

PRESS RELEASE



Petroleum Fund revenue must target the development of the non-oil economy, especially the rural sector, in order to raise living standards, says Report

Dili, 3 May 2011 – Much progress has been made in Timor-Leste in recent years, but many people remain poor. Wealth from the oil resources must be utilised effectively to promote sustainable development of non-oil areas of the economy, and to reduce disparities between the urban and rural population. This is according to Timor-Leste's *National Human Development Report 2011*, launched today by President Jose Ramos-Horta and the United Nations Development Programme (UNDP).

The Report, entitled *Managing Natural Resources for Human Development: Developing the Non-Oil Economy to Achieve the MDGs*, presents the achievements of the country, thus far, and proposed strategies for development in the coming years.

The Report concludes that poverty levels have improved substantially since 2007. However, approximately 41 percent of the rural population continue to live in poverty.

Timor-Leste's Human Development Index (HDI) value for 2010 is 0.502, placing it in the medium human development category, with a ranking of 120 of the 169 countries reporting in the 2010 Global Human Development Report. This constitutes a rise of 11 places since 2005. Between 2005 and 2010, Timor-Leste's life expectancy at birth increased by more than two years, whilst mean years of schooling and expected years of schooling remained the same during this period. Timor-Leste's Gross National Income (GNI) per capita increased by 228 percent during the same period.

The Report recognises that the economic and social impact of the 2006 crisis in the country was severe. Subsequent governments have worked hard to address the underlying issues contributing to the crisis, and to establish national priorities for development. Despite the setbacks of 2006, Timor-Leste has managed to recover and achieve high rates of growth, largely due to increased oil prices and increased public spending. The Report highlights the fact that growth needs to be equitable:

"Policies to address levels of poverty cannot rely solely on the 'trickle down' effect of petroleum wealth, but as shown by the experiences of countries in the Southeast Asian region, policies and programmes must be put in place to ensure that growth is inclusive."

The challenge for Timor-Leste in the coming years will be how best to use the revenue from its Petroleum Fund, and to promote the development of the non-oil economy. Consequently the focus of Timor-Leste's National Human Development Report is on the following:

"How the country's petroleum wealth can most effectively be used for implementing pro-poor economic growth, developing the rural sector, enabling poverty reduction, facilitating employment generation and promoting private sector development."

Developing the non-oil economy

The agricultural sector provides livelihoods for around 70 percent of the population of Timor-Leste. Most of the people survive largely by subsistence farming. As the Report notes:

“Improving livelihoods in the rural sector requires sustainable improvements in a number of key strategic areas, most notably in agricultural productivity, promoting crop diversification, developing agricultural processing and in enabling the marketing of products – particularly those with export potential.”

In addition, the Report identifies a number of other rural industries that are suitable for development. The fishing industry, for example, could be expanded through greater investment in boats, ice factories and transport.

Ecotourism also has economic potential. Timor-Leste has a number of coastal and inland sites that are ideal for the development of eco-friendly tourist villages, which would involve local communities and provide sustainable employment for village households.

“Successful implementation of policies to improve levels of human development requires a greater involvement in decision-making by those for whom these policies are devised. Hence, rural communities must be involved actively in development decisions affecting their livelihoods, via an effective decentralization to the districts and below,” says Finn Reske-Nielsen, Deputy Special Representative of the Secretary General and UNDP Resident Representative in Timor-Leste, in his Foreword to the Report.

There are also non-rural parts of the economy that could benefit from greater development. In recent years, for example, there has been substantial growth in the construction industry. Other important sectors are wholesale and retail trade, health, education and social services, the hotel and restaurant trade, and security services.

Improving Timor-Leste’s climate for business is critical for growth and for job creation. The current perception of the country’s business potential is not particularly favourable. The Report identifies a number of issues that need to be addressed in order to counter this perception:

“Difficulties in resolving contract disputes; high communication costs; a serious lack of supporting services such as auditing, accounting and law practices; lack of a credit registry; limited transparency of procurement procedures; insecurity of tenure; difficulties in obtaining credit; and high risks associated with business closure.”

Achieving the Millennium Development Goals (MDGs)

Timor-Leste has made substantial progress in many of the MDG areas. It has achieved its 2015 goals for infant and under-5 mortality rates, for antenatal care coverage, and for the proportion of tuberculosis detected cases. It is on-track to reach targets in other areas, such as net enrolments in primary education and proportion of population with access to an improved drinking water source.

However, Timor-Leste remains off-track for achieving a number of the MDGs targets, such as proportion of the population below the national poverty line, prevalence of underweight children under 5 years of age, and maternal mortality rate.

The Macro-Economic Framework presented in the *National Human Development Report 2011* outlines strategies for the country to achieve all its MDGs by 2025. The Report argues that the strategies are:

“Feasible, financially sustainable, and will enable efficient and productive use of the Petroleum Fund, provided efforts are made to develop appropriate strategies for the development of the non-oil economy and primarily for the rural sector.”

Population changes and tackling unemployment

“The country is experiencing demographic changes with profound implications for its future development,” emphasised Timor-Leste’s President Jose Ramos-Horta, in his message for the Report.

Timor-Leste has one of the highest birth rates in the world, and the majority of its population is under the age of 21. In addition, migration from the countryside to the capital, Dili, is extremely high. Dili has seen a population increase of around 150,000 since 1999, and the city accounts for around 22 percent of the total population of the country. These trends are difficult to sustain, both socially and economically, and particularly in relation to employment.

“The country requires a reasonably expeditious mix of policies enabling a reduction in fertility rates, and facilitating a reduction in the current high levels of rural-urban migration,” is the recommendation of the Report.

To deal with unemployment in the longer-term, and to create a sustainable basis of development when petroleum revenues have declined, it is vital that the development of the non-oil economy be addressed.

Timor-Leste’s *National Human Development Report 2011* was authored by an independent panel of experts, with consultation and peer review by UNDP, the Government of Timor-Leste, and civil society partners. The principal objective of the NHDR is to raise public awareness and trigger action on critical human development concerns.

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