

Country strategy for development cooperation

East Timor

July 2002 – June 2005



REGERINGSKANSLIET

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Country strategy for Swedish development cooperation with East Timor: 2002–2005

1. Summary

The recently independent state of East Timor faces an enormously challenging future.

After centuries of foreign domination and conflicts, its government must live up to its ambitious development objectives and fight widespread poverty. The population has high expectations of the government and its ability to implement the national development plan. Of major importance for East Timor's future are the revenues forecasted from gas and oil extraction in the Timor Sea.

Following 25 years of Indonesian occupation, the Timorese people voted for independence in August 1999. The subsequent armed violence in East Timor left considerable destruction in its wake. Some 75 per cent of the population were displaced and around 70 per cent of the physical infrastructure of the country was destroyed, particularly in the capital city of Dili. The economy was shattered and extensive international humanitarian work was initiated, in parallel with the building of a new nation.

East Timor is one of the world's poorest countries. It is estimated that 20 per cent of the population lives on less than USD 1 a day, 40 per cent on under USD 1.5, which is the national poverty line, and 63 per cent on under USD 2. Most of the poor live in rural areas. The everyday life of the poor is marked by regular shortages of food and deficient education and health care. The social and economic position of women is weak and they are marginalised in the political process. The financial resources of the country are very limited. The population is only around 800 000 people and most of the economy is characterised by domestic agricultural production.

Despite these serious challenges, conditions exist for combating the extreme poverty of East Timor. Today peace reigns. A democratically elected government has given priority to poverty reduction and economic growth, focusing on education and health care. The initial years of independence will be crucial for building up the necessary institutions, the most important of which are the administration and the judicial system. In addition to the expected revenues from oil and gas, there is economic potential, particularly in a development of agriculture and the private sector. East Timor is receiving massive international support for its continued independence and the fight against poverty.

Foreign policy is dominated by the complicated relationship with Indonesia. A number of unresolved issues remain, such as, for example, infringements of human rights in connection with the massacre in 1991, the destruction that took place in 1999 and refugees in West Timor. Indonesia and Australia remain its most important trade partners. Previously chilly relations with Australia were considerably improved when an agreement on oil extraction in the Timor Sea was signed in 2001. Strong ties exist between the government, Portugal and its previous colonies. The decision to make Portuguese the second official language has been costly, especially as the younger generation hardly speaks Portuguese at all.

Swedish support has been given to East Timor since 1997, primarily for the reconstruction of the administration through the United Nations Assistance Mission to East Timor (UNAMET), the United Nations Transitional Administration for East Timor (UNTAET), the East Timor Public Administration (ETPA) and in the form of humanitarian assistance through the UN. A total of SEK 99 million has been allocated for the statement of operations over the period 1999-2001. For 2002, payments are predicted to amount to some SEK 35 million.

The overall objective of Swedish development cooperation with East Timor as of 1 July 2002 until 30 June 2005 shall be contributing to the country's own efforts to fight poverty, through:

- ensuring peace and stability
- strengthening democracy and respect for human rights
- strengthening economic development

The main channel for Swedish support during this period will be cooperation via the United Nations and other multilateral organisations. Over this period, cooperation will amount to a maximum of SEK 100 million. In addition, support will be given to the peace-keeping effort.

2. Conclusions of the country analysis

With its post-conflict situation and minimal economic resources, East Timor faces an extremely difficult challenge in fighting the widespread poverty of the country. The independence of 2002 has given East Timor's population a chance to break with its past and develop the country. A basis has been established through peace, a popularly elected government that is giving priority to poverty alleviation, and considerable international support. Added to this is the economic potential of expected revenues from oil and gas deposits.

East Timor's modern history has been characterised by devastating conflicts during the Portuguese period, with the Japanese during World War II and during the Indonesian occupation. Portuguese colonisation made no contribution to East Timor's development. During the Indonesian occupation, public administration was built up with the help of Indonesian officials and Indonesian legislation. During the devastation of 1999, most of that built up by the Indonesians was destroyed, and the majority of Indonesians left the country.

After 1999 and until independence, intensive efforts to build the nation have been underway in the country, assisted by the UN's transition government, UNTAET. On the whole, UNTAET has built up a good structure for public administration and has run operations efficiently, focusing on construction of a state. Much remains to be done as far as building a society in wider terms is concerned, including the development of local administration. Particular attention has been given to a broad spectrum of legal issues.

According to the World Bank (WB), East Timor is the poorest country in Asia and one of the 20 poorest countries in the world. The Bank estimates that 20 per cent of the population lives on less than USD 1 a day, 40 per cent on less than USD 1.5, which is the national poverty line, and 63 per cent on less than USD 2. Many of the people suffer from repeated shortages of food. The poor are mostly to be found in rural areas, supporting themselves by subsistence farming, with large numbers of children and lacking in education. Women often control local resources, but are more likely to be poor, politically marginalised, and the victims of violence, often in the home. The

immediate causes of poverty are to be found in, for example, the social collapse resulting from the 1999 disturbances, natural disasters, disease, rapid population growth, discrimination, lack of education and social services.

The economic resources of East Timor are extraordinarily limited. The country's population is very small and gross national income per capita is USD 341 per year (2001), exclusive of oil revenues and UNTAET posts (USD 459, including UNTAET posts). Agriculture, the country's principal livelihood, employs around 80 per cent of the population, primarily in low-productivity subsistence farming. Coffee is one of the country's few export products. There are practically no industries at all.

Nevertheless, East Timor has the potential to develop economically. Initially, focus has been directed at the agreement concluded with Australia on the extraction of oil and gas in the Timor Sea, which, according to the World Bank, will give the state some estimated USD 3 billion in net revenue over a twenty-year period. These mineral resources are, however, not expected to produce any major inflow of revenue before around 2008–10. Before this, a challenge for the government will be to develop the necessary institutions for transforming revenue into investments to improve living standards for the population, without allowing mineral revenues to debar other economic activities (the so-called Dutch Disease), and without misusing funds.

In the long term, growth will require the development of the private sector. This is primarily a matter of developing agriculture for domestic consumption. To be able to do this, it will be necessary to define land property rights, to open up internal markets and direct poverty alleviation programmes at rural areas. In the future, it is predicted that products from cattle production, fishing and forestry will be able to be exported. The development of the private sector, and primarily investment, depends on the existence of an efficient judicial system, legislation on competition, trade and investment, property rights and on the development of the country's human capital (education and health care).

East Timor today has a popularly based government. In August 2001, elections were held to a constituent assembly, which had been assigned the task of drawing up a constitution and a framework for the political system. Sixteen parties took part in the election, with Fretelin as the winning party. A Timorese government, the East Timor Public Administration (ETPA), was appointed in September 2001 and the constituent assembly was replaced by a parliament in connection with independence. Parliament, which appoints the government, chose to retain the transitional cabinet. Presidential elections were held in April 2002. The leader of the independence movement, Xanana Gusmão was the victor, gaining 83 per cent of the vote.

The government has declared that it will give priority to the fight against poverty. The national development plan clearly specifies poverty alleviation and economic growth as objectives and gives priority to efforts within education, health care, agriculture and infrastructure. There are high expectations among the population, and what is important now is for the Government to implement its priorities within its minimal budget. The strength of the plan is that it clearly specifies poverty alleviation as a major objective in line with the result of consultations with the population. The macroeconomic framework and medium- to long-term economic and fiscal plan are substantial and detailed. The basis for growth exists that is compatible with macroeconomic stability and poverty alleviation. The budget proposes large appropriations to social sectors. It is proposed that future oil and gas revenues be distributed so that they benefit both present and future generations.

A number of not insignificant weaknesses are to be found in the plan for the immediate future. Its ambition level is very high, particularly with regard to the overall lack of capacity within central government and local administration. Planned capacity-

boosting measures under the auspices of the UN follow-up mission will therefore be of major importance in producing results.

The need for a more defined prioritisation of areas in terms of time and resources is evident. To ensure that poverty is genuinely reduced, clearer links are needed between the vision and macroeconomic framework on the one hand, and sectoral programmes on the other. The risk of spreading limited resources over an over-ambitious programme may mean disappointing results. The democratically elected assembly's decision to make Portuguese and the local language, Tetum, the official languages will be very expensive and difficult, in terms of translation and given the fact that only a small minority speak Portuguese.

A fundamental prerequisite for the country's development is continued peace and stability. Of crucial importance are good relations with neighbouring Indonesia, which plays a key role for the East Timor's security, due partly to the fact that some remaining East Timorese militia are operating on Indonesian territory. The organised return of the rest of the refugees, legal follow-up of the 1999 crimes against human rights and reconciliation will also be important. With this in mind, a special unit for serious crimes and a truth commission have been established within the judicial system. Threats against stability, although not immediate, are also to be found in internal conflicts, such as traditional friction, political antagonisms and demobilised freedom fighters.

Democracy and respect for human rights, as yet unproven, will require that the country's institutions are developed and strengthened. Human rights have been given adequate protection in the constitution. The judicial system, central government and local administration have been prioritised in the national development plan. For the development of the private sector, a legal framework will be of fundamental importance. It is planned to build up stronger institutions during the next few years with the assistance of foreign expertise.

Civil society is an important component of a democratic society. For many years, East Timor has had a rich experience of commitment to politics, economics, social and cultural issues. The Catholic Church is the largest and most influential organisation in the country. Civil society has played a key role in drawing up the constitution and development plan, under the leadership of Xanana Gusmão, before he became president. However, with the coming of independence, civil society will have to redefine its role somewhat.

The new political leadership has given top priority to educational issues. The educational system is characterised by low standards, and the level of education is minimal. Almost half of all adults lack basic education. One out of two East Timorese can neither read nor write. The level of registration in schools is low and around 20 per cent of those registered do not go to school. After the destruction of 1999, over 2 000 schools have been built, but a certain amount of reconstruction remains. Above all, there are shortages of qualified teaching staff, teaching aids and equipment in schools.

The health care system is also a high priority area for the government. All health indicators reflect the serious health condition of most of the population, the most common problems being undernourishment, children's diseases, malaria, TB, dengue fever and high maternal mortality. Only a few cases of HIV/AIDS have been found. Better living conditions in the rural areas and improved food production, drinking water and education are vital for raising health standards. A national health care scheme has recently been drawn up.

The East Timorese will continue to receive significant international support during the coming three-year period, 2002–2005. Approximately USD 360 million have been promised by donors, in addition to the USD 81 million that are already available. The promised development assistance funds of USD 440 million exceed the sum requested

by the government, which was around USD 400 million. Of the promised USD 440 million, approximately USD 80 million is intended for budget support, which is conditional on the mechanism shortly to be presented in detail. The sum finally to be agreed upon remains to be seen. In addition, the UN Security Council has decided on a two-year follow up mission, directed at stability, democracy, justice and internal and external security.

3. Conclusions of the results analysis, 1999– 2001

There is no country strategy for the cooperation with East Timor that is currently underway. Swedish support has primarily been given to humanitarian programmes and reconstruction.

3.1 Overall results

The general assessment is that the results of UNTAET and more recently ETPA have generally been good as far as responsibility for governing the territory, maintaining law and order and starting the reconstruction of society are concerned. Remaining weaknesses are organisational and primarily due to lack of staff in the administration and judicial system. Shortages of qualified staff apply to all sectors. Other weaknesses are an insufficiently strong security mechanism and minimal economic development. East Timor will therefore need considerable international support even after independence. This is a precondition for ensuring stability and building further on the potential for development established in recent years by UNTAET and ETPA.

3.2 Conclusions and lessons to be learned from Swedish cooperation

In anticipation of the establishment of a Timorese administration and the independent state of East Timor, Swedish support was primarily channelled via UNTAET and a number of UN bodies over the period 1999–2001. East Timor is now moving from a humanitarian phase into one of development, which will also be reflected in Swedish support in the future, being replaced by development cooperation.

Sweden has been giving support to East Timor since 1997 in a number of smaller projects during the early years. The results analysis covers the period 1999–2001. Grants have primarily been used for reconstruction of the administration via UNAMET, UNTAET and ETPA and for humanitarian assistance, via the UN. Total Swedish payments during this period amounted to SEK 99 million, which was spent on the following initiatives:

Payments, SEK million Area	1999	2000	2001
A. Development assistance funds			
1. Administration, reconstruction	9.8	8.0	16.0
2. Election support	0.9	-	1.0
3. Humanitarian assistance	7.0	21.3	3.5
4. Education and health care	1.9	-	1.5
5. International courses	-	-	0.7
Total development assistance funds	19.6	29.3	22.7
B. Security funds			
1.UNAMET civilian police	5	-	-
UNTAET civilian police	-	10	8
2.UNTAET military observers	-	2	2.4
Total security funds	5	12	10.4
TOTAL	24.6	41.3	33.1

The results of support to East Timor have been good and have satisfactorily met the priorities set by UNTAET. Cooperation with UNTAET and other UN bodies has generally functioned well. By and large, our experience of support to East Timor confirms the following conclusions:

Work undertaken by the UNTAET in cooperation with, *inter alia*, a number of UN bodies and supported by Sweden, has been of a professional standard (see section 3.1 above). UN bodies are well-established and inspire trust. Particular attention has been drawn to UNICEF by the fact that it undertakes modern humanitarian operations that are linked to a concern for development.

In humanitarian assistance projects, coordination between the actors and local involvement and support when building up capacity in, for example, systems for health care, education and water are fundamental to achieving permanent solutions and reducing dependence on development assistance.

It is extremely important to see humanitarian work as a process, and not merely as the delivery of products. If pumps are delivered, know-how on care, maintenance and spare parts must also be included. Development assistance must be technically adapted.

The presence of international personnel in the field and follow-up capacity based on local structures are of central importance in achieving results in humanitarian work.

In areas affected by conflict, the ability of donors to allow implementing organisations lee-way for flexible solutions is very important for achieving good results.

Support given to the dialogue between the parties to the conflict, such as previous militia, other supporters of Indonesia and the East Timorese have contributed to the return of refugees to East Timor and to processes for peaceful conflict solution. These dialogues have involved both political leaders and representatives at village level.

4. East Timor's development policy

With the achievement of independence, East Timor's development policy has entered into a new phase. During the period of UN administration, it was directed at the goal of reconstructing the country and preparing it for independence. In the absence of a national development plan, UNTAET/ETPA have based their work on a number of planning documents, of which the most important has been the "Common Country

Assessment, Nov. 2000, UN country team". As an independent nation, East Timor has set up poverty alleviation and economic growth as its new targets.

4.1 East Timor's development strategy

Before independence, a national development plan was drawn up using, *inter alia*, consultative processes with the people. The vision of development stresses two main objectives:

- the reduction of poverty in all sectors and regions of the country
- the promotion of fair and sustainable economic growth, thereby improving health care, education and welfare for all in East Timor

The plan predicts two phases in the country's development. In the short-term perspective, a period characterised by shortages in all areas, focus will be directed at strengthening the country's institutional capacity and at building up the infrastructure, educational system and health care services. In the long term, development will be able to accelerate, based on these initial investments and on the more extensive financial resources that will be available from the revenues expected from oil and gas. The government's immediate priority is to strengthen the country's capacity, coordinate all sectors in the fight against poverty, and develop strategies for individual sectors. The plan attaches great importance to the democratic system. Openness and decentralisation are noted as particularly important. The importance of gender equality between men and women is also stressed.

The plan identifies a number of challenges to be met for these objectives to be achieved. These include three main types:

- strengthening the people: helping the poor to help themselves, strengthening gender equality and improving human capital
- strengthening the economy: developing a market economy, raising productivity and creating an attractive climate for the private sector
- creating a healthy national budget: enabling external budget support and using future oil and gas revenues for the benefit of present and future generations

In order, particularly, to tackle the problem of poverty, the poor must be strengthened so that they can improve the conditions affecting their lives themselves. This will be achieved by:

- a) creating a climate that generates possibilities for the poor to take part in economic development, improving their productivity and increasing their incomes
- b) providing social services for the poor on affordable terms
- c) enhancing the safety and security of individuals and their property, reducing their vulnerability to disasters and other external shocks
- d) strengthening poor, vulnerable groups by promoting their involvement in decision-making and influence on development at the local level

The economy will be developed in an open system that is adapted to the market. The plan lays the foundations for a stable macroeconomic environment. Above all, prospective revenues from oil and gas will be invested and used so that future generations will also be able to benefit from them. Oil and gas resources will be developed using environmentally sustainable methods. Special initiatives to develop the agricultural sector, which employs over three-quarters of the population, are anticipated

The private sector, both small- and medium- sized industries and foreign investments will be a key motive force behind economic growth and the reduction of poverty. The role of the state will be to create a supportive environment for the development of the business sector, particularly in the rural areas, where most of the population live.

Efforts within the priority areas of education, health and infrastructure will initially focus on reconstruction. Priority will be given to compulsory schools and preventive health care. Infrastructure projects will aim at maximising their contribution to economic growth and poverty alleviation.

4.2 An assessment of the plan

The national development plan serves as a good basis for fighting poverty. The sheer strength of the plan lies in the fact that it clearly specifies poverty alleviation as a major objective in line with the result of consultations with the population. Growth shall be rapid, fair, sustainable and instrumental in reducing poverty. The plan's poverty focus is considered by the World Bank to be of such a quality that it corresponds with requirements for an Interim Poverty Reduction Strategy Paper (IPRSP). Background material for a Poverty Reduction Strategy Paper (PRSP) will be completed in 2002.

In the medium- to long-term perspective, the macroeconomic framework and economic and fiscal plan are substantial and detailed. This provides a basis for growth that is compatible with macroeconomic stability and poverty alleviation. The budget proposes large appropriations to the social sectors. It is proposed that the use of oil and gas revenues is distributed so that this income benefits both present and future generations. It is probable that the more significant oil revenues will come later than expected, that is, in 2010 instead of 2006. Smaller revenues mean that costs will have to be cut during the period 2006–2009 if dependence on international support is to be reduced, as is planned.

Although the plan has largely been praised, there are a number of weaknesses. Its ambition level is very high, particularly with regard to the overall lack of capacity within the administration, private sector, civil society and local authorities. Capacity-boosting measures planned under the auspices of the UN follow-up mission are therefore essential if results are to be achieved. The government has appealed for donor financing of the around 200 strategic posts planned to be appointed via the UNDP.

To ensure genuine poverty alleviation, clearer links are needed between the vision and the macroeconomic framework on the one hand, and sectoral programmes on the other. The risk of spreading limited resources over an over-ambitious programme may mean disappointing results for poverty reduction. The need for a more defined prioritisation of areas in terms of time and resources is therefore clear.

To facilitate growth and create job opportunities, it is also important that legislation for the private sector is drawn up as soon as possible and that the costs of the police and defence services are simultaneously kept down. Tackling land issues, which is the key for investment and political stability, is not described in detail in the plan. The government's response is that this question is complicated and that work is underway, although much remains to be done. Similar problems apply to the decentralisation process, which must be clarified.

A system for following up and implementing the plan, and for updating it for future years has been drawn up and will be introduced in 2003. However, resources for a follow-up system are limited.

Because of the limited time given to produce these central documents, civil society has somewhat questioned the quality of consultations.

5. Strategic considerations

During the last three decades, East Timor has experienced war, genocide, stagnation and reconstruction. Conditions in the country have made it difficult for the people to benefit from the dynamism of the South-East Asia region and the East Timorese have been excluded from mainstream development. East Timor is now moving from a period of reconstruction to one of development. East Timor's economy will be heavily dependent on foreign development assistance over a five-year period at least. After this, the volume of development assistance will be reduced as revenues from gas and oil extraction increase.

The following considerations should make up the foundation for development cooperation in the coming strategy period:

5.1 Policy level

East Timor is one of the poorest countries in Asia. The overall objectives of the national development plan are poverty alleviation and economic growth. The plan contains two stages of development. In the short term, priority will be given to legislation, building up of institutions and infrastructure and the education and health sectors. In a longer-term perspective, economic growth and poverty alleviation can be achieved using the short-term priorities as a basis.

Development cooperation must be directed at the rural areas in which the majority of East Timor's inhabitants live. Their economies are largely based on domestic production. They have been the most severely hit by the war. Their support is important for peace and stability and for long-term development work. A major challenge will be to transform the resources obtained externally, first development assistance and subsequently oil and gas revenues, into investments which will promote processes of change that will benefit poor groups in rural areas. Otherwise there is a serious risk of tendencies towards a sharply dualistic economy being reinforced. This, in turn, would negatively affect the conditions for long-term poverty reduction, peace and democracy. The World Bank, the Asian Development Bank (ADB) and the EU have been involved in the development of rural areas.

Democratic development and respect for human rights are crucial for social and economic development. Competent institutions are an important basis for good governance and democratic development. The development plan gives high priority to the development of central government and local institutions. External dialogue and pressure is of great importance, as is consistent and well-coordinated external support in building up democratic institutions. The government's need for expert support for the administration and judicial system has been strongly expressed via the United Nations Mission of Support in East Timor (UNMISSET) (recruitment of 100 posts) and via the United Nations Development Programme (UNDP) (recruitment of 200 posts).

There are major inadequacies in the education and health care systems and parts of the infrastructure. The political will to develop these areas exists but the need for international support is great. Education and health care are central areas in all poverty strategies, important for sustainable development and a necessary tool to ensure effective involvement and democratic development. A well-educated work force is also important for East Timor to develop from an agriculturally based economy and to be able to exploit the opportunities offered by its oil and gas deposits. To reduce poverty, health and education are the areas to which highest priority has been given, in line with consultations with the East Timorese people. Up to now, Sweden has been supporting health care and education via UNICEF and good results have been achieved. Continued support has been requested, primarily for the educational sector, where the economic situation is less positive than that of the health sector, in which WHO, the

World Bank, the ADB, the EC and non-governmental organisations (NGOs) are involved. Up to now, the ADB and World Bank have been, and will continue to be, the main financiers of the infrastructure sector.

There is peace and stability in East Timor. Threats to security and political stability still exist, but are not regarded as immediate. It is feasible that new political conflicts may blow up, border conflicts (with West Timor) and new conflicts with Indonesia. A failure in the democracy process and in the development of the judicial system would be capable of undermining both public confidence in elections and the popular legitimacy of the government. Via civilian police, military observers and reconciliation dialogues, Sweden has helped contribute to stability and security in the country.

Sweden should draw attention to the importance of dealing with the language issue, both from the perspective of need, and economically.

Economic development is a precondition for poverty reduction in East Timor. Given the enormous destruction after the conflict of 1999 and the fact that the economy is dominated by subsistence farming, there are at present no domestic resources for poverty-reducing programmes, and hardly any for providing for the population.

The support of the international community will be particularly necessary in the first five years, although East Timor will require development cooperation for a long time to come. As the national development plan states, the first few years will be characterised by a lack of resources and capacity, which must be covered by development assistance. It will not be before 5-10 years, and thus beyond the horizon of this strategy, that the oil and gas revenues can be expected to reduce the need for foreign resources. In the short period leading up to this, it will be a strategic challenge for East Timor to manage to build the basis necessary for transforming these revenues into effective poverty reduction and economic growth.

Within the following areas, significant development cooperation is taking place via other actors, which should be borne in mind when selecting Swedish programmes. Some of the major actors in each area are:

- 1) The health sector: WHO, WB, ADB, the EU and NGOs
- 2) Environment and natural resource management: UNDP and ADB
- 3) Infrastructure: ADB, WB and Japan.
- 4) Rural development: WB, ADB and the EU
- 5) Education: UNICEF

5.2 Forms/channels

Development cooperation on East Timor's own terms needs to be flexible, to be coordinated among the donors and able to minimise the strain on the country's administration. Firm coordination is necessary to be able to provide cohesive and efficient development cooperation. It is extremely important that East Timor is given active ownership of coordination issues so that a constructive dialogue can be undertaken with the donors regarding, for example, mobilising domestic resources. The mechanism for budget support that has now been set up may provide a good basis for coordination and dynamic ownership while simultaneously saving resources. Ambitions to develop national ownership and partnership arrangements for development programmes must, however, be defined more clearly in order to safeguard long-term development prospects in East Timor. It is essential that the donor community accepts and works towards national ownership and partnership arrangements.

Experience from countries in similar situations, with comparatively small populations (such as island states in the Pacific and a number of African countries) and with problematic initial conditions in the form of weak administrations and extreme shortages of trained staff at all levels, shows that many have ended up in a negative spiral of dependence on development assistance. The limited resources of the administration have – in somewhat generalised terms – been concentrated on donor dialogues and donor administration instead of on a democratically based internal effort. All things being equal, a small number of actors who are on the spot, may be preferable from the Timorese perspective, rather than a large number of relatively small-scale bilateral interventions from a number of different quarters.

In all essentials, Swedish resources should therefore be channelled via suitable multilateral actors. The results analysis confirms that a multilateral form of cooperation, in which Swedish development assistance has been channelled via the UN, has largely functioned well. The UN, the World Bank and the ADB have had a central role in East Timor's reconstruction and stabilisation process. They represent global know-how, standards and values that are necessary in the reconstruction of the country and its institutions. The multilateral system provides familiar and efficient channels for a more extensive mobilisation of resources and professionally managed operations. It can serve as a neutral platform for well-organised external assistance, thereby facilitating coordination between donors. The multilateral model saves administrative resources for Sida. Grants to coordinated support via UNAMET, UNTAET, UNDP and UNICEF have meant that great responsibility has been given to these organisations for implementation and follow-up, as Sida's administrative resources for East Timor have been very limited. At the same time, demands for coordination on local administration have been kept to a minimum.

Compared with the UN period, when almost half of humanitarian assistance and development cooperation was channelled via the UNTAET, and none via the World Bank's trust fund, future cooperation should be more equally distributed among different multilateral channels. With a presence in more organisations, Sweden has a greater chance of taking part in general discussions on development policies than would otherwise be possible.

Individual bilateral efforts, strategic and clearly requested, well-motivated and based specifically on Swedish resources, may be considered. Such initiatives may be able to offer an opportunity to undertake projects that would otherwise not have been realised, due, for example, to the lack of other channels. Single bilateral projects may also give Sweden a chance to broaden its circle of contacts with civil society.

Given the need for sustainability in the long-term construction of society in East Timor and the uncertainty existing on how the development policy will be implemented in practice and how multilateral channels will be developed, Swedish development cooperation should be able to be rapidly adjusted to changed circumstances. In any future country strategy, the customary work of following up and appraisal will be particularly important for the same reason.

6. Objectives for development cooperation

The primary aim for Swedish development cooperation with East Timor is to contribute to East Timor's own efforts to fight poverty. This will be done by

- ensuring peace and stability
- strengthening democracy and respect for human rights
- strengthening economic development

7. Dialogue

Sweden will not have a permanent presence in East Timor. The distance to, and size of East Timor makes it necessary for Sweden's role in a dialogue with the country to be limited to a small number of strategic occasions within limited, equally strategic areas of society. Issues to be discussed in this dialogue should be sought within the framework of the areas of cooperation. In addition, emphasis should be given to a broad development agenda, oriented at rural areas, that is implemented without exceeding the country's long-term assets. The possibility of establishing an active gender equality policy is probably better now than it will be in a few years, and a proactive Swedish role in the dialogue may therefore be particularly vital at an initial stage.

8. Areas of cooperation and area objectives

Any approach to international support given must be very broad and cohesive rather than oriented towards individual social sectors. The initial situation is very serious in practically all areas. Public institutions are extremely weak and the lack of trained staff is a major obstacle to change in the majority of social sectors. Broad measures, aimed at getting society to work and change in a positive direction will be important, both in achieving the overall poverty alleviation objective, and for the three specific objectives that have been set up for Swedish development assistance.

Against the background of these objectives, other actors' initiatives and well-functioning channels, two interrelating approaches appear to be the most strategic and fundamental in supporting East Timor, both in the short and medium-to-long-term perspective. One is direct support to get public institutions (government administration, the judicial system and local administration) to work. This should primarily be done via, on the one hand, coordinated staff support, that is distributed "equally" among the various social sectors, and on the other free economic resources for cooperative efforts in operations and development. The other is forceful and rapid initiatives to ensure the long-term build-up of expertise. This is necessary within all social sectors, but primary education appears to be the most important, not only regarding general poverty but also from the social and growth points of view. Women's social role in East Timor (agriculture, small trading and responsibility for children) necessitates a balanced educational profile in terms of gender, to promote the processes of change, both social and economic. Continued support to the reconciliation process and the peace-keeping initiative with Swedish civilian police constitute an important contribution to peaceful development in the future.

Bearing in mind the particularly serious risk of extremely negative consequences of uncoordinated donor efforts, special emphasis should be given to avoiding targeted Swedish programmes in areas where there is a strong commitment from other actors (compare section 5.1 above). There should be a preparedness to adjust development cooperation to conditions in East Timor.

Against this background, Swedish initiatives should be primarily directed at four areas of cooperation.

a) Support to boost the capacity of public institutions

Support to central government and local institutions (government administration, local administration, the judicial system, etc.) aims at promoting democratic development. Democratic governance of society and the democratic development of the country requires competent institutions, which are also an important precondition for economic

and social development. Up to now, the take-over of the administration by the Timorese has proceeded slowly. The lack of qualified staff is considerable. Both the results analysis and country analysis show a great need for continued expert support to the institutions, which are still very weak. The Government has appealed for support from the international community to the mechanism set up by the UNDP to recruit and finance the experts that are most needed. Top priority should be given to Swedish support for this mechanism.

b) Education

Education and training is one of the most important areas for combating poverty. Support for education is an essential tool for promoting the democratic development of society and economic growth, both of which are highly relevant to East Timor, where the level of education is extremely low. Needs are most pressing in the rural areas and among young people. If possible, the focus of educational support should be placed on the poor, marginalised and underprivileged. UNICEF has received Swedish support for adult education and to promote the reconstruction of the school system after the destruction of 1999. UNICEF has given an impression of competence, has organised creditable programmes at the local level and should be able to provide a suitable channel for continued support. If it proves to be less suitable, similar support via another multilateral actor such as the ADB should be considered.

c) Broad economic support, primarily budget support

Broad economic support may be given to enable economic and social development that serves to reduce poverty. The conditions for Swedish budget support will be examined. Discussions between the government, the World Bank and donors have led to an idea being presented on a mechanism for budget support, to which some ten donors have reacted positively provided that the final proposal is acceptable. The requirements of donors are that the mechanism will give guarantees of reasonable follow up, and ensure that there will be no obstacles in the way of local mobilisation of resources. Continued focus on poverty alleviation in the budget and measurable results in the form of economic growth and reduced poverty are essential for future budget support. If budget support proves to work well, it will be able to gradually finance a larger proportion of Swedish cooperation. Should budget support prove to be less suitable, a larger proportion of Swedish resources should be channelled via funds with similar broad objectives.

d) Measures promoting security

Efforts to maintain law, order and security by supporting the East Timorese police force, monitoring the security situation and contributing to the reconciliation process are elements in support to ensure peaceful and stable development. The East Timorese police force is not yet fully in place. The UN follow-on mission, UNMISSET, is therefore planning for the international civilian police to remain in a common police force, but to a lesser extent. The results analysis notes positive experience of Swedish civilian police staff and military observers, and additional requirements in these areas are named in the country analysis. The UN follow-on mission should therefore continue to be supported. Positive experience of cooperation regarding dialogue and reconciliation has been noted. These areas are also considered to be important for continued stability in the country, which is why Swedish support to continued dialogue and the recently established truth and reconciliation commission has been promised.

9. Formal cooperation

Swedish development cooperation will largely operate via a small number of multilateral channels which are able to cover several of the above-mentioned areas of cooperation. Individual bilateral efforts of a "twinning" nature, strategic and clearly requested, well-motivated and based on specifically Swedish resources, may be considered. East Timor should be invited to take part in Sida's programme of international courses provided that suitable practical forms for identifying candidates may be found.

Contacts between Sweden and East Timor can be financed within the framework of the Sida-financed expert exchange programme, via the Swedish Institute.

During this period, starting in 2002, the conditions for budget support will be examined.

10. Volume

The volume of development cooperation during the period is estimated to amount to between SEK 30-35 million per year, totalling a maximum of SEK 100 million for the three-year period, exclusive of possible budget support, any humanitarian assistance given and the financing of the UN's peace-keeping mission.

11. Administrative resources

Up to now, administrative work in connection with development cooperation has occupied one post at Sida in Stockholm and at the Embassy in Jakarta, working at approximately half time. Development cooperation should be structured so as to prevent any appreciable increase in capacity consumption which presupposes that cooperation is primarily organised at the multilateral level. As a result, there is no demand for representatives in the field in Dili.



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