

Document of
The World Bank

Report No: 22294-TP

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED GRANT
IN THE AMOUNT OF US\$13.9 MILLION
TO EAST TIMOR

FOR A
FUNDAMENTAL SCHOOL QUALITY PROJECT

September 28, 2001

**Human Development Sector Unit
East Asia and Pacific Region**

CURRENCY EQUIVALENTS
(Exchange Rate Effective 05/21/2001)

Currency Unit = U.S. Dollar
US\$1.00 = US\$1.00
US\$1.00 = US\$1.00

FISCAL YEAR
January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

CEP	Community Empowerment Project (TFET-financed)
CFET	Consolidated Fund for East Timor
DECYS	Division of Education, Culture, Youth & Sports (ÚNTAET)
ESRP	Emergency School Readiness Project (TFET-financed)
FSQP	Fundamental School Quality Project (this project, TFET-financed)
IDA	International Development Association (The World Bank)
OM	Project Operations Manual
PIP	Project Implementation Plan
PMU	Project Management Unit
SEP	Small Enterprise Project (TFET-financed)
SSRP	School System Revitalization Program, comprising ESRP and FSQP
TFET	Trust Fund for East Timor
UNICEF	United Nations Children's Fund
UNTAET	United Nations Transitional Administration in East Timor

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**EAST TIMOR
FUNDAMENTAL SCHOOL QUALITY PROJECT**

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MAP(S)
IBRD No.30626R

EAST TIMOR
FUNDAMENTAL SCHOOL QUALITY PROJECT

Project Appraisal Document

East Asia and Pacific Region
EASHD

Date: September 28, 2001	Team Leader: Alfonso F. de Guzman
Country Manager/Director: Klaus Rohland	Sector Manager/Director: Maureen Law
Project ID: P072647	Sector(s): EY - Other Education
Lending Instrument: Specific Investment Loan (SIL)	Theme(s): Education Poverty Targeted Intervention: N

Program Financing Data					
<input type="checkbox"/> Loan	<input type="checkbox"/> Credit	<input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Guarantee	<input type="checkbox"/> Other:	
For Loans/Credits/Others:					
Amount (US\$m): US\$13.9					
Financing Plan (US\$m):		Source	Local	Foreign	Total
BORROWER/RECIPIENT			0.20	0.00	0.20
SPECIAL FINANCING			1.30	12.60	13.90
Total:			1.50	12.60	14.10
Borrower/Recipient: E. TIMOR Responsible agency: UNTAET (UN TRANSITIONAL ADMINISTRATION IN E. TIMOR) Address: United Nations Transitional Administration in East Timor - UNTAET Rua dos Direitos Humanos Dili, East Timor Contact Person: Mr. Francisco J. Osler de Almeida Head Division of Education, Culture, Youth & Sports Department of Social Services - UNTAET Tel: 61 418 802 316 Fax: 61 889 422 198 Email: et-education@un.org					

Estimated disbursements (Bank FY/US\$m):						
FY	2002	2003	2004	2005	2006	2007
Annual	3.00	6.90	4.00			
Cumulative	3.00	9.90	13.90			

Project implementation period: 20 months (October 2001 - May 2003)
Expected effectiveness date: 11/01/2001 **Expected closing date:** 11/03/2003

A. Project Development Objective

1. Project development objective: (see Annex 1)

1.1 Background

The first education project financed by TFET, the Emergency School Readiness Project, ESRP (June 2000–December 2001), rehabilitates school buildings, provides textbooks, teaching materials, furniture and school equipment, and supports community participation. Ten months into implementation, 40 % of the classrooms have been rebuilt and 40% of furniture and 87% of textbooks have been delivered. Enrollment in the school year 2000/01 has reached the pre-1999 level in primary education (grades 1-6) but is still below that level in junior secondary education (grades 7-9) and in senior secondary education (grades 10-12). This calls for the continuing support from TFET through a second-phase project.

1.2 Development objectives of this project

The Fundamental School Quality Project as the second phase of TFET continues to focus on basic education, with attention to junior secondary education. The specific development objectives of this follow-on project are the following:

- (a) To support UNTAET to maintain the existing level of primary education enrollment (185,000 students, at estimated 95% gross enrollment ratio) and to restore junior secondary enrollment to the pre-1999 level (30,000 students, at estimated 60% gross enrollment ratio), with the possibility of increase due to return of refugees and growth of school-age population.
- (b) To continue to recover quality of primary and junior secondary education by rehabilitating physical facilities and by providing textbooks and instructional materials.

2. Key performance indicators: (see Annex 1)

2.1 Performance indicators

Access: (i) Construction under way at more than 5 district sites of combined primary and junior secondary schools by project midterm, and completed in at least 13 sites by project completion; (ii) More than 30 primary schools upgraded to fundamental quality by midterm, and more than 60 at completion; (iii) Enrolment at junior secondary level increased by 1,300 students by midterm, and by 2,600 by completion (as compared to enrollment in 2000);

Management: (iv) School councils organized and operational in more than 40 schools at midterm, and in more than 78 schools at completion; (v) At least 2 project policy studies completed at midterm, and at least 4 by the time of project completion;

Quality: (vi) Language learning books in active use in 40% of primary schools at project midterm, and 80% by project completion.

2.2 Monitoring indicators

Impact and outcome indicators, which can be derived from statistical data, are listed in Annex 1 (Project Design Summary) for each development objective. The indicators can be drawn from administrative data of schools, district offices and the Project Management Unit (PMU), and from the school mapping supported under the ongoing Emergency School Readiness Project (ESRP). The gross and net enrollment ratios by gender and by quintile, and by district and subdistrict can be obtained from an analysis of the living standard measurement survey (LSMS) to be conducted later in 2001.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: Report No.21184-TP Date of latest CAS discussion: November 28, 2000

A formal Country Assistance Strategy for East Timor is yet to be formulated. However, the region has presented the Memorandum of the President to the Executive Directors on a Transitional Support Strategy of the World Bank Group for East Timor (November 3, 2000). The strategy lists five key objectives, three of which are supported by this project, as follows: in the short term, focus of basics, including the provision of health and education (first objective of the strategy); build local ownership of the development process (third objective); and foster effective donor coordination (fourth objective).

2. Main sector issues and Government strategy:

2.1 Main sector issues

The post-referendum destruction in 1999 has made *reconstruction of the education system* the primary issue over the short term, involving the rehabilitation of physical assets (buildings and books) and the recruitment and reorganization of human resources (teachers and administrators) of the system. The size and scope of the above reconstitution mask the underlying inadequacies of the system, which if left unattended for too long, will erode the gains now being made in reconstruction: *limited access to and low attainment in education*. Even in pre-referendum times, those inadequacies were being felt, owing to public under-investment in education, which placed the burden of high education costs on parents, many of whom are poor. Post-referendum times have added new burdens, heaviest of which are a new language of instruction (Portuguese) and an obsolescent and overcrowded curriculum (Indonesian).

2.2 Government strategy

Entrusted with TFET, the World Bank formulated in 2000 a phased School System Revitalization Program (SSRP). The initial operation of that program – the Emergency School Readiness Project (ESRP) – has become UNTAET's strategic response to the crisis. This proposed Fundamental School Quality Project is the follow-on operation under SSRP. A third operation is envisioned, aimed at providing guidance and assistance to the education sector as East Timor transits to full independence in 2003.

3. Sector issues to be addressed by the project and strategic choices:

The project addresses the main sector issue, the reconstitution of the education system by financing the construction and rehabilitation of schools. However, the project does not address the other dimension of the sector reconstruction, human resource development, because the client (Recipient of the Trust Fund for East Timor, TFET) and the international donor community, many of whom are contributors to TFET, have asked the Bank as administrator of TFET to oversee the larger, costlier, physical facilities reconstruction where the Bank is seen to have comparative advantage. Moreover, the Bank is the recognized leader among donors in policy development and sector management. By agreement and largely through the Bank's leadership, multilateral and bilateral donors coordinate the provision of assistance to other parts of the system (see table).

The project also addresses under-investment in the sector, the issue underlying limited access to and low attainment in education. In addition to financing the cost of buildings and furniture, the project finances the cost of textbooks and other learning materials (see table). Although, the project does not address the new issues of language and curriculum, the project invests in policy development which will lead to the confrontation of those qualitative issues in the future.

Coordination of donor assistance in the education sector

		Primary Education	Secondary Education	Tech-Voc Education	University Education
Policy development	TFET Australia	TFET	TFET	Brazil	
Education management		TFET	TFET		
School infrastructure		TFET UNICEF	TFET	Brazil Japan	Japan
Teacher training		Australia Portugal UNICEF	Australia Portugal		Australia
Curriculum and textbooks		Portugal UNICEF	Australia Portugal	Brazil	Australia Portugal
Language training		Portugal	Australia Portugal		Australia
Scholarships					Australia Japan Portugal

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

Component 1 (Part A in the Grant Agreement), Rebuilding school physical infrastructure, includes: (i) construction of about five *escolas básicas*, integrated primary and junior secondary schools, at the district level; (ii) upgrading of about nine selected primary or junior secondary schools to the standard of escola básica; and (iii) upgrading of about 65 selected primary schools to fundamental quality standard. The schools will be provided with furniture, water supply, and toilets.

Component 2 (Part B), Providing teaching-learning materials, includes the acquisition and distribution to primary and junior secondary schools of textbooks, workbooks, and teachers guides for language learning, learning kits in science and mathematics, and other instructional materials and minor equipment, including typewriters, computers and peripheral equipment, software and media.

Component 3 (Part C), Social mobilization and communications, includes production and dissemination of promotional materials, delivery of social messages, development and carrying out of training programs, information campaigns, and monitoring, feedback-gathering, and evaluation.

Component 4 (Part D), Support for policy development, includes technical and empirical studies on education issues and policy options, and data management and dissemination of knowledge regarding the development of the education sector.

Component 5 (Part E), Management and implementation support, includes support to management, operational, and administrative activities of the Project Management Unit (PMU).

Project Cost Summary

Component	Sector	Indicative Costs (US\$M)	% of Total	Bank-financing (US\$M)	% of Bank-financing
1. Rebuilding school physical infrastructure.	Institutional Development	10.90	77.3	10.80	77.7
2. Providing teaching-learning materials.	Institutional Development	1.50	10.6	1.40	10.1
3. Social mobilization and communications.	Institutional Development	0.30	2.1	0.30	2.2
4. Support for policy development	Institutional Development	0.30	2.1	0.30	2.2
5. Management and implementation support.	Institutional Development	1.10	7.8	1.10	7.9
Total Project Costs		14.10	100.0	13.90	100.0
Total Financing Required		14.10	100.0	13.90	100.0

2. Key policy and institutional reforms supported by the project:

As part of the Bank's rapid response to the East Timor emergency, this project is focused more on immediate reconstruction and less on policy and institutional reforms, which can be attended to as the crisis eases. Nonetheless, benefiting from the earlier ESRP investment, the following project activities will have policy and institutional reform effects:

- (a) Restoration of educational facilities to the level of fundamental quality will return children to school, restore access, and strengthen the Government's policy commitment to the global movement of providing basic education for all; and
- (b) School mapping will provide the bases for making demographically informed policy decisions on school location, investment in educational infrastructure, teacher deployment, and directions for system growth, thus rationalizing the sector into local districts consisting of primary schools as feeders of junior secondary schools.

3. Benefits and target population:

The principal benefit from the project is the restoration of educational service. The direct beneficiary of the project is the primary and secondary school-age population currently in school or entering school in the near future. The most important stakeholders are teachers, community and parent organizations, and other clients and providers of education.

4. Institutional and implementation arrangements:

The Project Management Unit (PMU) of the Division of Education, Culture, Youth & Sports (DECYS) of UNTAET will continue to serve as the principal implementing agency for the project. PMU will be responsible for overall project administration and coordination, implementation, and quality control, including the administration of project funds, project procurement, and technical coordination on education with other units of DECYS and with the district offices. The PMU will provide school furniture, textbooks, and other teaching-learning materials and will be responsible for construction. The PMU will also continue to implement the social mobilization campaigns and conduct policy development studies with qualified individuals and groups.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

This operation is the second in a series of projects under the School System Revitalization Program, justified to and approved by Bank management during the review of the program's initial operation, the Emergency School Readiness Project – ESRP – (Report No. 20528-TP, June 21, 2000). As no substantial changes have occurred in the sector to necessitate a change in project objective, components, or activities, no further alternatives to the approved project design were considered in the preparation of this project.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
Bank-financed Rehabilitation of educational infrastructure Community involvement and decision-making Use of local contractors	Emergency School Readiness	Implementation Progress (IP)	Development Objective (DO)
	Community Empowerment	S	S
	Small Enterprise	S	S
Other development agencies			

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

Effectiveness delays plagued the start-up of ESRP. This follow-on project requires that: (i) key project managers – project director, project manager, chief architect, head of procurement, and head of financial management – are appointed on full-time basis; (ii) land documentation for construction sites is obtained before Grant effectiveness.

4. Indications of borrower commitment and ownership:

The process by which the actions to be financed by the project were decided was highly consultative, which usually results in high ownership and commitment on the part of the Government. However, with high-level officials leaving their posts to run for election in August 2001, the degree of ownership is indeterminate.

5. Value added of Bank support in this project:

The Bank has become a credible leader in the donor community, entrusted with managing TFET donor resources and in coordinating assistance to the education sector. In parallel, the Bank contemplates undertaking sector work in FY02-03, to advance policy assistance to the incoming government of the newly independent state.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

- Cost benefit NPV=US\$ million; ERR = % (see Annex 4)
- Cost effectiveness
- Other (specify)

The justification for public investment in education is never limited to economic returns because basic education is a human right. Further, education has important externalities, such as better health outcomes, reduced number of children, and improved inter-generational social mobility. Nonetheless, because education develops cognitive skills that would enhance productivity and increase lifetime earnings, it is also an effective instrument to alleviate poverty, promote economic growth, and increase a nation's competitiveness in a global economy. In East Timor, education is critical for the country's

reconstruction and development.

The economic assessment undertaken for this project involved three steps: (i) establishing the broad relationship between education and earnings, to identify policy implications; (ii) estimating the social returns to public investment in education; and (iii) estimating the internal rate of return of the project through the rebuilding of the physical infrastructure in order to expand access to primary and junior secondary education.

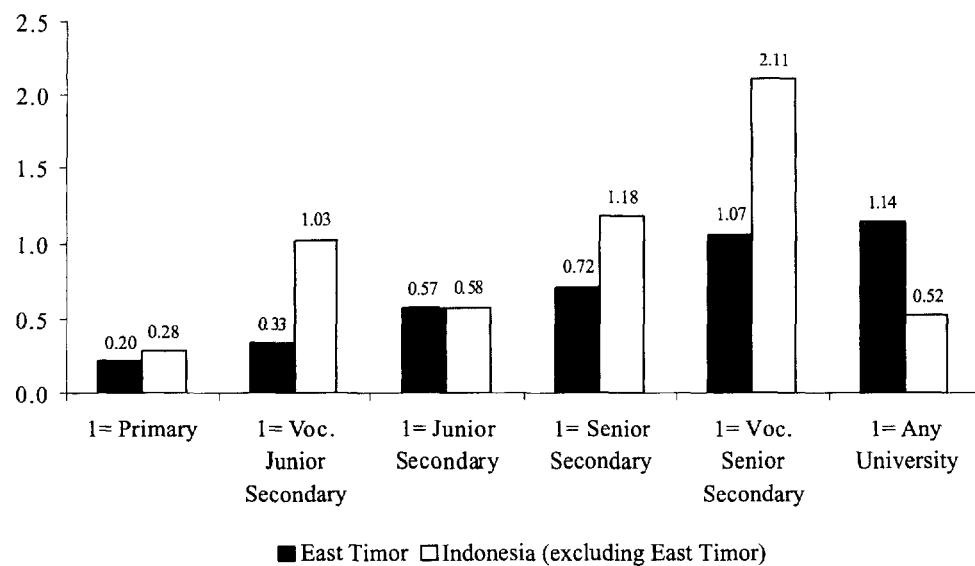
The relationship between education and earnings

After the referendum of 1999, there has been no labor force survey or household survey in East Timor to provide data on education and earnings. Therefore, this analysis drew on the historical data from the Indonesia labor force survey (Sakernas) of 1998 which contained the latest data on education and earnings from all provinces, including East Timor, to estimate the benefits of education and to compare those with the rest of Indonesia. Unfortunately, the data quality is less than satisfactory, and the number of East Timor observations with complete information is very small (only 214). Hence, the findings can only be viewed as suggestive.

A regression analysis found that the average monthly wages in East Timor were lower than those in Indonesia, after holding experience constant (Figure E-1). However, the relationship between education and earnings was much stronger in East Timor than in Indonesia: education explains 62% of the differences in earnings in East Timor, but only 38% in Indonesia. Adding the occupation variables did not change the picture in East Timor. The strong relationship between education and earnings was likely due to a scarcity of skills in East Timor, putting a much higher premium on tertiary education.

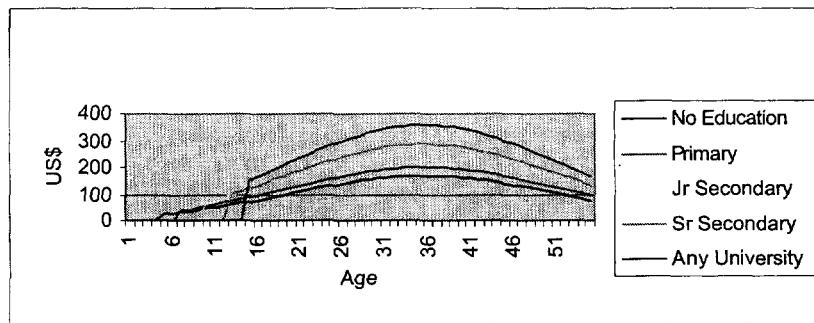
Workers with a primary education earned about 20% more, on average, over those with no education. This is not a very large percentage, reflecting poor quality and low completion rates (Figure E-2). However, workers with a junior secondary education earned on average 57% more than workers without education. Workers with a senior secondary education earned on average 72% more than workers without education. Workers with a technical senior education earned almost as much (107% over those without education) as workers with some university education (114%), indicating a strong demand for the technician level of skills in East Timor. Male workers earned, on average, over 37% more than females. Public sector workers earned, on average, over 55% more than private sector workers.¹

¹ The following analyses did not use the public sector wage premium in calculating the earnings differentials. Although newly created employment after the referendum concentrates mainly in the public sector as well as in construction and services, given the size of the fiscal deficit, the public sector should not be the main employer. (See IMF Statement at the Canberra Donors' Meeting, June 14-15, 2001.)



Source: Analysis of the 1998 Indonesian Labor Force Survey (Sakernas), by D. Filmer (World Bank).
 Note: Coefficients from Mincerian regressions are transformed to reflect percentage increases in wages as a result of a change in the dummy variable from zero to one. Each coefficient b is transformed by $\exp(b)-1$.

Figure E-1: Wage difference by level of education, East Timor and Indonesia, 1998



Source: Mission estimates.

Figure E-2: Age-earning profile of workers by educational attainment

These findings have important implications for education policy. Because education was an important channel for improving earnings, it was a key instrument for poverty alleviation. However, the low private returns to primary education indicate that continuing to provide a poor quality primary education is inadequate to alleviate poverty. The policy objective, after the meeting the immediate goal of recovering enrollment to pre-1999 levels, should aim at improving quality in primary education and extending access to junior secondary education, as well as promoting girls education.

Returns to donor financing of education

Table E-1 shows that the returns to donor financing of education in East Timor would be positive; the returns to primary and junior secondary education would be higher than that to senior secondary and

tertiary education.

Table E-1: Estimated returns to donor financing of education, by level of education

Primary	7%
Junior Secondary	10%
Senior Secondary	2%
Tertiary	2%

Source: Mission estimates.

Costs and benefits of providing physical infrastructure to expand access to education

The largest component of the project (80% of the cost) is to upgrade 65 primary schools which will benefit 15,600 primary school students, and to build 14 demonstration schools, escolas basicas, that will be shared by 3,360 primary school students and 5,040 junior secondary school students. The beneficiaries total 18,960 primary school students and 5,040 junior secondary school students who would not have had access without the project.

The costs include (i) those of school rehabilitation and new construction; (ii) the incremental recurrent costs of salaries for additional teachers, maintenance of the buildings, and instructional materials; (iii) household expenditure on education; and (iv) the foregone earnings due to staying in school rather than working. The benefits are increased lifetime earnings.

The assessment constructed two scenarios: (1) All students would progress through the school system on time, with no repetition and dropout, and all graduates from each cycle would be employed throughout their work life; and (2) The promotion rate would be 90%, repetition, 8%, and dropout, 2% in each grade, except in Grades 6 where only 50% of graduates would enter the work force and in Grade 9 where 60% of graduates would enter the labor market. Table E-2 summarizes the internal rates of return (IRR) and the net present value (NPV) of the investment. These two scenarios illustrate that improvement in internal and external efficiency is critical to having higher rates of return to investment in education.

Conclusion

In all three analyses, it was found that not only was the investment in education profitable to the individuals and society, but also for the project. After the post-referendum devastation of the country, rebuilding the human resource base is one the most pressing needs and should be accorded the top priority by the Government and multilateral and bilateral agencies.

Table E-2: Rates of return and value calculations of expanding access to primary and junior secondary education

	Scenario 1: No wastage in school system, full employment of all primary and junior secondary education graduates	Scenario 2: 90% promotion throughout, 50% primary graduates and 60% of junior secondary graduates enter labor market
IRR	9%	<4%
NPV discounted at: 4% 8%	US\$41.3 million US\$ 3.4 million	US\$845,706 (US\$10.6 million)

Source: Mission estimates.

2. Financial (see Annex 4 and Annex 5):

NPV=US\$ million; FRR = % (see Annex 4)

The year 2000 marked the rebuilding of the sector by the East Timorese with external technical and financial assistance. Multilateral and bilateral financial support came through three channels:

- (a) Consolidated Fund for East Timor (CFET) which finances the operating costs of various programs in education (over 80% wages and salaries of teachers and administrators, 14 % goods and services, and 6% capital expenditure);
- (b) Trust Fund for East Timor (TFET) administered through a World Bank-managed project and used to rehabilitate schools and supply furniture and textbooks, to enable the education sector to return to operational level; and
- (c) Bilateral and multilateral grants which mainly finance technical assistance, capacity building, overseas scholarships, and some rehabilitation of buildings.

Table E-3 shows the amount and percentage share of these three funding sources over two fiscal years:

Table E-3: East Timor education budget for 2000/1 and request for 2001/2

	2000/01 budget		2001/02 request	
	US\$ million	% of total	US\$ million	% of total
CFET	13.4	30	17.8	36
TFET	10.5	23	8.8	18
Bilateral, multilateral	21.2	46	23.7	47
Total	45.1	100%	50.1	100%

Sources: Central Fiscal Authority (CFA) and Division of Education

Note: The TFET amount only reflects the projected disbursement figure during the fiscal year; it does not represent the total TFET available for education. Percentages do not total 100 due to rounding.

Table E-4 shows that CFET and TFET concentrate on primary and junior secondary education, and bilateral and multilateral grants on tertiary education. These three sources of funding are highly complementary. They target specific categories of expenditure, emphasize different levels of education, and serve different purposes.

Table E-4: Funding for education. by level of education and by source, 2001/2

Education level	CFET (requested)	TFET 1 (ESRP)	TFET 2 (this project)	Bilateral, multilateral	Total
Early child	1%	-	-	1%	1%
Primary	50	46%	67%	8	32
Junior secondary	16	54	33	16	20
Senior secondary	9	-	-	7	7
Technical-vocational	3	-	-	16	9
Tertiary	9	-	-	47	25
Nonformal	4	-	-	5	4
Administration	6	-	-	2	3
Culture	1	-	-	-	-
Total	100%	100%	100%	100%	100%
Education budget (US\$ million)	17.8	2.0	6.8	23.7	50.1
Estimated GDP (US\$ million)	303	303	303	303	303
Education as % of GDP	5.9%	.07%	2.2%	7.8%	16.5%

Sources: DECYS and multilateral and bilateral agencies; GDP estimates from IMF.

The CFET budget of 2000/01 amounts to about 5% of the estimated GDP, much higher than the level of public spending under the Indonesian administration and is on par with OECD education expenditure levels. The request for 2001/02, if approved, would increase spending to 5.9% of the estimated GDP. The CFET objectives are: (i) to restore enrollment in primary, junior and senior secondary, and technical and vocational education to pre-1999 levels, with the possibility of increasing student intake due to the growth of school-age population, improvement in retention and graduation rates at the lower levels, and the return of refugees; and (ii) to improve quality by reducing student-teacher ratios, establishing the position of principals, provision of replacement teachers to those on maternity and prolonged sick leave, and provision of inservice training.

CFET covers the operating cost of the school system, while TFET and bilateral and multilateral donations support the rehabilitation and reconstruction as well as capacity building through technical assistance and training. Although TFET for 2001/02 represents an additional 3% of GDP while bilateral and multilateral, another 7.8% of GDP, the funds represent one-time financing infusions for rebuilding what had been destroyed and will not recur.

Fiscal Impact:

(Not applicable)

3. Technical:

Prior to the 1999 referendum for independence

Education in East Timor has evolved through three distinct periods: Portuguese colonial rule (1511–1975), Indonesian occupation (1975–September 1999), and United Nations Transitional Administration in East Timor (UNTAET) leading to the election for a constituent assembly to prepare for independence (October 1999–present).

The Portuguese introduced Western curriculum, language, and the Catholic Church, and has continued to be a source of support to East Timor. However, mass public education was not the policy of the colonial administration. At the end of the Portuguese rule in 1975, illiteracy rate was about 90%. Indonesia vastly expanded public primary education. Even so, by 1999, East Timor not only was behind the Indonesian enrollment average, but also was far from meeting its own national requirement of 9 years of compulsory basic education for children between the ages 7 and 15. Figure E-3 shows the rapid growth of primary education enrollment since 1976/77. The graph also reveals the low enrollment level in junior and senior secondary education. This very low stock of educated people in East Timor has proven to be a major constraint in reconstruction and development of the country.

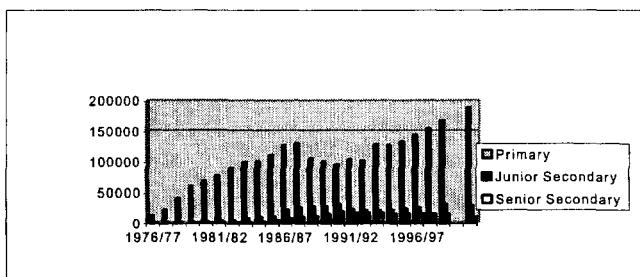


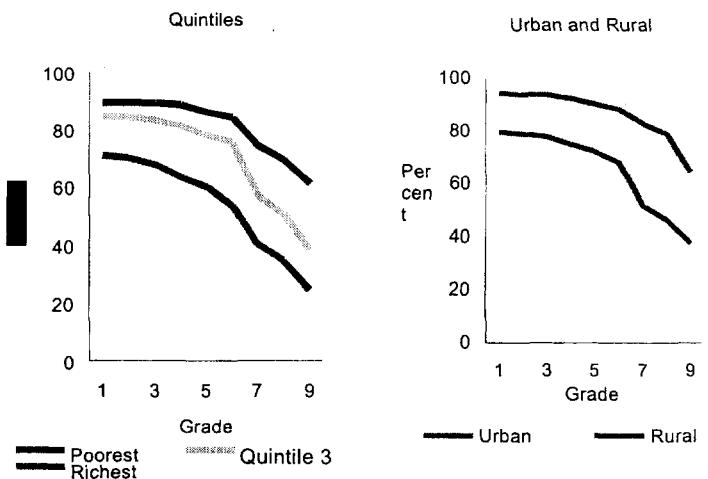
Figure E-3: Enrollment in primary and secondary education, 1976-2000

An analysis of the Susenas household survey of 1999 for this project found that gross enrollment in East Timor was 95% in primary education, 64% in junior secondary education, and 39% in senior secondary education. Net enrollment, which indicates schooling of children of appropriate age for the grade, was only 74% in primary education, 36% in junior secondary education, and 20% in senior secondary education. Figure E-4a shows that the differences in enrollment and retention between the richest quintile and the poorest of the consumption distribution and that between urban and rural areas were pronounced, and increased with the level of education. Among youths from the poorest consumption quintile, 71% attained Grade 1 but only 25% reached Grade 9. Even among the richest quintile, only 89% attained Grade 1 and 61%, Grade 9. Rural youths were distinctively at a disadvantage: while 80% of them had attained Grade 1, only 38% made it to Grade 9, while 94% of urban youth were in Grade 1 and 65 % in Grade 9. Figure E-4b shows that girls of the poorest 20% of the consumption distribution had the least access to basic education.

The low educational attainment was in part due to the relatively low level of public expenditure on education during Indonesian administration (estimated to be 2.9% of GDP of East Timor in 1999). This resulted in poor quality and high repetition and low retention rates. The inability of households to bear the cost of education was another reason for low attainment. Even though public primary education was free, households had to pay for books, school supplies, uniform, transport, and lunches; public secondary schools charged annual and monthly fees as well. An analysis of the 1999 Indonesian household survey (Susenas) by Pradhan and Sparrow (2000) which covers all provinces found that per student spending on primary education by households in "other islands" represents 13% of per capita consumption of each quintile. For junior secondary education, the costs of education represented 41% of per capita consumption for the poorest student, but only 30% for the richest student. Per student spending on senior secondary education was as high as 80% of per capita consumption among the poorest quintile, but it represented only 41% of per capita consumption of the top quintile. As the level of required household expenditure escalated with higher levels of education, few families could afford to spend 40 to 80% of their child's per capita consumption on education alone. This explains why

enrollment in junior secondary and, particularly, senior secondary education remained low.

Educational attainment profile of youths aged 16-18 by locally defined quintiles



Educational attainment profile by gender and by locally defined quintiles, 1999

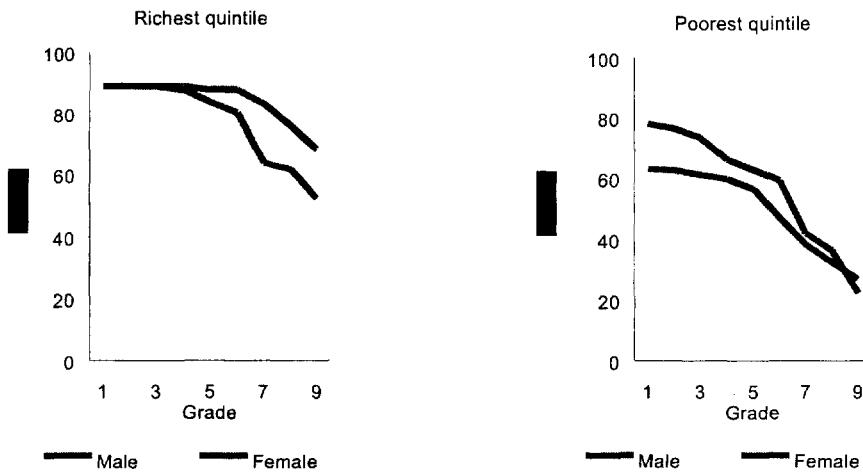


Figure E-4: Educational attainment by age and by gender, 1999

Since the 1999 referendum for independence

After the referendum in August 1999, pro-Indonesia militia destroyed about 95% of the schools in the country, necessitating the intervention of the United Nations to restore peace and order and civil administration. The departure of the Indonesians also triggered an emigration of non-Timorese teachers who comprised 20% of the teaching force in primary education and 80% in secondary education. The destruction of schools and the departure of non-Timorese teachers led to the collapse of the education sector.

4. Institutional:

4.1 Executing agencies:

The project will be executed by the Division of Education, Culture, Youth & Sports (DECYS) of the United Nations Transitional Administration in East Timor (UNTAET).

4.2 Project management:

The Project Management Unit (PMU) established at the DECYS will continue to receive project financing for project administration and execution. However, there is a need to streamline the organization, as: (i) the new operation would not have community-level basic operational rehabilitation as ESRP; it will have more contracts with builders and construction supervision companies in the private sector; and (ii) a strategy will be needed for integrating project staff with the regular governmental structure of independent East Timor.

4.3 Procurement issues:

Procurement implementation in ESRP requires close coordination among the Bank, PMU and the Government's central procurement agency, to ensure consistency in compliance with the Bank's procurement guidelines and UNTAET procurement rules and regulations. Frequent consultations at the highest level, the mutual adoption of an activity matrix to map the procurement coordination desired by both sides, and the appointment of a procurement specialist for the PMU are some of the measures being taken to minimize conflicting interpretations of rules or their inconsistent application which in ESRP has led to delays project contracting and implementation.

4.4 Financial management issues:

Performance under ESRP

UNTAET had appointed an expatriate Finance Manager and four East Timorese staff to the PMU's Financial Management Unit (FMU). The unit discharged the minimum functions related to recording of project expenditures, managing the Special Account, and submitting periodic withdrawal applications. Unfortunately, adequate and fully operational accounting systems, internal procedures, and controls were not established, and the training of East Timorese staff in financial management was unsatisfactory. The Finance Manager left the project in December 2000, exacerbating the situation.

A consultant hired three months later restored financial management to acceptable levels. Missing or incomplete accounting records have been reconstituted; internal controls and procedures in key areas are being clearly defined and established, the East Timorese staff are being trained and given increasing responsibilities.

Financial management assessment update

As required under Bank's procedures, in late April 2001, an assessment for financial management under the proposed project was undertaken. The principal findings are the following:

- (a) *Financial Management Officer:* Unfortunately, the contract with the financial management consultant also ended in June 2001. His replacement is required in time for the effectiveness of the new project. Having the Financial Management Officer in place is a condition of effectiveness of this proposed follow-on project.
- (b) *Action plan:* The critical actions to be taken to strengthen overall financial management of the ESRP as the next project comes onstream were discussed at appraisal and are listed in

Annex 6. The appraisal noted that several of the tasks listed in the action plan had already been initiated by FMU under the direction of the consultant. The agreed action plan for financial management was confirmed at negotiations.

- (c) *Annual external audits:* The first audit of ESRP as of June 30, 2001 will need to be undertaken by independent auditors and the audit report submitted to the Bank by December 2001, in accordance with World Bank requirements. The audit of two other TFET-financed projects (CEP and SEP) as of December 31, 2000, are ongoing, the audit reports expected before their due date of June 30, 2001. The audit of ESRP is essential for the assessment of the financial management under the proposed project, inasmuch as both education projects will be managed by the same unit. UNTAET is considering retaining the same audit firm for the audit of three other projects in East Timor, in education, health, and agriculture, an arrangement acceptable to the Bank.

5. Environmental:

Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

An environmental safeguards mission visited Dili in February 2000 to assess the environmental impacts of Bank projects and safeguards in place to mitigate potential hazardous effects. With UNTAET officials, the mission discussed environmental issues and measures to be taken to mitigate potentially negative impacts of Bank-administered TFET projects. The mission observed that "no Bank operation appears to have had significant adverse environmental or social impacts." With the Emergency School Readiness Project (ESRP) as a case in point for the education sector, the mission reported that: (i) the possibility of encountering asbestos was not recognized in the project design (on the other hand, the mission noted that project implementation staff had been provided training on the Government's guidelines for the safe handling of asbestos); and (ii) waste-burning is occurring, and scavengers are risking health and safety for lack of operational plans for and supervision of waste disposal. The mission recommended that project supervision should see to the compliance with the provisions of the asbestos guidelines and that future education projects should be classified as Category B for environmental assessment.

5.2 What are the main features of the EMP and are they adequate?

During project preparation, an action framework was developed and agreed, to mitigate the potentially harmful effects of building debris removal and toilet waste disposal. The framework (see Annex 2, Component 5, "Action Framework for Protecting the Environment"):

- (a) Confirms that of the project's five components, only the first (Rebuilding School Infrastructure) will be concerned with risks to the environment, from negligible to moderately serious levels.
- (b) Describes measures that would be taken in that component to mitigate the possible negative environmental impacts of project activities.
- (c) Identifies specific actions, responsible units and individuals, and resources to be deployed from the project's third component (Social Mobilization and Communications) and fifth component (Support to Project Management) for effectively addressing the issues of demolition materials and toilet sewage disposal.

5.3 For Category A and B projects, timeline and status of EA:

Date of receipt of final draft: (Not applicable)

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

(Not applicable)

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

Construction monitoring (in Component 1 of the project) and training for the community on monitoring (in Component 3) are specific and monitorable actions.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

ESRP identified three social factors that may influence the project negatively, i.e., may still deter people from taking advantage of the newly rehabilitated and equipped schools: (i) overcrowding in the rehabilitated schools; (ii) discouragement among parents at their children's having lost a full school year's attendance owing to the disturbances; and (iii) continuing instability and lack of trained teachers.

By March 2001, overcrowding was apparent at many rehabilitated schools. Double-shift classroom occupancy, an emergency recourse in many other countries where student places are scarce, was neither fully understood nor accepted by East Timorese parents, teachers, and children. It is practiced in some schools in Dili and other urban areas but difficult to implement in rural schools to which children walk great distances. Parental discouragement has been difficult to gauge because ESRP has not yet fully organized its monitoring system. Teacher shortages are apparent everywhere. ESRP's social mobilization and communications has not focused on those issues relating to civil society, and the project's resources have not as yet been brought to bear effectively on the issues.

In this follow-on project, it is expected that the reconstruction of school buildings would be on existing school sites, i.e., where the original buildings stood. However, in the aftermath of the 1999 dislocations, long-forgotten land claims may reemerge as land acquisition and resettlement issues for the project.

6.2 Participatory Approach: How are key stakeholders participating in the project?

a. Beneficiaries:

Beneficiaries	Preparation	Implementation	Operation
Students		IS	IS + CON
Teachers	IS + CON	IS + CON	IS + CON
Parent, community organizations	IS + CON	IS + CON	IS + CON+COL

b. Primary Stakeholders:

Stakeholders	Preparation	Implementation	Operation
UNTAET	IS + CON	IS + CON	IS + CON + COL
DONORS	IS + CON	COL	IS + CON + COL
CHURCH	IS + CON	COL	IS + CON + COL

(IS, Information Sharing; CON, Consultation; COL, Collaboration)

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

Beneficiary consultations took place during the preparation and are taking place during the implementation of ESRP, the first education project. Harnessing community labor in rehabilitating mostly primary schools to basic operational level and contracting community workshops to fabricate school furniture provided ample community participation in that project. The latter activity continues in this follow-on Fundamental School Quality Project, with about the same level of engagement with students, teachers, and parents.

Primary stakeholder consultations have been undertaken for the proposed project. The Bank team was in country in March-April 2001 identifying the components of the project, with the PMU as counterpart organization. The discussions on project components were conducted in accordance with an agenda agreed with multilateral and bilateral donors during a Joint Donor Education Sector Mission. That mission delineated the scope of the project and assessed the relative weights of each component. Donor programs and pledges of support were confirmed: (i) for areas to be covered by the project in which donors were also active (e.g., school rehabilitation and construction), coordination was established; (ii) for other areas identified as gaps this TFET operation could not cover for insufficiency of resources (e.g., teacher training and support), donor assistance was identified. Nongovernmental organizations (NGOs) were consulted least, owing to the Recipient's reluctance to use the resource more extensively.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

Project management has been organized so that the Education Coordinator works directly with the Project Director and the highest levels of management in the education sector (see PMU organization chart in Annex 2). The Education Coordinator's group has the specific responsibility for facilitating the participation of school councils and NGOs on matters of school maintenance and safety. The project will support training for those purposes.

6.5 How will the project monitor performance in terms of social development outcomes?

The monitoring mechanism being established by the Emergency School Readiness Project will continue under this project and will be undertaken by the Education Coordinator's group. Regular Bank supervision will oversee project monitoring, including monitoring of social outcomes included as one of the project's performance indicators (see Section A.2, above).

7. Safeguard Policies:

7.1 Do any of the following safeguard policies apply to the project?

Policy	Applicability
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Forestry (OP 4.36, GP 4.36)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Pest Management (OP 4.09)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Cultural Property (OPN 11.03)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Indigenous Peoples (OD 4.20)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Involuntary Resettlement (OD 4.30)	<input checked="" type="radio"/> Yes <input type="radio"/> No
Safety of Dams (OP 4.37, BP 4.37)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	<input type="radio"/> Yes <input checked="" type="radio"/> No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	<input type="radio"/> Yes <input checked="" type="radio"/> No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Criteria for selecting sites for project construction were developed collaboratively with the Bank mission, to avoid displacing squatters who may have settled in abandoned school buildings or grounds. The PMU has prepared a ranked list of sites, so that the project would construct or rehabilitate educational facilities, following that rank order. As a condition of effectiveness of this project, the Government will adopt a land acquisition and resettlement policy framework acceptable to the Bank.

F. Sustainability and Risks

1. Sustainability:

Through the project's social mobilization and communications activities, consultations with the community and engagement of nongovernmental organizations (NGOs) as partners of the project on matters of school security and preventive maintenance will increase the likelihood, but will not guarantee, that the physical assets the project will be sustained over the long term. With communities still re-forming, and the nation in the process of political transition to an independent state, the chances of sustaining more than the physical contributions of the project are low.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective UNTAET may be unable to appoint full time director, and heads of procurement and financial management	H	The project's technical assistance program can finance some substitutive management services.
World Bank procurement norms and process may be incompatible with UNTAET procurement process.	S	(i) The World Bank-UNTAET coordination matrix is updated periodically. (ii) The Bank is represented in the UNTAET procurement board, and the PMU procurement officer visits with UNTAET procurement officials regularly.
From Components to Outputs Land documentation would not be available for some or many of project construction sites.	H	Where construction cannot proceed, the project will select other schools for upgrading to fundamental quality status.
Families may have settled on land selected for project construction.	S	Agreed criteria for selecting sites specifically provide against construction on sites where people have settled. Community mobilization and communications provide focus information on community security activities to prevent illegal entry into school grounds.
Overall Risk Rating	H	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

Under the policy support component of the project, research could reveal teachers' difficulty in learning Portuguese well enough to teach in that language or children's learning difficulties traceable to the new language of instruction. Findings like this on such emotionally sensitive topics invariably lead to political controversy. To minimize the occasions for counterproductive interpersonal or intergroup conflict, project management will be advised to promote such research in a university setting or other neutral venue where honest questioning and rigorous, dispassionate investigation usually lead to the advancement of knowledge. Wider consultation on the issue with civil society can then be attempted.

G. Main Loan Conditions

1. Effectiveness Condition

The following events are specified as conditions to the effectiveness of the project:

- (a) the Operations Manual, acceptable to the Trustee (IDA), has been adopted by the Recipient

- (the Government);
- (b) the Project Management Unit is staffed as set forth in para. 2.1 (below); and
 - (c) a *Land Acquisition and Resettlement Policy Framework*, acceptable to the Trustee, has been issued by the Recipient.

2. Other [classify according to covenant types used in the Legal Agreements.]

The following conditions apply to the project:

- 1. The Recipient shall maintain until completion of the project, the Project Management Unit within its Division of Education, Culture, Youth and Sports, or any successor thereto, responsible for the overall management of the project, said unit to be provided at all times with adequate resources and staffed by qualified and experienced personnel in sufficient numbers, including:
 - (a) a Project Director;
 - (b) a Project Manager;
 - (c) a Project Architect;
 - (d) a Procurement Officer; and
 - (e) a Financial Management Officer.
- 2. The Recipient shall adopt and, thereafter apply in the implementation of the project, the Operations Manual, acceptable to the Trustee, which shall include the description of: (i) the procurement procedures set forth in Schedule 3 to the Grant Agreement (the Agreement) and standard procurement documentation; (ii) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of the Agreement; (iii) the Project Performance Indicators set forth in Schedule 5 to the Agreement; (iv) the environmental criteria applicable to designs, including environmental impact mitigation; (v) criteria for the selection of schools, (vi) the Land Acquisition and Resettlement Policy Framework; and (vii) maintenance provisions for works to be carried out under the project.
- 3. In carrying out Part A of the project, the Recipient shall carry out construction on the sites and in the schools agreed with the Trustee.
- 4. In carrying out Part A of the project, the Recipient shall:
 - (a) take measures to avoid or minimize the acquisition of land or assets of persons and to avoid the displacement of said persons;
 - (b) where the acquisition of land or assets or the displacement of persons is unavoidable, ensure that the Recipient shall, before carrying out the works which would result in such acquisition or displacement, make available to Affected Persons, compensation and rehabilitation measures in accordance with the Land Acquisition and Resettlement Policy Framework; and
 - (c) in the event that there are two hundred or more Affected Persons:
 - (i) prepare a resettlement plan in accordance with the Land Acquisition and Resettlement Policy Framework and furnish such plan to the Trustee for approval; and
 - (ii) prior to the carrying out of the works, ensure that all Affected Persons shall have been compensated in accordance with the provisions of said plan.
- 5. The Recipient shall: (i) by June 1, 2002, develop an action plan on school networks, incorporating, among others, the recommendations of the school mapping study, and provide such action plan to the Trustee for comments; and (ii) thereafter carry out such action plan taking into account the comments of the Trustee on such plan.
- 6. The Recipient shall prepare, not later than February 28, 2002, under terms of reference acceptable to

the Trustee, a development and deployment plan for the staff of the project Management Unit, especially for those positions that may be deemed to become redundant during the implementation of the project.

7. The Recipient shall:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to the Agreement, the carrying out of the project and the achievement of the objectives thereof;
- (b) prepare, under terms of reference satisfactory to the Trustee, and furnish to the Trustee, on or about June 1, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the project and the achievement of the objectives thereof during the period following such date; and
- (c) review with the Trustee, by August 1, 2002, or such later date as the Trustee shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Trustee's views on the matter.

H. Readiness for Implementation

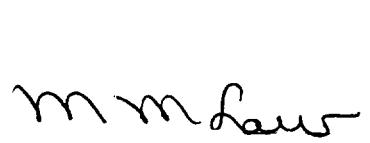
- 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
- 1. b) Not applicable.
- 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
- 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
- 4. The following items are lacking and are discussed under loan conditions (Section G):

I. Compliance with Bank Policies

- 1. This project complies with all applicable Bank policies.
- 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.



Alfonso F. de Guzman
Team Leader



Maureen Law
Sector Manager/Director



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Country Manager/Director

Annex 1: Project Design Summary
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Sector-related CAS Goal: Support reconstruction and transformation program, with strong emphasis on reducing poverty, improving the stock and quality of human capital, and strengthening the social safety net.	Sector Indicators: Education, health and labor statistics.	Sector/ country reports: Periodic living standard measurement survey (LSMS) analysis.	(from Goal to Bank Mission) Political viability and stability follow from August 2001 elections. Economic situation continues to improve, reconstruction proceeds as planned.
Project Development Objective: 1. To support ET to maintain the existing level of primary education enrollment (185,000 students, estimated to be 95% gross at present) and junior secondary enrollment (30,000, estimated to be 60% gross at present) with the possibility of increasing due to return of refugees and growth of school-age population.	Outcome / Impact Indicators: 1.1. Enrollment statistics, by grade, age, gender, district and subdistrict (administrative data). 1.2. Gross enrollment ratio, by gender, district and subdistrict (analysis of data from school mapping and LSMS to be conducted by Bank or consultants). 1.3. Net enrollment ratio, by gender, district and subdistrict (analysis of data from school mapping and LSMS). 1.4. School record of average daily attendance of students, by grade, district and subdistrict. 1.5. School record of average daily attendance of teachers, by grade and district and subdistrict. 1.6. Student-teacher ratios, by grade, district and subdistrict. 1.7. Transition rates from primary to junior secondary education by gender, district and subdistrict. 1.8 Transition rates from primary to junior secondary education by gender, district and subdistrict; 1.9 Per student recurrent expenditure in primary education.	Project reports: With the exception of 1.2 and 1.3 which require analysis of survey data, all the indicators are generated by MIS from administration data and CFA data on expenditure.	(from Objective to Goal)

	<p>2. To continue to recover quality of primary and junior education by rehabilitating physical facilities, and by providing textbooks and instructional materials.</p>	<p>2.1. Functioning classroom-student ratios, by school, district and subdistrict (administrative data).</p> <p>2.2. Number of books, per student by grade, subject and sub-district.(verifiable by administrative data and LSMS).</p> <p>2.3. Expenditure on goods and services and equipment per student per year (CFA data on expenditures).</p> <p>2.4. Expenditure on repair and maintenance per year.</p>	<p>With the exception of 2.2, all the indicators can be generated from administrative data and CFA expenditure data.</p>	
Output from each Component:		Output Indicators:	Project reports:	(from Outputs to Objective)
<p>1. Number of schools targeted open for enrolment.</p> <p>2. Textbooks delivered.</p> <p>3. Social mobilization campaign.</p> <p>4. Policy studies.</p> <p>5. PMU operational</p>		<p>1.1 Schools enroll students.</p> <p>1.2 Furniture deliveries ongoing.</p> <p>2. Textbooks in use in project classrooms.</p> <p>3. Social mobilization campaign completed.</p> <p>4. Policy studies executed.</p> <p>5. PMU procurement and financial activities undertaken on schedule</p>	<p>PMU reports.</p> <p>PMU reports.</p> <p>PMU reports.</p> <p>PMU reports.</p>	<p>World Bank and UNTAET procurement reviews are coordinated and congenial.</p> <p>World Bank will undertake related research under its AAA work program for FY02.</p> <p>PMU has full time (i) director; (ii) procurement manager; and (iii) financial manager.</p>
Project Components / Sub-components:		Inputs: (budget for each component)	Project reports:	(from Components to Outputs)
<p>1. Infrastructure</p> <p>2. Teaching-learning materials</p> <p>3. Social mobilization</p> <p>4. Policy development</p> <p>5. Project management</p>		<p>US\$10.9 million</p> <p>US\$1.5 million</p> <p>US\$0.3 million</p> <p>US\$0.3 million</p> <p>US\$1.1 million</p>		<p>Government can satisfy World Bank requirements on land documentation and PMU management staffing.</p>

Annex 2: Detailed Project Description
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

By Component:

Project Component 1 - US\$10.90 million
Rebuilding School Physical Infrastructure

2.1.1 The specific objectives of this component are to (i) provide about 2,600 new student places in junior secondary education (grades 7–9), to facilitate the restoration of junior secondary school enrolment, from 29,600 (in 2000/1) to the pre-referendum level of 32,200 (in 1998/99); (ii) pilot at the district level about 14 integrated schools operating at the fundamental quality level; and (iii) upgrade about 65 selected primary schools from basic operational to fundamental quality.

2.1.2 In terms of physical facilities, fundamental quality means: (i) replacing with new buildings those destroyed beyond repair or upgrading existing buildings to the same standard as those newly constructed; and (ii) providing the school with water service, sanitary facilities, appropriate furniture and fixtures, and basic teaching equipment.

2.1.3 **Escola basica.** The project would pilot the concept of *escola basica*, an integrated primary and junior secondary school, grades 1–6 and grades 7–9, respectively, of the basic education system. The integrated school would function as a mother school (*escola mae*), the education center at the district level. It would provide facilities for one primary stream and three junior secondary streams. As mother school, the escola basica would receive grade 6 completers from near by primary schools. The school would have the quality resources which a typical district or school may not have: library, laboratory, toilets, and multipurpose room for training, community meetings, and cultural presentations.

2.1.4 The escola basica would save on construction, a major capital expenditure. By programming the school day in morning and afternoon sessions, upper primary grades 4–6 can use the rooms of junior secondary grade 7. An integrated school also provides education planners the flexibility of configuring the education system or elements thereof as may be appropriate to East Timor: number of levels and grades in basic education, curriculum and instructional materials, teacher recruitment and deployment, supervision and maintenance. These would lead the way to decentralizing education and identifying policy and investment options over the long term. (To assist with the latter, the project would support policy development, in Component 4.)

2.1.5 **Site selection.** The criteria for finding suitable locations for escolas basicas, agreed at appraisal, include the following: (i) no squatters resident on site; (ii) Land and Property Commission documentation and certification by the District Administrator and the District Education Authority that no claim is pending on the land; (iii) previous school on site was completely destroyed and structurally beyond repair; (iv) in the subdistrict, no prototype junior secondary school will be constructed under ESRP or any other project or no school will be upgraded to escola basica; (v) site has sufficient area for construction and circulation; (vi) site is at a distance from the public market; and (vii) site has access to water.

2.1.6 **Construction of escolas basicas.** The architectural concept of the escola basica, in terms of standardized building units and room dimensions, was agreed at appraisal. The facilities for *primary education* would consist of the following:

- (a) One 3-classroom building for grades 1–3. (The school day would be organized in two

- sessions, to enable primary grades 4–6 to share classrooms with junior secondary grade 7.);
- (b) Office for the primary school principal or equivalent school official in the administration building (below); and
 - (c) 4 toilets for boys, 4 toilets for girls.

2.1.7 The facilities for *junior secondary education* would consist of the following:

- (a) Nine general classrooms – one 3-classroom primary school building, three 3-classroom junior secondary school buildings. (Two classrooms in one of the buildings would have moveable partitions that may be opened up to form one large space for staging plays, community meetings, cultural exhibits and dances.);
- (b) Laboratory (mostly for science demonstrations and group work), library, and multipurpose rooms;
- (c) Administration and teachers' offices, storerooms; and
- (d) 4 toilets for boys, 4 toilets for girls.

2.1.8 The escola basica would be provided with timber furniture and with basic school and office equipment. Safe water supply would be provided, usually in the form of a covered well. To avert extreme heat, the buildings would be oriented north-south, although layouts may vary owing to site conditions. Construction will be carried out by local or international contractors and supervised by civil works consultants.

2.1.9 **Upgrading schools to escolas basicas.** The accommodation to be provided to schools selected for upgrading to escolas basicas will conform to the above architectural standards (paras. 2.1.6–7), and furnishing and equipping will conform to the standards of new construction (para. 2.1.8). Depending on the findings and recommendations of the school mapping conducted under ESRP as well as on the condition of the buildings, surplus structures would be assigned for other purposes or demolished. Classrooms to be retained will receive new windows and doors, new floors if necessary, new ceilings, pin boards and chalkboards. All classrooms will be provided with new timber furniture, and all schools will be provided with new toilets and a safe water supply, probably in the form of a covered well.

2.1.10 **Upgrading primary schools to fundamental quality level.** The criteria for selecting schools to be upgraded from basic operational to fundamental quality level include: (i) degree of overcrowding in existing primary school buildings; (ii) accessibility of the school to communities in surrounding areas; and (iii) favorable recommendation of school mapping study.

2.1.11 The architectural standards of the fundamental quality level primary school agreed at appraisal, in terms of design, room dimension, and construction plans of standardized building units, are those of the prototype primary school adopted under ESRP, as modified during the appraisal mission as follows: (i) two 3-classroom buildings (classroom floor area: 173 sq.m., veranda area 57 sq.m.); and (ii) toilet block (toilet floor area: 40 sq.m., veranda area: 13 sq.m.). The school would be provided with timber furniture and with basic school and office equipment. Safe water supply would be provided, usually in the form of a covered well. The upgrading of schools would be managed by using the PMU and its technical staff to manage and supervise the work of local contractors.

2.1.12 **School maintenance.** If school buildings are to retain their value and provide their pupils and staff with an adequate environment for learning time, maintenance must be effective and regular. An annual maintenance budget of around 2% of the initial cost of the building is recommended. As the rehabilitation

under ESRP was managed through the school community, the maintenance of primary schools would also be the responsibility of the school community. This will involve training in maintenance (and fund raising for maintenance) for school staff and members of the community. In collaboration with NGOs, the PMU would develop maintenance handbooks for primary school facilities for the use of the school and the community, together with a simple monitoring and reporting procedures. At escolas basicas, maintenance would be managed by the school principal who would use local artisans and small contractors. The maintenance training, use of handbooks, fund raising, and the actual maintenance process through the school and community will be supported by the project in the escolas basicas and in about 13 upgraded primary schools as a pilot project at the district level on the maintenance of school buildings in general. Implementation responsibility would be with Social Mobilization and Communications (Component 3) of the project.

Project Component 2 - US\$1.50 million
Provision of Teaching-Learning Materials

2.2.1 Through this component, textbooks and teachers guides as well as other teaching and learning materials will be provided to schools.

2.2.2 The Government's DECYS has embarked on the introduction of Portuguese as a foreign language in schools. At this policy level, the project will assist the Government in developing an appropriate policy on language of instruction by supporting studies on teachers' and students' level of competence in the language and identifying effective measures to improve the acquisition of language skills (see Component 4, below).

2.2.3 Textbooks, workbooks, and teachers guides for learning Portuguese as a foreign language had been selected through a process involving East Timorese and Portuguese teachers as well as education leaders; the selected materials were provided for the initial grades by the Government of Portugal and by ESRP. To supplement the supply of Portuguese language materials in schools, language textbooks and workbooks will be provided to primary and secondary schools at the ratio of about 1 book for 4 students. Under the current Government's plan, about 10,000 copies will be provided to grade 1 students under ESRP, 320,000 copies will be provided to grades 2–6 students under this project (grade 7 students were provided books in 2000/1 under ESRP), and 8,000 copies will be provided to grades 8–12 students, also under ESRP. The books will be delivered to schools through the district education offices.

2.2.4 The project would also provide demonstration kits in science and mathematics to the project schools as well as other instructional materials (references and reading books), including minor equipment (typewriters, computers and peripherals, media). These off-shelf items would be selected by East Timorese educators with the help of education consultants of the PMU.

Project Component 3 - US\$ 0.30 million
Social Mobilization and Communications

2.3.1 Through this component, the project will inform and interact with civil society, influence attitudes, encourage participation and disseminate the reasons for and results of project interventions. Stakeholders consisting of the community (district residents, local and international nongovernmental organizations – NGOs – including churches) and the official community (other governmental agencies, international donors) will be informed of significant developments of the School System Revitalization Program (ESRP and FSQP).

2.3.2 Information will be disseminated through printed materials and press releases, audiovisual campaigns (promotional radio and television interviews and other programs), information workshops in the districts. The campaigns will include encouraging the community to collaborate with NGOs in monitoring for compliance of environmental protection regulations during construction (especially the safe removal and disposal of hazardous materials like asbestos), assisting in promoting health and hygiene in school (regular cleaning of classrooms and toilets), undertaking simple preventive maintenance measures, and volunteering for assignments to maintain security in school building and grounds.

2.3.3 The project will support the provision of technical assistance by communications consultants for the design and execution of social mobilization programs. These will include production of materials, delivery of messages, organization of meetings, and campaigns, and evaluation of the effectiveness of project communications.

Project Component 4 - US\$0.30 million
Support for Policy Development

2.4.1 To identify policy and operational issues and options for education over the medium term as the country undergoes transition to independence, the project would support studies, including technical assistance, short-term study visits, data gathering and dissemination (through electronic and other media), discussion forums, workshops, publications, and related activities. Implementation responsibility would be with the education policy support group under the leadership of the Education Coordinator, PMU.

2.4.2 **Policy implications of escola basica.** Even as construction of pilot escolas basicas is under way during the project period, the following issues derived from international experience with the concept of integrated schooling would be identified and analyzed: preservice teacher training curriculum, teacher career pathing and compensation schemes, school leadership in an integrated primary-junior secondary school, optimum size and catchment area of the integrated school, age-appropriate furniture, age-appropriate care and supervision, school programming to meet contact hours and student time-on-task requirements, extending coverage to nonformal education.

2.4.3 **Financing of education.** This study would expand the education sector needs and resources study prepared by the Bank for TFET in 2001: (i) status of education before and after 1999, projection of population, the extent of recovery, and progress on rehabilitation; (ii) public and private expenditure on education; and (iii) indicators of equity, quality, efficiency, and links to the labor market. The study would be conducted by an East Timorese investigator, from the education, national planning, finance, or university sectors, in collaboration with World Bank sector specialists. At a workshop in Dili in, the findings of the study would be discussed with the international donor community, national leadership, and civil society and thereafter stored in an appropriate repository, preferably at the university, to be made available in print or electronic form as the initial issue of an occasional papers series on education research in East Timor. The workshop would foster public consultation on education policy, especially on support to vocational and technical education and employment.

2.4.4 **Curriculum, language of instruction, teacher and school leadership.** These studies would identify the curriculum or program of study responsive to education requirements and appropriate to the East Timor culture. The language study would identify gaps between government policy and language abilities of teachers and students, evaluate and estimate the investment cost and educational benefits of key alternatives for narrowing the gaps, and prepare policy recommendations for discussion with education and community leaders and the international donor community. Training needs analyses in teacher and administrator development would be conducted, and terms of reference for priority programs would be

written, for investment and implementation in future years. The studies would also involve study visits in the region, to establish professional friendships among educators interested in those study areas, and local workshops among national, district and subdistrict educators. For the latter, a workshop manual would be developed. The studies would complement the baseline study in mathematics and science achievement being conducted with AusAID support.

2.4.5 The proposed project will support (i) international technical assistance for an Education Policy Advisor at the PMU; (ii) the education finance study; (iii) study tours for senior education officials to review comparative educational systems; and (iv) other studies, including the development of operational policies and procedural guidelines, identification of options for textbooks, teaching-learning materials and school buildings, building and furniture maintenance.

Project Component 5 - US\$1.10 million
Management and Implementation Support

2.5.1 **Project management.** The major focus of the first project (ESRP) is to respond to the widespread destruction of school infrastructure and rehabilitate primary schools to a basic operational level at a time when national capacity to respond was very low. Consequently, an elaborate PMU structure with a large staff evolved. A Construction Management Unit (CMU) assessed rehabilitation needs; it purchased, stored, and distributed building materials to schools; it supervised rehabilitation work carried out under subgrants provided to schools. The objective of rehabilitating about 2,100 primary classrooms to basic operational level has been achieved and exceeded.

2.5.2 This follow-on Fundamental School Quality Project (FSQP) focuses on providing physical facilities to improve learning conditions at selected primary schools and to restore and expand enrollment at the junior secondary level. Because ESRP will continue to be under implementation even as FSQP becomes effective, the existing Project Management Unit (PMU) will assume project management responsibilities of the new project. Nonetheless, maintaining key managers is a condition of effectiveness of FSQP.

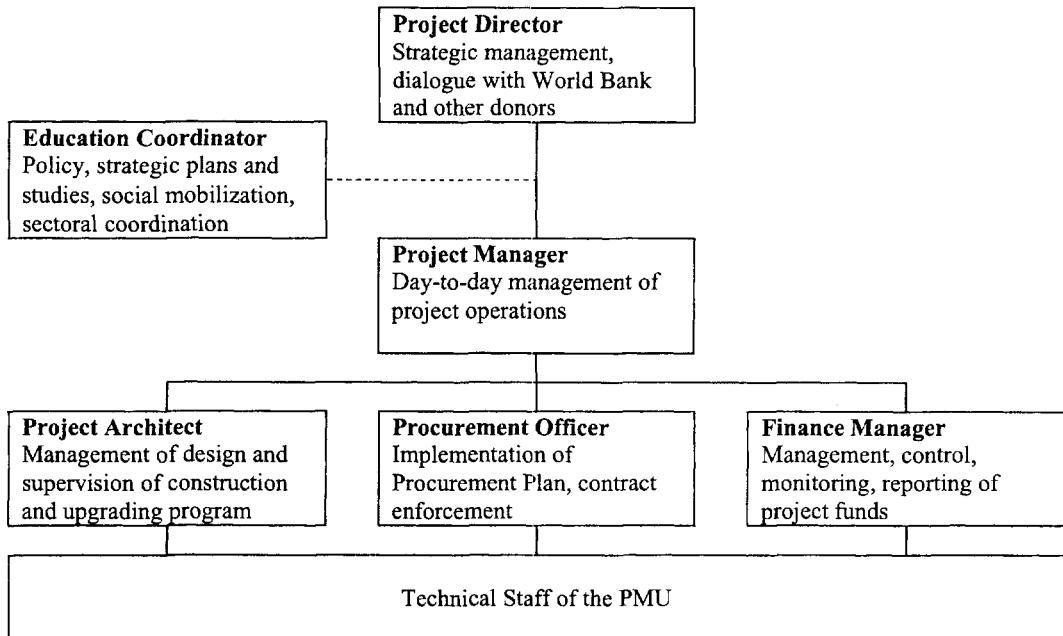
2.5.3 Upon completion of ESRP, the PMU management structure will be streamlined, and staff will be redeployed following a staff development plan to be developed under FSQP. (See organization structure, below.)

2.5.4 The *Project Director* will be an East Timorese or a UN official and will have responsibility for overall project management and coordination. He or she will report to the highest education official (currently the Head of DECYS). Day-to-day operation of the PMU will be the responsibility of a *Project Manager*, an East Timorese or UN official.

2.5.5 An *Education Coordinator*, an East Timorese or a UN specialist, will: (i) coordinate monitoring and reporting of project implementation and provide a link to, and derive information from, District Education Offices; (ii) provide education advice on the procurement of books and other learning materials (Component 2); manage the social mobilization and communications activities of the project (Component 3); and (iii) supervise the development of the design and execution of policy studies (Component 4) that will provide policy options for the Government.

2.5.6 The *Project Architect* will be responsible for the construction program over all. He or she will see to the completeness, appropriateness and cost-efficiency of designs for escolas basicas, monitor the supervision of the construction and upgrade programs, and train a small group of architects and engineers

(possibly from the current staff of ESRP) in the management of architectural design and construction supervision of education facilities.



Organization chart of the Project Management Unit

2.5.7 The *Procurement Officer* will: (i) review and update the project's procurement plan; (ii) prepare requests for proposals and bidding documents for the purchase of goods, works, and services under the proposed project, in close cooperation with the CPU; (iii) maintain coordination among PMU, UNTAET Central Procurement Unit and Contracts Review Committee, and the Bank on all matters relating to project procurement; and (iv) see to contractor compliance with the Government and the Bank's procurement guidelines and contract enforcement.

2.5.8 The *Financial Management Officer* will maintain accounting records for the project, effect transactions from the Special Account and replenishment requests, prepare financial reports and assist support formulating, and revising project budgets, financial plans, and disbursement projections and reports.

2.5.9 Maintaining the above management positions is a condition of effectiveness, as the project is scheduled for implementation at a time of transition for East Timor, from UN administration to full independence. The transition is expected to be under way at about project start-up: elections for the constituent national assembly are scheduled for late August 2001, followed by the drafting of a national constitution which will provide guidance to the political forms and processes of the new country.

2.5.10 **Technical assistance.** The above political process may take longer than expected, and it is not clear if the current administration or the new Government can fully staff the PMU. In order to maximize assistance to the education sector during this period of uncertainty, the project has adopted a strategy of

supporting through this component the provision of technical assistance in the following key areas: (i) project management; (ii) education policy development; (iii) architectural design and management; (iv) project procurement; and (v) project financial management. Should the Government appoint civil servants to those positions and support them through regular budgetary appropriations, then the project would shift its technical assistance from direct management to capacity development and advisory service.

- (a) An experienced Project Management Advisor will be mentor to both the Project Director and the Project Manager, coordinate the activities of the other consultants, and develop and carry out specific plans for capacity building in the area of project leadership.
- (b) The Education Policy Advisor, an international educator with experience in national leadership, will provide guidance and training to the official and technical personnel assigned to the educational materials, social communications, and policy research activities of the project.
- (c) An Architect-Construction Advisor will provide expert advice on design, materials list-building, construction costing, evaluating bids for works, construction supervision, and staff development.
- (d) The Procurement Officer, an ESRP consultant whose qualifications and experience were accepted by the Bank, will be expected to continue service for this proposed project.
- (e) A Financial Management Advisor will provide support and advice to the East Timorese officials and staff of the Sub-Division of Finance of DECYS.
- (f) In addition, on the basis of lessons learned from ESRP (especially on the unreliable distribution service for education and construction materials and the inadequate capacity for logistics planning at DECYS), short-term consultants for logistics will be appointed, to plan and oversee the distribution of school books, furniture and teaching and learning materials. The technical assistance programs will also support other short-term consulting assignments (e.g., education research and social mobilization), comparative education study tours, workshops, seminars and short-term training, and some operational costs of the PMU for local travel, communications, minor office equipment and supplies related to capacity development in education management.

Action Framework for Protecting the Environment

2.5.11 **Background.** In a meeting in June 2001 on the application of OP 4.01 (environmental assessment) to this follow-on project, the Environmental Safeguards Committee advised that: (i) the extent of school building demolition that would be undertaken in the project be clarified and measures be adopted for the safe handling and disposal of hazardous demolition materials, including asbestos; and, as the project includes the provision of school toilets, (ii) measures be adopted to mitigate the potential harmful impacts of sewage disposal on the environment.

2.5.12 The school mapping exercise supported by ESRP is expected to disseminate findings and recommendations in September 2001. The project would then make an accurate determination of the extent of demolition to be undertaken under this follow-on project. On the basis of a list compiled by the Division of Education, Culture, Youth & Sports, the project will undertake an inspection and selection of sites suitable for construction by the project. This will also confirm which schools would be retained as part of

the new feeder school system at the district level and which buildings among the selected school would need replacement.

2.5.13 Action framework. During project preparation, an action framework (see chart below) for the safe handling of demolition materials and toilet sewage was developed and agreed. Implementing the mitigation measures would be the responsibility governmental units in collaboration with the school community and other groups in civil society, including NGOs:

- (a) At the project level, the PMU's Project Architect would ensure that bidding documents contain the required provisions for disposal of debris, including the government's asbestos guidelines (which forms part of the standard bidding documents). The project architects and engineers would ensure compliance during construction when sites are visited as part of supervision of works.
- (b) The PMU's coordinator for social mobilization and communications would be responsible for developing short programs for training local education officials on school hygiene and toilet maintenance, safe disposal of school garbage, and monitoring school construction contractors' removal and disposal of demolition materials.
- (c) Officials of the District Education Authority, school principals, and teachers would be included in the above project training programs. Cooperating NGOs would also be provided training.
- (d) School officials and NGOs would collaborate in extending training to school committees and the community at large.

Project activity	Prior to construction	During construction	In post-construction operation
Demolition of school buildings	<i>Unknown risk</i>	<i>Moderately serious risk</i>	<i>Negligible risk</i>
Potential negative impact	School sites may include burned-out, structurally unsound buildings which may have hazardous materials exposed to the environment.	During demolition, improper handling of materials, including some asbestos roofing, may increase greater exposure to hazardous materials.	School trash (mostly paper) may be improperly disposed of.
Proposed mitigation measures	<ul style="list-style-type: none"> ▪ School mapping will identify sites where there will be demolition. ▪ Survey of demolition sites by PMU Project Architect's field engineers will identify demolition sites with hazardous materials. ▪ Demolition plans will be prepared by PMU. ▪ UNTAET guidelines are incorporated in bidding documents and contracts. ▪ Demolition plans will be submitted for approval of Environmental Protection Unit and the Division of Health Services. ▪ Bidding documents will be submitted for approval of UNTAET and the World Bank. 	<ul style="list-style-type: none"> ▪ Construction debris will be removed by contractors under supervision of PMU hazardous materials disposal specialist-consultants. ▪ Monitoring of debris handling will be undertaken by District Education Authority in collaboration with School Council on site. 	<ul style="list-style-type: none"> ▪ Training of School Council and parents by collaborating NGO (e.g., ECHO) on school cleanliness, building security, paper collection and disposal. ▪ Training of school heads and teachers by collaborating NGO on preventive maintenance and minor repair.
Construction of school toilets	<i>Unknown risk</i>	<i>Moderately serious risk</i>	<i>Negligible risk</i>
Potential negative impact		Toilets may be installed near streams, agricultural or forested land or on steep slopes	
Proposed mitigation measures	<ul style="list-style-type: none"> ▪ School mapping to identify schools with toilet facilities. ▪ Architectural sanitation plans incorporate hygiene standards for toilets and sewerage. ▪ Approval of architectural sanitation plans by Environmental Protection Unit, Division of Health Services, UNTAET. 	<ul style="list-style-type: none"> ▪ Inspection of works will be carried out by accountable architectural firm contracted for construction supervision, with oversight by PMU Project Architect's field engineers. ▪ Installation of toilet and sewerage facilities will be monitored by School Council on site. 	<ul style="list-style-type: none"> ▪ Training of: (i) School Council and parents on school hygiene; and (ii) school heads and teachers on daily clean-up and maintenance of toilets will be conducted by collaborating NGO (e.g., ECHO). ▪ Print and radio information campaign on school hygiene will be conducted by social mobilization and communications component managed by PMU.

Annex 3: Estimated Project Costs
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

Project Cost By Component	Local US \$million	Foreign US \$million	Total US \$million
A. Rebuilding School Infrastructure.	0.90	8.90	9.80
B. Provision of Teaching-Learning Materials.	0.20	1.10	1.30
C. Social Mobilization & Communications.	0.20	0.10	0.30
D. Support for Policy Development.	0.00	0.20	0.20
E. Management & Implementation Support.	0.00	1.00	1.00
Total Baseline Cost	1.30	11.30	12.60
Physical Contingencies	0.10	0.60	0.70
Price Contingencies	0.10	0.70	0.80
Total Project Costs¹	1.50	12.60	14.10
Total Financing Required	1.50	12.60	14.10

Project Cost By Category	Local US \$million	Foreign US \$million	Total US \$million
1. Civil Works	0.70	7.40	8.10
2. Goods, including Transportation	0.30	1.60	1.90
3. Consultants' Services & Studies	0.00	2.30	2.30
4. Project Operating Cost	0.30	0.00	0.30
Physical Contingencies	0.10	0.60	0.70
Price Contingencies	0.10	0.70	0.80
Total Project Costs¹	1.50	12.60	14.10
Total Financing Required	1.50	12.60	14.10

¹ Identifiable taxes and duties are 0 (US\$m) and the total project cost, net of taxes, is 14.1 (US\$m). Therefore, the project cost sharing ratio is 98.58% of total project cost net of taxes.

Annex 4: Cost Benefit Analysis Summary
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

Summary of Benefits and Costs:

4.1 The economic assessment undertaken for this project involved three steps: (i) establishing the relationship between education and earnings, to assess policy implications, (ii) estimating the social returns to public investment in education, and (iii) estimating the internal rate of return of the project which seeks to expand access to primary and junior secondary education largely through the improvement of the physical infrastructure of schools.

The Relationship between Education and Earnings

4.2 The usual economic assessment methodology relies on a labor force survey to provide data on wages, levels of education, and occupations to determine private rates of return to education, usually according to a log-linear equation estimated by OLS or some other procedure. This generates a private income stream that can then be combined with costs of education to estimate the internal rates of return. In East Timor, after the referendum of 1999, no labor force survey or household survey has been undertaken that would provide the data for that usual economic analysis. For this reason, historical data from the Indonesia labor force survey (Sakernas) of 1998 which contained data from all provinces, including East Timor, was used to estimate the private rates of return to schooling.

4.3 Table 1 presents the estimates of the earnings differentials by various levels and types of education in East Timor, in comparison with those in Indonesia in 1998.² Controlling for experience, the average monthly wages in East Timor were lower than those in Indonesia. However, the relationship between education and earnings was much stronger in East Timor (R-square statistics = 0.62 in the basic model) than that in Indonesia (R-square statistics = 0.38). Adding the occupation variables did not improve the explanatory power of the basic model in East Timor (R-square statistics = 0.63). This was likely to be due to a scarcity of skills in East Timor, leading to a much higher premium at the tertiary level.

4.4 The return to primary education, versus no education, was small (about 20%) and statistically insignificant, reflecting poor quality and low completion rates. However, the returns to junior secondary education, versus no education, was high (57%), and those to senior secondary education, also versus no education, was 72%. Returns to technical senior education (107%) was almost as high as that to university (114%), indicating a strong demand for the technician level of skills in East Timor. Male workers earned, on average, over 37% more than females. Public sector workers earned, on average, over 55% more than private sector workers.

4.5 These findings have important implications for education policy. Because education is an important channel for improving earnings, it is instrumental for poverty alleviation. Since the low return to primary education indicates that continuing to provide a poor quality primary education is inadequate to alleviate poverty, the policy objective in the medium term should be improving quality in primary education and extending access to junior secondary education, as well as promoting girls education.

² The Mincerian approach estimates the rates of returns of education to individuals (i.e., private, rather than social, or returns to society). The equation of the Ordinary Least Square regression analysis of the main model is as follows:

log of monthly wage = age + age-squared + education level (zero for no education) + male (zero for female) + urban (zero for rural) + government (zero for non-government).

Table 1: Private (Mincerian) rates of return to education in East Timor and Indonesia, 1998

	East Timor		Indonesia	
	(1) Basic model	(2) Including industry	(1) Basic model	(2) Including industry
Age	0.162 (4.55)**	0.172 (5.03)**	0.044 (15.85)**	0.044 (15.98)**
Age squared	-0.002 (3.32)**	-0.002 (3.72)**	-0.000 (11.69)**	-0.000 (11.08)**
Primary	0.186 (0.88)	0.187 (0.88)	0.249 (14.13)**	0.260 (14.81)**
Junior secondary	0.448 (2.76)**	0.468 (2.83)**	0.455 (22.71)**	0.438 (21.58)**
Vocational jr sec	0.284 (1.60)	0.274 (1.45)	0.706 (33.66)**	0.690 (33.30)**
Senior secondary	0.540 (2.76)**	0.540 (2.64)*	0.780 (37.07)**	0.771 (37.19)**
Vocational sr sec	0.727 (3.79)**	0.736 (3.76)**	1.134 (38.94)**	1.138 (40.59)**
Any university	0.763 (4.11)**	0.767 (4.00)**	0.418 (34.99)**	0.349 (30.30)**
Male	0.372 (3.56)**	0.347 (3.63)**	0.164 (11.72)**	0.108 (7.43)**
Urban	0.100 (1.20)	0.069 (0.82)	0.110 (6.48)**	0.200 (10.39)**
Government service, defense	0.548 (3.68)**	0.579 (2.90)**		0.445 (13.66)**
Industrial processing sector		0.741 (1.33)		0.310 (11.99)**
Trading, retail, restaurant, hotel		0.595 (2.72)*		0.296 (11.40)**
Transport, storage, communication		0.710 (3.18)**		0.490 (18.05)**
Social and individual services		0.643 (2.28)*		0.153 (5.97)**
Other industry		1.164 (4.92)**		0.448 (18.17)**
Constant	8.069 (14.23)**	7.227 (11.02)**	10.463 (190.22)**	10.282 (182.76)**
Observations	214	214	28,175	28,175
R-square	0.62	0.63	0.38	0.42

Source: Analysis of the 1998 Indonesian Labor Force Survey (Sakernas), by D. Filmer (World Bank).

Notes: Numbers in parentheses are robust t statistics. * significant at .05 level; ** significant at .01 level.

Returns to Donor Financing of Education

4.6 The mission used (i) the wage data from the Indonesian Labor Force Survey (Sakernas 1998) to calculate the benefits of education and to construct the foregone earnings (opportunity costs) of attending school; (ii) the household consumption data from the Indonesian Household Survey (Susenas, 1999) to estimate the private costs of education (on school fees, books, transport, uniforms, and lunch); and (iii) the CFET expenditure on education of 2000 to construct the public costs. The summary table was presented in the text of the PAD and will not be repeated here.

Cost-benefit Analysis

4.7 The largest component of the project is to upgrade 65 primary schools, which will benefit 15,600 primary school students, and to build 14 integrated demonstration schools, escolas basicas, that will be shared by 3,360 primary school students and 5,040 junior secondary school students. The total beneficiaries are 18,960 primary school students and 5,040 junior secondary school students who would not have had access to education without the project.

4.8 The costs of school rehabilitation and new construction would be about US\$11 million. The

incremental recurrent costs would include (i) additional³ 379 primary school teachers at US\$559,699 per annum, (ii) 126 junior secondary school teachers at US\$234,360 per annum, (iii) maintenance of the buildings at about 2% of the construction cost at US\$222,000 per year, and (iv) instructional materials at US\$164,160 per year (at US\$6 per primary pupil and US\$10 per junior secondary pupil).

4.9 The benefits would be increased lifetime earnings. Workers with a primary education earned on average about US\$41⁴ more than those without any education per annum for 50 years, but they incurred an average of US\$4 of private cost (tuition fees, books, transports, etc.) and US\$16 in foregone earnings annually for six years while in primary school.⁵ Similarly, workers with a junior secondary education earned on average US\$70 more than primary educated workers per annum for 50 years, and also incurred an average of US\$13 in private cost and US\$76 in foregone earnings for spending three years in junior secondary schools.

4.10 The internal rates of return to the project is affected by three major factors: (i) the rates of student repetition, promotion, dropout and transition from one cycle to the next (internal efficiency), which determines how many graduates will enter the labor market and how soon; (ii) the demand for labor which affects the employment rates and wage rates of the graduates; and (iii) an improvement in the quality of education that has led to an enhancement in productivity. This analysis did not address the quality issue because the necessary data (such as test scores) needed as a basis to estimate the benefits of higher quality are not yet available. It mainly assessed how internal efficiency and employment rates affect the IRR and NPV.

4.11 The base case assumed the following: (i) wages would remain at the 1998 level (that is, before the referendum); (ii) all students who entered the system would finish school on time, with no repetition or dropout; and (iii) all graduates from each cycle entered the labor market and were employed throughout their life time. In this case, the internal rates of return would be about 9% and the net present value of the net benefit would be US\$41 million at a discount rate of 4% and US\$3.4 million at 8%. However, this is the ideal world. Closer to reality is a system with some wastage, unemployment, and certain portion of the graduates continuing on the next cycle.

³ The number of additional teachers needed is based on an estimated students-to-teacher ratio of 50:1 in primary schools and 40:1 in junior secondary schools. This is below the ratio desired by the country. However, given the plan of expansion has been incorporated into the budget request for 2001/02, these new teachers will be additional to the "new teachers" already requested.

⁴ The cost-benefit analysis purposefully did not add the public sector wage premium when calculating the earnings differentials between workers with different levels of education. Although newly created employment after the referendum concentrates mainly in the public sector, as well as in construction and services, given the size of the fiscal deficit, the public sector cannot be expected to absorb more workers in the future (see IMF Statement in the Canberra Donors' Meeting, June 14-15, 2001).

⁵ The costs of household spending on education was drawn by inference from those in "other islands" of Indonesia in the Susenas Household Survey of 1999. The mission did not analyze the dataset but took the number from Pradhan, Menno and Robert Sparrow. 2000. *Basic education outcomes during crisis: An analysis using the 1995, 1997, 1998 and 1999 SUSENAS*. World Bank paper.

4.12 A more realistic analysis presents a different scenario (Table 2). The promotion rate would be 90%, repetition, 8%, and dropout, 2% in each grade, except at the end of each cycle. In Grade 6, due to high unemployment rates of primary graduates and/or an increase in supply of places in junior secondary education, only 50% of students would enter the labor market while the rest would continue with their education or become idle. After Grade 9, only 60% would enter the labor market. Although it is highly positive if more young people have higher levels of educational attainment, further expansion of the education system would entail additional capital and recurrent costs, which is beyond the scope of this analysis.

4.13 This scenario found that the internal rates of return to be just under 4%, and the net present value to be US\$845,706 discounted at 4%, and a negative US\$3 million discounted at 8%. This illustrates that improvement in internal and external efficiency is critical to having a higher rates of return to investment in education. Table 3 illustrates how the repetition, promotion and dropout rates would affect the internal and external efficiency. To improve efficiency, it is necessary to invest in quality enhancing inputs, most notably textbooks and instructional materials and teacher pre-service and in-service training.

*Table 2: Benefits and costs of expanding access in primary and junior secondary education**

Year	Benefits			Costs			Net project benefit
	Increased earnings due to primary education	Increased earnings due to junior secondary education	Total increased earnings	Foregone earnings of primary & junior secondary students	Household expenditure of primary & junior secondary students	Direct project cost	
1996					5,523		(5,523)
1997					5,357		(5,357)
1998					5,196		(5,196)
1999					5,041		(5,041)
2000					4,889		(72,873)
2001			67,984	16,071			(146,650)
2002	16,542		16,542	130,579	15,728	1,700,000	460,512 (2,143,970)
2003	34,548		34,548	126,662	15,703	9,400,000	460,512 (9,825,964)
2004	54,124	25,751	79,875	124,607	15,702		1,180,219 (1,100,344)
2005	70,488	53,437	123,925	122,268	15,702		1,180,219 (1,056,294)
...**							
2047	2,409,206	2,984,199	5,393,405	122,177			1,180,219 4,213,186
2048	2,434,219	3,030,215	5,464,434	122,177			1,180,219 4,284,214
2049	2,454,760	3,072,856	5,527,617				1,180,219 4,347,398
2050	2,470,758	3,090,048	5,560,806				1,180,219 4,380,587

*Calculations are mission estimates based on 10% wastage and 50%-60% employment.

**The 50-year time frame is compressed to show calculations on the same page.

IRR	<4%
NPV at 4%	US\$845,706
NPV at 8%	(US\$10 M)

Table 3: Hypothetical cohort flow

Transition rates

	Grade 1	2	3	4	5	6	7	8	9
Repetition	8%	8%	8%	8%	8%	0%	8%	8%	0%
Promotion	90%	90%	90%	90%	90%	50%	90%	90%	40%
Dropout	2%	2%	2%	2%	2%	50%	2%	2%	60%

Cohort flow

	Grade 1	2	3	4	5	6	7	8	9	Grade 6 leavers	Grade 9 leavers	Retention	Dropout
Year 1	1,000											1,000	20
2	80	900										980	20
3	6	144	810									960	19
4		17	195	729								941	19
5		1	31	234	656							922	19
6			3	47	263	590						903	301
7				7	63	237	295			295		602	126
8					1	11	57	143	266		119	478	37
9						2	10	40	150	239	29	96	441
10							2	8	48	135	5	54	193
11								2	11	43	1	17	56
12									3	10		4	13
13										3		1	3
Total										449	76	7,492	830

Internal efficiency indicators

										Total Primary	Total Jr Sec
Student-year	1,086	1,062	1,039	1,018	995	896	488	478	430	6,096	7,492
Survival	1,000	977	956	935	916	896	448	439	430	5,680	6,997
Dropout	22	21	21	20	20	448	10	10	258	552	830
Repetition	87	85	83	81	80	0	39	38	0	416	493

Primary Education	
Percentage attaining Grade 4	94%
Percentage attaining Grade 6, with repetition	90%
Percentage attaining Grade 6, without repetition	59%
Dropout as a percentage of total, from Grade 1 to Grade 6	55%
Secondary Education	
Percentage entering Grade 7	45%
Percentage attaining Grade 8	44%
Dropout as a percentage of total, from Grade 1 to Grade 9	83%
Average duration of study	
Cohort	7.5
Enrollees in Grade 6	6.4
Enrollees in Grade 9	9.6
Average grade in primary education completed by dropouts	2.5
Average grade in junior secondary education completed by dropouts	7.1
Input-output ratio	
Grade 6 leavers	1.13
Grade 9 leavers	0.93

Efficiency	
Grade 6 leavers	88%
Grade 9 leavers	108%
Total primary school enrollment	185,000
Total primary education expenditure	US\$8,000,000
Number of students in a cohort who eventually graduate	896
Number of years to produce a primary school graduate (6,096 pupil-years / 896 graduates)	7
Cost per student per year (\$8 million / 185,000 students)	\$43
Cost per student for 6 years (\$43 x 6)	\$259
Cost per graduate (\$43 x 7 student-years)	\$294
Estimated population age 6	55,000
Percent of cohort ever entering primary school	96%
New enrollment in Grade 1	52,800
Total number of students who eventually graduate Grade 6	47,309
Total cost of graduating 47,256 Grade 6 leavers from the cohort at current efficiency level	US\$13,918,651
Total cost of graduating cohort of 52,800 students, with no change in efficiency	US\$15,534,208
Total cost of graduating cohort, with no dropout and reduced years to produce a graduate to 6	US\$13,699,459

Source: Mission estimates

Main Assumptions:

Sensitivity analysis / Switching values of critical items:

Annex 5: Financial Summary
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

[Financing table not applicable to this operation.]

Annex 6: Procurement and Disbursement Arrangements
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

Procurement

6.1 Procurement of works and goods will follow the Bank's Guidelines: *Procurement under IBRD Loans and IDA Credits* (January 1995, revised January and August 1996, and September 1997 and January 1999 – the Guidelines). Standard bidding documents will be used for all Bank-financed procurement; where standard documents are not available, documents acceptable to the Bank will be used. The Bank's *Standard Bid Evaluation Form: Procurement of Goods or Works* (April 1996) and *Sample Form of Evaluation Report: Selection of Consultants* (October 1999) will be used for submission of evaluation reports to the Bank.

6.2 Selection of consultant services will be based on the Bank's Guidelines: *Selection and Employment of Consultants by World Bank Borrowers* (January 1997, revised September 1997 and January 1999 – the Guidelines). The Bank's *Standard Request for Proposals: Selection of Consultants (includes Standard Forms Contract)* – (July 1997, revised April 1998 and July 1999) will be used for selection.

6.3 The Procurement Plan for the proposed project (July 2001–January 2003), providing a timeline for each step of the procurement process, is in the Project Implementation Plan. The plan will be updated by the Project Management Unit (PMU) on a quarterly basis and reviewed by the Bank.

Procurement Capacity Assessment

6.4 As part of project appraisal, assessments of procurement and financial management capacity were conducted in May 2001. These included analyses of legal bases, project management, organization and functions, staffing, support and control systems, record-keeping, the general procurement environment, and project risks.

6.5 The capacity assessment found that UNTAET governmental regulations are, in general, acceptable to the Bank. (UNTAET/REG/2000/10, *On Public Procurement for Civil Administration in East Timor* – the Regulations – were prepared with the assistance of World Bank funded consultants.) The Regulations are supported by the *Public Procurement Manual for Civil Administration in East Timor*. The Regulations (sec. 29) and the manual (sec.10) contain conflict of interest clauses. The Regulations require advertisement in the Official Gazette of East Timor for all invitations to bid for goods, works and services to be procured either nationally or internationally (sec. 9; see also para. 6.8 (c), below); public bid opening on the date and time of bid submission (sec. 17); all bids to be evaluated based only on the criteria set forth in the bidding documents (sec. 18); contract award to be made to the bidder with the lowest price meeting the criteria stated in the bidding documents (sec. 20). The manual provides for all procurement to be conducted through an open tendering process and for all bidders to be given a minimum of 30 calendar days to respond to an invitation to bid. The manual also contains a gratuity clause in addition to the conflict of interest clause (sec. 10, "Procurement Methods"). All public procurement is bound by the above.

6.6 There are, however, aspects of the Regulations which are not compliant with the Bank's Guidelines: (i) Sec. 4 restricts payment to US dollars, whereas the Bank allows bids and payments in the currency of any member country; (ii) Sec. 8, "Contents of Invitation," does not include a completion schedule, the draft contract, or the bid evaluation criteria; (iii) Sec. 9.1 requires invitations to be published only in the Official Gazette of East Timor and does not specify the minimum duration to close of bids; (iv)

Secs. 10–13 do not clearly specify prequalification requirements; (v) Sec. 16 does not provide guidance on the amount of bid security; and (vi) Sec. 25.2 does not require the inclusion of the draft contract form in requests for proposals for consulting services. In addition, national laws and regulations on the establishment of corporations and their operation (e.g., bankruptcy provisions) are yet to be promulgated. The latter contributes to generally higher risks in the procurement environment. Some of the needed laws and regulations have been drafted, but their passage is not expected until after the August 2001 elections.

6.7 Nonetheless, the Regulations provide that for Bank- or donor-funded procurement, the relevant Bank or donor procurement guidelines have precedence in case of discrepancy (sec. 2.2). Thus procurement procedures will be those set out in the Bank's Guidelines.

6.8 For national competitive bidding (NCB), the procurement procedures shall be those set forth in the Regulations, with the following clarifications for compliance with the provisions of para. 3.3 of the Bank's Guidelines.

- (a) Procurement will be in accordance with sec. 5.1 of the Regulations, but the exceptions provided in sec. 5 shall not be valid for NCB.
- (b) Sec. 9.1 shall be modified to provide advertisement in the national press, and bidders will have a minimum of 30 days from the date of advertisement, or availability of bidding documents, whichever is later, to prepare bids.
- (c) Sec. 14.3 (g) shall be modified to read: "the criteria to be used in evaluating proposals and their relative weight, shall be expressed in monetary terms."
- (d) Sec. 15.6 shall be revised to clarify that the procuring entity may request extension of the bid validity period, but suppliers shall not be required to extend the validity date after bids have been submitted.
- (e) Sec. 16 shall be revised to clarify that the bid security shall be set in such a way as not to unduly deter the participation of bidders.
- (f) Sec. 18.4, on domestic preference, will not apply.

The above clarifications are reflected in the Annex to the Procurement Schedule of the Grant Agreement.

6.9 The Regulations provide the PMU Project Director with delegated authority to US\$100,000 equivalent for project procurement. For procurement actions (for works, goods or consultant services) greater than US\$100,000, a Contracts Review Committee (CRC) established by UNTAET reviews technical specifications or terms of reference; ascertains that the tender process complied with regulations for the duration of calls for expressions of interest or for proposals; ascertains that the evaluation criteria were appropriate and applied as called for in the request or bidding document; verifies the bid evaluation report and availability and sufficiency of funds. After CRC clearance, the Central Procurement Unit (CPU), also established by UNTAET, awards a contract, employing the appropriate Bank standard format. The CRC review process does not replace the Bank's prior review of procurement actions with estimated expenditures above the prior review thresholds summarized in Table B (below).

6.10 In the first education project, the Emergency School Readiness Project (ESRP), PMU procurement capacity in the half-year from effectiveness was weak, even though an international firm which formed the Construction Management Unit had been contracted to undertake procurement for the project. In November

2000, a Bank post review of procurement under Statements of Expenditures (SOE) identified noncompliance with international shopping procedures, including incomplete and inappropriately filed documentation, instances where three quotations were not available for cost comparisons, and non-use of standard bidding documentation. In January 2001, an international consultant was recruited, who managed project procurement as the project's Procurement Officer. In May 2001, the capacity assessment found the following: evidence that the recommendations of the earlier SOE review had been acted on; improved documentation procedures; solicitation of at least three written quotes for cost comparison; and use of IBRD standard bidding documents. Further, communication between the procurement and finance units of the PMU had improved, and an East Timorese counterpart to the procurement officer was being trained specifically in World Bank procurement procedures. The reappointment of the Procurement Officer, or the appointment of a consultant with similar knowledge and experience, is a condition of effectiveness for this second project.

Institutional Arrangements

6.11 The PMU of the Division of Education, Culture, Youth & Sports (DECYS) is staffed by East Timorese nationals and international staff appointed and funded by the Government (UNTAET) as well as consultants funded by ESRP. Currently, ESRP-funded consultants fill the following PMU posts: Project Manager, Procurement Officer, Financial Management Officer, and Social Mobilization and Communications Officer.

6.12 As conditions of effectiveness, the Government is required to maintain during the life of this proposed follow-on project the PMU with the following key staff – Project Director, Project Manager, Project Architect, Procurement Officer, and Financial Management Officer. To support project management, the project will fund technical assistance consultants in the following key areas – project management, policy development, architectural design, procurement, and financial management. The consultants will be appointed only after Bank review and no-objection to their qualifications, experience, terms of reference, and terms of employment.

6.13 The Procurement Officer will be directly responsible for preparing all procurement documents. Contracts for works, goods or consultant services greater than US\$100,000 or equivalent will be awarded by UNTAET's Central Procurement Unit (CPU) after review and clearance of the bidding or selection process by the CRC. Both types of contract – those above the threshold of US\$100,000-equivalent awarded by the CPU and those below this threshold awarded by the PMU – will employ appropriate standard Bank contract formats.

6.14 The Financial Management Officer, in close coordination with the Procurement Officer, will prepare all purchase orders. In all cases, the Financial Management Officer will ensure that funds are available. The Project Director will countersign the purchase order before procurement commences. The Financial Management Officer will oversee disbursement and accounting for all procurement actions and will prepare replenishment requests for the Special Account in accordance with standard operating procedures agreed by the Bank and detailed in the Operations Manual prepared for ESRP and revised and updated for this project.

Procurement of Works (US\$9.0 million)

6.15 **International competitive bidding (ICB)**, in accordance with the provisions of Sec. II of the Guidelines, will be used for all new construction contracts which are estimated to cost US\$500,000 equivalent or greater. About five prototype *escolas basicas*, combined primary and junior secondary

schools, will be constructed at an estimated aggregate cost of about US\$2.8 million. Bidders will be prequalified. The bid package will offer the opportunity to bid on one or more of five “slices” in accordance with sec. 2.4 of the Guidelines. Bank standard bidding documentation and contracts will be used.

6.16 **National competitive bidding** (NCB) will be used for works estimated to cost less than US\$500,000 equivalent per contract up to an aggregate amount no to exceed US\$5.9 million equivalent for (i) upgrading at least nine junior secondary schools to the *escola basica* standard of the project and (ii) upgrading about 65 primary schools to the standard of fundamental quality of the project. There will be about nine individual packages for the *escola basica* upgrades, with an estimated aggregate cost of approximately US\$3.6 million. Contracts for the 65 fundamental quality upgrades will be packaged on a district basis, the expected 13 contracts totaling US\$2.3 million.

6.17 **Procurement of small works** (PSW). Works estimated to cost less than US\$50,000 equivalent per contract up to an aggregate amount not to exceed US\$300,000 equivalent may be procured under lump-sum, fixed-price contracts awarded on the basis of written quotations obtained from at least three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work and has the experience and resources to complete the contract successfully. There will be about 20 packages for minor rehabilitation of schools in remote areas.

Procurement of Goods and Related Services (US\$2.3 million)

6.18 **International competitive bidding** (ICB), in accordance with the provisions of Sec. II of the Guidelines, will be used to procure, under a single contract, about 320,000 copies of books for learning Portuguese as a second language, with an estimated value of US\$900,000.

6.19 **National competitive bidding** (NCB) will be used for an estimated four contracts to procure school furniture estimated to cost less than US\$200,000 equivalent per contract up to an aggregate amount not to exceed US\$700,000 equivalent. NCB procedures will not discriminate against foreign bidders and will incorporate revisions to the Regulations where there is inconsistency between national procurement procedures and the Guidelines as detailed in the Annex to the Procurement Schedule of the Grant Agreement.

6.20 **International shopping** (IS) will be used for approximately 20 contracts estimated to cost less than US\$30,000 equivalent per contract up to an aggregate amount not to exceed US\$400,000 equivalent, to procure school equipment and other teaching and learning materials, including science demonstration kits, minor classroom and office equipment (typewriters, computers and peripherals, electronic media) in accordance with Sec. 3.5 and 3.6 of the Guidelines. Contracts will be awarded after solicitation and evaluations of at least three written quotations from eligible qualified suppliers; the quotations must be received from bidders in at least two different countries.

6.21 **National shopping** (NS) will be used for approximately 30 contracts estimated to cost less than US\$10,000 equivalent per contract up to an aggregate amount not to exceed US\$300,000 equivalent, to procure school equipment and teaching and learning materials and services for the distribution of books and furniture to schools. Contracts will be awarded after solicitation and evaluation of at least three written price quotations from eligible qualified domestic suppliers.

Consultants' Services (US\$2.5 million)

6.22 **Quality and cost-based selection** (QCBS) will be used for contracts in amounts greater than US\$100,000 equivalent per contract. Under the project a single contract with a consulting firm for the design and supervision of school construction and rehabilitation, to an estimated value of US\$1.1 million will be awarded.

6.23 **Least cost selection** (LCS) in accordance with Sec. 3.7 of the Guidelines will be used for contracting annual project audits up to an estimated aggregate of US\$40,000.

6.24 **Selection of individual consultants** (SIC), in accordance with Sec. V of the Guidelines, will be used for contracting approximately 26 qualified individuals under contracts estimated to cost less than US\$50,000 equivalent per contract up to an aggregate amount not to exceed US\$1.3 million equivalent for policy studies, community mobilization campaigns, and management support to the PMU.

Operating Costs (US\$0.3 million)

6.25 The project will finance reasonable expenditures by the PMU for bank charges and project auditing costs, and PMU staff travel, per diems, communications and consumables (but excluding staff salaries) to an aggregate of US\$300,000.

Procurement Review

6.26 All contracts for works estimated to cost US\$50,000 or more and all contracts for goods estimated to cost US\$30,000 or more will be subject to prior review by the Bank. This implies that prior review by the Bank of works and goods will include all international competitive bidding (ICB), and all contracts awarded on the basis of national competitive bidding (NCB). In addition, the first contract for goods using international shopping (IS), the first contract for goods using national shopping (NS), and the first contract for the procurement of small works (PSW) will also be subject to prior review by the Bank. The rest of the procurement of works and goods will be subject to ex-post review, with a target of 20% of contracts by number and 50% by value to be reviewed.

6.27 Prior review by the Bank of consultant services will include all terms of reference, regardless of the contract value, contracts estimated to cost US\$100,000 equivalent or more for consultant services provided by firms, and individual consultant contracts estimated to cost US\$50,000 equivalent or more. The rest of the procurement of consultant services will be subject to quarterly ex-post review, with a target of 20% of contracts by number and 50% by value to be reviewed.

6.28 The total value of contracts subject to prior review under the above arrangements is estimated at US\$ 11.5 million or 83% of total project cost. The very high percentage of contracts subject to prior review reflects the high percentage of project expenditure on major ICB and NCB civil works contracts. Overall procurement risk assessment:

High	X
Average	
Low	

6.29 Frequency of procurement supervision missions proposed: One every 3 months for the first year, one every 6 months thereafter (includes special procurement supervision for post-review and audits). A procurement specialist will be a member of the supervision missions.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US\$ million equivalent)

Expenditure Category	Procurement Method¹				Total Cost
	ICB	NCB	Other²	N.B.F.	
1. Works	2.80 (2.80)	5.90 (5.90)	0.30 (0.30)	0.00 (0.00)	9.00 (9.00)
2. Goods	0.90 (0.90)	0.70 (0.60)	0.70 (0.60)	0.00 (0.00)	2.30 (2.10)
3. Services	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
4. Sub-grants	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
5. Consultants' services and studies	0.00 (0.00)	0.00 (0.00)	2.50 (2.50)	0.00 (0.00)	2.50 (2.50)
6. Project operating cost	0.00 (0.00)	0.00 (0.00)	0.30 (0.30)	0.00 (0.00)	0.30 (0.30)
Total	3.70 (3.70)	6.60 (6.50)	3.80 (3.70)	0.00 (0.00)	14.10 (13.90)

¹ Figures in parenthesis are the amounts to be financed by the Bank Grant. All costs include contingencies.

² Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Table A1: Consultant Selection Arrangements (optional)
 (US\$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost¹
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	1.12 (1.12)	0.00 (0.00)	0.00 (0.00)	0.04 (0.04)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	1.16 (1.16)
B. Individuals	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	1.30 (1.30)	0.00 (0.00)	1.30 (1.30)
Total	1.12 (1.12)	0.00 (0.00)	0.00 (0.00)	0.04 (0.04)	0.00 (0.00)	1.30 (1.30)	0.00 (0.00)	2.46 (2.46)

1\ Including contingencies

Note: QCBS = Quality- and Cost-Based Selection

QBS = Quality-based Selection

SFB = Selection under a Fixed Budget

LCS = Least-Cost Selection

CQ = Selection Based on Consultants' Qualifications

Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.

N.B.F. = Not Bank-financed

Figures in parenthesis are the amounts to be financed by the Bank Grant.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review¹

Expenditure Category	Contract Value Threshold (US\$ thousands)	Procurement Method	Contracts Subject to Prior Review (US\$ millions)
1. Works	All > 50	ICB NCB	2.8 5.9
2. Goods	All > 30 First contract	ICB NCB IS/NS/PSW	0.9 0.6 0.1
3. Services - Consulting - firms - individuals - firms & individuals	>100 >50	QCBS Individuals	1.1 0.1
4. Miscellaneous			
5. Miscellaneous			
6. Miscellaneous			

Total value of contracts subject to prior review: 78% of total project costs, \$11.63 m

Overall Procurement Risk Assessment

High

Frequency of procurement supervision missions proposed: One every 3 months (includes special procurement supervision for post-review/audits)

One every 3 month(s) for the first year, one every 6 months thereafter.

¹Thresholds generally differ by country and project. Consult OD 11.04 "Review of Procurement Documentation" and contact the Regional Procurement Adviser for guidance.

Disbursement

Allocation of grant proceeds (Table C)

Table C: Allocation of Grant Proceeds

Expenditure Category	Amount in US\$million	Financing Percentage
A. Works	8.00	
(a) Part A (iii) of the Project		100%
(b) Other		100%
B. Goods (including transportation)	2.00	100% foreign, 100% ex works, 90% local
C. Consultant Services & Studies	2.30	100%
D. Operating Costs	0.30	100%
E. Unallocated	1.30	100%
Total Project Costs	13.90	
Total	13.90	

Use of statements of expenditures (SOEs):

6.30 Disbursements for contracts for works at or above US\$50,000 and for goods at or above US\$20,000, and contracts for services at or above US\$100,000 for consulting firms, and at or above US\$50,000 for individual consultants would be fully documented. Disbursements for all other expenditures, would be against statements of expenditure, whereby supporting documentation is to be retained by the implementing agencies and made available to the Bank for review during supervision.

Special account:

6.31 To facilitate timely project implementation UNTAET will establish a Special Account denominated in US dollars under terms and conditions acceptable to the Bank with a commercial bank acceptable to the Bank. The authorized allocation for the Special Account will be US\$2.0 million. The replenishment applications should be submitted by PMU and/or UNTAET/CFA on a monthly basis or when the balance of the Special Account is 20% of the initial amount, whichever occurs earlier. The Special Account will be audited annually by independent auditors acceptable to the Bank.

Financial Management

Financial Management Assessment

6.32 At the national level, the UNTAET Financial Office in Dili is responsible for all accounting and reporting activities. There is a proposal to establish a Central Fiscal Authority (CFA) to assume financial management responsibilities of UNTAET. The financial management functions of the CFA are being established and staff are being recruited. The basic institutional framework is therefore being built, upon which to establish sound internal control procedures and accounting and reporting arrangements. In late March 2001, a Senior Disbursement Officer of the Bank conducted a training seminar on Bank disbursement procedures for UNTAET staff in Dili. However, as most of the CFA staff had not yet been recruited at the time, further training would be needed, as various projects become effective.

6.33 At the project level, the Project Management Unit (PMU) of the Emergency School Readiness Project (ESRP) will assume the management responsibilities of this follow-on project. UNTAET will maintain a Project Director, the focal point for all management and financial matters between UNTAET and the PMU and also between the Bank and UNTAET, and a Financial Management Officer, specifically responsible for financial management of the project. These appointments are conditions of effectiveness of this project.

6.34 However, to ensure operational effectiveness in implementation during a period of political transition, the project will provide supportive technical assistance, to enable the PMU to contract selected services to management consulting firms or qualified individuals during these extraordinary circumstances. This management flexibility will be useful, as the new government may as yet be unable to fully staff its management positions. The services may include procurement, contract management, management of cash flow of the project, operation of the Special Account, maintenance of all accounting of project expenditures, retention of all receipts, vouchers and justifications, periodic reporting to UNTAET and the Bank, preparation of annual financial statements of the project, recruitment of external auditors and submission of annual report to UNTAET and the Bank.

6.35 For adequate financial management for the project, the responsibilities of the PMU will be clearly specified in the project Operational Manual:

- (a) Establishment of an adequate accounting and internal control systems to ensure that grant funds flow for all components of the project in a timely fashion;
- (b) Management of Special Account to be established under the Project, including requesting replenishments into the SA in accordance with Bank procedures;
- (c) Maintenance of adequate accounting records for all project expenditures and its components;
- (d) Preparation of quarterly project monitoring reports, with contents and formats agreed with the Bank;
- (e) Safekeeping of all vouchers, receipts, evidence of payments to substantiate project expenditures;
- (f) Contracting of external auditors for biannual audits; and
- (g) Preparation of biannual financial statements for the project, for audit and submit the biannual audit report not later than three months after the middle and end of the project year.

Accounting, Reporting, Auditing

6.36 The primary responsibility for maintaining accounting records for the project will be with the PMU's Financial Management Officer who will establish appropriate accounting and internal control procedures for authorizing payments, recording of all project related expenditures, periodic financial reporting and preparation of annual financial statements for external audit. The accounting system should be designed to maintain separate project accounts for World Bank-funded activities in accordance with the Trust Fund Grant Agreement. The Financial Management Officer will ensure that quarterly and annual financial reports comparing budgeted and actual expenditures are prepared for the project. The draft

formats of the reports will be agreed at negotiations. The financial reports shall be prepared and submitted to the Bank no later than 60 days following the end of the quarter.

6.37 UNTAET will carry out internal auditing of project activities. The PMU will prepare biannual financial statements of the project and have them audited by an independent external auditor acceptable to the Bank. The auditor will be required to provide an opinion on the financial statements, the operation of the Special Account, and the withdrawals from the grant based on statements of expenditures (SOEs.) The independent auditor will appointed on terms of reference acceptable to the Bank.

Annex 7: Project Processing Schedule
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	3	5
First Bank mission (identification)	04/02/2001	04/02/2001
Appraisal mission departure	05/18/2001	05/18/2001
Negotiations	08/23/2001	08/23/2001
Planned Date of Effectiveness	11/01/2001	

Prepared by:

EASHD education task team (below)

Preparation assistance:

Administrative Budget (US\$) as of 6/30/2001

Fund Source	Staff Salaries	Consultant Fees	Travel & Other	Total	Percent of Total
Bank Budget - BB	62,400	36,900	39,700	139,000	78
Trust Fund - TF	28,100	0	10,400	38,500	22
Total	90,500	36,900	50,100	177,500	100
Percent of Total	51	21	28	100	

Bank staff who worked on the project included:

Name	Specialty
Alfonso F. de Guzman	Senior Education Specialist, Task Team Leader
Nurul Alam	Senior Procurement Specialist
Colin J. Barry	Consultant, Teacher Education
Catherine Lisa Campeau	Consultant, Project Preparation
Filomeno Aleixo da Cruz	Project Officer
Abdul Haji	Senior Financial Management Specialist
Ronald L. Isaacson	Deputy Head of Mission
Parivash Mehrdadi	Program Assistant
Karin Nordlander	Lead Counsel
Hung Kim Phung	Senior Disbursement Officer
Christopher J. Smith, Jr.	Consultant, Procurement & Implementation
Nigel Wakeham	Consultant, School Facilities Design & Construction
King Bing Wu	Senior Education Economist

Annex 8: Documents in the Project File*
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

A. Project Implementation Plan

Project Implementation Plan (PIP) updated from PIP of Emergency School Readiness Project, Dili, Project Management Unit, Division of Education, ETTA/UNTAET.

B. Bank Staff Assessments

Aide-Memoire of the Joint Donor Education Sector Mission, March 20–April 6, 2001. (i) Part A: National Education Budget for FY2001/2 (10 pages + tables); Part B: Midterm Review of the Emergency School Readiness Project (14 pages + 3 annexes); C: Discussion on Follow-on Education Project (41 pages, incl. 6 annexes). Draft, April 6, 2001. Typescript. Washington DC, The World Bank.*

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C. Other

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*Including electronic files

Annex 9: Statement of Loans and Credits
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT
24-Sep-2001

Project ID	FY	Purpose	Original Amount in US\$ Millions			Difference between expected and actual disbursements*		
			IBRD	IDA	SF	Cancel.	Undisb.	Orig
P072461	2001	TP-Economic Institutions for Capacity Bl	0.00	0.00	0.50	0.00	0.40	0.00
P072356	2001	TP-SECOND COMMUNITY EMPOWERMENT	0.00	0.00	8.50	0.00	7.32	1.93
P070533	2000	PROJECT	0.00	0.00	6.80	0.00	2.47	3.87
P070294	2000	AGRICULTURE REHABILITATION PROJECT	0.00	0.00	12.70	0.00	9.41	6.63
P070283	2000	TP-Health Sector Rehab. & Dev. Project	0.00	0.00	4.85	0.00	1.00	4.25
P070268	2000	TP- Small Enterprises Project Phase I	0.00	0.00	13.90	0.00	3.74	0.00
P069762	2000	TP-Emergency School Readiness Project TP-COMMUNITY EMPOWERMENT	0.00	0.00	21.00	0.00	0.52	4.50
		Total:	0.00	0.00	68.25	0.00	24.86	21.18
								0.00

EAST TIMOR
STATEMENT OF IFC's
Held and Disbursed Portfolio
May-2001
In Millions US Dollars

FY Approval	Company	Committed				Disbursed							
		IFC		IFC		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
	Total Portfolio:					0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<hr/>													
FY Approval	Company	Approvals Pending Commitment											
		Loan	Equity	Quasi	Partic								
	Total Pending Commitment:					0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Annex 10: Country at a Glance
EAST TIMOR: FUNDAMENTAL SCHOOL QUALITY PROJECT

[There is no Country at a Glance for this country.]

