Leste's climate rather than a rare event, and subsistence farming systems have evolved in response to this risk. In an effort to ensure household food security, farmers use diversified farming systems to reduce the production risks associated with a wide variety of landforms, soils and climate. Food shortages are highest during November to February, at the end of the rice harvest and before the maize harvest. Droughts and floods act to turn marginal food deficits into food and seed crises, as in 2003.

Most of the rural households are poorly integrated into the market economy, which is itself poorly developed. In order to alleviate **rural poverty**, productivity has to increase substantially. The resulting release of labour from agriculture will have to be mainly absorbed by agro-based industries in rural areas, including a wide range of activities such as small-scale on-farm and off-farm processing, input and output marketing. Therefore, the development of **market-oriented agriculture** that generates a regular supply of surplus for agribusiness activities, is of primary importance for creation of employment, increased income and broad-based poverty reduction in rural areas.

There are good prospects to resume export of some of the previously traded commodities and to substitute imports, which are responsible for the large trade deficit of Timor-Leste.¹ Currently, most rural areas lack market-based incentives to improve production beyond subsistence. Most markets are rudimentary and inefficient, and exports or cross-border trade have been severely disrupted. Except for the coffee sector, agribusiness activities are still embryonic.

As information about basic sector trends is incomplete and scarce, the establishment of a data collection system is vital to guide future intervention in the sector. **Capacity building in policy analysis and planning** is an important area for any national government. This is especially true in agriculture, where a wide range of actors are to be coordinated. Other essential functions of a government are the provision of regulatory services. This area is of increasing importance when agricultural export opportunities are to be exploited. The government's and private sector capacity to adhere to food quality standards depends crucially on a functioning regulatory framework.

Improved service delivery to farm households: In a significant change of policy, MAFF has committed itself to direct more resources into service delivery to farmers. Previously, service delivery was supposed to be largely left to NGOs and the private sector, resulting in very weak coordination of service coverage and conflicting signals to farming communities. Experience has shown that this approach is entirely inadequate under the conditions existing in Timor-Leste. Instead, MAFF will have to play a leading role in identifying appropriate service delivery models, coordinating NGO activities, and gradually expanding service delivery on its own to underserved areas and neglected groups.

Progress to Date

After the events of 1999, the overwhelming requirement was the rehabilitation of facilities destroyed and damaged. Emergency and rebuilding programs funded by the development partners gave high priority to replacing livestock, distributing seeds and equipment, and rehabilitation of farm-to-market roads, bridges, irrigation systems and water supply for household and agricultural uses. With the most urgent rehabilitation needs addressed, Government and development partners have increasingly begun to focus on the medium and

¹ According to the latest estimates of national accounts, the deficit on the goods and services trade account was about 30 percent of GDP in 2003.

longer-term objectives of reducing poverty, and improving food security and agricultural productivity.

The transition from the highly subsidized agriculture sector of the Indonesian period to a free-market economy, and competition from imported foods have created a challenging environment for farming communities. Incentives are limited for farmers to produce more than is needed for domestic consumption. Many development partner-supported projects are still in their early stages of implementation and the benefits are still to be realized. However, MAFF has achieved significant progress in the areas of rehabilitation of irrigation schemes (over 12,000 hectares), and establishment of livestock vaccination and animal disease treatment programs. MAFF established a research and extension center, quarantine services and a policy and planning unit. Also, the policy and strategic framework has been completed, representing a major step forward toward consistent programming in the sector.

Strategies to Address Challenges

MAFF's policy and strategy review has led to the conclusion that any significant improvement in food security will only come from increased efforts in upland and dryland areas. Trade-offs between programs must be made because of budget limitations and the recurrent cost problem. So far, programs have tended to concentrate on the restoration of irrigation capacity and on livestock production. Given that the bulk of the food supplies come from upland agriculture, efforts should focus on increasing productivity in the upland and dryland areas. This will likely result in greater benefits, and will increase economic activity and employment more than equivalent investments in irrigated agriculture. Boosting upland agriculture will require a changed approach by MAFF involving:

- Increased emphasis on improved farming systems and access to improved seed varieties.
- Increased emphasis on service delivery to communities to raise food production, and strengthened coordination between MAFF, NGOs and the private sector.
- Greater integration of programs between different sections of MAFF, not just within agriculture, but also with forestry and watershed management, and with other Government and local government agencies.
- A much more integrated participatory approach to rural development, working with rural communities to increase food production and using traditional management systems to improve forest rehabilitation, watershed protection and biodiversity conservation at the same time.

Meeting these challenges will require MAFF to put greater effort into capacity building, particularly skills and management development, increasing MAFF staff at the local level, and strengthening coordination with NGOs and ongoing donor programs. The new regional center at Maliana is an example of changes taking place that will facilitate the new initiatives.

IV. KEY PROGRAMS FOR THE MEDIUM TERM

The programs for the medium term are based on the strategic directions outlined in the MAFF Policy and Strategy Framework document. They are designed to address the four priority issues faced by agriculture in Timor Leste, i.e. i) food insecurity, ii) market-oriented agriculture, iii) capacity building in policy analysis and planning, and iv) improved service delivery.

While the focus of this SIP is the next five years, it should not be assumed that donor support would not be required after that time. Interventions that set out to achieve major changes in attitudes and practices in conservative rural communities cannot be expected to achieve their

objectives in three or four years. At least 10 years of concentrated and effective effort will be necessary for significant and sustainable impact, and MAFF will need external funding and technical assistance for at least that period. Many years more will be needed to extend the experiences gained in pilot projects to a significant proportion of farming communities.

Program 1: Achieve Food Security

MAFF has a clear role to play in improving the food security of subsistence and near-subsistence communities, which comprise all but a very small proportion of the nation's farmers. The objective of the food security program is to improve the quantity, quality and reliability of food production systems in subsistence households, principally in the uplands. The main opportunities for reducing the incidence of rural poverty and improving food security in subsistence communities in the short term are in the extension of simple, affordable technologies to improve the productivity of the major resource, family labour, along with incremental improvements to the food-producing and storage systems. Examples of rapid-impact, low-cost technologies include improved, locally tested varieties of maize and rice that are higher yielding than traditional varieties, with or without additional inputs, along with simple domestic storage silos to reduce post-harvest losses of maize and rice.

Sub-program 1.1 Seed and plant introduction, evaluation, multiplication and distribution.

Improved seeds and planting materials provide ongoing opportunities for increased yield and food quality, at low cost to producers. In the case of high-yielding cereals, yield improvements usually require additional inputs, but there are also opportunities for significant, low-cost increases in the productivity of staple food crops. ACIAR's research in Timor-Leste has demonstrated up to eight-fold increases in yield from new varieties of sweet potato compared with local varieties and over 100 percent in maize, with considerable variation between trial sites. For cassava, where average yields are reported to be among the lowest in Asia, over 25 t/ha have been recorded from new varieties compared with around 14 t/ha from local varieties grown under the same conditions.² These increases have been achieved under experimental conditions with low rates of fertilizer and suitable cultural practices, so that caution is advisable in extrapolating them directly to farmers' fields. As an indication of potential however, the successful extension and adoption of only 40 percent of these potential improvements, over the same planted area, could increase cassava production from the present 55,000 Mt to approx 72,000 Mt, benefiting 68 percent of total households - mainly those in the uplands³. Similarly for sweet potato, production could potentially increase from 31,000 Mt to over 120,000 Mt affecting 44 percent of households, and maize production could increase from the 2002 level⁴ of 68,000 Mt to 113,000 Mt across 80 percent of households. Smaller but important yield increases have been recorded for rice and groundnut varieties.

Opportunities exist for continual, but smaller, increments in production coupled with improved nutritional value of new varieties, as new genetic material is developed through the Consultative Group for International Agricultural Research (CGIAR) and related breeding programs. New plant varieties, access to quality-assured seeds and planting materials, coupled with improved cultural practices, offer the most cost-effective path to sustainable increases in food production, improved nutrition and household food security.

In most cases, the introduction of new varieties will require parallel modification to existing cropping patterns and farming systems. ACIAR has commenced the testing of some new varieties in mixed cropping systems, but further work will be required to better define their

² Australian Centre for International Agricultural Research (2003), Proceedings No 113; *Agriculture- New directions for a new nation, East Timor (Timor-Leste)*. pp 63-101.

³ Some of the new varieties of cassava are reported to have problems with eating quality that are not yet fully understood.

⁴ Timor-Lorosae Household Survey (TLHS), 2002.

full potential, under both controlled and farmers' conditions. Adaptive research in farmers' fields is also proposed under Sub-Program 1.3 (Upland Farming Systems) and Program 4 (Service Delivery).

In addition, MAFF urgently needs to develop a national system for the introduction, testing, extension and distribution of new plant varieties (principally seeds), with due regard to phytosanitary standards. Current introductions tend to be uncoordinated and numerous, with no guarantees of varietal purity. Many donors are providing piecemeal assistance with uneven national coverage, often independently of MAFF. The Ministry does not necessarily have to control all seed processes, but all contributors should follow standard procedures and regulations to ensure biosecurity and necessary supplies of quality seeds to farmers. The GTZ food security project, AMCAP/JICA, FAO and several others have complementary projects, but there is not yet a national system in place. Under ARP III several district seed producers associations are planned.

MAFF already has a successful model that covers some of these activities (introduction and testing) in the ACIAR 'Seeds of Life' project. These introduction and evaluation protocols need to be continued, expanded and institutionalized. An extension to the project has been foreshadowed. Assistance will be required for the following activities:

- Preparation of legislation and regulations for a Seeds Act.
- Establishment of seed testing laboratories and staff training.
- Reinforcement of plant quarantine procedures and training.
- Establishment of protocols for the ongoing introduction and controlled valuation of new plant material and the means for approving releases.
- Adaptive research to test the performance of new varieties under existing farming systems, and devise modifications as necessary.
- Participatory research and demonstrations of new materials and systems in farmers' fields.
- Establishment of procedures for the multiplication, distribution and quality assurance of seeds and plant materials.
- Development of a seed station (or stations) for the maintenance of supplies of basic seed for distribution to accredited seed producers.
- Facilitating the engagement of the private sector in the seeds industry.

Sub-Program 1.2 Policies and Strategies for Emergency Assistance to Communities.

Timor-Leste is prone to a range of natural disasters, such as droughts, floods, landslips and earth tremors/quakes, in addition to general agricultural risks from pests and diseases and the uncertainties of climate change. National policies, strategies and responsibilities are coordinated by the National Disaster Management Office (NMDO). MAFF has particular responsibilities for the food and seed aspects of disaster relief and for monitoring and reporting on the national food situation. These policies, responsibilities and management systems are still being developed, and MAFF requires assistance to devise policies and strategies for the national provision of emergency supplies of food and seeds. The Ministry proposes to further develop its draft Food Policy to include emergency relief strategies, improved food production and nutrition, in addition to longer-term programs to increase national food security and rural incomes.

Sub-program 1.3 Watershed-based farming systems for subsistence communities I and II.

Experience has shown that it has been difficult to encourage upland communities to take ownership of resource management issues such as re-forestation and reduced slash-and-burn practices, in the absence of external incentives. Upland communities tend to place priority on food production and income generating activities. These communities depend for their livelihood on a range of food crops grown in a wide variety of cropping systems,

supplemented by a limited supply of animal products. Maize, cassava, beans, tubers and root crops form the basis of these systems. The achievement of sustainable improvements in food production and household food security appears to be an essential pre-condition to the introduction of practices targeted at sustainable management of the uplands and their watersheds.

The program will therefore work to improve upland cropping systems so as to reconcile production objectives with sustainable natural resource management practices. The program would focus initially on improving the productivity and resilience of upland farming systems and labor productivity in subsistence households and reducing seasonal risks, with the dual objectives of improving food security and improving the sustainability of production systems. The program would develop pro-poor strategies and technologies for the short- and medium-term, beginning with studies to better understand some of the most common farming systems and risk management strategies of subsistence farmers. If and when markets develop, the program would assist subsistence farmers to adapt their farming systems to respond to market opportunities.

The program would take a national approach in priority watersheds, with demonstration and extension of proven, simple technologies complemented by longer-term research and development in subsistence farming systems. These activities will be delivered on a watershed basis with the full involvement of communities through community-based systems. The program would be complemented by the seed improvement and service delivery sub-programs (see programs 1.1 and 4.1). It would also be closely coordinated with a forestry program (see Forestry section in Part B) to rehabilitate forest previously used for shifting cultivation. This activity will help to improve local sources of fuelwood and fodder, and provide benefits to watershed protection and conservation of biological diversity. This program will be implemented in two phases.

Program 2: Promote Vigorous and Profitable Agricultural Industries

A number of initiatives are already underway to improve the opportunities for private sector involvement in agriculture. These include support under ARP III for farmer and other rural organizations that have historically been weak. These programs are aimed at improving farmer access to information, as well as facilitating marketing of agricultural inputs and products through commercial entities owned by farmers. The latter includes development of cooperatives, limited liability companies, partnerships, farmer associations and other forms of business organization.

Sub-program 2.1 Coffee Industry Development. The coffee industry needs to further develop and consolidate a market-oriented, high quality, organically-certified approach, as initiated by the Cooperativa Café Timor (CCT). There is an overwhelming need for initiatives to promote overall industry development, particularly in the areas of quality standards, to protect and promote the 'brand' image of Timor-Leste coffee. This sub-program would therefore focus on Industry Organization, and include:

- The establishment of a Coffee Industry Association.
- The setting up of International export standards for coffee.
- Development of a Business Strategy for the coffee industry.
- Development of Marketing Strategy for Timor Leste coffees.
- Development of a Business Plan for the coffee industry.
- Establishment of a single-desk organic certification scheme.
- Some provision of equipment/facilities for the Coffee Industry Association.
- Definition and implementation of priority interventions into the production, processing and post harvest systems and adaptive R&D required.
- Clear identification of extension needs and the establishment of an expanded extension system with training provided for extension workers.

- Demonstrations on improving productivity and in rehabilitation of the coffee with training for key farmers.
- Improved coffee quality from the use of alternative appropriate coffee processing and drying methods.

FAO has developed a possible model that defines the part that MAFF could play in the coffee supply chain, including its involvement with the private sector.

Sub-program 2.2 Agroindustry Development I and II. A national project for commodity-based agroindustry development is to be launched under the coordination of MAFF. The initial focus of the project will be on the improvement of the efficiency and performance of the coconut industry. Building on the pilot activities that are planned in ARP III, other commodities will be identified, such as candlenut and vanilla.

The coconut resources of Timor-Leste are very scattered and largely confined to the coastal areas and low altitudes, but are reputed to occupy a total of 14,000 ha. Apart from fruit consumption, the resource is badly neglected due to the collapse of the copra industry. The immediate intention is to develop an import replacement industry and export of high-quality virgin oil. The establishment of an industry-wide plan and the piloting of both large and small extraction plants is envisaged through community cooperatives followed by national expansion over 4 years. The program will provide employment in the rural areas by the use of simple oil presses throughout the country. Further study of processing arrangements is required, but a combination of large and small capacity processing machines will meet this requirement. There is already some experience in the process and a CRS sponsored oil press is operating profitably, and further machines may be provided through Component 1 of ARP III and GTZ. Larger machines are proposed for the main coconut areas. Additional donor support is required to complete the coconut program across all coconut producing areas.

The agroindustry program will incorporate the lessons learned and experiences from the coffee sector. Government efforts have to concentrate on facilitating the establishment of a commodity chain, providing incentives for quality production. Close coordination is foreseen with activities proposed in the Private Sector Development SIP, such as capacity building for the cooperative sector. This program will be implemented in two phases.

Sub-program 2.3 Improving the Cropping Efficiency of Irrigated Areas. MAFF faces a policy issue in determining whether it will introduce a user-pays scheme to maintain the recently rehabilitated schemes. A major issue is the routine maintenance of the schemes by water-users. There is general agreement that farmers are unlikely to pay for or undertake their own maintenance unless they can achieve production increases from the rehabilitated areas. The annual cost of maintenance per hectare has been variously estimated to be from a low of \$8 in community schemes, \$30 for larger schemes up to high estimates of \$45. Budget projections suggest that this could cost as much as 40 percent of the annual proposed CFET allocation, which is clearly not realistic, given other priorities.

This proposed program will assist to improve the productivity of existing irrigated areas through improved water-use efficiency, the production of high-value crops and the adoption of better cropping systems. The objective is to improve production and farmer income in order to make water-user fees more affordable. This will provide the motivation for farmers to maintain their irrigation systems and remove the maintenance cost burden from Government. The sub-program will extend and complement the work of ARP and JICA in addressing these problems.

Sub-program 2.4 Livestock Industry Development I and II. Support for the development of the livestock industry is well advanced. Veterinary services for the prevention and eradication of animal diseases are already included in the ARP III project, building on the earlier ARP-

supported programs. These include the development of comprehensive animal health management programs, a cadre of private village livestock workers who assist farmers with basic veterinary services and regular animal vaccination programs. As the main thrust of livestock disease control is already covered, it is appropriate to place greater emphasis on the role of livestock in food security, improving nutrition, and agribusiness development.

A national program is to be developed with a focus on increased livestock production for local meat supplies for improved food security, especially better nutrition, and also possible large ruminant export. It would include programs aimed at improving pasture management and production of forage for livestock. Pilot cattle fattening projects aimed at supplying the local market have been started in a number of locations. The further development of the industry offers prospects for increased private investment. Regulations for the operation of abattoirs were prepared. Although it has proved difficult to attract the investment necessary to re-open the Dili abattoir, it can be expected that this will change once there is increased supply of cattle and improved market linkages have been established. This program will be implemented in two phases.

Program 3. Capacity building in policy and planning

MAFF is acutely aware of the need for the further development of its policies, strategies and supporting legislation, with these areas ranked as the highest priority in its 2003 Road Map exercise. Based on MAFF's recently completed Policy and Strategic Framework, a range of sub-sector policies and action plans have to be elaborated. Support is required for capacity building in planning, monitoring and evaluation, economic and market analysis, and in resource economics. Additional support is also needed to enhance the capacity of the Ministry to discharge its regulatory responsibilities.

Sub-program 3.1 Policy, Management and Operational Support Services. MAFF's new Policy and Strategic Framework has been developed in early 2004 with support from GTZ, FAO, AusAID and the World Bank. However, GoTL needs further assistance to build its own internal, national capacity in policy analysis and development of strategies and action plans. For at least the medium term, these activities will fall under the Division of Policy, Planning and Programs within MAFF, and possibly into the Socio-economics Department within the Faculty of Agriculture at UNTL. Important areas of immediate concern are assessments of the food security indicators, socio-economic studies of major farming systems, market studies and commodity-chain analysis, and a common monitoring system across donor-supported projects.

GIS mapping can provide up-to-date information on land potential and use, production and other socio-economic information essential for effective local and national management of resources and programs. MAFF intends to link all agricultural GIS systems and data-bases for Timor-Leste into its ALGIS (Agricultural Landuse Geographical Information System). ALGIS will be an essential tool in planning the upland farming system (see sub-program 1.3) and watershed-based management programs (see Forestry part of this SIP). The existing ALGIS outputs need to be validated and cross-referenced with ground-level observations. The ALGIS system is operational, but MAFF technical staff are yet to make regular use of the system.⁵

With regard to meteorological data, climate stations are currently being developed with assistance from ARP, Norway, USA, France and Australia. The national water resource assessment will provide background information on further development needs.

⁵ The Australian Defense Force has recently made available to the Land and Property Department of the Ministry of Justice its full set of digitized aerial photographs, which will further strengthen the national data set.

Sub-program 3.2 Human Resource Development. This sub-program will provide assistance with human resource development. Major components will be formal training in technical and managerial skills, mentoring for middle and upper level staff, and in-service training courses. Human resource development is a major, long-term program that will become demand-driven and responsive to the identified training needs of MAFF at all levels. Until now, it has been determined by reacting to the uncoordinated training offerings of donors. MAFF has conducted a first training needs assessment at the individual level for all Divisions. The data are currently being processed.

Additionally, there will be targeted training as part of some of the proposed new programs, especially for the Food Security and Agricultural Industries Programs. The cost of this project level training is estimated at an average of 30 percent of total program budget for each program, but is not further disaggregated at this stage. The cost of such training is normally included within donor project budgets and the focus of these training activities is determined by project management.

In the area of policy development, MAFF may need to cooperate with UNTL to pool the very limited resources of both organisations in order to carry out analytical studies. The prerequisite training of policy analysts to higher-degree level will take many years. In the interim donors will have to fill the vacuum and several donors have expressed interest in helping to build this capacity. Specialist policy advice and support might best be provided by the appointment of a small panel of international policy advisers whom the Minister for MAFF could call upon for independent specialist advice, as required.

The human resource development strategy of MAFF will develop mechanisms to promote gender equality. Currently, MAFF staff are predominantly male. However, the near-equal balance of the sexes in post-independence enrolments in the UNTL agriculture degree program will shortly produce cohorts of professionally qualified female agriculturists as potential MAFF employees. Given staff ceilings and difficulties in locating female officers in the Districts, it will take some time to achieve a desirable gender balance, especially in the field. MAFF will therefore develop appropriate extension strategies to address this problem as a component of its overall Service Delivery Program.

Sub-program 3.3 Regulations, Phytosanitary Control and Biosecurity. The formulation and administration of policies, laws and regulations on issues such as phytosanitary standards, quality assurance processes for fertilisers, seeds and agricultural chemicals and animal and plant quarantine are generally accepted as being important functions of the public sector. Apart from their technical purpose, international quarantine regulations have long impeded the entry of agricultural and horticultural products into countries such as Australia and the large economies of East and North Asia. A quarantine law was recently promulgated and a start was made in developing animal quarantine programs, with regulations drafted, staff trained and implementation of quarantine services in Dili and some border locations. Attention to phytosanitary standards, legislation and quality assurance procedures (such as organic certification) for potential export commodities will be a prudent investment with a long-term view to improving access for Timorese agricultural products to international markets.

Other elements of this program are the development of standards and regulations relating to coffee quality, seed certification, truth in labeling, organic certification, animal disease control, pesticide registration and control, and genetically modified organisms.

Program 4. Improved Service Delivery

Projects proposed in this category are designed to support MAFF's capacity for service delivery. Working with communities in Timor-Leste has proved difficult for reasons that are

not yet well understood.⁶ Recent project experience support the findings of the draft SIP 2003, but have been even more explicit about the need for a close personal, face-to-face and high-trust relationship between the farmer and the extension person/facilitator. It seems essential to demonstrate simple technologies that really work under the farmers' conditions and are well suited to the farm-household system. It appears that, at least at this stage of development, mass media and indirect extension methods are unlikely to have a major impact in rural areas of Timor-Leste. Even local demonstrations in which the farmers lack ownership appear to be ignored.

Sub-program 4.3 concentrates on vocational agricultural training that will support activities that are relevant to rural life and small agriculture-based enterprise development.

Sub-program 4.1 Strengthening the extension and support services of MAFF I and II. The original policy set by UNTAET was to deliver extension services to farmers through the private sector and NGOs. This policy has proved to be ineffective because the private sector has been very slow to develop and NGOs lack the necessary capacity and resources. There is an emerging international consensus that a fully privatized extension service is not feasible, *even in a fully commercialized economy*, and that some level of public investment in extension remains necessary to overcome market failure in the delivery of services to agriculture⁷. Even if successful in supporting commercial farmers, a privatized extension service tends to ignore the poorest and most vulnerable communities. The risk of market failure in support services to subsistence farmers is considered to be substantial in Timor-Leste during the next 10 years, especially in the more remote areas, during the transition to market-based agriculture and while the private sector remains embryonic. Indeed the subsistence sub-sector may well continue to require special efforts by MAFF on equity grounds alone.

MAFF cannot afford to contemplate a fully-funded public extension service along traditional lines. The issue for MAFF is not whether to provide extension services, but the nature and targeting of the minimal services that need to be provided by MAFF to support sustainable agricultural development across the great diversity in communities and agroclimatic conditions of the nation. However, MAFF has very limited numbers of field staff (approximately 65) and, at best, only marginal increases will be possible in the medium term. The corollary is that MAFF will not have the capacity to provide nationwide coverage for the face-to-face interaction that recent research indicates is necessary to work effectively with subsistence farmers in Timor-Leste⁸.

The proposed program will begin with a review of policies and strategies for service delivery to farmers, including MAFF's working relationships with the private sector and civil society. MAFF will devise strategies to interact with communities and other extension and information providers, such as NGOs, to define and implement a cost-effective system for the nationwide delivery of services to farmers. The system could possibly be based around local experience with the Village Livestock Worker model under ARP II and experience with similar farmer-driven, self-supporting systems elsewhere in Asia and Africa. This program will be implemented in two phases.

⁶ The output of the 2004 OXFAM/MAFF study on Lessons Learned in Community Level Agriculture and Natural Resource Management will help to inform decisions as to the approaches that are effective in communicating new technologies to farmers.

⁷ World Bank-USAID, *Extension and Rural Development-Converging Views on Institutional Approaches?* ARD, Washington. November 2002.

⁸ OXFAM-MAFF-World Bank (2004), *Lessons Learned in Implementing Community Level Agriculture and Natural Resource Management Project*; Research in progress.

Sub-program 4.2 Research and information services. This program provides support for district staff and communities with a range of technical services in such areas as soil analysis, pest and disease control, information services and mass media extension materials. MAFF has priority need for seeds laboratories to support the new seeds program, and for basic laboratory facilities to support plant, soil and animal programs.

National systems are needed to ensure that the country is able to access and adapt technology and innovations from outside, and to develop an indigenous capacity for applied and adaptive research in order to solve its own problems in agriculture and natural resources.

Agreements with UNTL and other relevant bodies will be made to integrate research and development programs and activities with MAFF, particularly in areas such as field stations, laboratories and diagnostic services. This process has begun with the draft MOU between MAFF and UNTL and needs to be affirmed and extended with operational agreements for the joint use of facilities.

Sub-program 4.3 Agricultural Education and Training. The importance of early progress in creating off-farm employment in the private sector is clearly illustrated by the fact that some 15,000 to 20,000 young people – predominantly from rural areas – enter the labor force each year, far more than the anticipated vacancies in the public sector. Creating adequate and productive employment opportunities especially at the local level, to meet the needs of the country's youth will remain as one of the main challenges for Timor-Leste. Apart from high quality basic education, vocational and technical education that is relevant to rural areas and which prepares rural youth for jobs in the private sector or self-employment is an urgent priority, although at the margins of this Sector. Training in technology, small business and farm management, agribusiness, marketing and financial management at a vocational level is of particular relevance and would complement the new directions being introduced for higher studies in agriculture at university level. Suitable vocational-level curricula have already been developed elsewhere in the region. These education programs provide essential support for diversification out of agriculture into non-farm rural activities and the creation of non-farm employment, including the promotion of opportunities in the service sectors closely related to agriculture (farm equipment, agro-processing, transportation and marketing, and food processing).

Current vocational training in agriculture and NRM is almost non-existent, with only the Silesian school at Fuiloro having an established curriculum. Assistance is required to refurbish teaching facilities, provide basic teaching materials and equipment, adapt and develop the curriculum,⁹ provide in-service training and updating for teachers and managers, install farm management systems and provide micro-credit training for students through revolving loan funds. Initially, these courses will be supported at three regional schools. Links need to be built with the Business Development Center program of the Ministry of Development and Environment in order to tailor curricula to specific target groups, share resources, and maximize training offerings for the rural population.

For a small but increasing number of young rural women the proposed Vocational Education Program will be of special relevance, as experience in the region has shown that rural and urban women alike are advantaged by training that emphasizes small enterprise management, marketing, food technology and post-harvest processing and, as market links develop, micro-credit and financial management. Graduates of these programs have also proven effective change-agents in the income-generating activities of their own homes and communities.

⁹ Curriculum: Suitable course materials have been developed elsewhere and need only adaptation and translation to be highly relevant in Timor-Leste.

Sub-program 4.4 Integrated Agricultural Research. Agriculture is a very location specific activity and new technologies need to be adapted to local conditions before they can be taken to farmers. Timorese agriculture has to evolve from subsistence farming, to one that not only supplies the basic needs of the population but also provides them with extra income through the use of improved varieties, better production systems, higher yields and higher margin products.

The Research and Extension Centre at MAFF has been pushing for increased farm income through adaptation of improved varieties, better cropping systems, improved soils conservation techniques and small scale food processing at the village level.

The Research and Extension Centre needs now to extend the applied research to other fields of agriculture, such as agro-forestry, food crops and upland farming. Animal production is also a priority for the Research and Extension Centre which needs to improve cattle feeding systems, enrich the graze lands and start animal breeding and reproduction programs in order to be able to intensify animal husbandry. Aquaculture is the third area where Research and Extension Centre needs to have a more active role, in order for the activity to evolve into a commercial and profitable enterprise.

This project intends to set up three applied research/extension centers where integrated farming systems can be experimented, improved and shown to farmers.

These centers will be established in existing MAFF facilities in Natarbora, Betano and Loes and specialized staff will be delegated from Dili. MAFF will work with farmers and through a rigorous process of research adapt the new technologies and practices now current in many countries to the local conditions. This medium to long term project will be established over a period of at least three years. It is expected that the existence of these research centers will increment the benefit derived from the hosts of international consultants and researchers who visit Timor-Leste every year, as they will be able to incorporate their knowledge and know how into a sustained research program.

Program Priorities and Intersectoral Linkages

The MAFF has established a clear set of priorities for the proposed new program for the agriculture and livestock sector. The eight high priority programs for the sector would begin implementation in FY2004/05, subject to funding availabilities (Table 1). They would require new program approvals by donors in the amount of \$9.5 million. A very high priority is accorded to programs aimed at improving food security and service delivery to farming communities. A further ten programs are accorded a slightly lower priority and are proposed for start-up in FY2005/06 and beyond. These would require \$9.05 million of new approvals by donors.

Table 1: Priority Ranking of Proposed New Programs for the Agriculture and Livestock Sector
(In US\$)

Priority Ranking	Start Date	Proposed Annual Amount of New Approvals					Total
		FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	
A. High Priority Programs							
Seed introduction & multiplication	FY2004/05	1,500,000					1,500,000
Improve cropping efficiency under irrigation	FY2004/05	1,500,000					1,500,000
Watershed based farming systems I	FY2004/05	2,500,000					2,500,000
Livestock industry development I	FY2004/05	750,000					750,000
Support services for management & operations	FY2004/05	500,000					500,000
HR for policy development	FY2004/05	500,000					500,000
Extension & support services I	FY2004/05	1,500,000					1,500,000
Agricultural education & training	FY2004/05	750,000					750,000
Total proposed approvals		9,500,000	-	-			9,500,000
Annual disbursements		2,300,000	3,250,000	3,950,000			9,500,000
B. Programs for the Medium-term							
Coffee industry development	FY2005/06		500,000				500,000
Agroindustry development I	FY2005/06		750,000				750,000
Policies for emergency assistance	FY2005/06		100,000				100,000
Research & information services	FY2005/06		250,000				250,000
Regulations, phytosanitary & biosecurity	FY2005/06		500,000				500,000
Integrated Agriculture Research	FY2006/07			1,500,000			1,500,000
Extension & support services II	FY2007/08				1,500,000		1,500,000
Watershed based farming systems II	FY2007/08				1,700,000		1,700,000
Livestock industry development II	FY2007/08				500,000		500,000
Agroindustry development II	FY2008/09				1,750,000		1,750,000
Total proposed approvals		-	2,100,000	1,500,000	5,450,000	-	9,050,000
Annual disbursements			600,000	1,300,000	2,750,000	3,150,000	7,800,000
C. Total proposed new program							
Total proposed approvals		9,500,000	2,100,000	1,500,000	5,450,000	-	18,550,000
Total annual disbursements		2,300,000	3,850,000	5,250,000	2,750,000	3,150,000	17,300,000

Source: Annex Table 5.

Several donors are in the process of revising their country strategies for Timor-Leste, and MAFF is negotiating with donors who have expressed interest in supporting the SIP projects. Scheduling of new projects will necessarily be subject to the planning time-frames of these donors.

As agriculture is by far the most important sector in rural areas, there are many **linkages with almost all of the other sector investment programs**. The Government recognizes that timely implementation of these priority programs requires effective coordination with activities in other sectors. The major links were identified as follows:

Private sector development. Rural finance plays an important role in developing both the private and rural sectors. Credit access was disrupted following independence and currently none of the available credit programs tailor lending to the particular needs of farmers. There is an urgent need to develop credit facilities that service the needs of farmers and rural enterprises, offered in conjunction with technical support services and training in the responsible and productive use of credit. Microfinance facilities also need institutional support to build management capacity and develop appropriate prudential safeguards against mismanagement and corruption. MAFF has neither the intention nor the capacity to offer rural finance services. However, it is considered essential for agribusiness activities and MAFF can offer its expertise in agriculture and agribusiness to develop targeted rural finance programs. It is proposed to conduct an assessment of the agricultural sector needs as component of the expansion of microfinance and credit cooperative programs (see the SIP for Private Sector Development).

There is also an urgent need for an improved **enabling environment for private sector involvement** in commodity marketing, transport, storage and processing. This refers, both, to foreign direct investment and domestic investment by small and medium-scale enterprises. As agriculture, forestry and fisheries depend on private sector investment, specific provision and incentives for private sector investment in these sectors are still lacking.¹⁰ The Government's

¹⁰ The draft Policy on Private Investment in Timor-Leste aims at providing a framework for promoting foreign and domestic private sector investment, but leaves specific provisions to the sector ministries.

policy on tariffs and taxes does not yet reflect the preference given to agriculture documented in the NDP. Currently, the tariff structure does not cover exemptions for essential agricultural production inputs such as hand tools, fertilizer, machinery, and seeds.

Transport and rural roads. Maintaining the rural road network in good condition is a challenging task for the government. MAFF has been only involved in the rehabilitation of farm-to-market roads (100 km in ARP I) and in irrigation access roads (ongoing in ARP III). There is currently no provision for repair and maintenance of the rural road network included in MAFF's Sector Investment Program. The SIP for the Transport Sector does, however, make provision for maintenance of rural roads.

Rights, equality and justice. Land tenure remains as a central issue for private sector development in agriculture, particularly for commercial crops, including foreign direct investment. It also has high importance for sustainable forest management. The status of forest resources will be addressed in the upcoming forest policy and legislation.

Formalization of land titling under Timor-Leste Law, including the recognition of customary title, is receiving urgent attention by the Ministry of Justice, but will likely take many years to complete. In the interim, insecure property rights remain an impediment to investment and sustainable land management. The enforcement of legal decisions on property rights is also an area of concern, as there have been instances where dissidents have maintained occupation by force. In outlying areas, lawless elements still threaten the lives of those who obstruct their activities.

Land tenure remains as a central issue for private development of agriculture, particularly commercial crops such as coffee and other agro-industrial crops. Current projects under USAID and AusAID are of a pilot nature, and need to be greatly expanded and extended to ensure that the land-titling process is completed for rural areas as soon as possible. MAFF's expertise in rural areas can be used for the design of the upcoming land law program as proposed in the Private Sector Development SIP.

Health Care. MAFF intends to cooperate closely with the Ministry of Health on finalizing the Food Security Policy and on related programs. This refers especially to nutritional aspects of these programs.

Education and Training. Cooperation is envisaged for the proposed Agricultural Education and Training program.

Natural Resources and Environment. There is an ongoing cooperation on the integrated water resource management policy and strategy, as irrigation is a major source of water demand. Policies for agricultural inputs with a likely impact on the environment, such as pesticides and genetically modified organisms, will be developed in collaboration with the Ministry of Development and Environment.

External Relations. Agricultural trade is one of the most discussed issues in international negotiations. Important issues of concern are, for example, food safety and phytosanitary standards and other trade restrictions. Since MAFF intends to develop its own detailed policies, close attention has to be paid to international and bilateral treaties in this area, in collaboration with the Ministry of Foreign Affairs and Cooperation.

Power and Communications sectors. General rural development is a precondition for the transition from subsistence to commercial agriculture and for agribusiness development. This includes electricity, water supply, sanitation and communications. Therefore, infrastructure development should concentrate on those areas where agribusiness development is supported.

Crosscutting Issues for Agriculture and Livestock Programs

Environmental sustainability. Environmental sustainability of farming systems is a key concern in Timor-Leste, as in many areas traditional shifting cultivation will be replaced by more permanent forms of land cultivation. All proposed programs have to make sure that technologies for improving farming systems enhance environmental sustainability under the prevailing physical, social and political conditions in Timor-Leste.

Gender Equality. MAFF's programs are aimed directly at food security and poverty reduction for all rural households, especially through the food production and nutritional emphasis of its new programs. The programs include particular activities that address household labor productivity, food production and nutrition, and it is expected that these will have direct benefits for women and children. The programs will include attention to the particular needs and time constraints faced by women and female-headed households. In the past, servicing the special needs of these groups has been largely left to the NGOs. Under the new food security and subsistence programs the special needs of women and disadvantaged groups will be mainstreamed, particularly in the attention to food supply, quality and preparation, home gardens and small animals and food wastage and storage.

MAFF recognizes the fundamental importance of female education as the basis for the full and equal participation of women in society, although most of the formal education system is outside MAFF's mandate. Women tend to have lower levels of functional literacy and numeracy which, together with limited mobility and time, lower social status and male-dominated leadership positions can result in their exclusion from, or under-representation in, development activities that rely on these skills. Equity in access to education provides the foundation for progress towards social and economic independence for women, especially in remote and underprivileged areas.

MAFF's proposed training activities will make special arrangements for sensitizing the currently predominately male MAFF staff on gender issues and ensure that women are fully engaged in the new food security, commercial agriculture and service delivery programs. Techniques such as separate group activities for women, technologies targeted at women's interests and needs, and extension methods that accommodate low literacy and numeracy levels are to be used.

V. SUPPORTING EXPENDITURE PROGRAMS

Current Expenditures

Expenditures by Government and development partners on agriculture and livestock programs amounted to about \$66 million during FY1999/00 through FY2003/04 (Table 2). An important point that emerges from the Table is that there has been a steady build-up in annual expenditures over these past five years, with total spending at about \$17 million last year. This consistent trend signals a steady improvement in the absorptive capacities of the sector.

Another striking aspect of the program during the past five years has been the very heavy dependence on the donor community for support in the sector. Development Partners funded 95 percent of the total outlays. The largest amounts of support came from United States, TFET, Japan, and Australia. The agriculture and livestock sector has one of the highest ratios of donor funding to total spending of any of the 15 sectors under review in the SIP exercise. The low proportion of programs funded by CFET is increasingly a matter of concern to the Ministry.

Table 2: Donor & CFET Funded Programs Completed, Ongoing & Under-Preparation for Agriculture & Livestock

Funding Source	Annual disbursements					Total	
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	Amount	Percent
Donor funded programs	4,778,768	12,375,745	13,986,535	15,438,878	16,255,936	62,835,862	94.6
CFET appropriations	408,000	520,000	497,000	1,098,000	1,039,000	3,562,000	5.4
Total expenditures	5,186,768	12,895,745	14,483,535	16,536,878	17,294,936	66,397,862	100.0
CFET as % of total	7.9	4.0	3.4	6.6	6.0	5.4	

Source: Annex Table 1.

A substantial amount of the donor funds in the early years after 1999 was spent on emergency measures, such as replacement of livestock, distribution of seeds and other inputs, and rehabilitation of destroyed facilities. Table 3 gives the distribution of expenditures among the main programs for agriculture and livestock during the five-year period ending FY2003/04. Irrigation and industrial crops, mainly the coffee industry, have received the largest allocations of donor funds. Allocations for the development of industrial crops have dominated the program with disbursements estimated at \$19 million, almost 30 percent of the total program. Most of these funds have gone to the USAID-funded project supporting the coffee industry, but with very limited involvement of Government.¹¹ It is perhaps noteworthy that according to the latest national accounts estimates, the non-food crop sector had the strongest growth performance in agriculture, with value added in real terms growing by an average of 26 percent a year during 2000-2003. The sector now accounts for a quarter of total value added in agriculture.

Table 3: Allocation of CFET & Donor Expenditures Among Programs: Totals for FY1999/00 Through FY2003/04 (In US\$)

Program	Funding source		Total	
	CFET	Donors	Amount	Percent
Policy, planning, management	1,334,000	9,875,184	11,209,184	16.9
Food crops	465,000	4,389,626	4,854,626	7.3
Industrial crops	273,000	18,908,840	19,181,840	28.9
Post-harvest storage & processing	-	1,195,794	1,195,794	1.8
Livestock	488,000	3,468,061	3,956,061	6.0
Irrigation	744,000	11,072,500	11,816,500	17.8
Farmer organizations & training	-	4,761,467	4,761,467	7.2
Research & extension services*	258,000	1,807,310	2,065,310	3.1
Integrated rural development	-	7,357,080	7,357,080	11.1
Total	3,562,000	62,835,862	66,397,862	100.0

Source: Annex Table 1.

* Includes quarantine services

There has been a substantial program of support from donors to build the policy, planning and management capacities of MAFF, with disbursements amounting to about \$11 million during the past five years. This program accounted for about 17 percent of outlays in this period. There has also been substantial support for irrigation rehabilitation with disbursements amounting to about \$12 million. Major funding sources were Japan and the Agricultural Rehabilitation Projects supported by TFET. Rehabilitation is expected to continue, although at a slower pace, as the recently started ARP III has allocated significant amounts of funds for this area.

Programs to rehabilitate and expand food crop production have amounted to about \$5 million. Almost all of these outlays occurred during the rehabilitation phase, with no ongoing programs of any consequence. From very modest beginnings, there has also been a significant

¹¹ Apart from supporting the Cooperativa Café Timor (CCT), the project has supported income diversifying activities, such as cattle fattening and vanilla, as well as health care in the coffee districts.

build up in support for the livestock industry, including vaccination programs and village advisory services.

Another striking feature of the program during these four years has been the negligible allocations for post-harvest processing and storage and for extension and research services provided by MAFF. The almost \$5 million spent on farmer organizations and training was channeled through NGOs, and as noted earlier, with rather mixed results.

Proposed Expenditure Programs

As discussed in earlier Chapters of this SIP, the Policy and Strategic Framework document of MAFF proposes a major shift in emphasis towards the following priority areas:

- Improving productivity of farming systems in upland and dryland areas.
- Increased emphasis on direct service delivery to communities to affect farming system improvement and market-oriented production.
- Greater integration of programs on the ground between different sections of MAFF, and with other Government agencies, the private sector and NGOs.
- A much more integrated and participatory approach to rural development, working with rural communities to increase food production, and improve forest rehabilitation, watershed protection and biodiversity conservation.

The proposed program for agriculture and livestock for FY2004/05 through FY2008/09 amounts to \$41 million, which represents a significant decline from the past five years. Table 4 summarizes the allocation of funds among the proposed programs for the period. Consistent with earlier discussions, the share of resources allocated to food security related programs rises to 30 percent, compared with 14 percent in the previous period. The allocation to delivery of services to farming communities increases from 10 percent to 19 percent, whereas the allocation to industrial crops and post harvest activities declines from 31 percent to 9 percent. Allocations for policy, planning and management and for integrated rural development are close to their past shares.¹²

An aspect of the proposed program of considerable concern for the Government is the overall decline in spending in the agriculture and livestock sector. The decline is primarily related to sharp reductions in expenditures on commercial crop development and irrigation. Total expenditures in the sector decline from the estimated high of \$18 million last year to only \$11 million in this year. Because of a very weak pipeline of donor-funded activities, there is a sharp decline in disbursements from ongoing donor programs from \$17 million last year to an estimated \$7 million this year. Ongoing donor projects essentially come to a close in FY2006/07. The weak donor pipeline is compounded by continued small allocations of CFET resources to the sector.¹³ At currently projected levels CFET contributions will not be able to fill the gap left by the decline in Development Partner commitments. A major challenge for

¹² Most of the ongoing projects have an explicit focus on integrated rural development. The major donor funded programs, ongoing or under preparation, which will be running in 2004/05 and beyond are the following: Agricultural Rehabilitation Project III (TFET/EU); and Food Security Program – Baucau and Viqueque (GTZ). It should be noted that several other programs that are listed under community development in the draft Local Government and Civil Society SIP, have important agricultural development components. These include the Ainaro and Manatuto Community Activation Project (JICA) and the Oecussi/Ambeno community activation project (EU).

¹³ The forward estimates of the CFET budget for MAFF have been revised downwards significantly in recent years. They have followed downward revisions in the Government's revenue projections. In the National Development Plan (NDP), the CFET budget for MAFF (including agriculture and livestock, forestry and fisheries) for the FY2006/07 fiscal year was projected to be \$3 million. This was revised downwards to \$2.9 million in the FY2003/04 budget, and further revised to \$1.9 million in the forward estimates accompanying the fiscal envelope for the FY2004/05 budget. This latest forward estimate for FY2006/07 for the MAFF represents a decline of 27 percent from the corresponding figure in the NDP.

the Ministry is to build up the proposed new program as quickly as possible to maintain strong support for poverty alleviation in rural areas over the next five years.

Table 4: Proposed Expenditure Program for the Agriculture and Livestock Sector
(In US\$)

Program	Annual disbursements					Total	
	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Amount	Percent
Policy, planning & management							
Ongoing donor programs	1,101,323	970,281	395,028	-	-	2,466,632	6.0
CFET appropriations	412,000	418,000	437,000	445,000	457,000	2,169,000	5.3
Proposed new programs	150,000	550,000	700,000	200,000	-	1,600,000	3.9
Sub-total	1,663,323	1,938,281	1,532,028	645,000	457,000	6,235,632	15.3
Food security incl.crops & livestock							
Ongoing donor programs	1,230,546	715,832	243,197	-	-	2,189,575	5.4
CFET appropriations	196,000	222,000	226,000	230,000	236,000	1,110,000	2.7
Proposed new programs	1,450,000	2,100,000	2,700,000	1,050,000	1,150,000	8,450,000	20.7
Sub-total	2,876,546	3,037,832	3,169,197	1,280,000	1,386,000	11,749,575	28.7
Industrial crops*							
Ongoing donor programs	573,250	372,750	-	-	-	946,000	2.3
CFET appropriations	48,000	62,000	67,000	70,000	75,000	322,000	0.8
Proposed new programs	-	400,000	450,000	400,000	1,000,000	3,000,000	7.3
Sub-total	621,250	834,750	517,000	470,000	1,075,000	3,518,000	8.6
Irrigation							
Ongoing donor programs	859,030	1,075,014	520,326	-	-	2,454,370	6.0
CFET appropriations	194,000	313,000	419,000	451,000	479,000	1,856,000	4.5
Sub-total	1,053,030	1,388,014	939,326	451,000	479,000	4,310,370	10.5
Service delivery programs**							
Ongoing donor programs	832,770	875,326	417,746	-	-	2,125,842	5.2
CFET appropriations	120,000	147,000	154,000	153,000	163,000	737,000	1.8
Proposed new programs	700,000	800,000	1,400,000	1,100,000	1,000,000	5,000,000	12.2
Sub-total	1,652,770	1,822,326	1,971,746	1,253,000	1,163,000	7,862,842	19.2
Integrated rural development							
Ongoing donor programs	2,458,172	654,705	269,676	79,954	-	3,462,507	8.5
Total program							
Ongoing donor programs	7,055,091	4,663,908	1,845,973	79,954	-	13,644,926	33.4
CFET appropriations	970,000	1,162,000	1,303,000	1,349,000	1,410,000	6,194,000	15.2
New CFET appropriations	419,375	668,500	794,500	850,000	1,000,000	3,732,375	9.1
Proposed new programs	2,300,000	3,850,000	5,250,000	2,750,000	3,150,000	18,550,000	45.4
Grand total	10,744,466	10,344,408	9,193,473	5,028,954	5,560,000	40,871,301	100.0

Source: Annex Table 1.

* Includes post-harvest processing & storage; ** Includes quarantine services.

Recurrent Costs

The downward revision of the forward estimates for CFET expenditure on MAFF activities has significant implications for the financial sustainability of these activities. Earlier forward estimates appeared to provide considerable scope for the CFET budget to pick up the recurrent costs of major projects in agriculture and livestock. However, this is now less clear. For example, the future cost to the Government budget of the Agricultural Rehabilitation Project has been estimated at \$737,000 a year,¹⁴ equivalent to about 57 percent of MAFF's latest forward estimate for the agriculture and livestock sector for FY2006/07.

The earlier forward estimates had provided for significant growth in the budget for irrigation (from \$166,000 in the FY2003/04 mid-year budget update to \$886,000 in the forward estimate for FY2006/07), and it is unlikely that this growth can be accommodated within the revised forward estimates.¹⁵ The SIP exercise therefore includes proposed new CFET allocations for the next three years to permit more adequate funding of the recurrent costs of various programs. An additional \$3.7 million is proposed for the agriculture and livestock

¹⁴ D. Hamilton (2004): *Review of Consolidated Public Expenditure and Donor Assistance in Agriculture, Forestry and Fisheries Sectors. Draft Exit Report.* MAFF.

¹⁵ The latest forward estimate for the irrigation division is \$419,000 for FY2006/07 and \$451,000 for FY2007/08.

sector for these five years. Even so, the ministry would still only cover 25 percent of the proposed program from CFET allocations.

The design of the proposed programs give close attention to the recurrent cost issue and make appropriate arrangements with development partners and beneficiaries. If MAFF does not receive higher allocations from CFET, it will face the prospect of sharp cutbacks or elimination of some of services to farming communities. At this stage it appears unlikely that the newly created Water Users Associations can absorb those costs items now foreseen as government contributions.

The Role of Donors

As noted earlier, donors have funded 95 percent of the program during the past five years. Ongoing donor programs would provide some \$14 million of the required \$41 million for the five year period ending FY2008/09. The proposed program includes new donor funding of about \$18.5 million and new CFET allocations of \$3.7 million. As Table 1 indicated, this would require some \$9.5 million of new commitments by donors during FY2004/05 and a further \$2.1 million the following year. With the phase out of TFET, which has provided about 14 percent of total funding to date, the Government must look to other donors who have been strong supporters of the sector in the past, as well as to new donors. The other big supporters of agriculture – the United States, Japan and Australia – also have no significant ongoing pipeline of projects in the sector.

Table 5: Sources of Funding for Agriculture & Livestock Sector Investment Program
(In US\$)

Funding source	FY1999/00-FY2002/03		FY2003/04-FY2004/05		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Donors						
United States	20,715,475	30.5	500,000	1.1	21,215,475	19.0
TFET	14,144,839	20.9	1,271,301	2.9	15,416,140	13.8
Japan	14,177,060	20.9	722,676	1.6	14,899,736	13.3
European Union	575,406	0.8	8,028,930	18.2	8,604,336	7.7
Australia	5,702,994	8.4	916,971	2.1	6,619,965	5.9
UNDP	652,323	1.0	-	-	652,323	0.6
Germany	1,909,527	2.8	886,496	2.0	2,796,023	2.5
Portugal	1,360,000	2.0	914,000	2.1	2,274,000	2.0
Other donors	6,376,015	9.4	3,223,409	7.3	9,599,424	8.6
Sub-total	64,253,639	94.7	15,549,783	35.3	79,803,422	71.4
CFET appropriations	3,562,000	5.3	6,194,000	14.1	9,756,000	8.7
Total approved	67,815,639	100.0	21,743,783	49.4	89,559,422	80.1
Proposed new funding						
Donors	-	-	18,550,000	42.1	18,550,000	16.6
CFET counterpart	-	-	3,732,375	8.5	3,732,375	3.3
Total funding	67,815,639	100.0	44,026,158	100.0	111,841,797	100.0

Source: Annex Table 1 and 4.

User Charges and Private Sector Participation

As noted above, an unresolved issue that will have implications for the budget of MAFF is whether farmers and communities who benefit from the substantial public investments in irrigation should contribute to their upkeep, including the payment of water user charges. Given the substantial income gains these programs are expected to produce, and the limited financial capacities of the Government, there appears to be a strong case for the use of such charges. Farmers' willingness to pay for these services is likely to be related to the achievement by farmers of actual productivity benefits from the additional water. As domestic rice production, the dominant crop in irrigated areas, suffers from competition from imports, there are currently limited incentives to exploit the full potential of irrigation schemes and to

produce for the market. Recent data from a rice sector study suggest that returns on labour from irrigated rice are below one dollar a day.¹⁶ At this level, it seems to be impossible to impose user charges and cost recovery in irrigation schemes without putting the use of the productive potential of the rehabilitated irrigation schemes at risk. In its proposed sub-program on *Improving the Cropping Efficiency of Irrigation Areas*, MAFF intends to investigate the potential for productivity increases and to support the move toward high-value crops that would allow farmers to pay water user charges within a reasonable time frame.

Consideration may also be given to charges for animal vaccination programs that provide direct benefits to those farm households that own livestock. Again, willingness to pay is likely to relate to the level of benefits achieved by farmers from the vaccination program.

VI. ELEMENTS OF UNCERTAINTY IN THE PROGRAM

MAFF Capacities

Currently, MAFF's capacity to service its core functions is severely limited. Limitations in human resources, their capacity and deployment, along with current management and monitoring systems have been identified as major constraints to MAFF's ability to implement its programs. Further, the assistance of the development partner community and the NGOs has not always been well coordinated. For example, a recent review of MAFF's ALGIS section showed that the coverage of Timor-Leste by project activity in agriculture, livestock, forestry and fisheries is uneven, with significant areas and numbers of people either unserved or lightly served.

Over half of MAFF's staff is based in Dili, and are thinly spread across a multitude of divisions and units. In the Districts, many staff lack experience and supervision. MAFF's ability to implement any of its high priority programs in the field has therefore been limited, to the point where even proven technologies to address food security cannot be further developed and extended to farmers. In parallel, MAFF is being increasingly loaded with servicing the administrative demands of MoPF and the donors.

MAFF is in the process of establishing three regional centres (Maliana, Baucau, Same) in an attempt to devolve responsibility away from Dili. MAFF staff is projected to increase from the current level of 167 to 251. This is an opportunity to redress the balance in favour of the regional and district levels, to redeploy staff and to review the MAFF organisational chart.

The renewed emphasis on programs, such as watershed management, that require cooperation between technical specialists from the various sub-sectors and disciplines, will require MAFF to evolve new cross-sectoral management systems. MAFF has in place institutional arrangements that may not be entirely appropriate to deliver the programs that are emerging from the new policy environment, and MAFF plans to review these as necessary.

Unfortunately, institutional issues have been almost completely neglected by donors in their program strategies and project designs. The result has been a fragmented and ad-hoc approach to service delivery. For example: projects have variously been designed around administrative areas (Districts/Sub-districts/Sucos), crops, commodities, disciplines, watersheds farming systems, etc. Each of these approaches makes major assumptions about the institutional ability of MAFF to support and, more importantly, to sustain and replicate the results, post-project. The Ministry proposes to focus more closely on these issues, especially in respect to the management of its new regional centres in the first instance.

¹⁶ Oxfam (2004): *Overview of the rice sector in Timor-Leste*. Draft report, Oxfam Dili.

Macro-economic Factors

Given the monetary policy and exchange rate policies of Timor Leste, the development of the agricultural sector hinges critically on policies that allow wages and prices to remain flexible and to adjust to economic conditions. This is particularly important for agricultural exports. The success of some of the proposed programs relating to market-oriented agriculture may well hinge on the adoption of a more flexible approach by Government. Alternatively, the risk of failure due to inappropriate macro-economic factors may incline donors to not support otherwise worthy programs.

Wages are relatively high, compared to other countries in the region, such as Indonesia. This limits the competitiveness of domestic products on national and export markets and tends to discourage large-scale labour-intensive foreign investment.

Low labour productivity, coupled with high comparative wages, is proving to be a major constraint to development. Skills tend to be low, along with worker motivation, reflected in high reported levels of absenteeism, lack of discipline and difficult worker-manager relations. This is linked to inflexibility in wages and prices resulting from dollarisation of the economy. The private sector has also expressed concern at the difficulties in building indigenous management capacity and sustainable management practices.

Part B: FORESTRY

I. OVERVIEW OF SECTOR AND PROGRAMS

The Setting

Timor-Leste was formerly well endowed with forests. They were the source of very valuable timber, initially sandalwood (*Santalum album*) but later suren (*Toona sureni*), Ai na (*Pterocarpus indicus*) and other species. Lying within the “Wallace zone” of overlap of the Indo-Malaysian biota and the Australasian biota, the forests are of great biological interest. Teak (*Tectona grandis*) is not native to Timor-Leste but has been established in plantations over the last 100 years. In the Indonesian period, some extensive plantations of teak and fast-growing species, such as Gmelina, were established.

Forests contain many non-timber forest products (NTFP) that are of great value to rural communities: fuelwood, medicinal plants, honey, rattan, bamboo and animals for meat. They are also important for the protection of watersheds, reducing flood peaks and stabilizing soil cover. In former times, when the population was lower, shifting cultivation in the forests was the traditional and generally sustainable land management system. With increasing population and exploitation resulting from the colonial period and Indonesian occupation, the forests have been reduced in extent and in condition, partly through clearing for agricultural purposes and partly through uncontrolled timber harvesting. The commercially valuable timber species, in particular, have been greatly reduced. The degradation of forest condition is driven mainly by rural poverty, demand for fuelwood resource (especially around urban areas) and shifting cultivation. This continuing degradation is having an adverse effect on watershed condition (linked directly to water supplies for irrigation, and therefore to food security), biodiversity (e.g., loss of habitat) and the potential for timber production, both for internal use and potentially for export. Despite this decline, the forests still make a useful contribution to local timber supplies (especially fuelwood), to watershed protection and to tourism values in some areas where the degradation has not been too extensive.

Overview of Policies and Programs

The goal for the forest sector in Timor-Leste is to ensure sustainable management. Sustainable management will improve the livelihoods of the rural population, provide timber for local use and export, promote economic growth, and provide raw material for small-scale rural enterprises. The re-establishment of sandalwood and other valuable timber species would provide rural employment in the short term and good financial returns in 20-40 years.

A significant advance towards improved forest management, which largely revolves around a reduction in shifting cultivation, will require close coordination with the development of improved farming systems. Furthermore, change cannot be achieved without the willing cooperation of rural communities. A constructive engagement between Government and the communities is needed which respects the rights and responsibilities of each partner.

Priority programs for the next three years are proposed as follows:

- A reforestation and watershed protection program, consisting of pilot projects for community-based participatory planning, a conservation program for sandalwood genetic resources, and a feasibility study of the potential for small enterprise development in non-timber forest products. The total cost for the three year period is estimated at \$500,000.
- A program for establishing a firm legal and policy framework at a total cost of \$135,000
- A resource inventory of \$1,200,000, with disbursements of \$800,000 until FY06/07.

- A capacity building program for the Forestry Directorate, comprising human resource development, a training and mentoring program, a special training program for the newly appointed forest guardians, and provision of field facilities. The total costs are \$620,000 over the next three years.
- Protection and enhancement of biodiversity and watersheds by the establishment of a national, community-based Protected Area Network (PAN), beginning with three enabling activities: development of a legal and policy framework, terrestrial survey, inventory and mapping of natural and social assets and a national awareness and education program. Total costs are \$455,000 over the next three years.
- A sandalwood genetic resource program to guard against permanent loss of important genetic diversity of Timor-Leste's sandalwood and ensure a secure seed source for future sandalwood reforestation activities. Total cost is \$250,000.
- A feasibility study of non-timber forest product (NTFP) development will assess potential for small scale rural economic development that may also provide an alternative to timber harvesting. This will assess the likely size of the resource, potential for further development, identify constraints and possible markets, estimate economic returns and provide recommendations for further action. Total cost is \$90,000.

Expenditure on forestry over the past five years totalled \$3.2 million. The proposed expenditure program would increase spending to \$84 million during the five year period ending FY2008/09. Of this projected total, about \$2.6 million will be funded by ongoing donor support and CFET budget allocations, with a balance of some \$4 million from new, as yet unidentified, sources, and a proposed additional \$1.7 million in CFET funding.

II. GOALS AND OBJECTIVES OF THE SECTOR

The basic mission of MAFF's Forestry Directorate as outlined in the National Development Plan is to ensure the sustainable management of Timor-Leste's forest resources. Thereby, forestry is charged to increase rural incomes, generate employment in rural areas and, consequently, reduce poverty and improve the welfare of rural communities, assist in achieving food security, increase export earnings, replant formerly existing forest resources, protect and protect watersheds. Complementary to this A further objective is to protect the important biological diversity of the nation. All the programs proposed in this SIP are in compliance with these national objectives, as expressed in the NDP, Stability Program, Road Map and the Millennium Goals.

MAFF's Draft Policy and Strategic Framework specifies the following specific forestry sector objectives in the short to medium term:

- To arrest the deterioration of Timor-Leste's forest and watershed, improve its state of development in order to meet domestic needs of communities and contribute to economic growth while ensuring environmental sustainability for future generations;
- To evolve a forestry and watershed policy, effective legislation, and tenurial arrangements that define long term directions among the state, community and private sector, and regulations on resource conservation and utilization;
- Enhance the human resource development and institutional capability at NDFWR-MAFF, with high budgetary support for programs, and provide information for improved forest management and planning; and
- Develop a mechanism for effective coordination and linkages among forest watershed stakeholders for a sustainable resource management.

Forests have the potential to greatly increase their value to Timor Leste if rehabilitated and supplemented by some intensively managed plantations. Sandalwood, in particular, offers excellent prospects for making a major contribution to export income, if suitable management systems can be devised and an extensive replanting program carried out, to supplement natural regeneration. While it takes 30-40 years before new plantings can be harvested, that will be when Timor Leste will be searching for exports to counteract the expected decline in petroleum-related income. Rehabilitation of the natural forests and protection of remaining quality natural forests and habitats (via the establishment of a community-based Protected Area Network) in conjunction with broader environmental protection and community-based natural resource management (CBNRM) programs will improve the protection and enhancement of watersheds, benefit the conservation of biological diversity and assist in mitigating global climate change.

III. ISSUES, CHALLENGES AND PROGRESS

The role of Government in forestry is to provide a legal environment that promotes sound management of all forests in Timor Leste for all values – timber, NTFP, recreation, protection of watersheds and conservation of biological diversity. Government also provides a management agency charged with implementation of the legislation and control of productive uses, such as timber harvesting, to maintain forest vitality and productivity at as high a level as possible. The utilisation of forest products is generally a private sector activity.

The MAFF agency charged with responsibility for forest management is the National Directorate of Forestry and Water Resources (NDFWR). The latter part of its title reflects its role in watershed rehabilitation and management since forests play a vital part in the protection of watershed functions, which is especially relevant in the steep topography that is typical of the upper parts of watersheds in Timor Leste. However, management of water resources is allocated to the Department of Transport, Communications and Public Works. NDFWR is participating in the inter-agency working group on integrated water resource management.

Major Challenges Facing the Sector

Continuing degradation of forests through unauthorized or illegal harvesting of trees, uncontrolled livestock grazing and careless use of fire. An extended history of exploitation has affected the terrestrial environment and transformed it from an extensive forested landscape into a predominantly rural agricultural landscape surrounding remnant pockets of natural vegetation, high mountain grasslands and degraded savanna rangelands. At present, there is heavy pressure for tree harvesting for fuelwood (the source of over 90 percent of the energy usage in rural areas of Timor Leste) and timber for local construction purposes, as well as ongoing illegal cutting of sandalwood. Currently a considerable amount of timber is imported for construction uses. The forest degradation is most serious in upland areas that also are watersheds for downstream irrigation systems and water supplies. There is also significant hunting pressure on wildlife for bushmeat. There is no value in attempting to ban forest use. Since rural communities depend on them for the necessities of life, they should be engaged constructively to work towards forest rehabilitation while still providing for their needs. To maintain and enhance the quality of life the challenge for Timor-Leste is the careful balancing of protection and restoration of the environment whilst meeting the long- and short-term livelihood needs of the population via sustainable development.

There is a special need to provide incentives to reduce the illegal harvest of sandalwood, as it appears that few mature trees now remain. Conservation of the genetic diversity of this valuable species is an immediate concern, as research in Australia, India and Indonesia has shown that its wood properties are under a high degree of genetic control. Continuing pressure to remove

young trees that show early heartwood development could seriously reduce the quality of future sandalwood resources.

Lack of information about forest and biodiversity resources. Without comprehensive information on the extent, type and condition of forests and other ecosystems there is no basis on which to plan for ongoing operations, for biodiversity management, watershed protection and for provision of future timber supplies. While some Protected Natural Areas (PNAs) have been established by UNTAET decree, there have been no national detailed surveys of the natural values and it is not known if these areas are a representative reserve system. The future provision of fuelwood supplies on a local basis and the possible role of plantations in providing timber supplies are also uncertain. Some small-scale forest inventory is being carried out, mainly aimed at establishing the state of the sandalwood resource and also limited, preliminary biodiversity surveys within the forested areas of PNAs. As ecosystems are reliant on each other, to ensure sustainable watershed and forest management it is necessary to conduct both a national biodiversity assessment and a forest inventory to fully understand natural values to ensure effective sustainable forest and environmental planning and management.

Continuing degradation of watersheds. Many subsistence farmers are adversely affecting forest on watersheds through shifting cultivation on too-short return cycles. As most upper watersheds are in steep topography, this is believed to be increasing erosion and having an adverse effect on water quality and increasing peak flood flows. This in turn has a direct impact on food security. NDFWR needs to work closely with other sections of MAFF and with NGOs to encourage rural communities to progress toward a more sedentary style of agricultural land use.

Lack of clearly defined forest management approaches due to land tenure problems. Ownership of forested land is often in dispute. Forest may be owned by the State, by private individuals or be communally owned. The latter may be the largest proportion of the forest estate. It is also possible for land to be owned by one party while another party owns the standing trees.

A process of land tenure definition is in progress but will take many years to complete. Because of the importance of communal forest land, NDFWR faces a major challenge to develop successful and durable partnerships with rural communities whereby both local needs for forest products and national objectives for forestry can be achieved. There was a traditional approach to land and forest management that was effective in past times. It shows promise for revival, but using this approach will require careful and detailed involvement by NDFWR staff, with considerable support from other sections of MAFF. NGOs will also have an important role to play in this process. The facilitation and extension skills required for this are relatively new to forestry in Timor Leste. In addition, such partnerships require clear allocation and agreement on usufruct rights, which currently lack a firm legal basis.

Lack of a suitable legal and policy framework. At present there are only two UNTAET decrees on forestry in effect, and they provide only limited coverage of important issues. A draft of the detailed national forest policy is currently being discussed with stakeholders. It will provide a framework for the development of an appropriate Forest Law and regulations.

A critical lack of staff resources. NDFWR has a small staff, lacking adequate experience and technical skills, as well as material resources, such as transport facilities, modern nurseries and seed processing and storage facilities. At the same time, NDFWR is involved in the natural resource management activities of a major donor-funded project of MAFF (Agricultural Rehabilitation Project III) that occupies a high proportion of the time of field staff. ARP is providing some staff training relevant to its activities, but much more is required, especially for

new Forest Guardian appointees. Strengthening the agency is most urgent in view of the new directions set out in MAFF's Policy and Strategic Framework.

Progress in the Sector

NDFWR has made some progress in reforestation and community forestry. It currently replants about 200 ha of forest a year, limited mainly by restricted CFET funding. It has also begun to carry out local inventory of sandalwood resources and to prepare a preliminary catalogue of biological resources of the PNAs nominated by the UNTAET decree. Further, a program has begun to formalize and expand on the existing PNAs declared under the UNTAET decree by the development of a national community-based Protected Area Network (PAN). A small-scale mangrove rehabilitation program has commenced, with good early results. A major problem has been the lack of field staff, but this is currently being partly alleviated through the appointment of 26 new Forest Guardians who will be stationed in rural areas. However there will remain a critical shortage of equipment for these staff, as they will lack essential transport facilities and will need extensive training. A start has also been made on a survey of teak plantations established during the Indonesian period. Extensive consultations have been held with stakeholders concerning the development of the national forest policy.

IV. POLICIES AND PROGRAMS FOR THE MEDIUM TERM

Key Policy Issues for Program Development

The MAFF Policy and Strategic Framework provides the background within which this Sector Investment Program has been developed. To work more effectively towards the overall goal of sustainable management of Timor Leste's forests, while providing for the reasonable needs of its people, the managing agency, NDFWR, needs to address the four priority issues identified in the Framework:

- How to reduce, and eventually, arrest and improve continuing degradation and loss of forest cover to meet domestic needs, contribute to economic growth and ensure environmental sustainability.
- How to obtain the essential data on which to base forest management and conservation planning at both national and local levels.
- How to define the directions for national forest policy and set the basis for forestry legislation appropriate to the needs of Timor Leste.
- How to build staff capacity to effectively respond to the demand for a more participatory, community-focused approach to forest management.
- How to develop mechanism(s) for effective coordination and linkages among forest-watershed stakeholders for sustainable resource management.

Four lines of approach are proposed for short-term strategic assistance to NDFWR to address these policy issues. In developing these approaches the underlying themes have been to provide NDFWR with the building blocks for sustainable forest management and improve institutional capacity, while not overloading current staff. Each approach has one or more proposed programs for which donor assistance is sought. The programs are linked directly to the forest strategy developed in the MAFF Policy and Strategic Framework.

Proposed Programs

Program 1. Reduce Deforestation and Watershed Degradation.

This is a massive task which forestry cannot carry out alone, since the drivers of forest loss and degradation lie mainly in the agricultural sector. Fundamental changes in farming practices are necessary before the pressure on forests can be reduced. Such changes can only be brought about by working closely with rural communities in a highly participatory manner. Changes will also require close coordination with agricultural activities designed to assist farmers to adopt a more sedentary lifestyle by such techniques as better seed varieties of the main upland crop to increase food production, greater use of legumes to promote soil fertility, contour strip plantings, etc. Such interventions could also be combined with local water supply developments that would further encourage communities to progressively move away from shifting cultivation. Land no longer required for shifting cultivation, at least in the medium term, could be reforested with the cooperation of communities. There are encouraging signs that it may be possible to work with rural people to use traditional management control approaches to ensure that agreed measures are complied with.

Forestry may be able to play a part in providing off-farm employment that will contribute towards economic growth and assist to cater for the expected move of population out of agriculture in the next few years. There maybe some scope for increasing the harvest of some NTFPs to provide immediate rural income while reducing some of the pressure on timber harvest.

Sub-program 1.1. Watershed-based Management Systems for Subsistence Communities I and II. The upper reaches of most watersheds are precipitous, geologically young and unstable and actively eroding. Erosion is said to be increasing under inappropriate farming practices, but there is little hard data on the extent and geographic distribution of unsustainable land use practices and possible correlates such as population density and trends.

MAFF is aware that it cannot provide equal levels of service to every watershed and that it will have to prioritize and deploy its staff accordingly. A start has been made to develop the ALGIS to allow more detailed analysis of these issues as a basis for policy development. In the interim, under TSP II, MAFF has identified three catchments as requiring priority attention. These are the watersheds at Lacro and Sahe (Manatuto), and Dilor in Viqueque, and some preliminary work has been commenced in these. A number of other upland community based NRM pilot projects are being supported by donors in other districts, notably by ARP, JICA, EU and GTZ.

The project will develop new community-based approaches (using traditional land management control methods). The approach will be integrated with agricultural development to reduce shifting cultivation, while at the same time promote reforestation, biological diversity conservation and water resources protection. Field activities will be developed jointly with NGOs and other sections of MAFF. The Policy and Strategic Framework sets out a new direction for the Ministry, to work in a much better-coordinated way with donors and NGOs in a major initiative to address food security and poverty in upland areas of Timor Leste. Forest rehabilitation will be an integral part of this new program and forestry needs to play an appropriate role.

The project supports participatory planning on a watershed basis in cooperation with agricultural sections of MAFF and NGOs. These programs are described in the SIP for Agriculture and Livestock. This project provides the necessary materials, transportation and equipment for NDFWR staff. It would also provide planting material, mainly of native species, but possibly also fast growing exotics for local fuelwood supply and fodder species for livestock. The latter may be suitable for production in small private nurseries, the development of which might be supported by the program as a diversification initiative. Although in its first phase a three-year program, it

will need ongoing support, for up to 10 years, to ensure sustainability of the advances made, and to extend the process to larger areas. This program will be implemented in two phases.

Sub-program 1.2. Sandalwood Genetic Conservation. This proposed component would commence a sandalwood genetic resource conservation program to guard against permanent loss of important genetic diversity, and to serve as a secure seed source for future sandalwood afforestation activities. This program would support an extensive seed collection over the whole of Timor Leste, followed by establishment of the germplasm in a gene bank at a secure site, with optimal treatment to ensure good seedling survival and early growth. The technology for this has been extensively developed in Australia and India. With careful management and good record keeping it will be possible, in future, to use the gene bank to identify superior genotypes. They can be used as a seed source to supplement natural regeneration, which will continue to occur to some extent. As there are similar interests in sandalwood genetic conservation in Indonesia and Australia, it may be possible to arrange useful scientific cooperation with those countries.

Sub-program 1.3. Feasibility Study of Non-Timber Forest Product (NTFP) Development. A specialist short-term consultancy is required to assess the potential for small-scale rural economic development that might also provide an alternative to timber harvesting. It would focus on such commodities as honey, rattan and bamboo and assess the likely size of the resource and the potential for further development, identify constraints and possible markets, estimate economic returns and provide recommendations for further action. Honey was formerly an important export product and rural industry may benefit from improved technology and from market development. There appear to be prospects for resumption of exports of honey to Indonesia. Rattan is a small local industry, currently limited by resources, that is well suited to small-scale rural activities if the resource can be expanded. Bamboo is used for a multitude of uses and there may also be potential cultivation of edible bamboo species.

Sub-program 1.4. Establishment and Development of Protected Area Network. Under a holistic land management system development of a national community-based Protected Area Network is integral to the protection, enhancement and managements of watersheds and natural resources whilst ensuring the conservation of natural and cultural assets. This project will formalize and expand on the existing protected areas declared under UNTAET Regulation 2000/19, beginning with three enabling activities: Development of PA Policy and Legislation; Terrestrial Survey, Inventory and Mapping of PA Natural and Social Assets; and a national PA Education and Awareness program. These all touch on cross-cutting and cross-sector issues and will be coordinated with existing environmental and sector programs in MAFF, MDE and other agencies as appropriate.

Program 2. Provide Data to Enable National Forest Planning (*National Forest Inventory*). NDFWR needs a firm basis upon which to commence forest management planning. The inventory would provide a comprehensive picture of the extent and condition of each major forest type. It may be possible to use satellite imagery so that periodic monitoring could take place relatively cheaply, although extensive ground-truthing for the initial inventory is essential. It is proposed to combine the forest inventory with a biodiversity (flora and fauna) inventory for the Protected Area Network (Sub-program 1.4) and, more broadly, with that proposed under the Biodiversity Conservation project in the Natural Resources and Environment SIP.

It is most important that all the inventory data are spatially linked and entered into ALGIS (see Agriculture and Livestock SIP for details), in a database system that permits future local management level inventory data to be added, as they are obtained. The lack of certainty about land tenure does not matter at this stage, as what is sought is an overall picture of the nation's

forest estate, so long as the database can be progressively updated with new tenure information as decisions are made.

Program 3. Develop Forest Policy, Forest Law and Regulations

Two programs are proposed here, one to finalise the current draft National Forest Policy, and another to use the final, agreed, policy as the basis for the further elaboration into a draft Forest Law and regulations. Although a considerable amount of work has already gone into the draft policy, it still lacks depth in some respects. It should be noted that FAO has access to special funds, arising from decisions of the International Forum on Forests, for assisting this development if required. It also has long experience in this area.

Sub-program 3.1 Completion of the National Forest Policy. A small specialist consultancy is required to refine the latest draft of the NFP and ensure that it covers all necessary aspects of forestry issues, now and in the foreseeable future. The final draft needs to be put into a concise form to allow easy translation and understanding by the community at large. Subsequent policy development is also proposed for Protected Areas, see Sub-program 1.4.

Sub-program 3.2 Development of Forestry Legislation. The program builds on the agreed directions for national forest policy and is expected to elaborate a concise and comprehensive legal document that provides a sound basis for future forest management. This requires a specialist consultancy, over a period of 4-6 months, to assist NDFWR to draft a Forest Law, and accompanying regulations, to the stage where they would be ready for submission to the Council of Ministers. The work on the forestry legislation will be coordinated with the development of Protected Areas Legislation (Sub-program 1.4 and with biodiversity legislation project in the NRE SIP.

Program 4. Strengthen the Institutional Capacity of the Forestry Directorate

NDFWR has to play a more effective and productive role in managing the forest resource. The agency will have to make the best possible use of existing staff members, by providing training and necessary equipment.

Sub-program 4.1 Human Resource Development. The program will provide assistance with human resource development, especially on technical issues, partly by mentoring for middle and upper level staff, and partly through in-service training courses. Such training would include an appreciation of the use of GIS in the watershed-based community programs. Some informal training needs assessment has been carried out in the context of ARP II and III, but NDFWR needs to carry out a more formal training needs analysis to be able to cater to the emerging requirements under MAFF's new initiatives, followed by a human resource development plan to equip the agency with the skills it requires into the future.

Sub-program 4.2 Training and Mentoring Program. The intent of this program, extending over three years, is to improve technical backup for district field staff and facilitators to ensure that planned on-ground activities are successful through a mentoring program using external advisers. A panel of external advisers would be established for this purpose. This program would principally aim at improving middle level staff skills through in-service courses and short-term inputs on-site. These are the people that are the first backup to staff living and working in upland communities. Nursery management and seed handling are areas where there is considerable scope for technology transfer.

Sub-program 4.3 Training program for Forest Guardians. It will provide on-ground training in facilitation and extension skills for 26 new Forest Guardian recruits. It is intended that the

program would use material translated from external sources, as proposed for a similar undertaking in the Agriculture SIP. In order to raise the awareness of the importance of forest and biodiversity conservation, the training program will be coordinated with the Environmental Outreach Program proposed under the Natural Resources and Environment SIP.

Sub-program 4.4 Improve Field Facilities Provide operating facilities: transport equipment, a model nursery and seed storage facility (to be shared with other sections of MAFF if possible). The increased replanting activity that is anticipated in the Watershed-Based Management Systems for Subsistence Communities project will require increased seed collection, processing and storage. So far this has not been a problem with the small areas being planted. Ideally, a nursery facility would be established to produce both forest tree seedlings and fruit trees or other seedlings required for agriculture or forage, so that forestry and horticultural requirements can be met at the same site.

Program Priorities and Intersectoral Linkages

The MAFF has prioritized the proposed program for the Forestry Sector, the results of which are set out in Table 6. The eleven high priority programs are proposed for start-up in the year ahead. This will require new donor commitments in the amount of \$1.8 million. The program for the medium-term would require further new donor commitments of \$2.1 million. These total new commitments of \$4 million compare with donor commitments of \$2.2 million over the past five years, \$1.2 million of which was provided by TFET.

Table 6: Priority Ranking of Proposed New Programs for the Forestry Sector
(In US\$)

Priority Ranking	Start Date	Proposed Annual Amount of New Approvals					Total
		FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	
A. High Priority Programs							
Forest policy	FY2005/06	15,000					15,000
Forest legislation	FY2005/06	120,000					120,000
Watershed management I	FY2004/05	500,000					500,000
PNA education & awareness	FY2004/05	75,000					75,000
PNA protected areas policy & legislation	FY2004/05	160,000					160,000
Sandelwood genetic conservation	FY2004/05	250,000					250,000
Training & mentoring	FY2004/05	120,000					120,000
Non-timber forest product development	FY2004/05	90,000					90,000
Field facilities	FY2004/05	300,000					300,000
Training forest guardians	FY2004/05	50,000					50,000
Human resource development	FY2004/05	150,000					150,000
Total proposed approvals		1,830,000	-	-	-	-	1,830,000
Annual disbursements		600,000	655,000	575,000			1,830,000
B. Programs for the Medium-term							
Forest resource survey	FY2005/06	1,200,000					1,200,000
PNA survey, inventory & mapping	FY2005/06	220,000					220,000
Watershed management II	FY2007/08				700,000		700,000
Total proposed approvals		-	1,420,000	-	700,000	-	2,120,000
Annual disbursements			355,000	555,000	860,000	350,000	2,120,000
C. Total proposed new program							
Total proposed approvals		1,830,000	1,420,000	-	700,000	-	3,950,000
Total annual disbursements		600,000	1,010,000	1,130,000	860,000	350,000	3,950,000

Source: Annex Table 5.

Success with the forestry programs in watershed protection and in generation of livelihood for local communities will require close attention to a number of intersectoral issues. The most important linkages of forestry are to the **agriculture** and **environment** sectors. Lessons learned from the past indicate that halting deforestation and successful reforestation requires the cooperation of communities and their willingness to adapt agricultural land use practices. The Watershed-Based Management Systems for Subsistence Communities program (program 1) will

be implemented together with other sections of MAFF to foster the integration between agricultural and forestry objectives.

Forestry also has important environmental functions. Reforestation in a community-based watershed management approach and development of a community-based Protected Area Network protects enhances biological diversity, soil and water conservation. The project for sandalwood genetic conservation addresses concerns over depletion of the genetic resource base. The forest policy and legislation will be drafted in consultation with other ministries, especially the Ministry for Development and Environment.

Successful development of the programs also depends on improved links to **private sector development**. Prospects for investment into commercial forestry can be improved through appropriate foreign direct investment rules and incentives, to be addressed by the Secretary of State for Tourism, Environment and Investment in the Ministry for Development and Environment. However, land tenure is a crucial factor for private investment. Therefore, completion of the land legislation is important. The proposed feasibility study on NTFP development (sub-program 1.3) investigates the potential for small-scale rural enterprise development and employment creation. Support measures for small and medium scale enterprise development should cater for the specific needs of prospective rural entrepreneurs. This refers to technical skills development, access to finance and markets, and legislative framework. Most of these areas are outside the mandate of MAFF, but need to be addressed once suitable areas for development have been identified.

Crosscutting Issues for the Programs in Forestry

Governance. Good governance is a precondition for sustainable development. The projects proposed in the SIP address crucial governance constraints for sustainable forest management. The forest policy and the accompanying legislation (Program 3) will set the major building blocks. Training and capacity building of the Forestry Directorate are also expected to improve the prospects for transparency, accountability and participatory management with communities.

Global environmental sustainability. Sustainable forest management has the potential to contribute to mitigating global environmental problems. Those include climate change, loss of biodiversity, desertification and land degradation. Negotiating access to international treaties is important for Timor-Leste in order to benefit from information exchange on best practices, capacity building and access to global financial mechanisms. Once membership is established, it is imperative to design forest programs in such a way that additional funding can be accessed.

Gender equity. The community-based watershed management program is expected to respond actively to the needs of the communities. Women are often excluded in traditional resource management processes. Prospects for enhanced participation of women in decision making and benefit sharing will depend on the facilitation skills of MAFF staff when initiating support measures. The training and human resource development programs for the staff of the Forest Directorate will address these issues accordingly.

V. PROPOSED EXPENDITURE PROGRAMS AND FUNDING

Current Expenditures

Spending in the forestry sector has been modest in the past five years. Donor and CFET spending was about \$3.2 million, with donors accounting for almost three-quarters of the outlays (Table 7). Most of the donor funds have gone into small-scale reforestation programs and related training for local communities. CFET contributions averaged \$180,000 a year during the period. Total spending has risen steadily to about \$1 million a year in the last two years, with CFET currently accounting for about one-fifth of annual outlays.

Table 7: Donor & CFET Funded Programs Completed, Ongoing & Under-Preparation for Forestry

Funding Source	Annual disbursements					Total	
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	Amount	Percent
Donor funded programs	-	12,000	482,685	928,357	857,435	2,280,477	71.6
CFET appropriations	125,000	150,000	222,000	170,000	236,000	903,000	28.4
Total expenditures	125,000	162,000	704,685	1,098,357	1,093,435	3,183,477	100.0
CFET as % of total	100.0	92.6	31.5	15.5	21.6	28.4	

Source: Annex Table 1.

Proposed Expenditure Programs

It is essential to build the capacity of the Forest Directorate to work along participative lines in integrated programs. A large share of the proposed programs therefore goes to human resource development. The second important task is investment in policy development and planning. Third is support for upgrading the technical facilities of the Forestry Directorate. Fourth, a substantial investment is proposed for genetic conservation in order to safeguard the long-term economic viability of one of the most precious resources of Timor-Leste. The proposed expenditure program for the five year period ending FY2008/09 is \$8.2 million (Table 8) – more than double that of the previous five years.

Table 8: Proposed Expenditure Program for the Forestry Sector
(In US\$)

Program	Annual disbursements					Total	
	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Amount	Percent
Ongoing donor programs	964,389	281,406	155,582	-	-	1,401,377	17.1
CFET appropriations	244,000	207,000	226,000	257,000	275,000	1,209,000	14.7
New CFET counterpart	-	334,250	397,250	425,000	500,000	1,656,500	20.2
Proposed new donor programs	600,000	1,010,000	1,130,000	860,000	350,000	3,950,000	48.1
Total	1,808,389	1,832,656	1,908,832	1,542,000	1,125,000	8,216,877	100.0

Source: Annex Table 1.

Analysis of recurrent costs of forestry programs indicates that there will be continued substantial pressure on the CFET allocations for forestry. MAFF conducted a public expenditure review in 2004 and estimated that the recurrent cost of past and ongoing forestry projects is about \$20,000 a year, mostly from the AMCAP and the ARP II/III projects.¹⁷ There is another \$ 77,200 of annual expenses resulting from the expansion of functions of the Government to be covered once the ARP III ends. As Table 8 indicates, current CFET allocations average about \$240,000 a year over the five-year period ending FY2008/09. Additional CFET resources will be required as counterpart for ongoing and proposed new forestry programs, if these are to be implemented successfully. The program therefore calls for new allocations of CFET in the amount of \$1.7 over the next five years.

¹⁷ D. Hamilton. Review of Consolidated Public Expenditure and Donor Assistance in Agriculture, Forestry and Fisheries Sectors. Draft report, April 2004.

In view of the limited CFET resources, donor funding has a major role to play. Ongoing donor programs would disburse about \$1.4 million during the five years. As Table 8 indicates, disbursements from proposed new donor commitments in the amount of \$4 million would be required during the period, assuming that the proposed additional allocations of CFET are possible. The proposed donor support is expected to put the basic building blocks in place that will allow the Forestry Directorate to play an active role in integrated watershed management and community-based approaches for forest management.

Only a small number of donors provide support for the Forestry Sector. TFET has been the most significant, accounting for \$2.1 million of the donor funding made available to the sector. Most of the remainder has been provided by Canada and Japan, with Australia also providing a minor amount of support. The phase out of TFET will require a concerted effort by the Government to mobilize the needed support from existing and potential new supporters of the sector.

VI. ELEMENTS OF UNCERTAINTY IN THE PROGRAM

Developing effective partnerships with communities depends on several factors. MAFF's field staff has to develop new skills for working with communities, followed by a certain level of management and culture change within MAFF.

The high variability of local conditions implies that programs have to allow for flexibility when working with communities. MAFF therefore has to strengthen the capacity of its regional centres to allow for decision making at regional and district level when contractual arrangements between the government and communities on land and forest management plans are negotiated.

In the past, programs on community-based land and forest management have been undertaken in an uncoordinated manner by a wide range of stakeholders. Coordination of the activities of the Government, donor projects and NGOs is a necessity to develop codes of practice, especially with regard to incentives for reforestation and forest management offered to communities, thus often neglecting the long term sustainability of interventions. It is expected that the recently established MAFF/NGO coordination secretariat will address these issues.

Part C: FISHERIES

I. OVERVIEW OF THE SECTOR AND PROGRAMS

The Setting

Timor Leste has a coastline approximately 700 km in length, and a potential exclusive economic ocean zone (EEZ) of approximately 75,000 km² (although the precise boundaries of this zone have not yet been determined).¹⁸ The coastline consists of a variety of marine habitats. The habitats vary along the coastline because of the local influences of seasonal rainfall, local geology and topography, river discharges and regional offshore oceanographic features as well as the impact of human occupation. This results in spatial difference in marine habitats with the north coast being different from that of the south coast and the eastern edge of the island having attributes that differ from those to the west.

Originally, fishing was essentially for subsistence using the reef at low tide, canoes or stone traps. With the introduction of large vessels and modern material, more effort went into activities to service urban requirements. During Indonesian times there was an influx of better-equipped fishermen from other parts of the archipelago and fishing pressure extended further offshore than was previously experienced. The limited data available on fishing activities prior to 1999 indicates that a fleet of some 630 vessels with outboard motors and 11,387 canoes were active in fishing. Control over operations was rather loose and on occasion destructive methods such as explosives and poisons were used, resulting in damage to the marine habitat in some regions. The withdrawal of the Indonesians had drastic impacts on the fisheries. Many of the fishing vessels, gear and much of the infrastructure were destroyed, thus markedly reducing the level of catch since 1999. Replacement of vessels and gear, and rehabilitation of infrastructure has been a major focus in recent years and catch levels have increased especially in areas close to the coast. The sector is gradually recovering from the damage sustained in 1999. The supply of fish is approaching the level of demand in the main urban areas despite the level of fishing effort being below what it was prior to that of 1999.

Although no accurate information is available it is assumed that subsistence fishing has largely recovered from 1999 damage and continues much as it has always done, focused on local requirements. In general, the subsistence fishery level is an important element in food security at a local level and can be maintained if correctly managed. The inshore fishing sector is focused on providing fresh fish (there is some drying and salting of fish appearing in the Dili markets) to the main population centres as there are few export activities presently operating in Timor-Leste.

The health of the coastal habitats is related to the level of human impacts that occur either on the coastal zone or upstream. There is little information about the local marine environmental conditions. What is known is that the abundance of the fish stock particularly inshore species is directly related to the health of the supporting marine habitats. Offshore, there are demersal fish stocks that are in commercial quantities. Most of these stocks are shared with both Australia and Indonesia.

The National Directorate of Fisheries and Aquaculture (NDFA) is involved in many aspects of fisheries including management, monitoring and control of the valuable marine resource. The marine resources are valuable for their contribution to the national food sources, a potential income generation activity and as a potential element of tourism. As there are many integrated and diverse activities of the NDFA, staff are limited in their ability to undertake all the tasks due to the overall staff numbers and their lack of practical applications or experience in some areas (mainly ecosystem focused management techniques that are aimed at sustainability of the marine

¹⁸ See the SIP for External Relations & Cooperation for a further discussion of maritime border issues.

resources for the future rather than the previous arrangement aims which were focused on short term economic gains). The NDFA also lacks reliable and up-to-date resource information on the distribution and abundance on the major species as well as a lack of comprehensive information on the various marine habitats throughout the country.

The Potential of the Sector

There is a potential for the development of an offshore fishery (tuna and snapper) industry aimed at the export markets through arrangements with foreign fishing operators. Such an industry could provide an income stream and possible employment by the careful application of licenses and enforcement of management plans.. The level of fishing that can be sustained depends on the effort that will go into a fishery and the amount of fish stock available each fishing season. Although no biological surveys have been carried out specifically for East Timor, information from Australia and Indonesia catches can be used in the first instance to set catch limits that are precautionary for any management plan for East Timor. These catch limits need to be scientifically set and verified over time by monitoring of the commercial catch and independent biological surveys in cooperation with the international neighbours.

The coastal zone and near shore waters as well as the upland fresh water systems have the potential to support limited aquaculture activities. Presently there is relatively small scale aquaculture activities locally focused on inland production. These facilities are in the process of being refurbished. Production is concentrated on carp and tilapia.

Overview of Policies and Programs

From a marine and fisheries management perspective several issues need to be addressed to enable the Directorate to work towards a sustainable fishery in the short term (1-3 years):

- A policy and a legal framework that enables each component of the fish resource to be harvested at a sustainable level;
- Species specific management plans including the cooperation of community fishers that support sustainable fishing;
- Cost effective enforcement system;
- Licensing of the fishers at all levels except subsistence fishers; and
- A reliable system for monitoring the catch and effort for each fishery.

In addition, there are a number of issues to be addressed in the medium to long term (4-10 years).

- Clear agreement on the extent of the Timor Leste exclusive economic zone (EEZ).
- International agreements on the management of shared fish stocks
- Detailed biological information on the major species in East Timor (to support conservation and management)
- Reliable and cost effective system of monitoring and reporting of changes to fisheries in order that management plans can be adjusted.

The AusAID funded Australian Timor-Leste Fisheries Management Capacity Building Project will address the building of capacity relating to the management issues and the development of management plans, but some gaps remain, which have been developed into the sector investment packages proposed in this report. They are:

- Implementing a licensing system for inshore/nearshore fisheries along with the implementation of an inshore/nearshore catch monitoring and surveillance system, including provision of necessary equipment to cost \$800,000

- A detailed coastal habitat mapping and environmental study to cost \$160,000
- Economic and social evaluation of the offshore and inshore fisheries to cost \$170,000
- A feasibility study on the potential for expansion of aquaculture including marine aquaculture to cost \$160,000
- Marine biological survey to verify fish stock and population dynamics for the main species estimated to cost \$950,000

The total program proposed for the fisheries sector for the five-year period ending FY2008/09 amounts to \$8.6 million, compared with \$2.9 million of expenditures in the past five years. Some \$2.3 million would be funded by ongoing donor and CFET appropriations. New donor funding in the amount of \$4.6 million would be required, along with additional CFET appropriations of \$1.7 million. This investment package will place the Fisheries Directorate in a good position to manage the sector in a sustainable way that will benefit not only this generation but for generations to come. MAFF will be able to move toward the National Development Plan goal of a sustainable fishing sector that makes a significant contribution to food supplies and to the economy of Timor-Leste.

II. GOALS AND OBJECTIVES FOR THE SECTOR

The National Development Plan (NDP, 2002) states that the goal is to manage fisheries resources in a way that supports sustainable production. Other objectives are to increase foreign exchange earnings, improve the standard of fish products, promote aquaculture, set up marine protected natural areas and to promote private sector infrastructure development.

According to MAFF's recently developed Policy and Strategic Framework, the primary objective for **fisheries** development in Timor-Leste must be to ensure that marine resources remain in good condition. The fisheries sector will then be able to produce consistent sustainable yields that will contribute directly towards national food security and poverty alleviation.

The priority fisheries objectives are:

- To gather the data on which to determine sustainable production levels for fish resources and to base local and national management planning to maintain a healthy marine environment
- To work with coastal communities to develop effective inshore/nearshore catch monitoring systems,
- To continue, and expand, an institutional capacity building program,
- To encourage and support private sector investments, firstly in an offshore fishery, and secondly in better facilities for storage, processing and distribution of local fish supplies, and
- To undertake regulatory measures and enforcement.

The fisheries sector can make a useful contribution to food security by facilitating the supply of fish-based protein from marine sources to coastal communities and the main towns, and from aquaculture sources to inland communities. Resource rents for offshore fishing rights will provide income to the Government, and offshore fishing will also hopefully provide employment opportunities.

III. ISSUES, CHALLENGES AND PROGRESS

Timor Leste is in a good position to avoid the mistakes made by many other countries that have over-committed their marine resources and had to make painful readjustments to address social and environmental problems. In order to manage the marine resources in a sustainable way the NDFA needs to have basic scientific, policy, legal and administrative building blocks. Timor Leste is vulnerable in respect of pressure to make short-term decisions on fisheries development proposals that could adversely impact long term sustainability.

There needs to be cost effective methods on implementing management plans, licenses and monitoring of catch of effort for the important species which is in line with the policy and strategies of MAFF. The challenges will be to implement the legislation and regulations and to engage all stakeholders so that there is uniform compliance.

The Main Challenges

Lack of basic data and information about fisheries resources. The most immediate issue facing the National Directorate for Fisheries and Aquaculture (NDFA) is to put in place methods of having fishermen comply with the new Fisheries Legislation and develop management plans in-line with the legislation without any historic data on the previous catch and fishing effort in East Timor seas. The lack of information on the magnitude and condition of the fish stocks, both inshore and offshore should not hinder decision making in the short term. While some preliminary estimates of the nature and size of the offshore resource will be made with ongoing AusAID assistance, much more detailed data are required in order to scientifically verify sustainable catch limits for the main target species. If this is not done, then there is a risk that commercial operations could exceed the sustainable level. This would damage the productive capacity of the fishery and could cause painful readjustments at a later date. The challenge in the short term is to allow some commercial offshore fishing to earn foreign exchange at a critical time for Government finances, while ensuring that any such agreements do not result in excessive demands on the resource.

Over a longer period a thorough knowledge of the fish stocks in the likely exclusive economic zone of Timor Leste is necessary so estimates can be made and adjustments to management plans can be made. This will allow for sustainable levels of harvest to be maintained. The AusAID-funded Australian Timor-Leste Fisheries Management Capacity Building Project will provide preliminary data on levels of fish resource stocks, but it is also necessary to have information on the population dynamics of the main commercial species collated using biological surveys. This information can be used to determine the real economic value of the resource, estimating the likely resource rent. Such information would greatly strengthen the negotiating position of Timor-Leste in international discussions over fishing licenses.

A comprehensive survey of the coastal habitat is required to build on the information already obtained in the Agricultural Rehabilitation Project (ARP). This information would facilitate assessments the benefits and threats to each coastal habitat and support management decisions for each district as well as promote community participation.

Adequacy of Legal and Regulatory Framework. Until recently there was no specific fisheries legal framework covering the fishery sector. It is understood that the Indonesian legal system and regulations, as they pertain to fisheries, were in force *pro tem*, pending the proclamation of a proposed Fisheries Decree law.

In 2003 a new Fisheries Legislation was drafted and has been promulgated by the President in March 2004. This will be followed by General Regulations for Fisheries which sets a good basis for the management of fisheries sector.

Timor-Leste already has a fisheries policy¹⁹ that sets the broad path for the future and is actively guiding the work of the Directorate of Fisheries.

Management Capacity. In view of the slender staff resources in the Department, it will be necessary to strike a balance between meeting day-to-day operational pressures and directing staff time to training courses. Improvement of staff management capacity is a crucial step that will be in part addressed by the Australian Timor-Leste Fisheries Management Capacity Building Project, but other donors will also play a role, especially in implementing some activities.

Many of the offshore and some of the inshore marine resources form part of shared stocks with neighbouring countries. Therefore the possibility exists for regional cooperation in fisheries surveillance and monitoring. Any license agreements for industrial fishing should be structured in such a way that NDFA can recover costs incurred in any port sampling observer program (port sampling is a cost effective way of gathering some biological information on the fishery)

Fisheries Management. Effective management of the fishery resources involves the clear definition and rules of enforcement for fisheries activities including the maintenance of marine habitats, licensing of all users of the resource (except subsistence users), and specific requirements for each component of the fish resource (subsistence, inshore, near shore and offshore) to be harvested at no more than the scientifically assessed sustainable level.

How to cope with the demands of fishery management with a small agency is a challenge for the Directorate. Since major staff increases are not feasible, choices must be made as to how to do more with less. Some decisions will need to be made as to which areas of expertise must be developed and retained in the Fisheries Directorate.

Provision has to be made for monitoring the level and nature of the harvest. Ongoing catch data collection is a critical operational function as it allows for management plans to be constantly modified as situations change. This is best done by the constant and reliable collection of biological indicators at species level. Although catch recording for license requirements by fishermen is an option for data collection, there is still a need for independent biological surveys where possible.

Issuing of licenses, surveillance and enforcement of regulations is an important function for Government. Shore-based staff can facilitate stakeholder consultation as well as monitor the subsistence, inshore and nearshore catches, but this requires resources with adequate equipment and training. Offshore surveillance and enforcement is a very different matter, requiring much more complex and expensive equipment. Unless all the offshore catch is landed in Timor-Leste international cooperation will be required for the monitoring of fishing activities offshore.

Ensuring the integrity of a fisheries licensing system will require the development of a reliable and secure means of recording license applications, issuance and renewal, as well as assured financial tracking of payments and secure printing of license certificates. This is best developed through a dedicated electronic database system linked to financial management systems.

¹⁹ *Fish for the Future: A Strategic Plan for the Fisheries of East Timor*, Department of Economic Affairs, May 2001.

Technical assistance in developing such a database would logically extend to incorporating the system in any information database already established by MAFF.

There appears to be less fishing effort in coastal zones following the withdrawal of the numerous fishermen from other parts of Indonesia. It is unlikely that, in the short term, local fishing activities have seriously depleted fish stocks inshore and nearshore although over fishing may be occurring in some areas. Since 1999, there is no reliable data available on the impact of fishing practices on fish stocks. While there are issues to be resolved at local level about allocation of fishing rights, there are traditional avenues for doing this, which will be utilized and incorporated into community based management schemes.

Marine habitat protection. The protection of some of coastal habitats is essential for the maintenance of the biodiversity of East Timor, which in turn influences the long term viability of the commercial and subsistence fishing sector. The establishment of well designed and maintained protected areas would assist in conserving coastal ecosystems as well as contributing to the sustaining small scale subsistence fishery. To do this there must be a good understanding of the coastal environment the benefits and threats to each of the types of habitats and the social dependence on these areas.

Cooperation between agencies is paramount to achieve good integrated management of the coastal zone. There is a need for a range of management interventions such as protection of some sites in marine reserves, rehabilitation of mangroves and development of local community based management. There may well be useful tourism development opportunity that supports reef diving etc.

Capacity building. The responsibility for fisheries management in Timor-Leste has been allocated to the National Directory of Fisheries and Aquaculture in MAFF. In Indonesian times the staff of the equivalent agency numbered 200, but as of 2004 the NDFA has a staff of 41, of which 22 are permanent and 19 are temporary. Of these 13 staff are located in the districts. A return to pre-1999 staff levels may never be possible or necessary.

As a consequence, the capacity to monitor, control and manage the fishery is always going to be a challenge especially in the Districts where tasks are varied and there are long distances between fishing sites. In order to facilitate management of local fish stocks and associated coastal habitats there is a need to focus some NDFA activities towards developing Community Based Management schemes. Capacity building in several key areas is an urgent necessity to make the best use of existing staff. For example, the Fisheries Directorate will have to develop additional capacity to work with the new legislation.

Support to Private Sector. The fishing sector is essentially a family or private operation. Fishing ranges from very small scale subsistence activities including, diving, reef gleaning or from dugout canoes using netting and hook and line, to near shore boats up to about 15m in length which have a more commercial role focused on selling their surplus. The role of Government is to provide an appropriate regulatory environment and management capacity to ensure efficient utilisation of the resource and long-term sustainability of the industry is achieved.

The offshore or industrial fishery will be a private or joint venture sector activity, because of the large amount of capital and the particular skills required (large boats that can stay out fishing for long periods of time and skilled crew). Such developments would require the private sector to operate under sustainable fishing guidelines established by Government using international cooperation and internally accepted best practice. The challenge here is to arrive at a solution that

gives an optimal mix of benefits to the country, in terms of national income, control of the operation and local employment without degrading the marine environment and depleting fish stocks below a sustainable level or breaching international agreements. Onshore facilities could benefit from such operation by supplying fuel and supplies as well as value adding to some products.

The inshore fishery is dominated by traditional smaller boats operating close to shore with the catch either being sold locally or consumed within the household. The current low local demand for fish will not increase until local incomes rise or there are reliable overseas markets established. There are limited prospects for increasing the income of fishing households without improved transport and reliable storage facilities being established. This would have to be complemented with the necessary skills to value add to products. Some small export of coastal products is possible if storage and markets are organised. However, caution must be applied to the allocation of inshore resources to markets because increases in demand can lead to over fishing and the collapse of an entire resource.

In the short term, the Government will assist the refurbishment of the inland aquaculture fishery, to provide for local food consumption, but it is intended that this involvement be phased out in favor of the private sector. The expansion and range of aquaculture activities needs to be reviewed against economic, social and environmental issues and constraints. The need to increase local production for consumption needs to be addressed along with the possible impacts of expanding into large commercial operations like shrimp culture etc where large tracks of land are required. However, no information is available as to the full potential of any aquaculture in Timor-Leste. Aquaculture development is restricted by climatic conditions the lack of large area of coastal plains and the initial capital requirements but this sector remains import factor in local consumption and some income generation activities in the short term.

Assistance will be required in determining which aquaculture activities are sustainable. Although the private sector is still relatively weak experience elsewhere indicates that commercial aquaculture opportunities will be taken up by the private sector so long as they are perceived as being genuinely viable and cause no environmental damage.

Progress to Date

Several external aid projects have made contributions to the sector in recent years. Some NGOs have also been active in the sector, although data on the extent of this are lacking. Replacement of vessels and gear, and rehabilitation of infrastructure has been a major focus of effort over the past three years. There is little information on impacts either socially, economically or environmentally of the projects that focused on the donation of fishing gear and outboard motors to some Districts since 1999 but this could be incorporated into the proposed surveys.

The Asian Development Bank has provided assistance to rehabilitate the fisheries port facilities at Hera Port. The Agriculture Rehabilitation Project phase two (ARP II) included aquaculture amongst its natural resource management activities and this aspect is planned to continue into ARP III until December 2006. ARP also facilitated the development of a Fisheries Decree Law and General Regulation on fisheries and as well as the draft of Fishing Crimes Legislation and Marine Park Decree Law.

The major development partner project affecting the fishing sector is the AusAID Fisheries Management Capacity Building Project, which began in July 2003. The project is planned to extend over three years and should provide an increase in management capacity in the sector, as well as put in place some of the essential building blocks for sustainable fishery management.

IV. PROGRAMS FOR THE MEDIUM TERM AND KEY POLICY ISSUES

The proposed short-term program (1-3 years) has been developed on the basis of the above-mentioned constraints and challenges. It is envisaged that support is needed for a longer time horizon as many of the constraints and solutions of NDFA will continually evolve. Some of the ocean fishery and capacity-building issues are being met by the AusAID Timor-Leste Fisheries Management Capacity Building Project. These include the implementation of licenses and the monitoring and control of each fishery, improved knowledge of the biology of the important species, the coastal environment and the related management options as well as the economics of all the fisheries. In view of the potential for expansion of aquaculture, donor funds should be sought for a review of the potential and options for further development of the inland aquaculture industry.

Key Programs for the Fisheries Sector

The proposed sector investment package for fisheries in Timor-Leste is therefore as follows:

- Implementing a licensing system for inshore/nearshore fisheries along with the implementation of an inshore/nearshore catch monitoring and surveillance system, including provision of necessary equipment,
- A detailed coastal habitat mapping and environmental study,
- Economic and social evaluation of the offshore and inshore fisheries,
- A feasibility study on the potential for expansion of aquaculture including marine aquaculture
- Marine biological survey to verify fish stock and population dynamics for the main species,

These investments are directly supportive of the goal of sustainable fisheries management and the key development indicators in the National Development Plan and the MAFF Policy and Strategic Framework.

Program 1: Implement of License System.. Implementing a licensing system for inshore/nearshore fisheries. This program builds on the AusAID capacity building project and the support will be in the form of district licensing centers and ports and those that will be established in the future, infrastructure and equipment. This to be implemented at commercial and subsistence levels of fishing.

The expected benefits of the program include a well developed, regulated and sustained fisheries industry, a sustained contribution to state coffers from licensing fees (state revenue), a livelihood and income generation and a sustained fisheries production.

Program 2: Coastal Habitat Mapping and Environmental Study. The program builds on the ARP II coastal zone study and aims to obtain more detailed information on coastal zones to determine the critical coastal habitats. It also supports data transfer into the ALGIS (Agricultural Landuse Geographical Information System) of MAFF.

The program will identify the threats and pressures to particular habitats, build capacity within Government to manage fisheries in a holistic manner, and facilitate Community Based

Management (CBM) and Marine Protected Area site selection and management. Recurrent costs will be associated with GIS maintenance.

Program 3: Evaluation of Offshore and Inshore Fisheries. The program supports the fisheries management plan. It uses the existing surveys and fisheries management plans to determine the economic and social benefits of inshore and offshore fisheries. This will lead to improved delivery of services to target sectors in the fisheries, support the monitoring of success of other initiatives (Road Map etc), assist in more accurate planning and service delivery of the National Directorate for Fisheries and Aquaculture, and facilitate Community Based Management.

Program 4. The Potential of Aquaculture Including Marine Aquaculture. This program reviews the opportunities and constraints to the expansion of aquaculture in a sustainable way. The expected benefits of the program include support to rural communities outside the coastal zone, more accurate land use planning and management, improved targeting of the resources of the National Directorate of Fisheries and Aquaculture, and support to the food security objectives and income generation promotion activities in rural areas.

Program 5. Marine biological survey to verify fish stock and population dynamics for the main species. The program will provide detailed information on the marine biological resources of Timor-Leste. This information supports fisheries management plans based on the ecosystem approach, increases the planning capabilities of NFDA and MDE to support the conservation of biodiversity, supports community based management aims, facilitates more accurate planning for marine protected areas, and assist integrated planning of regions by identifying significant areas for management and conservation.

Program 6. Support for Fisheries Monitoring, Controlling and Surveillance Program. The program has the objective to build capacity within MCS staff, providing equipments to support MCS activities, to ensure that, the exploitation of living marine resources under the control of the Timor-Leste Government, to minimize illegal, unregulated and unreported fishing in Timor-Leste waters, data collection, measurement and analysis of fishing activities to include catches, species composition, fishing effort, discards and area of operation (Fishing Ground), the specification of terms and conditions under which resources can be harvested, which are normally contained in Fisheries Legislation and other arrangements , checking and supervision of fishing activities to ensure that Fisheries Legislation and terms, condition of access and management measures are observed. The project will be providing a basic equipment to support MSC activity, hire one International staff to transfer and build the knowledge of MSC staff.

Program 7. Support to Aquaculture Development (Hatchery and Grow-out). The project will be provide basic breeding and grow out infrastructure, facilities and equipment which will serve as a training, production and demonstration facility for aquaculture staff in hatchery and grow out operations.

Program 8. Fish Quality Assurance and Testing Program. The project will support the construction/establishment of basic quality control laboratory facilities and equipment that measure quality of fisheries food and non-food products where staff will be trained in fisheries product quality control.

The project benefits are to reduce the post harvest losses and increase profitability of the fish processors, ensure quality of seafood and nonfood fisheries products that are safe and meet market standards, generate livelihood and employment in the industry and ancillary enterprises, generate income and state revenue.

Program 9. Support to Fisherfolk Associations/Cooperatives. The objective of program is to initiate the formation and build capacities through consultations, technical and management trainings and support of fish producers/ fisherfolk associations, develop/ empower these associations to be self-sufficient, active and successful partners of government in the management and sustainable utilization of the fisheries resources, achieve sustainable coastal and marine fisheries production and promote and enhance participation of women in marine and coastal resource management.

Program 10. Fisheries School. The program will develop the technical skills and capacities of the fisheries industry workforce in the sustainable utilization and management of the fisheries resources. This project shall support the establishment of fisheries schools with emphasis in marine fish capture, aquaculture and processing. Curricula shall be developed in these courses supplemented by a strong resource management foundation. These schools shall cater to needs of the developing fishing, aquaculture and processing industries that require qualified and skilled workforce in the subsectors.

Program 11. Professional Training Overseas. To build the capacity of the Fisheries Directorate management and staff through professional (technical and management) trainings and courses overseas in training Methodology and Research, data Analysis and Management, fisheries Resource Management, pollution. The management and staff of the NDFA will be sent to various overseas trainings to build their capacity to effectively run the agency. This will complement long distance education programs currently planned.

Program 12. Facilities Construction, Rehabilitation and Maintenance.

The project objective is to construction and maintenance of fisheries infrastructure and facilities in the different districts and sub-districts and to rehabilitation and maintenance of existing infrastructure and facilities. The project shall support the fisheries industry through the construction, rehabilitation and maintenance of infrastructure and facilities for the various needs of the developing sub-sectors e.g. cold storage, processing and marketing facilities.

Program Priorities and Intersectoral Linkages

The Ministry has established a clear set of priorities for the proposed Fisheries Sector programs. These are summarised in Table 9. Three programs are identified as high priority and are proposed for start up in the coming year. These would require new donor commitments of \$1.9 million. The other proposed programs for the medium-term would require additional commitments of \$3.1 million. The proposed program of \$5 million compares with \$2.9 million of donor commitments over the past five years.

Natural resource management and environmental protection: Experience from all over the world has shown that coastal habitats are very fragile environments. Close collaboration between Government agencies charged with marine environment protection is therefore needed. The Ministry of Development and Environment (MDE) has to fulfil its role in protecting coastal and marine environments from negative impacts of urban and industrial development, e.g. pollution control, regulations on urban waste management. The NDFA has an obligation to protect the natural environment from destructive fishing techniques because fisheries management is ecosystem based and has to incorporate environmental sustainability as an overriding objective. It is necessary to achieve a balance between economic, social, environmental and operational objectives as this is a necessary condition for long term sustainability of the sector.

Table 9: Priority Ranking of Proposed New Programs for the Fisheries Sector
(In US\$)

Priority Ranking	Start Date	Proposed Annual Amount of New Approvals					Total
		FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	
A. High Priority Programs							
Implement Fisheries license	FY2004/05	800,000					800,000
Acquaculture study	FY2004/05	160,000					160,000
Marine biological survey	FY2004/05	950,000					950,000
Total proposed approvals		1,910,000	-	-			1,910,000
Annual disbursements		700,000	630,000	580,000			1,910,000
B. Programs for the Medium-term							
Coastal habitat mapping	FY2005/06		160,000				160,000
Economic & social evaluation	FY2005/06		170,000				170,000
Monitoring, control, surveillance system	FY2005/06		1,200,000				1,200,000
Support to Fisherfolk Associations/Coop.	FY2005/06		800,000				800,000
Professional Training (Overseas)	FY2005/06		900,000				900,000
Facilities construction/rehab/maintenance	FY2005/06		1,500,000				1,500,000
Support Aquaculture Dev. (Hatchery & Grow-out)	FY2006/07			1,450,000			1,450,000
Fish quality assurance/testing program	FY2006/07			550,000			550,000
Fisheries school	FY2006/07			2,750,000			2,750,000
Support for fisheries industry development	FY2007/08				1,000,000		1,000,000
Total proposed approvals		-	4,730,000	4,750,000	1,000,000	-	10,480,000
Annual disbursements		-	1,580,000	3,465,000	3,335,000	1,550,000	9,930,000
C. Total proposed new program							
Total proposed approvals		1,910,000	4,730,000	4,750,000	1,000,000	-	12,390,000
Total annual disbursements		700,000	2,210,000	4,045,000	3,335,000	1,550,000	11,840,000

Source: Annex Table 5.

Tourism development: In Timor-Leste the marine environment is an important attribute for tourism development. Conflicts can arise where fishing practices and conservation aims are not mutually the same. Without clear fisheries management strategies conflicts can occur between stakeholders such as, tourism and fishing including sport fishing and recreational diving. This is especially true where fishing is a vital component of the daily lives of communities and where some fishing techniques that are traditionally used are not compatible with conservation or tourism aims. Management plans should be developed jointly by the agencies that serve not only the economic returns to a fisherman but also conservation returns especially in areas that have been designated as protected areas (mainly on the coastal zone)

Offshore sport fishing and diving can also conflict with conservation aims. There need to be consultation with stakeholder groups for establishing fishing management plans that may conflict with the commercial, subsistence fishers and the sport and recreational users of the marine environment.

Private sector development: Offshore and licensed nearshore commercial activities have the potential to generate small and medium scale support enterprises. Initially this will be in the service sector (mechanical repairs and maintenance, provided etc.) but may grow to include some value adding to products as certain fisheries mature.

Service enterprises connected to port infrastructure, transport, export control and import need access to infrastructure such as power, water and transport routes. Clear and transparent rules are needed for foreign fishing operators who wish to enter and leave fishing ports aligned with correct and timely immigration controls. An example is where crews from foreign vessel may want to use Dili to change crews. The private sector may benefit through service delivery such as hotels. Crews will be discouraged to use a country if it is difficult to get the correct immigration procedures, for example in places outside Dili.

Public Works: The success of commercial and semi commercial fishing operations depends on the availability of infrastructure such as a place to unload, take on fuel and ice as well as shelter

for extreme weather conditions. Access to these facilities needs to be centralised as is the example with Hera Port (some shore support facilities are still required there). The cost of construction and maintenance of these facilities including the installation of power needs to be, at least partly, recovered from the users. Port control needs to be coordinated with agencies such as quarantine, immigration, transport, enforcement and fisheries. These centres need to be linked to a reliable road network.

Ministry of Foreign Affairs: Some of the important pelagic species are migratory. Stocks of these are shared with other countries. A number of international treaties and agreements on the management of these stocks are already in place (e.g. Indian Ocean Tuna Commission), but as yet Timor-Leste is not involved (although there are some arrangements for Timor to be involved in the Arafura and Timor Seas Expert Forum). There are important benefits in East Timor being involved in international arrangement on fishing and the marine environment. These benefits range from shared surveillance, enforcement and monitoring to the exchange in technology and information. If Timor-Leste is to be active in these shared arrangements on fishing and marine environment there will be a need for cooperation with Foreign Affairs along with MDE. This also relates to agreements on the EEZ.

Crosscutting Issues for the Programs in Fisheries

Governance. Fisheries as with other natural resources are vulnerable to the lack of good governance. The issuing of licenses needs to be done in a transparent manner. Enforcement of violation is a critical issue which is outside the expertise and resources of the NDFA although it is recognised there has to be coordination with the appropriate and designated authority.

Gender equality. The fishing sector is mainly a family activity particularly at the subsistence level. There is participation of women in the processing and distribution of catches although in Timor-Leste the catching sector is male dominated. As the offshore fishing resource is yet to be utilised there is not yet on shore processing as seen in other well established fisheries in other regions. Once processing starts, attention has to be paid to providing equal access to male and female employees at all levels.

With the advent of community based management concepts it is well accepted that gender plays an important role as some non canoe based fishing (reef gleaning) is undertaken by female and children in many areas. The proposed focus on community based management concepts will include all stakeholders of which gender representation is a vital component. The proposed economic and social analysis project will specifically address gender issues.

V. PROPOSED EXPENDITURE PROGRAMS AND FUNDING

Current Expenditures

Expenditures by Government and development partners on fisheries programs amounted to about \$2.9 million during the past five years (Table 10). The development partner community contributed two-thirds of the outlays. About 40 percent of the donor funding was allocated to capacity building activities, including training and resource assessments. The bulk of the donor support was directed to support for commercial fishing, almost all of which was for individuals and small groups in coastal communities. Australia has been the largest supporter of the sector, accounting for half the total disbursements to date.

Table 10: Donor & CFET Funded Programs Completed, Ongoing & Under-Preparation for Fisheries

Funding Source	Annual disbursements					Total	
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	Amount	Percent
Donor funded programs	321,667	719,390	293,308	225,921	383,299	1,943,585	66.2
CFET appropriations	125,000	150,000	169,000	244,000	303,000	991,000	33.8
Total expenditures	446,667	869,390	462,308	469,921	686,299	2,934,585	100.0
CFET as % of total	28.0	17.3	36.6	51.9	44.1	33.8	

Source: Annex Table 1.

Proposed Expenditures

The proposed program for fisheries would require expenditures of about \$15 million over the five-year period ending FY2008/09 – more than double that of the previous five years. Approximately \$1 million of the funding would come from ongoing donor programs, with a similar amount currently planned from CFET. Proposed new funding from development partners amounts to \$11.8 million. These funds would go to the individual programs discussed in detail in the previous Chapter. Additional CFET counterpart funding would also be required for the program, and an amount of \$1.8 million is proposed.

Table 11: Proposed Expenditure Program for the Fisheries Sector
(In US\$)

Program	Annual disbursements					Total	
	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Amount	Percent
Ongoing donor programs	434,095	525,931	50,000	-	-	1,010,026	12.0
CFET appropriations	244,000	252,000	252,000	251,000	255,000	1,254,000	14.9
New CFET counterpart	209,688	334,250	397,250	425,000	500,000	1,866,188	22.1
Proposed new donor programs	700,000	2,210,000	4,045,000	3,335,000	1,550,000	11,840,000	140.5
Total	1,587,783	3,322,181	4,744,250	4,011,000	2,305,000	15,970,214	189.5

Source: Annex Table 1.

Revenues from Resource Rents

In view of the limited opportunities for national income until petroleum revenues begin to flow the possibility of resource rents from offshore fishing licences is undoubtedly an attraction for the Government. It is understandable that there should be interest in an early move into offshore fishery licences. However, there is considerable uncertainty over the level of such rents, with wide variation in the estimates that have been made. There are options for safeguards, such as upset prices for licences and limitation on the term of licences to, say, five years, so that by the time licence renewal is necessary the required data for industry management has been obtained and fishery management plans developed. The proposed fisheries economic and social consultancy would provide valuable advice to the Government on this issue.

Role of Donors

The assistance proposed for consideration by donors over the next three years would complete the program of restoration of local fishing capacity, and enable the fisheries agency to achieve the capacity to manage the sector effectively. More than 80 percent of the funding from ongoing donor programs of \$1.7 million will come from Australia, the largest supporter of the fisheries sector. Japan and Thailand have small ongoing programs as well. A large part of the funds for the capacity building process in the Fisheries Directorate will come from the Australian Timor-Leste Fisheries Management Capacity Building Project over the next three years. Other donor assistance in the fisheries area can most usefully be directed to the provision of essential data useful for fish stock assessments and fisheries management, evaluating the potential for aquaculture development, data

collection for a possible marine reserve system for Timor-Leste and surveillance and enforcement facilities.

VII. ELEMENTS OF UNCERTAINTY IN THE PROGRAM

There are uncertainties in the proposed medium term program in at least four areas:

- The capacity of the staff of the Fisheries Directorate to support the current level of involvement in the AusAID capacity building project. The same refers to the capacity of the Directorate to assume any additional responsibilities associated with other large assistance projects, for example a detailed study of the marine environment to refine the marine protected area network.
- The agreement of the EEZ for Timor-Leste,
- The level of genuine interest from foreign fishing ventures to operate under Timor-Leste legislation, and
- The progress towards utilising International Agreements for the cooperation of fishing shared fish stocks.

ANNEX TABLES

Annex Table 1: Actual and Proposed CFET Appropriations and Donor Expenditure Programs Completed, Ongoing and Under Preparation for the Agriculture, Forestry and Fisheries Sector (US\$)

Source of Funds	Disbursements										Total			
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY1999/00-FY2003/04		FY2004/05-FY2008/09	
											Amount	Percent	Amount	Percent
A. AGRICULTURE & LIVESTOCK														
Policy, planning, data & management														
Donor programs	279,860	1,273,263	3,776,347	3,661,037	884,677	1,101,323	970,281	395,028	-	-	9,875,184	13.6	2,466,632	3.8
CFET appropriations	100,000	150,000	171,000	468,000	445,000	412,000	418,000	437,000	445,000	457,000	1,334,000	1.8	2,169,000	3.3
Proposed new						150,000	550,000	700,000	200,000	-	-	-	1,600,000	2.5
Sub-total	379,860	1,423,263	3,947,347	4,129,037	1,329,677	1,663,323	1,938,281	1,532,028	645,000	457,000	11,209,184	15.5	6,235,632	9.6
Food crops														
Donor programs	829,478	1,103,667	876,380	665,027	915,074	574,314	195,000	-	-	-	4,389,626	6.1	769,314	1.2
CFET appropriations	80,000	95,000	95,000	99,000	96,000	89,000	96,000	96,000	97,000	100,000	465,000	0.6	478,000	0.7
Proposed new programs						1,400,000	1,800,000	2,300,000	800,000	900,000	-	-	7,200,000	11.0
Sub-total	909,478	1,198,667	971,380	764,027	1,011,074	2,063,314	2,091,000	2,396,000	897,000	1,000,000	4,854,626	6.7	8,447,314	12.9
Industrial crops														
Donor programs	3,520,697	3,521,581	3,562,273	3,910,539	4,393,750	253,750	253,750	-	-	-	18,908,840	26.1	507,500	0.8
CFET appropriations	50,000	60,000	53,000	55,000	55,000	48,000	62,000	67,000	70,000	75,000	273,000	0.4	322,000	0.5
Proposed new programs						-	400,000	450,000	400,000	1,000,000	-	-	2,250,000	3.4
Sub-total	3,570,697	3,581,581	3,615,273	3,965,539	4,448,750	301,750	715,750	517,000	470,000	1,075,000	19,181,840	26.5	3,079,500	4.7
Post harvest: storage, processing														
Donor programs	-	550,000	145,794	-	500,000	319,500	119,000	-	-	-	1,195,794	1.6	438,500	0.7
Proposed new programs											-	-	-	-
Sub-total	-	550,000	145,794	-	500,000	319,500	119,000	-	-	-	1,195,794	1.6	438,500	0.7
Livestock														
Donor programs	78,142	1,663,103	1,040,977	350,880	334,959	656,232	520,832	243,197	-	-	3,468,061	4.8	1,420,261	2.2
CFET appropriations	70,000	85,000	59,000	143,000	131,000	107,000	126,000	130,000	133,000	136,000	488,000	0.7	632,000	1.0
Proposed new programs						50,000	300,000	400,000	250,000	250,000	-	-	1,250,000	1.9
Sub-total	148,142	1,748,103	1,099,977	493,880	465,959	813,232	946,832	773,197	383,000	386,000	3,956,061	5.5	3,302,261	5.1
Irrigation														
Donor programs	-	1,793,529	1,768,571	3,212,600	4,297,800	859,030	1,075,014	520,326	-	-	11,072,500	15.3	2,454,370	3.8
CFET appropriations	100,000	120,000	110,000	248,000	166,000	194,000	313,000	419,000	451,000	479,000	744,000	1.0	1,856,000	2.8
Proposed new programs						-	-	-	-	-	-	-	-	-
Sub-total	100,000	1,913,529	1,878,571	3,460,600	4,463,800	1,053,030	1,388,014	939,326	451,000	479,000	11,816,500	16.3	4,310,370	6.6
Support for farmer organizations														
Donor programs	-	328,677	411,963	485,040	245,568	217,629	228,870	109,233	-	-	1,471,248	2.0	555,732	0.9
Farmer training														
Donor programs	15,600	847,485	879,699	751,570	795,865	615,141	646,456	308,513	-	-	3,290,219	4.5	1,570,110	2.4
Proposed new programs						200,000	250,000	300,000	-	-	-	-	750,000	1.1
Sub-total	15,600	847,485	879,699	751,570	795,865	815,141	896,456	608,513	-	-	3,290,219	4.5	2,320,110	3.6
Research & extension services														
Donor programs	-	-	-	7,310	1,800,000	-	-	-	-	-	1,807,310	2.5	-	-
CFET appropriations	8,000	10,000	9,000	85,000	105,000	88,000	99,000	102,000	98,000	105,000	217,000	0.3	492,000	0.8
Proposed new programs						500,000	550,000	1,100,000	1,100,000	1,000,000	-	-	4,250,000	6.5
Sub-total	8,000	10,000	9,000	92,310	1,905,000	588,000	649,000	1,202,000	1,198,000	1,105,000	2,024,310	2.8	4,742,000	7.3
Quarantine														
CFET appropriations	-	-	-	-	41,000	32,000	48,000	52,000	55,000	58,000	41,000	0.1	245,000	0.4
Rural development programs														
Donor programs	54,991	1,294,440	1,524,531	2,394,875	2,088,243	2,458,172	654,705	269,676	79,954	-	7,357,080	10.1	3,462,507	5.3
Proposed new programs						-	-	-	-	-	-	-	-	-
Sub-total	54,991	1,294,440	1,524,531	2,394,875	2,088,243	2,458,172	654,705	269,676	79,954	-	7,357,080	10.1	3,462,507	5.3
Total agriculture & livestock														
Donor programs	4,778,768	12,375,745	13,986,535	15,438,878	16,255,936	7,055,091	4,663,908	1,845,973	79,954	-	62,835,862	86.7	13,644,926	20.9
CFET appropriations	408,000	520,000	497,000	1,098,000	1,039,000	970,000	1,162,000	1,303,000	1,349,000	1,410,000	3,562,000	4.9	6,194,000	9.5
Proposed new CFET						419,375	668,500	794,500	850,000	1,000,000	-	-	3,732,375	5.7
Proposed new donor programs						2,300,000	3,850,000	5,250,000	2,750,000	3,150,000	-	-	17,300,000	26.5
Total	5,186,768	12,895,745	14,483,535	16,536,878	17,294,936	10,744,466	10,344,408	9,193,473	5,028,954	5,560,000	66,397,862	91.6	40,871,301	62.6

Annex Table 1: Actual and Proposed CFET Appropriations and Donor Expenditure Programs Completed, Ongoing and Under Preparation for the Agriculture, Forestry and Fisheries Sector (US\$)

Source of Funds	Disbursements										Total			
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	999/00-FY2003/04		FY2004/05-FY2008/09	
											Amount	Percent	Amount	Percent
B. FORESTRY & FISHERIES														
Fisheries														
Donor programs	321,667	719,390	293,308	225,921	383,299	434,095	525,931	50,000	-	-	1,943,585	2.7	1,010,026	1.5
CFET appropriations	125,000	150,000	169,000	244,000	303,000	244,000	252,000	252,000	251,000	255,000	991,000	1.4	1,254,000	1.9
Proposed new CFET						209,688	334,250	397,250	425,000	500,000	-	-	1,866,188	2.9
Proposed new programs						700,000	2,210,000	4,045,000	3,335,000	1,550,000	-	-	11,840,000	18.1
Sub-total	446,667	869,390	462,308	469,921	686,299	1,587,783	3,322,181	4,744,250	4,011,000	2,305,000	2,934,585	4.0	15,970,214	24.5
Forestry														
Donor programs	-	12,000	482,685	928,357	857,435	964,389	281,406	155,582	-	-	2,280,477	3.1	1,401,377	2.1
CFET appropriations	125,000	150,000	222,000	170,000	236,000	244,000	207,000	226,000	257,000	275,000	903,000	1.2	1,209,000	1.9
Proposed new CFET						209,688	334,250	397,250	425,000	500,000	-	-	1,866,188	2.9
Proposed new programs						600,000	1,010,000	1,130,000	860,000	350,000	-	-	3,950,000	6.1
Sub-total	125,000	162,000	704,685	1,098,357	1,093,435	2,018,077	1,832,656	1,908,832	1,542,000	1,125,000	3,183,477	4.4	8,426,565	12.9
C. GRAND TOTAL														
Donor programs	5,100,435	13,107,135	14,762,528	16,593,156	17,496,670	8,453,575	5,471,245	2,051,555	79,954	-	67,059,924	92.5	16,056,329	24.6
CFET appropriations	658,000	820,000	888,000	1,512,000	1,578,000	1,458,000	1,621,000	1,781,000	1,857,000	1,940,000	5,456,000	7.5	8,657,000	13.3
Proposed new CFET						838,750	1,337,000	1,589,000	1,700,000	2,000,000	-	-	7,464,750	11.4
Proposed new donor programs	-	-	-	-	-	3,600,000	7,070,000	10,425,000	6,945,000	5,050,000	-	-	33,090,000	50.7
Total	5,758,435	13,927,135	15,650,528	18,105,156	19,074,670	14,350,325	15,499,245	15,846,555	10,581,954	8,990,000	72,515,924	100.0	65,268,079	100.0

Source: Annex Tables 2 and 3.

Annex Table 2: Summary of Donor Funded Programs for Agriculture, Forestry and Fisheries (US\$)

Program and/or Activity	Donor	Annual Disbursements										Total		
		FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Disbursed	Approved	
POLICY, PLANNING & MANAGEMENT														
ARP I Project management unit	TFET		821,691	428,309									1,250,000	1,250,000
Study of integrated agricultural development	Japan			1,921,000	1,820,000								3,741,000	3,741,000
Study in agriculture	Japan	96,667											96,667	96,667
Adviser to the Minister	Japan				100,000								100,000	100,000
Training for MAFF staff	Japan						43,438	43,438					86,876	86,876
Training in Brazil	Japan						8,800						8,800	8,800
Training in Japan	Japan					158,400							158,400	158,400
Training in Thailand	Japan					17,600							17,600	17,600
Support for implementation of NDP	FAO				134,000	100,000	20,000						254,000	234,000
Agricultural policies	Portugal		84,229	84,521									168,750	168,457
Agricultural policy & management	Portugal		297,577										297,577	297,577
Agricultural development I	Portugal	4,627											4,627	4,627
Agricultural development II	Portugal			49,015									49,015	49,015
Rural development programs	Portugal			465,543	391,538								857,081	800,127
Bardep reassignment of advisers	Australia	178,566	69,766										248,332	260,165
Rice Pricing option study	UNDP			44,600									44,600	53,350
ARP II: Program management	TFET			400,720	811,920	357,360							1,570,000	1,570,000
ARP III: Policy & program management	TFET					188,004	292,660	104,656	41,370				626,690	626,690
ARP III: Policy & program management	EU						563,143	704,733	341,114				1,608,990	1,608,990
Sub-total		279,860	1,273,263	3,393,708	3,257,458	821,364	928,041	852,827	382,484	-	-		11,189,005	11,132,341
IRRIGATION & FARM ROADS														
Community based water management I	Australia		26,000	26,000									52,000	52,000
ARP I Rehabilitation of irrigation and farm roads	TFET		1,656,529	863,471									2,520,000	2,520,000
Irrigation rehabilitation	Japan		111,000	230,000									341,000	341,000
Participatory water management system	Japan			47,500									47,500	47,500
Emergency repair of irrigation Manatuto Phase	Japan				2,000,000	3,762,000							5,762,000	5,762,000
ARP II: Rehabilitation of irrigation schemes	TFET			527,360	1,062,960	469,680							2,060,000	2,060,000
ARP II: Rehabilitation of farm to market roads	TFET			74,240	149,640	66,120							290,000	290,000
ARP III: Rehabilitation of irrigation schemes	EU						859,030	1,075,014	520,326				2,454,370	2,454,370
Sub-total		-	1,793,529	1,768,571	3,212,600	4,297,800	859,030	1,075,014	520,326	-	-		13,526,870	13,526,870
FOOD CROP DEVELOPMENT														
Food crop production	Australia			86,166									86,166	88,438
Rat management control	Australia		100,000										100,000	100,000
Seeds for life	ACIAR		170,000	170,000	170,000								510,000	510,000
Urgent maize & rice seed multiplication	FAO			258,000	232,000								490,000	490,000
Food security mission	FAO						40,000						40,000	40,000
Inputs for ex-combatants	FAO						200,000	195,000					395,000	395,000
Expert of agricultural machinery	Japan	91,250	91,250										182,500	182,500
Urgent seed multiplication	Japan		469,650										469,650	469,650
Agriculture I	Thailand				40,723								40,723	40,723
Agriculture II	Thailand					79,836	16,667						96,503	130,000
Agricultural recovery program	Ireland			88,050	103,037								191,087	176,099
Seeds for emergency recovery	USA			34,423	64,413								98,836	98,836
Increasing maize yields	USA			27,154	27,154								54,308	54,308
Emergency supply seed and fertilizer	EU					517,591							517,591	517,591
Agricultural development	Portugal					317,647	317,647						635,294	635,294
Agricultural production	Japan	552,000	4,500	3,500									560,000	560,000
Agricultural production	Norway		22,040	22,860	27,700								72,600	66,120
Agricultural production	Norway		60,000										60,000	60,000
Agricultural production	UNDP	186,228	186,227	186,227									558,682	558,682
Sub-total		829,478	1,103,667	876,380	665,027	915,074	574,314	195,000	-	-	-		5,158,940	5,173,241

Annex Table 2: Summary of Donor Funded Programs for Agriculture, Forestry and Fisheries (US\$)

Program and/or Activity	Donor	Annual Disbursements									Total		
		FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Disbursed	Approved
COMMERCIAL/EXPORT CROP DEVELOPMENT													
Support for coffee growers, Maubisse	Japan				108,750	108,750	108,750	108,750				435,000	105,000
Improve coffee quality Letefoho district	Japan					145,000	145,000	145,000				435,000	435,000
Rehabilitation of coffee fields	Portugal	52,697	45,585									98,282	103,798
Coffee development techniques	Brazil				139,000							139,000	139,000
Silkworm farming	Australia		7,996									7,996	7,996
Feasability study of commercial palm oil	FAO					40,000						40,000	40,000
Support for banana production	USA			27,604	27,605							55,209	55,209
Coconut & maize processing enterprise develop	USA			36,244	36,244							72,488	72,487
Coconut crop protection: Baucau	USA			30,425	39,426							69,851	78,851
Pilot project for fruit & nut trees	USA				91,514							91,514	91,514
Coffee industry development	USA	3,468,000	3,468,000	3,468,000	3,468,000	4,100,000						17,972,000	17,972,000
Sub-total		3,520,697	3,521,581	3,562,273	3,910,539	4,393,750	253,750	253,750	-	-	-	19,416,340	19,100,855
POST HARVEST PROCESSING, STORAGE													
Reduction in post-harvest losses I	Japan		250,000	99,794								349,794	340,000
Reduction in post-harvest losses I	FAO		300,000	46,000								346,000	346,000
Reduction in post-harvest losses II	FAO					250,000	200,000	119,000				569,000	569,000
Reduction in post-harvest losses II	Japan					250,000	119,500					369,500	369,500
Sub-total		-	550,000	145,794	-	500,000	319,500	119,000	-	-	-	1,634,294	1,624,500
LIVESTOCK													
Timor animal health project	Australia	78,142										78,142	78,142
ARP I Animal replacement & vaccination	TFET		1,663,103	866,897								2,530,000	2,530,000
ARP II: Animal vaccination program	TFET			174,080	350,880	155,040						680,000	680,000
ARP III: Vaccination program	TFET					179,919	280,074	100,155	39,582			599,730	599,730
ARP III: Vaccination program	EU						336,158	420,677	203,615			960,450	960,450
Surveillance network avian diseases	FAO						40,000					40,000	40,000
Sub-total		78,142	1,663,103	1,040,977	350,880	334,959	656,232	520,832	243,197	-	-	4,888,322	4,888,322
FARMER ORGANIZATIONS													
ARP I Pilot agric service centers	TFET		328,677	171,323								500,000	500,000
ARP II: Agriculture service centers	TFET			240,640	485,040	214,320						940,000	940,000
ARP III: Support for agri-business	TFET					31,248	48,642	17,395	6,875			104,160	104,160
ARP III: Support for agri-business	EU						168,987	211,475	102,358			482,820	482,820
Sub-total		-	328,677	411,963	485,040	245,568	217,629	228,870	109,233	-	-	2,026,980	2,026,980

Annex Table 2: Summary of Donor Funded Programs for Agriculture, Forestry and Fisheries (US\$)

Program and/or Activity	Donor	Annual Disbursements										Total		
		FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Disbursed	Approved	
RESEARCH, SURVEY & EXTENSION														
Farmer Training														
HR development for agriculture, Liquia	Japan					94,866						94,866	94,866	
Training on irrigation, drainage and development	Japan				25,070	25,069						50,139	50,139	
Training on participatory water management	Japan				47,500							47,500	47,500	
Renovation of agricultural training center	Japan			410,000								410,000	410,000	
Training on provision of hand tillers	Japan		130,000									130,000	130,000	
Training on integrated agriculture/rural development	Japan			7,917								7,917	7,917	
Course on tropical fruit production	Japan		5,375	5,375								10,750	10,750	
Enhancing rural women economic activities	Japan		2,110	4,320	4,320							10,750	10,750	
Strengthening rice farmers	Japan	15,600	710,000	105,006								830,606	830,606	
Workshop on agro-mechanical & rice production	Spain					300,000						300,000	300,000	
Hand tillers management	UNDP			24,521	24,520							49,041	49,041	
ARP II: Training for irrigation & water users	TFET			61,440	123,840	54,720						240,000	240,000	
ARP II: Information for farmers	TFET			153,600	309,600	136,800						600,000	600,000	
ARP II: Livestock training	TFET			107,520	216,720	95,760						420,000	420,000	
ARP III: Training for irrigation & water users	TFET					68,664	106,887	38,223	15,106			228,880	228,880	
ARP III: Training for irrigation & water users	EU						32,085	40,151	19,434			91,670	91,670	
ARP III: Farmer information programs	TFET					19,986	31,112	11,126	4,396			66,620	66,620	
ARP III: Farmer information programs	EU						445,057	556,956	269,577			1,271,590	1,271,590	
Sub-total		15,600	847,485	879,699	751,570	795,865	615,141	646,456	308,513	-	-	4,860,329	4,860,329	
Research														
Research on tara bandu	Japan				7,310							7,310	7,310	
Collaborative research support	USA					1,800,000						1,800,000	1,800,000	
Sub-total		-	-	-	7,310	1,800,000	-	-	-			1,807,310	1,807,310	
Surveys, data collection & analysis														
Training on ALGIS for production data	Japan			2,639	2,639							5,278	5,278	
Agriculture data collection & statistics	FAO						50,000	50,000				100,000	100,000	
Land & forest land use mapping	Australia			380,000	380,000							760,000	760,000	
Project development for agriculture in Manatuto	Portugal				20,940							20,940	20,940	
GIS technology for agriculture	Thailand					6,295						6,295	82,500	
GIS technology for agriculture	Thailand						34,524	35,714				70,238	70,328	
ARP III: survey & mapping	TFET					57,018	88,758	31,740	12,544			190,060	190,060	
Sub-total		-	-	382,639	403,579	63,313	173,282	117,454	12,544	-	-	1,152,811	1,229,106	
FORESTRY PROGRAMS														
Reafforestation I	Australia		12,000									12,000	12,000	
Reafforestation II	Australia			3,315								3,315	3,315	
Community based natural resource management	Canada			232,970	415,000	117,452						765,422	732,213	
Plantation programs	Japan			16,400	49,357							65,757	65,757	
AMCAP (forestry)	Japan					185,550	141,750	87,000	78,750			493,050	570,900	
Forestry policy regulation	FAO						279,000					279,000	279,000	
ARP III Community development/training	TFET			230,000	464,000	205,200						899,200	899,600	
ARP II Community development/training	TFET					349,233	543,639	194,406	76,832			1,164,110	1,164,110	
Sub-total		-	12,000	482,685	928,357	857,435	964,389	281,406	155,582	-	-	3,681,854	3,726,895	

Annex Table 2: Summary of Donor Funded Programs for Agriculture, Forestry and Fisheries (US\$)

Program and/or Activity	Donor	Annual Disbursements										Total		
		FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Disbursed	Approved	
FISHERIES PROGRAMS														
Policy, planning & management														
Fisheries management capacity building	Australia		175,148	141,343	146,200	353,925	343,619	309,264					1,469,499	1,241,507
Strategic plan for fisheries development	Australia		20,650										20,650	20,650
Study on natural freshwater aquaculture	Japan			60,417									60,417	60,417
Fisheries study	Japan	96,667											96,667	96,667
Support for fisheries	Portugal		18,317										18,317	18,317
Stock assessment Dili Harbour	Australia		6,500	6,500									13,000	13,000
Srenghthen fisheries data collection	FAO						50,000	50,000	50,000				150,000	150,000
Coastal fisheries management seminar	Japan			5,278									5,278	5,278
Sub-total		96,667	220,615	213,538	146,200	353,925	393,619	359,264	50,000	-	-		1,833,828	1,605,836
Support for commercial development														
Boats for ex-combatants	USA			39,721	39,721								79,442	79,442
Small scale fisheries activities	Australia	120,000	120,000										240,000	240,000
Fisheries	Thailand						40,476	166,667					207,143	207,143
Training on marine electricity	Japan		100,000										100,000	100,000
Fisheries development	Portugal		11,673	669									12,342	12,340
Fisheries training	Portugal		28,769										28,769	28,769
Aquaculture development	Japan	105,000	105,000										210,000	210,000
Freshwater aquaculture specialist	Japan		133,333										133,333	133,333
Aquaculture development training	Japan			7,167									7,167	7,167
Rehabilitation of local fishery	Japan			15,192									15,192	15,192
Aquaculture training	Japan			14,333									14,333	14,333
Rehabilitate fisheries cooperatives	Japan				40,000	29,374							69,374	69,374
Fish processing and quality control training	Japan			2,688									2,688	2,688
Sub-total		225,000	498,775	79,770	79,721	29,374	40,476	166,667	-	-	-		1,119,783	1,119,781
Total fisheries		321,667	719,390	293,308	225,921	383,299	434,095	525,931	50,000	-	-		2,953,611	2,725,617
INTEGRATED RURAL DEVELOPMENT														
Rural Development Project	Australia		716,788	698,372	780,447	916,971	916,971						4,029,549	3,583,941
Interim CAPET Rural development	Australia		289,451	444,790	248,539								982,780	974,238
Oecussi Rural Development I	Australia		50,000										50,000	50,000
Oecussi Rural Development II	Australia				225,000								225,000	225,000
Small grants program	USA		167,094	167,086	167,089								501,269	501,269
Small grants program	USA						250,000	250,000					500,000	500,000
Food security program	Germany				907,400	1,002,127	886,496						2,796,023	2,540,750
Rural development in Baucau	Japan			133,333									133,333	133,333
PMU rural development program	EU					57,815	404,705	404,705	269,676	79,954			1,216,855	1,194,716
Emergency aid & sustainable development	Canada	54,991	71,107	17,210									143,308	146,642
Integrated Rural Development Loes Valley	Canada			63,740	66,400	111,330							241,470	230,440
Sub-total		54,991	1,294,440	1,524,531	2,394,875	2,088,243	2,458,172	654,705	269,676	79,954	-		10,819,587	10,080,329
Grand Total		5,100,435	13,107,135	14,762,528	16,593,156	17,496,670	8,453,575	5,471,245	2,051,555	79,954	-		83,116,253	81,902,695
Memo Item:														
Agriculture Rehabilitation I	TFET		4,470,000	2,330,000									6,800,000	6,800,000
Agriculture Rehabilitation II	TFET			1,739,600	3,510,600	1,549,800	-	-	-				6,800,000	8,000,000
Agriculture Rehabilitation III	TFET			-	-	544,839	3,252,593	3,312,301	1,576,297				8,686,030	9,850,140
Total		-	4,470,000	4,069,600	3,510,600	2,094,639	3,252,593	3,312,301	1,576,297	-	-		22,286,030	22,286,030

Source: Registry of External Assistance.

Annex Table 3: Summary of CFET Budget Appropriations for Ministry of Agriculture, Forests and Fisheries (US\$)

Budget Category	Annual Appropriations										Total			
	FY1999-00	FY 2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007/08	FY2008/09	FY2000/01-FY2003/04		FY2004/05-FY2008/09	
											Amount	Percent	Amount	Percent
Office of Minister for MAFF	-	25,000	30,000	34,000	35,000	35,000	35,000	36,000	37,000	38,000	124,000	2.3	181,000	2.1
Office of Vice Minister for MAFF	-	10,000	15,000	23,000	24,000	24,000	24,000	25,000	26,000	27,000	72,000	1.3	126,000	1.5
Permanent Secretary	-	-	-	-	-	9,000	14,000	15,000	16,000	17,000	-	-	71,000	0.8
Administration	100,000	115,000	126,000	411,000	343,000	303,000	295,000	305,000	309,000	315,000	1,095,000	20.1	1,527,000	17.6
Sub-total	100,000	150,000	171,000	468,000	402,000	371,000	368,000	381,000	388,000	397,000	1,291,000	23.7	1,905,000	22.0
Policy and Planning	-	-	-	-	43,000	41,000	50,000	56,000	57,000	60,000	43,000	0.8	264,000	3.0
Research and Extension Centre	8,000	10,000	9,000	85,000	105,000	88,000	99,000	102,000	98,000	105,000	217,000	4.0	492,000	5.7
Food Crops	80,000	95,000	95,000	99,000	96,000	89,000	96,000	96,000	97,000	100,000	465,000	8.5	478,000	5.5
Industrial Crops	50,000	60,000	53,000	55,000	55,000	48,000	62,000	67,000	70,000	75,000	273,000	5.0	322,000	3.7
Livestock	70,000	85,000	59,000	143,000	131,000	107,000	126,000	130,000	133,000	136,000	488,000	8.9	632,000	7.3
Irrigation	100,000	120,000	110,000	198,000	65,000	56,000	63,000	69,000	66,000	69,000	593,000	10.9	323,000	3.7
Irrigation projects	-	-	-	50,000	101,000	138,000	250,000	350,000	385,000	410,000	151,000	2.8	1,533,000	17.7
Forestry & water resources	125,000	150,000	222,000	170,000	236,000	244,000	207,000	226,000	257,000	275,000	903,000	16.6	1,209,000	14.0
Fisheries	125,000	150,000	169,000	244,000	303,000	244,000	252,000	252,000	251,000	255,000	991,000	18.2	1,254,000	14.5
Quarantine	-	-	-	-	41,000	32,000	48,000	52,000	55,000	58,000	41,000	0.8	245,000	2.8
Total	658,000	820,000	888,000	1,512,000	1,578,000	1,458,000	1,621,000	1,781,000	1,857,000	1,940,000	5,456,000	100.0	8,657,000	100.0
Memo item:														
Capital expenditures	75,000	120,000	131,000	391,000	187,000	160,000	296,000	394,000	412,000	435,000	904,000	16.6	1,697,000	19.6

Source: Budget Office.

Annex Table 4: Summary of Funding for Agriculture, Forestry and Fisheries Sector by Source of Funds (US\$)

Source of Funds	Disbursements										Total	
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Disbursed	Approved
Donor												
United States	3,468,000	3,635,094	3,830,657	3,961,166	5,900,000	250,000	250,000	-	-	-	21,294,917	21,303,916
TFET	-	4,470,000	4,299,600	3,974,600	2,649,072	1,391,772	497,701	196,705	-	-	17,479,450	17,479,850
Japan	957,184	2,112,218	3,091,859	4,204,946	4,776,609	567,238	384,188	78,750	-	-	16,172,992	15,911,048
European Union	-	-	-	-	575,406	2,809,165	3,413,711	1,726,100	79,954	-	8,604,336	8,582,197
Australia	376,708	1,594,299	1,786,486	1,780,186	1,270,896	1,260,590	309,264	-	-	-	8,378,429	7,710,392
Germany	-	-	-	907,400	1,002,127	886,496	-	-	-	-	2,796,023	2,540,750
FAO	-	300,000	304,000	366,000	390,000	879,000	414,000	50,000	-	-	2,703,000	2,683,000
Portugal	57,324	486,150	599,748	412,478	317,647	317,647	-	-	-	-	2,190,994	2,134,634
Canada	54,991	71,107	313,920	481,400	228,782	-	-	-	-	-	1,150,200	1,109,295
UNDP	186,228	186,227	255,348	24,520	-	-	-	-	-	-	652,323	607,723
ICIAR	-	170,000	170,000	170,000	-	-	-	-	-	-	510,000	510,000
Thailand	-	-	-	40,723	86,131	91,667	202,381	-	-	-	420,902	530,694
Spain	-	-	-	-	300,000	-	-	-	-	-	300,000	300,000
Ireland	-	-	88,050	103,037	-	-	-	-	-	-	191,087	176,099
Brazil	-	-	-	139,000	-	-	-	-	-	-	139,000	139,000
Norway	-	82,040	22,860	27,700	-	-	-	-	-	-	132,600	126,120
Sub-total	5,100,435	13,107,135	14,762,528	16,593,156	17,496,670	8,453,575	5,471,245	2,051,555	79,954	-	83,116,253	81,844,718
CFET Budget Appropriation	658,000	820,000	888,000	1,512,000	1,578,000	1,458,000	1,621,000	1,781,000	1,857,000	1,940,000	1,929,929	1,929,929
Total Funding	5,758,435	13,927,135	15,650,528	18,105,156	19,074,670	9,911,575	7,092,245	3,832,555	1,936,954	1,940,000	85,046,182	83,774,647
CFET as % of total	11.4	5.9	5.7	8.4	8.3	14.7	22.9	46.5	95.9	100.0	2.3	2.3

Source: Annex Tables 2 and 3.

Annex Table 5: Proposed New Programs and Projects for the Agriculture, Forestry and Fisheries Sector
(In US\$)

Project/Program	Possible funding source	Proposed Amount	Annual disbursements					Total
			FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	
Policy, planning & management								
Support services for management & operations	AUSAID (ACIAR)	500,000	100,000	200,000	200,000			500,000
HR for policy development		500,000	50,000	200,000	250,000			500,000
Regulation, phytosanitary & biosecurity		500,000		100,000	200,000	200,000		500,000
Policies for emergency assistance		100,000		50,000	50,000			100,000
Sub-total		1,600,000	150,000	550,000	700,000	200,000	-	1,600,000
Food security program								
Seed introduction & multiplication*	AUSAID (ACIAR)	1,500,000	300,000	500,000	700,000			1,500,000
Improve cropping efficiency under irrigation		1,500,000	300,000	500,000	700,000			1,500,000
Watershed based farming systems I		2,500,000	800,000	800,000	900,000			2,500,000
Watershed based farming systems II		1,700,000				800,000	900,000	1,700,000
Livestock industry development I		750,000	50,000	300,000	400,000			750,000
Livestock industry development II	500,000				250,000	250,000	500,000	
Sub-total	8,450,000	1,450,000	2,100,000	2,700,000	1,050,000	1,150,000	8,450,000	
Industrial crops								
Support for coffee industry	USAID/UNFUNDED	500,000		150,000	200,000	150,000		500,000
Agroindustry development I *		750,000		250,000	250,000	250,000		750,000
Agroindustry development II		1,750,000					1,000,000	1,000,000
Sub-total	3,000,000	-	400,000	450,000	400,000	1,000,000	2,250,000	
Agricultural education & training								
Agricultural education & training	ARPIII/UNFUNDED	750,000	200,000	250,000	300,000			750,000
Research and extension services		250,000		50,000	100,000	100,000		250,000
Research & information services *		1,500,000	500,000	500,000	500,000			1,500,000
Extension and support services I	1,500,000				500,000	500,000	1,000,000	
Extension and support services II	1,500,000				500,000	500,000	1,500,000	
Integrated Agriculture Research	1,500,000			500,000	500,000	500,000	1,500,000	
Sub-total	4,750,000	500,000	550,000	1,100,000	1,100,000	1,000,000	4,250,000	
Forestry								
Forestry resource survey	JICA	1,200,000		300,000	500,000	400,000		1,200,000
PNA: Education & Awareness		75,000	25,000	25,000	25,000			75,000
PNA: Survey, Inventory, & Mapping		220,000		55,000	55,000	110,000		220,000
PNA: Protected Areas Policy & Legislation		160,000	80,000	80,000				160,000
National forest legislation		120,000	60,000	60,000				120,000
Non-timber forest product development		90,000	30,000	30,000	30,000			90,000
Watershed management I		500,000	100,000	150,000	250,000			500,000
Watershed management II		700,000				350,000	350,000	700,000
Sandalwood genetic conservation		250,000	80,000	90,000	80,000			250,000
Training and mentoring		120,000	50,000	50,000	20,000			120,000
Forest policy		15,000	15,000					15,000
Training of forest guardians		50,000	10,000	20,000	20,000			50,000
Human resource development		150,000	50,000	50,000	50,000			150,000
Field facilities		300,000	100,000	100,000	100,000			300,000
Sub-total		3,950,000	600,000	1,010,000	1,130,000	860,000	350,000	3,950,000
Fisheries								
Marine biological survey	CFET	950,000	250,000	250,000	450,000			950,000
Aquaculture study		160,000	50,000	80,000	30,000			160,000
Implement Fisheries license		800,000	400,000	300,000	100,000			800,000
Coastal habitat mapping		160,000		80,000	80,000			160,000
Support fisheries industry development		1,000,000				500,000	500,000	1,000,000
Economic and social evaluation		170,000		100,000	35,000	35,000		170,000
Monitoring, control, surveillance system		1,200,000		300,000	450,000	250,000	200,000	1,200,000
Support Aquaculture Dev. (Hatchery & Grow-out)		1,450,000			750,000	250,000	150,000	1,150,000
Fish quality assurance/testing program		550,000			100,000	100,000	100,000	300,000
Support to Fisherfolk Associations/Coop.		800,000		250,000	200,000	200,000	150,000	800,000
Fisheries school		2,750,000			1,250,000	1,500,000		2,750,000
Professional training (overseas)		900,000		200,000	200,000	250,000	250,000	900,000
Facilities construction/rehab/maintenance		1,500,000		650,000	400,000	250,000	200,000	1,500,000
Sub-total		12,390,000	700,000	2,210,000	4,045,000	3,335,000	1,550,000	11,840,000
Total								
Donors	CFET	34,890,000	3,600,000	7,070,000	10,425,000	6,945,000	5,050,000	33,090,000
CFET additional counterpart funding		7,464,750	838,750	1,337,000	1,589,000	1,700,000	2,000,000	7,464,750
Total		42,354,750	4,438,750	8,407,000	12,014,000	8,645,000	7,050,000	40,554,750
Memo item								
CFET share of total program (%)		17.6	18.9	15.9	13.2	19.7	28.4	18.4

*Some components of the project do not have any commitments

Annex Table 6: Classification of Agriculture, Forestry and Fisheries Sector Expenditures by Type of Expenditure (US\$)

Type of Expenditure	Annual Disbursements										Total			
	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	FY1999/00-FY2003/04		FY2004/05-FY2008/09	
											Amount	Percent	Amount	Percent
On-budget expenditures														
Recurrent spending														
Donors	1,346,489	4,553,300	7,093,924	8,396,449	7,712,657	6,247,924	3,357,276	1,138,055	67,961	-	29,102,819	39.4	10,811,216	18.0
CFET	583,000	700,000	757,000	1,121,000	1,391,000	1,298,000	1,325,000	1,387,000	1,445,000	1,505,000	4,552,000	6.2	6,960,000	11.6
Proposed new CFET							838,750	1,337,000	1,589,000	1,700,000	-	-	5,464,750	9.1
Proposed new donor programs							3,060,000	6,009,500	8,861,250	5,903,250	-	-	23,834,000	39.6
Sub-total	1,929,489	5,253,300	7,850,924	9,517,449	9,103,657	7,545,924	8,581,026	9,871,555	11,963,211	9,108,250	33,654,819	45.5	47,069,966	78.3
Capital spending														
Donors	3,528,946	8,029,060	7,282,364	7,701,986	10,869,414	3,450,180	2,338,404	834,750	11,993	-	37,411,770	50.6	6,635,327	11.0
CFET	75,000	120,000	131,000	391,000	187,000	160,000	296,000	394,000	412,000	435,000	904,000	1.2	1,697,000	2.8
Proposed new CFET											-	-	-	-
Proposed new donor programs							540,000	1,060,500	1,563,750	1,041,750	-	-	4,206,000	7.0
Sub-total	3,603,946	8,149,060	7,413,364	8,092,986	11,056,414	3,610,180	3,174,404	2,289,250	1,987,743	1,476,750	38,315,770	51.8	12,538,327	20.9
Total on-budget expenditures														
Donors	4,875,435	12,582,360	14,376,288	16,098,435	18,582,071	9,698,104	5,695,680	1,972,805	79,954	-	66,514,589	90.0	17,446,543	29.0
CFET	658,000	820,000	888,000	1,512,000	1,578,000	1,458,000	1,621,000	1,781,000	1,857,000	1,940,000	5,456,000	7.4	8,657,000	14.4
Proposed new CFET							838,750	1,337,000	1,589,000	1,700,000	-	-	5,464,750	9.1
Proposed new donor programs							3,600,000	7,070,000	10,425,000	6,945,000	-	-	28,040,000	46.6
Total	5,533,435	13,402,360	15,264,288	17,610,435	20,160,071	11,156,104	11,755,430	12,160,805	13,950,954	10,585,000	71,970,589	97.3	59,608,293	99.1
Off-budget expenditures	225,000	524,775	386,240	494,721	332,376	182,226	253,667	78,750	-	-	1,963,112	2.7	514,643	0.9
Total expenditures	5,758,435	13,927,135	15,650,528	18,105,156	20,492,447	11,338,330	12,009,097	12,239,555	13,950,954	10,585,000	73,933,701	100.0	60,122,936	100.0
Memo item:														
Total donor funding	5,100,435	13,107,135	14,762,528	16,593,156	18,914,447	9,880,330	5,949,347	2,051,555	79,954	-	68,477,701	92.6	17,961,186	29.9

Source: Annex Tables 2, 3 and 5.