

Opening Remarks

Nigel Roberts, Country Director, World Bank, TLDPM April 3, 2009

Honorable President, Honorable Prime Minister, Honorable Vice Prime Minister, Honorable Ministers, Officials and Parliamentarians, Members of Civil Society, Distinguished Guests, Colleagues.

When we met in this room, a year ago, this was a different country. Only a few weeks before, rebels almost killed the President and attacked the Prime Minister. IDP camps still dotted the city and violence was very much part of the political vocabulary. We focused on the Government's stabilization plans and we endorsed them strongly---but we had our doubts. We wondered if the Government could really deliver. Could it maintain security? Would it be able to execute its ambitious spending plans? Could it close the camps and reintegrate the IDPs? Could it resolve the problem of the petitioners? Provide pensions to the veterans and the elderly? Accelerate the various temporary job creation programs?

In the event, the Government did a remarkable job. Tremendous progress was made in the areas I have just mentioned--- and Timor-Leste today presents a different and more peaceful face to the world. The key was defining a strong, achievable program, and focusing executive attention on its delivery. In an economy largely driven by public spending, cash expenditures increased three times between the 2006/7 period and 2008, and the fiscal stimulus resulting from widespread cash availability brought non-oil GDP growth of 11 to 12 percent. Last year was a major achievement, and deserves our admiration. It would be rash to suggest that stability is now guaranteed, or that the stabilization effort should be set aside, but it *is* now possible to talk about development strategy and to worry about things like fiscal sustainability---issues that were not nearly so relevant a year ago.

Unfortunately for Timor-Leste, though, the world beyond the borders has changed dramatically, and this brings new and unwelcome challenges for the country. The global financial crisis has precipitated a fall in world economic activity not witnessed since the middle of the last century. Every country will, in one way or another, be affected. In Timor-Leste we have witnessed an alarming fall in oil prices and revenues. Revenues this year could amount to only one third of what they were last year. The 2009 Budget was formulated before the full impact of the oil price decline was felt. It proposes an expenditure increase of some 25 percent compared with what was spent last year. The oil price outlook, though, is forcing the Government to question this rapid rate of fiscal expansion. Just to illustrate what I mean: if expenditure continued to expand at 25 percent per annum, and if medium-term oil prices were to stabilize at about \$60 per barrel, which is not impossible, then the Petroleum Fund would be completely exhausted within 8-10 years *unless* major new oilfields have come on-stream by then. I am not talking here about exceeding Estimated Sustainable Income, but total depletion of the country's main source of savings and wealth. Eight-to-ten years, I would add, is no time at all in development and certainly not long enough for non-oil revenues to replace those from petroleum sales. Such a scenario does not bear thinking about.

Now, I am sure that this Government would not pursue such a reckless course of action. My point, though, is that different times require different approaches. This is why the development of the Medium-Term Strategic Framework now becomes so critical. The illustrative projections I have mentioned also underline how important it is that this Strategic Framework should be guided by a simple macroeconomic model that makes clear what the country can afford, and what rates of GDP growth can be achieved under different spending patterns.

The Government is driven by a strong commitment to lift the country out of poverty on the

back of its oil wealth. This is something we all fully support. And I believe this goal *can* be achieved, even under a less favorable oil price outlook---provided that spending is very carefully targeted and that wastage and over-reach are avoided.

There is a healthy debate underway about economic development strategy. What do we see emerging as the main elements of the Government's approach?

First, of course, is the need to **maintain stability** by continuing the most important types of social transfer programs---particularly pensions to the veterans and the elderly and the cash payments to disadvantaged groups like female-headed households. These, if well-targeted, are certainly sustainable. Very sensibly, the Government plans to augment these social transfers with a major expansion of temporary labor schemes. This so-called National Workfare Initiative will play a vital part in providing seasonal employment in an economy that is not yet generating many jobs, and in which unemployment, particularly youth unemployment, is a major continuing source of instability. I see this program as a bridge to the future, providing work and hope across the country for many years to come, and one of the most important uses of the country's oil wealth.

Second is a focus on the rural areas and on **rural development**. As we all know, around a half of the country's population live in dire poverty---and three-quarters of the poor live in the rural areas. Rural development means, above all, raising agricultural productivity---not just the productivity of rice but, more importantly, the productivity of the rain-fed crops like maize and tubers on which the majority of the rural population depend. Complementary programs---rural roads, micro-credit, electricity---are all important, but a sharp focus on raising productivity is the heart of the matter, and the potential engine of growth for the majority of this country's inhabitants.

Third is **human development**, in particular education. No-one would dispute the importance to any country's long-term development prospects of a literate, adaptable workforce. A healthy and educated population is also the essence of a vibrant and questioning and democratic society.

And fourth is the development of the **private sector**. Agriculture is of course a private sector activity, and a focus on agriculture is arguably the most important type of support for private enterprise that can be provided at this stage in the country's development. In general terms the PSD environment in Timor-Leste ranks very low on international comparative scales---in part, I have to say, due to confusing and contradictory advice from successive waves of foreign advisers. It is gratifying to hear of Government's plans to simplify business licensing and registration procedures. International experience shows this can have a major impact over time on employment and on GDP growth. Another key issue in this domain is the availability of credit. and much thought will need to be put into how to make credit available to small-scale entrepreneurs and agricultural producers, without resorting to failed models of public sector credit provision.

Finally a word on **infrastructure**. Infrastructure plays a very important role in development, but of itself it does not generate sustained economic growth. It needs to be seen as a catalyst, or as a means to something else. Thus, for example, rural roads can play a major part in addressing low agricultural productivity, by providing access to markets. As in this case, the type of infrastructure that delivers the best economic results may not be particularly spectacular or large-scale. Relevance, not size, is what matters when it comes to infrastructure.

I would like to thank you all for this opportunity to speak, and to reiterate the World Bank's admiration for the Government's recent achievements---and our commitment to continuing our partnership with you in the years ahead.

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