

Report from one-day seminar on  
East Timor Joining the International Financial Institutions

**Organizing Team:**

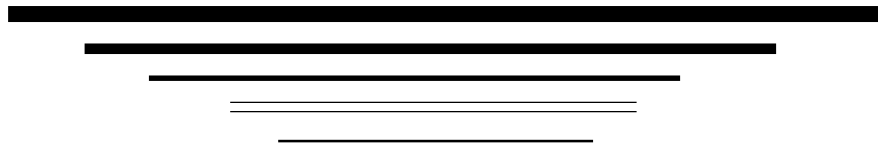
**Sa'he Institute for Liberation (SIL)**

**World Bank and IMF Study Group**

**Yayasan HAK**

**CDEP**

**La'o Hamutuk**



Dili, 8 November 2002

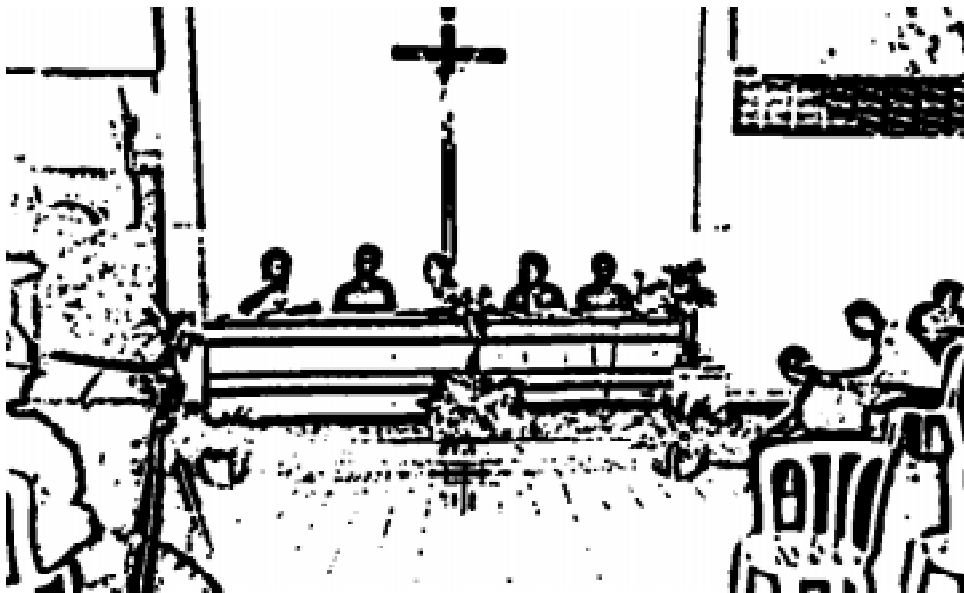
(original version in Indonesian)

## Report from one-day seminar on East Timor joining the International Financial Institutions

### Background:

In January 2002, a delegation of ten East Timorese NGOs, including Yayasan HAK, Sa'he Institute, Fokupers, Haburas, La'õ Hamutuk, CDEP, KSI, LAIFET, Caucus and the Centre for Justice and Peace, attended the second World Social Forum in Porto Alegre, Brazil. The delegation heard a great deal about what is happening in other nations, especially what International Financial Institutions (IFIs) are doing in other nations and alternatives that should be quickly applied in East Timor in light of the quick developments of globalisation, free markets, privatisation, and related phenomena.

Looking at the current situation in East Timor, where the government has chosen to become a member of the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB), members of East Timorese NGOs began meeting together to form the IFI Study Group (also known as the World Social Forum Study Group). The members include representatives of La'õ Hamutuk (Thomas Freitas, Andrew de Sousa), Sa'he Institute (Mateus Gonçalves), Yayasan HAK (Julino Ximenes), CDEP (Igildo Tilman) and KSI (Daniel Pereira), joined by Filomena Reis from the NGO Forum and Mario de Araujo from Oxfam. In April 2002, the Group began to study together about the World Bank, IMF and ADB. Besides meeting every Friday afternoon at Yayasan HAK, the Study Group also has done some discussions on Radio Timor Leste, with topics such as globalisation, free markets, privatisation, and dangers of neo-liberalism. The Study Group also has held discussions with Shalmali Guttal from Focus on a Global South (Thailand), and works with friends in the East Timor Action Network/U.S. and AidWatch Australia.



### Goals:

The Study Group organized a one-day seminar with the intention of beginning a broader long-term dialog, to look at people's knowledge, insights and perspectives on the IFIs, and to provide a forum to debate progressive views. In addition to promoting such discussions, the seminar also provided an opportunity for the East Timorese government to explain from its perspective why East Timor became a member of the IFIs, what are the benefits and costs of membership, and the challenges facing the government in the future. In the seminar the World Bank, IMF and ADB also presented their views on East Timor joining the IFIs.

# AGENDA

## Panel I

Time	Topic	Speaker	Moderator
08.30-09.00	Registration of participants	Organizing Committee	Rosi (Fokupers)
09.00-09.05	Welcome	Cecilio C. Freitas	
09.10-09.55	Reasons to join the WB, IMF and ADB: A perspective of ET Government	H.E. Prime Minister Dr. Mari Alkatiri*	
09.55-10.15	Reasons of ET's admission as a member of the World Bank: A WB perspective	Elisabeth Huybens (World Bank Representative in East Timor)	
10.15-10.35	ET NGO's perspective on ET as a World Bank member	Mateus Gonçalves (Sa'he Institute for Liberation)	
10.35-10.50	Break		
10.50-11.35	Discussion		

## Panel II

11.40-11.45	Introduction		Julino Ximenes
11.45-12.05	ADB perspective on ET as a member of ADB	Meeja Hamm (ADB Representative in East Timor)	
12.05-12.15	Views of ET academics on ET as a member of ADB	Joao M. Saldanha	
12.15-12.45	Experiences of ADB in other countries	Tim Anderson (Aid Watch, Australia)	
12.45-13.30	Discussion		
13.30-14.30	Lunch		

## Panel III

14.30-14.35	Introduction		Daniel Pereira (KSI)
14.35-14.55	ET as a member of IMF: A view from within IMF	IMF	
14.55-15.15	ET Government's view on ET becoming a member of IMF and the government's monetary policy	Vice Minister of Finance*	
15.15-15.35	NGO's views on the impacts of IMF in Third World countries	Thomas Freitas (La'o Hamutuk)	
15.35-15.50	Break		
15.50-16.35	Discussion		
16.35-16.45	Closure	Thomas Freitas	

\* The Prime Minister was out of the country, and the Minister for Transportation, Communications and Public Works Olvidio de Jesus Amaral. The Finance Ministry failed to send a representative.

## Seminar Attendees

Name	Organization/Affiliation
1. Moises da Silva	CDHAAileu
2. Saturnino Crus	Chefe Aldeia 20 Setembro
3. Jose Almeida	NUCLEU Direitos Humanos
4. Flaviano M Lemos	Ermera
5. Antonio Aitahan Matak	CPDRDTL
6. Jose Martins	CPDRDTL
7. Joao Conceicao Lobato	Chefe Aldeia Sao Miguel
8. Agustinus Ximenes	Chefe Aldeia D. Final
9. Carlos D. Freitas	Chefe Aldeia F. I
10. Olandino Xavier	Justice & Peace
11. Simon Foster	La' o Hamutuk
12. Ram P. Koirala	UNICEF
13. Aman Hamja	ADB
14. Meeja Hamm	ADB
15. Jacinto B.	Chefe Suco
16. Francisco Pereira	Chefe Suco
17. Carlos Moises F	Chefe Suco Pantai Kelapa
18. Antonio	Chefe Aldeia
19. Francisco do Santos	Chefe Aldeia
20. Mateus Inacio	Chefe Aldeia
21. Zeca Exposto	Radio Ramkabian
22. Etelvino da Costa	Radio Ramkabian
23. Anito Brandao	ADP Alas
24. Lucas Martins	Chefe Suco Rai Nakadoko
25. Patricia Collins	Dept. Public Works
26. Maria de Jesus	GFFTL
27. Veronica Correia	GFFTL
28. Zacarias da Costa	ADB
29. Robert Boumphrey	ADB
30. Jess Armuco	ADB
31. Luis Nerovsky	Minister Of Finance
32. Fernando da Costa	Y-HAK Rumah Rakyat
33. Domingas Amaral	Gerakan Pro Proletariat
34. Marcelino da Costa	Gerakan Pro Proletariat
35. Leopoldina Dj. da C	Uma Feto Liquisa
36. Carrie Taylor	CNIC
37. Apolinario Magno	CNIC
38. Fernando Vaccotti	UNMOG
39. Edson Ochoa	UNMOG
40. Wayne Chum	OXFAM
41. Luis Pinto	OXFAM
42. Americo	ETFOG
43. Felisberto	ASEG
44. Sebastiao Guterres	World Bank
45. Elisabeth Huybens	World Bank
46. Pascoela dos Santos	TVIL
47. Jacinto F	TVIL
48. Jose Luis Lopes	MFAC

49. Andrew de Sousa	World Bank Study Group
50. Salustiano Oliveira	Suco Rai Nakadoko
51. Vitalis	Suara Timor Lorosa'e
52. Jose M Bendito	UNMISSET
53. Adriano do Nascimento	La' o Hamutuk
54. Deometrio Amaral	Haburas Fondation
55. Nilva	STL
56. Sonia	STL
57. Yasinta Lujina	La' o Hamutuk
58. Diamantino da Cruz	Dai Popular
59. Ines Martins	La' o Hamutuk
60. Terry Russel	La' o Hamutuk
61. Lee Woong Youn	Korea Embassy
62. Rosi de Sousa	Fokupers
63. Leo Fontes	Radio Timor Leste
64. Paul Tomanse	Cuso
65. Bernardo H	Aldeia Suco K.
66. Zizi Viera	Haburas Fondation
67. Zoe Cotton	Timor Sea Office
68. Manuel Mendonca	Timor Sea Office
69. Nug Katjasungkana	Fortilos
70. Therese Osland	OXFAM
71. Pedro Sarmiento	Aldeia 05 Mascarenhas
72. Antonio Goncalves	Suco Audian
73. Marcio Pinto	Timor Post
74. John Hermansen	University of Newcastel
75. Joao P. Jerdujo	WSS
76. Dr. V. Haraprasad	UN Adviser, WSS
77. Ovidio Amaral	Ministru Transportasaun
78. Elisabeth Riedi	Aid Watch
79. Gabriel M. Fernandes	Ermera
80. Antonio M. Soares	Forum HAM Maliana
81. Abilio Amaral	Y-HAK Rumah Rakyat BCU
82. Quiteria da C	Parlemen Nasional
83. Rui Menezes	Parlemen Nasional
84. Fernando da Costa	UNDP
85. Rogerio Soares	Cidadaun Y-HAK
86. Jose Luis de Oliveira	Y-HAK
87. Joao da Silva Sarmiento	La' o Hamutuk
88. Melly Saldanha	TVIL
89. Delfin Leitons	TVIL
90. Thomas Freitas	World Bank Study Group
91. Tim Anderson	Aid Watch
92. Joaquim da C. Freitas	CUSO
93. Igildo Tilman	CDEP
94. Mateus Goncalves	World Bank Study Group
95. Daniel Pereira	KSI
96. Julino Ximenes	World Bank Study Group
97. Kadim Al Ayed	IMF

**First Panel with:**  
**World Bank Representative -Elisabeth Huybens**  
**NGO Representative -Mateus Gonçalves**  
**Government Representative -Ir. Ovidio de Jesus Amaral**

## **Summary of presentation by Elisabeth Huybens**

The World Bank is an international financial institution, with 184 member states. With representatives from all over the world, it makes decisions of global importance.

We need to understand what is the World Bank. From a basic understanding, the World Bank is like other banks, but the difference is that the World Bank is not a commercial bank. The World Bank's primary mission is to reduce poverty in certain countries, and work with communities to improve their living conditions through awareness of experiences and knowledge that can change communities' lives. The World Bank is the largest financial institution in the world, disbursing \$17 billion in 2001 to countries classified as poor, and the World Bank is actively involved in 101 countries.

In East Timor, according to Elisabeth, before beginning activities the World Bank looks at what commitments the government has made to reduce poverty, such as the National Development Plan, already being put through consultations with the people and NGOs by the government and the World Bank. The World Bank controlled this process in order to help the government of East Timor to carry out its programs.

The World Bank was established after the end of World War II, with the primary activity of the institution to build large-scale infrastructure projects. But with the passage of time as the needs of each country increasingly changed, the World Bank was inspired to change some programs that they previously did not have. For example, among the current priorities are the following sectors:

- Education
- Health
- Social.

The World Bank's assistance programs also promote good governance and evaluate specific countries. The goal is to assist where and when it can benefit the people the most.

### **The Bank's current focus includes:**

- Basic education
- Preparing programs to prevent social instability
- Liberalizing and strengthening the private sector
- Developing a stable economic climate
- Organizing humanitarian aid in places of great need

The World Bank is one of the largest donors globally in sectors such as:

- Education
- Prevention of HIV/AIDS
- Health

Since 1996 the World Bank has been working with the IMF to help reduce the debt of poor countries. Alongside this, the World Bank has emerged as the biggest foundation for protecting people's environments, and the World Bank is also currently strengthening programs for combating corruption in Third World countries that often are attacked badly by wide-scale corruption.

The World Bank has become an institute that is very open to input and suggestions from anyone, meaning the World Bank has a participative nature. An estimated 60% of World Bank projects are based on consultations with all sides. In East Timor the World Bank is very open to discussion with all NGOs. The World Bank always knows the level of development in certain countries, based on applied criteria.

And in this period the World Bank has been working with the East Timorese government to help with strategic planning for the "Provedor," or Ombudsman's office.

World Bank conditional funding is for countries based on GDP/income per capita below \$800.

- IDA (International Development Agency) is a financing institution.

The IDA applies a funding system of two components:

### **1. Concessional loans**

Concessional funding conditions include criteria such as the following:

"Zero" interest, the receiving country only pays service charges of 0.75% to the IDA. There is a 35-45 year payment period, with a 10 year preparatory period before repayment begins.

### **2. IDA grants**

A new World Bank funding element, after a decision made September 2002, with an estimated 18-21% from IDA financing in the form of grant money with special criteria for the allocation of the money.

The World Bank includes East Timor in the East Asia and Pacific region. In Asia, the World Bank works closely with 5 countries, Vietnam, Indonesia, Philippines, Thailand, along with China and Taiwan. The Bank also works with smaller countries such as Cambodia, Laos and Mongolia. The Pacific includes East Timor, Papua New Guinea and Pacific island states.

The World Bank has had a special relationship in developing East Timor. Beginning in April 1999, the World Bank met with East Timorese leaders to develop plans for beginning reconstruction, economic improvement and conducting a survey. In September 1999 they organized a meeting with donor governments, leading to the Joint Assessment Mission in East Timor in November 1999.

## Summary of presentation by Ir. Ovidio de Jesus Amaral

According to the planned agenda, this session was to be attended by the Prime Minister, but he was unable to attend since he was travelling abroad, so it was arranged for Dr. Ana Pessoa to sit on the panel instead. However, she was also unavailable and Ir. Ovidio de Jesus Amaral substituted for both of them.

Due to the above complications, Ir. Ovidio said that he himself could not discuss the International Financial Institutions at length, but he would speak in his capacity as the Minister of Transportation and Telecommunications that has some relations with the World Bank.

Ir. Ovidio, acting as a representative of the government, discussed issues relating to EDTL (Electricidade de Timor-Leste) and challenges facing the sector. For the present, a fiscal regulatory organ has been established, responsible for controlling operating activities and reporting to the government. In the fiscal regulatory organ there is a Board of Directors with 5 people. They function as decision makers, creating policies for the electric sector. The five people include representatives of the legal and economic sectors, and consumers. This is with the goal of the policies representing as much as possible the aspirations of all interested parties.

Before there was this fiscal organ, the government already had a fiscal regulatory organ for telecommunications. According to the government the present electricity fiscal organ can already be used to deal with other sectors, as the government regards it as having good representation and performing well.

The reality is that the government does not have enough money, so it decided to work with the ADB and the World Bank. The government feels that the involvement of the International Financial Institutions are very valuable in building the country's economy. During the last two years, collaboration between the government and ADB, JICA and Portugal has given 35 electric power stations in all the sub-districts. And there is currently an ADB-supported project to develop 14 electric stations, including one in Lolotoe and two others in Nitibe and Pasabe (Oecussi). This is to say that the participation of the International Financial Institutions is very influential in East Timor right now.





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## **The World Bank: Assistance for Recolonialisation?**

*By Mateus Gonçalves*

To know this institution better, the writer intentionally uses the above title in order to help the reader to understand an institution that often claims to have a purpose and reputation as a “Saviour” of Third World nations. This institution, known as the World Bank, was created 50 years ago, in 1944 in Bretton Woods, USA.

When it was founded in Bretton Woods, the institution had an original goal of assisting recovery from an economic crisis in post-war Europe. Afterwards, under the direction of Robert McNamara, at a high-level summit in Rio de Janeiro, the World Bank decided to move on to more prominent roles in other places that needed help. The obscure expansion was more extensive in places already overcoming poverty, separating them from especially poor countries that also wanted to be helped.

People in countries that have been victims of World Bank economic plans, such as Angola, Mozambique, Brazil, Thailand and other developing countries, often refer to this institution as tool for re-colonialisation in Third World nations, because in the aid that it pours into a country is often given in return for hidden political interests. The World Bank is the largest provider of development funds, with very influential policies for the fate of more than 110 member countries in the world. East Timor can be added to the list, since it has decided to join the institution.

This phenomenon is increasingly legitimising how the World Bank has become a political power that cannot be stopped. Projects funded by the Bank have serious impacts across the world: massive dam development projects have forced the displacement of millions of poor people; building large roads to open rainforests in Brazil, Africa and Indonesia result in deforestation and often create social conflicts, with the result that newly rich people receive the benefits from selling the wood from the forests.

The World Bank constantly denies any political responsibility in supporting regimes that oppress and kill their people, from Ceaucescu in Romania to Suharto in Indonesia. Because according to the World Bank and the U.S., governments based on peoples’ power can spread like a virus, and must be eliminated, as was done by the U.S. in Guatemala, El Salvador, Nicaragua, Cuba and elsewhere.

The experience in Indonesia, the development of the Kedung Ombo rubbish dump is only one of many projects funded by the World Bank. Of course in the context of loans, not grants. These loans enriched the Suharto regime until its end in May 1998. Although Suharto fell from power, problems from the loans remained, with a total foreign debt of approximately \$142 billion dollars. If entire population at the time of 202 million, the loans would have to be repaid at \$703/year per person.

### **The World Bank’s Role in Third World Countries**

The World Bank plays a major role in funding development in Third World nations, especially in Africa and Asia, because those nations are considered to be the easiest lands to be experimented on by World Bank programs.

Rather critical experts in the World Bank often say the institution likes to help undemocratic regimes. They refused to give assistance to President Sukarno, a rebellious leader but not a communist (but a civilian autocrat). But after Suharto overthrew him in a coup in 1965, the World Bank gave \$600-700 million per year. The World Bank acted in a similar manner with the Goulart regime in Brazil in the 1960s, and after the military coup in 1963 the Bank provided loans of about \$73 million per year.

In the history of the World Bank, they have never helped solve an economic crisis in a country hit by such a crisis, but they have ineffectively tried with their magical packets known as SAPs (Structural Adjustment Programs). Some important policies that accompanied the SAPs, and had to be fulfilled by a country facing a crisis and unable to pay by other means:

- Radically diminish government subsidies in health, education and safety sectors
- Privatise government enterprises
- Currency devaluation, import liberalization and eliminated barriers to foreign investment
- Lower wages and weaken mechanisms for protecting workers

### **What's the difference between SAPs and PRSPs?**

The World Bank and IMF used to force countries to follow their structural adjustment policies (SAPs) in order to borrow money. SAPs had a bad reputation, as the policies imposed often did little to improve conditions in the poor countries, in fact often making them worse off. These policies were friendly to Western markets, encouraging poor countries to provide cheap exports for developed economies, opening the domestic market to foreign investors and speculators, and privatising state-owned enterprises and social services.

In response to criticism, the name of SAPs was changed in the late 1990s to Poverty Reduction Strategy Papers (PRSPs). The World Bank claims that PRSPs are different to SAPs, and that they have learned from their mistakes. In theory, PRSPs are supposed to be plans to reduce poverty that are created through the participation of the people, created by the poor country instead of the World Bank and IMF. However, the policies in PRSPs usually are very similar, if not completely identical, to SAPs. Poor countries all over the world have different problems, different cultures. Yet the PRSPs tend to resemble each other. This can be seen as evidence of how the PRSPs are overly influenced by World Bank thinking, be it through their consultants and experts, pressures applied to the poor countries, or other means.

Unfortunately, East Timor may have already started to get stuck into the PRSP system with the National Development Plan. We were pressured into developing a National Development Plan in a short amount of time, to give the donors a unified plan that they could hold us accountable to. Although the government tried to consult with the people to develop the plan, there was not enough time to do so properly. The Plan was obviously not written by the East Timorese people alone – it was written in English, a language few of us understand. We could not properly comment on drafts of the plan, because drafts were done in English. Inside the plan are policies that sound more like they were written by the World Bank than East Timorese – policies that emphasize protecting the private sector and the government being a mere “facilitator” in “an open-market system.” There have been indications from the World Bank that the National Development Plan will act as an interim plan will probably be seen by the World Bank as an interim-PRSP, with a full-scale PRSP to come in the next year or two. We must be careful with the development of the National Development Plan, and make sure that if it does become a PRSP, it is not filled with the ideas of the World Bank, but the ideas of the East Timorese people.

## The World Bank in East Timor:

### Who benefits?

Not a lot of people know that the World Bank is in East Timor now, but if their history and programs are taken into account, they will surely bring problems for our people. Truly the World Bank is never bothered to meet with every person and ask him or her if they agree with the Bank working in the place. It is enough to be close to the leaders or prominent figures. And if it looks like there are no problems, the program can go ahead. Of course, if there are problems later the representatives will be protested and not the Bank itself.

Irrespective of whoever brought or invited the World Bank to East Timor, the people have to know and understand what is going to happen. For example, we need to know about the money given by the World Bank: will it be in the form of grants or loans? The two have very different characteristics and consequences. If it is a grant we do not have to worry about returning it to the relevant institution, but still have to put together rather good programs that truly benefit many people. But if it is a loan, we must be careful, because if the program is not good it could be that we just have to return the money and the economic program does not bring us any benefit.

Also, there are problems associated with the programs themselves. The World Bank is well known as an institution that wants to intervene in countries' economies. For them the most important thing is for governments to have strong financial regulatory mechanisms, so they can be effective and efficient and repay loans. They are not too worried about such things as the economic welfare of poor people, or giving credit to farmers. In programs such as these, as mentioned above, the World Bank is not too worried if their money is used for wicked purposes. A concrete example is when JPS (social safety net) funds disbursed by the World Bank to alleviate poverty in Indonesia were used wrongly by the Indonesian government to fund pro-integration militias and their terror campaign before and after the referendum.

The problems with these programs are complex, because anything that is done now will also affect the future. The currently weak socio-economic basis will destroy the situation in the future. Therefore, we have to be concerned with who will truly benefit from the World Bank's programs. Is it just a few capitalists or farmers who will become the new wealthy of the village, or truly all the people?

And there are many other problems. The sure thing is that for now the World Bank has not proven that they can positively contribute to a country's economy. But without a clear explanation and complete information, working with the World Bank will be suicide. It is not difficult for the people, even if they are illiterate, to see if the World Bank programs are helping or hurting them. As long as there is enough information about whatever they will do, it will be easy for us to know who is benefiting from the programs.

Right now, East Timor truly needs assistance from many places, but not the type of assistance that we just receive blindly, or assistance that actually makes people suffer. We need to open these problems to everyone, to the point that the old people in the villages and cities participate, so no one will regret it in the future. The people need to be directly involved in the economic planning, so economic programs that are done through loans can be effective. Another thing, the East Timorese people can also say to the World Bank that now and forever, we do not want to develop our economy with loans that can only make us the subjects of economic colonialism.

How can we control all these processes carefully so we will not become the victims of fatal mistakes? The people have to be given information and the chance to speak before decisions are made, or better yet if decisions are made together. Freedom means freedom to know and freedom to let others know, not just freedom passing from one hand to another.

*The writer works in the Research and Publications Department of the Sa'he Institute for Liberation (SIL), and is an editor for the weekly magazine Talitakum*

## Summary of panel discussion

*Audience:*

**Haburas : Zizi**

About funding for hydroelectric projects, where does this money come from?  
And how does the government feel about it?

*Panel:*

**Minister for Transportation:**

These are long-term programs, with the paper plans still in process. The steps include:

Preparation phase, what will be done, research, how much is needed.

Implementation phase, which could be in five years.

Evaluation phase, to evaluate how successful the project is.

The difference in using a hydroelectric generator is that we don't have to buy fuel.

We need to separate the negative and positive impacts:

Hydroelectric power is multifunctional. By using this form of generating electricity, we get positive impacts.

Mozambique or Indonesia give us examples of bad experiences, and we feel that these are examples we can learn from. Human resources: there are human resources ready to work. Materials, money, etc: if everything is already there, why is there still corruption in Mozambique and Indonesian? This is due to the moral standards of the leadership. There is only one person who receives the money. Because our country is still young, we need good moral standards so that investment will be good, so that bad experiences do not occur in our country.

**Mateus:**

With the example of Mozambique, the country used to be under strong leadership, but the leaders eventually borrowed money from the IMF, which destroyed all the elements of the state.

**Elisabeth:**

I want to add that for all the grant assistance to go well the leadership has to be good. And about the example with Indonesia, actually the Indonesian government mismanaged the funds and did not use them for their intended purpose.

*Audience:*

**Daconcesao:**

I only want to ask, what benefits will be arranged for many companies, and what type of mechanism is there for seeing what level we are to pay and using what criteria?

The World Bank has already done a lot of projects, but I already have heard that we don't need to borrow from the World Bank, that we can borrow from countries close to us – what is the difference?

*Panel:*

**Elisabeth:**

Projects that the World Bank is already conducting in East Timor are focused in the following sectors: culture, health, infrastructure (directed by the ADB), water, agriculture, especially livestock, and CEP, which set up Village Councils in the districts to sit together and discuss the village's future. We have also reconstructed

hospitals that were burned or otherwise damaged.

Regarding what Mateus said earlier about Indonesia: the World Bank has already decreased the budget for Indonesia, and the ADB has done likewise.

**Mateus:**

The aid was stopped because there were large protests against it.

What is different with borrowing from neighbouring countries than borrowing from the World Bank? Borrowing from neighbouring countries is better, because there are not as many conditions.

*Audience:*

**Antonio Aitahan Matak:**

I criticize the World Bank because the World Bank gave loans that caused the death of both of my parents. Because of this, the World Bank should not bring their money here anymore to kill the people of East Timor. People from the eastern to western points of East Timor do not want this to happen again.

**Fernando:**

I know there is the CEP working in the villages, we can see the physical results of this such as bridges, etc., but during this time we can also see the negative social impacts.

Question for the World Bank: during this period I know the focus from the World Bank with the state has been why is there “consultation”? Has consultation with the people already been carried out by the World Bank?

For Mateus: more or less, what information do you have about the concrete impacts of these projects on the people?

*Panel:*

**Minister of Transportation:**

I say that actually this is the first time that we have met face-to-face, and I will pass on Antonio Aitahan Matak’s comments to the government. I only have known you from the daily papers.

The money we have today has come in the form of grants. The government has not yet borrowed any money. These funds have come from donor countries. We continue to look for alternatives so we can get by with funds given by donor countries.

**Elisabeth:**

For Mr. Antonio Aitahan Matak, as far as borrowing or not, that depends on the government.

To answer Fernando’s question, about consultation: this is how we can work together to understand the culture of East Timor, how we can evaluate things together. The funds that the government has now come from Donor Conferences, and are in the form of grants. Our door is open to discuss future possibilities.

**Mateus:**

The World Bank has to follow the government’s policies more closely.

The problems for the big road are not the urgent problems of today.

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**Second Panel with:**

Representative of Asian Development Bank (ADB) in East Timor - Ms. Meeja Hamm

East Timorese Academia - João Marioano Saldanha

Aid Watch Australia – Tim Anderson

**Summary of presentation by Meeja Hamm**

Why is East Timor becoming a member of ADB?

This Workshop is very important because we can understand what can be done by the Asian Development Bank in East Timor. I won't repeat what the World Bank has already said, but I want to say how the ADB can donate funds, what types of technical assistance, and how East Timor became a member of the ADB. Many people say that the ADB is the same as the World Bank, but according to us the ADB is different than the World Bank. The ADB is a regional institution and East Timor is the 61<sup>st</sup> member. The ADB is a development bank in Asia and works for Asia. The ADB also gives loans, and can help by giving needed assistance. The form of our loans can differ from the World Bank. The ADB has a very broad mandate, including helping the economy and supporting the private sector. The ADB was founded in 1966, and within the next three years will be increasing its membership. The ADB also gives loans to governments, but whether they borrow or not is the decision of the government.



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## **Summary of presentation by João Mariano Saldanha**

The ADB is a multilateral financial institution like the IMF and the World Bank, although the focus is on Asian countries. Their mission is to alleviate poverty in Asia.

The role of the ADB, World Bank and IMF in East Timor during the transitional period has been reconstruction, and the ADB is involved with building infrastructure, micro-finance and also in giving technical assistance.

Talking about beneficiaries, costs, and debt depends on a number of conditions. As a new country with poor residents, we will profit as members of the ADB. An advantage to membership is that we will gain access to funding from the ADB to be used for building the country. This is a very important advantage, but it needs to be understood if the money we receive is not a grant but a loan that will need to be repaid with interest.

This is the problem. Until they can use the skills of the public, the East Timorese government should try to manage the money in the best possible way to address the needs of the people.

Concerning the management, they need to compose an agenda together with the government and the ADB. The ADB, WB, and IMF need to understand the existing human resources. Because of this, we need to be very careful. We don't have the negotiating capacity and the capacity to make decisions about development priorities that are best for us, so that we don't become victims like other countries have.

Ideally, the government needs the money, the ADB has the money, and they sit down together to plan the project. However, this ideal situation often fails.

East Timor has a very small population like several countries in the Caribbean and Africa. These countries have a difficult time negotiating with IFIs.

For East Timor, something we can take advantage of is the conflict and competition between the various lending institutions. According to my experience with the joint assessment mission I observed how there was conflicting interests within IFIs, and this can be used as an opportunity to further our side.

## **Presentation by Tim Anderson**

### **The IFI threat to East Timorese economic independence**

The International Finance Institutions (the IMF, World Bank, the ADB) present a real threat to East Timorese economic independence. Slowly but surely these banks are pursuing an agenda which will undermine East Timor's capacity to pursue what Xanana at the UN called a people's vision for development for the next 20 years, as expressed in the new Constitution and the National Development Plan. Areas that deserve special attention are: land titling, food security, privatisation of water/power/finance/agricultural support, a foreign banking monopoly and an aggravated dual economy.

### **Background**

1. The IFIs represent the interests of international banks and large international corporations - these interests are NOT always compatible with East Timor's national interests. The main aims of the IFIs are (i) to sell money (debt/credit) (ii) to open new markets for private international traders and investors (iii) to reduce social regulation on these investors in existing markets.
2. The IFIs (supported by donor countries) have been pursuing an ideologically driven agenda in East Timor, much of which is disguised. This agenda assumes that East Timorese people have no real policy choices. Other 'technical assistance' from the IFIs refers to fairly obvious matters: that East Timor has to carefully manage a small budget, to save and invest some of its oil and gas revenue, to seek new investment, to upgrade training, to resolve conflicting land claims and to recover the costs of some services, such as electricity.
3. East Timor currently has the advantage of a debt-free start, so the IFIs are somewhat limited in their power to enforce economic policy. The strategy of joining the IFIs but NOT accessing credit may help reassure donors and investors, without seriously compromising self-governance (Ukun Rasik'an). However pressure from the IFIs is certain to build (despite the expected oil and gas revenue) for East Timor to take out low-interest loans to help finance the construction of infrastructure. Yet agreeing to such loans will invite economic policy control through an IMF-World Bank 'Poverty Reduction Strategy' - almost identical to the pre-1999 'Structural Adjustment Programs'.
4. The main threats posed to East Timor by an IMF-World Bank 'Poverty Reduction Strategy' are these: (i) enforced rationalisation and sale of land, (ii) replacement of food security policies by commercial cash cropping, (iii) the forced sale of important national assets to large foreign companies, (iv) privileging of the interests of large foreign banks, and (v) the aggravation of East Timor's dual economy. I expand on these threats below.

### **The major threats to self-governance (Ukun Rasik'an)**

5. The World Bank has helped enforce the rationalisation and sale of land title around the world. In its report on East Timor earlier this year (March 2002: iv-v) it argues an 'urgent need' to create a registered land titling system, and for laws to allow property to be seized by creditors. The point of this is to allow foreign investors to access land and other assets, and to allow the consolidation of land holdings. The World Bank does not mention the constitutional provisions which prohibit foreign ownership of land and seek to maintain 'permanent sovereignty' over East Timor's wealth and natural resources (ss.8 & 54). Presumably the Bank has no respect for these provisions. Rationalisation and alienation of landholdings are likely to be masked by arguments of greater efficiency and productivity in agriculture.
6. The World Bank is traditionally hostile to policies of food security which provide ongoing support to small farmers. Although the Bank admits that starvation in East Timor was only averted in 1999-2000 by reliance on basic staple production and community cooperation (2002: vi), it wants commercial cash cropping (e.g.



organic coffee) by large landholders. It has regularly (in reports of 2000 and 2002) expressed hostility to a policy of planned self-sufficiency in grains, and argues instead for greater trade and a 'buffer fund' to provide food in time of crisis. This 'buffer fund' notion is a crazy idea which is impractical in any poor country, and is not even relied on by rich countries (the US, the EU, Japan) in their food security strategies. Successful food security strategies in poor countries rely on a strong measure of support for a subsistence sector. Simple reliance on international 'market signals' for agricultural production has helped destroy poor countries' basic grain producing capacity and has led to starvation (e.g. Haiti).

7. The Asian Development Bank (in association with the World Bank) has been prominent in the forced sale of important national assets, in many countries. In East Timor, two of the ADB privatisation targets are the Microfinance Bank, and water and sanitation services. There is no mention in East Timor's National Development Plan of water privatisation, yet the ADB in its 2002 report (84-91) has water privatisation (private 'participation') in its policies, strategy and schedule. What mandate does the ADB have for such a plan? The ADB argues great success for its privatisations ('participations') in The Philippines. It does not mention the huge price rises and protests that followed this ADB privatisation. It does not mention the World Bank's disastrous water privatisation in Bolivia. The danger in East Timor is that the IFIs will encourage the Government to take out a large loan for water and sanitation construction, then privatise service provision to a large European company - East Timor would then be saddled with debt, strict conditionality and an expensive and controversial service - the worst of all worlds.

8. The World Bank and the ADB clearly support privileging of the interests of large foreign banks in East Timor. The World Bank (2002: v) argues in favour of foreign banks and against granting banking licenses to East Timorese investors, while the ADB (2002: 126) argues that donor 'aversion' to publicly owned banks, as well as 'proven principles' supports their plans to privatise East Timor's Microfinance Bank, as a profit making institution. In fact the state-community owned, non-profit Grameen Bank of Bangladesh has a far better record in microfinance than the ADB.

9. The World Bank notes the problems of an expatriate focussed dual economy, but then urges policies which would aggravate inequality in East Timor. The Bank proposes 'considerable investment' in expatriate personnel, yet removal of the 'floor' in minimum wages and expansion of wage differentials in the public service (2002: iii, xiii, xiv). Yet high wages for foreign workers is no recipe for success - on the other hand reliance on the selective investment plans of large foreign companies is a fine traditional recipe for the entrenchment of a dual economy.

East Timorese people should be aware of just how serious a threat the IFIs are to their economic self-determination. The main threat resides in the conditions these IFIs attach to their loans. It would be a tragedy if, so soon after gaining their much deserved and costly political independence, the East Timorese people took out IFI loans and gave up their economic independence.

A conservative Australian economic journalist recently said of IMF advice for Australia, which proposed tax cuts for the wealthy and welfare cuts for the poor:

"this is little more than special pleading on behalf of the rich and powerful, thinly disguised as objective economic analysis - because we don't need to borrow from these notorious shylocks - unlike so many poor countries - we are free to completely ignore their gratuitous advice on how to mismanage our economy, and heighten social conflict in the process" (Gittens 2002: 46).

I hope East Timor also retains such freedom.

Dr Tim Anderson, Aidwatch  
8 October 2002

## Summary of panel discussion

### *Audience:*

- q NGO *Yayasan HAK*: We want the young generation of East Timor to have a smooth road for East Timor's development!
- q We request that the international financial institutions continue their projects in East Timor in the best possible way!
- q What is the criteria that the ADB is using in East Timor?
- q NGO *Lao Hamutuk*: Which countries have had successful programs with the ADB?
- q *Dai Popular*: They say that the ADB has popular economic programs, have these programs started?

### *Panel:*

#### **Meeja HAM.**

It's not up to the ADB and the other institutions to decide on the agenda for projects in East Timor, but the government of East Timor and the public that decide what is best for East Timor. However, the ADB wants the economy to move forward.

The challenge for other donor countries and international organizations will be to cooperate in moving the economy forward.

If we speak about the projects of other countries, various voices are not counted. East Timor's focus must be to do the projects.

The promotion of the private sector is closely related to the economy.

The importance of the ADB's assistance to East Timor will be up to the government.

#### **Tim Anderson.**

The World Bank wants to give a chance to the other International Banks to establish a role here, this is not to help, but rather to look for profit.



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**Third Panel with:**

**NGO representative – Thomas Freitas**

**International Monetary Fund Representative – Kadhim Al-Eyd**

**Presentation by Thomas Freitas**

## **The Implications of IMF Policy in East Timor**

### **· Background**

**The existence of the IMF is based in an economic phenomenon known as globalisation.** Economic globalisation means the integration of national economies into a global economy. This global economy has several specific characteristics, such as the promotion of a free market or unregulated economy as the main trade arena; the flow of goods, services and capital becomes increasingly unregulated and unlimited by taxes; domination by multinational corporations and international financial institutions such as the World Bank, IMF, ADB and WTO; and all of this is supported by wealthy, capitalist countries such as the United States, Japan, the UK, Australia and European countries.

This economic globalisation is supported by a set of economic policies, including; ***Deregulation***, which means that the government no longer controls economic and financial activities or, in other words, government regulations are not heeded by the IMF; and the government is inclined to decrease control functions on public services, such as electricity and clean water, as well as for food and other basic goods. This also includes eliminating minimum wage requirements and protections for workers and vulnerable groups. All of these activities are handed over to the private sector to manage, on the premise that demand, supply and competition will determine quality, supply, and price of goods and services in the market. ***Privatisation*** is another policy that is increasing the role of the private sector in the provision of all types of goods and services, such as health, education, water, electricity, transportation, banking, infrastructure etc.

These global economic policies form the basis of IMF policies. In order to receive a loan, the borrowing party must first agree to implement macroeconomic and structural changes. A description of the function of the IMF is to provide funds to member states that experience difficulties in their balance of payments, with the aim of fostering economic growth. In this paper, I will discuss three main issues. ***First***, the possibility that East Timor will borrow from the IMF; ***second***, the conditions that are specified by the IMF; and ***third***, East Timor's alternatives to avoid having to borrow from the IMF.

### **The Existence of the IMF in East Timor**

The IMF began operating in East Timor at the end of October 1999. The IMF recommended to UNTAET to set up a Central Payments Office (CPO), which is now the Banking and Payments Authority, which has the function of making payments, as well as a Central Fiscal Authority (CFA), which is now the Finance Department, to plan the government's financial strategy. This includes formulating tax policy, collecting taxes and writing the budget. Since the beginning of the UNTAET transition period, the IMF has promoted taxes on hotel and restaurant services; whilst this may be appropriate for foreign-owned businesses, it has had a negative impact on local businesses. The IMF has also pushed for taxes on coffee exports, but this was later abandoned after protest from the coffee farmers and other groups. The IMF has also argued for smaller salaries for ETPA government workers, who are now civil servants, in order to restrict the size of the government budget.

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## **If East Timor borrows money from the IMF**

East Timor may become trapped in foreign debt with the IMF. This can already be seen with the implementation of the American dollar as the official currency in this country. The reality indicates that East Timor has become only a transit point for the US dollar, as the dollar tends to head for Australia and Singapore, as it is those countries that dominate the restaurant and supermarket industry in East Timor, as well as Indonesia, which dominates the basic food products industry. These countries have large economic interests in East Timor. We can see a relevant example with what occurred in Argentina, where the peso has the same value as the American dollar.

Before the crisis that occurred at the end of 2001, Argentina was the ideal for neo-liberal economists. In the 1990's, Argentina eliminated all trade barriers and pegged its currency to the US dollar. Many neo-liberal economists hoped that before long Argentina would do away with its own currency the peso and replace it totally with the US dollar. Because the peso and the US dollar had the same value, Argentinean products were not able to compete in international markets, as their quality did not compare with products from other countries. Additionally, 70% of the banking sector in Argentina was foreign owned. When the crisis occurred, these foreign banks did not want to lend money to the government and to local business people. This meant that many local companies and businesses were forced to close and the result was that thousands of people became unemployed.

The IMF together with the US Treasury Department pushed and supported all of these measures. And in December 2001, when the Argentinean government requested a loan worth millions of dollars from the IMF in order to repay all of its loans, the IMF demanded that Argentina first decrease its subsidies in the public service sector, such as for water, electricity, health and public transportation, before issuing the loan. Because of its trade deficit, Argentina was also forced to borrow large amounts of money from other lenders apart from the IMF.

## **Conditions specified by the IMF**

If a country wants to borrow money from the IMF, it must first fulfil certain conditions as specified by the IMF; these conditions are specified in what is known as the Structural Adjustment Program (SAP), which in its essence specifies a set of policies and an economic model that only benefits a minority and disadvantages the majority, in most countries around the world. The characteristics of SAP are: decrease government subsidies in health, education and other public services; privatisation and deregulation of public companies, devaluation of the currency, elimination of restrictions on foreign investment, decrease or restrict the regional minimum wage (UMR) and eliminate or weaken protection mechanisms for workers, as well as for the environment, along with commercialisation of land rights and natural resources. The main implication of these policies is an increase in the ability of the private sector to determine all aspects of social, cultural and economic life, and sovereignty of government itself also becomes increasingly limited. The IMF supports free markets and an open economy for developing countries, on the premise that only with an open economy can these developing nations progress to become on a par with the developed nations; however, it was precisely with a closed economy that developed countries that exist today could become developed, such as the United States itself, and Western Europe.

When a country borrows money from the IMF, it is usually difficult for that country to repay its loan. This means that, in order to provide basic social services to its population, that country must borrow more money. This vicious circle of debt never ends. An example is Cameroon, a country in Africa, which every year must repay its loan of \$280 million to the IMF, compared to expenditure of \$239 million in the education sector and only \$87 million for health. Research shows that IMF policies disadvantage rather than benefit the majority of

people in the majority of countries, and this can be seen from the results of research done by the *Center for Economic and Policy Research* which showed that 77% of countries where there is a SAP program experienced a decrease in their economic growth.

The failure of IMF policies can be seen in Brazil, Thailand and several countries in Africa. Another example is Indonesia, where state banks have been liquidated, and this has provided an opportunity for foreigners to come in and buy Indonesian banks; whereas the funds that will be obtained from the sale of these banks is not so important for the repayment of Indonesia's loan to the IMF. The former head of the World Bank, Joseph Stiglitz, has on several occasions criticised the IMF program, for example in Indonesia, because of its emphasis on decreasing expenditure in the social services sector. He also criticised the fact that the IMF program in Indonesia also caused a drastic decrease in average income. This was due to the IMF policy that Indonesia must export its products and that low wages increase competition.

In 1999 the IMF changed the name of its SAP program to become the Poverty Strategy Reduction Papers, also known as PRSPs, with the aim of changing the focus of the program to focus more on decreasing poverty. Additionally, PRSP conditions must be specified via a participative process with the local government, parliament, donor's, and representatives of civil society. Civil society is said to include: NGO's, the Church, community groups, trade unions and professional organisations. But the reality in East Timor is different to what the IMF states that it will do; negotiations taking place here have until now been limited to the government and the IMF itself. What is written in the IMF "statute" is obviously designed to deceive borrowing countries that are so often lied to such as Mozambique, Zambia, Tanzania, Nicaragua and Bolivia, where there is no consultation with civil society.

### **Alternatives:**

If possible, it is best not to borrow from the IMF. East Timor has large amounts of natural resources; if managed properly, in 4-5 years time the royalties from the Timor Gap can be saved and only used if the country is in crisis. Another alternative is that if the government desperately needs money for development projects, the government can discuss the possibility of borrowing money for this need from friendly governments. In order that East Timor does not become trapped by foreign debt, East Timor must have its own currency. This option must begin to be considered by the government now. Lastly, if East Timor does end up borrowing money, then the conditions of the loan must be determined with the involvement of civil society such as NGO's, the church, and people's organisations.

Presentation by Thomas Freitas

La'o Hamutuk, The East Timor Institute for Reconstruction Monitoring and Analysis

P.O.Box 340, Dili, East Timor (via Darwin, Australia)

Mobile: + 61 (417) 064655; Land Line: + 670 (390) 325013

Email: [laohamutuk@easttimor.minihub.org](mailto:laohamutuk@easttimor.minihub.org) Web: <http://www.etan.org/lh>

## **East Timor and the IMF**

**By Kadhim AI-Eyd**

As a nation whose identity has been forged over years of extraordinary trials, East Timor truly has earned a place of respect in the international community. Now that East Timor is taking its place in the international organizations that bring together countries large and small, it is clear that your government will express this strong sense of national purpose-as well as a commitment to global cooperation.

East Timor thus will be well served as it begins to participate in the International Monetary Fund (IMF) and the World Bank, the institutions established after World War II to ensure international economic cooperation and stability, and to encourage economic development.

East Timor's membership in these organizations-along with its decision to join the Asian Development Bank-follows three years of close cooperation aimed at building the foundations of development and sound economic management. Throughout this period, East Timorese have played an increasingly central role in the decision-making process, until, upon independence, they have assumed their rightful place as full representatives of East Timor's interests.

There is no question that in the future, East Timor's wishes and interests will be fully represented in its interactions with the IMF-just as has been the case until now.

In this regard, it is useful to review the functions of the IMF in order to get a clear view of how your government will work within the organization. The IMF is often viewed as an institution responsible to assisting countries facing economic crises, and this is one of its important functions. But, in fact, the IMF is much more.

First, it is also a forum for the international community to meet and discuss the most important issues facing the global economy. The IMF is the place where all countries can gather to express their views on economic issues, and where consensus is reached on needed global reforms. It is also the place where all nations have the right to discuss the economic policies of individual countries.

Second, the IMF is a source of assistance and advice for economic development-especially for the world's poorest countries. In recent years, this has become an increasingly important part of the IMF's work-often in close cooperation with our colleagues at the World Bank and other international organizations. Our primary responsibility in this area is to focus on macroeconomic policies and the building of government institutions.

This work is often not visible, but it is still essential for countries seeking to develop their economies. And often this work is carried out by IMF specialists working side by side with government officials, enabling each country to learn the skills that can enhance their development efforts. This form of assistance is provided free of charge.

The work of the IMF in East Timor so far has focused on helping to establish key institutions essential for economic management. Also, our specialists have worked closely with your authorities to provide advice on economic and financial policies since 1999.

We have consulted on the establishment of the Central Fiscal Authority, which now functions as the Ministry of Planning and Finance. The Fund has also helped in the process of setting up the Central Payments Office, now the Banking and Payments Authority, which plays a role in overseeing the development of the monetary and financial systems, and which one day will develop into a full-fledged central bank. Finally, we are helping with establishment of a central statistical office to improve the compilation of data, which is essential for managing the economy.

Now that East Timor has become an IMF member, your government will engage in regular consultations with Fund staff on the country's economic policies. The IMF will make recommendations, but it will not make demands. This is exactly the same process that every other member country undergoes, including the world's

largest economies.

All of this work is aimed at enhancing the prospects for East Timor's emergence in the future as a prosperous and stable nation free of poverty. So far, your government has not requested any loans from the IMF, a decision that the Fund fully respects. If at some point a decision is made to seek assistance, such a program would be established on the basis of close discussions with your government, so as to reflect the desires of the East Timorese people.

Ultimately, the IMF is nothing more than the combined will and efforts of its membership. As a full-fledged member of the institution, it is expected that East Timor will make its voice heard clearly on issues affecting the whole international community, as well as on those matters directly influencing its own future. Your country's sense of national identity will serve it well in the coming years as it assumes its place among the nations of the world.

Kadhim Al-Eyd is the International Monetary Fund's Resident Representative in East Timor.

