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The International Monetary Fund in East Timor

The International Monetary Fund (IMF)'s direct involvement in East Timor dates back to 22 October 1999 when the IMF's Executive Board approved a request from the United Nations Secretary-General Kofi Annan (1) to send a mission to East Timor and (2) to provide technical assistance in the Fund's areas of expertise.

East Timor is not a member of the International Monetary Fund, as membership is only open to countries that conduct their own foreign policy. And as East Timor's foreign policy is officially the responsibility of UNTAET, East Timor is presently not eligible to join the IMF.

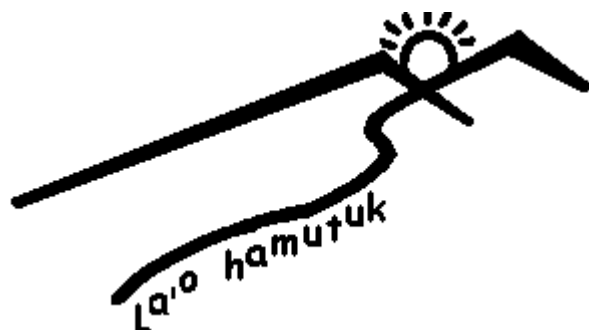
Nevertheless, the IMF is present in East Timor and does play a role in shaping the country's political-economy and in influencing reconstruction-related developments in the territory, especially as they relate to its economic institutions and policies.

According to the IMF's publication, *East Timor: Establishing the Foundations of Sound Macroeconomic Management* (2000), it was critical to quickly establish a sensible economic framework in East Timor in the aftermath of September 1999. This was needed "to provide reasonable assurances to all the parties involved, including donors, that the resources to be made available to East Timor would be effectively used and accounted for." Thus, the IMF "focused its technical assistance on helping UNTAET develop a mac-

roeconomic framework to guide economic decision making and establish key financial institutions."

It was the IMF, for example, that has led efforts to make the U.S. dollar East Timor's official currency during the reconstruction period—perhaps its most controversial public role thus far in the territory. It was also the IMF that recommended the establishment of a Central Payment Office (CPO) to safeguard funds and to make payments, and of a Central Fiscal Authority (CFA). The CFA, as part of the East Timor Transitional Administration (ETTA), designs the embryonic government's overall fiscal strategy. In doing so, it writes the ETTA's budget (the East Timor Consolidated Budget), formulates tax policy, administers the collection of taxes, and coordinates the actual execution of the budget's expenditures.

In addition, it was the IMF that urged the implementation of taxes on revenues from coffee, hotels, and restaurants. The IMF has also argued for low wages for East Timorese civil servants on the basis of ensuring the sustainability of the ETTA's budget. In addition, the IMF's November 2000 report, "East Timor: Recent Developments and Macroeconomic Assessment," foresees future spending cuts, resulting in reduced spending on wages and salaries, as well as on goods and services. In the next fiscal year, for example, the IMF anticipates the need for an overall 6.5% cut in wages and salaries and a 13% cut on goods and serv-



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ices.

IMF staff recommended that the number of civil servants be relatively small and that the initial wage structure for civil servants be the same as it was during the Indonesian occupation—about US\$1,000 per year, or about \$83 per month. (At present, civil service salaries average US\$123 per month, ranging from \$85/month to \$361/month.)

The IMF has provided analysis and strategy advice regarding the Timor Gap's oil and natural gas reserves. IMF staff have also helped develop plans for, and urged the creation of, a national statistics institution, primarily but not exclusively to gather economic data.

There are basically two IMFs in East Timor: one concerned with budgetary matters, and one that offers technical assistance.

The members of the first IMF see themselves as representatives of, and advocates for, the donors to East Timor. They are the ones who argued for lower wages. If they do not like what the CFA is doing—if, for example, they think that the budget the CFA is drawing up is not fiscally responsible—they are in a position to make the relationship between UNTAET/ETTA and the donors difficult.

The technical assistance arm of the IMF helps to create a fiscal infrastructure through which East Timor's emerging government can design and implement a budget, collect revenues, make payments, and develop relevant practices and regulations. In this regard, the IMF has helped to identify and hire experts from abroad whose job is to run the CFA and the CPO and to hire and train East Timorese who will eventually take over the running of these agencies. The IMF presently contributes half of the salaries for the following positions: Finance Cabinet Member/Head of CFA; Commissioner, East Timor Revenue Service;

CPO General Manager; CPO Deputy General Manager for Supervision; CPO Deputy General Manager for Payments; and CPO Chief Accountant.

In its year 2000 publication on East Timor, the IMF urges East Timor to ensure that its short-term fiscal policies “are consistent with setting a strong foundation for sustained growth and poverty reduction over the medium to long term.” Furthermore, the Fund argues that East Timor will only be able to develop a sound, long term macroeconomic strategy “through a very active participation of the East Timorese at all stages of the process—including design, implementation, monitoring and, if required, reformulation of the objectives and policy priorities.” Unfortunately, the IMF is not known for its democratic practices—unlike the World Bank, for example, the IMF does not actively reach out to civil society in the countries in which it works. Notwithstanding this reputation, hopefully, the IMF will take its own advice to heart and seek the active participation of the East Timorese community in its work to shape the economic structures here.

According to a 15 March 2000 report in *The Wall Street Journal*, the IMF sees one of its aims in East Timor as reducing the territory's dependence on international donors. “They don't want to live on charity longer than they have to,” the paper quoted Luis Valdivieso, the IMF's Head of Mission and Special Representative to East Timor, as saying.

As *La' o Hamutuk* wrote in Vol. 1, No. 2 of the *Bulletin*, “charity” is a very problematic term by which to characterize international funding for East Timor. As many, if not most of the major donors to East Timor provided Indonesia with significant amounts of weaponry, funding, and diplomatic cover for its invasion and occupation of East Timor, such “charity” is better seen as a very modest start to reparations. ❖

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What is the International Monetary Fund?

The International Monetary Fund (IMF), along with the World Bank, was established in 1944 at a conference at Bretton Woods in the United States. The IMF began operations in Washington, D.C. in 1946. Like the World Bank, the IMF is a key component of the post-World War II international economic order, and one of the most significant public institutions affecting economic development in the world.

The IMF sees itself as a cooperative institution of 183 member-countries whose purpose is to promote international cooperation on monetary matters (matters dealing with the amount of money in an economy, interest rates, and exchange rates), to facilitate a stable system for trading different national currencies, to foster economic growth and high levels of employment, and to provide temporary financial assistance to countries to help ease balance of payments adjustment. (An imbalance of payments typically occurs when the value of a country's imports is greater than the country's exports. This creates a "balance of payments" problem as the country will not have sufficient "hard currency"—currency that is acceptable to other countries as payment—to pay for its imports.) In addition to providing technical advice to countries, the IMF tries to meet its goals by lending money to countries having difficulties meeting their financial obligations to other member-countries.

Normally, the IMF will only lend money under the condition that the recipient country undertakes reforms to eliminate the problems that led to the balance of payment difficulties in the first place. Thus, there is an implicit assumption that the problems are internal—not external—to the recipient country. That said, the IMF also provides loans (what the Fund calls "compensatory funding") to help members get through a temporary decline in export earnings caused by factors beyond the members' control.

Traditionally, there has been a division of labor between the World Bank and the IMF: while the Bank's job was to provide funds for long-term development projects, the IMF's was to lend money for immediate financial emergencies. Over the years, however, the line between the Bank and the Fund has become increasingly blurry—especially in the area of structural adjustment loans—another funding mechanism of the IMF.

Structural adjustment loans are provided at a very low interest rate to poor countries to enable them to

radically restructure their economies—"to rid themselves of long-standing inefficiencies," according to the Fund. These "structural adjustment loans" require "close coordination with the World Bank... in putting in place reforms that will eradicate the source of the payments difficulty and prepare the ground for economic growth."

Typically, these "reforms" or "adjustments" require countries to cut certain types of social spending, to privatize state-owned enterprises, to lower the wages of civil servants, to eliminate subsidies and price controls, to promote exports and/or to allow for greater levels of foreign investment. Such policy changes typically have an immediate, detrimental, and disproportionate effect on the most vulnerable sectors of the society.

Like its Washington, D.C. neighbor the World Bank, the IMF is not a democratically-run organization, but one dominated by its wealthiest members. Upon joining the IMF, each member-country is required to contribute a certain sum of money. This contribution is called a quota, the amount of which determines how much the member can borrow. The contribution amount also determines the voting power of the member.

The IMF decides the amount of a country's quota on the basis of the country's wealth and economic performance. Generally, the richer the country, the greater its quota. If a country has a balance of payments problem, it can immediately withdraw 25 percent of its contribution from the IMF. If it needs more, the country can request that the IMF allow it to borrow an amount three times its quota over a period of a number of years. In cases of financial emergencies (such as the Asian Crisis of 1997), the IMF has a special fund (called the "Supplemental Reserve Facility") to lend large sums of money for a short period of time. While "developing" countries are the ones that generally borrow from the IMF, wealthy countries—such as the United Kingdom—sometimes do as well.

According to the IMF, it functions "most efficiently and decisions [are] made most responsibly by relating members' voting power directly to the amount of money they contribute to the institution through their quotas." As a result of this system, a small number of wealthy capitalist countries are in a position to determine the IMF's practices. The United States, for example, has about 18 percent of the votes. Along with the U.S., Germany, Japan, the United Kingdom and France control about 40 percent of the votes. (In contrast, the five

Central American countries combined have 1/2 of one percent of a vote.) And similar to the presidency of the World Bank—a position traditionally held by an American—the president of the IMF has traditionally been a Western European.

It is thus not surprising that IMF practices tend to reflect the agendas of the world's wealthiest countries, primary among which is to create capitalist countries that allow for unregulated trade and open investment. And it is for such reasons that the IMF has come under sustained criticism from many development and human rights NGOs, as well as national governments throughout the world. Especially in terms of its structural adjustment loans, many see the IMF as imposing policies on poor countries that create great hardships for the majority of the population.

In its defense, the IMF contends that all agreements between itself and a member country are the result of negotiations and that it is not in a position to impose anything. But as Joseph Stiglitz—from 1997 to 2000, the chief economist and vice president of the World Bank—recently wrote, “In theory, the [IMF] supports democratic institutions in the nations it assists. In practice, it undermines the democratic process by imposing policies. Officially, of course, the IMF doesn't ‘im-

pose’ anything. It ‘negotiates’ the conditions for receiving aid. But all the power in the negotiations is on one side—the IMF's—and the Fund rarely allows sufficient time for broad consensus-building or even widespread consultations with either parliaments or civil society.”

Indeed, if a country does not have the stamp of approval from the IMF, it is very unlikely that it will receive assistance from the World Bank or private banks. A country cannot be a member of the World Bank without first joining the IMF. Thus, the IMF has a good deal of power to ensure that the “negotiations” go its way. This is especially true for relatively poor and weak countries. Bigger, more powerful countries—such as Russia, Mexico, and Indonesia—are in a much better position to negotiate favorable agreements with the Fund. In this regard, the IMF has sometimes been willing to ignore profound economic, political, and environmental problems in these countries, and to provide significant funding to them because of the political agendas of the Fund's most powerful members. In recent years, for example, both Indonesia and Russia have received a great deal of money from the IMF despite the pervasive corruption and institutionalized theft of public monies that characterize their governments. ❖



Sebastião Pedro da Silva

Communities working together

People are joining together to insist on greater control over the decisions that affect their lives and living spaces. A transnational coalition of development, human rights, and environmental organizations holds counter-meetings called the Non-Governmental Organization (NGO) Forum at the annual meetings of the World Bank and the IMF. The coalition maintains that citizens must press these public institutions to direct the billions of dollars of public resources each is entrusted with into democratic, socially just and environmentally sustainable development. At their meetings and at other times this coalition has proposed alternative policies and helped organize transnational campaigns to change the policies of these global institutions. In one example, the coalition helped generate pressure that led the World Bank to modify its policies which had been encouraging the destruction of the Brazilian rainforest and to create an environmental department charged, among other responsibilities, with being responsive to the concerns of the environmentalist community. In another example, the coalition helped to organize recent protests in Prague and Seattle over the World Trade Organization (WTO)'s unjust policies. ❖

Can East Timor survive the aid industry?

Some questions from Mozambique

By Joseph Hanlon

They have come to help, with their 4x4 vehicles and consultants and experience of “helping” in Mozambique and India and Honduras. The United Nations, the International Monetary Fund (IMF) and World Bank, the bilateral aid agencies, and international non-government organizations (INGOs) are there by the score. They rent all the best houses for thousands of dollars a month, and they pay high salaries — \$4000 a month or more sometimes—to skilled East Timorese, stealing the best people from already weak local institutions, and ensuring that any skilled people returning from abroad work for them. They are the international aid industry.

I have never been to East Timor, but if my experience of southern Africa is anything to go by, the paragraph above is probably a reasonable picture. There is no question that East Timor needs help to reconstruct and to establish a functioning country. And there is no doubt that the West has a debt to East Timor after allowing and facilitating its subjugation and destruction during almost 24 years.

But it is also true that the aid industry will set an anti-democratic and elitist pattern in East Timor that will be very hard to break later. Aid is an important investment in ensuring that East Timor follows the path to globalisation and neo-liberalism.

First, consider the anti-democratic aspects of aid. All agencies, from the IMF to the smallest INGO, say they “consult.” But they are under immense pressure to spend money and show results quickly. In Washington and Paris and London and Oxford and Berlin, there are desk officers insisting that the currently fashionable policy – democracy or gender or environment or AIDS – is carried out urgently. In any case, the aid industry has so much experience abroad – the World Bank now bills itself as the “Knowledge Bank” – that it knows much better than local people what is needed.

At the most local level, kindly INGO workers “consult” the local peasants (even though they probably don’t speak the local language). But the INGO workers have fistfuls of dollars, so the peasants tell them what they want to hear.

The consultants fly in like flocks of migratory birds, stay a few days, pick the brains of local people, and

write reports that are a mix of what they wrote in other countries and what previous consultants wrote in East Timor. They “consult” local officials, of course. And the consultants have fistfuls of dollars, so the local officials tell the consultants what they think the consultants want to hear.

And the World Bank and IMF write the economic policy. After more than a decade of structural adjustment programs and extensive experience in post-conflict countries, the policies are already written. Indeed, if Mozambique is anything to go by, they will have conferences in which they fly in everything, including the folders and nametags, from Washington. Nothing is local, but they do “consult.” Senior government officials are probably already on the IMF and World Bank payroll as “consultants,” so they may be paid to consult with themselves, and then tell Bretton Woods institutions what they want to hear.

The IMF’s senior advisor for Asia and the Pacific in December 2000 at the East Timor donor conference stressed the importance of leaving the economy to the market and of “controlling aggregate demand” through “reductions in wages and salaries.” As always, Mr. Luis Valdivieso did not suggest controlling his own demand or cutting his salary, nor that of any IMF consultants. Nor did he suggest consulting East Timorese on whether they considered salary cuts a good idea. But I suspect the donors in Brussels all nodded in agreement, and the consultants on the IMF payroll consulted each other, and agreed this was sensible – so long as their fees were not cut.

And that brings us to the second issue, elitism. The aid industry pays its international staff well, provides the best conditions possible plus regular trips home and to Darwin. Local staff are drawn into the salaries and consumption patterns of this elite. And there is a special attempt to draw in the most educated local people – those with foreign degrees and experience – and to ensure that whether they work for the government or the aid industry, they can maintain an elite lifestyle. This is a style much closer to Sydney or New York than to a typical East Timorese village. It involves satellite TV, good stereos and whiskey, and lots of foreign travel – to ensure that they remain mentally closer to New York than to the family village.

This is the new global elite, which watches the same TV shows and films and wears the same clothes the world over. And it is directly linked to growing divisions between rich and poor. This is not just a growing gap between North and South, but also what is known as “the North in the South” (these elites we have just been discussing) and “the South in the North” (the poorly paid, marginal, unemployed etc. in the North).

What this means is that most of the East Timorese that representatives of the aid industry meet are part of the same global elite, which speaks the same language and has the same basic values.

Who decides?

Because East Timor does not have its own government, the UN administration and World Bank, along with the highly paid consultants and world “civil servants” from a global elite, make the important decisions that govern people’s lives in the territory. These international decision-makers are joined by an exile community, which, of necessity, has lived abroad and has become part of this global elite.

This is not to say that the global elite is malevolent. Many of its members are old lefties; others are young people who really are committed to ending poverty. But they now assume as normal a lifestyle that only can be maintained, at least in the short term, by widening gaps between rich and poor. An important process of social- and self-justification is also going on. The whole ethos of globalisation is that it is good to be rich and that the rich deserve their wealth; the educated and skilled, as well as those who invest, are more “valuable” to society and so should be paid more. How else can we attract educated exiles back from European universities to a global backwater like East Timor without ensuring that they can maintain the lifestyle they had in Europe – and can send their children to good schools abroad and can fly to Australia for the best medical treatment if they become ill?

The elite’s arguments for paying themselves high salaries and living in dollar ghettos is impeccable. And let me be absolutely clear. I have a flat in London and a mortgage, I earn my living writing about Africa and debt and such issues, and I am paid to do so (although not by *La’o Hamutuk*). When I work in Maputo, the capital of Mozambique, I am paid an average London wage – not UN rates, but nor do I accept an average Maputo wage. I am part of a global, jet-set elite, and mostly I am paid by the aid in-

dustry. Can Mozambique afford me? Does it make sense to pay me the annual income of an average Mozambican every two days?

What happened in Mozambique

Mozambique also experienced a UN and aid invasion, between the peace accord of 1992 and the elections of 1994. An arrogant UN administration took over an entire 10-story hotel in central Maputo, bypassing the government and even local UN staff.

Some of the stories were petty and sick. De-mining was delayed for over a year by a bitter, four-way battle between UN agencies. Demobilisation was delayed when the United States forced the UN operation in Mozambique to stop using one helicopter firm and hire a different one—one which was linked to the CIA. Italian “peacekeepers” caused a scandal by encouraging child prostitution, while prostitution returned to the streets of Maputo to service the influx of people “helping” Mozambique.

But in the end it was the economic impact that was dramatic. The thousands of UN and aid industry staff effectively dollarised the economy of downtown Maputo and supported a host of new expensive restaurants. Members of the elite were able to rent out their houses for so much money that they could live abroad. (A number of Mozambicans who earned PhDs in the United States were able to fund their education through income gained from renting out their homes in Maputo. This may have been the most useful contribution of the aid invasion.) The IMF had moved in and imposed structural adjustment in 1991 and the economy went into rapid decline. GDP actually fell after the end of the war, when everyone expected it to rise. The IMF even restricted the amount of aid that could be spent, on the grounds that too much reconstruction-related spending would cause inflation.

The IMF also imposed savage cuts in government spending, including a requirement that basic wages of nurses and teachers be below the poverty line. Everyone had to have a second income, which encouraged petty corruption. Corruption was also encouraged by aid agencies anxious to get quick results and willing to pay to bypass Mozambican rules and “bureaucracy.” High aid agency wages and starvation wages in the civil service caused a rapid shift of key staff. One of the most senior officials in the port of Maputo became a UN logistics officer; senior officials in several government ministries became secre-

taries in the UN or INGOs. Of course, as government became decapitated and impoverished, the aid industry complained bitterly about government incompetence and corruption.

The aid industry began to realise that these policies were counterproductive to its own interests. The World Bank, for example, could not disperse its loans because most of its counterparts in government were being hired away by the aid industry. The next step was for the World Bank to pay government staff to stay in post – they were told to stay and do the same job (for salaries up to 50 times higher than people at neighbouring desks) and reminded they now worked for the Bank and not the government.

Even this proved inefficient, and in 1995 the aid industry finally forced the IMF to back off. More aid could be spent on reconstruction, and civil service salaries were allowed to rise (so long as rises were greater for the higher paid and smaller for the lower paid). This did stimulate the economy, and from 1996 there has been rapid growth.

But recent data published in the UNDP's *Mozambique Human Development Report 1999* shows what everyone has seen on the ground – the growth is entirely in Maputo. The gap between rich and poor is growing very rapidly, both within Maputo and between Maputo and the rest of the country. The global North-South divide and phenomenon of “North in the South” and “South in the North” is being reproduced inside Mozambique.

Eight years after the end of the war, deep poverty remains in much of the country; the only post-war economic boom was brought by good weather and an end to the fighting. Thousands of rural shops remain closed, factories which reopened after the war are closing again. But in Maputo, there is a boom. Hundreds of huge houses are under construction; major new office and hotel blocks are being built. Maputo now has cable television, even though people in remote rural areas still cannot afford radio batteries.

This, in turn, has created an environment in which the elites have virtually lost touch with the rest of the country. The university now largely sees itself as a place of privilege in which individuals with foreign Ph.D.s often expect to be rewarded with cars and consultancies. People are paid \$100 or \$200 a day just to attend aid-industry sponsored seminars. There is little time left to work with community groups or do

the research that might question economic policy. The trade unions cannot find any help from trained economists, because they are now so accustomed to earning \$400 a day or more as consultants that they will not work for the tiny amount that trade unions can pay.

There are a handful of people, mostly old lefties who still believe the development rhetoric of the 1970s, who are trying to find another way. But they were given a harsh warning on 22 November 2000 when Carlos Cardoso, the crusading editor of the business daily *Metical*, was very publicly assassinated on a Maputo street. It is no longer safe to challenge the increasing web of corruption and privilege.

But for the IMF, the World Bank, the interlocking global elite of Maputo, and the aid industry, Mozambique is *the* success story of Africa.

And for East Timor?

No two countries follow the same path, and there are many differences between East Timor and Mozambique. Size is probably most important; Dili will not become another Maputo. But it could easily develop into a wealthy island, which is home to elites who go to Darwin more regularly than they go to the countryside.

In this environment, is an alternative possible? Timor Gap oil revenues will give East Timor a kind of economic flexibility that many other countries do not have. It would be possible, for example, to subsidise peasant agriculture – with improved agricultural extension and marketing systems and a revitalisation of the coffee industry. With long-term subsidies, it might also be possible to build up other industries – perhaps fishing, eco-tourism, and/or specialty crops. Yet this would go totally against the free-market globalisation ideology of the new elites, in part because it would require a transfer of resources from rich to poor.

But who would develop alternatives, and how would it be done? The most serious problem is that most of the skilled and experienced people who might develop an alternative are already part of an aid industry elite; they will be too expensive to hire and they have a genuine belief that their privileged position is justified and must be maintained. They are no longer able to think “out of the box” of the received wisdom of globalisation.

The second problem is, how might one go about developing an alternative plan? Here Mozambique has a success that might provide some indication of a way

forward. The four-year debate over a new land law and regulations proved to be a model of democratic debate and law formulation. The issue came to a head because of U.S. and World Bank pressure for the privatisation of land, in place of the present system in which land cannot be sold or mortgaged and thus people cannot be made landless. The process had the support of a few key political figures and one key civil servant. A commission was established which included not just civil servants, but also representatives of peasant associations.

Some resources were available from INGOs opposed to U.S. policies, but the main need was for time, rather than money. Uniquely, the process was not rushed and was not run according to donor deadlines. There were a series of meetings all over the country. Several drafts of a land law were prepared, and each one went out to workshops where it was debated. There were articles in the press, and even well attended parliamentary committee hearings. A strong land campaign developed to protect peasant rights. Sympathetic lawyers developed imaginative solutions to problems that arose. The final law is a good compromise, ensuring peasant land rights while allowing new development and giving political elites enough remaining power over land allocation to keep their support.

It would be possible to create an alternative development strategy for East Timor in such an open way. But it would require:

- TIME.** This needs to be an open-ended process which starts from people's needs, and that allows for discussions to continue as long as necessary to build a consensus.

·**SUPPORTIVE EXPERTS.** There must be a few independent economists and other technicians who are not so tied into the aid industry that they cannot think outside the accepted paradigms. There are technical problems—ranging from financial flows and availability of Timor Gap money, to world markets for coffee and tourism—that must be resolved and explained to local people. But the starting point of these experts cannot be that standard IMF and donor line. There must be room for alternative solutions.

·**POLITICAL COMMITMENT.** There must be genuine political support by at least a few key people in the new government and civil service. They need to understand that the process will be slow, they will need to make information available, and they will need to resist pressure from both local groups and the aid industry for quick results. Most importantly, they will need to resist the immense pressure from the World Bank, IMF, and donors to take decisions which will pre-empt the outcome of the consultative process.

Sadly, although such an alternative development strategy is possible, it is probably unlikely—especially since East Timor's first post-occupation government is the international aid industry. This does not mean that independent political organizing is futile, only that it is all the more necessary. ❖

Dr. Joseph Hanlon has done extensive research on development and its impact in Mozambique. He is the author of numerous books on southern Africa. The views expressed are the author's and not necessarily those of La'o Hamutuk.

In Brief:

In a letter on 18 April to Peter Galbraith, head of UNTAET's Department of Political Affairs and Timor Sea, **the NGO Forum officially declined UNTAET's invitation to sit on the selection panel for constitutional commissioners.** The NGO Forum reiterated the concerns it raised in its letter of 17 March to the U.N. Security Council about the inadequacy of the planned process. At that time, the forum had made three proposals: 1) to establish Constitutional Commissions as a formal mechanism for consultations throughout East Timor; 2) to provide resources to a level that ensures that the Constitutional Commissions have sufficient resources to carry out their functions; and 3) to designate a timeframe

for consultation of at least nine months with a further three months for reporting. As it now stands, based on a directive from the Transitional Administrator, commissions are being established in each district with three months to carry out consultation. According to the Forum, such a period "is too short to allow for sufficient participation of a broad spectrum of East Timorese society" making it impossible "to have an effective information dissemination process and meaningful consultation." The short timeframe also renders inadequate the processes of nomination, training and guidance of the would-be commissioners. Moreover, the Forum calls the commissions' objective "unclear" especially as to how

they will influence the work of the Constituent Assembly (whose members East Timor's voters are scheduled to elect on 30 August). The NGO Forum will conduct its own program of public information dissemination and consultation on the Constitution in all 13 districts and will seek to coordinate where possible with UNTAET initiatives. At the same time, the Forum will continue to highlight the need for an extension of the timetable for independence and especially the constitution-making process. Barring significant change in the timetable, the NGO grouping contends that "the new Constitution should be viewed as an interim Constitution, allowing more time for broad-based input and consultation."

On 1 May, **UNTAET's Gender Affairs Unit in conjunction with the United Nations Fund for Women (UNIFEM) began training potential women political candidates.** The trainings occurred throughout the month of May and early June and focused on political participation, decision making and basic knowledge on how to become a candidate in the upcoming elections for Constituent Assembly members. (On 13 March, the National Council rejected a proposal for a minimum 30% quota for women in the upcoming Constituent Assembly, which will draft and adopt a new constitution for East Timor.) Tauga Vulaono from the Pacific island of Fiji's Community Constitutional Forum assisted with the trainings and was pleased to see concrete efforts to include women in East Timor's constitution-building process. "It was, however, surprising," she stated, "to see at the start of the trainings how little the participants, who may be candidates in the coming elections, knew about what a constitution is and why it is important."

On 1 May 2001, **close to a hundred workers and their supporters gathered in front of UNTAET headquarters to commemorate May Day.** While 1 May is a national holiday for all UNTAET and ETTA staff, the holiday was not widely recognized outside of UN offices. The gathering was organized by the Socialist Labor Union of East Timor's Socialist Party (PST), East Timor's Trade Union Confederation (TLTUC) and LAIFET (the Labour Advocacy Institute of East Timor). There were ten demands forwarded to Sergio Vieira de Mello from participants in the action: 1) set a living minimum wage; 2) take action against companies and hotels that violate labor laws; 3) require payment of taxes by international staff; 4) release local staff from paying taxes; 5) place limits on the importation of vegetables and fruit from outside of East Timor; 6) require international companies to employ locals and not bring staff from abroad; 7) lower prices of ten basic need items such as cooking oil; 8) establish progressive laws to protect the rights of workers; 9) establish investment laws which would protect small East Timorese businesses; and, 10) create new jobs for East Timorese workers. Further demands were

made for both multiparty consultations in relation to the draft labour regulations and translations of the draft regulations which, at that time, were only made available in English. The rally was attended by representatives from the Australian Council of Trade Unions (ACTU), the International Confederation of Free Trade Unions - Asia Pacific Regional Organisation (ICFTU-APRO) and the International Labour Organisation - Workers Bureau (ILO-ACTRAV).

While UNTAET has been widely criticized for not establishing basic labor laws such as a minimum wage law and the establishment of an eight hour workday, the gathering provided the opportunity for many people to share related concerns and work experiences. Workers complained that many companies and international organizations presently ask them to work ten to twelve hours a day. Many female workers expressed the need for a labor law providing pregnancy leave and protection against discrimination. Additionally, workers reported a growing frustration around the highly disparate wages between locals and internationals, even for identical job positions. (In the past year, there have been several labor strikes by the staff of international companies, organizations, and UN agencies around these and other issues.)

Sergio de Mello signed an agreement on 4 May with the Australian shipping company Haritos East Timor Shipping **establishing a regular ferry service between Dili and Oe-cusse.** Although a limited service for 50 passengers per week aboard a cargo vessel has been in place for the past ten months, the new service would allow for 150 passengers aboard the same ship, but upgraded to serve passengers. According to UNTAET, the Portuguese Government has donated US\$200,000 to subsidize ticket prices and UNTAET will provide US\$175,000 to upgrade the ship and to build port terminal facilities.

This agreement is still viewed by UNTAET as an "interim measure." The German and Portuguese governments have both stated their commitment to finding a permanent solution; both countries are presently in negotiations on possible long-term solutions. Ana Paula Sequeira, National Council Representative for Oe-cusse, was present at the May 4th signing. On 1 June, she told *La'o Hamutuk*, "I was told that the new service would be running by 23 May, a week ago, but it is not yet running. We are very tired of waiting. We are also very concerned that a ticket on the ship will cost each passenger US\$10, an amount far beyond what your average Oe-cusse resident can afford. We need a permanent solution."

On 5 May, Catholic **Bishop Basilio do Nascimento of Baucau called on East Timor's political leaders not to rush the transition to independence,** according to

Lusa. "It looks to me as if things are rather short (timewise)," stated the Bishop, who warned against "putting the cart before the buffaloes." Similarly, **João Carrascalão**, East Timor's infrastructure minister, **called for a delay of at least six months** on 27 April, contending that East Timor needs additional time to reduce political and social tensions. On 16 May, however, **Sergio de Mello rejected the calls for a delay**, stating that "I respect all opinions but it is not possible to accommodate them all." According to de Mello, some people argued for no elections, others wanted elections in June, and others yet wanted them to occur at the end of 2002. The UNTAET administrator asserted that the 30 August date was "consensual."

According to a statement from UNTAET, the process of "Timorization" of the transitional government is advancing. On 9 May, Sergio de Mello, UNTAET's transitional administrator, swore in 16 East Timorese "top-level" civil servants to the Division of Education. Thus far, the Civil Service and Public Employment Office has recruited over 8,000 East Timorese civil servants, of which more than 5,000 are in the Division of Education.

On 22 May, **the U.S.-based Asia Foundation released results of a "national survey of voter knowledge."** The survey, conducted in late March by the NGO Forum's Working Group on Voter Education, involved interviews with potential voters in all 13 districts of East Timor. Reflecting a positive mood among the East Timorese electorate, 75% of those polled felt

that the country is heading in the right direction and 94% said that they would vote in the upcoming election. The results, however, also raise serious concerns about the quickly approaching election. According to the report, only 30% of those surveyed were aware that an election is scheduled for 30 August, and only 5% know that the purpose of the upcoming election is to elect a Constituent Assembly. Most people mistakenly think that the election is to choose a president or to generally achieve full independence.

The Asia Foundation report follows a report released in March by the U.S.-based National Democratic Institute based on 14 focus group discussions held in East Timor in February. The NDI report "clearly shows that the people of East Timor have many well-developed ideas about democracy and the form of government [a multi-party one] they would like to see." Nevertheless, the study found that while there was widespread understanding that elections will take place, there "is little knowledge of the nature or the timing of the elections or of the political parties and their platforms." According to the report, those familiar with the National Council do not consider it a representative body." Furthermore, "participants from outside Dili believe that the existing political process is dominated by a Dili-based elite and that they have been left out." Many opined that consultation by UNTAET has been inadequate: "Participants clearly want more local ownership of the transition process." Other key concerns included issues of law and order, with women regularly raising the issue of rape. ❖

LH EDITORIAL: Constitution Building: Focusing on the Process

While East Timor's constitution will be an important foundation for the independent nation, the process by which East Timor's people write that constitution is also important. For East Timor's men and women to effectively participate in this critical process, they must have adequate information and time to discuss and develop their opinions. *La'õ Hamutuk* and other members of the NGO Forum Constitutional Working Group have already criticized the rushed timetable currently being followed to write the constitution. Recently, we hosted a forum on the process of constitution-building, and a subsequent workshop on the role of women in the process. At both events, many attendees stressed the need for considered public involvement.

La'õ Hamutuk remains committed to a transparent and inclusive process. We urge all East Timorese - women, men, elders, youth - to learn all they can about the elections and developing the constitution. Please give your input to the Constitutional Com-

missions recently established in each district. We also hope that as the process unfolds over the next several months, enough time is allowed for revising the draft document without unnecessary restrictions. Last March, the Catholic Church proposed to the National Council that the first constitution be an interim one, with a subsequent four-step process requiring between three to five years before the adoption of a permanent Constitution.

The international community and UNTAET can help ensure that the constitution is grounded in the people of East Timor and serves their needs. *La'õ Hamutuk* urges UNTAET and the international community to allow the East Timorese community sufficient time, political space, and resources to develop a constitution that is truly owned by the East Timorese people. That would be the most important and permanent legacy of capacity building, Timorization, and democracy this transitional period can deliver. ❖

(Editorial, continued from page 12)

Until now, discussions on this very important transition have been largely limited to the upper echelons of UNTAET/ETTA and IMF staff. The National Council's participation has been marginal at best. According to sources within the NC, there was barely enough time to photocopy the most recently proposed regulation regarding dollarization before the NC meeting. This regulation finances the purchase of five million U.S. dollars for the CPO by appropriating that amount out of the Consolidated Fund for East Timor (CFET). Nevertheless, NC members approved the proposed regulation without discussing it or asking any questions.

The case of Ecuador illustrates why such a course of action might be dangerous. There, the adoption of the U.S. dollar caused a rapid rise in prices and led to massive street protests. The government of Ecuador even had to mint coins similar to those of the U.S. due to a shortage of those of the American variety.

The potential for inflation caused by dollarization is very real in East Timor. As the General Manager of the CPO, Fernando DePeralto admits, "Shifting from one currency to another with different denominations will create inflation."

Given this, what are the plans on the part of UNTAET and the IMF to protect East Timorese—especially the poor who live on the margins—from the effects of increasing prices? Also, given the recent legislation outlawing unlicensed money changers, what provisions exist to help the money changers—who reportedly number four hundred in Dili alone—who lose their jobs?

Both the IMF and UNTAET/ETTA preach transparency and accountability—virtues that have been largely lacking in the dollarization effort. The two institutions must make greater efforts to consult and discuss with the East Timorese the wisdom and/or folly of a dollarization campaign that will significantly impact daily life in the soon-to-be independent country. ❖

UNTAET Regulation No.2000/20 on Budget and Financial Management, Section 11, provides that "[t]he Head of the Central Fiscal Authority may prepare a special funds budget that contains details of ... monetary amounts" and "estimates of any aid-in-kind provided by international organizations or foreign governments for the benefit of East Timor." Under this provision, civil society can request that the CFA prepare a public accounting of the IMF's financial activities in East Timor. *La'o Hamutuk* has made such a request and awaits a response from the CFA.

Eyes on the Justice System

Establishing a new judicial system in East Timor is a formidable task. It has been acknowledged by the UN Transitional Administration as a priority in order to promote the rule of law and abolish a system of impunity and corruption created by years of Portuguese colonisation and Indonesian military occupation. Building it from scratch, remarkable progress has been made in a short time, and with limited resources.

In a statement to the UN Human Rights Commission in April 2001, Transitional Administrator Sergio Vieira de Mello stated that "The challenges faced by the young Timorese judges are significant. The problem of an under-resourced, over-tasked judiciary and court administration has led to some problems. These include cases where an acceptable level of legal advice and representation for defendants has been lacking, and where there has not been consistency in the application of the law."

Under these conditions, creating a well-functioning judiciary requires ongoing review and adjustment, as practice interacts with theory. Ideally, there should be both internal and external reviews. Until recently, comprehensive independent monitoring of the early trials and the development of the judiciary in general, had been non-existent. In addition, there are mounting concerns about the court's capacity to handle both new cases and prosecute those relating to the violence of 1999. These prosecutions will certainly affect the process of reconciliation.

The Judicial System Monitoring Program (JSMP) was established within this context. JSMP is a Dili-based independent project working under the auspices of the East Timorese Jurists' Association and *La'o Hamutuk*. The main objectives of the program are to improve the quality of justice provided by the newly established judicial system, to promote human rights and the rule of law in a meaningful and transparent manner for the people of East Timor, and to build the capacity of the East Timorese legal community to constructively monitor the judicial system in the future.

At present, three international lawyers are volunteering full-time, monitoring the serious crimes trials and writing thematic reports on issues related to the development of the judiciary. All trials related to the TNI/Militia violence in 1999 are being monitored and the information being gathered is collected in a project database. The lawyers at JSMP will also provide local and international media with updates and comments. JSMP seeks to act as a resource center for NGOs, INGOs, government officials, and others who wish to keep up to date on the development of the justice system in East Timor.

The program's web-site at <http://www.jsmp.minihub.org> includes information on upcoming serious crimes trials at the Dili District Court, comments on judgments, and links to resources. Daily news items relating to East Timorese justice issues are posted on the site, or can be received via the JSMP email list. To subscribe, send a blank email to list-subscribe@jsmp.minihub.org. ❖

Editorial: Dollarization and Democracy

Under pressure from the International Monetary Fund and elements of the East Timorese political leadership, UNTAET is intensifying its efforts to achieve what it calls “dollarization”—making the U.S. dollar the sole currency of the territory. There clearly are potential benefits to dollarization; there are also potential problems. As such, it is imperative that there be wide-ranging discussion and debate on the matter—which thus far have been lacking. And, if dollarization continues, it must be a slow and deliberate process.

Although the U.S. dollar has been UNTAET’s official currency since January 2000, the currency of choice in East Timor’s markets and villages has been the Indonesian rupiah. In a more limited sphere of the economy, namely upscale stores, restaurants, and hotels, the Australian dollar has also been an important currency. As well, approximately 1500 East Timorese receive from the Portuguese government a civil servant’s monthly pension paid in Portuguese escudos that averages US\$400.

The current plan is to eliminate the use of the rupiah and Australian dollar. As part of this effort, UNTAET head Sergio Vieira de Mello signed an executive order on 26 April that imposes fines of up to US\$5000 on illegal money changers and their customers. In addition, UNTAET’s Central Payment Office (CPO) has plans to introduce legislation that would compel all businesses to price their goods and services in U.S. dollars, and that would impose steep fines to prevent the unlicensed importation of all other currencies.

At the same time, the CPO will reportedly soon launch an educational campaign for all of East Timor to explain to the public the need for a U.S. dollar-only economy and the logistics of how to use a currency that is very foreign to the vast majority of the population—a huge problem associated with dollarization.

As East Timorese are familiar with the rupiah, it will take a considerable amount of time for people to become comfortable with the U.S. monetary units, which are growing increasingly complex. Most U.S. currency denominations, for example, currently have two different types of bills. In the case of the U.S. quarter dollar coins, there will be 51 different types by 2008.

Growing instability of the Indonesian rupiah has provided much of the impetus to accelerate dollarization. According to an internal IMF memo, in the last year the rupiah has lost 50 percent of its value vis-à-vis the U.S. dollar, a development that “has been a silent destroyer of the value of the few remaining assets in the hands of the public.” Along with the declining value (although to a much lesser extent than the rupiah) of the Australian

dollar, explains the IMF, the weakening of the rupiah has hurt the ability of the public to buy goods and services, especially imports and those that involve many inputs from abroad.

The IMF contends that using the U.S. dollar as the official currency will significantly increase the stability of the East Timorese economy by allowing for more predictable prices and lower interest rates. For such reasons, the IMF and many East Timorese political leaders assert that it will benefit all East Timorese, especially the poor.

The United Nations implemented a similar program of dollarization in Kosovo. And a number of “developing” countries use the U.S. dollar as their official currency. Most recently, El Salvador and Ecuador adopted the U.S. currency.

Before rushing ahead with dollarization, it would be very helpful for there to be consultations between elements of East Timorese civil society and counterparts from places like Kosovo and El Salvador to discuss the potential benefits and pitfalls of adopting the U.S. dollar.

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What is La’o Hamutuk?

La’o Hamutuk (Walking Together in English) is a joint East Timorese-international organization that monitors, analyzes, and reports on the principal international institutions present in Timor Lorosa’e as they relate to the physical, economic, and social reconstruction of the country. *La’o Hamutuk* believes that the people of East Timor must be the ultimate decision-makers in the reconstruction process and that the process should be as democratic and transparent as possible. *La’o Hamutuk* is an independent organization, encouraging effective East Timorese participation in the reconstruction and development of the country. In addition, *La’o Hamutuk* works to improve communication between international institutions and sectors of East Timorese society. Finally, *La’o Hamutuk* is a resource center, providing literature on development models, experiences, and practices, as well as facilitating contacts between East Timorese groups and development specialists from various parts of the world.

In the spirit of encouraging greater transparency, La’o Hamutuk would like you to contact us if you have documents and/or information that should be brought to the attention of the East Timorese people and the international community.