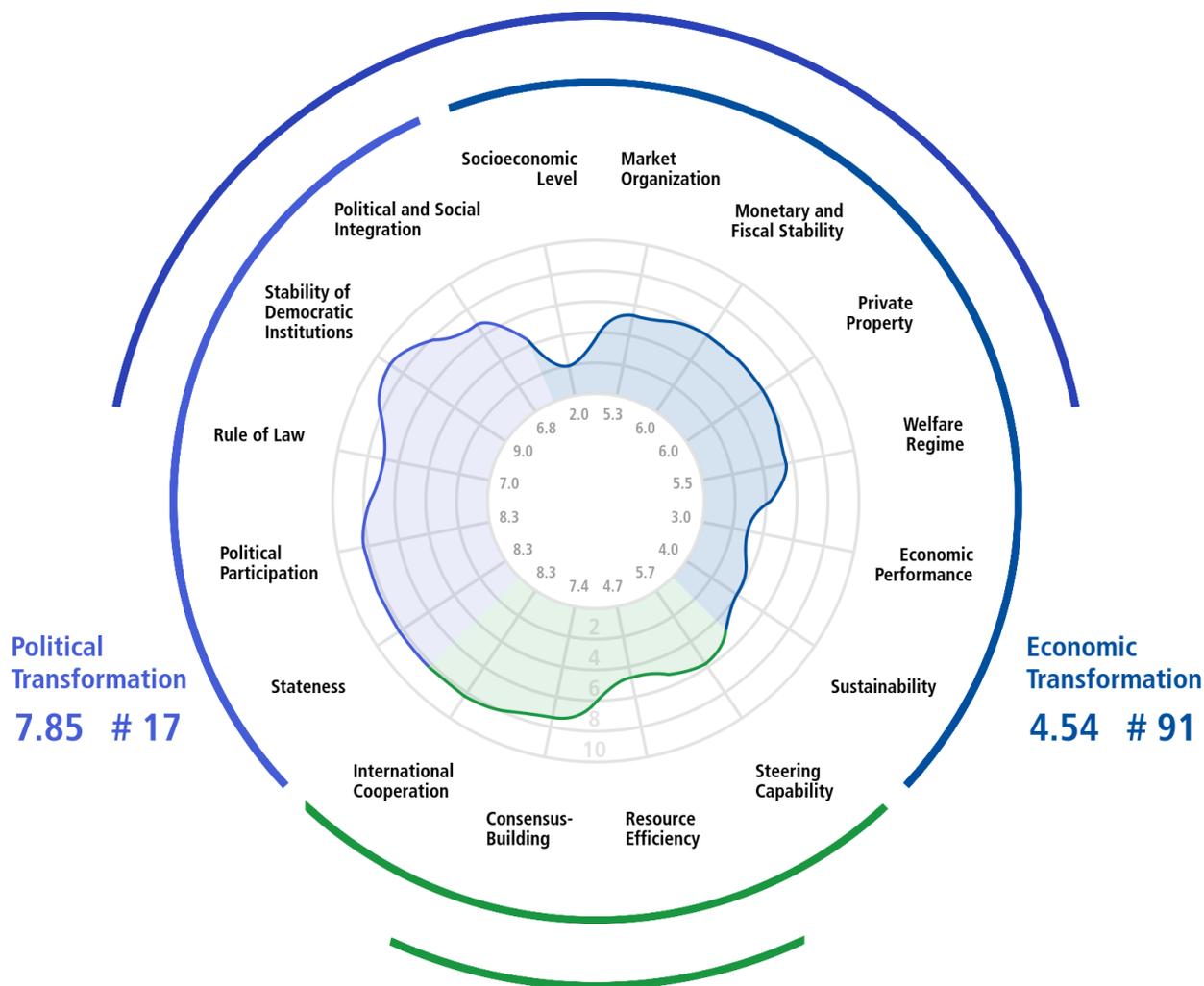


Timor-Leste

Status Index

6.19 # 43

on 1-10 scale out of 137



Political Transformation
7.85 # 17

Economic Transformation
4.54 # 91

Governance Index

5.78 # 32

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	1.4	HDI	0.634	GDP p.c., PPP \$	4758
Pop. growth ¹	% p.a.	1.2	HDI rank of 193	142	Gini Index	28.7
Life expectancy	years	67.7	UN Education Index	0.576	Poverty ³	% 69.2
Urban population	%	32.8	Gender inequality ²	0.394	Aid per capita \$	187.8

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

In 2023 and 2024, Timor-Leste strengthened its democracy by successfully holding parliamentary elections with a commendable voter turnout of 79%. The country also joined the WTO, enhancing its integration into the global market. However, it still faces many challenges in maintaining and strengthening its democracy and market-based economy.

The National Congress for Timorese Reconstruction (CNRT), led by historic leader Xanana Gusmão, emerged victorious in the 2023 parliamentary election, securing 31 out of 65 seats with 41% of the vote, its most significant achievement since it first participated in national elections in 2007. The CNRT formed the government with the Democratic Party, replacing the previous multiparty government led by Taur Matan Ruak. The government also successfully conducted elections in 442 villages. Since the election, democratic institutions have functioned effectively, with the national parliament passing the government's five-year program, and annual budgets for 2024 and 2025 on time.

The government has not strengthened efforts to diversify Timor-Leste's economy. It remains heavily dependent on the Petroleum Fund, which accounts for more than 80% of the annual state budget. As of August 2024, the Petroleum Fund balance stood at \$18.95 billion. The Ministry of Finance estimates that the fund could be depleted within a decade. Despite recognizing the risk of a fiscal cliff, the government has not significantly shifted its investment focus toward economic diversification. The 2025 state budget rose 12% from 2024, but allocations for productive sectors remain stagnant.

GDP growth was estimated at 2.3% in 2023, down from 4% in 2022, mainly because of a pause in government spending during the government transition and the absence of significant private sector growth. Inflation remained stable overall but was influenced by import prices, leading to a temporary rise in 2023 that pushed up food prices. Poverty and inequality remain significant

issues, with more than 42% of the population living below the national poverty line, particularly in rural areas. Food insecurity is also a significant concern, with 36% of the population experiencing chronic food insecurity and around 47% of children under five years old experiencing stunting.

Timor-Leste is implementing policies to encourage local business growth, attract foreign investment and uphold fair market competition. In 2024, it joined the WTO. Its bid to join the ASEAN still awaits approval from all members, but hopes for accession in 2025 are growing. Weak domestic production has forced Timor-Leste to import most of its essential goods. The external trade deficit reached approximately \$750 million in 2023 and exceeded \$800 million in 2024.

History and Characteristics of Transformation

After more than 400 years of Portuguese colonization, Timor-Leste declared independence on November 28, 1975. Nine days later, Indonesia invaded, starting 24 years of illegal military occupation that claimed the lives of a quarter of Timor-Leste's people. In 1999, the United Nations organized a referendum, albeit belatedly. When 78.5% of the population voted for independence, Indonesia burned most of the country's buildings. After two and a half years of transitional U.N. rule, Timor-Leste regained its independence on May 20, 2002.

Timor-Leste had to recover from violence and trauma – including the displacement of people to Indonesia, and the near-total destruction of its infrastructure and buildings – draft its constitution and laws, and construct a state administration and public services from scratch. Having endured war and oppression, the East Timorese embraced peace, pluralism, democracy and human rights, although neither their leaders nor their people had ever lived under a government that even pretended to address the public interest.

The constitution provides for a semi-presidential system in which the president and the parliament (which selects the prime minister) are elected by direct universal suffrage for five-year terms. Parliamentarians are elected on national party slates under proportional representation, provided a 4% minimum threshold is exceeded.

The Revolutionary Front of Independent Timor-Leste (FRETILIN), a party established in 1974 to advocate for independence, won the first free elections in 2001 and selected Mari Alkatiri as prime minister. Xanana Gusmão, a prominent resistance leader, was elected president in 2002.

In 2006, the political-military “crisis” began with clashes between the military and police. It had deep underlying causes, some dating to the 1975 civil war and others from the experience of occupation. The prime minister was forced to resign, approximately 250 people were killed, thousands of houses were burned and more than 100,000 previously traumatized citizens were displaced. It took several years and significant government compensation before the internally displaced persons (IDPs) could return home.

Nevertheless, the 2007 elections went smoothly, with nonpartisan diplomat José Ramos-Horta elected president. A few months later, a coalition led by the CNRT – a party that Xanana Gusmão had recently created – formed a parliamentary majority alliance with smaller parties and named Xanana prime minister. In the 2012 elections, the CNRT retained control of the parliament. However, in 2015, Xanana resigned as prime minister, inviting FRETILIN’s Rui Araujo to become prime minister. This power-sharing arrangement lasted two years, with unprecedented cooperation between the two major parties, although Xanana continued to make major policy decisions.

Former resistance officer and attorney Francisco Guterres “Lú-Olo,” a FRETILIN leader also informally backed by the CNRT, won the 2017 presidential election. For the parliamentary elections two months later, former President Taur Matan Ruak created another political party, the People’s Liberation Party (PLP). FRETILIN won a plurality, but its minority government was short lived. An early election was held in 2018. The coalition of the CNRT, PLP and Enrich the National Unity of Timorese (Kmanek Haburas Unidade National Timor Oan, KHUNTO) – a new party based on a martial arts group – won 34 out of 65 seats in the parliament and chose Taur Matan Ruak as prime minister. With 23 seats and support from smaller parties, FRETILIN led a vocal parliamentary opposition, often allied with the president.

In 2020, a realignment brought FRETILIN into government with the PLP and KHUNTO, placing the CNRT in opposition. Ruak remained prime minister until the 2023 parliamentary election. The CNRT won the 2023 parliamentary election and formed a coalition with the Democratic Party to establish Timor-Leste’s ninth government, with Xanana Gusmão as prime minister. The Xanana Gusmão government continued most of the previous government’s policies, but stopped the National Strategic Development Plan (2011 – 2030) revision process, which the previous government had started.

Following independence, Timor-Leste became the poorest country in Southeast Asia, with limited financial resources aside from donor support. While some social indicators – such as life expectancy, maternal and child mortality, tuberculosis and malaria – have improved, they remain among the worst in the region. Child malnutrition continues to rank among the highest globally. More than 40% of the population lives in poverty.

Income from oil and gas began to significantly increase in 2006. Timor-Leste’s state expenditures grew fourfold over the following five years. However, petroleum revenues collapsed in 2023. Although there is less than an even chance that other fields could provide significant revenues in the future, this mirage dominates policymakers’ thinking. Decisions are often afflicted by the resource curse, with little interest in preparing for the inevitable and challenging post-petroleum future.

Most oil revenue has been saved in the Petroleum Fund, which has received \$25.4 billion in oil and gas income, and \$9 billion in returns from investments in overseas stocks and bonds. A total of \$16 billion has been withdrawn from the fund since 2007, covering about 85% of state expenditures and leaving \$18.3 billion in 2023. Until 2015, Timor-Leste was among the world’s most petroleum-export-dependent countries, but it now relies on its financial investments, which returned about \$1.7 billion in 2023 after a loss of about \$2 billion the previous year. Between 2014

and 2021, private sector jobs declined by 16%, while the working-age population grew by about 18%. In 2022, about 65% of the population was of working age, of whom 33% were young people. More than two-thirds of the adult population is not part of the formally defined labor force and most are subsistence farmers.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The national police and army are the only armed entities in the country and entirely under government control. Several martial arts groups in Timor-Leste often clash with each other and engage in various forms of violence, including arson and assaults with machetes, knives or rocks. The government has banned martial arts groups from operating until April 2025 for repeatedly disturbing public order and the peace. There have been no incidents involving armed anti-system actors (former military resistance veterans opposed to the 2002 constitution) operating in Timor-Leste since a successful joint army-police operation in 2014.

Virtually the entire population of Timor-Leste accepts the nation-state as legitimate. Anyone eligible for citizenship can obtain it. Children born in the country are automatically granted citizenship if at least one of their parents is a citizen of Timor-Leste. Individuals born abroad can acquire citizenship if they have at least one parent who is a citizen of Timor-Leste. Foreign nationals, including foreign spouses of Timorese citizens, may apply for citizenship after meeting specific criteria. Timor-Leste also recognizes citizenship through adoption and other exceptional circumstances. There is no discrimination based on ethnicity, religion, race or politics, but the bureaucratic process is often intricate. There is a large East Timorese diaspora in West Timor (approximately 20,000), composed of former pro-Indonesian militia from 1999, who actively opposed an independent Timor-Leste. Their citizenship status remains potential but inactive, and – in most cases – it is unlikely to be reactivated due to fears of criminal prosecution and social opprobrium within their former communities.

Question
Score

Monopoly on the
use of force

10



State identity

10



The constitution defines Timor-Leste as a secular state with no official state religion. No particular religion directly influences government institutions or the laws in force, even though more than 97% of Timor-Leste's population is Roman Catholic. However, the Catholic Church has significant indirect influence on legislation regarding abortion and same-sex marriage. Abortion is illegal and same-sex marriage is also prohibited. A concordat signed between the Vatican and Timor-Leste in 2015 highlights the Catholic Church's influence, though the agreement explicitly acknowledged religious freedom. Annual budget funds (approximately \$15 million) flow to the Catholic Church, which maintains a major role in education, though smaller religions also receive state funding proportionate to their size.

Timor-Leste has distinct institutions that deliver basic services throughout the country. However, service quality remains weak, mainly because of a lack of human resources and serious corruption. In addition, access to basic administration and infrastructure is more difficult in rural areas than in urban areas.

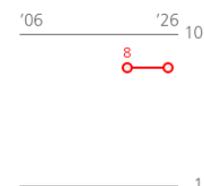
Access to justice remains hampered by limited resources and capacity in judicial institutions, limited access to formal justice in rural areas and a lack of understanding of legal rights and judicial processes. Limited human resources and facilities also hinder the national police's capacity to maintain an adequate presence and respond to incidents promptly. Electrification and telecommunications infrastructure has improved, but internet services remain the slowest and most expensive in the region. Road infrastructure is poor, particularly in rural areas, and 88% of roads are unpaved. Government data from the 2022 Population and Housing Census showed that 87% of households had access to improved water sources. The World Bank reports that about 99.7% of the population had access to electricity, although only 57% of the population had access to basic sanitation facilities.

Primary and secondary education in public schools is free; however, most schools lack essential resources, including basic water and sanitation, teaching materials and qualified teachers. Tertiary education institutions are mainly concentrated in Dili, making access to tertiary education more challenging for those in rural areas. Timor-Leste has a network of health facilities, including one national hospital, five regional referral hospitals, numerous community health centers in municipal and subdistrict capitals, and health posts in villages. Still, access to health care services is more challenging in villages due to distance, with nearly 40% of the population living more than one hour from the nearest health post. Access to pharmaceuticals through the public health system is often patchy, forcing patients to turn to more expensive private pharmacies.

With the general exception of Oecussi and Atauro, many of these service provision issues are exacerbated by the slow pace of decentralization in Timor-Leste, and the failure to devolve planning, budget and other powers from the Ministry of State Administration to municipal-level administrations.

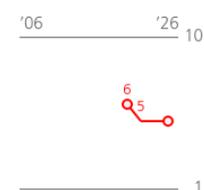
No interference of religious dogmas

8



Basic administration

5



2 | Political Participation

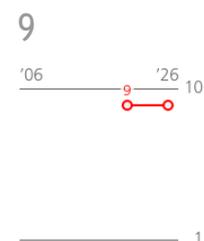
Free and fair elections are held regularly in Timor-Leste. Universal suffrage and a secret ballot are guaranteed. Seventeen political parties participated in the May 2023 parliamentary election. Xanana Gusmão's CNRT won, securing 31 out of 65 seats in the parliament. Other parties with seats in the parliament include the FRETILIN, Democratic Party, KHUNTO and PLP. Following the election results, the CNRT formed a coalition with the Democratic Party to establish the new government. Overall, all political parties accepted the results, showing trust in the electoral process and its management bodies.

The registration process for candidates and political parties is transparent and fair. There are no excessive hurdles for party registration. Polling centers are located near residences to ensure easy access. At the polling centers, voters cast their votes in secret. After the polls close, the public can observe the initial counting at the polling centers. Political parties' representatives, national and international observers, and accredited media closely supervise the election process. The national press provides regular updates on the vote counts at both the municipal and national levels, further ensuring the transparency of the process. Free and fair elections are also held at the local government/village level (suco elections), where candidates must formally run as independents and political parties are proscribed. Municipal/district-level elections are planned for 2027/28, though it appears that not all municipalities will be considered ready for the first round of these elections and that they may be staged over several years.

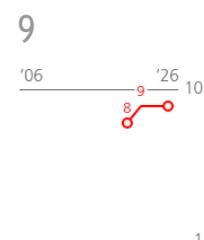
Democratically elected political representatives have effective power to govern. Outside the constitutional remit of the elected president, no individuals or groups may veto democratically made decisions or retain prerogatives beyond the reach of democratically elected officeholders. Only the president may veto legislation proposed and passed by the government or the national parliament. The presidential veto is a crucial tool in the mechanism of checks and balances in the semi-presidential system. The parliament can override the president's veto of legislation, but in some policy areas it requires a two-thirds vote of the members of parliament to do so. The president also has a complete, irreversible veto over executive decree laws.

The constitution guarantees freedom of association and assembly in Timor-Leste, and the laws are enforced. There are no severe restrictions on assembly and association for all citizens or for particular groups. The government uses transparent and nondiscriminatory criteria in evaluating requests for permits to associate or assemble and groups can operate free from unwarranted state intrusion or interference in their affairs. In 2022, Timor-Leste had more than 200 local CSOs operating throughout the country and the government also provided funding to many of these CSOs to implement their programs.

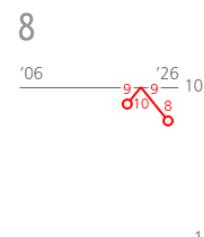
Free and fair elections



Effective power to govern



Association / assembly rights



Timor-Leste has a straightforward process for holding protests and demonstrations. There are certain restrictions, including a no-protest zone that extends 100 meters from public buildings and foreign embassies. Generally, the government does not use intimidation, harassment or threats of retaliation to prevent citizens from exercising their rights of association and assembly. In 2024, however, police intimidation and arrests during protests increased.

CSOs and activists reported that police intimidated and threatened them to prevent protests in solidarity with West Papua during a high-level papal visit in September 2024. One West Papuan Solidarity activist was detained before the papal visit and released after a few hours without charge. In September 2024, police arrested about 10 volunteer teachers who held peaceful demonstrations outside the Ministry of Education buildings. In December 2024, police detained about 12 National University of Timor-Leste students who protested the university's structures. The use of excessive force during these arrests drew public criticism. Police accused the students of disobedience and disturbing public order. Those arrested were released without charge.

The constitution guarantees freedom of expression and of the press, and these guarantees are generally enforced. However, there have been instances in which individuals, organizations and media outlets faced harassment or threats in 2023 and 2024. Journalists reported harassment by political party supporters while covering the 2023 election campaign and protests prohibited during the high-level papal visit. In September 2024, police arrested about 10 volunteer teachers who held peaceful demonstrations in front of the Ministry of Education buildings. In December 2024, police detained about 12 National University of Timor-Leste students who protested against the university's leadership. Those arrested were released without charge, raising concerns about the government violating the right to freedom of expression.

The state does not practice overt censorship. However, journalists sometimes self-censor when covering sensitive issues because of political pressure, societal norms, and the influence of significant individuals and groups in society, such as veterans and the Catholic Church. The Penal Code of Timor-Leste includes provisions that can be used to intimidate dissent. Article 285 of the Penal Code, which penalizes "slandorous denunciation," has been misused to intimidate journalists and media outlets, but no journalist has been charged under the law since 2015.

Freedom of information legislation has been in place since 2016, but its effectiveness remains limited by resource constraints and reluctance among some state institutions to share information. Timor-Leste's media system is relatively diverse, with many Tetum, Portuguese and English publications. The country ranked 20th in the 2024 World Press Freedom Index, down from 10th in 2023, but still ahead of other Southeast Asian countries.

Freedom of
expression

7



3 | Rule of Law

The constitution of Timor-Leste guarantees a clear separation of powers and functions among the executive, legislative and judicial branches and the president. These institutions are interdependent and designed to work together through a system of checks and balances. In 2023 and 2024, there were no instances of interference that could have led to political deadlock or crisis.

Since July 2023, the government has been led by the CNRT, which won the 2023 parliamentary general election. The current president, whom the CNRT supported in the 2022 presidential election, has demonstrated impartiality as head of state. The president has not vetoed any primary legislation proposed by the government or the national parliament and has actively reminded the government of issues that warrant more attention.

The judiciary operates independently. It has made crucial decisions, such as declaring the proposed Veteran's Fund unconstitutional in 2022, validating the result of the 2023 parliamentary elections and sentencing a priest for sexual abuse of children, even though the accused received support from some of the country's prominent political figures. The judiciary also regularly audits government institutions and policies, including the state account. However, in one notable retreat in the scope of judicial authority, the government removed the Audit Court's power to review large contracts in the petroleum sector in 2019.

Timor-Leste's judiciary operates independently, though it often faces pressure from political leaders in high-profile cases, such as corruption involving government officials. Judicial procedures are clear and designed to ensure fair, impartial justice. Appeals are filed with the Court of Appeal, which currently serves as the Supreme Court.

The number of judges and legal professionals is increasing, with ongoing participation in various education and training programs, including reforms to improve the prosecutorial service. International partners play crucial roles in strengthening human resources in the judicial sector, including support for the Judicial Training Center. Court infrastructure and facilities are also improving, even though human resources and infrastructure in municipal branches remain inadequate.

In 2017, the government approved a decree requiring judicial proceedings to use Timor-Leste's two official languages, Tetum and Portuguese. However, language remains a significant challenge in the Timor-Leste judiciary. Laws and legal documents are predominantly in Portuguese, and are not always translated into languages that all judicial actors and the interested public can understand.

Separation of powers

8



1

Independent judiciary

8



1

Abuse of power by government officials and public servants is an unlawful act that can constitute a corruption offense. The Anti-Corruption Commission is mandated to conduct criminal investigations of corruption in government, public administration and government institutions. However, the commission does not have the authority to prosecute. The results of the investigation must be reported to the public prosecutor.

In 2023/24, the Anti-Corruption Commission examined several corruption allegations involving former ministers and directors. In 2024, the commission investigated two directors at the Ministry of Agriculture for alleged corruption in the procurement process. In December 2024, the anti-corruption commissioner told the media it was investigating 16 corruption cases. No political figures were indicted in 2023/24.

Petty corruption and the abuse of power for personal gain are widespread in government institutions, including the provision of goods and services, and the recruitment of new employees, but they rarely attract legal consequences. The misuse of government assets for personal interests – such as using government cars for family interests – is common and continues to receive public criticism on social media. Allegations of corruption involving political elites receive little public or media attention.

Several systems are designed to hold officials accountable, including rules for declaring assets and avoiding conflicts of interest. However, the lack of public access to asset declarations limits community involvement in holding officials accountable.

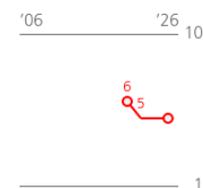
The constitution, laws and regulations in force in Timor-Leste, including the penal code, guarantee and protect civil and political rights. Timor-Leste has adopted relevant international conventions, including the International Covenant on Civil and Political Rights; the International Covenant on Economic, Social and Cultural Rights; the Convention on the Elimination of All Forms of Discrimination Against Women; and the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment.

However, the implementation and enforcement of civil rights remain weak due to various challenges. Most people, especially in rural areas, do not understand their rights under the law. They also face significant barriers to accessing legal aid, and legal proceedings often take longer because of limited human, financial and infrastructure resources in the judicial branches of the municipalities.

Corruption ingrained in government institutions has also denied citizens equal access to jobs in these institutions because of a preference for family ties or political parties. The government also provides special treatment to veterans and their families, such as special access to education and health care.

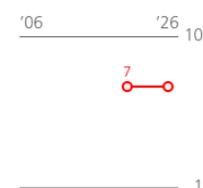
Prosecution of office abuse

5



Civil rights

7



A culture of impunity is also prevalent in Timor-Leste, particularly among police officers, who often use excessive force without facing legal consequences, thereby also undermining public trust in the judicial system.

Gender-based violence (GBV) and discrimination against LGBTQ+ people also still occur frequently. GBV is higher in rural areas and is traditionally resolved without commensurate punishment for perpetrators. LGBTQ+ people still frequently encounter discrimination because of a lack of public awareness of their rights. However, in public, LGBTQ+ people can engage in activities openly without fear of persecution, including the annual Pride March, which has gained broader support and is one of the leading examples of LGBTQ+ freedom in Southeast Asia.

Institutions to ensure and protect civil rights include ombudsmen, whose mandates are to protect human rights, strengthen integrity and promote good governance. Traditional justice mechanisms are often used, especially in rural areas, to resolve various problems, but they sometimes conflict with formal legal standards, as in many GBV cases.

Overall, discrimination based on gender, sexual orientation and politics still occurs frequently without legal consequence. Discrimination based on religion, ethnicity and race is rare.

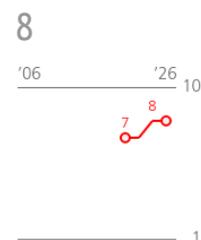
Timor-Leste does not apply the death penalty.

4 | Stability of Democratic Institutions

Democratic institutions in Timor-Leste generally perform effectively, though friction sometimes arises among the interdependent institutions of the president, executive, legislative and judiciary. In 2023 and 2024, government programs and the state budgets for 2024 and 2025 were passed on time, as the government, parliament and president performed their functions effectively. On average, 15 new laws were passed in 2023 and 2024. The courts also continue to carry out their tasks independently, despite some attempts at political interference. The National Election Commission and Technical Secretariat for Electoral Administration managed their electoral functions successfully, conducting the 2023 parliamentary and village council elections.

The government still faces a significant challenge in improving the quality of public administration and services in rural areas. Although the decentralization process has begun, the government of Timor-Leste remains strongly centralized in Dili. Each ministry is headquartered in Dili and maintains municipal branches. Most policies are made in Dili. Municipal plans and budgets are prepared in the municipalities, but the central government makes the final decision. Municipalities often complain about insufficient funds to implement programs appropriate to local needs.

Performance of democratic institutions



Public administration and the judiciary at the municipal level also face a range of challenges, including a lack of human resources and of facilities needed to carry out their duties effectively. Accelerating decentralization and involving municipal authorities are essential to ensure that the government's programs effectively respond to municipal problems.

Democratic institutions in Timor-Leste are considered legitimate by all relevant actors, including government institutions, political parties, veterans, civil society, the Catholic Church and the army. Conflict over the scope of the president's constitutional powers – a source of tension, especially among major parliamentary parties between 2020 and 2022 – has subsided since the election of a new president, José Ramos-Horta, in 2022.

Commitment to democratic institutions

10



5 | Political and Social Integration

Timor-Leste has a multiparty system, although only five parties currently hold seats in the national parliament.

Party system

7



The two major parties in Timor-Leste are FRETILIN and the CNRT. The FRETILIN has strong ties and support in urban and rural communities as a party that fought for Timor-Leste's independence from the beginning. The CNRT was founded in 2007 but has supporters in almost all regions because of the influence of its founder, former resistance leader Xanana Gusmão. The founders of the Democratic Party are former students and young people who fought for independence through the clandestine front. It has a strong influence among students and young people. The PLP was founded by Taur Matan Ruak, former president of Timor-Leste and former leader of the military resistance. The party was formed by sympathizers of Taur Matan Ruak and several groups of young intellectuals. The KHUNTO was founded in 2011 and is based on a martial arts group. Almost all of these parties have headquarters in Dili and an established organizational structure.

Clientelism is prevalent in Timor-Leste's political system, and has both advantages and disadvantages. Party leaders often use it to promote stability by securing loyalty and support from key groups or parties. It has flourished because the proportional electoral system adopted by Timor-Leste makes it difficult for a single party to meet the criteria for forming a government. The party that wins the election must obtain support from other parties to hold a majority in the national parliament and form a stable government. To secure that support, it typically allocates certain ministerial positions to supporting parties.

In 2017, FRETILIN won the election but failed to secure enough support from other parties. The minority government fell after FRETILIN's program and budget failed to pass the parliament. In 2023, the CNRT formed a government with support from the Democratic Party. The Democratic Party held several important positions in the government, including the deputy prime minister. Clientelism has paved the way for corrupt practices, such as awarding government projects based on political ties rather than merit.

The number of small political parties contributes to the system's fragmentation, leaving many parties with relatively small shares of electoral support that do not translate into seats because of the 4% threshold for entering the parliament. Political polarization is most pronounced in the competition between FRETILIN and the CNRT; typically, each is in opposition when the other is in government, except between 2015 and 2017, when they formed a grand coalition government. Voter volatility is moderate, as voters tend to base their choices on historical affiliations, such as a party's role in the struggle for independence, its leaders' contributions to the country or its stance on key issues. The increase in voter volatility during the 2023 parliamentary elections is primarily due to the rise in first-time voters and dissatisfaction with how the former government handled the COVID-19 pandemic.

The political system adopted by Timor-Leste makes it difficult to determine which constituents members of parliament represent because voters do not choose individual candidates from geographically defined single-member seats but rather choose political parties in a single national electorate.

CSOs that advocate for specific community interests play a crucial role in advancing the interests of community groups, including social movements, advocacy NGOs, trade unions and professional associations.

Several prominent social movements and CSOs advocate for the community interest, including the Ermera Farmers Union, which actively advocates for the rights of coffee farmers in Ermera; KSTL, which advocates for labor rights; Rede Feto, which advocates for gender equality; and La'o Hamutuk, which advocates for sustainable development. Some associations advocate for other issues, such as the rights of people with disabilities and of the LGBTQ+ community. Various professional associations – such as the Association of Medical Doctors of Timor-Leste, the Teachers Association and the National Association of Commercial Seeds Producers – also exist to promote the interests of their members.

Because many CSOs depend on government funding to operate, they are often reluctant to bring community voices into discussions with the government, particularly on sensitive issues, including corruption by government officials. Many CSOs lack the knowledge and skills to aggregate and present community problems in policy discussions. Consequently, the interests of individuals and groups close to the government, including residents of Dili and the Veterans Association, continue to dominate political discussions over those of the majority who live in remote areas.

Interest groups

5

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4 5

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Significant collaboration among interest groups, particularly CSOs, helps ensure that community interests are represented in the political system but is often hindered by limited resources, political instability and the need for continuous capacity-building.

A 2023 nationwide poll by the International Republic Institute (IRI) found that 78% of adults believe democracy is the best possible form of government. Public satisfaction with the performance of democratic institutions, such as the government, is lower than approval of the democratic system. Only 64% of respondents said that the national government had effectively responded to problems facing the community and the nation.

The public also accepts democratic institutions such as the national parliament, government, president and judiciary. However, they often criticize ineffectiveness and corruption in these institutions. In an IRI survey, 56% of adults said that the government did not perform its duties effectively, 57% said the same about the parliament and 37% said the same about the president.

The IRI survey was conducted in February and March 2023, when the government led by Taur Matan Ruak was still in power and one year after José Ramos-Horta had resumed the presidency.

According to a 2023 survey by the Asia Foundation, most respondents believe that communities in sub-villages are ready to help one another (91%) and trust one another (89%), regardless of whether they live in rural or urban areas. The people of Timor-Leste generally belong to traditional houses and have extensive family networks. Most Timorese share the same religion, Catholicism, which serves as a unifying factor. Many Timorese are involved in CSOs, such as NGOs, community organizations and social movements. The shared experiences of the struggle for independence and the suffering that the majority of Timorese have endured together also constitute a significant form of social capital.

Timor-Leste has several voluntary and autonomous groups, including Le-Ziaval and Timor Furak, which promote traditional dances; SABEH, which provides free health care in rural areas; and PermaYouth associations that work for environmental conservation. Regionalized identities and tensions, which flared up during the 2006/07 political-military crisis, have not been evident in recent years.

Approval of
democracy



Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty and inequality affect a large share of Timor-Leste's population. More than 40% of the population lives in poverty. The situation is more severe in rural areas, where poverty affects 47% of the population compared with 28% in urban areas. Multidimensional poverty affects 48% of the population. Although income inequality declined, the poverty gap remained high at 10.4% in 2014. The Gini coefficient for Timor-Leste was 0.520 in 2022, indicating significant income disparity. A full assessment of recent trends in national poverty alleviation is complicated by outdated data for the period from 2014 to 2016, though a 2024 Living Standards survey is expected to be released soon.

Timor-Leste ranks 155th in the 2022 UNDP Human Development Index, with a score of 0.566, down from 0.607 in 2021. The inequality-adjusted HDI score was 0.407, representing a 28.1% loss. Inequality significantly influenced the HDI score. The decline reflects the depletion of revenues from the petroleum sector, inadequate performance in health and education, and elevated inequality. Quality education and health care are more accessible in cities, especially in Dili, than in rural areas. Rural areas face various limitations, including a lack of human resources and facilities, and poorer basic infrastructure compared with urban areas. Furthermore, poor roads and limited market access isolate people in rural areas from new economic opportunities and resources.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	3624.9	3208.6	2079.9	1881.3
GDP growth	%	5.3	-20.5	-18.1	-2.2
Inflation (CPI)	%	3.7	7.0	8.4	2.1
Unemployment	%	2.3	1.5	1.5	1.6
Foreign direct investment	% of GDP	-10.1	-8.4	3.1	12.3
Export growth	%	7.4	-44.1	-60.0	-
Import growth	%	9.7	-8.4	2.3	-
Current account balance	\$ M	1696.9	408.1	-177.3	-565.1

Question
Score

Socioeconomic
barriers

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Economic indicators		2021	2022	2023	2024
Public debt	% of GDP	6.5	7.9	12.4	13.3
External debt	\$ M	278.6	289.7	307.4	-
Total debt service	\$ M	9.6	15.1	25.1	-
Net lending/borrowing	% of GDP	-6.8	1.6	-	-
Tax revenue	% of GDP	15.1	21.6	-	-
Government consumption	% of GDP	28.2	33.1	52.9	-
Public education spending	% of GDP	3.0	-	5.2	-
Public health spending	% of GDP	7.3	10.3	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.1	1.1	1.3	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Timor-Leste has embraced a free-market system, and implemented policies to foster local business growth, attract foreign investment and uphold fair market competition. However, the country must still improve its institutional framework to ensure that all market players can participate equitably.

Timor-Leste has yet to establish a dedicated competition authority to oversee and enforce fair competition practices or a consumer protection agency to address consumer complaints and disputes.

The informal sector, which includes subsistence farmers and small businesses, is a substantial part of Timor-Leste's economy, accounting for 80.6% of employment in the country.

The Private Investment Law ensures that investments and reinvestments in any economic activity are free and do not require prior authorization beyond existing legal procedures, and it provides fiscal and customs benefits to attract national and foreign investment.

Market
organization

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There is no discrimination against businesses operating in Timor-Leste. However, there is a widespread perception of corruption in procurement processes that benefit preferred companies. The government of Timor-Leste exercises complete control over the provision of vital services, such as electricity and water, through its public companies. Additionally, the government holds stakes in the mining and petroleum sectors, raising concerns about potential conflicts of interest. The national economy remains driven mainly by government spending of oil and gas revenues.

Although market forces typically set prices, the government often intervenes to stabilize prices for essential commodities, particularly rice, to ensure affordability for the public by subsidizing rice-importing companies. However, because of a lack of government control, this approach is often ineffective and benefits food companies more than the targeted population.

In 2024, Timor-Leste joined the WTO, further strengthening its commitment to a market-based economy. Its bid to join the ASEAN also reflects its ambition to deepen regional economic integration.

Timor-Leste lacks specific antitrust and competition laws, and is not a member of the International Competition Network. The absence of specific antitrust laws creates substantial gaps in transparency and legal certainty for competition-related decisions. This makes it more challenging to ensure nondiscrimination between domestic and foreign companies.

The lack of antitrust or competition laws in Timor-Leste does not pose a significant threat to market competition because the country remains in the early stages of economic development. The economy has historically focused on a few dominant sectors, such as oil and gas. Many businesses operate within a limited market in these industries and specific competition laws are not urgently needed.

The Timor-Leste government also plays a significant economic role and many local businesses rely heavily on government contracts. This reliance might create a perception that competition issues are secondary to financial stability and growth driven by state contracts. Additionally, with a relatively small market and fewer players, strict competition controls may not be necessary. Furthermore, levels of foreign investment have not been significant enough to raise alarms about the lack of competition laws.

Competition policy

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Timor-Leste's liberal trade policy, coupled with its recent WTO membership and efforts to join ASEAN, is enhancing its integration into regional and global trade.

Timor-Leste's tariff rates are generally 5% for customs duty and 2.5% for sales tax. An excise tax on certain goods and services also applies to luxuries or items that harm society. The average most-favored-nation tariff is 2.5%.

Timor-Leste has implemented several non-tariff measures to facilitate trade, while protecting its domestic industries, ensuring product safety and maintaining environmental standards. Certain products, such as vehicles and medicines, require licenses for import, and plant-based products require quarantine and biosecurity permits.

Specific technical and safety standards also apply to all imported products. Similarly, exports of certain products, such as plant-based goods and fisheries, require export permits and certificates of quality. Furthermore, environmental licenses may be required for goods in transit to comply with national regulations.

Timor-Leste does not currently provide export subsidies and has not implemented countervailing duties on allegedly subsidized imports. It focuses on aligning its trade policies with international standards, including minimizing trade distortions caused by subsidies.

Timor-Leste also has several contingency trade barriers to protect its domestic industries from unfair competition and sudden import surges. These measures, including anti-dumping procedures and safeguard measures, are designed to investigate and restrict imports that could harm domestic industries.

In 2023, Timor-Leste's export value was \$163.7 million, while its import value was \$909.8 million, resulting in a trade deficit of \$746.1 million. That deficit increased by about 33% from \$506.9 million in 2002. Indonesia (31%) and China (15%) were the leading origins of merchandise imports. The top export destinations were China (47%) and Singapore (19%). During 2023, Timor-Leste traded with more than 40 countries. The external trade deficit is likely to increase further in 2024, as external trade data through November 2024 show a deficit of \$800 million.

The major banks operating in Timor-Leste are branches of banks in Australia (ANZ), Indonesia (BRI and Mandiri) and Portugal (BNU). The only national bank is BNCTL. The central bank, Banco Central de Timor-Leste (BCTL), regulates and supervises financial institutions in Timor-Leste to ensure that banks operate with sound administrative and accounting procedures.

Banks in Timor-Leste must maintain a minimum regulatory capital adequacy ratio of 10% to ensure sufficient capital to cover their credit, market and operational risks. They must also adhere to strict disclosure rules by submitting reports on their administration, operations, liquidity, solvency and profitability to the BCTL. The

Liberalization of
foreign trade

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Banking system

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reports allow the BCTL to monitor the banking system effectively. The share of non-performing loans in Timor-Leste's banking sector was under 2.4% in 2023 and is around 2.3% in 2024.

Timor-Leste has implemented hard budget constraints to ensure fiscal discipline in its financial sector. In 2023, the BCTL introduced new regulations to improve capital adequacy, risk management and corporate governance in banks. Efforts to enhance the capacity of financial institutions include training and development programs. Technology investments aim to improve the efficiency and security of financial transactions.

The capital market and banking system remain poorly differentiated. The capital market is underdeveloped. According to the IMF's 2023 Article IV consultation report, the country still faces challenges such as a limited legal framework, inadequate financial instruments and a lack of market participants, which restrict capital flows.

The BCTL has enhanced regulations and supervision to strengthen the banking sector and lead the country's efforts to align its banking system with international standards, including the Basel Accord. However, full compliance with the Basel Accord remains an ongoing process.

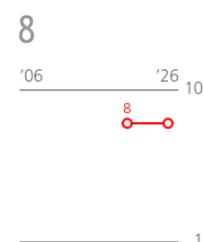
8 | Monetary and fiscal stability

Timor-Leste has used the U.S. dollar as its official currency since 2000, so it cannot determine its monetary strategies independently. The U.S. dollar has produced relatively low and stable inflation, which is vital for economic stability. However, this arrangement also restricts the country's capacity to respond effectively to domestic economic shocks. The BCTL plays a key role in articulating the ramifications of dollarization and the country's financial strategies to the public and market participants. The BCTL operates with administrative and financial autonomy, ensuring its independence from external entities.

With an effectively fixed exchange rate to the U.S. dollar, Timor-Leste is less vulnerable to exchange rate risk. However, it cannot use exchange rate adjustments to offset external shocks or improve its competitiveness in global trade. Therefore, fiscal policy is an essential tool for economic management.

The Consumer Price Index (CPI) measures changes in prices for consumer goods and services. In Timor-Leste, the food and non-alcoholic beverages category comprises the largest component of the CPI, accounting for 64% of its total weight. Inflation in Timor-Leste has been volatile, with consumer price inflation averaging 7% in 2022 and 8.4% in 2023, including a 9% year-over-year increase in November. In 2024, it decreased to 2.2%, driven by lower global food prices and the rollback of tax hikes introduced in 2023.

Monetary stability



Given Timor-Leste's use of the U.S. dollar, the real effective exchange rate is directly influenced by fluctuations in the U.S. dollar's exchange rate against other major currencies. Over the past decade, Timor-Leste's real effective exchange rate has appreciated by about 30%. IMF estimates indicate that Timor-Leste's real effective exchange rate is increasingly overvalued, hampering diversification and development of the non-oil economy such as tourism, as well as efforts to develop new export products by making imports disproportionately cheaper than locally produced goods. Timor-Leste's state budget relies heavily on oil and gas revenue, and on income from international financial market investments held in the Petroleum Fund. The fund contributes more than 80% of state budget revenue each year. However, oil and gas revenues halted in 2023, and the fund now primarily depends on income from overseas investments. This decline in oil and gas revenue has raised concerns within the government, but no concrete steps have been taken to address the issue. As of August 31, 2024, the Petroleum Fund's balance was \$18.95 billion. The Ministry of Finance estimates that the Petroleum Fund could be depleted in a decade. Without the Petroleum Fund, Timor-Leste will have to reduce expenditures on essential sectors such as health care and education.

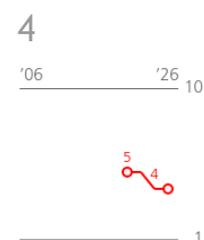
Although the government acknowledges the threat of fiscal cliffs, it has taken no significant action to mitigate this risk or shift its investment focus toward diversifying the economy. The state budget for 2025 is \$2.2 billion, an increase of 12% compared with 2024. Budget allocations for developing the productive sector and diversifying the economy remain minimal. Timor-Leste's foreign debt reached \$1.024 billion in 2024. The government has repaid \$259 million in foreign loans. The 2025 state budget sets a loan ceiling of \$850 million and allocates \$26 million for loan repayments. Timor-Leste's debt-to-GDP ratio is at a moderate risk level but could pose problems in the medium and long term if Petroleum Fund depletion continues.

9 | Private Property

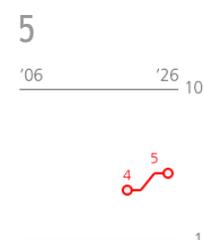
Portugal's colonization and Indonesia's occupation have led to significant land issues in Timor-Leste. In 2017, the president enacted comprehensive land law packages that regulate land rights, expropriation and compensation. Although the legal framework in Timor-Leste clearly outlines property rights, and regulations related to land acquisition, use, benefits and sale, its application is inconsistent. The government currently has limited capacity to enforce these laws effectively, which weakens the protection of property rights. Foreign citizens are not permitted to own land in Timor-Leste; however, investors can enter into long-term lease agreements.

In rural areas, the interplay between customary practices and statutory law can be confusing, as traditional customs sometimes conflict with official legal frameworks. For instance, formal law states that men and women have the same right to land, but predominant customary law holds that men have greater rights to land and property than women.

Fiscal stability



Property rights



The constitution of Timor-Leste recognizes the private sector, in addition to public enterprises and cooperatives, as one of the main economic actors in the country. The government has implemented strategies to strengthen national private sector growth and to provide various privileges to stimulate foreign investment.

The Private Investment Law ensures that investments and reinvestments in any economic activity are free and do not require prior authorization beyond existing legal procedures, and provides fiscal and customs benefits to attract national and foreign investments.

The number of local businesses in Timor-Leste is rising – a promising sign for the country’s economic development. However, the slow, complicated licensing process keeps many small businesses from formalizing operations. As of 2022, only 30% of small enterprises were formally registered.

Through public-private partnerships, the government engages the private sector to invest in and operate public services, including Tibar Bay Port, the expansion of President Nicolau Lobato International Airport and the upgrade of the National Medical Diagnostics System. These partnerships aim to leverage private sector efficiency while maintaining public oversight. The private sector is involved in education, health care and telecommunications. The government provides essential services that meet the population’s basic needs, such as drinking water and electricity, through its public enterprises. There is no active privatization process in Timor-Leste.

10 | Welfare Regime

Timor-Leste has implemented several social safety nets to mitigate the adverse effects of social and economic shocks. Education and health care are free, ensuring accessibility for all. However, public schools and hospitals, mainly in rural areas, often lack staff and equipment. This disparity prompts those with sufficient income to seek health care at private clinics and to send their children to private schools, which results in discrimination against people experiencing poverty.

The government does not provide specific safety nets for the unemployed but mandates severance pay for dismissed employees. Upon retirement, public- and private sector employees receive pensions from their social security accounts. To support low-income people, the government provides scholarships for outstanding students, subsidies for people with disabilities, monthly cash subsidies for those aged 60 and older without permanent jobs and support for veterans.

In addition, the government distributes food to pregnant and lactating women, offers free lunches to schoolchildren, builds houses for very low-income families, and provides food aid to families affected by natural disasters or emergencies such as the COVID-19 pandemic. The state budget funds these subsidies.

Private enterprise

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Social safety nets

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Despite a variety of subsidies, the number of recipients is limited and often poorly targeted, leaving many in need uncovered. The government lacks a mechanism to evaluate how these subsidies affect recipients' welfare. Because the country's financial reserves are depleted, the government may have to reduce most of these subsidies. If not managed well, such reductions could undermine the social safety net, and those in need would suffer most.

Timor-Leste's constitution guarantees equality, and the fundamental right of every person to be free from discrimination based on gender, race, religion and political beliefs. Timor-Leste has ratified numerous international treaties, including the Convention on the Elimination of All Forms of Discrimination Against Women, the International Covenant on Civil and Political Rights, and the Convention on the Rights of Persons with Disabilities. However, implementation and enforcement are inconsistent, and corruption, clientelism and a general lack of public awareness of these rights persist. There are also significant disparities between Dili and other municipalities in access to resources and opportunities, including education, health care and employment.

While access to public schools is free, most schools lack essential facilities. Approximately 66% of schools lack functioning sanitation facilities and about 40% do not have access to clean drinking water, conditions that disproportionately affect girls. Many schools in rural areas do not have adequate space and teachers. In contrast, schools in Dili offer more diverse options. Many private schools with better facilities and teachers are located in Dili, including Portuguese and several international schools. Similarly, access to public health services is free, but access to health centers is more difficult in rural areas due to distance, and many lack qualified health personnel and equipment.

In 2022, literacy rates increased to 70% for women and 74.7% for men, and were higher among young people aged 15 to 24. Among young people, the literacy rate is 88.2% for women and 86.3% for men, indicating progress toward gender equality in education. The Gender Parity Index for primary education stood at 1.1 in 2023, while for pre-secondary education it was 1.3, showing progress in women's access to education. Girls also have a higher gross enrollment rate (28%) than boys (25.5%). Boys have higher dropout rates than girls, with 4.3% compared to 3.4% in primary school and 3.2% compared to 2.2% in pre-secondary school. The high dropout rate for boys is likely because they must drop out of school to help their parents make ends meet. Children with disabilities face more barriers to education because the country lacks school facilities and trained teachers to support people with disabilities.

Although laws prohibit employment discrimination, weak enforcement means many women and marginalized groups encounter significant obstacles when seeking to enter the workforce. As of 2021, the unemployment rate among women was 5.9%, compared with 4.6% among men. Labor force participation is higher among men (60%) than among women (40%). Women face more difficulties in getting a job

Equal opportunity

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because of limited opportunities and societal norms that prioritize men. More women are involved in informal employment, which is characterized by low wages and a lack of protection. About 77% of all jobs in Timor-Leste are informal. The private sector employs a small share of the workforce, predominantly in Dili, with men comprising 70%. Clientelist practices often influence access to jobs in government.

Timor-Leste implements a higher-level quota system, reserving at least 30% of parliamentary seats for women. The current president of parliament is a woman and the parliament has 23 female deputies (35.4%). Despite these advancements, women still face substantial barriers to political participation, which are influenced by entrenched societal attitudes and inadequate support structures. Women hold only eight of the 47 top executive positions in the current government. In the 2023 village elections, only 18 out of 442 villages elected women as village chiefs.

Violence against women and girls is alarmingly common, with estimates indicating that 38% to 59% of women will experience violence in their lifetimes. The LGBTQ+ community faces severe social stigma and lacks adequate legal protections.

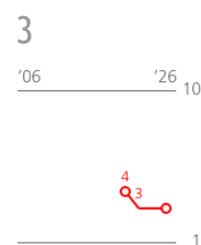
In 2022, approximately 0.3% of Timor-Leste's population were foreigners. As long as they meet legal requirements, they have similar rights to access essential services, including employment. The proliferation of Chinese stores selling cheap, low-quality products has generated dissatisfaction and negative sentiment among the local population. However, significant discrimination against foreigners is rare.

11 | Economic Performance

Timor-Leste's economy grew an estimated 2.3% in 2023, down from 4% in 2022, primarily because of pauses in government spending during the transition and a lack of significant growth in the private sector. However, in 2023, its GDP per capita in current U.S. dollars declined by about 36%, dropping from \$2,343.2 in 2022 to \$1,502.5. The World Bank predicts a return to 4.1% growth in 2024 and 2025. Timor-Leste's largest non-oil sources of GDP are construction and public administration, which are financed by the state budget. The agricultural sector's GDP has stagnated over the last two decades, as have the manufacturing and tourism industries. With oil and gas revenues declining, and uncertainty about when they will increase, it is essential to diversify Timor-Leste's economy into the agricultural, manufacturing and tourism sectors.

Because of the country's overreliance on the oil and gas sector, and its failure to develop other industries, few job opportunities are created for the thousands who enter the labor market each year. The public sector is the largest employer, accounting for about 20% of the labor force. Employment in the private sector is about 10% and has shown no signs of increasing; it fell about 16% between 2014 and 2021. Many national companies in Timor-Leste depend on government projects, so when the state

Output strength



budget is reduced, employment is directly affected. Overall unemployment reached 5.1% in 2021, with youth unemployment at 9.6%. Labor mobility agreements with Australia, South Korea and other countries are growing in importance, and remittance income is rising, but these schemes remain relatively minor contributors to meeting employment demand.

Inflation in Timor-Leste has been relatively stable but can be influenced by external factors such as import prices. Because of its high dependence on imports, Timor-Leste is vulnerable to fluctuations in import prices. Inflation increased in 2023, pushing up food prices, which led the government to intervene by subsidizing imported rice. There is very little significant FDI in Timor-Leste. The largest is Heineken, which employs about 200 people. Various challenges, including poor infrastructure, political and economic uncertainty, and a lack of regulations on key issues such as property rights, still limit Timor-Leste's attractiveness to foreign investment.

12 | Sustainability

Timor-Leste has established a legal framework for environmental protection that includes the Basic Environmental Law, Environmental Framework Law, and pollution control and waste management laws. It has ratified major international conventions, including the U.N. Framework Convention on Climate Change, the U.N. Convention to Combat Desertification and the Convention on Biological Diversity. The government is also developing a climate change law, with consultations ongoing in 2024.

However, enforcement of environmental laws in Timor-Leste remains weak. Political interference and business interests often sideline environmental considerations. Several large-scale projects – such as the Tasi Mane Project, the construction of Timor-Plaza and onshore oil exploration – frequently proceed without transparent environmental impact assessments. The potential for conflicts of interest in awarding environmental licenses for petroleum and mining projects has been raised because the government has given this authority to the Ministry of Petroleum.

Timor-Leste has adopted regulations mandating that those responsible for pollution manage the costs. Still, enforcement is challenging due to inadequate institutional capacity, limited resources and ineffective monitoring mechanisms. The Environmental Framework Law sets out key principles for sustainable resource management and environmental conservation. However, a lack of robust enforcement mechanisms, community involvement, resource limitations and inadequate institutional capacity often hinders effective implementation.



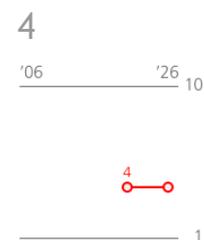
Timor-Leste has made critical progress in rebuilding its education system. However, the quality of education remains a concern for several reasons, including a lack of facilities and resources, such as textbooks and libraries, and of qualified teachers in various subjects. Most schools do not have basic facilities such as bathrooms and water. These problems are most severe in rural areas where dropout rates are disproportionately higher than in urban areas, especially in Dili.

Urban schools have better infrastructure, facilities and teachers. Most private schools, including international schools, are in Dili. Although literacy rates have improved, significant disparities persist between urban and rural areas.

Access to tertiary education is very limited; universities are concentrated in Dili, with branches in municipalities. Only about 3% of the population has access to postsecondary education. The quality of universities in Timor-Leste is generally low and falls far below international standards. The state budget allocation to education is 7.2% in 2024 and 9% in 2025. Education expenditure in Timor-Leste was around 6.96% of GDP in 2020.

Timor-Leste is in the early stages of developing its R&D sector. Limited public investment in R&D and minimal private sector involvement restrict the scope and scale of research activities. The university system provides little research funding. The number of patent applications in Timor-Leste is very low. According to the World Intellectual Property Organization, Timor-Leste ranks 169th globally in patent applications.

Education policy /
R&D



Governance

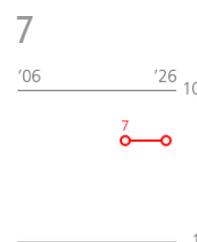
I. Level of Difficulty

Approximately half of Timor-Leste's population lives in extreme and multidimensional poverty. About 41% of people live below the national poverty line and 48% experience multidimensional poverty. High poverty rates limit the government's ability to generate revenue through taxes, and invest in essential services such as health care, education and infrastructure. These rates also necessitate substantial social welfare programs, which strain limited resources and complicate budget allocations. The 2025 state budget allocates 8.6% for social assistance, higher than allocations for the agriculture sector (2.3%), the health sector (6.2%), the economy (5.1%), and water and sanitation (1.2%). Unemployment remains a significant challenge, particularly among young people. Job opportunities are scarce because the private sector is underdeveloped, limiting its capacity to absorb low-skilled workers. Low levels of education and skills characterize the workforce, further hampering economic diversification and productivity.

As a small island nation, Timor-Leste faces logistical challenges in integrating into the global economy, and must invest significantly in trade and transportation facilities. Developing infrastructure to improve connectivity and reduce transportation costs is essential, but it requires major investment, which constrains budgets for essential sectors. Much of the country's infrastructure is inadequate; for example, only 50% of rural roads are in good condition. While about 90% of the population has access to electricity, power outages are frequent and disrupt economic activity. As a small island state, Timor-Leste is also more vulnerable to climate change impacts such as rising sea levels, rainfall variability and rising temperatures. Timor-Leste is susceptible to natural disasters such as floods and landslides, which disrupt governance and development efforts. The COVID-19 pandemic further highlighted the country's limited health care infrastructure and the economic vulnerability of its population.

Approximately one in four people in Timor-Leste face crisis-level food insecurity, exacerbated by climate shocks and high food prices. Recent assessments show about 46% of children under the age of five are stunted because of malnutrition. Timor-Leste's diverse cultural landscape includes traditional power structures that sometimes conflict with formal governance systems seeking to promote equality and reduce discriminatory practices, particularly against women. Furthermore, the state's decision to provide substantial benefits to veterans, including pensions and other

Structural
constraints



compensation, increases the burden on the state budget every year. In 2025, the government allocated about 9.5% of the state budget for veterans' benefits, higher than the combined budget for health care and agriculture, creating a significant financial burden on the budget.

Timor-Leste has a long-standing tradition of public and civil society engagement. While fighting for independence, citizens organized social movements – including student and youth groups, and NGOs – to defend their rights, despite constant pressure from the Indonesian military. After independence, citizens actively engaged in NGOs, community groups and grassroots movements to address social, economic and political issues. The NGO Forum Timor-Leste registered more than 200 NGOs and community-based organizations. These groups implement important social, economic, legal and justice programs, and help the government, which is experiencing shortages of human resources and facilities. The government recognizes civil society as an essential part of development. It has established a specific cabinet to build partnerships and fund CSOs in Timor-Leste. The municipal authority also has a section to deal with civil society.

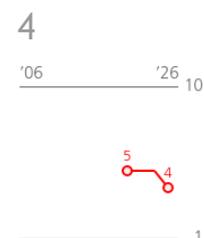
CSOs in Timor-Leste also engage in policy advocacy. CSOs such as La'õ Hamutuk, JSMP and Rede Feto have established themselves as organizations that strongly influence public policy on the state budget and economic diversification, the rule of law and gender equality. In the financial area, civil society actively advocates developing productive sectors to reduce dependence on oil and gas revenues. Other CSOs – including sports, arts, cultural, religious and workers' associations – have also been formed to promote specific interests.

Despite their importance, most CSOs in Timor-Leste are financially dependent on the government and foreign donors, limiting their ability to set agendas and sustain themselves. In general, neither donors nor the government has intervened to steer the direction of CSOs.

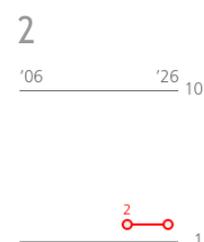
Social capital has been vital to community resilience and development in Timor-Leste. Strong social networks and solidarity supported the independence movement, and continue to enhance local initiatives, civil society engagement and social cohesion today.

Timor-Leste's political landscape has been marked by significant rivalries, particularly between major parties such as FRETILIN and the CNRT, which is led by current Prime Minister Xanana Gusmão. Rivalries at the political level do not create divisions at the community level except during campaigns, when acts of mutual provocation often lead to violence. This indicates that political polarization does not trigger significant societal polarization. The last major conflict involving widespread violence occurred in 2006/07, when the politicization of regional identity by some leaders and conflict between the army and police provoked major divisions in the community.

Civil society traditions



Conflict intensity



Mass mobilization is rare and did not occur between 2023 and 2024, although teachers and students held several protests. Violence remains common among young people involved in martial arts groups and often affects the community, but it is generally not widespread. The government's decision to ban all martial arts activities until 2025 has helped reduce acts of violence. Ironically, law enforcement officials often use violence that is inappropriate or unnecessary to address problems in the field.

No social, ethical or religious conflicts occurred during the review period.

II. Governance Performance

14 | Steering Capability

The government of Timor-Leste has outlined its development vision through the National Strategic Development Plan (SDP, 2011 – 2030). The SDP aims for the nation to achieve upper-middle-income status with a healthy, educated and safe population by 2030. The plan focuses on enhancing social capital, improving infrastructure, fostering economic growth and strengthening institutional frameworks. The SDP was prepared by the government under the leadership of Xanana Gusmão and passed by consensus among all political parties in the national parliament, including FRETILIN. Development partners in Timor-Leste also use the SDP to guide their programs. Civil society often criticizes the SDP's unrealistic goals or unsustainable approaches but generally accepts it as a strategic document for development until 2030.

Timor-Leste leaders generally try to align short-term policies and programs with long-term priorities. However, short-term political and economic interests often drive them to make decisions that are inconsistent with those priorities. Although the education, health care and agriculture sectors are prioritized in the SDP and government programs, the annual state budget allocation does not reflect those priorities. More of the budget goes to government administration costs, infrastructure development and subsidies. The government also continues to increase allocations for subsidy payments to veterans and older people. Many decisions are made without credible data or assessments of their social, economic and environmental impacts, even though such assessments are part of existing regulations.

The current government continues to prioritize development of the Tasi Mane Project to support its ambition to bring the Greater Sunrise pipeline to Timor-Leste. The government also prioritizes regional and global markets by joining the ASEAN and WTO. In 2024, it joined the WTO, and adopted various trade laws and policy changes, which could override the long-term priorities outlined in the SDP (2011 – 2030).

Question
Score

Prioritization

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Timor-Leste has made little progress toward its SDP goals. A 2022 government review showed that it achieved only 50% of its targets for 2015 and 2020, and is not on track to meet its 2030 target of becoming an upper-middle-income country. The country still struggles to strengthen its human resources, eliminate poverty, improve basic infrastructure and strengthen its institutions. The previous government acknowledged the challenge and began revising the SDP, but the process stopped after a change in government.

Many SDP goals were not achieved because the measures implemented to achieve them were insufficiently comprehensive, constantly changing and sometimes counterproductive. Since independence in 2002, the country has had nine governments. Frequent changes affect the government's ability to pursue long-term priorities. Clientelist practices also significantly weaken the government's ability to work effectively to achieve long-term targets, undermining the merit-based process of placing the right people in the right jobs and reducing accountability.

The capacity of government institutions also influences the successful implementation of government policies and programs. Some institutions, such as the Ministry of Finance and Ministry of Foreign Affairs, are better equipped with competent human resources. In contrast, other institutions, such as the Ministry of Agriculture and the Ministry of Health, often struggle to implement their functions. Development partners play a key role in implementing government priorities, but their coverage and timeframes are limited.

The failure to prioritize basic development sectors – such as education, health care, basic infrastructure and agriculture – has resulted in minimal progress. In addition, growth in the non-oil economy has stagnated at about 2% a year for several years.

The government of Timor-Leste lacks a dedicated monitoring and evaluation system to support ongoing improvement and collect valuable lessons for future planning and implementation. Most policy reviews are project-specific, driven by international donors and most likely not used by the government. The SDP (2011 – 2030) lacks a formal, transparent mid-term review.

The government adopts global best practices, but localization remains weak. For example, the Petroleum Fund was modeled on Norway's sovereign wealth fund to ensure it benefits current and future generations. Yet, the government has repeatedly violated its sustainability mechanism by withdrawing more than the estimated sustainable income to fund annual budgets.

The government has shown short-term responsiveness in emergencies, but financial constraints and frequent government collapses limit its capacity to pursue long-term objectives.

Furthermore, the Tasi Mane Project, a petroleum infrastructure plan that could strain the country's fiscal sustainability, continues despite critiques of its economic viability, likely because of elite interests. Additionally, 70% of civil servants lack training in data-driven policymaking, slowing reforms in critical sectors such as education.

Implementation

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Policy learning

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15 | Resource Efficiency

Timor-Leste's government faces significant challenges in the efficient use of its human, financial and organizational resources, although some progress has been made in specific areas.

The government has used revenue from oil and gas, and Petroleum Fund investments to finance the state budget. Since the Petroleum Fund's inception, transfers to the state budget have totaled about \$16 billion. The government also uses domestic revenue and debt to finance its spending. Government debt surpassed \$1 billion in 2024, raising concerns about future liabilities.

In 2024, the government allocated about 30% of the state budget to the public sector. Despite high spending, public services remain underdeveloped and the public has often complained about their performance.

The Chamber of Auditors' report on the 2023 state account revealed several government violations, including the awarding of projects to incompetent companies, mismanagement and significant deviations from planned budgets.

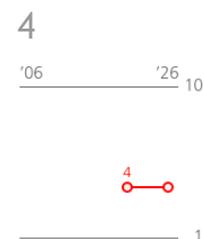
The turnover rate in government institutions is high and occurs when new governments make politically driven decisions. Positions are awarded based on loyalty rather than competence. The country has legal protections for merit-based recruitment, but implementation is inconsistent.

The government publishes budget documents, but they are often incomplete, and written in Portuguese and English – languages most Timorese do not understand. Thus, conducting in-depth and timely analyses is difficult for the public.

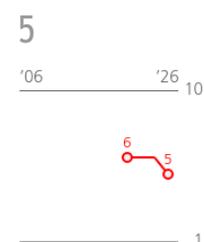
Bureaucratic inefficiency persists in public administration because of underqualified staff, poor interministerial coordination and inadequate training. Many reforms are donor-driven and lack sustained political commitment. The 2004 Suco Law established village (suco) councils, but subnational governments lack financial autonomy and technical capacity. Most resources and decision-making remain concentrated in Dili, limiting grassroots effectiveness.

While the SDP has prioritized social capital, infrastructure, economic growth and institutional strengthening, its implementation often creates conflicts among these priorities and produces unintended trade-offs. Horizontal coordination across ministries exists in some areas but is usually ineffective and depends on individuals' motivations. Several ministries have improved their coordination in areas such as development planning and monitoring through the Agency for Planning, Monitoring and Evaluation (Agência Nacional de Planeamento, Monitorização e Avaliação/ANAPMA); food security and nutrition programs through KONSSANTIL; and at the municipality level through the Municipality Consultative Council.

Efficient use of assets



Policy coordination



As head of government, Prime Minister Xanana Gusmão has the right and obligation to coordinate policy implementation across ministries, which meet weekly to coordinate their work. However, elite-level coordination rarely addresses trade-offs in implementing policies across sectors. As a result, many closely related government policies fail to align because different ministries implement them. The government also frequently prioritizes economic development over environmental protection.

From 2024 to 2025, the government forcibly evicted residents from several communities in Dili. A lack of coordination led the municipal president of Dili to resign, citing poor coordination and overlapping authority.

The lack of coherence in government policies is also evident in the response to soaring global food prices in 2023/24. The government provides subsidies to rice-importing companies. However, there are no adequate mechanisms for monitoring and evaluation to measure the effectiveness of these subsidies and to minimize their impact on local food production.

Timor-Leste has established several mechanisms to combat corruption, including the Anti-Corruption Law, and institutions responsible for investigating and prosecuting maladministration and corruption, such as the Anti-Corruption Commission, an ombudsman and the public prosecutor.

The Anti-Corruption Law (Law 7/2020) outlines detailed steps to prevent and eliminate corruption. For example, public officials must declare their income, assets and interests. The ombudsman and the Anti-Corruption Commission can investigate corruption claims but lack prosecutorial power. The General Prosecutor's Office has that power but has been criticized for being slow to respond to reports from the ombudsman and the Anti-Corruption Commission.

Several mechanisms are intended to hold officials accountable, including rules on asset disclosure and the avoidance of conflicts of interest. However, the lack of public access to asset declarations limits community involvement in holding officials accountable. Corruption involving small sums and the use of public facilities for individual interests often receives more attention from the public and the media than alleged high-level corruption cases.

The Court of Appeal reviews state accounts annually, but the government often ignores its findings and recommendations. Audit reports from 2022 highlighted embezzlement connected to public funding for cement factories, yet the government has not taken serious action. The government also failed to address concerns about state projects awarded to companies without the necessary qualifications. The Chamber of Auditors' report on the 2023 state account also revealed that the government had awarded contracts for medicine supplies to companies lacking experience in that area, which caused significant shortages of medicines in hospitals and health centers.

Anti-corruption
policy

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In 2024, the Anti-Corruption Commission noted a significant rise in complaints from citizens, including severe cases in which public officials reportedly misused their power to influence procurement for personal benefit. The commission also fined about 150 officials who did not declare their assets as required. Details of violations and penalties are not widely disclosed.

Although rules governing political party financing exist, enforcement is weak. Political parties receive public funds for elections but usually lack transparent and accountable financial reporting systems.

Although citizens have the legal right to access information, obtaining it can be complex and inconsistent. Some ministries, such as the Ministry of Finance, publish budget documents online, but accessing them requires a reliable internet connection, which many people do not have. Additionally, these documents are primarily in Portuguese or English – languages that many citizens do not understand.

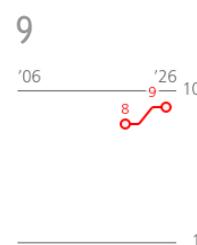
The media can help connect the government and the public, but its weak investigative capacity results in inadequate coverage of corruption.

The public procurement system has been reformed to improve transparency, but implementation problems remain. Although the process for awarding contracts is generally transparent and merit-based, violations can go unnoticed because of a lack of oversight. Furthermore, the government often invokes emergency justifications to bypass standard procurement procedures, a practice more prone to corruption.

16 | Consensus-Building

Virtually every key political actor in Timor-Leste – including historic parties such as FRETILIN, the charismatic leader Xanana Gusmão and all political parties – agrees that democracy is the best system to lead Timor-Leste to prosperity. They actively participate in elections and show trust in the electoral process by accepting election results. When they have contested election results, they have done so in accordance with the law. Since Timor-Leste gained independence, high voter turnout in all elections proves that the Timorese accept democracy as an essential part of their lives and their future as a nation. In the 2023 parliamentary election, 79% of voters participated in deciding who would lead Timor-Leste, following more than five years of hardship due to the COVID-19 pandemic and competition among political party elites. This participation rate is the highest since the 2007 parliamentary elections. The CNRT won 41% of the vote, giving the party 31 seats in the national parliament, 10 more than in the previous legislature and the highest since the party's establishment in 2007. The result was an unexpected outcome because the ruling parties at the time – which included FRETILIN, KHUNTO and the PLP – had informally combined forces and were expected to be more competitive. Still, the transfer of power proceeded smoothly and the losing parties readily assumed the role of opposition in the parliament.

Consensus on goals



Leaders in Timor-Leste do not have major differences of opinion about the economic system the country must adhere to. They consider a market economy a suitable system for the country to achieve its long-term goals. Political parties generally do not have a standard ideology or economic platform and tend to be pragmatic. The FRETILIN has a history as a socialist party. Still, there is no disagreement about the market economy adopted by Timor-Leste. Almost all prominent leaders in Timor-Leste agree that the country should join the WTO and they support its becoming a member of the ASEAN immediately. Some CSO members raised concerns about the government's decision to join the WTO, questioning the country's readiness to compete in the global market when its economy is still weak. In rural areas, where most people depend on subsistence agriculture, communities often ask the government for protection against imports. However, these concerns do not amount to a rejection of the market economy.

At present, there are no significant anti-democratic actors in Timor-Leste.

Former leaders of the Timor-Leste independence struggle, such as Xanana Gusmão, Ramos-Horta, Mari Alkatiri and Taur Matan Ruak, played a vital role in establishing Timor-Leste as a democracy. These leaders continue to exert strong influence on democratic processes through their positions in political parties. They are key political actors advocating democratization in Timor-Leste. Although these leaders and political parties often take a strong opposition stance, they typically adhere to democratic norms.

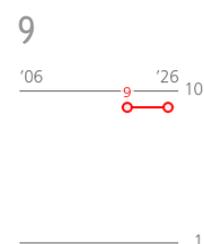
Nonetheless, concerns persist that some former independence movement leaders and political elites wield considerable influence that could threaten democracy by suppressing individuals or groups with different perspectives, or by using their power for self-interest or the interests of their parties. Timor-Leste's multiparty democratic system has helped mitigate the risk of domination by any single individual or political party in the nation's political landscape.

Timor-Leste's main societal cleavages include ethnic, regional and political divisions. These historical divisions continue to shape the country's political and social landscape.

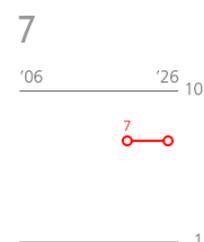
Ethnic tensions rose during the political and military crisis in 2006, but have largely disappeared since then. Regional disparities in Timor-Leste are significant, especially between the country's capital, Dili, and other municipalities, which are mainly rural. Political divisions remain strong in Timor-Leste, particularly between Xanana Gusmão and the CNRT on the one side, and Mari Alkatiri and the FRETILIN on the other.

There is a significant difference in access to opportunities and resources, including education, health care and employment, between Dili and other municipalities. This disparity can cause dissatisfaction with the government's work and fuel social

Anti-democratic actors



Cleavage / conflict management



jealousy, leading to horizontal conflict between rural and urban communities. The ever-increasing number of young people without sufficient employment opportunities will increase youth unemployment, making them more vulnerable to conflict.

Tensions between FRETILIN politicians and the CNRT are frequent but remain within constitutional limits. The multiparty system motivates parties to seek common ground through coalitions, preventing long-term, more profound cleavages. Additionally, widely trusted election administration institutions effectively minimize partisan conflicts after elections, as seen in the 2023 parliamentary election.

There have been no significant ethnic, religious or citizenship-related conflicts since the 2006 crisis. The country's leadership, primarily former freedom fighters, has successfully managed major conflict-related cleavages to prevent further conflict through open dialogue and reconciliation. However, political tensions between key leaders and political parties, as well as social and economic disparities between urban and rural areas, could lead to conflict in the long term.

The political leadership has taken various steps to engage civil society in policymaking, but their effectiveness varies due to multiple limitations. Policymaking generally occurs in Dili; only CSOs based there are regularly invited to participate. Most civil society participation occurs during consultations. These organizations are not involved in initial discussions or in decision-making. The public consultation process is often conducted to fulfill donors' requirements. More CSOs are involved in policy implementation, often in partnership with the government or international development partners.

Some CSOs monitor government policy implementation in rural areas through the social audit program. They focus on health care, education, and water and sanitation programs, and present their findings to relevant government institutions.

In addition to the standard policy consultation process, civil society uses other strategies to express views on government policy. These include staging protests near relevant institutions, holding press conferences and drafting submissions or open letters.

In 2023 and 2024, civil society engaged in several high-level consultations, including the state budget process in the government and the national parliament, the development of a climate change law, and discussions on Timor-Leste's accession to the WTO.

Academics, scientists and professional institutions have less influence on public policy, although they help educate the media and citizens.

Civil society groups have access to political leaders, but their formal role in policymaking is limited. Many lack the resources to propose concrete policy alternatives.

Public
consultation

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The use of social media to express views and concerns about government policies has increased as more people, especially young people, gain access to mobile phones and the internet. Civil society also uses social media to share opinions and concerns. The effectiveness of media use in this policy process has not been measured, but it helps increase public attention to the issues raised.

After Timor-Leste seceded from Indonesia in 1999, prominent leaders, with help from the U.N. transitional government, immediately initiated a reconciliation process between perpetrators and victims of crimes committed in Timor-Leste between 1974 and 1999.

In 2001, the transitional government formed the Commission for Reception, Truth and Reconciliation (CAVR). The CAVR was mandated to collect evidence of human rights violations committed between 1974 and 1999, and to facilitate community reconciliation. The CAVR produced detailed reports with numerous recommendations. Several recommendations have been implemented in Timor-Leste, especially concerning low-level offenders who admit their crimes and are reintegrated into their communities through traditional judicial practices.

Recommendations to the international community have largely been ignored. During the U.N. Transitional Government in Timor-Leste (1999 – 2002) and for several years afterward, internationally supported prosecutors and courts dealt with some of the most notorious crimes committed during the final year of the Indonesian occupation. They indicted 391 people, including several senior Indonesian military leaders. However, all 87 people brought to court were Timorese, with 84 convicted; none are in prison today. In Indonesia, ad hoc human rights courts held several sham trials, punishing no one.

After the CAVR report was released in 2005, Indonesia and Timor-Leste established the Truth and Friendship Commission to address cases of human rights violations in 1999. However, Indonesia has refused to meet most of its commitments. Most Timor-Leste leaders see no alternative but to maintain good relations with Indonesia, one of the largest regional powers and Timor-Leste's largest trading partner.

In recent years, the Centro Nacional Chega! – established to oversee post-CAVR activities – primarily serves an educational role, while advocating for material support for some victims of the occupation. Another aspect of this issue is the attention paid to those killed in the struggle for independence. The state has made substantial efforts to honor their memory, easing demands for the prosecution of perpetrators. However, military veterans of the battle against Indonesia generally receive more vocal recognition than civilian resistance figures or civilian casualties.

Reconciliation

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17 | International Cooperation

International assistance is a crucial part of Timor-Leste's development. Financial dependence on international aid has declined dramatically since 2006, when Timor-Leste began to earn significant revenues from oil and gas. Nevertheless, international assistance and major projects still operate in Timor-Leste, playing an essential role in developing various sectors, particularly in basic development areas where government spending tends to be lower. However, the Timor-Leste government has not always maximized international assistance to achieve its development goals based on domestic realities.

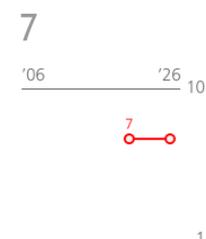
In 2019, the government of Timor-Leste ratified the foreign aid policy that sets out principles and procedures for foreign assistance to Timor-Leste. Essential aspects of this policy include requiring that all development partners' activities align with the government's Strategic Development Plan, improving coordination among development partners to ensure efficient and effective aid delivery, and integrating donor-funded projects into the national planning and budgeting system to ensure coherence and sustainability. However, persistent political instability and frequent changes in government leadership pose significant challenges to stable cooperation, and the effective transfer of skills and knowledge.

In 2024, international assistance to Timor-Leste was about \$55 million, a sharp decrease from \$190 million in 2023. Direct budget support declined about 41% in 2025 compared with 2024. Between 2016 and 2022, donor contributions – comprising direct budget support and donor-managed projects – averaged only 12% of the combined budget. The percentage for 2025 may change due to the U.S. government's dramatic policy shift on international aid. The United States is one of the largest and most consistent donors in Timor-Leste. Other major donors are Australia, Japan and the World Bank.

The government's capacity to steer donors toward its development agenda depends heavily on the strength of government institutions. Some ministries, often constrained by limited human and financial resources, rely on development partners to achieve their goals. However, development partners employ a variety of approaches to implement their programs, including direct budget support to the government, technical assistance for projects, expert support to ministries and partnerships with local NGOs. Donors also follow different timelines, which often complicates implementation and evaluation.

The government maintains the Aid Transparency Portal to advance transparency and accountability. It also publishes a comprehensive report on international support as part of the annual state budget package.

Effective use of support



The government of Timor-Leste is generally a credible, reliable partner in its relations with the international community. It is committed to upholding international agreements and cooperating with monitoring agencies. The country has ratified most U.N. human rights conventions, including those on civil and political rights; economic, social and cultural rights; and the elimination of discrimination against women and people with disabilities. It is a signatory to the Paris Agreement, and has committed to reducing greenhouse gas emissions and improving climate resilience.

In 2023, Timor-Leste ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). In 2024, it ratified the High Seas Treaty (also known as the Agreement under the U.N. Convention on the Law of the Sea on the Conservation and Sustainable Utilization of Marine Biodiversity in Areas Beyond National Jurisdiction). In the same year, it became the 166th member of the WTO.

Timor-Leste has strong ties with the United Nations and has transitioned from hosting U.N. peacekeeping operations to contributing to peacekeeping missions. Timor-Leste has supported the ICC and other international judicial mechanisms, although it has not ratified the Rome Statute. Timor-Leste regularly engages with the U.N. Human Rights Council, submits periodic reports and participates in the U.N. Universal Periodic Review mechanism.

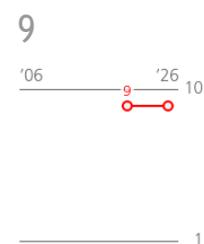
Despite these positive aspects, Timor-Leste faces challenges in maintaining consistent, coherent policies due to political instability and frequent changes in government leadership. These challenges can hinder effective implementation of international commitments, and the transfer of skills and knowledge from international partners. Timor-Leste has ratified many international conventions, although its capacity to meet reporting requirements is limited.

Timor-Leste focuses on building strong ties with neighboring countries. The government seeks good relations and active participation in international and regional groups, supporting broader regional and global cooperation.

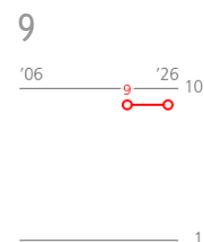
The country has worked hard to maintain friendly ties with its larger neighbors, Indonesia and Australia, recognizing the deep cultural, historical and geographical connections they share. The relationship with Indonesia is significant, even though it sometimes means not fully addressing human rights issues arising from the occupation period (1975 – 1999). Many Timorese students attend universities in Indonesia, which is the largest supplier of goods and services to Timor-Leste.

Timor-Leste maintains a positive relationship with Australia despite recent high-profile disputes over maritime boundaries. The issue's resolution in 2018 demonstrated the country's commitment to positive diplomacy. Australia remains Timor-Leste's most prominent international donor and many Timorese citizens study or work in Australia, further strengthening the relationship.

Credibility



Regional cooperation



Joining the ASEAN has been a foreign policy priority for more than 10 years, but the process has faced delays because of hesitation by some member countries. In November 2022, the ASEAN agreed, “in principle,” to recognize Timor-Leste as a potential member, pending certain conditions. Timor-Leste has also participated in regional groups, holding observer status in organizations such as the Pacific Islands Forum and the Melanesian Spearhead Group since 2016.

Timor-Leste participates in the Coral Triangle Initiative to address marine issues. The country has launched the Timor-Leste, Indonesia and Australia Growth Triangle to encourage economic progress. Additionally, Timor-Leste has become a WTO member, further integrating it into regional and international markets.

Timor-Leste relies heavily on imported goods and services, primarily from its regional partners, especially Indonesia.

Strategic Outlook

During the review period, Timor-Leste strengthened its democracy by holding parliamentary elections and forming a new government. It also joined the WTO, enhancing its integration into the global market. However, challenges remain in maintaining democracy and strengthening its market-based economy.

The 2023 parliamentary election reinstated Xanana Gusmão as prime minister, replacing Taur Matan Ruak. This followed the 2022 presidential election, which returned José Ramos Horta to the presidency, replacing Francisco Guterres “Lú-Olo.” These events redefined Timor-Leste’s political landscape, which is dominated by former independence leaders. While these leaders play a critical role in national development, their dominance hinders the emergence of new, innovative leaders.

To improve welfare, Timor-Leste must leverage its democratic system by appointing competent young leaders to strategic positions. Transitioning to a modern, merit-based system is essential for sustained stability and will create opportunities for younger generations.

Since 2006, Timor-Leste has funded the state budget with oil and gas revenues. With that revenue ceasing in 2023, the country relies on the Petroleum Fund and its investments. The Ministry of Finance estimates that the Petroleum Fund, valued at about \$18 billion in 2023, will be depleted within a decade without new revenue sources. In addition, limited domestic income and rising foreign borrowing – which reached \$1.2 billion in 2023 – threaten fiscal stability.

Timor-Leste must diversify its economy to reduce dependence on the Petroleum Fund. Potential sectors include agriculture, fisheries, tourism, and small and medium industries. Agriculture employs about 70% of the population but contributes only 20% to GDP, indicating significant room for growth. Timor-Leste must create a favorable investment climate by simplifying regulatory procedures, ensuring political stability and law enforcement, and adopting important legal rules such as property rights regulations.

With one of the highest proportions of young people in the world, Timor-Leste faces both opportunities and challenges. About 56% of the population is under 25 years old. Thousands of young people enter the labor market each year, but many remain unemployed because of a lack of jobs and market-relevant skills. If not used effectively, these young people may become vulnerable to destabilizing activities.

Timor-Leste must invest in job-creating sectors such as manufacturing, agriculture and tourism by creating favorable conditions for the private sector, cooperatives and FDI. Bottlenecks such as complex bureaucratic procedures and corruption must be eliminated. Vocational training schools should be expanded and improved to produce graduates ready to work or start businesses. Widespread entrepreneurship training can foster innovative companies.

Improving the quality of human resources depends on increasing access to quality education, and health facilities and services. Nearly half of children under five years old suffer from stunting, which affects brain development. Malaria and tuberculosis remain prevalent. The government must expand community health centers to improve public access and employ health graduates in rural areas.

Timor-Leste will also face negative impacts from climate change and natural disasters, such as floods, droughts and landslides. Climate change significantly affects agriculture and fisheries. Consequently, the government must build resilience in these sectors and strengthen social safety nets, as many citizens live in poverty and are vulnerable to shocks. Enhancing the capacity of government agencies, local organizations and the public to respond effectively to disasters is critical.

Timor-Leste's economy is gradually improving after being struck by the COVID-19 pandemic, natural disasters and political deadlock. With limited human and financial resources, the government must collaborate with international organizations, NGOs and private sector partners to leverage resources, expertise and funding. Involving local communities in planning and implementing development projects helps ensure that projects meet local needs and foster community ownership.