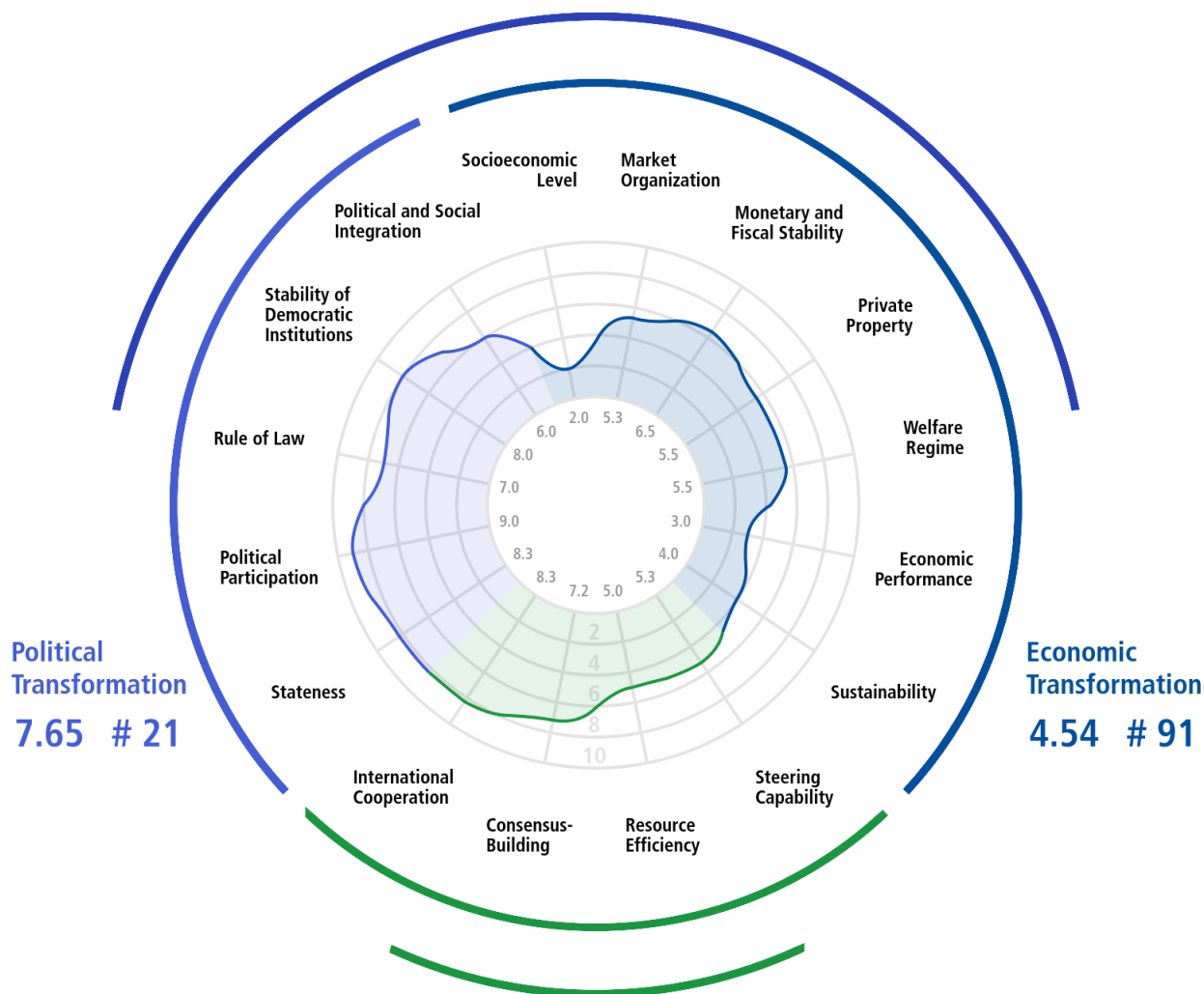


# Timor-Leste

## Status Index

**6.09 # 47**

on 1-10 scale out of 137



**Political Transformation**  
**7.65 # 21**

**Economic Transformation**  
**4.54 # 91**

## Governance Index

**5.78 # 31**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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	<b>1.3</b>	HDI	<b>0.606</b>	GDP p.c., PPP \$	<b>3356</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.9</b>	HDI rank of 189	<b>141</b>	Gini Index	<b>28.7</b>
Life expectancy	years	<b>69.5</b>	UN Education Index	<b>0.510</b>	Poverty <sup>3</sup>	% <b>65.9</b>
Urban population	%	<b>31.3</b>	Gender inequality <sup>2</sup>	-	Aid per capita \$	<b>182.5</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

During most of 2019, the cohabitation of the president, from the Frente Revolucionária de Timor-Leste Independente (FRETILIN), and the Congresso Nacional de Reconstrução Timorense-dominated parliamentary coalition ambled along, with occasional vetoes and overrides, and adoption of a 2019 state budget and maritime boundary treaty with Australia.

In December 2019, parliamentarians from Congresso Nacional de Reconstrução Timorense (CNRT) declined to support the proposed 2020 budget. The coalition splintered three months later, and People's Liberation Party (PLP) prime minister Taur Matan Ruak offered his resignation. However, the independently-elected president declined to appoint a new prime minister or call new elections.

The COVID-19 pandemic focused many people on the need for a stable government, and in April 2020 a new constellation of parties, including the PLP, Khunto and the FRETILIN former opposition, formed a parliamentary majority. CNRT is now in opposition. Ruak withdrew his resignation and appointed new ministers, primarily from FRETILIN, to replace those from CNRT.

On May 18, 2020, during the election of a new parliamentary speaker, CNRT deputies destroyed the speaker's platform on live television, shocking the nation. CNRT frequently calls the coalition illegitimate and has walked out during key debates and votes. Although their harsh rhetoric reverberates in social and other media, no further violence has transpired.

Timor-Leste declared a COVID-19 State of Emergency in April 2020, extended monthly through to March 2021 and beyond. Notwithstanding some health-related restrictions on travel and assembly, civil liberties and freedom of speech are widely respected.

All key officeholders are now part of the majority coalition, although the 2020 state budget wasn't enacted until two months before the end of the year. During 2020, parliament enacted 15 laws (two state budgets, two transfers from the Petroleum Fund, an anti-corruption law, a civil

protection law and nine monthly authorizations of the State of Emergency), compared with six in 2019 and two in 2018.

The economy continues to depend on government outlays, with little diversification. State spending fell 25% in 2017/18 due to political impasses, and non-oil GDP fell 5%. Although GDP recovered 2% in 2019, the late 2020 budget is projected to lead to a 6% decline in 2020. Real, non-oil GDP per capita in 2020 will be the same as it was nine years ago.

Malnutrition and poverty remain among the worst in the world, and imports outweigh exports by a ratio of 20:1. GDP for productive sectors which are not driven by state spending (agriculture and manufacturing) has not grown since independence in 2002.

Approximately 80% of state expenditures come from the Petroleum Fund (PF). Oil and gas income into this sovereign wealth fund is now almost negligible, as Timor-Leste has already collected 99% of the revenues it will obtain from fields in production. PF income comes from overseas financial instruments, the value of which increased nearly 20% in 2019/20. Although withdrawals were lower in 2019/20, the government plans to withdraw nearly twice as much in the next four years as it did in the last four, and the Petroleum Fund could be depleted entirely within a decade.

The maritime boundary agreement with Australia came into force in 2019, removing some obstacles to extracting more oil and gas, but the Greater Sunrise offshore gas and oil field is the only known large reserve, and it remains stalled due to a lack of financing. Many people expect that other fields will provide significant revenues, but this is highly uncertain.

The state-owned TimorGAP petroleum company has failed to generate any income and is the recipient of rapidly-increasing annual subsidies. In 2019, it borrowed \$650 million from the PF to buy a majority share in Greater Sunrise. In mid-2020, the restructured government replaced longtime leaders of TimorGAP and other key petroleum institutions. The new leaders are reassessing the Tasi Mane petroleum infrastructure mega-project.

Due to its small size, relative isolation and prescient precautions, Timor-Leste has to date prevented fatalities from and community spread of COVID-19, which would be calamitous in light of the country's poor public health, multi-generational extended families, and a severely inadequate health system. A minor outbreak in March 2021 led to the first lockdown being imposed in the capital, Dili. To alleviate the economic impacts of travel and assembly restrictions, the Timor-Leste government is distributing cash and basic goods to nearly all households. Although pandemic precautions have created economic and social hardships, they have also catalyzed the formation of a more stable governing coalition and broadened discussion of more sustainable economic policies.

## History and Characteristics of Transformation

After more than 400 years of Portuguese colonization and on the heels of the 1974 ouster of dictatorship in Portugal, some East Timorese who had studied abroad during the 1970s and were inspired by the anti-colonial liberation ideologies emerging in other Portuguese colonies, declared independence on November 28, 1975. Indonesia invaded nine days later, beginning 24 years of an illegal, brutal military occupation that killed a quarter of Timor-Leste's people. This brutality provoked a persistent military, underground and diplomatic resistance. In 1999 the United Nations belatedly organized a referendum. After 78.5% of the population voted for independence, Indonesian troops inflicted massive devastation as they departed. After 2½ years of transitional UN rule, Timor-Leste restored its independence on May 20, 2002.

Following 1999, Timor-Leste had to recover from violence and trauma (including people displaced to Indonesia, and the near-total destruction of infrastructure and buildings), draft a constitution and enact all its laws and construct a state administration and public services from scratch. Having endured war and oppression, the Timorese embraced peace, pluralism, democracy and human rights, although neither Timor-Leste's leaders nor people had ever lived under a government that even pretended to address the public interest.

At the start of this century, the Revolutionary Front of Independent Timor-Leste (FRETILIN), a party created in 1974 to support independence, was the strongest political force, winning the country's first free elections that were held in 2001 (for the assembly which wrote the constitution and formed the first parliament, which chose FRETILIN's Mari Alkatiri as prime minister). Resistance leader Xanana Gusmão, who had left FRETILIN in the 1980s, was elected president in 2002.

The constitution provides for a semi-presidential system in which the president and the parliament (which chooses the prime minister) are elected by direct, universal suffrage for five-year terms. Parliamentarians are elected on national party slates with proportional representation.

In 2006, the country experienced a crisis which began with clashes between the military and police but had deeper underlying causes. The prime minister was forced to resign, around 250 people were killed, thousands of houses were burned, and more than 100,000 previously traumatized citizens were displaced. Timor-Leste invited an Australian-led military force to help restore stability, but it took several years and significant government compensation before IDPs could return home.

Nevertheless, the 2007 elections went smoothly, with non-partisan diplomat José Ramos-Horta elected president. A few months later, voters chose a new parliament, and a coalition led by the National Congress for Timorese Reconstruction (CNRT), a party that had just been created by Xanana Gusmão, won a majority and named Xanana as prime minister. In the 2012 elections, CNRT retained control of parliament, but Ramos-Horta was defeated by former resistance

commander Taur Matan Ruak. Over the next five years, Taur Matan Ruak visited every village, often expressing his dissent from the CNRT majority.

From 2007 to 2014, FRETILIN comprised the main opposition in the parliament. However, in 2015, Xanana resigned, sharing power with FRETILIN and inviting FRETILIN's Dr. Rui Araujo to be prime minister. This arrangement lasted two years, although Xanana continued to make major policy decisions.

Former resistance officer and attorney Francisco Guterres "Lú-Olo," a FRETILIN leader also backed by CNRT, won the 2017 presidential election. For the parliamentary elections two months later, ex-president Taur Matan Ruak created another new political party, the People's Liberation Party (PLP). FRETILIN won a plurality, but their coalition was short-lived, leading to functional paralysis until an early election was held in May 2018. The coalition of CNRT, PLP and Khunto (a new party based on a martial arts group) won 34 of the 65 seats in parliament and chose Taur Matan Ruak as prime minister. FRETILIN, with 23 seats and support from smaller parties, led a vocal parliamentary opposition, often allied with the president.

The ruling coalition dissolved in early 2020, and a rearranged alignment brought FRETILIN into government with PLP and Khunto, putting CNRT into opposition. There were no new elections, and Taur Matan Ruak remains prime minister. The new coalition is supported by more than 40 members of parliament.

Timor-Leste emerged into nationhood in 2002 as the poorest country in Southeast Asia, with destroyed infrastructure and few financial resources other than donor support. Although some social indicators (maternal and child mortality, TB, malaria) have improved, they are still among the worst in the region. Child malnutrition remains among the highest in the world, and more than 40% of people live in poverty.

Significant income from offshore oil and gas began in 2006, and Timor-Leste's state expenditures grew fourfold over the next five years. However, the reserves in existing fields are almost exhausted; annual petroleum revenues in 2020 were about one-tenth of their peak from 2011 to 2013 and will end entirely in about three years. Although there is only a slight chance that new oil and gas fields could provide another decade's worth of revenues, this mirage dominates policymakers' thinking. Decisions are often afflicted by the resource curse, with little interest in preparing for the inevitable, challenging, post-petroleum future.

Most of the oil revenues have been saved in the Petroleum Fund, which has received \$23 billion in oil and gas income and \$8 billion in returns on overseas financial investments. More than \$12 billion has been withdrawn from the fund, paying for about 80% of state spending, and \$19 billion remains.

Most state spending is on infrastructure (national roads and electricity), with less being channeled to education, health care, water supply or agriculture (the latter of which constitutes the main livelihood of two-thirds of Timorese households).

Timor-Leste imports 25 times as much goods as it exports (excluding oil and gas). Excluding the Petroleum Fund, the annual balance of payments is negative \$1 billion.

Coffee, the only significant non-oil export, brought in about \$18 million per year until 2020, when sales were lower due to COVID-19. Most rural people are subsistence farmers, although agriculture comprises only one-sixth of non-oil GDP. Less than one-tenth of the working-age population has formal private sector employment. Between 2014 and 2018, the number of such jobs fell by 15%, although the employable population grew by 10%.

After matching the rise in oil income, Timor-Leste's UNDP Human Development Index fell sharply. It has declined an average of 0.4% per year during the past decade, worse than every nation except Syria, Libya, Venezuela and Yemen.

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

Since independence in 2002, stateness has been fragile in Timor-Leste. The use of force by non-state actors was initially a significant problem, but since 2008, the government has secured its monopoly on the use of force.

The national police and military are the only Timorese armed entities in the country, which is entirely under their control. With the exception of a small number of unaccounted-for police weapons, citizens do not possess firearms; infrequent, violent interpersonal or gang (“martial arts groups”) conflicts are conducted with weapons like rocks, knives, arrows and machetes, and the targets are almost always members of their own or another martial arts group.

In Timor-Leste, virtually everyone accepts the nation-state as legitimate.

Citizenship is available to everyone born of a Timorese parent (or born in the country of unknown parents or whose parents intend to become Timor-Leste citizens), or who meets the legal residency and/or marriage requirements, although there is occasional bureaucratic red tape. There are no political, ethnic, gender, racial or religious criteria for citizenship, and the constitution prohibits discrimination.

Non-citizens are not allowed to own land.

Some bureaucratic processes, including visa renewals, were suspended during the COVID-19 state of emergency which began in April, but the expiration of temporary documents was also suspended.

Question  
Score

Monopoly on the  
use of force  
10



State identity  
10





In the 2015 census, 97.5% of Timorese identified as Roman Catholic, with 1.95% Protestant and 0.25% Muslim. However, many Timorese, especially in rural areas, continue to co-identify with animist beliefs and traditional religions. Catholic leaders play an active role in many government decisions. Although overt Church political engagement has reduced since 2005, a Concordat with the Vatican sustains special facilities granted to the Catholic community. Some politicians have suggested turning the public school system over to the Catholic Church to manage, as Catholic schools and universities generally provide better education than public ones in the country.

Protestant and Muslim clergy also have access to public officials. The current prime minister grew up in a Protestant family before converting to Catholicism, and his predecessor was Muslim. The constitution prohibits religious discrimination, and both Christian and Muslim holy days are national holidays. Divorce is permitted by mutual consent or when a couple can no longer live together. Although nonreligious marriage is technically allowed, procedures for it were belatedly being enacted in early 2021.

Due to Catholic influence, abortion is a crime, contraceptives are usually unavailable from public health facilities, and sex education (including for HIV-AIDS prevention) is constrained. However, during 2020, public discussion about reducing moralism in sex education increased, especially over how to avoid unwanted pregnancy.

Timor-Leste's people remain extremely poor and are still recovering from a long history of autocratic foreign rule and war. Although the state has spent \$8 billion from its limited, non-renewable petroleum wealth, the results are rarely visible in the rural areas where two-thirds of the population live.

Government administration exists throughout the country, although some functions require one to come to the capital, Dili. However, many public services, including education, health care, transportation, water, sanitation, electrical supply and health care, are less effective and available in rural areas. Even where schools or health care services exist, staffing, resources and facilities are often inadequate.

The national government is responsible for nearly all services; decentralization has been discussed for many years but has not been implemented. Services and infrastructure in the capital, where decision-makers are located, receive more attention and resources.

Although some corruption exists, most of the neglect is legal.

In 2020, the COVID-19 pandemic made things more difficult by limiting in-person schooling, markets, travel and gatherings, and reducing household incomes. The government has undertaken some measures, such as distributing money and basic goods to every household, to try to alleviate these difficulties.

No interference of religious dogmas

8

'06 \_\_\_\_\_ '22 10

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1

Basic administration

5

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1

## 2 | Political Participation

Since 2001, free and fair multiparty elections have been held regularly in Timor-Leste. Universal suffrage is ensured and all political parties are able to run. Hotly-contested national elections in 2017 and 2018 saw no reports of violence and fewer irregularities than in previous elections. The next presidential election is scheduled for 2022 and the next parliamentary one for 2023.

Political posts are filled according to the electoral results, with proportional representation for each party or pre-election coalition receiving at least 4% of the vote.

Candidates for parliament run on national party slates, and therefore owe their seats to their party leadership, rather than to the voters in a particular constituency.

During late 2019 and early 2020, the largest party in the governing parliamentary coalition, the National Congress for Timorese Reconstruction (Congresso Nacional de Reconstrução do Timor/CNRT) declined to support the government's proposed 2020 state budget, and Prime Minister Taur Matan Ruak from the People's Liberation Party (Partido da Libertação Popular/PLP) submitted his resignation in February 2020. The prime minister's resignation was not immediately accepted by President Francisco "Lú-Olo" Guterres, and as the COVID-19 pandemic unfolded, non-CNRT parliamentarians formed a new alliance with the largest former opposition party, the Revolutionary Front for an Independent Timor-Leste (Frente Revolucionário de Timor-Leste Independente/FRETILIN), supporting Taur Matan Ruak to remain as prime minister. At this point most CNRT ministers resigned and were replaced by people from FRETILIN. Although CNRT has been a vocal opposition and sometimes labels the government illegitimate, FRETILIN-aligned President Francisco "Lú-Olo" Guterres has not called an early election. The new parliamentary coalition has enacted many laws, including state budgets for 2020 and 2021, and eight monthly declarations and extensions of the State of Emergency.

The democratically elected members of parliament and the president, and the ministers they select, are able to govern effectively. There is no "veto player" who does not have electoral legitimacy. The semi-presidential system divides power between the directly elected president of the republic and the prime minister (and his cabinet), who is chosen by the parliament. The president has veto powers, which he exercises. Parliament may revert the presidential veto, but in some cases, this requires a two-thirds supermajority. The president's veto over executive decree laws is irreversible.

Most major political leaders (including the current president and prime minister, as well as the still-influential former prime minister, Xanana Gusmão) were senior

Free and fair elections

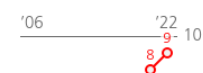
9



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Effective power to govern

9



1

figures in the guerrilla resistance, and hierarchical patterns and deference to heroes of national liberation can confer informal legitimacy and political power.

During 2018 and 2019, when the president and the parliamentary majority coalition represented different political parties, the president exercised his veto four times in relation to petroleum-related legislation. In three cases, parliament amended the law and overrode the veto. There were no vetoes in 2020, and, since March, the executive and legislative branches have worked together to adopt, renew and revise the state of emergency in response to the COVID-19 pandemic.

In mid-2020, the recently restructured government appointed three new leaders for agencies related to the petroleum sector. The latter promised a re-evaluation of past decisions in this area. However, no change in direction had occurred by early 2021, partly due to interest groups, and partly due to the widely-held, but perhaps misguided public perception that oil and gas rents will continue to finance Timor-Leste's economy and state operations, even as petroleum reserves are depleted.

Association rights are protected by the constitution and generally observed in the country.

Many NGOs exist. Although civil society organizations must register with the government, they are not treated in a discriminatory or restrictive manner. Therefore, civil society organizations can work without significant interference from the government, although their influence over political decisions is limited. Many CSOs receive government funding. Aside from rules prohibiting protests within a certain distance of foreign embassies, which are occasionally invoked, there are no significant non-COVID-19 restrictions on freedom of association and assembly.

At the onset of the pandemic, Timor-Leste declared a State of Emergency in early April 2020, which has been renewed monthly through March 2021. The restrictions have varied, but in general they have limited international entry, required mandatory quarantine for people entering the country, and restricted domestic travel. To date, there has been no known community spread or deaths from COVID-19. Imported cases increased in December 2020, and current rules ban gatherings of more than 10 people who are not from the same household. There does not appear to be a discriminatory application of these rules.

There are no systematic restrictions on freedom of expression and access to information, which are guaranteed by the constitution. Public and private print, electronic, online and social media are uncensored, although investigative reporting is limited and media outlets often unquestioningly echo the views of prominent people.

Media reports (including from the Tatoli state press agency) are frequently inaccurate or lack context, but this is primarily due to lack of knowledge, not to political

Association /  
assembly rights

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Freedom of  
expression

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interference. Print and electronic media publish a variety of viewpoints with no censorship.

The Press Council created by the potentially restrictive 2014 Media Law has not acted to limit free expression, and its president, who was drawn from civil society and supports a hands-off approach, was reappointed in January 2021.

In mid-2020 the Ministry of Justice circulated a draft law to criminalize defamation, by speech or in writing, in-person, on media or on social media. There was strong push-back from journalists, civil society and some political leaders, and the law has not been submitted to the Council of Ministers or National Parliament. However, the Penal Code article on “defamatory false information” undercuts full freedom of expression. Journalists exert self-censorship. Nobody has been prosecuted for inaccurate articles since 2015, and no journalists have been imprisoned.

Although freedom of information legislation has been in effect since 2016, many state agencies are not forthcoming with complete information, partly due to resource limitations. Still, Timor-Leste has been a world leader in transparency relating to public finances and extractive industry revenues, although this has been declining in recent years.

After some initial confusion, the government is trying hard to disseminate accurate information on the COVID-19 pandemic in the country, and the media reports it. In January 2021, a “cyber-crime” law was suggested by the Prosecutor-General to limit defamation on social media.

### 3 | Rule of Law

The constitution provides for checks and balances, and for separation of powers. This is the classic separation of executive, legislative and judiciary as well as a separation between presidential and cabinet powers in the executive.

As an adolescent democracy, officials and citizens of Timor-Leste are still learning about and experimenting with this and other aspects of constitutional rule of law. In late 2019, separation of powers was tested when the National Congress for Timorese Reconstruction (Congresso Nacional de Reconstrução do Timor/CNRT), the largest party in the governing coalition, voted against the proposed 2020 state budget. The coalition splintered in February 2020 and the People’s Liberation Party (Partido da Libertação Popular/PLP) Prime Minister Taur Matan Ruak resigned. However, independently-elected President Francisco Guterres “Lú Olo,” from the Revolutionary Front for an Independent Timor-Leste (Frente Revolucionário de Timor-Leste Independente/FRETILIN), declined to appoint a new prime minister or call new elections.

Separation of powers

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The majority of people felt that Timor-Leste needed a stable government to deal with the COVID-19 pandemic, and two months later a new coalition of parties formed a parliamentary majority. Ruak withdrew his resignation and appointed new ministers to replace the CNRT ones, whose party had instructed them to resign. 19 CNRT members of parliament sought to challenge the president's decisions in the Court of Appeal, but the court responded with a clear statement that there would be no judicial review of political discretion of the elected president unless and until the formal impeachment procedure is used. This decision was broadly consistent with international practice: in systems with directly elected presidents, a supermajority in the legislature is normally required to trigger a judicial review of presidential actions. Separately, the Court of Appeal also affirmed parliament's powers to control its own procedures when it rejected a CNRT appeal over the removal of their president of parliament (akin to the speaker) in an irregular parliamentary vote.

A State of Emergency was enacted in April 2020 and has been extended monthly through March 2021 using transparent legal processes involving both executives and the legislature.

Now that the president's party (FRETILIN) has moved from opposition to part of the governing coalition, he is less inclined to contest decisions by ministers and parliament.

Parliament and government have continued to function during the State of Emergency, and two annual state budgets have been enacted.

The judiciary is independent. Rotating opposition parties often challenge the validity of legislation they disagree with in court, but the courts generally uphold legislative processes. The last clear case of executive interference in the judiciary was in 2014.

In 2019, Timor-Leste enacted legislation to remove the power of the Audit Court to conduct prior review of large contracts in the petroleum sector.

Otherwise, the courts are generally independent, although the Court of Appeals continues to serve as the interim replacement for the constitutionally-defined Supreme Court. In January 2021, the Court of Appeals overturned the 2017 corruption conviction of two fugitive expatriates, reasserting the rule of law, but highlighting the occasional incapacity of the lower courts.

Independent  
judiciary

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In August 2020, the legislature passed a new anti-corruption law (“Measures for Preventing and Countering Corruption”) which entered into force on February 22, 2021. The new law includes an obligation on public officeholders to declare income, assets and interests, and contains new provisions aimed at preventing corruption. Although prosecutions are sometimes politically motivated, the shifting of power between parties in 2007, 2017, 2018 and 2020 has helped keep prosecutions and the operations of East Timor’s Anti-Corruption Commission (CAC) non-partisan. According to its 2020 annual report, the criminal investigation unit of the CAC investigated 73 cases of alleged corruption, of which 17 related to cases in 2019. The report notes the adverse impact of the pandemic on the agency’s ability to operate, making the CAC’s fight against corruption “more difficult.”

The CAC and the Provedor (Ombudsman) for Human Rights and Justice investigate allegations of maladministration and corruption but have no power to prosecute. Their referrals to the Public Prosecutor are not public, so it is hard to assess if referrals are consistently pursued. In the past, however, large-scale cases of corruption, involving tens of millions of dollars or more, have proven to be too sensitive to bring to court.

Many of the frequent (and sometimes not well-founded) allegations of abuse of power on social media do not result in prosecution. At least one person convicted of corruption has fled the country. Although a number of officials, including ministers, have been prosecuted and convicted in the past, mostly for relatively small cases, petty corruption is common and perceptions of larger violations are widespread.

Prior to the COVID-19 pandemic, civil rights were usually guaranteed and protected. The police sometimes exploit the 72-hour maximum for preventive detention to imprison people without trial.

Gender-based violence is widespread. It is illegal, but authorities are often unable or unwilling to provide redress, although public education has sought to reduce it. Although same-sex sexual orientations were often concealed in the past, Timor-Leste has the most active and visible LGBTQ+ rights movement in Southeast Asia, which is rapidly changing public attitudes.

Torture is rare, there is no capital punishment, and no extrajudicial killings have taken place since 2015. An intermittently-enforced law limiting public demonstrations has not led to major rights violations.

Due to limitations on travel and public gatherings to prevent the spread of COVID-19, people have not been able to freely exercise their civil rights since April 2020. However, these rights are still legally guaranteed and there has been no significant curtailment beyond that necessary to protect public health.

Prosecution of  
office abuse

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Civil rights

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#### 4 | Stability of Democratic Institutions

Timor-Leste has a unicameral parliament elected on national party slates through proportional representation, and a separately elected president. President Francisco Guterres “Lú Olo” from the FRETILIN party was elected in 2017. The parliament elected in 2017 was unable to form a stable governing coalition, and early parliamentary elections in 2018 were won by a coalition headed by Prime Minister Taur Matan Ruak from the PLP party but dominated by Xanana Gusmão’s CNRT party. This coalition disintegrated when CNRT declined to support the government’s proposed 2020 state budget at the end of 2019. The prime minister offered his resignation in February 2020.

At the beginning of the COVID-19 pandemic, Prime Minister Ruak withdrew his resignation (in April 2020), and parliamentarians formed a new parliamentary alliance which included the former opposition party FRETILIN. CNRT went into opposition and directed its ministers to resign. The majority of the new ministers are from FRETILIN.

On May 18, 2020, during the transition of coalitions and election of a new parliamentary speaker, members of parliament shouted at each other, and CNRT deputies destroyed the speaker’s platform on live television, shocking the nation.

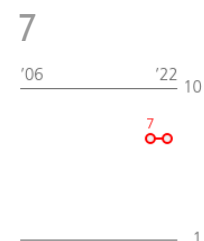
CNRT, now in opposition, frequently declares that it does not recognize the legitimacy of the administration and walks out of parliament, including during key votes. Nevertheless, parliament and the administration function smoothly, as all key players are members of the majority coalition. The administration proposes legislation, parliament enacts it, and the president promulgates it.

All democratic institutions are accepted by virtually everyone. Constitutional procedures are almost always followed.

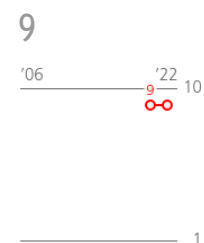
However, the CNRT (the second largest party, currently in opposition) frequently says it does not accept the legitimacy of the current governing coalition. However, this rhetoric has not undermined the institutions.

The COVID-19 pandemic has not affected democratic institutions. The provedor (ombudsman) has reported on the implementation of the State of Emergency, and has made some critical observations, as has civil society, but nobody has raised serious questions about the legal processes for enacting the restrictions.

Performance of democratic institutions



Commitment to democratic institutions



## 5 | Political and Social Integration

The party system in Timor-Leste includes established parties (FRETILIN and PD) and others created by former presidents in order to pursue the executive powers allocated to the prime minister (CNRT, PLP). CNRT, formed in 2007 by resistance leader and President Xanana Gusmão, and the historic independence party (FRETILIN) are the two largest parties. FRETILIN has a grassroots base, while CNRT is supported primarily by those who are loyal to Xanana or who benefited from CNRT's use of state resources. Three other parties have significant parliamentary representation: PD, which emerged in 2001 out of the student resistance movement; PLP (formed by former president and current prime minister, Taur Matan Ruak, in 2017; and KHUNTO, a smaller party associated with youth movements and related to a "martial arts group".

The majority of political parties are organized around strong leaders, rather than policy or ideology. No significant new parties have emerged since the 2017 parliamentary election, although there was an early election in 2018.

Until late 2019, the majority coalition was comprised of PLP, CNRT and Khunto, but CNRT's rejection of the administration's proposed budget for 2020 led to a realignment in May 2020, and the current parliamentary majority supporting the government comprises PLP, FRETILIN and Khunto.

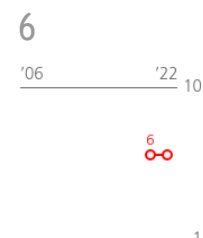
There are several smaller parties, who sometimes win parliamentary representation by exceeding the 4% proportional representation threshold from the single national electorate. Internal democracy is limited in all parties, and many are dominated by strong leaders and have limited capacity to represent rural or grassroots interests. Voter volatility is moderate.

Political polarization, particularly the competition between CNRT and FRETILIN, has been a dominant factor in Timor-Leste politics since 2006 (except for a brief period between 2015 and 2017). CNRT, now in opposition, does not accept the legitimacy of the new parliamentary majority, calling it "de facto" and often walking out of parliament during key votes.

Although clientelism continues, it appears to be less widespread than when a single party (either CNRT or FRETILIN) governed in past years. Smaller and more efficient state budgets, with fewer large-scale infrastructure projects, have reduced opportunities for patronage.

In late 2020 and early 2021, several new parties filed papers to register in preparation for the 2023 parliamentary elections.

Party system





Independent civil society groups are numerous but mostly concentrated in the capital Dili. Many depend on government funding. The rural majority, primarily poor subsistence farmers, are not effectively represented by organizations. The Catholic Church is highly influential, especially in the wake of the 2015 Concordat, and has a significant influence on public policy debates. Student groups are vocal and sometimes influential. Because most people work outside the cash economy or in subsistence farming, trade unions are mostly irrelevant. Social interests are frequently represented through personal or informal channels.

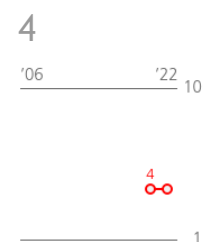
Social media is unrestricted, influential and widely used, but accessible by the minority who can afford internet access via mobile phone. Online publications are increasing. Many organizations (and some state agencies) use Facebook as their principal way to disseminate information.

People in Timor-Leste value constitutional democracy because of the tremendous struggle and suffering they went through to achieve it. Voter turnout is high and major political disputes are resolved through elections, demonstrating that most citizens approve of democratic procedures. There is no formal opposition to these rules. No significant social movement questions the processes by which the country has been governed since the restoration of independence in 2002. The traumas of the Indonesian occupation were refreshed during the 2006 “crisis,” reinforcing people’s appreciation of democratic procedures as essential.

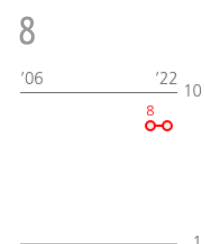
Public opinion surveys are not common in Timor-Leste, and historic and cultural traditions (e.g., telling questioners what the respondent thinks they want to hear) make most polls unreliable. However, a telephone survey conducted by The Asia Foundation in May and July 2020 found an increase in public confidence (54% said the country is going in the right direction), and listed politics (19%) as a less important challenge than COVID-19 (52%), with 64% (up from 49% in May) trusting the government to manage the pandemic.

Although Facebook debates often descend into diatribes or personal attacks, with people strongly aligning with a particular leader or political party, fundamental democratic principles are rarely questioned. While confidence in the performance of democratic institutions is variable and occasionally questioned by some Timorese, the questioning of democratic norms and principles is rare.

#### Interest groups



#### Approval of democracy



Many people participate in civil society organizations, including church-affiliated ones. In addition, traditional networks formed of extended families, clans, and regional or language groups are strong, as are organizations that are based in networks or were created to resist the Indonesian occupation. However, these associations are often not visible through public opinion surveys.

According to The Asia Foundation survey in July 2020, 88% of people in Timor-Leste believe that community relationships have become stronger during the pandemic, although intolerance of outsiders has increased.

Social capital

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## II. Economic Transformation

### 6 | Level of Socioeconomic Development

In 2014, 41.8% of the Timorese population lived under the national poverty line (government Living Standards Survey – latest official data is available). Poor people reside predominantly in rural areas, and poverty is worse among women. Urban areas offer better opportunities but show a marked imbalance in the distribution of income and wealth.

Published data shows inequality in Timor-Leste to be less than in comparable countries, but this may be because the very small number of very wealthy people are not captured in statistics, while the rural majority (mostly subsistence farmers) live below or near the poverty line

About a quarter of the working-age population works in the formal economy, while a larger proportion are subsistence farmers and fishermen. The public and private sectors each employ approximately 9% of the working-age population. Women are more prevalent in lower-paid occupations.

Rapid growth of state spending was moderated in 2012, which rippled through the economy. Between 2014 and 2018, employment by private sector businesses declined by 15% (government Business Activities Survey), even as the working-age population grew by 11%. Decreased state spending in 2017, 2018 and 2020 due to political uncertainty, the associated failure to pass certain annual budgets and the COVID-19 pandemic, all resulted in negative GDP growth. This trend is expected to continue.

The UNDP Human Development Index (HDI) for Timor-Leste improved significantly in the years up to 2015 due to rising petroleum income. In the 2020 HDI, Timor-Leste ranked 141, the same as the year before. However, its rank had fallen 12 places in the last five years, the third largest fall of all countries. Since 2010, Timor-

Question  
ScoreSocioeconomic  
barriers

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Leste's HDI has declined an average of 0.4% per year – only Syria, Libya, Venezuela and Yemen fell further. This is caused by the sharp decrease in oil and gas income as reserves are depleted, combined with little progress in economic diversification or improving services and living standards for the rural majority.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	1599.3	1559.9	2017.9	<b>1821.0</b>
GDP growth	%	-4.1	-1.1	18.7	<b>-8.7</b>
Inflation (CPI)	%	0.5	2.3	1.0	-
Unemployment	%	4.6	4.5	4.4	<b>5.1</b>
Foreign direct investment	% of GDP	0.4	3.1	3.7	-
Export growth	%	-39.1	16.6	1247.4	-
Import growth	%	-8.7	2.8	22.7	-
Current account balance	\$ M	-339.1	-191.1	134.0	<b>-356.8</b>
Public debt	% of GDP	6.6	9.3	9.6	<b>12.3</b>
External debt	\$ M	124.5	158.1	203.4	<b>231.8</b>
Total debt service	\$ M	1.8	3.2	7.2	<b>8.1</b>
Net lending/borrowing	% of GDP	-12.1	-2.8	5.8	-
Tax revenue	% of GDP	20.0	25.2	23.0	-
Government consumption	% of GDP	54.6	56.4	47.4	-
Public education spending	% of GDP	7.1	6.8	-	-
Public health spending	% of GDP	2.9	2.6	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.9	0.8	1.2	<b>1.2</b>

Sources (as of December 2021): 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

Although Timor-Leste has free-market policies (and is moving toward privatization of essential services like water and electricity), many pre-COVID-19 challenges limit business development.

In spite of a sizable public sector, national and international private enterprises are welcome in Timor-Leste. The country uses U.S. dollars as its currency, guaranteeing full convertibility.

The constitution prohibits non-citizens from owning land, so foreign investment often involves local partners or long-term leases. Market access is otherwise devoid of significant barriers, although domestic markets are small, and few entrepreneurs or skilled workers. The state is the principal customer for many private sector businesses.

In some sectors, laws give preference to local contractors, suppliers and workers; but in practice this is not a significant barrier to foreign companies. Tariffs are low and imports enter freely. Foreign investors are lured with tax incentives. State regulations are not detrimental to the establishment of private enterprises and do not interfere with market prices.

Levels of poverty provide few domestic markets for locally-produced goods, which limits opportunities for “market-based competition.” Since most consumers are in rural areas and have little money and few choices about where to obtain goods, market principles often do not apply.

In the World Bank’s 2020 Doing Business report, Timor-Leste ranked 181 of the 190 countries included. While it ranked 68 on Starting a Business, it was below the median on every other component and among the world’s worst-performing on Registering Property, Enforcing Contracts and Getting Credit.

In early 2021, the government attempted to address some of these issues by acceding to the 1958 UN Convention on Recognition and Enforcement of Foreign Arbitral Awards and by enacting a legal regime for voluntary arbitration.

The government has invested substantial amounts in port and cement projects operated by private companies and is discussing similar investments in a luxury resort. The state-owned oil company, funded by public funds in the absence of its own revenues, is a partner in several joint exploration ventures, although none are yet in production. Foreign investors were already reluctant to invest in Timor-Leste’s nascent petroleum industry before the COVID-19 pandemic. However, the government is conducting a long-delayed bidding round for new oil and gas exploration, which will close in October 2021.

Market  
organization

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It is notable that the state has spent considerable oil and gas funds developing two major infrastructure projects: the Tasi Mane oil and gas project on the south coast, and the ZEESM (Special Social-Economic Market Zone) project in Oecussi. The premise of both these state-led developments is that the initial state investments will attract private investors, but to date there is no evidence that this approach will attract Foreign Direct Investment.

The majority of households live by working in the informal sector, and the above indicators are not relevant to them. Only about 23% of the working-age population are in the cash economy (about 27% are subsistence farmers or fishermen, 21% students, and the remainder are retired, unemployed, or do unpaid household work).

There are very few large companies in Timor-Leste, and most of those that do exist are government contractors. Therefore, there is little need for state protection of competition, and the state does little to prevent collusion. The state, however, is supportive of competition and dismantled the telecommunications monopoly in 2012. Competition is unfettered between importers and retailers, both foreign and domestic, who sell to the public.

The majority of large government construction or supply contracts go to foreign companies or to local brokers for foreign companies. Clientelistic practices often determine decisions on public tenders, and well-connected local businesspeople win many state contracts. Many tenders are single source.

Trade policy is very liberal, with low import duties (average 2.5%) and low tax rates. The government has been trying to join the Association of Southeast Asian Nations (ASEAN) since 2011; when Timor-Leste is admitted, there will be “free trade” with the countries who supplied 82% of goods imports in 2020. Timor-Leste’s pursuit of WTO admission, pending since 2016, has progressed during the period under review.

The country joined the International Centre for the Settlement of Investment Disputes in 2016.

However, trade is virtually unidirectional, with most containers leaving empty after unloading their cargo. In 2020, goods imports totaled \$497 million, while non-oil goods exports were \$15 million, predominantly coffee. Oil export information is problematic because it’s a finite, non-renewable form of wealth and official data is inconsistent and incomplete. In 2019, services imports totaled \$447 million, with exports of \$91 million.

In 2020, Indonesia supplied 37% of goods imports, with 23% coming from China (including Hong Kong), followed by Singapore and Malaysia. Most natural gas exports go to Japan after being liquefied in Australia. Oil is sold at sea to various partners, and non-oil exports (primarily coffee) in 2020 were primarily sold to Canada, the United States, Indonesia, China and Australia.

#### Competition policy

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#### Liberalization of foreign trade

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There are low non-tariff barriers to international trade, and the government is spending a considerable sum of money on improving infrastructure for international shipping, road transport and air travel.

The national banking system is small, although a number of microcredit programs operate around the country.

All private sector commercial banks in Timor-Leste are branches of banks from Portugal, Indonesia or Australia, operating under the supervision of the central bank of Timor-Leste. The state-owned National Bank of Commerce has received repeated “re-capitalization.” Few bank branches or ATMs are available outside major cities.

Capital markets are poorly differentiated, and banks are reluctant to offer loans due to previous patterns of default. According to the World Bank’s October 2020 Timor-Leste Economic Report, non-performing loans have been 5-6% since the beginning of 2018, with no increase during the COVID-19 pandemic.

In January 2021, the central bank warned the public about “illegal financial activities” which purport to offer loans or accept deposits at very attractive terms.

## 8 | Monetary and fiscal stability

Timor-Leste uses the U.S. dollar as its currency, and therefore has no control over its stability or foreign exchange rates, although effective exchange rates vary in this import-dependent economy. The country has established a central bank as an independent monetary authority, which issues coins.

After public spending stabilized in 2013, annualized inflation rates (based on consumer prices) have remained under 1.2% (except in 2018, when it was 2%). Prices are generally lower in Baucau (the second largest city) than in the capital Dili or rural areas.

Timor-Leste has no public debt to individuals, although the recently-enacted 2021 State Budget envisions the first issuance of a small amount of government bonds.

Foreign debt is low. Contracts signed for loans from the World Bank, ADB and Japan total \$475 million, of which less than half has been disbursed to date, to build road projects. The 2021 state budget authorizes up to \$420 million in new loan contracts, and less transparent methods may be used to secure financing for future petroleum projects.

Since oil and gas revenues declined in 2015, Timor-Leste’s current accounts balance fluctuates with the (unrealized) price of its investments in international stocks and bonds. Trade in non-oil goods and services runs an annual deficit of approximately \$1 billion.

Banking system

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Monetary stability

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Fiscal stability

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Approximately 80% of state expenditures are paid out of the sovereign wealth “Petroleum Fund,” allowing spending to exceed revenues (including for COVID-19 pandemic-related measures) without incurring debt. The fund, which currently holds about \$19 billion (10 times the 2021 state budget), no longer receives significant oil and gas income; it is mostly invested in volatile, overseas financial instruments which did well in 2019/20, after falling in 2018. Some projections indicate that the Petroleum Fund could be entirely exhausted within a decade. The Estimated Sustainable Income formula for Petroleum Fund withdrawals has been exceeded every year except one since 2009. Since 2015, withdrawals have averaged double the sustainable level. Although this declined slightly in 2019 and 2020 due to reduced government spending, the government plans to withdraw nearly twice as much from the Petroleum Fund in the period 2021 – 2024 as it did between 2017 and 2020.

State spending during 2020 was lower than in prior years, notwithstanding COVID-19-related measures, because of the mid-year change of government and the delayed enactment of the 2020 State Budget, which only came into effect in mid-October 2020.

Policymakers believe that the country will receive substantial rents from petroleum and mining in the future, as it did between 2006 and 2014. However, this is unlikely to happen, and the state continues to spend far more than domestic revenues can support. The Petroleum Fund is unlikely to last more than a decade.

## 9 | Private Property

The constitution reserves land ownership to Timor-Leste citizens and allows for individual property rights.

Three fundamental land laws enacted in 2017 formulated the first comprehensive framework for individual property rights. Timor-Leste is transitioning from a hodgepodge of often illegitimate “legal rights” granted by Portuguese colonizers (until 1975), and Indonesian occupiers (1975 – 1999), together with collective and customary rights based on Timorese culture.

Property rights will be clarified through the recognition of prior property rights, with compensation when claims overlap. The laws also establish rules for state expropriation of and compensation for private land. In addition, the laws recognize informal property rights and community ownership. However, subsidiary regulations for the new regime have not yet been developed and it is still not fully functional. Like the Pacific states, much of the country, especially in rural areas, is subject to customary ownership rights. These rights are generally respected, though they can and are modified by state action for major development projects, and compensation regimes are often controversial.

Moreover, safeguards to protect community rights during state expropriation (or state-assisted expropriation by large companies) are not always effective.

Property rights

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Private enterprises are legally allowed to operate in Timor-Leste, and the state has tried to offer local entrepreneurs legal security and a substantial share of the opportunities to take public contracts – although this has sometimes been conducted in a clientelistic fashion.

There has been no privatization of state-owned companies, of which there are only a few. Utilities are mixed: water, roads, ports and electricity are state-owned, petroleum and telecommunications are predominantly private, and both public and private actors are involved in TV, radio, health care and education. The government is establishing state-owned companies for water and electricity supply, which have been handled by the Ministry of Public Works.

The (subsidized) state-owned TimorGAP petroleum company has yet to generate any revenues and receives rapidly-increasing annual subsidies (\$71 million in 2021) in anticipation of future projects. In 2019, it borrowed \$650 million from Timor-Leste's sovereign wealth fund to purchase a majority share in the Greater Sunrise offshore gas and oil field. TimorGAP has had new leadership since mid-2020, but it is too soon to assess whether this will lead to a change of direction.

The state has also created public-private partnerships or bought shares in nominally private companies in sectors including a container port, cement production and telecommunications, with action in water and health care under discussion. Airports and ferries are owned by the state.

Although the state allocated \$333 million in 2020 for COVID-19 pandemic relief measures, little of the \$126 million spent by the end of November went to private companies, as most was paid directly to individuals.

## 10 | Welfare Regime

Timor-Leste has been constructing a welfare regime delivered by the public sector.

Social welfare is supported by public spending in several areas: health care, which will receive approximately 6% of the 2021 state budget; education (10%); and direct payments (e.g., for veterans, young people, mothers, pensions) (12%).

Some of these programs are politically motivated (e.g., the veterans' pension was designed to buy peace, and recognize those who carried out the struggle for national liberation, while a generous pension scheme has been established for former parliamentarians and public officeholders). A contributory social security regime for retired public and private employees was established in 2017, although few people are receiving benefits yet, due to the country's young population and the small number of people in formal employment (subsistence and informal workers are not covered).

Private enterprise

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Social safety nets

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The majority of these systems are not available to non-citizens. There are few foreigners in Timor-Leste. They are rarely as poor as most Timorese citizens and therefore rarely require social safety nets.

Religious institutions, some communities, and extended families, also provide informal support for those most in need.

In response to the economic impact of pandemic control measures, in April 2020 the government instituted monthly \$100 cash transfers to every household in which no individual earns more than \$500 per month, which covers the vast majority of the population. In November 2020, the government began to distribute a monthly “cesta basica” (basic basket) including \$25 per person worth of food and necessities to everyone, using non-imported materials as much as possible. Both programs, which had problems with initial implementation, have been extended into 2021, but it is too soon to assess the extent to which they alleviated the increased hardships caused by pandemic prevention measures, or how they will affect overall economic and inequality data.

Timor-Leste is to some extent a dual society. The quarter of the population who live in the main urban areas have greater education, employment and health care opportunities, and exposure to other possibilities, although women have fewer than men. Conversely, in rural areas, “customary” principles that discriminate by gender, disability and age are still important factors. Before the COVID-19 pandemic-related travel limitations, the most affluent or well-connected went overseas for health care and education.

About 3% of the public education system – School Learning and Teacher Training Centers (Centros de Aprendizagem e Formação Escolar/CAFE), located in larger towns – operates with aid from Portugal and in Portuguese language with significantly more resources than the rest of the public school system.

School enrollment is currently higher for girls than boys (who are often put to work by their families). However, because many public schools do not have running water or functional toilets, some girls drop out when they reach puberty.

Private sector employment is a small segment of the overall economy. According to the government’s 2018 Business Activities Survey, 38,700 men and 14,200 women were employed in the private sector (the working-age population is about 800,000), a decline of 18% for men and 5% for women since 2014. A large number of women work in the informal sector as market sellers, farmers and household workers, although most are unpaid.

Timor-Leste has a legally-mandated requirement that every third candidate on party lists for parliamentary elections is a woman (there are currently 27 women out of 65 members of parliament). Women are less well represented in leadership positions; they hold eight of the 45 top executive positions. At least two thirds of public sector jobs are filled by men, and the disparity is greater outside of the capital. Discrimination by religion, ethnicity and race are less pervasive.

Equal opportunity

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Although discrimination is legally prohibited (except for sexual orientation), political and family connections continue to be important for higher-level public sector positions, although this is partly because of the very small number of educated and experienced people in the country. The legacy of pre-2002 colonialism and occupation is slowly changing, although people and companies connected to political parties in power are more likely to secure jobs and contracts. In addition, companies operating in Timor-Leste are allowed to employ non-citizens if they can show that they have been unable to recruit Timorese citizens with the necessary skills.

## 11 | Economic Performance

Timor-Leste's economy depends on the conversion of finite, non-renewable oil and gas wealth in the Timor Sea into monetary assets, which began in 2005 and has been tailing off since 2014. Timor-Leste's fossil fuel assets were responsible for the significant growth of the country's Petroleum Fund, which now holds about 10 times the annual state budget. The Petroleum Fund shields the economy from fluctuations in oil prices and investment revenues, at least for the moment.

Although government debt and financial balances have been managed responsibly to date, when the oil wealth (60% of which has been saved and invested) is exhausted in approximately 10 years, the situation will change drastically unless the domestic economy has been significantly diversified.

Although the 2018 maritime boundary agreement with Australia removed some obstacles to the exploitation of more oil and gas fields, Greater Sunrise remains the only reserve which could conceivably provide more than 1/20 of the \$23 billion in revenues already received from the nearly-depleted Bayu-Undan. Progress on Greater Sunrise is still stalled, due to debates over development modality and a lack of financing. Many hope that other undeveloped fields will provide significant revenues in the future, but this is doubtful.

In mid-2020, the newly-restructured government replaced leaders of three key petroleum institutions, and they may take a more realistic approach.

Many internationally-used statistical measures do not accurately represent Timor-Leste's situation, because of the dominance of offshore oil revenues and overseas investments, which are not consistently captured in GDP. The large role of public spending in the formal economy and the large subsistence/informal sector also make it difficult to use conventional measures. Nevertheless, annual petroleum revenues averaged more than double non-oil GDP between 2007 and 2013. In 2020 they were one-fifth as much and will soon be zero. The World Bank estimates non-oil GDP in 2020 to be about what it was six years earlier.

Output strength



State spending comprises the majority of the economy; in recent years approximately 80% of the state budget was financed with withdrawals from the Petroleum Fund. Since 2015, Petroleum Fund income is derived primarily from overseas financial investments, which did well in 2019/20, providing four times as much revenue as oil and gas. However, this is not a reliable source of income for the future.

Although real non-oil GDP per capita grew an average of 2.8% per year between 2011 and 2016, nearly all of that growth was in construction and public administration, paid for by the state. The productive sectors of agriculture and manufacturing are shrinking.

Formal unemployment is higher in urban areas and among young people. Only about 15% of the working-age population is formally employed. Prices are stable, but higher than in neighboring countries.

## 12 | Sustainability

Even though the constitution establishes the importance of protecting the environment, the legal framework concerning the environment is still only intermittently effective. In 2012, the Environmental Basic Decree Law came into force, which sets the framework for other environmental legislation, such as the Environmental Licensing Law and the Biodiversity Law.

Environmental concerns are represented in law and in official discourse. However, large public policy projects normally take precedence over those concerns, and environmental licensing laws are rarely enforced. CSOs and international agencies encourage the executive to pay more attention to environmental concerns, but real incentives are missing most of the time. Public programs for renewable energy have been largely abandoned.

In recent years, public awareness and government policy on personal environmental behavior has improved (such as littering and plastic bags), but environmental concerns are rarely reflected at a more macro level, such as the effects of infrastructure projects, energy use, or fossil fuel extraction. Flooding, partly due to deforestation and unmanaged construction on river banks, is common during the wet season in the country's monsoonal climate.

Responsibility for environmental regulation for petroleum-related projects has been transferred from the secretary of state for environment to the National Petroleum and Mineral Authority, and is very weak. Some private/NGO-led reforestation projects, and the rise of a new Green political party, suggest positive developments in sustainability, though state action remains limited.

Environmental  
policy

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Inclusive, high-quality education is a stated goal of the authorities, but progress has been slow. Although some improvements have been made in curriculum and school enrollment rates, the education system, especially in rural areas and for impoverished people, is far from adequate.

Primary schools exist throughout the country, but their quality is often poor. A new primary school curriculum was introduced in 2015, withdrawn in 2017 and reinstated in 2018. Although the new curriculum is leading to better materials and instruction, most schools are grossly under-resourced, with large class sizes, few textbooks and in poor condition. Many teachers require more training and experience. However, selective Portuguese-language public schools in urban areas (serving about 3% of Timor-Leste students) receive special assistance from Portugal and higher government allocations, and therefore have more resources, as do the Catholic and international schools (accessible to students from those families who are able to afford them).

Secondary education is concentrated in the municipality capitals, making it harder for many children to attend.

The standards of public and private universities are well below international norms; students who have the opportunity usually attend overseas universities, often funded by the government or donor scholarships.

Education accounts for only 10% of the 2021 state budget, although this is 43% higher in dollar terms than the average for 2016 – 2020. The government plans to hire more teachers and improve education infrastructure.

The country's UN Education Index score is 0.510 (2019).

The literacy rate among young people (15- to 24-year-olds) is 84%, and marginally higher for women than for men. Adult literacy is approximately 68% (UNICEF); many older people were not educated during Portuguese and Indonesian rule.

R&D is very limited, although bi-annual academic conferences and a small number of journals are raising its profile in the country. Academic positions at Timorese universities tend to be teaching rather than research focused, and the government is yet to enact a national research policy. Before the COVID-19 pandemic, many public and private projects relied on technical advisors from overseas.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

Timor-Leste is a small country and has been self-governing for only 19 years. Much of the adult population still suffers from PTSD and other damage from 24 years of Indonesian occupation and resistance, which was preceded by 400 years of Portuguese colonial rule; neither did much to develop human or economic resources. When the Indonesians withdrew in 1999, they destroyed all the electricity and communications infrastructure, and burned down about 75% of the buildings.

Given this background, the new nation, including its political leaders, has done remarkably well in building a democratic state governed under rule of law. However, they are still in an adolescent phase, and most of the principal political players were heroes of the independence struggle. They excelled at resistance, but have habits of clandestine leadership, lack of consultation, oppositional and hierarchical command – different skills than those optimal for peacetime democracy. Likewise, many senior leaders are former military personnel, rather than civilian resistance figures. Before 2000, very few citizens or leaders had ever lived under a government that even pretended to respond to its people; the learning curve is challenging.

However, the median age of the population is under 20. The postwar generation is playing a growing role in society and is being socialized in a democratic environment.

The post-conflict nation began with widespread poverty and illness, and a very small number of educated people or people with managerial experience. Virtually all the teachers returned to Indonesia in 1999. Although progress has been made and people are much freer than they were before 1999, household economies are less improved, especially for the majority who live in rural areas, largely through subsistence agriculture. Although an increasing number can access electricity and mobile phones (including expensive internet), water and rural roads are still lacking in many places. In 2014 more than 40% of the population lived below the national poverty line; although no more recent figures are available, there has not been much change since then.

Public administration is centralized, with little authority or resources devolved to regional or local levels. Education – both academic and technical – remains a major challenge with a large demographic “youth bulge,” under-resourced universities, and insufficient vocational training.

Structural  
constraints

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Things could have been much worse – offshore oil and gas reserves have compensated for the inadequate local economy. Since 2005, Timor-Leste has received \$23 billion in petroleum revenues, which were deposited into its Petroleum Fund and have earned \$8 billion in investment returns. \$12 billion has been spent from the fund (paying for approximately 80% of all state activities) and, if current trends continue, the fund could be entirely depleted within a decade.

This extractive windfall has created a political and economic mindset that cannot envision more sustainable economic development. The non-renewable “resource curse” brings unrealistic expectations that it will continue into the future. It constrains policy decisions that would invest in human resources, agriculture or sustainable industries.

Because of its size, relative isolation and precautions taken, Timor-Leste has so far avoided community spread or deaths from COVID-19, though a minor outbreak in March 2021 occasioned the first lockdown in Dili. Although pandemic precautions have created economic and social hardships, they have also catalyzed the formation of a more stable governing coalition and provided an opportunity to amend some policies in a more sustainable direction. At the time of writing, it is too soon to know whether this opportunity will be taken.

During the Indonesian occupation, there was no democratic space for civil society until 1998. After the 1999 independence referendum, a large number of groups formed, including many people who later went into government. Many CSOs are still active, but this brain drain, as well as the waning interest of international donors in Timor-Leste, has reduced their engagement. CSOs are registered with the Ministry of Justice, and most are members of the NGO Forum, which helps coordinate activities. Many Timorese NGOs rely on funding from the Timor-Leste government, discouraging them from actions which might discomfort the authorities.

In addition, there are a wide range of religious, veterans and sports associations. Political organizations, often connected to political parties, are also active.

In spite of this wide variety of opportunities for civic participation, most people struggle to survive day-to-day, and do not engage. CSOs tend to rely more on paid staff than on volunteers.

Timor-Leste is a dual society, in which life in the capital city, exposed to ideas from overseas and forms of cosmopolitan life, contrasts sharply with the majority of the country, which is predominantly rural and dominated by customary practices.

The state recognizes the legitimacy of traditional forms of community organization as long as community groups do not contravene the constitution or the law. This arrangement enables non-state organizations to continue. Traditionally, participation in civic life was limited, and there was clear discrimination against women and young people. Formal state mechanisms for local authorities (such as suco councils – or

Civil society  
traditions

5

'06 '22 10

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village councils) require female and youth members, but women are still rare in local leadership positions.

Social trust is fairly strong, although political and historical differences occasionally come to the fore. In particular, people who supported Indonesia's occupation are often distrusted, although no actions are taken against them by the state or by individuals.

The history of Timor-Leste since the restoration of independence began with a few episodes of violence. However, since 2009, the country has been largely peaceful and no significant incidents of political violence, either by the government or people, have occurred since 2014. Religion and ethnicity are not factors of conflict. The political elite has alternated between consensus and heated verbal confrontation – all within the constitutional framework for debate. Partisan polarization, which began after the mid-2017 election, became calmer after a new ruling coalition was elected in 2018, but re-emerged along different lines in late 2019.

During 2020, partisan disputes intensified as the composition of the governing coalition changed again; in May 2020, CNRT members of parliament destroyed the speaker's dais to protest what they saw as an invalid process. However, this conflict has not escalated into violence, notwithstanding occasionally harsh rhetoric and disinformation spread on social media. CNRT, now in opposition, often calls the coalition illegitimate and has walked out during key debates and votes.

The threat of COVID-19 did much to lessen the confrontational nature of politics in 2020, making the president's reluctance to remove the incumbent administration seem less controversial to many voters. It was also a factor in the consolidation of a new governing coalition, when alliances were forged over the issues of extending emergency decrees.

There are no religious or ethnic conflicts, and political polarization does not impact the majority of people.

Conflict intensity

2

'06 '22 10

2 1

## II. Governance Performance

### 14 | Steering Capability

In 2010 the government produced a National Strategic Development Plan 2011 – 2030, but it has been only selectively implemented. This plan is primarily aspirational, with many broad goals and no costings or detailed paths to implementation. Like the Bible, it is frequently cited by all political parties to justify what they intend to do, while nothing is said about the many sections of the plan that are ignored. Although more than half the period covered by the plan has elapsed, there has been no public assessment or revision of the plan, and many of its targets for 2020 were not met.

The principal political party in the governing coalition changed in 2017, 2018 and 2020, and most ministers changed as a result. When a new political grouping assumes power, they often discard systems and human capacity that their predecessors had developed. However, the announced programs of each government are fairly consistent over time, and some projects that were started by a previous administration will continue.

Since 2009, under four different prime ministers, state budget allocations have favored large infrastructure projects. Although every government says that its priorities are health care, education, water supply and agriculture, in total these receive less than a fifth of the state budget (16-18% in 2017 – 2019, 13% in 2020, and 18% in 2021).

Except during 2017, and the second half of 2020 when they were out of power, CNRT-dominated governments have strongly promoted a major petroleum infrastructure project on the south coast, which would require the investment of more than \$15 billion, crowding out other significant economic development. The social and economic return from these projects is dubious, but powerful political forces (including many misinformed citizens) support them, which is a manifestation of the “resource curse” thinking that has resulted from the financial domination of petroleum over the last decade. In mid-2020, the leadership in the petroleum sector was changed. The new leadership, including the responsible minister, have called for studies to reassess the validity of this project. However, so far, policies and budget allocations are similar to what they were previously.

Because state spending makes up the majority of economic activity, rent-seeking by contractors, employees and pensioners is common. As shown in recent years, a relatively small downturn in public disbursements has widespread economic effects.

Question  
Score

Prioritization

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Although the Petroleum Fund can probably finance the state for another decade, the lack of private sector economic activity and non-oil government revenue, and the country's dependency on imports, will have serious consequences when the fund runs out – unless the economy is rapidly diversified or not-yet-developed petroleum reserves turn out to be much more lucrative than informed, objective observers expect. The new government is yet to clearly identify its own approach to the management of the as-yet-undeveloped Greater Sunrise field, and it is unclear what alternative long-term policies have replaced those of the CNRT, which is currently out of power.

The COVID-19 pandemic State of Emergency, in effect since April 2020, and the economic recovery measures implemented a few months later, are intended to prevent disease and relieve short-term economic distress. However, they have sparked a broader conversation over sustainable development, reducing import dependency and promoting local agriculture which may have more lasting, beneficial effects. The August 2020 Economic Recovery Plan stresses investment in human resources, agriculture and diversification, and its author was subsequently named minister for finance, so actual government priorities may become more aligned with rhetoric.

The number of COVID-19 cases in Timor-Leste rose rapidly beginning in February 2021, even though they are still low compared with most of the world. The government has imposed a “lockdown” in about half the country, restricting travel and economic activities, and requiring people to stay at home except for specified, urgent reasons. There may be a supplemental 2021 budget to address these unexpected expenses, and, during the first quarter of 2021, short-term prevention and relief received more attention than longer-term priorities.

Timor-Leste has defined strategic goals and elaborated public policies to respond to them. Plans involve both public spending and private investment. Some projections regarding the flow of private investment – namely foreign direct investment – seem to have been overstated, creating additional pressure. The continuing operation of the only significant, functioning, non-petroleum FDI project yet built – a Heineken beverage plant which opened in 2018 – is in doubt, and other promised large-scale projects (a cement plant and a tourist resort, both of which have the government as a minority investor) have not yet been built. None of the Strategic Development Plan's 2020 targets for petroleum infrastructure were even partially achieved.

The special zone of Oecusse, ostensibly developed as a “social market economy,” has attracted negligible private investment, and consists mainly of publicly built roads, bridges, airports, irrigation and government buildings. The economic development components of its concept have not materialized, and about 40% of the \$625 million transferred to the Oecusse authority by the state between 2015 and 2019 has not been used and will pay for its future activities.

Implementation

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'06 '22 10

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Most large public infrastructure projects are repeatedly delayed and often poorly implemented. Partisan disputes and changes of government have further hampered policy implementation since 2017, mostly due to delayed budgets. There are also longer-term problems with capacity to achieve strategic priorities. Although a few priorities (such as electrification and maritime boundary negotiation) have met with significant success, broader goals regarding poverty, health care, economic diversification and import substitution have seen little progress.

Every government in the last decade has underlined health care and education as top priorities, and recent ones have added water supply and agriculture to this list. However, these areas do not receive adequate funding (less than 18% of state budgets) or political support to be implemented effectively. Although lip service is paid to economic diversification, governments have yet to develop policies that could move the country in that direction. It is much easier to pay for a few overseas scholarships or to send well-connected people abroad for medical treatment than it is to build a quality education or health care system which could serve the entire population.

Other problems stem from the need to develop an entire legal system from scratch in 2002. This new legal framework, especially when influenced by international advisers with limited understanding of Timor-Leste, often needs to be adjusted to local realities (a case in point is the 2017 Land Law for which implementing regulations have not been enacted).

The current executive entered government in May 2020, in the midst of the COVID-19 pandemic, and it is too soon to know how effective their implementation will be.

Because of low levels of experience in the public administration, Timor-Leste relied on international advisers after independence, seeking support from the international community to foster policy expertise and adopt new forms of organization. International consultants are a familiar presence in many departments, although their number and influence has decreased significantly over the last few years.

Today, it is rare for these foreign development workers, many of whom have limited understanding of Timor-Leste's situation and context, to perform more than an advisory role, as the power to make final decisions rests with Timorese officials. The exchange of good practices, for example, sending public officials abroad to study practices in other countries, and international cooperation, are two important tools which may have longer-term effects. They have been suspended during the pandemic. As younger people return from studying overseas, more diverse knowledge is increasingly available.

When officials travel overseas to visit, for example, petroleum infrastructure projects, they are shown around by the proponents and owners of these projects, and only hear about positive aspects. There is little interest or opportunity to learn about negative

Policy learning

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'06 '22 10

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social, environmental or community impacts, or about projects that did not meet expectations.

Since 2015, governmental leadership (most ministers) have changed every year or two, making it hard to innovate or be flexible. In addition, experiential knowledge is often lost during transitions.

No government has reassessed the 2010 Strategic Development Plan or initiated significant changes in policy direction, despite oil revenues coming in far below pre-2014 predictions.

Cosmetic changes in mechanisms (such as creating a new agency rather than fixing a dysfunctional one) occur frequently, but deeper or more effective changes in policy or implementation are rarer. In 2020, the administration introduced “program-based budgeting,” but the initial implementation increases obfuscation and reduces transparency.

Monitoring past experiences is not systematically performed. New challenges have arisen in March 2021 with Dili’s first lockdown, which will add to the experiences of health policymakers who have hitherto successfully pursued a strategy based on border quarantine.

## 15 | Resource Efficiency

Timor-Leste has been self-governing for 19 years, which should have been long enough to develop a cadre of professional, efficient administrative personnel. However, the civil service, bureaucracy and efficiency are still substandard. The heritage of Portuguese inefficiency, Indonesian corruption, and resistant defiance created an entrenched culture which has proven difficult to change.

Government administrative personnel represent a fifth of public spending (in 2021, 13% for salaries and 6% for “professional services”) and comprise about 40% of the total employed labor force, mostly in urban areas. This cost is higher than the value of the services they provide. Recruitment draws from a limited pool of skilled applicants and is a mixture of competitive procedures and patronage. This, as well as a rigid hierarchy, often hinders effective management of human resources. The accountability of civil servants is gradually improving, but accountability of political appointees who head ministries and departments is largely nonexistent, except for those with the power to appoint other political appointees. Political dependency is significant and politically-chosen leaders rarely listen to advice from technocrats with different perspectives.

The state budget process is opened to scrutiny only once the administration proposes it to parliament, and large changes are rarely made at that stage. Annual budget deficits are made up with money from the Petroleum Fund. State debt is relatively

Efficient use of assets

4

'06 '22 10

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low, but petroleum revenues have dropped sharply as oil and gas wealth is depleted, and the Petroleum Fund could be empty within a decade.

The Audit Court, mandated to review public contracts over \$5 million before they come into force, has prevented some significant mistakes, but some of its decisions have been overruled. However, new legislation exempts petroleum sector-related agreements from the chamber's purview, which could make corruption easier. Furthermore, recommendations by the Audit Court regarding state finances and performance are often not implemented. State accounts auditing and budget transparency are fairly good, although they have been deteriorating. The country's score on the Resource Governance Index dropped from 12 in the world in 2010 to 43 in 2017.

Budget execution varied between 84% and 91% between 2014 and 2019; recurrent spending is executed higher than capital projects, which are often delayed. Execution dropped to 76% in 2020 due to the COVID-19 pandemic and the late enactment of the state budget; recurrent execution in 2020 was the lowest since 2008. Many execution problems stem from poor planning and budgetary design. However, there is little assessment of the results or effectiveness of government programs, which often perform below expectations even when fully funded.

Despite constitutional prescriptions mandating a multilevel public administration, Timor-Leste remains very centralized. Local government exists and is regulated by law, but it is not treated as the lowest administrative level, but more as a formalization of "customary rights." Local leaders have little decision-making capacity or authority, and their only source of funding, the national government, allocates very little. Donors and others have long advocated more decentralization, but national governments have been reluctant to devolve much responsibility to regional or local authorities.

The one exception is the Oecusse enclave surrounded by Indonesia, which has less than 6% of Timor-Leste's population and has been "autonomous" since 2015 under a nationally-appointed regional authority funded by \$646 million from the national budget. This prototype of local autonomy has built an airport, bridges, roads and a power plant, but has not significantly developed the local economy or improved the living standards of the local population.

The COVID-19 pandemic has seen additional welfare allocations for families and some assistance to businesses, and these schemes have been administered in a relatively efficient manner.

Timor-Leste is a small country with a history of resistance and a very narrow educated elite from which political leaders emerge. Many of them have had personal rivalries and/or collaboration for decades in various contexts. More formal or professional styles of coordination are usually secondary to these relationships.

The government is challenged by conflicting objectives: the strategic plan to build mega-projects, public spending intended to attract private investment, economic diversification, human resource development, and the basic needs of a nascent welfare state with an impoverished population. Budgetary allocations often differ from stated policy priorities.

Since 2015, governments have included ministers from different political parties, which can lead to inconsistent policies, as partisans seek to reward their supporters. Policy coordination is relatively weak, although a few ministers are working to improve communication and coordination across the government, as is the Planning, Monitoring and Evaluation Unit (Unidade de Planeamento, Monitorização e Avaliação/UPMA) in the Prime Minister's Office. Most coordination is vertical through the UPMA or powerful ministers, rather than horizontal between ministries with specific portfolios. In particular, the role of the prime minister and the minister for the Council of Ministers are powerful actors in policy coordination, and success often depends on their capacity and performance. Limited technical expertise in the civil service makes it harder to coordinate, although this is gradually improving.

In some areas, such as environmental licensing and budgetary management, institutions in the petroleum sector have assumed authority that would logically belong to others.

Through an interministerial task force, coordination of COVID-19 policy implementation has been better than in other areas.

State spending is normally audited by parliament, which must approve the state accounts for the previous year, as well as by the Audit Chamber in the Court of Appeals which also has prior review power for large state contracts. However, the capacity and thoroughness of such audits is limited, and their recommendations are frequently ignored. Legislation passed in 2019 reduced the Audit Chamber's power to review contracts in the petroleum sector.

In 2020, Timor-Leste enacted an Anti-Corruption Law, bringing the country into compliance with the UN Convention Against Corruption that it had joined in 2009.

Party financing is limited to the electoral period and is subject to little regulation. There is public financing as well as private donations, and reporting requirements are not effectively enforced.

Conflict of interest regulations are rarely effective. High public officials must declare their assets to a court, but the declarations are not made public.

Policy  
coordination

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Anti-corruption  
policy

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'06 \_\_\_\_\_ '22 10

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Public procurement is usually transparent and merit-based, but contracts sometimes bypass the formal system or are conducted through political mechanisms. A public procurement website contains information on most tenders and awards, but it is difficult to use and shows a large percentage of single-source contract awards.

Similarly, laws which require environmental licenses for major projects are often violated without sanction by both public and private proponents.

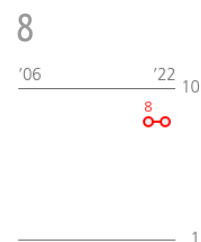
Transparency, access to information, and audits of state spending were better in past years than at present, although they are still better than in most comparable countries. Although civil society organizations and journalists occasionally bring information on corruption to light, this is unusual and the local media rarely undertakes investigative reporting.

## 16 | Consensus-Building

Although there are significant political differences over the urgency and means to diversify away from dependence on petroleum money, there is consensus on democracy in theory. Democracy is working remarkably well for a 19-year-old nation emerging from centuries of foreign autocratic rule and a generation of brutal war. Some voices have shown sympathy for alternative modes of organizing the state, arguing for the need to limit the expression of “foreign,” and sustain “traditional” values. In spite of occasionally bitter and vehement partisan disputes, all political actors support the constitution, the electoral system, and rule of law. Although many rural, impoverished people are not well-served by the political system, they do not question its structure or basis. Participation in elections remains very high, exceeding many other voluntary jurisdictions in the region and beyond.

Virtually everybody in the Timor-Leste elite agrees with market economy principles, although they don’t always apply at the rural and community level, where subsistence and bartering is widespread. Although the government encourages cooperatives, they are relatively small and often based around extended families. There is a consensus behind joining ASEAN, with the unrestricted trade and travel that membership will involve. At present, most non-subsistence economic activity is driven by state spending, and rent-seeking dominates private sector decisions. In 2016, the first significant non-oil FDI took place (a Heineken beer brewery which may shut down soon). Other promised projects, including a limestone mine with cement processing, and a resort complex, have not proceeded despite the promise of significant government investment. State-subsidized projects in the petroleum sector, as well as ones to build electricity, roads, airports and other infrastructure, are contracted to companies from China or the international private sector. Although some in civil society question moves toward privatization (through PPPs) of the main port, health care, water supply and electricity, most major political actors support these initiatives.

Consensus on goals



In Timor-Leste, there are very few important actors who assume anti-democratic stances. Although internal decision-making of most political parties tends to be centralized in one leader, the proportional electoral system means the balance of power is spread among several parties, and their internal mechanisms do not encroach on the democratic processes of society.

Government policies have favored the emergence of a new entrepreneurial group and small middle-class population, which are linked to the operation of a democratic polity and thus have widened the social basis of democracy, although the rural majority remains largely disempowered.

Former military officers (e.g., Lú-Olo, Taur Matan Ruak and Xanana Gusmão) have donned civilian clothes to compete for electoral positions and do not seriously threaten democratic consolidation. However, as in most states that achieve self-government after a long resistance struggle, the personal power of the heroes of liberation can undercut democracy for as long as they remain on the scene. The disproportionate political power, resource allocation and policy space granted to the petroleum sector to support its development also erodes democracy.

The constitution designed a political system that offers room for the accommodation of different interests. The ensuing institutions have been reasonably capable of managing dissent within democratic rule.

Although politicians and parties occasionally challenge democratic actions in the courts, the courts almost always rule on the merits and legalities of the case. Legal processes are followed, and their decisions are respected. Several “anti-system” actors who reject the 2002 constitution (including CPD-RDTL and Sagrada Familia) have featured on the political scene since 2002, but they have either been incorporated into the democratic process or been undermined by state sanction and policing actions.

The greatest cleavage is between urban and rural, which correlates with economic class. This can be seen in differences in livelihoods (government spending vs. subsistence farming), poverty and access to public services (education, health, water and transportation). However, it is not reflected in the political system, and leaders have been able to defuse or prevent all significant challenges for more than a decade. No political party represents the rural majority, although Khunto has a base among some rural communities, as well as among urban youth.

Conflict is averted largely through disempowerment, patronage and cooptation. Even when people disagree with the national consensus, they are unlikely to resort to conflict.

Political polarization is sometimes high, with tensions between FRETILIN and CNRT politicians. Smaller parties, including PLP, PD and Khunto, can align with either side. In mid-2020, a rearrangement of coalitions transferred FRETILIN from

Anti-democratic  
actors



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Cleavage /  
conflict  
management



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opposition into government and CNRT from government to opposition, with PLP's Taur Matan Ruak maintaining his post as prime minister.

Although partisan polarization has been contained within the normal institutional framework, it can have significant social and economic impacts, such as by delaying enactment of the state budget.

Between 2018 and 2020, President Lú-Olo Guterres, the first elected president from a party leadership (FRETILIN), refused to approve several of Taur Matan Ruak's ministerial nominations from CNRT based on allegations of corruption. CNRT refused to name alternatives, so the government operated with several interim ministers. The conflict between the president and prime minister was contained within the constitution, and ended when the May 2020 rearrangement brought the president's party into government.

Although partisan rhetoric can be heated at lower party levels, the political divisions are like those in many other multiparty parliamentary democracies.

Civil society has significant space for self-organization and a fifth of Dili's population demonstrated for a just maritime boundary with Australia in 2015 and 2016. Students and young people vociferously protest perceived injustices, especially privileges for current or former officeholders. However, poor and rural people are less organized, vocal or influential.

Over the last few years, feminist and LGBTQ+ organizations have changed public attitudes. Women's and Gay Pride marches in 2018 and 2019 drew thousands and were supported by the majority of political leaders.

Given that 97% of Timor-Leste's population is Catholic, the Catholic Church receives respect from the authorities and is capable of influencing important decisions (e.g., in education, abortion or family planning). It has substantial influence in agenda-setting and policy formulation.

Community-level authorities have been integrated, to a large extent, into the democratic process, but have limited capacity to resolve issues locally. They often promote policy decisions made by national or local branches of the public administration. However, local conflict mediation by traditional leaders occasionally bypasses legal justice processes.

Since 2015, a government-supported Social Audit conducted by certain CSOs has reported on shortcomings in the implementation of some government programs.

Academics, scientists and professional institutions have less influence over public policy, although they contribute to educating the media and the citizenry. As the generation of resistance leaders ages, more space opens up for intellectuals and younger people.

Civil society participation

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Civil society groups actively debate policy issues, and their informal access to political leaders is common, partly due to the small size of the country and of the elite. However, formal mechanisms for public involvement in policymaking have narrowed in recent years, with fewer public hearings and consultations by government and parliament.

Nevertheless, there are lively debates (and no censorship) in both traditional and social media, in which the leadership participates.

The government's response to the COVID-19 pandemic has followed the same overall patterns, with civil society helping to educate, implement and monitor state of emergency measures.

Timor-Leste was born through a dramatic process of liberation, which began when the Portuguese dictatorship was ousted in 1974 and Lisbon began to decolonize. This was followed by a brief civil war and a large-scale illegal invasion and occupation by Indonesia (1975 – 1999), which resulted in the death of about a quarter of the population. After the United Nations supervised a referendum in 1999, in which 78.5% voted for independence, Timor-Leste and the United Nations set up a Commission for Reception, Truth and Reconciliation (CAVR), which produced a detailed report with many recommendations. However, CAVR did not have the power to grant amnesty for serious crimes (which were referred to the prosecutor) or pursue perpetrators residing in Indonesia. Greater success was evident in the reception of lower-level offenders returning to communities, who were required to confess the truth of their crimes to be received back into their villages.

During the era of the UN Transitional Administration in East Timor (1999 – 2002) and for a few years afterward, internationally supported prosecutors and courts dealt with some of the most high-profile crimes committed during the last year of Indonesian occupation. They indicted 391 people, including several senior Indonesian military leaders. However, all of the 87 brought to trial were Timorese, of whom 84 were convicted. None are in prison today. In Indonesia, an ad hoc human rights court conducted some sham trials, convicting no one. Although international officials promised in the first few years after 1999 that there would be no impunity, international attention has turned away from Timor-Leste.

The devastating impact of the brutal Indonesian occupation remains: PTSD, disabilities, destroyed families and property, and disempowerment. Most of the perpetrators remain at large in Indonesia, where some hold positions of power. As time passes (the majority of Timorese people are too young to remember the hardships personally) and Indonesia's democratic experiment becomes less democratic, these issues fade further into the background.

Reconciliation

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After the CAVR report was issued, the two governments of Indonesia and Timor-Leste formed a Truth and Friendship Commission to discuss 1999 cases, but Indonesia has declined to fulfill most of its commitments.

Some recommendations from CAVR have been pursued by successive Timorese governments and reconciliation remains on the government agenda. However, the recommendations directed toward the international community have been largely ignored. In recent years, the Centro Nacional Chega!, established to oversee post-CAVR activities, has primarily served an educational function, although it is 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, which is required by the customary rules that remain deeply embedded in the country. The authorities have made substantial efforts to pay tribute to their memories, appeasing demands for the prosecution of perpetrators.

Post-independence resurgence of political violence in 2002 and 2006/07 has subsided, with disagreements having been moved into the legal electoral system. Although partisan disputes are sometimes heated, the laws and constitution are respected, and three changes of government have occurred since 2017 without violence.

## 17 | International Cooperation

International aid played a major role in Timor-Leste between 1999 and 2006, but the amount and importance of aid has declined in recent years as oil revenues increased. Donor contributions (direct budget support plus donor-run projects) averaged 13% of the combined sources budget between 2015 and 2020 (down from 80% between 2003 and 2006).

For a decade, Timor-Leste has been a world leader in the international movement by fragile states (G7+ group) to make assistance more responsive to their needs. Consequently, most development partners follow the government's lead. Timorese authorities meet regularly with donors to discuss medium- to long-term development strategies.

In sectors such as education and agriculture, the government has rationalized its own underfunding by the fact that donors were supporting programs, even though most donor programs lack the national reach or sustainability necessary for serious development.

Donors tend to focus on different sectors, such as water, security and governance (Australia), education (Portugal), agriculture (Germany) or infrastructure (Japan). Many UN and multilateral agencies have programs in the country.

Effective use of support

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The government maintains an Aid Transparency Portal, which provides information on donor programs and spending, and publishes a book on international support as part of the annual state budget package.

Previous governments built large infrastructure projects and hoped that petroleum extraction and processing would anchor future economic development. However, donors have usually avoided these areas, preferring to fund governance and training, education, health, water supply, and agriculture. The new government's long-term strategy is unclear, and during 2020 the largest donor-supported projects were for pandemic relief, as well as health, tourism, education and trade policy. As these are long-term investments in the country's future, it is unclear whether donor projects, which usually end after five years or less, will significantly contribute to Timor-Leste's development.

Timor-Leste is acknowledged as a reliable international partner by most bilateral and multilateral institutions. It has ratified many international conventions, although its capacity to fulfill reporting requirements is limited. It has joined multilateral institutions such as the United Nations, UN agencies, the World Bank, IMF, ADB and the International Centre for the Settlement of Investment Disputes, and usually complies with their regulations. In 2016, it applied to join the WTO and ASEAN. These applications are pending. Timor-Leste frequently participates in international conferences on climate change and in UN Human Rights Council processes, although participation has declined since 2017 and has usually been virtual during the COVID-19 pandemic.

Between 2015 and 2018, Timor-Leste invoked compulsory maritime boundary conciliation with Australia under the UN Convention on the Law of the Sea (UNCLOS). This was the first time that this mechanism had ever been used, and it successfully produced a Maritime Boundary Treaty which came into force in 2019, setting a global precedent. In addition, Timor-Leste helped establish and continues to lead the G7+ group of fragile states, is active in the Community of Portuguese-Speaking Countries (CPLP) and participates in regional fora in the Asia-Pacific area.

The main exception to the overall pattern is the country's inability or reluctance to convince international authorities to bring Indonesian officials to justice for crimes against humanity committed between 1975 and 1999.

Credibility

9

Year	Credibility Score
'06	9
'22	9
10	10

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The political leadership of Timor-Leste actively promotes good relations with its two much larger neighbors (Indonesia and Australia), both of whom supported the brutal occupation from 1975 to 1999.

In 2018, Timor-Leste resolved a long-standing dispute with Australia over establishing a permanent maritime boundary, using the UNCLOS dispute resolution mechanism. Good relations are demonstrated by the cross-border movement of people and capital, with Indonesian and Australian goods, contracting companies and workers moving to Timor-Leste, and Timorese nationals studying in Indonesia and working in Australia. All scheduled commercial air traffic to Timor-Leste departs from Indonesia or Australia, although it has been sharply restricted during the pandemic.

Timor-Leste has made joining ASEAN a policy priority for more than a decade, although the reluctance of some ASEAN members has delayed this so far. Although it has opted to align with Asia rather than the Pacific, the country takes part in fora in the Asia-Pacific region, including holding observer status in the Pacific Island Forum and Melanesian Spearhead Group.

Timor-Leste is a key member of the Coral Triangle Initiative on marine environmental issues and initiated the TIA-GT (Timor-Leste, Indonesia and Australia Growth Triangle) economic development group.

Timor-Leste is heavily dependent on imported goods and services, most of which come from nearby countries, especially Indonesia.

Regional  
cooperation

9

'06 ————— 9 '22 10

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## Strategic Outlook

The functional political arrangement since mid-2020 will likely endure until at least the 2023 parliamentary elections, except in the event that former prime minister and CNRT leader, Xanana Gusmão, runs in and wins the 2022 presidential election.

The small political elite, most of whom have been rivals since high school in the 1960s, are aging and have begun to devolve power to the next generation, which includes many technocrats educated since the 1990s. Programs will begin to outweigh personalities, political parties will become more internally democratic, and coalition-building will overcome resistance. Optimists expect that evidence-based decision-making will replace the wishful thinking and personal allegiances that have shaped policy direction to date.

It will take several years for the economy to recover from negative growth in 2017, 2018 and 2020. Although the Petroleum Fund can cover the recovery period, it is unlikely to last more than 10 years. Without this cushion from non-renewable oil and gas wealth and lucky timing of financial investments, Timor-Leste may be unable to meet the basic needs of its people as early as 2031. If stock markets crash, or politicians “invest” in projects without returns, insolvency could occur even sooner.

The older generation of leaders chose to hire foreign companies to build large projects like national roads, airports, power plants and petroleum infrastructure, rather than develop the human capital and decentralized systems (rural roads, water and sanitation, education, health care, agriculture) necessary for the country’s future. Although citizens increasingly demand that their social and economic human rights be addressed, and government priorities in recent years have paid lip service to this, budget allocations need to change. Strengthening human capital will reinforce the country’s capacity to drive economic development.

Large-scale pending projects, many of which have been delayed for years (including the Baucau cement plant, Pelican Paradise resort, Suai petroleum supply base, Betano oil refinery and south coast highway), will require tens of billions of dollars to build. To date, they have not attracted sufficient foreign investment, and should be carefully studied before the finite wealth of the Petroleum Fund is used to underwrite them. Objective, impartial, fact-based, realistic cost/benefit/risk evaluations, including environmental and social aspects and lost opportunity costs, are rare in Timor-Leste. They are essential if the remainder of the nation’s petroleum birthright is to be used, as the 2005 Petroleum Fund Law stresses, “for the benefit of current and future generations.”

A serious effort is required to develop non-oil sectors of the economy, based on Timor-Leste’s greatest asset – its people. Although currently undeveloped oil and gas resources (including Sunrise) may fund the country for a few more years, they cannot match the amount of revenue already received. To reduce its trade deficit, Timor-Leste could strengthen the agricultural, light industry, and renewable energy sectors. Community-based tourism can generate much-needed foreign exchange, although the COVID-19 pandemic is likely to postpone its profitability.

Unfortunately, the last 14 years of converting oil and gas wealth into dollars has created a rent-seeking mentality of expecting income without hard work. Many politicians and citizens are unwilling or unable to envision the inevitable future without oil money.

Before he became finance minister in September 2020, Rui Gomes developed an Economic Recovery Plan to navigate the impacts of the COVID-19 pandemic. The plan eschews expensive physical infrastructure in favor of human capital, agriculture, tourism, housing, education, health and social protection. It portrays the pandemic as “an opportunity to design public policy measures that may help the necessary economic and social transformation of our country, to make it not only a country with a higher income, but also a more developed country, with greater human well-being.”

Timor-Leste will face severe hardships when the Petroleum Fund is exhausted. However, if it exploits the COVID-19 pandemic as an opportunity to change policy direction, diversify its economy and strengthen human capital, the future could be much brighter.