OVERVIEW OF SECTOR INVESTMENT PROGRAMS

Volume I: Strategies and Priorities for the Medium-term

MINISTRY OF PLANNING AND FINANCE

APRIL 2005

PREFACE

Over the past three years, the Government has made a concerted effort to strengthen the links between policy formulation and programs to achieve the goals and objectives set out in the National Development Plan (NDP), improve capacities to translate these objectives into annual budgetary allocations, and strengthen capacities. Thus, it presents a clear guidance to Development Partners regarding priorities for assistance and for various initiatives to be taken in this regard. Annual Action Plans has been developed to establish clear links to budget processes and to monitor progress towards development objectives. In 2003 the Government undertook the so-called “Road Map” exercise that aimed to establish an expenditure framework for the medium-term that could guide decisions on allocation of CFET and available resources from development partners to particular sectors and programs.

The Sector Investment Program (SIP) exercise had its origins in the “Road Map” exercise of 2003. As a result of that exercise the Government saw the need to have in place comprehensive statements development objectives, policies and programs for each of the key sectors of the economy and to strengthen the linkages among programs across agencies and sectors. Prior to the launch of the SIP exercise; the Government had been heavily dependent on TFET and other joint donor missions to ensure systematic development of sector policies and programs. The SIP exercise was launched in August 2003 with the express purpose of building capacities of staff and state institutions for the development of sectoral policy frameworks and related programs that could provide a basis for decisions on the allocation of scarce donor and CFET resources required to achieve particular development objectives.

This overview report integrates the results of the Sector Investment Program. The report consists of two volumes. The present report, Volume I, provides a strategic view of the prospects for growth and poverty reduction and key challenges facing the country in the medium and longer term. It also aggregates the expenditures from the 15 SIPs and within the framework of financial availabilities for CFET and development partner resources projected to 2015, outlines priorities for expenditures on a combined sources basis. Annexes to this main report provide more details on the SIP process as well as underlying the analytical framework, data sources and details of macroeconomic and demographic projections to 2015. Volume II of the report provides a summary of each of the 15 individual SIPs, along with expenditure and other analysis for each sector. Individual reports for each of the 15 SIP sectors have also been completed. For each sector, these provide details on the goals and objectives for each sector, the policy framework, the program for the medium-term, and the associated expenditure framework.

The Ministry of Planning and Finance wishes to express its appreciation to those development partners who have provided support for this undertaking over the past year. The work would not have been possible without the contributions of Australia, Japan and New Zealand (UNDP-DAS Program), United States of America, the Asian Development Bank, the World Bank, UNDP and UNICEF. The Ministry also wishes to acknowledge the extraordinary support and cooperation that was provided by many staff and national technical officials who have contributed to the success of this process.

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CCT	Cooperative Café Timor
CDR	Crude Death Rate
CFET	Consolidated Fund for East Timor
DAS	Development Advisory Services
FY	Fiscal Year
GDP	Gross National Product
GNI	Gross National Income
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MICS	Multiple Indicator Cluster Survey
NDP	National Development Plan
NGO	Non-Government Organization
PKF	Police Keeping Force
PNTL	Policia Nacional de Timor-Leste
PSM	Public Sector Management
REA	Registry of External Assistance
SIP	Sector Investment Program
SWG	Sector Working Group
TFET	Trust Fund for East Timor
TFR	Total Fertility Rate
TLDHS	Timor-Leste Demographic and General Health Survey
TLSS	Timor-Leste Living Standard Measurement Survey
TSP	Transition Support Program
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations Children’s Fund
UNPOL	United Nations Police
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Government has made a concerted effort to strengthen links between policy formulation and programs to achieve the national goals and objectives set out in the National Development Plan (NDP), improve capacities to translate these objectives into annual budgetary allocations, and strengthen capacities to give clear guidance to Development Partners regarding priorities for assistance. The Sector Investment Program (SIP), which was launched in August 2003, is another step in building capacities for well-articulated sector frameworks for the medium-term that link policies, programs and expenditures and that provide guidance on expenditure priorities both within and across sectors. After 18 months of intensive work, the first phase of the SIP exercise is drawing to a close with the completion of SIPs for 15 sectors of the economy. Work has also been initiated on two more SIPs. The results of which will be built into the combined sources expenditure framework later in the year.

This overview report provides a summary of the main results to date and outlines a course of action for the next phase of the work.

KEY MACROECONOMIC RESULTS

A number of important themes emerge from the analysis undertaken in the SIP exercise, each of which has important implications for development policies and priorities.

Prospects for growth and poverty reduction. The key points that emerge from the analysis are as follows:

- The economic contraction that began in 2002 is beginning to abate as the wind down on UN-related activities comes to an end; growth is expected to recover in 2005 led by rising levels of public spending, including construction and other investment-related activities, as well as recovery in private activity. But for the period 2003-2007 the average annual growth of GDP is still only 1.3 percent a year in real terms. With population growing at around 3 percent a year, average income per capita continues to decline and progress in reducing income poverty is slow.
- In this period there would be heavy emphasis on halting the decline in public spending on construction that has characterized the past four years. High priority is attached to an expanded program of Government and donor-funded construction and maintenance programs that will improve services and create jobs. At the same time, an aggressive program of private investment promotion would be launched with a fundamental focus on the external market to lay the foundations for sustained strong growth in the longer-term.
- The objective of government policy is to create conditions necessary for the economy to enter a period of strong sustained growth from about FY2007/08, driven by the high levels of investment in the public sector that emerge from the SIP proposals and by rising levels of private investment. GDP would grow at an annual rate of 6 percent a year in real terms during 2007-2015. The strong growth would be led by private sector economic activity. The food production sector is projected to grow at 2.8 percent a year, in line with population growth. Strong growth in the non-food private sector would be led by increased investment in commercial development of the natural resource base of the country, continued growth in small-scale manufacturing that is already under way in Timor-Leste, expanded private services, tourism, and construction.

- In these circumstances, there would be faster progress in reducing the incidence of poverty. Even so, there will still be a hard core of around 200,000 in severe poverty by 2015. Specially targeted programs will be needed to address the needs of this group of people.
- Despite uneven progress in the incidence of income poverty, there is likely to be good progress in improving access to basic services. The proposed program does enable a transition to nine years of basic schooling for all by 2015, for example. Health indicators are expected to improve as the coverage and quality of health services are raised.
- Even after taking account of income from oil and gas, the non-oil Gross Domestic Product of Timor-Leste will only be around $550 per capita by 2015 (at 2000 constant prices). This means that Timor-Leste will still be classified as a low income developing country, even after allowing for income from oil and gas.

Rapid population growth translates into high rates of urbanization.

- The high rate of increase in population is expected to translate into continued rapid growth in urban areas. For the purpose of estimating urban services requirements, the SIP model assumes the urban population will grow at 5 percent a year. An additional 150,000 people will live in urban areas by 2015. Can this growth be distributed among urban areas throughout the country? Or will continued uneven levels of urban services and job opportunities lead to population concentration in Dili and Baucau, which already account for approximately 90 percent of the urban population of the country? What are the implications for local government and decentralization?
- More work is needed on urbanization policies and programs, including anticipating housing and other service requirements. The cost of providing public services to these burgeoning urban populations may put considerable strains on financial resources of the Government. Hence, it is even more important that measures are taken in order to develop this area, by investing in the development of basic infrastructures that contribute to raising the living standards in rural areas, making them more appealing to the population.

Creating enough productive employment will be a major challenge for the decade ahead.

- Continued rapid population growth of 3 percent a year and the relatively young population translates into rapid growth in the labor force. In the event that the labor force participation rate remains at its current estimated level of 59 percent, which is low by international standards, the labor force would grow at about 3 percent a year, adding about 10,000 new entrants to the labor force each year seeking employment. In the event that the participation rate rises to levels that are common among low income developing countries around the world, the labor force growth rate could be as high as 5 percent a year. In this case, the number of new entrants seeking employment would be in the range of 17,000 to 20,000 a year in the decade ahead.
- At the present time, the agricultural sector employs about 77 percent of the entire labor force at low levels of productivity. The challenge is to promote rapid growth in the non-food private sector, which currently employs about 70,000 workers at much higher average levels of productivity. Rapid growth in the latter will allow for a gradual shift out of low productivity employment in rural areas. With rising levels of labor productivity, the incidence of income poverty will decline.
- For the medium-term, a key issue is the extent to which the agricultural sector can create productive employment for the projected 5,000-9,000 new entrants into the rural work force each year. Three critical policy issues emerge. Can the agricultural

growth rate be increased through private investment that results in larger production of marketable surpluses for the domestic and export markets? Will much larger numbers of people move to urban areas looking for work? Can the non-farm sector grow fast enough to absorb larger numbers of people into productive employment?

Increased levels of private investment are the key to sustained strong economic growth, which, in turn, is essential for significant reductions in the incidence of poverty in the country.

- The SIP exercise estimates that a growth rate of 8 percent a year in real terms will be required in the non-farm private sector, if the overall target of 6 percent growth in non-oil GDP is to be achieved and poverty reduced. The key to more rapid growth in the non-farm sector will be increased levels of investment, with a strong orientation on export markets. Achieving 8 percent real growth will require an average of about $60 million of new private investment in the non-food private sector each year over the medium-term.
- In the event that private investment levels remain stuck at current levels of around $15 million a year, the growth of the non-food private sector would be substantially lower – perhaps around 3 percent a year in real terms. In this case, non-oil GDP would only grow at about 4 percent a year in real terms. Pressures in the labor market would rise and there would be little or no progress in reducing the incidence of income poverty

PROPOSED PUBLIC EXPENDITURE PROGRAMS FOR THE MEDIUM-TERM

Meeting the various goals and objectives set forth in the SIPs, would require combined CFET and donor expenditures of about $1.28 billion for the five-year period ending FY2008/09. This compares with about $900 million during the five-year period ending FY2003/04. These totals cover recurrent and capital spending.

The pattern of expenditures on a combined sources basis would undergo significant change over the next five years. In recent years aggregate levels of spending on a combined sources basis have remained in the range of $200 million a year. Over the next five years combined sources expenditures would average about $230 million a year. The higher levels of spending stem primarily from a large program of capital investment in the power sector and in other basic infrastructure.

A number of very important shifts in the pattern of spending emerge during the next five years.

- First, the relative importance of CFET in the combined sources framework continues to rise. In FY2000/01 for example CFET resources funded only 12 percent of combined sources expenditures, after allowing for the CFET budget support provided by donors. In the current fiscal year, CFET expenditures account for close to 40 percent of total expenditures. By FY2008/09, CFET is expected to account for almost 50 percent of total outlays.
- Second, dependence on funding of recurrent spending from the development partners of Timor-Leste would decline substantially over the next five years. By FY2008/09, CFET would account for almost 80 percent of recurrent outlays, compared with about 45 percent at the present time. Total recurrent expenditures on a combined sources basis would remain in the range of $140 million a year, sufficient to ensure steady progress towards the NDP, MDG and other objectives set in the SIP exercise for the medium-term.

- Third, capital spending on a combined sources basis would rise steadily over the next five years. Underpinning this increase are important shifts in the pattern of spending. CFET capital expenditures would rise sharply from recent levels of around $13 million a year to $25 million a year by FY2008/09. Much of the increase would be allocated to capital replacement to ensure that public assets are kept in good working order. Funding from the development partners of Timor-Leste on capital expenditures would rise from the recent low levels of about $40 million a year. Much of the development partner funding of capital expenditures would be for new asset creation (power systems, improved roads, new schools, expanded provision of safe water and sanitation, for example), with CFET making larger capital replacement expenditures on the public assets.

Meeting the various goals and objectives set forth in the SIPs will require important shifts in the sectoral allocation of expenditures. The SIP analysis for each sector has brought out the need for shifts in resource allocations among sectors.

- The most significant change is in the area of basic infrastructure, whose share of the total combined sources budget would rise from 23 percent in the past five years to 36 percent during the next five years. A large part of this jump relates to the inclusion in the program of the Ira Lalaro hydro-power project and transmission line to Dili at an estimated total cost of $112 million.
- The second important point is that the resources allocated to basic services (health and education) remains at the current level of about $60 million a year. These levels of spending will ensure steady progress towards the interim MDGs set out in the SIPs for these important sectors.
- Spending on activities in the production-related sectors rises by about 20 percent to $20 million a year in the next five years, largely because of a very sharp increase in proposed spending on investigation of onshore and near-shore petroleum resources and on support for private sector development.
- The allocation for security and external relations remains unchanged at 11 percent of total spending.
- Allocations for capacity building in the national government decline from about 13 percent to about 9 percent of total spending, largely because of the sharp phase down in reliance on expensive expatriate advisory services over the next five years. At the same time, there is a large rise in spending on in-country training programs for national staff.
- There is increased support for programs aimed at improving other aspects of governance, including rights, equality and justice and local government, with these expenditures rising from $40 million in the past five years to $70 million over the next five years.

Proposals for donor funding for the next five years are lower than past allocations of such assistance.

- The activities proposed for donor funding would require new approvals of about $550 million over the next five years, including about $150 million for a small number of large investments in the power sector. The average level of new approvals is thus about $110 million a year, $80 million a year of which is proposed for sectors other than power.
- This proposed level of new on-budget commitments of development and technical assistance compares with actual commitments for the same category of donor assistance that averaged $150 million a year over the past five years.

- In other words, the Government is already factoring possible lower levels of donor assistance into its medium-term expenditure planning.
- For the longer term, the SIP exercise assumes that donor-funded development and technical assistance will be in the range of $80 million a year. This is based on the current per capita allocations of aid to low-income countries that have a strong commitment to sound development policies and, with a few exceptions, have experienced sustained strong economic growth.

FURTHER DEVELOPMENT OF THE SIP PROCESS

The Government has benefited from the SIP process in a variety of ways and intends to strengthen and broaden the process. It will be used to guide decisions on priorities and resources allocations for the medium-term by building the results of the work into the budget and other planning activities of the Government. A number of specific actions are underway or are planned:

- Under TSP III, the Government has committed itself to the development of a combined resources budget for FY2005/06. The SIP framework will be integrated into this process.
- Follow-up work is planned to review existing performance benchmarks and interim MDG targets in the light of the SIP analysis and findings.
- The strategic planning framework developed for the SIP will be strengthened and as information becomes available from the 2004 census, the demographic and other elements of the framework will be revised.
- Additional work is planned to address the current deficiencies in information about public assets, and the costs of maintenance and capital replacement.

NEXT STEPS WITH DEVELOPMENT PARTNERS

The proposed program for accelerated growth and steady progress towards the NDP and MDG objectives will not be without difficulties, given the daunting task in the immediate future of building the capacities of national institutions and staff to manage successfully the changing development requirements of the country. It will require strong support from our Development Partners, including continued access to expertise and advice on the successes and failures in development in other countries around the world. Given the importance of CFET funding for capital expenditures, it will also require a major build up in capacities of national staff to manage the identification, design and implementation of these capital development programs. It will require changes in the management of development programs that are responsive to the changing circumstances and capacities of the country.

There is a need for immediate follow-up with development partners on funding for proposed new activities. As noted above, the SIP process has identified a large number of new activities for start up during the next five years that are suitable for funding by Development Partners. Within each sector, the responsible line agencies have given close attention to prioritizing and sequencing new activities and programs. More than 200 new activities have been identified for implementation over the next five years. A start date for implementation has been established for each new activity. The Government would like to come to early understanding with Development Partners regarding funding arrangements for the proposed program. With this in mind the following steps are being taken.

- The Government will consolidate these proposals into a smaller number of programs and project packages that would be well suited for funding by Development Partners, with due attention being given to known partners (donors) interests and funding capacities.

- The Government would then like to engage in a round of discussions with its partners, perhaps on a sectoral basis, to determine the degree of interest in individual program proposals or in a series of such proposals for implementation over the next three years. The Government will want to ascertain the extent to which some partners may wish to collaborate with others under any one of several forms of cofinancing arrangements.
- With early agreement on funding arrangements, work can begin immediately on the most urgent activities that are scheduled for implementation this year.
- For those programs that do not attract support from our partners, the Government will consider other options, including funding from CFET or alternative sources, or deferral of the program to a later date.

Sector working groups are being set up to facilitate coordination within and across sectors, among donors and between Government and donors. The SIP process has highlighted the need to strengthen capacities within the Government for longer-term strategic planning across various sectors that integrates concerns about the growth and movement of the population, with the provision of economic opportunities, basic services and national security. The Government intends to take steps to strengthen these capacities. As a first step, the Government has begun the formation of Sector working Groups (SWGs) for some or all sectors. These working groups are to be chaired by a senior Government official and are open to any donor who has an interest in the particular sector. Sector Working Groups for the Health Care, Agriculture and Basic Infrastructure have already been formally established. The Government expects the formal establishment of the SWG for Education and Training by May 2005, followed by the gradual establishment of the remaining groups within this calendar year.

The responsibilities of the groups will evolve in the light of experience, but are expected to range from informal advice to the agencies of Government that are responsible for the sector in question to a more wide-ranging role. The groups will have the onerous task of mobilizing the necessary resources to carry out the proposed SIP program, and at the same time ensure coordination of activities within the sector. Given their critical role in driving the SIP process, extensive support will be needed from the donor community to ensure the success of these groups. One of the biggest challenges for the Government is strengthening the role and function of the secretariat within each SWG.

Increased attention to monitoring and evaluation in each sector. In reviewing various drafts of the SIPs, a number of our development partners have made the point that there was discussion of the arrangements needed within each sector for monitoring and evaluation (M&E) of progress towards goals and objectives. With the release of the final versions of the SIPs, the Government believes that the basis now exists for serious work on the detailed definition of an M&E framework for each sector. The issue of monitoring and evaluation of sector objectives should be discussed within the respective SWGs. It is proposed that a pilot initiative for the design and implementation of an M&E system be developed within one SWG as soon as possible. Experience with the development of this pilot initiative can then be transferred to other sectors. The Government would welcome the support of one or more donors for this pilot initiative.

The Government would like to engage Development Partners in a dialogue on the transition to the next phase of cooperation as TFET comes to a close. The Government would like to explore with development partners various options for the next phase of donor cooperation and coordination as TFET draws to a close. The CFET framework used for the SIP exercise also foresees the gradual phase down of budget support over the next few years. New mechanisms will be needed to enhance donor coordination. This report sets out a number of different options that move donor cooperation and coordination in the direction of relying on sector coordination groups led by senior government officials. Within the sector coordination framework, increased reliance on bilateral funding on a project basis, which may also involve cofinancing, would also be pursued where there is a clear understanding of the priorities within each sector. The guiding principle will be to marry the preferred modalities of Development Partners to sector requirements and Government priorities.

PART A: GROWTH, EMPLOYMENT AND POVERTY REDUCTION

I. RECOVERY TO SUSTAINED STRONG GROWTH

Since restoration of Independence, the Government has articulated clearly its vision for the development of the country and, with the help of the donor community, has set about the pursuit of this vision. The National Development Plan, widely discussed during the course of preparation, sets out the strategy for the five year period 2002-2007. This strategy is driven by two key objectives:

- The reduction of poverty in all sectors and regions of the Nation; and
- The promotion of economic growth that is equitable and sustainable, and that improves the health, education and well-being of the entire country.

The population is growing rapidly and, in the absence of sustained and broad-based economic growth over the last five years, there has been only limited progress in reducing poverty and improving food security. The incidence of poverty remains high with an estimated 42 percent of the population below the national poverty line. However, there has been significant progress in expanding access to health and education services in many parts of the country. Despite progress on these and other fronts, the country continues to face a daunting set of challenges. With approximately 50 percent of the population below the age of 18 for example, there will be great pressures on the education system to equip these young people for productive lives and to create employment opportunities for a very large number of new entrants into the labor force each year.

Poverty reduction in Timor-Leste is closely linked to economic growth. Analysis by the World Bank and others draw attention to the large numbers of people who are vulnerable to poverty and who can benefit from the income and employment effects of sustained economic growth. A key objective for the next five years is to promote a recovery to sustained strong economic growth.

PROMOTING RECOVERY TO SUSTAINED STRONG ECONOMIC GROWTH

Recent trends in the economy. Table 1 summarizes estimates of GDP by industrial origin at current market prices. The estimates for the period 2000 through 2003, recently prepared by the National Statistics Directorate, affect perceptions about the growth of the economy during this period. In analyzing these trends, it is convenient to group the sectors in the national accounts into three broad sets of economic activity: (a) all public sector activity which includes, government activities, the United Nations , public sector construction and utilities, which are essentially government-owned and operated; (b) the food production sector (food crops, livestock and fisheries) which approximates the largely private subsistence sector of the economy; and (c) the remainder of the national accounts sectors which are essentially all other private production and services in the economy, including commercial agricultural production, forestry, mining and quarrying (excluding oil and gas), manufacturing, transportation, financial and other services. For convenience, this group of sectors is called the non-food private sector.

The first important point that emerges from Table 1 is that as measured by value added, the non-food private sector is the largest of the three components of the economy, accounting for about 40 percent of non-oil GDP. The public sector and food sector account for about 38 percent and 22 percent respectively. The second important point that emerges is that the growth experience of these three sectors varied widely during 2000-2003. These differences have important implications for the short- and medium-term outlook for the economy.

- Value added in the food crop, livestock and fisheries sector within agriculture, after recovering strongly in 2001, declined steadily thereafter and by 2003 was back to the 2000 level. With population growth at around three percent a year in this period, the real value of food production per capita declined throughout the period, exacerbating problems of food insecurity.
- The non-food private sector grew at an average of 5.6 percent a year in real terms during 2000-2003. The commercial agricultural sector recorded strong growth throughout the period, as did manufacturing, financial services and the transport sector. These gains were partly offset by contraction in private construction and wholesale and retail trade, both of which were heavily influenced by the departure of international personnel from 2002 onwards
- Value added in the public sector grew by 26 percent in 2001 only to be followed by a sharp contraction as the UN phased down its presence in Timor-Leste. These contractionary effects more than offset to very strong growth performance of the national government sector in which value added registered a threefold increase in three years. There were two opposing trends in the sector in the past five years: value added by United Nations activities declined very sharply, as did public construction, whereas value added by the remainder of the government activities grew rapidly in real terms with the build-up of the national government.

Table 1: Gross Domestic Product by Industrial Origin

Sector	2000	2003	2007	2010	2015	2000-2003	2003-2007	2007-2015
	Value added (at 2000 constant prices US$ millions)					Growth rates (% p.a.)		
Food, livestock & fisheries	68.6	68.9	77.0	83.6	96.0	0.2	2.8	2.8
Non-food private sector	111.1	130.8	149.0	186.6	278.0	5.6	3.3	8.1
Public sector								
Government	22.9	65.9	81.0	93.8	119.7	42.2	5.3	5.0
Construction & utilities	30.2	18.3	32.5	39.8	50.8	(15.4)	15.4	5.7
United Nations	83.4	38.6	-	-	-	(22.7)	-	-
Sub-total	136.5	122.8	113.5	133.6	170.5	(3.5)	(2.0)	5.2
Non-oil GDP	316.2	322.5	339.5	403.8	544.5	0.7	1.3	6.1
Oil & gas mining	77.5	51.9						
GDP	393.7	374.4						
GDP deflator (2000=100.0)	100.0	104.1	114.9	123.7	140.0	1.4	2.5	2.5
Non-oil GDP (at current prices)	316.2	335.7	390.1	499.5	762.3	2.0	3.8	8.7
Population ('000)	819.4	898.0	1,005.1	1,095.4	1,266.8	3.1	2.9	2.9
Non-oil GDP per capita ($)	386	374	388	456	602	(1.1)	0.9	5.6

Source: National income accounts for 2000-2003 provided by National Statistics Directorate

In real terms, non-oil GDP increased by a total of two percent during 2000-2003 – substantially less than the population which grew at around three percent a year in the same period. At current market prices, non-oil GDP stood at about $375 in 2003.

Future growth of the economy. A set of projections for 2005 through 2015 have been prepared for the SIP exercise. These are built up from the proposed public expenditure programs and expectations about private investment activity. The underlying expectation is that during 2005-2007 the economy will gradually recover from the contraction of recent years and will be able to make a transition to sustained strong growth of 6 percent a year in real terms in the longer-term. A key driver is sustained high levels of investment spending by the Government and donors that supports expansion in construction, a recovery in private economic activity and an improved performance in the agriculture sector.

These projections are built around a series of policy judgments that are embedded in the SIPs for the various sectors. The public sector is expected to continue to contract for several more years as a result of the complete phase-out on UN-related activities. In the medium-term at least these contractionary effects outweigh the contributions of the proposed strong expansion in public construction activity (discussed below) and continued steady growth in the provision of public services. For the longer-term, the public sector is expected to grow at about five percent a year in real terms, driven by population growth of close to three percent a year and an aggressive program of spending and service delivery that aims to expand substantially the current low levels of access to public services throughout the country by meeting the MDGs for 2015.

The growth of the food production sector is projected to approximate that of population growth – that is about 2.8 percent a year in real terms. With the rural population projected to grow at about 2.2 percent a year, the implication is that food output per person in rural areas would rise moderately – in other words, the proposed strategy for improved food security as spelled out in the SIP for agriculture and livestock would bring some improvements in food supplies and security. Increased private investment in commercial activities such as palm oil, live animal exports, and other specialty products for overseas markets as discussed below, would lift the overall agricultural growth rate to around four percent a year in real terms in the longer-term. The performance would still fall short of the NDP target of six percent real growth for agriculture in the medium-term, but it would put Timor-Leste among a small, select group of low income developing countries that have experienced sustained strong agricultural growth over the past two decades.[1]

The third key element of the strategy for making a transition to sustained strong growth in the medium and longer term has to do with the further development of the non-food private sector. As noted above, this is already the largest sector in the economy and it is one that, under the right policies, offers the best prospects for sustained strong growth that can create jobs and improve living standards for large numbers of Timorese. A two-pronged approach in being taken to the further development of the sector:

- An aggressive expansion of publicly-funded construction activity to rehabilitate and expand infrastructure and facilities, with an emphasis on labor-intensive methods to create employment. This will require strong support for the domestic private construction sector.
- Increased emphasis on the promotion of private investment, including foreign direct investment, in a broad range of business opportunities in the non-food private sector, namely commercial agricultural activities, manufactures, including various wood products such as furniture, and a range of processed food products, tourism, and other activities.

Promotion of construction activities. The Government intends to give a high priority to construction activities that are funded from the CFET budget and by donors. There is a clear need to improve infrastructure services in the country and to continue with an aggressive program rehabilitate public facilities that are in poor condition, as well as build new facilities such as

[1] For all low income developing countries, the agricultural sector grew in real terms at three percent a year in the 1980s and 2.5 percent a year in the 1990s. A small group of these countries (including Benin, Chad, Laos and Mozambique) have managed sustained strong growth of four percent a year or more in agriculture over an extended period.

schools and clinics. These outlays will improve service delivery, support the growth of private business activities and create employment. The Government has been very encouraged by experience with Japan's ongoing $13 million road construction project which currently employs approximately 2,000 people using labor-intensive methods. The SIPs include an ambitious program to expand construction sector activities, with particular attention being given to the use of labor-intensive methods. Table 2 gives the estimated value of public construction activity in recent years and projected levels of expenditures based on the proposals included in the individual SIPs.

Table 2: Estimated Value of Public Construction Activity in Timor-Leste
(In US$ mill)

Activity	2000/01	2001/02	2002/03	2003/04	2006/07	2008/09
Road works						
Maintenance	1.0	1.5	2.3	3.1	3.9	6.8
Construction	4.3	16.3	15.8	3.7	21.5	27.3
Sub-total	5.3	17.8	18.1	6.8	25.4	34.1
Other construction	46.8	25.1	19.6	15.7	33.9	37.3
Total value of construction	52.1	42.9	37.7	22.5	59.3	71.4

Source: various SIPs.

The first point that emerges from Table 2 is that spending on public construction activity has declined sharply since the peak of 2000/01. By 2003/04 public construction activities were less than half that in 2000/01. Declining levels of public construction have had a significant contractionary effect in the economy, with substantial employment effects. The SIPs call for a substantial build-up in publicly funded construction over the next five years. If the programs can be implemented as proposed, public spending on these activities would rise to around $70 million a year by 2008/09. The employment effects of this increased level of spending would be substantial, perhaps adding as many as 10,000 jobs to the labor market in this five-year period.

The Government is well aware of the challenge associated with lifting public spending in these areas. Although there has been progress in developing the domestic construction industry much more remains to be done. There is an urgent need to build the capacities of the relevant line agencies for the proposed larger volume of work that flows from this strategy. The development partners have an important role to play in this regard. The domestic construction industry must also be strengthened. Further development of the industry will require a move towards equipment leasing arrangements for small and medium-sized domestic construction firms, improved information for the private sector on the expected flow of new construction contracts for the public sector, along with early completion of the Government's procurement guidelines that are currently under preparation, improved access to working capital lines of credit from the banking sector, as well as increased emphasis on skills development in the labor force and for local entrepreneurs. Ongoing projects such as the EU-funded $5 million employment training program have a major role to play in this regard. Given that it will take time to build capacities in the local construction industry, the Government recognizes that at least in the early phases, the program may require increased use of foreign contractors, preferably under joint-venture and other partnership arrangements such as sub-contracting, that will strengthen the domestic industry.

Promotion of private investment and the non-food private sector. The second key part of the strategy for a successful transition to sustained strong growth is to accelerate the growth of the non-food private sector. For non-oil GDP to grow at six percent a year, the non-food private sector must grow at around eight percent a year (both in real terms). This will require two things: first, aggressive action to improve the enabling environment for private investment, including improved infrastructure services, continued adequate domestic security and streamlined

Government procedures that facilitate and support private investment; and second, an aggressive promotion program aimed at building up private investment to about $60 million a year within the next five years. In the longer-term, private investment in the sector will have to rise to about $100 million a year if growth is to be sustained at these levels. The SIP for Private Sector Development includes an ambitious program of support for the promotion of domestic and foreign investment in Timor-Leste. A strong emphasis on foreign direct investment will be important. The fact is that the domestic economy of Timor-Leste is small, in part because of widespread poverty. While there are opportunities for some import-replacement investment, domestic demand is not large enough to ensure growth of six percent a year in real terms. Timor-Leste must look to export markets for successful implementation of its strategy for sustained strong growth. In this connection, attracting foreign direct investment will be essential to bring technical and managerial know-how to the country, as well as an understanding of the opportunities in international markets and of changing consumer requirements, as well as the kinds of domestic services needed for a successful tourism industry. Annex III includes a more detailed discussion of the outlook for a number of the key sectors in the economy. Strong growth is anticipated in the commercial forestry and fisheries sub-sectors, in industry and construction, and in private services, including banking, trade, tourism and transport.

Table 3: Estimated Public and Private Investment in Timor-Leste
(In US$ mill)

Category	2001	2003	2004	2010	2015
Fixed capital formation					
Public sector	107.9	87.9	85.5	96.0	110.0
Private sector	37.5	17.1	10.2	63.7	108.2
Sub-total	145.4	105.0	95.7	159.7	218.2
Change in inventories	14.5	10.5	9.6	16.0	21.8
Total investment	159.9	115.5	105.3	175.7	240.0
Investment as % non-oil GDP					
Public investment	29.3	26.2	25.1	19.2	14.4
Private investment	10.2	5.1	3.0	12.7	14.2
Total fixed capital	39.5	31.3	28.1	31.9	28.6

Source: various SIPs.
Note: These estimates exclude the offshore oil and gas industry.

The overall implications for the growth of investment needed for sustained strong economic growth are summarized in Table 3. The estimates for public investment are built up from the proposals in the various SIPs, while those for private investment are estimated on the basis of what will be required for 8 percent real growth in the non-food private sector. The first point that emerges is that aggregate investment levels in Timor-Leste have been high by international standards. Over the past four years, investment has amounted to about 35 percent of non-oil GDP, which compares with an average of 22 percent for all developing countries in 2000.[2] Second, the strategy would result in a significant shift in the pattern of investment over the next decade. In the past four years, public investment has accounted for about three-quarters of all fixed investment in the country, driven as it has, by the need to restore public services and rehabilitate damaged and destroyed public assets. The public investment program going forward is dominated by spending on infrastructure, including in particular improving access to safe water and sanitation, increased access to electricity generated from domestic sources of low cost energy, and continuing rehabilitation and construction education, health and other key service sectors. As the Education and Training SIP points out, additional facilities are required for the more than 80,000

[2] See World Bank, *World Development Indicators, 2002.* Washington DC, 2002.

children who still don't have access to basic education. As Table 3 suggests, overall levels of public investment would remain relatively stable in the range of about $100 million a year, but as the subsequent discussion indicates, a rapidly increasing share of these expenditures would be for capital replacement to maintain public assets in good order. Successful implementation of the proposed strategy for the private sector to become the primary vehicle for creating opportunities for employment and increased incomes would mean that private investment would rise steadily to more than $100 million a year by 2015. Public and private investment, taken together, would remain in the range of 30 percent of GDP.

The economy would undergo significant changes in structure as a result of this pattern of growth. The relative importance of the agricultural sector, which currently accounts for close to 30 percent of non-oil GDP, would decline. The construction sector would grow in importance, given the projected growth in investment spending with large civil works components in the road sector and in water supply and sanitation, and continued rehabilitation facilities in health and education The share of the public sector – the largest sector in 2000, accounting for 43 percent of non-oil GDP at that time – would decline to around 30 percent of non-oil GDP by 2015. Increasingly, it is private sector – including commercial development of agriculture and natural resources – that drives economic growth.

II. DEALING WITH RAPID POPULATION AND LABOR FORCE GROWTH

IMPLICATIONS OF RAPID POPULATION GROWTH

Timor-Leste is experiencing a rapid increase in its population, currently in the range of three percent a year. The provisional results from the 2004 census conducted by the National Statistics Directorate put the population at 924.5 thousand in mid-2004, 49 percent of whom are female.[3] Based on the provisional results from the Census, the Directorate has prepared revised population projections to 2015. Under the base case scenario, population would grow at an average of 2.9 percent a year rising to 1,266.8 thousand people by 2015. All SIPs have been revised to incorporate these new population projections (Table 4).

Table 4: Population of Timor-Leste

Indicator	2004	2007	2010	2015
Population ('000)				
Male	470.4	511.3	557.3	644.8
Female	454.1	493.8	538.1	622.0
Total	924.5	1,005.1	1,095.4	1,266.8
Memo items:				
Crude birth rate (per '000 population)	41.8	42.1	42.4	42.8
Crude dealth rate (per '000 population)	15.0	14.5	14.6	14.6
Population growth (% p.a.)	2.8	2.8	2.9	2.9
Females as % of total	49.1	49.1	49.1	49.1

These demographic trends have profound implications for the country. As the SIP exercise makes clear, there are major implications for provision of basic services, including education, health and housing. Rapid growth in the labor force will also put great pressure on labor markets and will require a significant increase in private investment to create productive employment opportunities for these new entrants. Moreover, the combination of natural population increase and migration from rural areas will place considerable strains on urban areas throughout the country that will require concerted efforts to develop the capacities of local government.

[3] See Annex II for a more detailed discussion of the preliminary results from the 2004 census and the population projections.

Another consequence is that non-oil GDP per capita, which was about $375 in 2003 (at 2000 constant prices), does not increase significantly during the next few years. The likely implication is continued slow progress in reducing income poverty, at least until there is a recovery to strong economic growth from 2007 onwards. By 2015, GDP per capita would have risen to about $600 in real terms (at constant 2000 prices). In other words, Timor-Leste will continue to be classified as a low income developing country for at least another decade.[4]

The Government is committed to strong programs aimed at reducing poverty and food insecurity, and improving health and education. It is therefore very likely that the current high crude death rates will decline as a result of these programs. What are the implications for population growth? The answer depends on whether improved living conditions lead to a decline in fertility rates. Table 5 therefore summarizes the results of two possible scenarios both of which assume a rapid decline in mortality rates:

- Alternative A assumes there is no change in the current very high fertility rates, but that there is a decline in mortality.
- Alternative B assumes that fertility rates also decline.

Table 5: Alternative Scenarios for Population Growth

Scenario	Crude birth rate (per '000)		Crude death rate (per '000)		Population 2015 ('000)	
	2005	2015	2005	2015	Total	0-11 years
Base case scenario	41.8	42.8	15	14.6	1,266.8	453.2
A. Constant fertility rate	41.8	42.2	14.8	10.9	1,291.1	467.8
B. Declining fertility rate	41.2	36.7	14.7	10.3	1,250.4	427.1

In Scenario A the population growth rises to an average of 3.1 percent a year as a result of the assumed decline in the CDR to 10.9 per thousand by 2015. Such a decline is very plausible, given that the average CDR for all low income developing countries was 11 in 2000. The result is a population of approximately 1.3 million by 2015. However, if the current very high total fertility rate of 6.3 births per woman were to decline, the population growth comes down (Scenario B). In this case, population could be lower than in the Base case used for the SIP exercise. An even more rapid drop in total fertility cannot be ruled out. By way of comparison, the average total fertility rate for women in low income developing countries was 5.3 in 1980, but it had declined to 3.8 by 2000.

The alternative population projections have significant implications for service provision in urban and rural areas. For example, the number of children in 2015 aged less than 12 years will be determined by fertility and mortality rates in the decade ahead. The number in this group in Scenario B is 40,000 more than in Scenario A in 2015. The Scenario B outcome will add $2-3 million a year to the costs of providing primary and junior secondary education services to these additional children by 2015.

EMERGING ISSUES IN URBAN DEVELOPMENT

Reliable estimates of urban populations are currently not available because of the lack of formally gazetted boundaries that define the administrative jurisdictions of urban areas.[5] Preliminary analysis of the census data suggests an urban population of approximately 206,200 last year –

[4] Under World Bank country classifications, a low income developing country is defined as one with a GNI per capita of $755 at 1999 prices. Even with the benefits of income from oil and gas and from related investment income, the GNI of Timor-Leste will be about $700 per capita (at 2000 constant prices) in 2015.

[5] See the SIP for Housing and Urban Development for a further discussion of issues associated with urban development and definition of town boundaries.

implying an urbanization rate of 22 percent. This is somewhat lower than previous estimates of 24 percent based on survey data. The census indicates that about 168,000 of these urban dwellers live in Dili – equivalent to about 80 percent of the urban population of the country.

Rapid population growth and continuing inequalities in urban and rural services are assumed to give rise to continued rapid urbanization in the range of five percent a year. Urban population growth in this range is quite consistent with the experience of other developing countries with high overall population growth. For a panel of 14 countries whose population growth rate averaged three percent a year for a decade or more during the last two decades, the urban population grew at an average of 5.4 percent a year for the group as a whole during 1980-2000.[6] The implication is that the urban population of Timor-Leste rises to almost 360,000 by 2015 – implying an urbanization rate of 28 percent. At this rate of urban growth, the rural population grows at about 2.2 percent a year in the decade ahead. More than 80,000 people are projected to move from rural to urban areas in this period. By 2015 there would be about 65,000 urban and 200,000 rural households.

Table 6: Urban and Rural Populations and Households

Indicator	2004	2007	2010	2015
Population (000s)				
Urban	206.2	238.9	277.6	357.2
Rural	718.3	766.1	817.8	909.7
Total	924.5	1,005.0	1,095.4	1,266.9
Households (000's)				
Urban	37.8	43.8	50.9	65.4
Rural	157.2	167.6	178.9	199.0
Total	195.0	211.4	229.8	264.4
Memo items				
Urban population (%)	22.3	23.8	25.3	28.2
Household size				
Urban	5.5	5.5	5.5	5.5
Rural	4.6	4.6	4.6	4.6
Average	4.7	4.8	4.8	4.8

A key policy issue for the future is the extent to which urban population growth will continue to center largely on Dili or whether there will be prospects for a more dispersed pattern of urban development with the emergence of other growth centers in the country as in response to new private investment and improved infrastructure services, schools and health facilities. Despite the uncertainties about the likely future growth of urban areas, it is clear that the Government must develop a coherent strategy for urban development and for the provision of services for these urban dwellers. A start is being made with the SIP that deals with Housing and Urban Development. As that SIP indicates clearly, there are strong linkages between the proposals related to urban development and many of the other SIPs, including in particular, the development of local government capacities for service provision that are outlined in the Local Government and Civil Society SIP, and the various infrastructure SIPs, all of which have strong urban service components.

GROWTH OF THE LABOR FORCE

There are no reliable estimates of the labor force, a situation that should be rectified once the final results of the 2004 census are available. For the purposes of the SIP exercise, the National Statistics Directorate has prepared a projection of the labor force based on highly provisional estimates from

Table 7: Estimates of the Timor-Leste Labor Force
(In '000s)

Indicator	2004	2007	2010	2015
Population 15-64 years				
Male	248.1	273.8	298.4	346.6
Females	245.1	269.9	292.6	338.3
Total	493.2	543.7	591.0	684.9
Labor force				
Male	171.9	189.8	206.8	240.2
Female	117.9	129.8	140.8	162.7
Total	289.8	319.6	347.6	402.9
Participation rate (%)				
Male	69.3	69.3	69.3	69.3
Female	48.1	48.1	48.1	48.1
Average	58.8	58.8	58.8	58.8

Source: National Statistics Directorate

[6] The 14 countries included in the sample are Angola, Benin, Cambodia, Congo D.R., Congo, Côte d'Ivoire, The Gambia, Honduras, Kenya, Namibia, Niger, Tanzania, Uganda, and Zimbabwe. World Bank, *World Development Indicators, 2002* for details.

the census for labor force participation rates. The assumption used in these projections is that in the decade ahead the participation rate remains unchanged at the current estimated level of 59 percent. In this case, the labor force would grow from about 290,000 last year to a little over 400,000 by 2015 – an average annual growth of three percent a year (Table 7). The implications for economic growth and employment creation are significant. Under these assumptions the current net increase in the labor force is estimated at about 9,000 a year, rising to about 10,300 a year by 2015. For the five-year period 2004-2009 covered by the SIPs, new entrants into the labor force are estimated at about 50,000

Table 8: Composition of the Work Force ('000)

Indicator	2004	2007	2010	2015
Farm work force	223.2	236.2	249.9	274.5
Non-farm work force	66.6	83.4	97.6	128.5
Public sector	17.5	19.5	21.0	25.0
Private sector	49.1	63.9	76.6	103.5
Total work force	289.8	319.6	347.5	403.0
Memo items:				
Farm work force % total	77.0	73.9	71.9	68.1

The demographic framework developed for the SIPs also permits estimation of urban and rural labor force growth, the results of which are set out in Table 8. The farm work force accounts for about three-quarters of the total labor force in 2001. Given the foregoing projections of urban population, the urban labor, which approximates the non-farm labor force, is projected to grow by about six percent a year in the decade ahead, while agricultural work force grows at about two percent a year. A basic issue for the SIPs and the design of development policies and strategies for the medium- and longer-term is whether it will be possible to create productive employment opportunities for the approximate 6,000 entrants into the non-farm work force each year in the decade ahead, quite apart from the need to absorb at least 5,000 workers a year in the rural sector.

By 2015, the rural work force would account for about two-thirds of the total labor force. This scenario suggests that value added per agricultural worker, which is currently about $440 a year, would begin to rise in real terms. This level of agricultural productivity is comparable to many other low income developing countries with predominantly rural economies, but it is substantially below the levels of agricultural productivity of the major countries of Southeast Asia.[7]

III. ECONOMIC GROWTH AND INCOME POVERTY

PROGRESS IN POVERTY REDUCTION

The 2003 Joint Agency Report on poverty estimated there were about 330,000 people in poverty in 2001.[8] Moreover, there is a large cluster of people close to the poverty line in Timor-Leste, which implies that the number of people in poverty can be influenced strongly by economic growth. Economic contraction over the past

Table 9: Progress in Reducing Extreme Poverty

Indicator	2001	2003	2007	2010	2015
People below national poverty line					
No. of poor ('000s)	333.8	370.0	403.0	399.8	253.4
Headcount (% of population)	39.5	41.2	40.1	36.5	20.0
People living below $1 a day					
No. of people ('000s)	169.0	188.6	191.0	186.2	177.4
Percent of population (%)	20.0	21.0	19.0	17.0	14.0
Memo:					
Total population ('000s)	845.0	898.0	1,005.1	1,095.4	1,266.8

[7] For example, in 1998-2000 agricultural value added per worker was about $460 in India, $340 in Bangladesh and $370 in China, but in Thailand and the Philippines value added per worker was about $1,100, in Indonesia about $850 and in Malaysia about $7,700 in the same period. (All figures adjusted to 2000 prices.) World Bank, *World Development Indicators, 2002*. Washington DC, April 2002.

[8] Government of Timor-Leste et al, *Timor-Leste, Poverty in a New Nation: Analysis for Action*. May 2003

three years has likely resulted in an increase in the number of people below the income poverty line. The SIP framework includes an estimate of some 370,000 people – or 41 percent of the population below the national poverty line in 2003 (Table 9). Moreover, it is likely that more than 20 percent of the population continues to live on less than US$1 a day, which translates into about 190,000 or more who are in extreme poverty. Survey information also suggests that a large numbers of rural dwellers, particularly in upland and dryland farming areas, continue to face problems of food insecurity.

Table 9 also sets out the planned progression towards the MDG goal of halving the incidence of extreme poverty by 2015. As the Table indicates, even with progress in reducing the incidence of poverty, the total numbers of people affected is likely to rise over the medium-term. The combination of weak growth for two more years and continued rapid population growth results in a steady increase in the number of people in poverty. Strong growth beyond 2007 begins to have an impact on poverty, but even though the incidence of poverty begins to decline and by 2010 drops to 36.5 percent – an improvement over the situation in 2001 – the total number of people in poverty is still about 400,000 in 2010. With sustained strong growth of six percent a year, there is a reasonable expectation that the incidence of income poverty can be reduced to 20 percent by 2015. Even so, there would still be about 250,000 below the income poverty line at that time. The core of the poverty problem over the longer term centers on the 175,000 in extreme poverty who, for various reasons, continue to subsist on the equivalent of less than $1 a day, and who continue to have inadequate levels of food intake. Over the longer term, poverty reduction programs must be able to identify these people and address the root causes of their poverty with appropriate targeted interventions.

The above prospects for income poverty reduction need to be balanced against progress in providing access to basic services. In this regard there has been progress, the details of which are discussed elsewhere in this report. Some 250,000 children now attend school. Health services have been expanded and now reach larger numbers of people. There has also been progress in expanding access to safe water and improved sanitation in urban and rural areas. And as discussed elsewhere in this report, implementation of the programs set out in the various SIPs will result in significant increase in access to basic health and education services throughout the country, a large increase in the number of urban and rural families that have access to safe water and sanitation, and within the next five years, good progress in laying the foundations for substantially enhanced access to low cost electricity in many parts of the country.

UNCERTAINTIES ABOUT GROWTH AND POVERTY REDUCTION

These prospects for a sharp reduction in the incidence of income poverty must be qualified, however; a number of major uncertainties surround these growth forecasts and their impact on poverty. Among the major downside risks are the following:

- Slower overall economic growth because of a poor performance in agriculture.
- An inability of Timor-Leste to attract $60 million a year of private capital for investment in the non-food private sector, as discussed in Chapter 1. As a result, the growth of the non-food private sector is much lower as is GDP growth.
- Higher population growth as a result of a successful reduction in mortality rates, but with no corresponding reduction in fertility rates.
- A rapid growth in the labor force as a result of rising participation rates (and also because of natural increase).

Given that the bulk of the population will continue to reside in rural areas and depend on agriculture for their livelihood, the growth performance of the agricultural sector will have a significant bearing on the extent of poverty reduction. Annex III includes a brief review of the potential for commercial agriculture. A key issue is developing better links with markets and other interventions that will improve incentives for farmers to produce marketable surpluses and for business to invest larger amounts in commercial opportunities. If however, the long-term agricultural growth rate is only say 2 percent a year – not the 3.5 percent a year built into the base case projections, the GDP growth would be about 10 percent lower. In this scenario, average output per laborer in agriculture would decline in real terms throughout the decade ahead. In these circumstances, it is very likely that the exodus from agriculture would accelerate; led by younger, better education people who are looking for work. A sustained poor performance in agriculture would very likely place substantially greater strains on urban areas to create opportunities for an improved life.

Another major uncertainty centers on whether the country can successfully attract $60 million a year of new investment into the non-food private sector. Much work remains to be done in identifying these business opportunities, lowering the costs of infrastructure services, improving the overall environment for investment and in developing suitable export markets. What happens if the level of private investment remains stuck in the range of $15 million a year – close to the estimated recent levels? In this case, the growth rate of the non-food private sector would average about three percent a year – not the eight percent a year in real terms called for in Chapter 1. As a result, non-oil GDP would grow at no more than four percent a year in real terms. In these circumstances, it is very unlikely that the non-food private sector would create anywhere near enough new employment to meet the needs of an urban labor force projected to grow at six percent a year in the decade ahead. In the absence of other measures, this would almost certainly result in continued high levels of unemployment and under employment, especially among young people, that in turn could lead to increased social and political strains.

Table 10: Alternative Scenarios for GDP and Labor Force Growth
(Non-oil GDP at 2000 constant prices)

Growth Scenario	Amount			Growth rate (% p.a.)	
	2003	2007	2015	2003-2007	2007-2015
A. High GDP growth & slower labor force growth					
Non-oil GDP (US$ mill)	322.5	339.9	545.0	1.3	6.1
Non-oil GDP per capita (US$)	360	340	430	(1.4)	3.0
Labor force ('000)	281.1	319.6	402.9	3.2	2.9
Non-oil GDP per worker (US$)	1,147	1,064	1,353	(1.9)	3.1
B. High GDP growth & high labor force growth					
Labor force ('000)	281.1	344.0	515.7	5.2	5.2
Non-oil GDP per worker (US$)	1,147	988	1,057	(3.7)	0.9
C. Low GDP growth & slower labor force growth					
Non-oil GDP (US$ mill)	322.5	339.9	465.0	1.3	4.0
Non-oil GDP per capita (US$)	360	340	370	(1.4)	1.1
Labor force ('000)	281.1	319.6	402.9	3.2	2.9
Non-oil GDP per worker (US$)	1,147	1,064	1,154	(1.9)	1.0
D. Low GDP growth & high labor force growth					
Labor force ('000)	281.1	344.0	515.7	5.2	5.2
Non-oil GDP per worker (US$)	1,147	988	902	(3.7)	(1.1)

Yet another major uncertainty relates to the growth in the labor force. The estimates for new entrants into the labor force discussed in the previous Chapter are lower than previous estimates based on survey and other data. There is reason to believe that the current labor force participation rate for Timor-Leste of 59 percent is on the low side. The average labor force participation rate for all low income developing countries has been remarkably stable over time at about 78 percent.[9] At about 70 percent, the participation rate for males in Timor-Leste looks especially low. The average male participation rate for low income countries is over 90 percent according to World Bank data. This raises the possibility that labor force participation rate may rise in the decade ahead as more children have access to basic and advanced education and population continues to move from rural to urban areas. More rapid increases in participation rates would raise the labor force growth rates. The National Statistics Directorate has prepared an alternative scenario for labor force growth in which the participation rate rise to about 75 percent by 2015 – a level that prevailed in Timor-Leste in the 1990s. In this case, the labor force would rise to about 515,000 by 2015. In this scenario, the number of new entrants into the labor force would average 20,500 a year in the decade ahead – double that in Table 7 above.

The four scenarios set out in Table 10 give different combinations of economic and labor force growth:

- Scenario A is the base case discussed in Chapter I above – a recovery to sustained strong economic growth, with steady improvement in output per workers and rising income per person. As discussed earlier, there is steady progress in reducing the incidence of income poverty in this scenario.
- In Scenario B there is no change in the economic growth performance of the country, but labor force participation rates rise and the labor force grows at 5 percent a year. In this scenario, output per worker essentially stagnates for the decade ahead. In these circumstances it is difficult to see much progress in reducing the current high incidence of income poverty.
- Scenarios C and D summarize the implications of slower economic growth when the labor force grows at 3 percent and 5 percent a year respectively. In these two cases, non-oil GDP per capita stagnates at current levels and in the case of rising labor force participation rates (Scenario D), output per worker declines steadily throughout the decade. In these scenarios, it is very likely that the incidence of income poverty in the country would rise beyond current levels of about 42 percent – perhaps to around 50 percent within the decade ahead.

These alternative scenarios serve to underscore the importance of a successful implementation of the strategies set out in the SIPs for growth, investment and service delivery.

[9] According to the World Bank, the average labor force participation rate for low income countries was 79.2 percent in 1980 and 77.3 percent 2000. See *World Development Indicators, 2002*.

PART B: PUBLIC SECTOR EXPENDITURE PROGRAMS

The preceding Section of this report emphasized the importance of growth in reducing income poverty. But the reduction of poverty, very broadly defined, requires intervention across many fronts. Improved access to health and education, to electricity, safe water and improved sanitation all play a role in reducing poverty. Moreover, adequate levels of national security are essential, not only because it is the right of every citizen, but because the adequacy of security has an important influence on the climate for private investment, which, in turn, affects the prospects for investment that can generate the incomes and jobs needed for reduced poverty.

The purpose of Part B of this report is to provide an overview of the expenditures proposed for each of the 15 sectors that, if implemented as proposed, will help lay the foundations for the sustained strong growth discussed in Part A, while at the same time, allowing for significant progress in addressing the above-mentioned wider dimensions of poverty. The Section also sets out the fiscal strategies that, over the longer term, will ensure the transition to an expenditure regime that is financially sustainable. Against this backdrop, Volume II of the report discusses the specific programs of the Government in each of the 15 sectors of the economy, along with the required expenditures needed to implement these programs.

IV. EXPENDITURE PROGRAMS AND PRIORITIES

TOTAL EXPENDITURES FOR EACH SECTOR

Table 11: Sectoral Allocations of Combined CFET and Donor Expenditures (US$ mill)

Sector	FY1999/00-FY2003/04		FY2004/05-FY2008/09	
	Amount	Percent	Amount	Percent
Basic services				
Education & training	195.2	22.0	192.7	15.0
Health care	106.7	12.0	120.8	9.4
Sub-total	301.9	34.0	313.5	24.3
Production-related sectors				
Agriculture, forests, fisheries	70.6	7.9	64.8	5.0
Natural resources & environment	10.4	1.2	21.1	1.6
Private sector development	10.2	1.1	29.8	2.3
Sub-total	91.1	10.3	115.6	9.0
Basic infrastructure & housing				
Communications	7.1	0.8	17.8	1.4
Housing and Urban Development	5.2	0.6	13.7	1.1
Power	67.2	7.6	199.7	15.5
Transport	81.7	9.2	175.2	13.6
Water supply & sanitation	46.3	5.2	60.5	4.7
Sub-total	207.4	23.4	466.8	36.2
Governance				
Public sector management	113.9	12.8	108.7	8.4
Local government & civil society	10.7	1.2	25.1	1.9
Rights, equality & justice	30.4	3.4	44.8	3.5
Security & peacebuilding	64.5	7.3	131.7	10.2
External relations	37.8	4.3	23.0	1.8
Sub-total	257.3	29.0	333.4	25.9
Unallocated	29.9	3.4	59.4	4.6
Total development & technical	**887.6**	**100.0**	**1,288.6**	**100.0**
Memo items:				
Total CFET appropriations	302.5	34.1	511.8	39.7
UN funded critical posts	21.8	2.5	7.0	0.5
Bilateral military assistance	7.3	0.8	19.6	1.5
Donor programs	561.4	63.2	763.8	59.3

Source: Aggregation of expenditures in individual SIPs.

The SIP Model aggregates CFET and donor funded programs for each sector to provide a summary of total expenditures across all sectors. As noted elsewhere in this report, these expenditures refer to development and technical assistance that is either "On-budget" or "Off-budget." The results of these aggregations for on-budget spending are set out in Table 11. Total spending would amount to $1.29 million for FY2004/05 through FY2008/09, compared with about $890 million in the past five years. CFET resources would fund about 40 percent of the proposed program compared to 34 percent in the past five years, a large amount of which was actually provided by donors in the form of budget support.

The proposed program would result in significant shifts in allocations of resources among sectors. The allocation for the power sector rises sharply because of the inclusion in the program of some $112 million for the Ira Lalaro hydro-power project and associated 180 km. transmission line to Dili. With a sharply increased allocation for the transport sector as well, the share of infrastructure spending rises to about 36 percent of the total program, compared to 23 percent in the past five years. Education and training continues to receive a large allocation of resources, even though there is a drop in the share of total spending. As indicated in Chapter II of Volume II, the proposed levels of spending are sufficient to meet the interim MDG enrolment targets over the next five years. Spending on health care also rises, largely because of the proposed program for rehabilitation of hospitals and health clinics. The amount of resources allocated to the production-related sectors rises because of the substantially larger programs associated with the possible development of onshore and nearshore oil and gas. The share of resources allocated to security and peacebuilding also rises, largely because of increased allocations for capacity building in the PNTL.

In the previous five years, Public Sector Management (PSM) received the second largest allocation on a combined sources basis after education and training. For the five-year period ending FY2008/09, the PSM share of total spending drops to about 8.4 percent, largely because of the planned sharp reduction in expatriate advisers. The 'unallocated' category also shows a large increase. There are several reasons for the increase. A notional provision has been included here for the requirements of the two SIP programs that are still under preparation: these are the "Other Pillars of the State" and "Social, Civil and Heritage Protection". When these two SIPs are completed in the coming months, the aggregate combined sources requirements will be revised to reflect the results of the work. The "unallocated" category also includes a modest amount of additional CFET expenditures for capital replacement and recurrent expenditures that are not yet allocated to specific sectors. The basis for these additional allocations is discussed later in this Chapter.

These proposed reallocations reflect the intention of the Government to adjust overall patterns of spending among sectors in the light of changing circumstances. The guidelines that will shape these reallocations are as follows:

- The Government remains committed to allocating a large share of total resources to health and education. The combined total for these two sectors would remain in the range of 25 percent of total spending, at least for the medium term. The past high allocations reflect, to some extent, the inclusion of development partner-funded compensation for the large numbers of expatriate staff in these sectors.
- The Government wants to see a larger share of resources going into building and maintaining the basic infrastructure of the country. Under the proposed programs the share of resources allocated for infrastructure rises from 23 percent to 36 percent. If the $112 million allocated for the Ira Lalaro power project and transmission line were excluded from the above, infrastructure would then be about 30 percent of total spending.
- The Government also recognizes the importance of ensuring national security and therefore intends to allocate a somewhat larger share of resources to these programs.

RECURRENT AND CAPITAL EXPENDITURES

In the course of the SIP exercise, an effort was made to estimate capital and recurrent spending that is "on-budget" in each sector. An aggregation of the results is set out in Table 12. Two important sets of issues about expenditure policy emerge from this Table. The first concerns capital expenditures. Over the past five years, capital spending by the public sector on development-related activities is estimated at about $300 million, three-quarters of which was funded by the partners of Timor-Leste. A matter of growing concern for the Government is to ensure that the public assets of the country are adequately maintained and, as necessary, rehabilitated. At this time, there are no reliable estimates for the total value of the public assets, including infrastructure, of the country. A very informal estimate developed as part of the SIP exercise puts the replacement cost of these assets in the range of $500-600 million. If the average life of the assets is 15 years, capital replacement expenditures would need to average around $35 million a year. This is substantially higher than what is currently provided for in the CFET budget. In recognition of these needs, the Government intends to raise the allocations for maintenance and replacement of capital in the coming years. While no final decisions have been made on the amounts involved, the SIP exercise includes an increase in CFET-funded capital expenditures to $25 million by FY2008/09. This would lift CFET capital spending from the level of about 3.5 percent of non-oil GDP in the recent past to almost 6 percent by FY2008/09. For the longer-term, CFET funding of capital expenditures would need to rise to around 9 percent of GDP to meet requirements for capital replacement as well as new asset creation. The sharp rise in donor funding of capital expenditures in FY2005/06 through FY2008/09 stems mainly from the large investment program for the Power Sector discussed earlier in this Chapter.

Table 12: Trends in Capital and Recurrent Expendtures by the Public Sector in Timor-Leste (US$ millions)

Type of Expenditure	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09
Recurrent expenditures									
CFET	29.5	46.7	64.0	66.1	66.7	76.7	84.7	92.4	101.7
Donor programs	69.4	76.3	70.3	68.9	80.1	68.0	55.8	49.6	30.6
Sub-total	98.9	123.0	134.3	135.0	146.8	144.7	140.5	142.0	132.3
Capital expenditures									
CFET	21.7	10.5	14.6	13.2	11.2	14.8	17.6	21.0	25.1
Donor programs	51.2	69.4	48.8	39.0	39.1	74.7	100.9	99.0	75.8
Sub-total	72.9	79.9	63.4	52.2	50.3	89.5	118.5	120.0	100.9
Total expenditures									
CFET	51.2	57.2	78.6	79.3	77.9	91.5	102.3	113.4	126.8
Donor programs	120.6	145.7	119.1	107.9	119.2	142.7	156.7	148.6	106.4
Total	171.8	202.9	197.7	187.2	197.1	234.2	259.0	262.0	233.2
Memo items									
CFET as % total expenditures	29.8	28.2	39.8	42.4	39.5	39.1	39.5	43.3	54.4
Recurrent as % GDP	28.9	34.6	39.6	39.9	42.3	40.2	37.1	34.9	30.0
Capital as % GDP	21.3	22.5	18.7	15.4	14.5	24.9	31.3	29.5	22.8

The second set of issues relates to recurrent spending policies. As Table 12 indicates, the Government expects a gradual reduction in funding by the partners of Timor-Leste of recurrent expenditures. The SIP exercise makes provision for CFET allocations for recurrent outlays to rise to about $100 million by FY2008/09, with partner funding declining to $30 million. This means that CFET would be funding more than three-quarters of recurrent expenditures by FY2008/09. This represents a significant shift from the past four years when CFET domestic resources financed only about 20 percent of recurrent expenditures, with the balance covered by donor-funded budget support and direct bilateral financing. CFET funding of recurrent expenditures, which is currently equivalent to about 19 percent of non-oil GDP, would rise to about 23 percent by FY2008/09, consistent with the levels of funding required for steady progress towards the MDGs and other objectives set out in the various SIPs.

As Table 12 makes clear, by FY2008/09 CFET would be funding about 54 percent of total expenditures called for under the SIPs, compared with only 12 percent in FY2001/02 for example, when large amounts of CFET budget support were provided being provided by the partners of Timor-Leste. The proposed program sets forth a manageable transition to financial sustainability, while at the same time, addressing many of Timor-Leste's most urgent and difficult development challenges that center on poverty reduction.

PLANNED EXPENDITURE LEVELS ARE SUBJECT TO UNCERTAINTIES

The Government is well aware of a number of uncertainties associated with the proposed expenditure program. Four in particular need to be highlighted.

- Timely mobilization of new resources from the development partners and prompt disbursement of funds.
- Capacities of Government implementing agencies to ramp up their development programs.
- The likely future levels of donor assistance available to the country.
- Large uncertainties about future petroleum revenues, given the dependence of Timor-Leste on the Bayu Undun petroleum project and the volatility of world oil prices.

Mobilization and disbursement of new donor resources. The SIPs contain more than 200 new activities that will now need to be packaged into a smaller number of projects and programs. This packaging exercise has begun and the Government will soon start a round of discussions with donors to gain support for the various proposals in the program, all of which are described in Project Information Summaries that are being made available to development partners. The prioritization of programs within each sector by individual ministries and agencies has resulted in a schedule of new approvals for each of the next three years. The proposals contained in the Annex Table 5 of each SIP are summarized in Table 13 below. The total of the new approvals included in the SIPs amounts to about $550 million, $152 million of which is in the power sector for several large new projects aimed at expanding access to electricity in key centers of the country. The average level of new approvals of development and technical assistance for the next five years is therefore $110 million a year, of which $80 million a year would be for sectors other than Power. This compares with average approvals of comparable development and technical assistance of a little over $150 million a year during the five-year period FY1999/00 through FY2003/04. In other words, The Government has already factored into its forward financial planning a somewhat lower level of development and technical assistance, compared with the extraordinary levels that prevailed in the past as a result of the urgent need to rehabilitate much of the economy and to fund the high cost of expatriate advisory staff.

Table 13: Proposed New Donor Funding to be Approved Each Year

	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09	Total
Education & training	10,408,000	44,421,000	5,900,000			60,729,000
Health care	20,495,320	12,698,000				33,193,320
Agriculture, forestry, fisheries	13,240,000	8,250,000	6,250,000	5,400,000	1,750,000	34,890,000
Natural resources & environment	8,725,000	3,450,000	1,000,000			13,175,000
Private sector development	12,275,000	8,550,000	-	5,000,000		25,825,000
Communications	2,311,150	5,594,600	900,000			8,805,750
Housing & urban development		5,635,000	5,365,000	160,000		11,160,000
Power	1,350,000	92,825,000	29,500,000	8,700,000	20,000,000	152,375,000
Transport	2,850,000	26,100,000	21,450,000	10,000,000		60,400,000
Water supply & sanitation	-	18,892,000	8,930,000	8,000,000		35,822,000
Public sector management	371,000	52,200,000	3,450,000	8,000,000		64,021,000
Local government & civil society	2,200,000	1,000,000	5,000,000	2,000,000	2,000,000	12,200,000
Rights, equality & justice	15,892,000	2,100,000	6,450,000			24,442,000
National security	5,600,000	3,750,000	30,000			9,380,000
External relations & cooperation	3,452,000	1,230,000				4,682,000
Total new approvals	99,169,470	286,695,600	94,225,000	47,260,000	23,750,000	551,100,070
Memo item:						
Disbursements from new approvals	32,373,332	114,250,640	151,853,348	132,705,050	89,591,700	520,774,070

Source: Annex Table 5 of each SIP

Note: excludes bilateral military assistance.

The Government is taking steps to create Sector Working Groups (SWGs) for each of the key sectors. The steps being taken in this regard are discussed in more detail later in this Section. The intention is to build the SWGs as the primary mechanism for discussing with donors proposed programs and priorities within each sector and for ensuring that appropriate funding arrangements are in place for each sectoral program. The most urgent task is to reach early agreement with donors on the proposed new approvals amounting to $126 million of projects that the Government would like to start implementing in the year ahead. In the case of Education and Training for example, Table 13 indicates that some $60 million of new proposals would require donor support over the next three years, equivalent to an average level of new commitments of $20 million a year. To the extent that some proposals do not attract donor support, the Government may have to consider alternative funding arrangements or may need to defer the start-up of the project or program.

Absorptive capacities of Government agencies. The proposed program calls for disbursements from these new approvals in the amount of $32 million this year. There has been some progress in mobilizing these required new levels of support, but at this stage this estimate of new disbursements appears overly optimistic. It is unlikely that a sufficient number of these new projects can be started quickly enough to allow for this level of disbursements, even if funding agreements are in place for all activities. A substantial part of the program is technical assistance that can probably be mobilized quickly. However, there are also a number of large civil works programs involving construction and/or rehabilitation of facilities such as schools and hospitals, procurement action for which may take time. The disbursements for the current fiscal year will almost certainly be somewhat lower than projected in the current versions of the individual SIPs. In subsequent tables in this chapter, the disbursement schedules for new projects have been adjusted to reflect more realistic levels of expenditures from new projects and programs.

The Government is very conscious of the fact that in some cases, proposals for increased levels of spending may only be realized if the planned improvements in capacities of the relevant agencies to manage larger programs are in fact realized. The SIPs have built in various programs to help expand these capacities, but slippage in some areas cannot be ruled out, in which case there may be a slower build up in expenditures over the medium-term. As has been the case in recent years, the Government will monitor spending capacities closely and, if need be, adjust sectoral allocations should that prove to be needed. In any event, the Government attaches a very high priority to the range of programs built into the SIPs that aim to build institutional and human capacities for effective design and implementation of public programs. The Government will want to work closely with development partners to ensure that appropriate attention is given to building implementation capacities in each of the sectors.

Overall levels of donor assistance. The third area of uncertainty relates to overall levels of assistance that are likely to be available to Timor-Leste in the medium and longer term. Table 14 provides a summary of the trends in international financial support for Timor-Leste for the ten years under review in the SIPs. The main point is that there is a steady downward trend in levels of support. If UNPOL and PKF operations are excluded, total support (as measured by annual disbursements) trends down from the high of $236 million in FY2000/01 to about $106 in FY2008/09, assuming that the programs in the SIPs are implemented as proposed. If UNPOL and PKF operations are included, the peak level of assistance was $519 million in FY2000/01.

Table 14: Trends in International Assistance for Timor-Leste (US$ millions)

Type of Assistance	FY1999/00	FY2000/01	FY2001/02	FY2002/03	FY2003/04	FY2004/05	FY2005/06	FY2006/07	FY2007/08	FY2008/09
Development & TA on-budget										
Ongoing	63.0	120.6	145.7	119.1	107.9	108.2	57.7	31.7	13.6	6.4
Proposed new (adjusted)						11.0	85.0	125.0	135.0	100.0
Sub-total	63.0	120.6	145.7	119.1	107.9	119.2	142.7	156.7	148.6	106.4
Development & TA off-budget	26.6	33.6	33.4	36.7	25.8	16.3	7.7	3.0	3.1	-
UN Security Council posts				13.8	8.0	7.0				
Humanitarian assistance	84.1	29.7	11.8	3.4	1.8	0.9				
Budget & commodity support	27.1	44.6	31.8	31.1	32.6	21.8	1.5			
Donor administrative expenses	1.1	7.3	5.5	4.6	4.5	3.9	3.3	1.1	0.5	
Total assistance	201.9	235.8	228.2	208.7	180.6	169.1	155.2	160.8	152.2	106.4
Memo items:										
UNPOL & related	33.1	51.9	45.4	26.7	15.7	5.1				
UN PKF	65.6	231.1	145.0	104.4	74.7	12.9				
Grand total	300.6	518.8	418.6	339.8	271.0	187.1	155.2	160.8	152.2	106.4

Source: REA Database.

Note: bilateral military assistance programs not included in these data.

In preparing the SIPs, the Government has looked beyond FY2006/07 to gauge, for planning purposes, possible levels of support that may be available while bearing in mind that Timor-Leste will still be classified as a low income developing country. Data published by the World Bank indicates wide variation in levels of aid per capita. After excluding post-conflict countries such as Bosnia Herzegovina and Macedonia, these data suggest upper levels of around $100 per capita per year. These higher levels are often associated with countries that have strong economic performance supported by effective development policies. A sample of eight countries that receive high levels of aid per capita, but have varying degrees of development performance yields an average of $80 per capita per year for 2000.[10] For planning purposes, the Government has factored into its longer term financial planning an assumption of official assistance of $80 per capita per year. Given the population projections set out in Table 3 above (Chapter II), this suggests access to external assistance in the range of $85 million from 2010 onwards.

The second point concerns the use of donor funding. The Government expects to phase out direct budgetary support during the period under review, but does want to maintain "On-budget" development and technical assistance programs in the range of $110 million a year on an approval basis through the end of the NDP period, 2002-2007. This level of support is essential for an effective transition to a more sustainable financial position and to maintain the high levels of investment needed to lay the foundations for a strong economic recovery. Beyond the Plan period, and assuming that domestic revenues improve along the lines projected, the Government anticipates some decline in levels of development and technical assistance from donors. As noted in the previous section, this assistance is assumed to run at about $80-85 million in the longer term, and as long as Timor-Leste is designated as a low developing income country.

Uncertainties about petroleum revenues. Timor-Leste is subject to extremely large uncertainties about the amount of revenues that it will raise itself. The principle cause for these uncertainties concerns its petroleum revenues. Three issues in particular are important in this regard:

- First, the domestic revenues of Timor-Leste are heavily dependent on petroleum. This is despite the considerable efforts being made to expand non-petroleum revenues. While petroleum revenues are uncertain, they will probably account for about 80 to 90 percent of total revenues over the medium-term.
- Second, the only material source of petroleum revenues is from one petroleum project, the Bayu Undan field (although within the next two or three years, the Phoenix field exploration may commence).While that may change with a successful

[10] The eight counties are Albania, Lao D.R., Mauritania, Mongolia, Mozambique, Namibia, Papua New Guinea and Zambia. With the exception of Mongolia and Zambia these countries all experienced strong economic growth during the 1990s that averaged almost 5% a year (on an unweighted average basis).

resolution of maritime boundary disputes with Australia or if new petroleum projects proceed, currently any technical or production problems with Bayu Undan have a direct effect on Timor-Leste revenues. For example, the drilling problems at Bayu Undan in late 2003 led to a dramatic fall in expected revenues. While the operating companies were subsequently able to recover from some of these problems, and rising world oil prices more than restored revenues, similar problems could occur in future. The Bayu Undan project will not be completed until the pipeline and LNG plant are built and fully operational. Risks to revenue remain particularly high until the development phase of Bayu Undan is fully completed and operations have proven to be successful.

- Third, world oil prices have been, and will continue to be extremely volatile. Over the last ten years, world oil prices per barrel have ranged from a low of about $10 in the late 1990s to a high of about $55 in 2004. For half of the last ten years the price has been below $24. With current world oil prices still around $50 there is considerable risk that they will fall again. Indeed, world oil futures markets expect the price to decline to about $45 in 2005 and to continue to decline thereafter.

Furthermore, volatility in world oil prices leads to a disproportionate change in Timor-Leste revenues. Much of this revenue is based on the profits of Bayu Undan rather than its sales. When high capital costs are considered, a 10 percent change in world oil prices could lead to a 20 or 30 percent change in Timor-Leste revenues over the medium to long term. Therefore, changes in Timor-Leste revenue will probably be even larger in percentage terms than changes in world oil prices.

For these reasons, changes in Timor-Leste revenues are to be expected, though it is unclear whether these will involve higher or lower revenues, or whether the changes will be large or small. Prudent financial management suggests that the country should plan on the basis that the current very high levels of petroleum prices will not be sustained and that they will trend down in the coming years. It is for this reason that the Government intends to take a cautious approach towards the future use of periodic windfall gains from temporarily high petroleum prices. Any significant downward revisions to the petroleum revenues would require Timor-Leste and Development Partners to reconsider their development strategy for reducing poverty and reaching the MDGs in Timor-Leste.

V. MANAGING THE PROGRAM

The proposed program for accelerated growth and steady progress towards the NDP and MDG objectives will not be without difficulties, given the daunting task in the immediate future of building the capacities of national institutions and staff to manage successfully the changing development requirements of the country. It will require strong support from our Development Partners, including continued access to expertise and advice on the successes and failures in development in other countries around the world. Given the importance of CFET funding for capital expenditures, it will also require a major build up in capacities of national staff to manage the identification, design and implementation of these capital development programs. It will require changes in the management of development programs that are responsive to the changing circumstances and capacities of the country.

THE TRANSITION FROM DEPENDENCE ON TFET

Management of the program over the medium-term will require flexibility in adjusting funding arrangements to the changing circumstances of the country. In this period, the TFET operation as we know it today will come to a close. Moreover, within a few years the Government expects to discontinue reliance on direct support of the kind that is currently provided under the TSP program. Other mechanisms will be required for the provision of development assistance over the medium- and longer-term, given that the Government expects that in time an increasingly large share of the ongoing partner assistance will be used for capital investments of one kind or another.

The Government has already opened a dialogue with donors regarding the transition from TFET and in that connection several options have been tabled. The Government would like to continue these discussions with the donor community and reach agreement on the mechanisms that will be needed for the medium and longer term. Guidelines need to be developed to facilitate close cooperation and clear understandings between Development Partners and the Government regarding options for funding. The following outlines some of the key considerations for these discussions. First, given that the Government expects to continue to rely on some form of program support for several more years, the current TSP arrangements would continue to be used to channel donor resources direct to the budget, within a new perspective – that of Consolidation – and within the scope of the recently adopted Consolidation Support Programme I (CSP I). This mechanism would continue to be used to establish benchmarks for performance related to the formulation and implementation of policies, and to program design and implementation.

Second, to facilitate the transition from TFET, the Government foresees reliance on three mechanisms for the delivery of those aid resources that are not channeled through the TSP program. These would be applicable to specific projects and program assistance:

- One is to continue to rely on established mechanisms for the design and implementation of individual bilateral and multilateral projects and programs. Under these arrangements, our partners are expected to give close attention to the priorities for projects and programs as articulated in the SIPs and align their support with these activities. In these cases, the donors would continue to assume primary responsibility for the design and execution of each program, in close consultation and coordination with the relevant ministry that is the agreed domestic counterpart.
- The second possible mechanism will be increased reliance on existing cofinancing arrangements among development partners. Under these arrangements, the Government would look to the Asian Development Bank, UN agencies and the World Bank to act as executing agent on behalf of those donors who, for one reason or another, don't wish to take on the task of identifying, designing and implementing particular projects. The UN Agencies and the World Bank have already been active in using this mechanism. The Government would want to explore with its partners further possible use on such arrangements on a case by case basis.
- A third possible mechanism would be a variant of the already established cofinancing mechanism. Under this third option, a particular partner may act as executing agent on behalf of one or more other partners. But the Government of Timor-Leste would assume greater responsibilities for the design and management of the project, while working very closely with the partner designated as the executing agent. The responsible Government agency would play a major role in project design, in drawing up procurement procedures, in undertaking environmental and other assessments as necessary, and in oversight and supervision of project implementation, along with the many other activities typically associated with the project cycle. Under these arrangements the agency within the Government who is responsible for the project would be expected to play an active role in making decisions on the release of funds that might be held in a special project account. The objective under this mechanism is to accelerate the training of national staff in all

aspects of the typical project cycle. The partner designated as executing agent would be expected to play an important role in helping develop these skills.

Third, because of the importance of employment creation, the Government wants to promote greater reliance on domestic sources of supply in the design and implementation of these bilateral and multilateral programs, consistent of course with prudent and cost effective procurement. As the SIP for Private Sector Development indicates, the Government intends to examine the merits of using preferences for local suppliers in contract awards, as well as the feasibility of using domestic content rules to facilitate the further development of domestic business. Concerted efforts by the partners of Timor-Leste to source supplies from local business can make an important contribution in the task of creating productive employment opportunities for perhaps as many as 15,000 new entrants into the labor force, as discussed in Chapter II.

The Government looks forward to further discussion with donors on these mechanisms to ensure a smooth transition away from reliance on trust funds as the role of TFET comes to a close in the next few years.

ISSUES RELATED TO DEVELOPMENT PARTNER COORDINATION

The successful completion of the first full cycle of SIPs for all key sectors of the economy is a milestone in the continuing evolution of working arrangements with development partners, commonly referred to as donors. For the first time, the Government has prepared a comprehensive set of sectoral policies and programs that cover almost all aspect of development in Timor-Leste. In the course of the work, a number of issues emerged that were common to many of the SIPs. In a number of sectors, especially those where TFET had not been active, there was a tendency towards large numbers of relatively small, interventions by donors, with little evidence of effective coordination among our partners or with the responsible government agencies. In a number of cases, progress in building sectoral policies and programs were hampered by differing approaches being taken by various donors. One example is from the Justice Sector where training programs have reflected legal backgrounds and traditions of the donors who provide the funding, which has not necessarily been in keeping with the requirements of Timor-Leste. Another is in police services where the absence of a set of standardized operating procedures for Timor-Leste as a whole has led to a proliferation of approaches to police procedures, the rectification of which will take time and effort. With the advent of SIPs it should now be possible to ensure that there are common approaches adopted by all partners and that there is uniform and coordinated support for the policies and procedures to be followed in each sector. That said, the Government will, as always, welcome the input of Development Partners in the periodic review of these sectoral policies and programs.

Table 15: Donor Coordination Indicators

Sector	No. of active donors	
	FY2002/03	FY2003/04
Basic services		
Education & training	12	9
Health care	12	12
Production sectors		
Agriculture, forestry, fisheries	14	11
Natural resources, environment	10	6
Private sector development	7	6
Basic infrastructure		
Communications	9	6
Housing and urban development	3	2
Power	7	5
Transport	5	3
Water supply & sanitation	8	6
Governance		
Public sector management	19	18
Local government & CSOs	16	16
Rights, equality & justice	15	10
Security & peacebuilding	20	15
External relations & coordination	6	3
Total		
Average per sector	11	8

Table 16: SIP Sectors Classified by Donor Activity and Proposed New Programs

Number of new proposals	Number of active donors	
	Less than 10	Ten or more
Ten or more	Education & training Natural resources & environment Private sector development Transport	Agriculture, forestry & fisheries Rights, equality & justice Health care Public sector management
Less than ten	External relations and cooperation Housing & urban development Communications Power Water supply & sanitation	Local governnment & CSOs Security & peacebuilding
None		

Table 15 provides information on the number of partners that have been active in each over the past two years. It also lists the sectoral distribution of the proposed new activities that have been identified in the SIP exercise. A number of points emerge. First, there are several five sectors in which there are a small number of proposed new starts and a small number of active donors (Table 16): Power Communications, Housing and other, External Relations, and Water Supply and Sanitation. Presumably it should not be too difficult to reach agreement on appropriate arrangements for funding and improved coordination in these sectors. Second, there are four sectors in which there are a small number of active donors and a large number of new proposals: Education and Training, Natural Resources and Environment, Private Sector Development and Transport. In these cases, there may need to be close attention to packaging programs in ways that will facilitate effective implementation without excessive numbers of small activities with each donor. Third, there are four sectors with a large number of active donors and a large number of proposed new activities: Agriculture, Forestry and Fisheries; Rights, Equality and Justice; Health Care; and Public Sector Management. Again, there will be a need for close attention to the overall approach in these sectors. There would be little merit in having a large number of active donors involved in many separate activities. This is likely to put unnecessary burdens on the relevant ministries with respect to coordination. The Local Government and Community Development Sector is characterized by a large number of development partners and a very small number of new activities. In this case, a few partners may take the lead in the program, or alternately several partners of Timor-Leste may enter into cofinancing arrangements with other donors who would like to be associated with the program. The latter may be especially appropriate for the proposed new Community Development Fund for local government. In the case of the Security and Peacebuilding Sector, there are a small number of programs proposed, but there are a large number of development partners who are active in the sector. This will require close attention to coordination mechanisms.

The challenge now is to ensure that coordination mechanisms between the Government and the donor community are strengthened. This must be done in ways that promote continuing Government interaction with Development Partners on the evolving policy, program and funding issues in each sector. Work programs will evolve and new policy and capacity building challenges will emerge. The policy and program elements of each SIP will therefore need to be updated. That may require specialized technical support for the Government agency that has the lead responsibility for the SIP. This support will be needed during the periodic updates of the SIP report.

NEXT STEPS IN DIALOGUE WITH DEVELOPMENT PARTNERS

As noted above, the SIP process has identified more than 200 new activities and programs across the 15 sectors that are proposed for approval and start up of implementation during the next five years. These programs have been prioritized within sectors by indicating the fiscal year in which they would start implementation. A Project Information Summary has been prepared for each activity and program. These summaries give details about the activity, including for example, objectives for the program, the Government agency responsible for the program, start-up dates, and disbursement activities. The total amount of the proposed new approvals adds to about $550 million. The Government would give priority to early agreement with donors on the approximate $130 million of new approvals proposed for the year ahead. A process of consultation has already been launched to achieve this objective.

Not all of these proposals would necessarily be implemented as separate projects and programs. The expectation is that a number of the smaller activities would be packaged into larger programs and projects within each sector. A simple example: there are several separate activities listed for the Prisons program. The Government would like to agree with a donor on a single Prisons Project that includes all components. In some cases, there may be a need to package programs across sectors to ensure appropriate coordination of activities among sectors. An example may be some of the watershed protection activities that involve a number of different agencies. In the event that some of the high priority programs are not funded by our partners in FY2004/05, various adjustments may be required in the program or alternate arrangements made for their funding.

Moreover, there are many important cross-sectoral linkages among these programs. Steps are being taken as part of the SIP program to strengthen inter-agency coordination in the design and implementation of programs among sectors. Examples include timely support from the Water and Sanitation Sector for new school construction programs, close collaboration between the programs that expand access to safe water and the Health Ministry.

NEXT STEPS IN THE SIP PROCESS

The Government has benefited from the preparation of these SIPs in a variety of ways and intends to strengthen and broaden the process. The SIP process will be continued. It will be used to guide decisions on resource allocations for the medium term by building the results of the work into the budget and other planning activities of the Government. A number of initiatives are already underway or are being planned:

- Under TSP III the Government has committed itself to the development of a combined resources budget for FY2005/06. The integration of the SIPs with the combined resources budget is central to the Government's efforts to have at its disposal an integrated framework that will allow informed decision making on the deployment of both CFET and donor resources in pursuit of agreed development objectives.
- Additional work is needed to review and refine a number of the proposed development benchmarks for the medium-term that have been built into the draft SIPs. Such reviews will focus on development of institutional and financial capacities to achieve these targets, and in some cases whether there is a need for more aggressive progress towards key objectives identified in the SIPs.
- Closely related to ongoing assessments of the financial costs of various programs, is the need to improve the reliability of information on the unit costs for delivery of various government services. Many of the historical data currently available are heavily influenced by the inclusion of expensive expatriate labor services in the cost estimates. More work is needed to improve the reliability of these cost estimates.
- The SIP exercise has also been hampered by incomplete information about the assets of the country the upkeep and management of which is the responsibility of the Government. These include various types of equipment, facilities such as schools and hospitals, and infrastructure such as roads and ports. Incomplete information has

hampered efforts to determine appropriate allowance for maintenance and capital replacement expenditures. Steps are to be taken to address this problem.

Formation of sector working groups. The SIP process has highlighted the need to strengthen capacities within the Government for longer term strategic planning across various sectors that integrates concerns about the growth and movement of the population, with the provision of economic opportunities, basic services and national security. The Government intends to take steps to strengthen these capacities. As a first step, the Government has begun the formation of Sector working Groups (SWGs) for some or all sectors. These working groups to be chaired by a senior Government official and are open to any donor who has an interest in the particular sector. Sector Working Groups for the Health Care, Agriculture and Basic Infrastructure have already been formally established. The Government expects the formal establishment of the SWG for Education and Training by May 2005, followed by the gradual establishment of the remaining groups within this calendar year.

The responsibilities of the groups will evolve in the light of experience, but are expected to range from informal advice to the agencies of Government that are responsible for the sector in question to a more wide-ranging role. The groups will have the onerous task of mobilizing the necessary resources to carry out the proposed SIP program, and at the same time ensure coordination of activities within the sector. The role of the group might be further enhanced by asking donors with ongoing programs in the sector to share lessons learned from their programs that can in turn be used to improve the design and execution of proposed new programs and projects. Each working group would also assist in various ways with the periodic updating of the SIP for their sector.

Given their critical role in driving the SIP process, extensive support will be needed from the donor community to ensure the success of these groups. One of the biggest challenges for the Government is strengthening the role and function of the secretariat within each SWG. Some SWGs will require technical support in the initial establishment phase of the secretariat, as well additional equipment and materials to assist the work of the SWG. The Government foresees that some sectors will also require the services of short-term technical consultants on annual basis to update the existing SIP reports; however technical support may also be needed during the course of the year for other important activities discussed within the SWG. Within the next few months the SWGs, with the assistance of the Ministry of Planning and Finance, will actively seek funding support from the development partner community to strengthen the role and function of the SWGs.

Increased attention to monitoring and evaluation in each sector. In reviewing various drafts of the SIPs, a number of donors have made the point that there was discussion of the arrangements needed within each sector for monitoring and evaluation (M&E) of progress towards goals and objectives. This was not an oversight on the part of the Government, but stemmed from a decision early in the SIP process to defer serious M&E work for each sector until the goals, objectives and programs were clearly established and agreed upon within government. With the release of the final versions of the SIPs, the Government believes that the basis now exists for serious work on the detailed definition of an M&E framework for each sector. The issue of monitoring and evaluation of sector objectives should be discussed within the respective SWGs. To ensure a fully effective system of M&E, the government is of the opinion that thorough discussions must be conducted before actual implementation of an M&E system for each sector. Such discussions will need to provide a consensus on what indicators are to be used, how information for each indicator will be collected (from surveys, or from periodic reporting by civil servants, for example), the frequency with which data will be collected, the assignment among government agencies for the collection, storage and analysis of these data, related training programs and the costs of such M&E programs. The development partners involved in these sectors will be expected to guide the SWG in this issue and provide the necessary institutional support to ensure its effectiveness. It is proposed that a pilot initiative for the design and implementation of an M&E system be developed within one SWG as soon as possible. Experience with the development of this pilot can then be transferred to other sectors. The Government would welcome the support of one or more partners for this pilot initiative.

PART C: ANNEXES

ANNEX I. AN INTRODUCTION TO THE SIP PROCESS

THE ANALYTICAL FRAMEWORK

The framework developed for the SIP process has three components: (i) a strategic analytical model with projections to 2015; (ii) SIPs for each of 15 sectors of the economy that, taken together, cover the activities of the Executive Branch of Government and the Judiciary.; and (iii) brief summaries for each of the proposed new programs and activities identified in the SIPs. In addition, two other SIPs are currently being prepared. The SIP for Pillars of the State will deal with other key institutions of the country, including the Office of the President, the National Parliament, the Office of the Prime Minister, the Council of Ministers, and the Bank Payments Authority. The focus of the other SIP, which is titled Social, Civil and Heritage Protection, is on providing support to those sections of the population identified as most in need of special assistance or social protection. It also includes the need for civil protection in the event of small-scale periodic or seasonal adverse events, or large-scale unpredictable adverse events. These two SIPs will be completed within the next few months, after which the results will be incorporated into the overall SIP framework.

An integrated strategic framework has been developed to anchor the entire SIP exercise to key parameters such as population, GDP, labor force, and likely aggregate levels of CFET and development partner spending. The SIP strategic framework includes projections to 2015 for GDP by sector, population, including the numbers of people by age group and by sex category, urban and rural population, farm and non-farm labor force, and likely aggregate CFET and the resource availabilities of our partners. The demographic components of the model are all linked thereby ensuring a consistent set of projections for population, labor force and rural-urban migration.

The fifteen sectors for which SIPs have already been prepared are grouped around four main themes

A. Provision of basic services	1. Education and training 2. Health care
B. Support for the production sectors	3. Agriculture, forestry & fisheries 4. Natural resources & environment 5. Private sector development
C. Development of infrastructure services and housing	6. Communications 7. Housing and Urban Development 8. Power 9. Transport 10. Water supply and sanitation
D. Strengthening governance	11. Public sector management 12. Local government & civil society 13. Rights, equality and justice 14. Security, peacebuilding & reconciliation 15. External relations and cooperation

Preparation of the individual SIPs was done in a progressive fashion, with experience from the initial phases of the work being used to strengthen subsequent analysis and support inter-agency discussions on sectoral priorities and linkages. Key points about the process used to prepare the individual SIPs are as follows:

- Each SIP includes a statement of goals and objectives for the sector as set forth in the Constitution, the NDP or the MDG framework. Where practical, these have been translated into specific performance benchmarks. For example, all the MDG targets for 2015 are included in the framework, along with targets for 2007 and 2010.
- Each SIP includes the existing or proposed policy framework for the sector, and a review of the major challenges facing the sector.
- A proposed sector work program for the medium-term is outlined in each SIP, along with ongoing and proposed new expenditures required to implement the work program. Where possible, estimates of expenditures are based on information about the unit costs of service delivery, capital replacement and maintenance costs of public infrastructure and other assets. These provided a basis for estimating the expenditures needed to meet specific targets for 2007 for such things as school enrolments, connections to safe water, and other indicators.
- Ongoing and proposed new expenditures of donors and CFET are included in the analysis, thereby ensuring that the expenditure framework is presented on a combined resources basis.

The SIP exercise has identified more than 200 high priority program and project activities that are proposed for funding and implementation over the next three years. The estimated cost of each activity is included in the sectoral expenditure framework, along with information for all ongoing activities. Within each sector, these proposed new activities have been prioritized by designating the year in which implementation would begin. Brief descriptions have been prepared for each activity. These individual activities can be readily fed into ongoing mechanisms that focus on likely donor and CFET funding.

COVERAGE AND SOURCES FOR INFORMATION

The SIPs include a large number of development and performance indicators and estimates of unit costs for delivery of various services. These data have been drawn from a variety of sources including the provision results of the 2004 census, and various surveys undertaken in 2001, 2002 and 2003 with the help of development partners. Where required information was not available, estimates have been made.

The SIPs have also drawn heavily on the vision of the NDP and the recently published report on MDG targets for Timor-Leste.[11] However, in almost all sectors, the ministries and agencies concerned have been constrained by the absence of agreed performance and service delivery targets for the medium-term. Individual agencies have begun to address the problem in the SIP exercise by formulating benchmarks and targets for 2007 and 2010 wherever practical. While the SIP exercise has helped address this gap in the planning framework, more work remains to be done in this regard.

These fifteen sectors account for the entire CFET budget, except for allocations to the Office of the President and the National Parliament. Similarly, they account for the majority of the development and technical assistance, as well as budget support, provided by Development Partners. Not included in the expenditure analysis, unless otherwise indicated, is humanitarian

[11] Government of Timor-Leste and United Nations, *Timor-Leste: Millennium Development Goals Report,* February 2004.

and emergence assistance and the bilateral programs of military assistance that are provided by several donors. Complete information is not currently available for the bilateral military assistance programs.

Expenditure data have been provided by the Ministry of Planning and Finance. Unless otherwise specified, these data are drawn from two sources. CFET budget appropriations data have been provided by the Budget Office 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. Development partner data has been supplemented with information provided by individual government agencies that have responsibilities for particular partner-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 are based on the limited information that was available for individual activities and programs.

ANNEX II: POPULATION CHARACTERISTICS AND PROJECTIONS

A guiding principle for the Sector Investment Program (SIP) exercise was the use of a common set of demographic data across all sectors to ensure comparability and consistency on all matters related to the population of Timor-Leste. The purpose of this Annex is to describe briefly the basis for the population projections used in the SIP exercise. The preliminary population projections were prepared by the Direcção Nacional de Estatistica.

The SIP exercise required six broad sets of information about the population of the country:

- Total population, with projections to 2015
- Current and projected age structure of the population
- Male and female composition of the population
- Current and projected urban and rural population
- Current and projected number of urban and rural households.
- Current and projected labor force.

The "*Preliminary*" status of these projections must be emphasized. These are a first set of projections, based on the information available in January 2005; the projections will be revised at a later time. The most important constraint is the currently available data. Provisional results from the 2004 Population and Housing Census were used as the starting point, but these will be replaced by the final Census results. Additionally, for the three key demographic variables; fertility (births), mortality (deaths) and migration, the data available for Timor-Leste are still limited and uncertain.

It is important that users understand that these population projections are neither predictions nor forecasts. They present the statistical outcomes of the selected assumptions about demographic factors that underlie population change. Many non-demographic factors are excluded from the projection assumptions, including the possibility of future catastrophic events such as epidemics, natural disasters and conflict. Nonetheless, these preliminary projections do provide a useful indication of the possible population for Timor-Leste up until 2015. This is particularly the case for the age groups above 11 years, because the people who will be in these ages in 2015 were born before the 2004 Census, and the majority will remain at younger ages where few deaths occur. The projections for ages 11 and under are less reliable, because these depend on assumptions about future fertility, and to a lesser extent infant and child mortality.

Methodology for the projections

The base population was taken from provisional data from the 2004 Census of Population and Housing, including population by single year of age and sex, urban and rural population, and male/female labour force participation and farm/non-farm occupations. The projections used a cohort component methodology, by single year of age, so that the impact of the current age structure is fully taken into account. Age-specific fertility and mortality rates for Timor-Leste were derived by applying international model fertility patterns and life tables to the assumed total fertility rate (TFR) and crude death rate (CDR). The projection for each year was derived by ageing the years population forward by one year with births estimated by applying age-specific fertility rates to the female population in the childbearing ages (15-49), and deaths estimated by applying male and female age-specific death rates to the entire population.

In addition to the main population projection, preliminary projections were also made for sub-populations of importance, including the urban/rural population, the labour force, and farm/non farm occupations. These sub-projections are simple extrapolations based on assumptions about total rates that have been applied to the total population. There has been no allowance for age patterns that would apply to migration, labour force participation, and farm/non farm occupations.

Assumptions used in projections

Fertility and mortality. Recent estimates for both fertility and mortality in Timor-Leste have shown a wide range, leaving uncertainty about the current level and even the future direction for these key demographic factors. For the projection of population, a TFR of 6.3 and CDR of 15 per thousand were assumed, levels that are near the middle range of the recent estimates, and plausible given the rates from other low income countries in recent years. To illustrate the outcome of maintaining high fertility and mortality levels, no change was assumed for both fertility and mortality through to 2015, although small shifts in the TFR and the crude rates occur from applying constant age specific rates to a changing age structure.

Migration. Zero external migration was assumed throughout.

Urban and rural population growth. The urban population was projected by assuming an urban population annual growth rate 2.2 percent higher than the projected annual national population growth rate. The assumption implies steady rural to urban migration, in line with the experience of most developing countries. The rural population was derived by subtracting the urban projection from the total.

Household size. Urban and rural household numbers were projected using the projected populations and assuming average household sizes of 5.5 persons for urban and 4.6 persons for rural households.

Labour force participation. The future growth of the labour force projection was based upon the projected populations in the working ages (15-64 years) and labour force participation rates of 48.1 percent for females and 69.3 percent for males, as indicated by provisional census data. These participation rates were assumed for the entire 2004-2015 projection period.[12] The number of farm and non-farm workers is assumed to grow in line with the rural and urban population growth rates.

[12] There is some basis for thinking that these participation rates may be too low, or may rise in the future. The assumed levels are substantially lower than those for comparable developing countries. The *World Development Indicators 2002* reports the average participation rate in low income developing countries in 2000 was 95 percent for males and 59 percent for females, with an overall average participation rate of 80 percent for all low income countries.

ANNEX III: PROSPECTS FOR PRIVATE SECTOR DEVELOPMENT

WHAT ARE THE PROSPECTS FOR PRIVATE SECTOR GROWTH?

The private sector currently accounts for about $220 million, or about two-thirds of GDP. The agricultural sector accounts for almost half of the private output in the economy. The extent to which private investment can be increased over the next five years depends on business opportunities and the enabling environment for investment. The make-up of the non-agricultural private sector is changing rapidly now as investors who focused on donor-funded reconstruction business are winding down, or changing the focus of their activities.

The Government believes that there are significant opportunities in a number of areas. Vigorous investment promotion could lead to increased domestic and international investment in tourism, commercial development of natural resources and increased agricultural surpluses for domestic and export markets. A carefully targeted and aggressive promotional program could lift the level of private investment to about 8% of GDP by 2008, with aggregate investment in the range of 28% of GDP. In combination with close attention to policies and measures that supported the domestic construction industry and increased local procurement on government account, the outlook for growth in the non-farm production, incomes and farm employment would be considerably enhanced. Nonetheless, creating enough employment in the non-farm private sector to absorb the large number of new entrants each year will be a major challenge.

With appropriate supporting policies, private sector growth could make a significant contribution to employment creation. As the foregoing discussion highlights, the construction sector can make an important contribution to employment creation, as can sub-contracting arrangements related to Government procurement. There are attractive possibilities for employment creation in the construction sector, and the financial sector as service coverage expands and in the tourism sector. Increased emphasis on outsourcing government procurement to local suppliers can also contribute to employment growth. These domestic programs are likely to be supplemented with an overseas workers program. In the year ahead the Government plans to start an overseas workers program. While no final agreements have been reached, a program that sends 1,000 laborers a year would take some pressures from the domestic market and would likely result in an important inflow of remittances from abroad, thereby boosting domestic demand.

POTENTIAL FOR COMMERCIAL AGRICULTURE

Timor-Leste is a predominantly rural economy with a majority of the population dependent on agriculture for their livelihood. Agriculture, forestry and fisheries currently accounts for about 30 percent of GDP and provides a livelihood for about 720,000 people or about 77 percent of the population. Although agriculture is the main employer and contributor for private sector non-oil GDP it is characterized by a system of subsistence production. There are approximately 160,000 rural households, at least 70,000 of which are engaged in subsistence farming, producing no saleable surplus, and generating no non-farm income. Approximately 70,000 rural households produced saleable surplus – mainly rice and coffee. Coffee is the main commercial industry within the sector, accounting for $7 million of the $8 million of exports in 2004. The main market player is "Cooperative Café Timor (CCT)" which is organized under a cooperative system of production "Cooperatives of Organic Coffee". Timorese organic coffee has reached an important position in world organic coffee market.

Timor-Leste has approximately 600,000 hectares of land suitable for crop and livestock production, with 67,000 hectares said to be suitable for wetland rice and 160,000 hectares suitable for other field crops. The remainder is suitable for grazing cattle and goats.

Emphasis to date has been on the rehabilitation of irrigation schemes as the primary means of realizing agricultural production gains. Irrigation schemes in Timor-Leste are essentially small "run-of -the -river" schemes. Because of the nature of the terrain and the rainfall pattern the numerous rivers are basically large storm water drains. It is essential to carry out feasibility studies to determine the possibilities regarding the construction of reservoirs for storing substantial amounts of water for irrigation during the dry season. Most community level irrigation systems are small, frequently covering an irrigable area of around 100 hectares. Maintenance is a chronic problem with river-in-flood damage and siltation the main reasons for damage. Historically, farmers in Timor-Leste have been unable or unwilling to maintain these schemes, relying on government and donors for maintenance and, eventually, rehabilitation. There are some 420 schemes in total, of which only about 10 have modest water storage and thus the potential to produce two crops a year. There is agronomic potential to increase rice production and to introduce other high value crops in rehabilitated irrigation schemes. Intensification of production, resulting from improved water use efficiency will be dependent on effective extension programs, access to credit and improved technology and will include moves towards farm mechanization. Further exploitation of this potential is hampered by lack of reliable access to markets for surpluses, which need to be competitive in price and quality with imports. Significant post-harvest losses, sometimes as high as 40 percent, are common for rice (and other crops such as maize). Poor processing of rice, mainly because of poorly maintained and outmoded machines, often results in poorer prices because of high levels of cracked and broken grain. Improved milling efficiency and reduced post-harvest losses have the potential to make a rapid impact on rice availability and some impact on prices. Similarly reduced post-harvest losses in rice and maize through improved storage can improve food supplies by up to 30%. Reducing post harvest losses of food crops through proven and simple technology offers one of the fastest ways of improving food security and self reliance.

The total area cultivated for crops falls well short of the potential and may only be some 80 percent of the area judged to be suitable for cropping, either alone or in association with livestock farming. It is generally agreed that the potential exists to increase crop, pasture and livestock production in three ways: (i) expansion in the area cultivated; (ii) more intensive use of land; and (iii) increased productivity in production systems. However, the exploitation of this potential must take account of uncertainties stemming from uneven rainfall and droughts. The mountainous topography results in a diversity of microclimates that affects production levels and types of crops grown. This diversity adds complexity to the design of programs and information services aimed at boosting farm productivity.

However, the dominant influence on the slow rate of actual productivity growth has been lack of access to functioning markets, which were severely disrupted during 1999. Restricted market access translates into weak incentives for farmers to adopt improved practices or to increase output above subsistence levels. Anecdotal evidence from several projects suggests that many farmers are willing and able to increase production but can see little incentive to do so because of low prices, high input costs and market-related uncertainties. Unrealistic expectations about prices for rice, resulting from long experience of government purchases at fixed prices, are also reported to be a problem as farmers adjust slowly to the new competitive marketing environment.

It seems that livestock numbers generally have returned to pre-independence levels with the exception of goats. Goats currently number about 85,000 compared with quoted figures of well over 200,000 in 1997-1998 and in 1972. Timor Leste is considered to have the potential to support over 400,000 ruminants (cattle, buffalo, goats and sheep), compared with about 350,000. There is potential for increasing the livestock production, with possible development for exportation of live cattle. It is expected that the increase in numbers will be accompanied by an equivalent improvement in the grazing fields, so as to ensure sustainability. This is not a new practice as the occurrence of roadside and living fences (Leucaena in particular) is common. There is potential for additional development and integration of forager leguminous plants within the production systems. Given the importance of dry-season paddy land to livestock production, there may be scope to consider irrigated pasture in some areas in the future. This might be incorporated into work on existing farming systems or as a component in forestry programs. If there is not a parallel development of cut and carry forages, an animal population of more than 400,000 ruminants, 400,000 pigs (and horses) and over 600,000 chickens and ducks, may be unsustainable. There is ample evidence in other areas in the region to show that improved fodder can improve animal growth rates by at least 50 percent and may have at least as significant an impact on productivity as vaccination programs. However, it is recognized that efforts to introduce forage improvements will be limited by the degree to which farmers are constrained by the security of land tenure.

The programs for development of commercial agriculture are outlined in Chapter I of Volume II and therefore will not be included here. Suffice to say that the primary investment opportunities in areas related to agriculture include commercial crops to meet domestic demand and in some cases, replace imports, post harvesting processing, storage and marketing, agricultural exports, and food processing. The SIP for Agriculture, Forestry and Fisheries identifies a number of specific opportunities, including expansion of the coconut oil industry to replace imported vegetable, increased production under irrigation, honey production for domestic and export markets, edible bamboos shoots that might be the basis for a canning industry aimed at export markets, and specialty export crops such as vanilla. There may also be prospects for meat and poultry production. There are also prospects for development of forest products industries that center on revival of the sandalwood industry and on specialty products such as rattan for furniture making. The greatest challenge in the fisheries sector is the need to develop a legal framework for the sustainable management of the resources and to develop an effective monitoring, control and management of the surveillance systems to encourage domestic and external investment so as to obtain substantial benefits for the country. There has also been some interest shown in the investment on fishery operations, and the Ministry will begin to issue fishery licences within a very limited scale, for the seas of Timor, implementing at the same time the monitoring of catches and a surveillance system, so as to start the collection of data on the state of resources, as well as fishery activities.

CONSTRUCTION ACTIVITIES AS A SOURCE OF EMPLOYMENT

Policies and programs for the construction industry are of particular interest at this time because of their potential for job creation. Construction activities grew rapidly during the 1999-2002 period, but with investment expenditures are declining in Timor-Leste from the extraordinary levels that prevailed during 2000-2002 there was some slowdown in construction during 2003. There are no precise estimates at this stage for the civil works component of planned capital spending for the next four years. However, the SIP for Private Sector Development includes a rough estimate of the total value of construction work that may be undertaken during the next five years under the assumption that the proposed expenditure programs in the various SIPs could be funded and implemented. The estimate includes new construction as well as maintenance expenditures on roads and public buildings, including education and health care facilities and makes a small allowance for other public and private construction activities (for example, housing and so on). This is a significant market that provides an important opportunity for business development and job creation, especially with labour intensive methods of construction, repair and maintenance.

The challenge will be to ensure that the majority of this work goes to local contractors and, where appropriate, uses labour intensive methods of construction. As noted earlier, there has been progress over the past four years in developing a domestic construction industry, but realizing this employment potential will require further concerted action. These include policies that encourage development partners to subcontract to the maximum extent feasible the civil works components of their aid programs to local contractors/businesses. Another option is to adopt a set of procurement rules that give generous preferences to local contractors and foreign contractors bid on Government tenders and that have partnerships with local contractors. Besides vocational and technical training in order to increase productivity of the work force, one of the constraints for local business is access to machinery and equipment. The development of a leasing industry that provides access to construction equipment at reasonable cost would strengthen the capacity of small firms to compete more effectively.

MANUFACTURES AND SERVICES

Investment in production of manufactures has, to date, been very limited. Most domestic needs are met from imports. There has been a reasonable level of investment in trading businesses, both formal trading houses in Dili as well as sizable, but less formal trading businesses along the border with West Timor. There has been disinvestment in restaurants targeting internationals, and investment in hotels and guesthouses has leveled off. There are growing indications of increased private sector capacities in a number of areas of manufacturing, including as furniture, tais weaving, tailoring or bakeries as well as in services like business services and consulting, information technology and vehicle and electrical repair.

One potential avenue for further development of domestic business relates to Government spending on goods and services. Currently planned CFET appropriations suggest that the Government will spend a total of $125 million on various services and $70 million on supplies and equipment over the next four years, or about $50 million a year. (These estimates exclude fuel imports, construction and building maintenance.) At the time that the SIPs were prepared information was not available on the extent to which these goods and services are tendered to the private sector and the extent to which domestic business is successful in winning tenders. A high proportion of the services required can be provided locally (maintenance of equipment and vehicles, for example), and perhaps some of the supplies can also be sourced locally, with modest amounts of value added as a result of local processing or preparation. The growth in spending on these items is projected in the budget at about six percent a year, or about $2-3 million a year. The issue is the extent to which a growing share of these expenditures can be channeled to the local market. Even if the import content of some of the required goods and services is high, there may still be scope for using Government procurement to foster domestic business activities in ways that adds some value and thereby create employment. One example is the development of a domestic furniture industry using local materials that can meet the needs of the school system, as well as private demand. A number of other governments have used “domestic content” rules in the public procurement of goods and services. The purpose is to require the successful bidders to add value domestically through training and employment of staff/labour and use of some locally made products, where suitable supplies are available

PETROLEUM AND MINING

The potential of the Timor Sea Project is well known and need not be recounted here. The Project is expected to generate substantial revenues from royalties and corporate taxes for an extended period. There has also been a long history of onshore petroleum exploration in Timor-Leste, with the first series of wells being drilled during 1900-1914. Despite the long history of exploration, not much is known about the onshore and near-shore potential, in part because the Government does not have access to records from the exploratory drilling. Non-commercial quantities of oil and gas were recovered from a number of wells drilled, with more than 20 wells having been capped. In addition, over 30 oil or gas seepages have been documented along the southern coast, suggesting further reserves in the area. In 2001 the Timor Oil Company which had carried out much of the exploration during 1910-1975 submitted a proposal for some $67 million of onshore and near-shore exploration and development work. An unsolicited proposal related to the gas seeps was also received from the Independent Oil and Gas Joint Venture. The willingness of these investors to make additional sizable investments in exploration suggests that the country may have important onshore and near shore reserves suitable for commercial development. The Government has commissioned additional survey work to obtain up-to-date and reliable assessments of these resources before entering into discussions with potential investors who may wish to undertake exploration programs. Commercial development of onshore resources would offer significant opportunities for the further development of a range of domestic businesses.

FINANCIAL SECTOR DEVELOPMENT

Although a better understanding of the overall national demand for banking and financial services is needed, it is already clear that further development of the financial sector will be essential for sustained growth of the private business sector. The reconstitution of the financial sector is still at an early stage in Timor-Leste, having experienced a major contraction following the departure of Indonesia in 1999.[13] An important feature of the period was that savings far exceeded lending.[14] There was a demand for safe institutional arrangements for savings. In the aftermath of the referendum, Timor-Leste was left with four functional credit unions and no commercial banks. Three commercial banks have begun operations, but the services are largely confined to major urban centers, namely Dili. Outstanding credits totaled $43 million at end March 2004, and total deposits of private and non-financial public companies stood at $75 million. Several other foreign banks have expressed interest in obtaining banking licenses. There has been no investment in non-banking parts of the financial sector, including leasing, insurance and other services. Work on establishing these financial services needs to be expedited. It is expected that the legislation in the insurance and banking areas now undergoing consultation will foster development of the non-banking financial sector.

Banking services also need to be re-established in rural areas. The ADB (and other Development Partners) have provided support for the development of microfinance services organizations and for the institutional development of aspects of the financial sector. Training of lenders and lending staff is expected to help ensure that micro-enterprises and small businesses have maximum ability to access formal credit. In the course of preparing the master plan for development of postal services, proposals were developed to extend the range of services to be provided through postal outlets, including postal banking services that provide cash and demand accounts, payments capabilities and certain approved lending.

[13] Prior to the referendum, Timor-Leste was served by 18 banking units, including five branches of Indonesian state banks, 10 regional development banks and 3 Indonesian private banks. Bank Rakyat operated a number of village banks that provided general savings and loan services at the village level. Moreover, some 27 credit unions were in operation at that time.

[14] In early 1999, savings accounts totaled $68 million whereas loans outstanding amounted to only $18 million.

PRIVATE PARTICIPATION IN INFRASTRUCTURE

With the major reconstruction phase over, the Government feels there is a need to consider additional ways of encouraging private participation in infrastructure. The 15-year BOT franchise with Timor Telecom is operational and the EDTL management contract became effective at the beginning of 2004. Other possible involvement of private investors in infrastructure services might extend to ports as a way of financing expansion and improvements without drawing on the national budget. There is also opportunity for investment in private land and property that may, in due course, be divested by Government, as well as in carbon reducing investments in the energy sector through which the Government may derive income. Further private participation in infrastructure to support foreign direct investment might also need to be considered.

TOURISM DEVELOPMENT

The tourism sector in Timor-Leste has considerable potential with a large range of high value tourism products. Investment by private businesses will be the key driver of growth in this sector. Private investments in the tourism sector, especially by dive and tour operators and hotels, seem to have grown in the period since Independence, apparently often taking the form of expansion of existing businesses. Further development of the tourism sector, even of modest proportions, has the potential to deliver considerable national development benefits, particularly as a source of employment creation. The Government intends to take active role in promoting tourism and assisting private sector operators to develop the potential of this important economy. The Government has already, under its own budget, reviewed the potential scope of tourism in Timor-Leste, engaged support from Portugal, Australia, Thailand, Macau (PR China) and worked with the private sector to establish the Tourism Association of Timor-Leste. Also the World Tourism Organization is ready to develop a Project for “Sustainable Tourism Sector Development and Institutional Strengthening” (National Tourism Development Plan) coming out with a short, medium and long term policy for tourism (This project is now being reviewed by the Office of the Prime Minister office and will be funded by WTO and UNDP.) The Government would like to build on these efforts, with a focus on supporting infrastructure development, statistics, policy and regulatory development, planning and zoning, and by underwriting national promotion efforts in support of private operators. The key objective is to build a tourism industry that generates employment, is sensitive to environmental concerns and maintains culture.

ANNEX IV. PROJECTIONS FOR THE STRATEGIC FRAMEWORK

Annex Table 1: Projection of Population with Constant Fertility and Mortality Rates

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population												
Males	470,343	483,416	497,035	511,305	526,268	541,614	557,333	573,609	590,512	608,207	626,288	644,810
Females	454,119	466,770	479,975	493,775	508,213	522,983	538,107	553,746	569,974	586,957	604,271	622,007
Total	924,462	950,187	977,009	1,005,080	1,034,481	1,064,597	1,095,440	1,127,355	1,160,486	1,195,164	1,230,559	1,266,817
Population Growth Rate (%)		2.8	2.8	2.9	2.9	2.9	2.9	2.9	2.9	3.0	3.0	2.9
Crude Birth Rate (per 000)		41.8	41.9	42.1	42.5	42.6	42.4	42.4	42.6	43.0	43.0	42.8
Crude Death Rate (per 000)		15.0	14.7	14.5	14.4	14.6	14.6	14.5	14.5	14.4	14.6	14.6
Total Fertility rate		6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Births (annual)		39,747	40,894	42,289	43,917	45,320	46,429	47,786	49,441	51,355	52,868	54,204
Deaths (annual)		13,956	14,196	14,487	15,140	15,567	15,860	16,291	16,668	17,410	17,929	18,319
Population distribution												
Urban	206,155	216,463	227,373	238,947	251,236	264,120	277,629	291,873	306,923	322,900	339,622	357,160
Rural	718,307	733,724	749,636	766,133	783,246	800,476	817,811	835,482	853,563	872,264	890,936	909,657
Total	924,462	950,187	977,009	1,005,080	1,034,481	1,064,597	1,095,440	1,127,355	1,160,486	1,195,164	1,230,559	1,266,817
Urban population (% of total)	22.3	22.8	23.3	23.8	24.3	24.8	25.3	25.9	26.4	27.0	27.6	28.2
Urban growth rate (%)		5.0	5.0	5.1	5.1	5.1	5.1	5.1	5.2	5.2	5.2	5.2
Rural-Urban migration		4,571	4,800	5,042	5,298	5,571	5,856	6,156	6,472	6,806	7,160	7,531
Rural-Urban migration rate (%)		0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Number of households												
Urban	37,776	39,665	41,664	43,785	46,037	48,398	50,873	53,484	56,241	59,169	62,233	65,447
Rural	157,167	160,540	164,021	167,631	171,375	175,145	178,938	182,805	186,761	190,853	194,938	199,034
Total	194,943	200,205	205,686	211,416	217,412	223,543	229,812	236,288	243,002	250,022	257,171	264,481
Average size of households												
Urban	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Rural	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Overall average	4.7	4.7	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Age distribution of population												
< 1 years	29,746	34,886	35,893	37,118	38,546	39,778	40,751	41,942	43,395	45,075	46,403	47,576
1-5 years	147,938	149,215	153,092	155,140	159,934	167,783	177,237	182,810	188,553	194,524	200,754	207,068
6-11 years	150,655	157,628	157,049	165,667	167,460	170,037	170,329	176,448	181,015	183,975	189,850	198,596
12-14 years	70,844	66,614	75,133	69,937	78,701	74,892	79,299	77,484	80,691	84,819	88,395	87,762
15-17 years	58,290	62,613	62,761	70,348	66,143	74,604	69,446	78,145	74,365	78,739	76,937	80,122
18-25 years	125,815	131,256	137,145	143,899	150,637	156,744	163,084	164,594	172,970	176,569	183,820	188,699
26-49 years	236,430	241,386	247,187	253,290	261,557	263,536	273,136	281,921	291,258	301,314	306,167	315,403
50-64 years	72,700	73,077	76,065	76,212	78,475	80,920	85,321	87,162	91,805	93,218	100,574	100,729
65 and over	32,045	33,511	32,685	33,470	33,028	36,304	36,835	36,849	36,435	36,932	37,659	40,863
Total	924,462	950,187	977,009	1,005,080	1,034,481	1,064,597	1,095,440	1,127,355	1,160,486	1,195,164	1,230,559	1,266,817

Source: National Statistics Directorate

Annex Table 2: Labor Force and Emloyment Growth with Constant Fertility and Mortality Rates

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Population 15-64 years												
Male	248,078	255,477	263,104	273,844	280,535	290,652	298,357	309,039	318,576	328,581	337,693	346,644
Female	245,157	252,854	260,054	269,904	276,277	285,151	292,631	302,783	311,822	321,259	329,805	338,309
Total	493,234	508,332	523,157	543,748	556,812	575,803	590,987	611,821	630,398	649,840	667,499	684,953
Labor force	-	-	-	-	-	-	-	-	-	-	-	-
Male	171,918	177,046	182,331	189,774	194,411	201,422	206,761	214,164	220,773	227,707	234,022	240,224
Female	117,920	121,623	125,086	129,824	132,889	137,158	140,755	145,638	149,987	154,526	158,636	162,727
Total	289,838	298,669	307,417	319,598	327,300	338,580	347,517	359,802	370,759	382,232	392,658	402,951
Memo item:												
Labor force participation rate (%)												
Male	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3	69.3
Female	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1	48.1
Average	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8	58.8
Employment by occupation												
Farm work (thousands)												
Male	115,873	118,252	120,656	124,391	126,194	129,443	131,518	134,800	137,468	140,225	142,485	144,566
Female	71,813	73,268	74,521	76,470	77,371	78,911	80,001	81,750	83,123	84,527	85,622	86,633
Sub-total	187,686	191,520	195,177	200,861	203,565	208,354	211,518	216,550	220,591	224,752	228,107	231,199
Non-farm work (thousands)												
Male	56,045	58,794	61,675	65,383	68,217	71,979	75,244	79,364	83,305	87,482	91,536	95,659
Female	46,107	48,355	50,564	53,354	55,518	58,246	60,755	63,888	66,864	69,999	73,015	76,093
Sub-total	102,152	107,149	112,240	118,736	123,736	130,225	135,998	143,252	150,168	157,481	164,551	171,752
Women employed (%)												
Farm sector	29,293	28,976	28,656	28,332	28,005	27,674	27,338	27,000	26,657	26,311	25,961	25,608
Non-farm sector	18,807	19,124	19,444	19,768	20,095	20,426	20,762	21,100	21,443	21,789	22,139	22,492
All	48,100	48,100	48,100	48,100	48,100	48,100	48,100	48,100	48,100	48,100	48,100	48,100
Agricultural labor growth		1.020	1.019	1.029	1.013	1.024	1.015	1.024	1.019	1.019	1.015	1.014
Non-agriculture labour force growth		1.049	1.048	1.058	1.042	1.052	1.044	1.053	1.048	1.049	1.045	1.044
Women's share in active labor force	40.7	40.7	40.7	40.6	40.6	40.5	40.5	40.5	40.5	40.4	40.4	40.4

Source: National Statistics Directorate

Annex Table 3: Actual and Projected National Income Accounts (US$ millions)

	Actual				Estimate	Projected										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Non-oil GDP at 2000 constant prices																
Agriculture																
Food & livestock	67.7	75.1	73.0	67.9	69.8	71.8	73.8	75.8	78.0	80.1	82.4	84.7	87.1	89.5	92.0	94.6
Non-food	11.7	11.4	18.7	23.2	24.4	25.6	26.9	28.2	29.6	31.1	32.6	34.3	36.0	37.8	39.7	41.7
Forestry & fisheries	2.1	2.1	2.2	2.4	2.5	2.6	2.7	2.8	3.0	3.2	3.4	3.6	3.8	4.0	4.2	4.4
Sub-total	81.5	88.6	93.9	93.5	96.7	99.9	103.3	106.8	110.6	114.4	118.4	122.6	126.8	131.3	135.9	140.6
Non-farm private																
Construction	15.8	16.2	15.1	13.8	14.0	14.3	14.8	15.6	16.7	18.2	19.8	21.6	23.6	25.7	28.0	30.5
Other	82.4	91.7	92.3	92.4	93.3	95.2	99.0	103.9	111.2	121.2	132.1	144.0	157.0	171.1	186.5	203.3
Sub-total	98.2	107.9	107.4	106.2	107.3	109.5	113.8	119.5	127.9	139.4	152.0	165.6	180.6	196.8	214.5	233.8
Public sector																
Government	22.9	51.1	57.7	65.9	70.0	73.5	77.2	81.0	85.1	89.3	93.8	98.5	103.4	108.6	114.0	119.7
United Nations	83.4	91.5	60.3	38.6	25.0	15.0	5.0									
Construction & utilities	30.2	29.3	24.5	18.3	20.5	24.6	28.3	32.5	35.8	37.9	39.8	41.8	43.9	46.1	48.4	50.8
Sub-total	136.5	171.9	142.5	122.8	115.5	113.1	110.5	113.6	120.9	127.3	133.6	140.3	147.3	154.7	162.4	170.5
Total non-oil GDP	316.2	368.4	343.8	322.5	319.5	322.5	327.6	339.9	359.3	381.1	404.0	428.5	454.7	482.8	512.8	545.0
Memo items																
Real non-oil GDP growth rate (% p.a.)		16.5	(6.7)	(6.2)	(0.9)	0.9	1.6	3.8	5.7	6.1	6.0	6.1	6.1	6.2	6.2	6.3
GDP deflator	100.0	99.9	99.9	104.1	106.7	109.4	112.1	114.9	117.8	120.7	123.7	126.8	130.0	133.2	136.6	140.0
Non-oil GDP (current prices)	316.2	367.9	343.4	335.7	340.9	352.7	367.3	390.6	423.2	460.1	499.9	543.5	591.1	643.3	700.4	763.0
Non-oil GDP by FY(current prices)		342.1	355.7	339.6	338.3	346.8	360.0	378.9	406.9	441.6	480.0	521.7	567.3	617.2	671.9	731.7
Investment (at current prices)																
Investment		37.6	27.6	14.0	9.5	13.9	23.0	28.5	39.9	52.8	57.2	62.0	67.3	73.0	79.2	86.0
Private non-food sector	25.0	37.5	27.6	14.6	10.2	15.2	20.0	25.8	32.8	47.0	63.7	70.8	78.7	87.5	97.3	108.2
Public investment	93.8	107.9	93.7	87.9	85.5	82.0	85.0	90.0	92.0	94.0	96.0	98.0	100.0	103.0	106.0	110.0
Total fixed capital formation	118.8	145.4	121.3	102.5	95.7	97.2	105.0	115.8	124.8	141.0	159.7	168.8	178.7	190.5	203.3	218.2
Total investment as % GDP	37.6	39.5	35.3	30.5	28.1	27.5	28.6	29.7	29.5	30.6	31.9	31.1	30.2	29.6	29.0	28.6
Public investment as % GDP	29.7	29.3	27.3	26.2	25.1	23.2	23.1	23.0	21.7	20.4	19.2	18.0	16.9	16.0	15.1	14.4