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## Some observations from La'ó Hamutuk for the 2011 Timor-Leste and Development Partners Meeting

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For more than a decade, La'ó Hamutuk, as a Timor-Leste civil society organization, has been observing and analyzing the activities of Timor-Leste's development partners and decision-makers as this nation emerges from war and occupation into peace and democracy. We share with you the pleasure of "walking together" with the Timorese people to say goodbye to violent conflict and welcome development.

La'ó Hamutuk appreciates your hard work to make international assistance to Timor-Leste more effective, and we have learned many lessons and observed improvement since 2000. During that time, the global aid community has also learned lessons, as the Fragile States Aid Effectiveness process shows. La'ó Hamutuk hopes that our contribution will be useful to citizens and development partners of Timor-Leste, as well as others who can learn from Timor-Leste's experiences.

We have written a separate paper with our preliminary observations on the Strategic Development Plan.<sup>1</sup> This paper complements that one, highlighting a few issues that we believe Development Partners should consider. Some of our comments refer to the "Principles for Good International Engagement in Fragile States and Situations," but we are writing specifically about Timor-Leste.

You may receive another paper from the Timor-Leste NGO Forum, with thoughts from different civil society organizations. La'ó Hamutuk is offering this document with our own analysis and conclusions to broaden and deepen the information available to participants in the TLDPM.

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<sup>1</sup> Available in English from <http://www.laohamutuk.org/econ/SDP/2011/LHSubSDP11Jul2011En.pdf>

## **Please understand Timor-Leste's complete context.**

The first Fragile State Principle (FSP) is to take context as the starting point. We believe that international actors here often overlook important elements of Timor-Leste's context, either because they are unaware or to serve political or institutional objectives. This does not serve our people well.

Timor-Leste's history didn't start in 1999 or 2006. The legacies of colonialism, war, occupation, trauma, religion, poverty and underdevelopment are the fundamental components of the country's current fragility. Over the past decade, international experts have defined problems or prescribed solutions for Timor-Leste's people without understanding why things here are the way they are. These are not "cultural" or uniquely Timorese, but are the consequences of what international actors have brought to Timor-Leste for 500 years.

### Post-colonial

- Language controversy
- Land ownership in chaos
- Illiteracy
- Underdevelopment
- People never lived under rule of law.
- Powerful people & classes have special privileges
- People never had power to make decisions for themselves.
- "To Resist is to Win" – lobbying, coalition-building, compromise and persuasion never worked.
- Internalized Portuguese and Indonesian mindsets
- Bureaucracy, corruption, "entitlement," *dwi fungsi*
- Incorporating returned exiles, former collaborators
- Public officials all just learning their jobs
- Most experienced people left in 1999, especially in education, health and governance.
- Hard to get neighboring countries to respect our sovereignty

### Post-conflict

- Pandemic Post-Traumatic Stress Disorder (PTSD)
- Infrastructure and property destroyed
- Most adults have lost all their possessions and had their lives totally disrupted 2-3 times
- No experience of predictability or long-term planning
- Poverty
- High birth rate
- Domestic violence
- Respecting veterans; dealing with collaborators
- Police and military came from different sides of the independence struggle.
- Leading in peacetime requires a different skill set than leading during resistance.
- Differences of opinion are personalized. Loyalty and betrayal paramount; long histories and memories.

## **Ongoing impunity makes this democratic state more fragile.**

Timor-Leste has recently emerged from centuries of colonialism and a generation of occupation and war. Our people live with their past experiences of trauma, injustice, oppression and discrimination. The prevailing impunity for crimes against humanity committed during the 24-year Indonesian occupation undermines the rule of law. For example, two years ago Indonesia successfully pressured Timor-Leste leaders to release indicted criminal Maternus Bere.<sup>2</sup> This action

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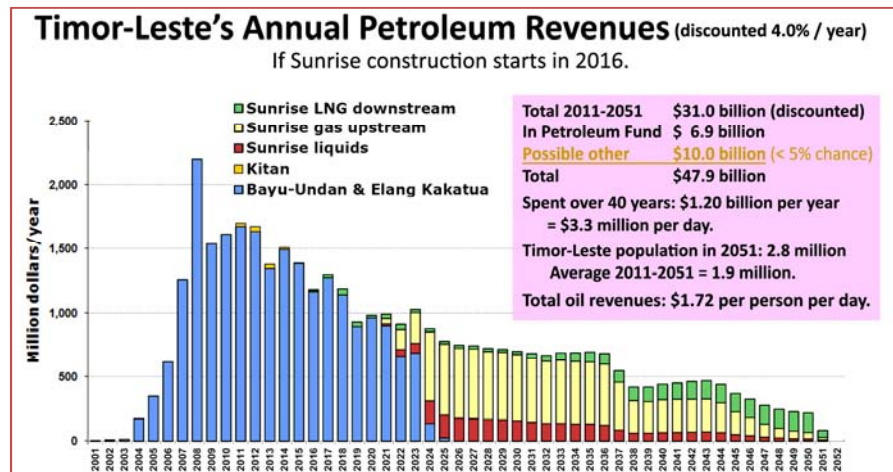
<sup>2</sup> More information on the extra-legal release of Maternus Bere, whom the UN-backed Serious Crimes Unit indicted for Crimes Against Humanity for the 1999 massacre at Suai Church, is available at <http://www.laohamutuk.org/Justice/99/bere/09MaternusBere.htm>.

violated our Constitution and increased popular perceptions that anyone supported by powerful people is above the law, a perception which emerged by the failure to hold accountable the principal actors behind the 2006 crisis or the 2008 attempted assassinations of the President and Prime Minister.

Development Partners and the Government, perhaps because of the past roles of certain states and individuals, are increasingly reluctant to acknowledge international responsibility to end impunity for crimes against humanity committed by international actors in Timor-Leste between 1975 and 1999, increasing the fragility of rule of law and accountability. How can this reversed?

**Timor-Leste is a petro-state without much petroleum.**

Mineral-rich countries are retaining more of their resource wealth than in the past. This means that Timor-Leste has its own money, but only for the next decade or two. Unfortunately, our total petroleum reserves are not that large, and it is unlikely that additional significant fields will be found. Under optimistic



assumptions,<sup>3</sup> Timor-Leste’s total oil and gas wealth will bring in about \$48 billion, during four decades. Together with Petroleum Fund investment returns, this could provide \$1.72/Timorese person/day through 2051 if all the money is spent as it comes in. With a sustainably managed Petroleum Fund, this declines to \$1.41/person/day but lasts longer.<sup>4</sup> Both figures are far less than is being spent in 2011 -- \$3.11/person/day.

If current spending plans continue, Sunrise isn’t developed and no new fields are found, the Petroleum Fund will be empty by 2035 under Government price forecasts, and 2030 with more prudent ones.

Unfortunately, revenue from exporting oil and gas is virtually the only money circulating in Timor-Leste, enabling state activities and driving existing economic growth. Our private sector consists of subsistence farming, government contractors and a few importers. This is unsustainable, and when the oil money stops in 2024, our economy will grind to a halt, with our people enduring the consequences.

Since last September, dozens of reports have repeated that 41% of Timor-Leste’s people live below the poverty line of 88c/person/day. This number, based on a World Bank “projection” for 2009 derived from other surveys, is dubious. It ignores inflation and correlates indicators unrelated to

<sup>3</sup> These figures use the Government’s optimistic oil price forecasts, assume that Sunrise LNG comes to Timor-Leste, and that currently unknown fields with a total value 70x that of Kitan (the only new field since 1999) are discovered and developed. If Sunrise gas is used to generate electricity rather than for export, the revenues will be less.

<sup>4</sup> A graph illustrating these revenues is at <http://www.laohamutuk.org/econ/HDI10/OilRevenuesTotal2011En900.gif>. Under more conservative assumptions, there will be no oil revenues and no Petroleum Fund after 2030 if spending levels in the 2011 budget are continued and, as is likely, no new oil and gas fields are developed.

poverty. We do not know the correct number, but neither does anyone else. A more recent study<sup>5</sup> showed that hardly any poor people live in Dili, where most economic gain has occurred. In the long term, the failure to build a sustainable, self-sufficient, non-oil economy here will impact disastrously on future generations, as highlighted in UNDP's *2011 National Human Development Report*.

We hope that Timor-Leste's Government's exaggerated claims and dreams of non-oil economic growth<sup>6</sup> and poverty reduction don't cause donors to prioritize more needy recipient countries.

### **External debt will make Timor-Leste more fragile.**

So far, Timor-Leste has no debt to any country or international institution, but this could change soon. The Government wants to borrow to finance public investment (the SDP gives only a hint), and some development partners are encouraging this path. One law is pending before Parliament to create a debt management regime, and another to use part of the Petroleum Fund as collateral for borrowing. However, the public has received little information and no consultation about the level of debt, what borrowed money will be used for, who it will come from, the consequences of default, and where the repayments will come from when the oil has all been sold.

We believe that this violates Fragile State Principles 2 (Do no harm), 4 (Prevention), 9 (Sustainability), 6 (Non-discrimination) and 10 (Inclusiveness). Borrowing today will impose debt payments after Timor-Leste's oil reserves are exhausted, increasing fragility and transferring wealth from future generations to the current one. Even with concessional interest rates, the principal must be repaid. Although potential lenders – including Japan, Portugal, the ADB, IMF and World Bank – encourage quality investments with long-term returns, the record of large projects here and in other fragile states raise doubts whether these recommendations will be followed.

### **The Resource Curse is a key element of Timor-Leste's context and fragility.**

The "Resource Curse" is almost universal in countries dependent on exporting nonrenewable resources. The "resource curse" is not inflicted by the devil, but by context. Large, temporary, petroleum revenues have enabled rapid escalation of state expenditures and severe import dependency, which is unsustainable and violates intergenerational equity.

Inflation is soaring, and is currently close to 15%. This predictable manifestation of the "resource curse," (sometimes called "Dutch Disease") occurs in *rentier* economies<sup>7</sup> which have more money in circulation than local producers have the capacity to absorb. In Timor-Leste, 70% of State spending goes overseas (according to the Minister of Finance), as well as nearly 90% of donor

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<sup>5</sup> See Table 2.11 of the *2009-2010 Timor-Leste Demographic and Health Survey*. Only 2.5% of Dili's are among the poorest 40% (approximately where the poverty line is), while more than 60% of the people in Ainaro, Oecusse and Viqueque districts are in the bottom 40%. Although 71% of Dili households are among the richest 20% of Timorese, fewer than 8% of those in Ermera, Oecussi and Viqueque enjoy that status. The table is on page 23 of <http://www.laohamutuk.org/con/Training/PresentUNTL-VUEn.pdf>.

<sup>6</sup> Only one country in world history (China) has sustained double-digit real GDP growth for the long term, and only three others have achieved above 7% (see graph on the last page of our comments on the Strategic Development Plan). Part of the context of Timor-Leste (and all other countries) is the history of what others in similar circumstances have been able to achieve, and wishful thinking contributes to fragility. Recent rapid economic growth has been entirely driven by 30% annual increases in state spending, which cannot continue.

<sup>7</sup> *Rentier* economies have state income from renting or selling resources, rather than from production. Timor-Leste is the global outlier: our GNI is six times larger than our GDP, according to the 2008 data in UNDP's global *2010 Human Development Report*. Every other country's GNI is less than 80% above its GDP, and only three countries have GNI more than 20% above GDP. More than 95% of Timor-Leste's 2011 state revenues and four-fifths of GNI come from exporting nonrenewable petroleum wealth. See <http://www.laohamutuk.org/econ/HDI10/GNIGDP.gif>.

expenditure.<sup>8</sup> Our 2010 balance of trade in goods and services was \$994 million in imports, \$20 million in non-oil exports, almost entirely unprocessed coffee.<sup>9</sup> This house of cards will collapse when the oil fields run dry.

The “Curse,” exacerbated by short-term thinking and the believe that spending money is the best way to address problems, manifests itself in increasing gaps between rich and poor and between Dili and rural areas. Large constituencies do not share in benefits from the nation’s wealth, often leading to conflict, and little attention is given to non-oil revenues or economic sectors.

This year’s State Budget spends twice as much for overseas scholarships as for the National University, which provides employment and educates more than ten times as many students. It spends twice as much on feasibility studies for the oil industry as on agriculture, the basis of 80% of our people’s lives. Education and health – more difficult to solve but essential for development – gets less than one-fifth as much as physical infrastructure contracts with foreign companies. Prefabricated houses are imported for every village, rather than employing local contractors. Spending on goods and services from abroad almost always gets priority over investing in our own people and systems. When money is spent locally, there is often little attention to quality of results or future implications, as demonstrated by *Pakote Referendum* and *Pakote Dezenvolvimentu Desentralizadu*. If similar policies continue, Timor-Leste’s fragility may be shattered.

### **Security is more than the “security sector.”**

Security means being able to live without fear of crime, invasion or violence – and also without fear of illiteracy, homelessness, unemployment, disease, starvation and other violations of human rights. Every citizen of every donor country expects that. But when development partners address “security” for Timor-Leste, they focus on men and women with guns intimidating everyone else from misbehaving. A police state is not the optimal solution to structural poverty, economic polarization, alienation and underdevelopment.

Similarly, avoiding or preventing physical conflict should not be the primary dimension for measuring effectiveness of a government or donor program. Improving the quality of people’s lives –as defined by international standards for human rights (economic and social as well as civil and political) – is also relevant. Starvation, diarrhea, kidney disease and toxic pollutants can be just as fatal as bullets, and far more Timorese people are killed by preventable diseases than by violence. For example, the great majority of the more than 2,000 Timorese children under five who die every year are victims of avoidable or curable conditions,<sup>10</sup> while homicide took only 39 lives in Timor-Leste 2010.<sup>11</sup>

### **Statebuilding is not the only objective.**

Although this is Fragile States Principle #3, the second FSP (“Do no harm”) should ensure that donors do not harm national or personal economies, or violate human rights, either today or tomorrow, even if a state does so. Policies that squander non-renewable resources or permanently

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<sup>8</sup> See <http://www.laohamutuk.org/Bulletin/2010/Feb/bulletinv11n1-2.html#donor>. La’o Hamutuk estimates that 10.6% of \$5.2 billion in bilateral and multilateral assistance to Timor-Leste between 1999 and 2009 entered the local economy.

<sup>9</sup> The numbers and sources are listed on page 2 of our comments on the Strategic Development Plan.

<sup>10</sup> The 2,000 figure is calculated from the 64/1,000 under-5 mortality rate reported in section 8.3 of the 2009-2010 Timor-Leste Demography and Health Survey. According to the WHO Global Health Observatory Database, under-5 mortality in Timor-Leste in 2008 was 93/1,000, while in Singapore it was 3/1,000, Australia 5, Malaysia 6, Brunei 7, Thailand 14 and Fiji 18. The Philippines and Indonesia were higher, but less than half of Timor-Leste’s rate.

<sup>11</sup> According to UNPOL statistics provided by UNMIT. Some deaths originally reported as suspicious were later determined to be accidents or suicides.

damage the environment or climate, violating future generations' rights, do harm. Increasing the divide between a small affluent elite and impoverished masses, or the state's reliance on force (i.e. repression) are also harms to be avoided.

If the Government fails to prioritize sectors such as health, education<sup>12</sup> and food production for local consumption, donors (as well as NGOs, community groups and the private sector) should try to fill the gaps, rather than exacerbating the consequence of state weaknesses. Donors should help cover what falls between the cracks of the Strategic Development Plan. Similar concerns apply to local and international NGOs, which should maintain their **non**-governmental identities even if they become more dependent on government funding and direction. Local NGOs and other civil society organizations can provide grassroots, popular legitimacy and continuity between administrations and projects where other institutions fall short.

Much donor resources have been allocated to advisors and trainers to improve public servants' capacity in the short term, but little attention is given to education for the broader population, which receives only 6% of the 2011 budget. Although the Human Capital Development Fund is less than 2% of the state budget, it is four times more than the state will spend on UNTL this year.<sup>13</sup> If today's students don't receive solid primary and secondary education, will donors in 2030 pay for consultants to provide remedial "capacity-building" in basic arithmetic after Timor-Leste has depleted its oil reserves?

Donors should not follow recent, ill-advised trends by the World Bank, MDG and UNDP to use years of schooling as an indicator of education, but should focus on quality – are the children learning? In addition to building or refurbishing schools, more attention should be given to teachers, books, curricula and standards. Although the language controversy has complicated education ("mother-tongue" curricula will add another level of complexity), a decade of effective effort could have made Portuguese work. Some policy-makers appear to think that a small educated elite is all Timor-Leste will need; donors should use pressure and resources to ensure quality basic education for all our children.

### **Prioritize prevention with long-term planning and earlier-warning analysis.**

Political actors are still developing strategies for this new, evolving state. The most fundamental fact is that our economy depends entirely on selling off nonrenewable petroleum wealth from oil and gas fields that will be exhausted by 2023 (or 25 years later if Sunrise is developed). The country's total petroleum revenues are barely enough to raise the population above the poverty line. When today's babies are in secondary school, they will stop. Yet very little attention is goes to other sectors of the economy.

Much attention is given to "early warnings" that fail to anticipate disasters beyond a two-year horizon. The UNMIT mission closes next year, once the election has been survived. Like politicians in every democracy, Timor-Leste's leaders focus on what can be done before the next election. A five-year Country Assistance Strategy passes for long-term planning.

The short-term perspective is exacerbated by the "project" orientation of many international agencies and donors. Building a state, developing a non-oil economy, and educating a child are not projects that can be done in a year and concluded with an evaluation of indicators and outcomes,

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<sup>12</sup> In 2011, Timor-Leste will spend 9.6% of its state budget on health and education, about one-third of what is spent by countries on track to achieve the Millennium Development Goals. See the graph on page 4 of our comment on the Strategic Development Plan.

<sup>13</sup> Data in this paragraph are calculated from Timor-Leste's General State Budget for 2011.

followed by a new project. You can't solve malnutrition with a cup of Frutamin, or overcome cancer with a Handiplast (Band-Aid).

The just-revealed Strategic Development Plan is a welcome change in timeframe (although some cynics say its main target is the 2012 election), and we encourage Development Partners to also think longer-term. Even though you cannot commit funding or involvement decades in the future, you can select and design programs – not projects – that will be sustainable and produce results over a longer time. This may require a shift in orientation, but it is essential to make your assistance effective. Timor-Leste has its own oil money today; what it needs is help building a strong basis for tomorrow.

Long-term investments in education, preventive health care, sustainable agricultural productivity, non-oil light industry, reduced dependency on imports and equitable distribution of wealth can help prevent social injustice and disintegration, which are difficult to avoid (as one can see in resource-export-dependent states as diverse as Nigeria, PNG, Libya and Iraq). When the oil runs out, Timor-Leste can only avoid “Goodbye development, welcome conflict” if a solid foundation has been built before then.

Similarly, early warning efforts to predict and prevent future conflict should address the social and personal causes of violence, as well as the symptoms. Dialogue between leaders and donors does not reduce alienation and social jealousy (class conflict) within the population. Handing out cash grants to disaffected groups (IDPs, petitioners, evictees, victims, youth gangs, veterans) has created a tradition of wheel-squeaking: others have learned that threatening to disrupt business as usual can win a share of state funds.

As our rapidly increasing population<sup>14</sup> reaches the age of employment or gang membership, the danger increases. A common misguided response – viewing young men as a problem to be sent away or kept busy, rather than as resources which can help develop this country – does not serve the nation or its people well. Youth employment schemes are valuable to the extent that they lead to permanent jobs. 15,000 people enter the work force every year, far more than the UN will lay off. In 2024, after Bayu-Undan is dry, more than 30,000 Timorese will reach working age, and today's youth will have their own families to provide for.

Timor-Leste is already impacted by climate change which will get worse in the future, largely because large industrial nations refused to listen to “early warnings” from climate scientists. If unpredictable weather, sub-normal dry seasons, and torrential rains continue to get worse, it will be harder to maintain infrastructure or agricultural productivity. This should be included in early warning planning, and donors should give attention to prevention as well as adaptation by reducing their own greenhouse gas emissions. It is an essential component of the fragility of many underdeveloped tropical countries, although the solutions should come – according to the principle of climate justice – from the countries represented by many development partners. In addition to aid for adaptation and mitigation, your countries should reduce your own greenhouse gases emissions, making small changes in your citizens' lifestyles to prevent large disruptions in fragile states like Timor-Leste.

Thank you for your consideration of our comments, and we look forward to continuing discussions, learning and improvements on these topics, which are vital to the lives of people in Timor-Leste and other fragile states.

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<sup>14</sup> The 2009-2010 Demography and Health Survey shows that we have more than twice as many people aged 0-9 as 20-29.