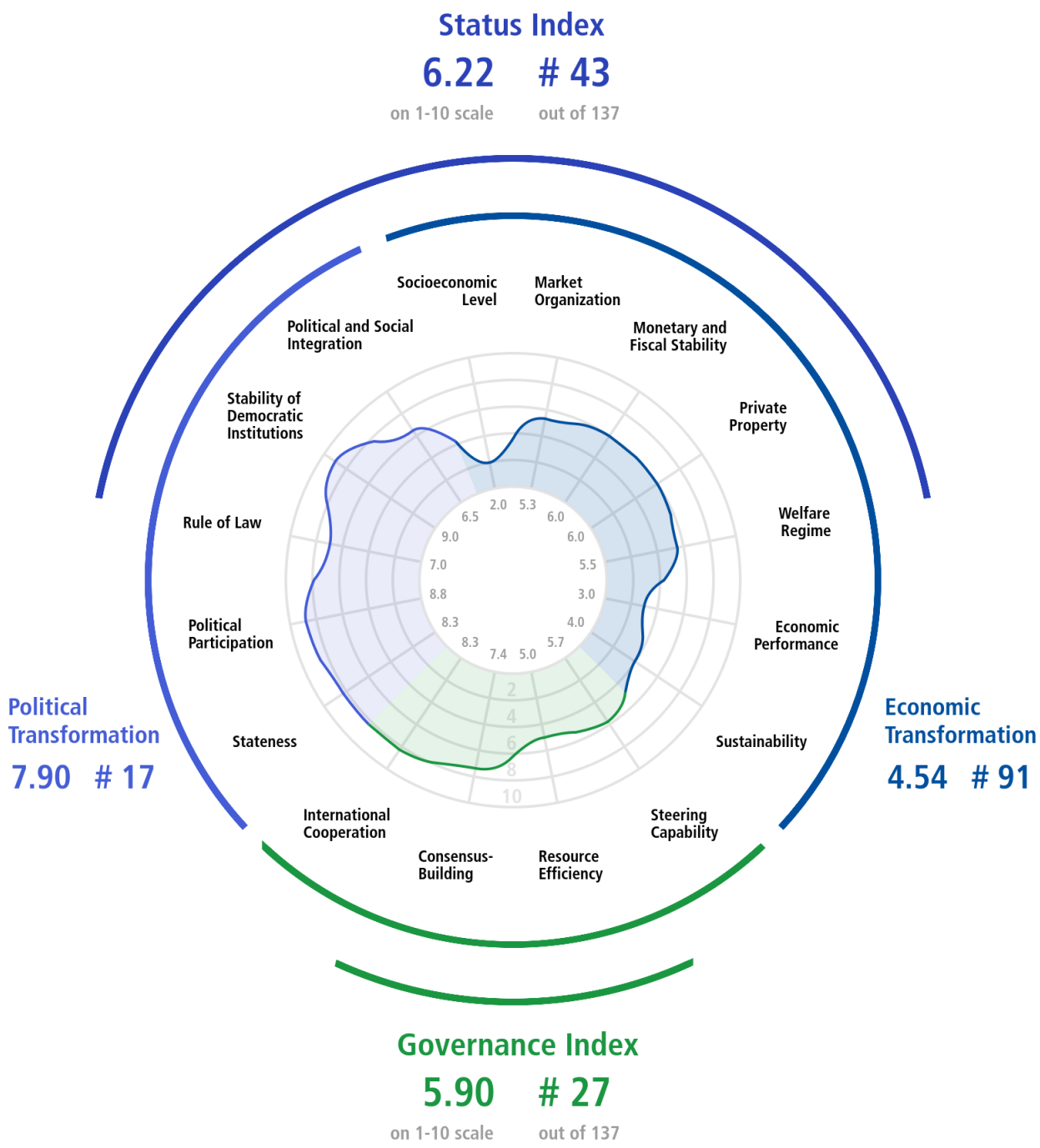
BTI 2024 Country Report

Timor-Leste



This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at https://www.bti-project.org.

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Key Indicators

Population	M	**1.3**	HDI	**0.607**	GDP p.c., PPP	$	**4828**
Pop. growth[1]	% p.a.	**1.5**	HDI rank of 189	**140**	Gini Index		**28.7**
Life expectancy	years	**67.7**	UN Education Index	**0.532**	Poverty[3]	%	**69.2**
Urban population	%	**32.1**	Gender inequality[2]	**0.378**	Aid per capita	$	**191.3**

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than $3.65 a day at 2017 international prices.

Executive Summary

After a reshuffling of the parliamentary coalition in mid-2020, Timor-Leste's government remained stable through 2023 – marking the longest ruling government in eight years. The majority coalition, which supports People's Liberation Party (PLP) Prime Minister Taur Matan Ruak, includes the Frente Revolucionária de Timor-Leste Independente (FRETILIN) and Kmanek Haburas Unidade Nasional Timor Oan (KHUNTO). In opposition is the Congresso Nacional de Reconstrução Timorense (CNRT) party, with the Democratic Party (PD) straddling the political factions.

After several years of limited effectiveness, Timor-Leste's political institutions are functioning well – the state budgets for the period from 2021 to 2023 were enacted on time, and an average of 18 laws per year were enacted from 2020 to 2022, compared to four in 2018/2019. Nevertheless, unforeseen events and hasty initiatives led to mid-year budget revisions in 2021 and 2022.

In the 2022 presidential election, the incumbent FRETILIN president, Lú-Olo, was defeated by nonpartisan former President José Ramos-Horta, who was supported by the CNRT. The next parliamentary election will be in May 2023. Elections are free, fair and peaceful, and the rule of law prevails.

Timor-Leste declared a COVID-19 state of emergency in April 2020, which was extended throughout 2021. Despite certain health-related restrictions on travel and assembly, civil liberties and freedom of speech were widely respected. Approximately 80% of the population has been fully vaccinated against COVID-19. In order to mitigate the economic consequences of the pandemic, the Timor-Leste government has provided financial assistance and essential goods to nearly all households from 2020 to 2023.

The half-island country was fortunate. Despite the limitations of its health care system, only 138 people have died from COVID-19, representing a per capita fatality rate less than one-fifteenth that of Germany. No COVID-19 fatalities have been reported since August 2022.

The economy continues to rely on government outlays, with little progress toward diversification. Although spending and GDP grew slightly in 2019 and 2021, constant-price, non-oil GDP per capita was 16% lower in 2021 than it had been five years earlier. GDP for productive sectors not driven by state spending, such as agriculture and manufacturing, has been declining for a decade. The World Bank forecasts 3% annual growth in real, non-oil GDP in 2022 and 2023 (IMF and Timor-Leste government projections are slightly higher), during which time the population will increase by about 1.8% per year. Timor-Leste's population remains the fastest-growing in Southeast Asia.

Child malnutrition and poverty remain among the worst in the world, and goods imports outweigh non-oil exports by a ratio of 25 to 1.

More than 80% of state expenditures come from the Petroleum Fund (PF). Oil and gas incomes have virtually ended, as the only producing field ceased production in early 2023. PF income now comes from overseas financial instruments – the value of which dropped more than 11% in 2022 – resulting in an end-of-year PF balance of $17.4 billion, the lowest since 2018. Nevertheless, the government expects to withdraw more than triple the "sustainable" amount during the next few years, and the PF could be depleted entirely within a decade. Although the Ministry of Finance and others warn of a "fiscal cliff," the government has yet to take serious measures to diversify the economy, cut spending or increase non-oil revenues.

In 2019, Timor-Leste resolved its maritime boundary with Australia and acquired a controlling stake in the Sunrise offshore gas and oil field, its sole remaining significant reserve. Despite initial expectations that the development of Sunrise would recommence after a nearly 20-year delay, investors have not stepped forward. Despite changes in Timor-Leste's petroleum leadership in 2020, the government maintains its stance regarding transporting Sunrise gas to its shores, whereas some joint venture partners believe that liquefying the gas in Australia would be more advantageous. Negotiations are ongoing, but there has been no progress.

The state-owned TimorGAP petroleum company has not generated any income since 2021. Instead, it received government subsidies averaging $60 million per year.

Because Timor-Leste has benefited from oil and gas reserves in the past, many people expect that it will continue to do so. However, the three test wells in 2021/2022 came up dry, and a bidding round for new exploration contracts failed to attract any established foreign companies not already investing in Timor-Leste.

History and Characteristics of Transformation

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

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

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

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

In 2006, the "crisis" began with clashes between the military and police. It had deep underlying causes. The prime minister was forced to resign, approximately 250 people were killed, thousands of houses were burned and over 100,000 previously traumatized citizens were displaced. It took several years and significant government compensation before the internally displaced persons (IDPs) could return home.

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

Former resistance officer and attorney Francisco Guterres “Lú-Olo,” a FRETILIN leader also backed by the 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 minority government was short-lived, and an early election was held in 2018. The coalition of the CNRT, PLP and KHUNTO (a new party based on a martial arts group) won 34 out of 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.

In 2020, a realignment brought FRETILIN into government with the PLP and KHUNTO, placing the CNRT in opposition. Ruak remained the prime minister. The new coalition is backed by over 40 members of parliament and is expected to remain in office until the next parliamentary election.

Timor-Leste entered nationhood as the poorest country in Southeast Asia, with limited financial resources other than donor support. While some social indicators, such as maternal and child mortality, tuberculosis, and malaria have shown improvement, they still remain among the worst in the region. Child malnutrition continues to rank among the highest globally. Over 40% of the population lives in poverty.

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

Most of the oil revenues have been saved in the Petroleum Fund (PF), which has received $24.9 billion in oil and gas income and $7.5 billion in returns from investing in overseas stocks and bonds. A total of $15.0 billion has been withdrawn from the fund since 2007, covering 85% of state expenditures, leaving $17.4 billion remaining. Until 2015, Timor-Leste was among the world’s most petroleum-export-dependent countries, but it now relies on its financial investments, which experienced a loss of about $2 billion in 2022. Between 2014 and 2021, the number of private sector jobs declined by 16%, while the working-age population grew by approximately 18%. Over two-thirds of the adult population are not part of the formally defined labor force, with the majority being subsistence farmers.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question Score

Monopoly on the use of force

10

Stateness has continuously improved in Timor-Leste since 2002, when the country achieved its independence. 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. Nonetheless, 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.

State identity

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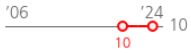

In Timor-Leste, virtually everyone accepts the nation-state as legitimate. Former anti-system actors, including CPD-RDTL, have now largely disappeared.

Citizenship is available to everyone born of a Timorese parent (or born in the country of parents who 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.

Noncitizens are not allowed to own land.

In 2020/2021, COVID-19 states of emergency disrupted travel and some administrative processes, but they have largely returned to normal.

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, and the Church receives funding from the state budget (other religions receive smaller subsidies). Although overt Church political engagement has reduced since 2005, a Concordat with the Vatican sustains special facilities granted to the Catholic community.

No interference of religious dogmas

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Protestant and Muslim clergy also have access to public officials. The current prime minister grew up Protestant and converted 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.

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 limited. Discrimination by sexual preference is not illegal, and gay couples cannot marry. Regulations for civil marriage are not yet in place.

In 2020/2021, Timor-Leste dealt with its first public clergy sexual abuse case. An 83-year-old American Catholic priest who has lived in Timor-Leste for decades was defrocked, convicted of five counts of child abuse and sentenced to 12 years in prison.

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 $15 billion of its limited petroleum wealth, the results are rarely visible in the rural areas where two-thirds of the population lives.

Basic administration

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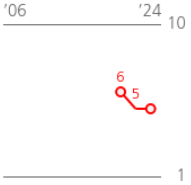


Access to a basic water source (85.5%), access to basic sanitation (56.8%) and access to electricity (96.1%) are more limited than in many other southeast Asian nations.

Government administration exists throughout the country, although some functions require one to come to the capital, Dili. However, many public services, including education, transportation, water, sanitation and health care, are less effective and available in rural areas than in the capital, where decision-makers are located. Even where schools or health services exist, staffing, resources and facilities are often inadequate. Human resource capacity constraints add extra challenges to bureaucratic efficiency. Bureaucratic processes are frequently slow and can be further constrained by the allocation of executive ministries to political coalition partners without regard for skills or experience, especially when budget allocations depend on ministerial influence within government.

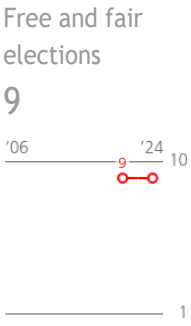
Although some corruption exists, most of this neglect is legal.

The national government is responsible for nearly all services; decentralization has been discussed for many years but has not been effectively put into practice.

Travel and other restrictions imposed in 2020/2021 to limit the spread of COVID-19 made things more difficult for many, but they were largely lifted by the beginning of 2022. The government distributed money and basic goods to every household to help alleviate hardship.

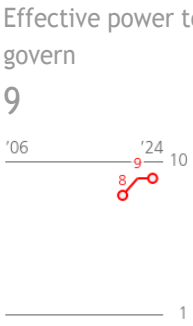
2 | Political Participation

Free and fair multiparty elections are held regularly in Timor-Leste. Universal suffrage is ensured, and all political parties are able to run. Contested national elections are held with no reports of violence and few irregularities. The next parliamentary election is scheduled for May 21, 2023. Parliamentary seats 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.



In mid-2022, former President José Ramos-Horta defeated incumbent President Lú-Olo and 14 other candidates in a scheduled election, which was free and fair and had the highest turnout since 2007. During his campaign, Ramos-Horta indicated that he would call early parliamentary elections but has not done so.

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 has exercised. Parliament may revert the presidential veto, but in some cases, this requires a two-thirds supermajority – making his veto power more substantial than it may appear. The president's veto over executive decree-laws is irreversible.



Most major political leaders (including Prime Minister Taur Matan Ruak, former President Lú-Olo, and influential former Prime Minister Xanana Gusmão) were senior figures in the guerrilla resistance, and hierarchical patterns and deference to heroes of national liberation can confer informal legitimacy and political power.

From March 2020 through the end of 2021, the executive and legislative branches worked together to adopt, renew and revise the COVID-19 state of emergency. Although he is from a different political base from the government and parliamentary majority, President José Ramos-Horta, who took office in mid-2022, signed all eight bills sent to him by parliament in 2022 and all 56 decree-laws approved by the

Council of Ministers. The newly elected president asked the Court of Appeal for advice on a billion-dollar Veterans' Fund, which was enacted just before he took office. When the court found it to be unconstitutional, he asked parliament to remove it from the 2023 budget, which it did.

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

Association / assembly rights

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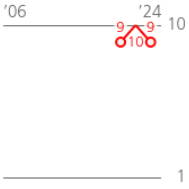

Many NGOs exist. Although civil society organizations must register with the government, they are not treated in a discriminatory or restrictive manner. Therefore, civil society organizations can work without significant interference from the government, although their influence over political decisions is limited. Many CSOs receive government funding, which sometimes limits their criticism of government policies. Aside from rules prohibiting protests within 100 meters of public buildings and foreign embassies (effectively all of central Dili), which are occasionally invoked and trigger short-lived public controversy, there are no significant restrictions on freedom of association and assembly.

When COVID-19 cases proliferated worldwide in April 2020, Timor-Leste declared a state of emergency, which was renewed monthly until December 2021. Restrictions often limited international entry, required mandatory quarantine for people entering the country and restricted domestic travel. Community spread of COVID-19 was successfully averted until March 2021, with 138 people reportedly having died from COVID-19. No COVID-19 fatalities have occurred since August 2022, although some doubt the reliability of the data.

In 2022, police arrested participants at peaceful protests, including one supporting West Papuan independence and another opposing perks for members of parliament. No charges were brought, and protesters were freed within the statutory 72 hours. In 2021/2022, the U.N. Human Rights Council carried out its third Universal Periodic Review (UPR) for Timor-Leste, and several NGO representatives described violations of the freedom of assembly.

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 parrot the views of prominent people.

Freedom of expression

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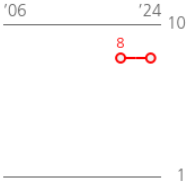


Media reports (including from the Tatoli state press agency) are frequently inaccurate or lack context, but this is primarily due to a lack of knowledge and limited journalistic training, not political interference. Print and electronic media publish a variety of viewpoints with no censorship.

The Press Council created by the potentially restrictive 2014 Media Law has not acted to limit free expression.

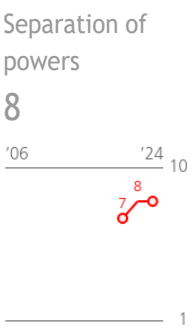
Freedom of expression is generally accepted. However, the Penal Code article on "defamatory false information" undercuts full freedom of expression. Journalists exert self-censorship. Nobody has been prosecuted for inaccurate articles since 2015, and no journalists have been imprisoned. Although freedom of information legislation has been in effect since 2016, many state agencies are not forthcoming with complete information, partly due to resource limitations. In 2022, several government websites reduced the amount of information they provides.

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.

In 2020, the Ministry of Justice circulated a draft law to criminalize defamation, by speech or writing, in person, media, or social media. There was strong pushback, and the proposed law was never submitted for approval. In January 2021, a "cybercrime" law to limit defamation on social media was suggested by the Prosecutor-General's Office, but it has also not progressed.

3 | Rule of Law

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



In 2019, separation of powers was tested when the CNRT, the largest party in the governing coalition, voted against the proposed state budget. The coalition splintered in 2020, in part over the issue of pandemic management, and PLP Prime Minister Taur Matan Ruak resigned. However, independently-elected President Francisco Guterres "Lú-Olo," from FRETILIN, declined to appoint a new prime minister or call new elections. After two months, a new coalition of parties formed a parliamentary majority, and Ruak withdrew his resignation and appointed new ministers to replace the CNRT ones.

This reformed coalition included the party of the president, making him disinclined to differ with decisions by the ministers and parliament. Although a new president was elected in 2022 with support from the CNRT and has occasionally expressed different views from the government, he has not vetoed legislation (except when the Court of Appeal has found new laws to be unconstitutional) or interfered with government functions.

The courts have resisted political pressures and successfully carried out several high-profile trials. They have also issued audit reports critical of some government agencies and policies, although their recommendations are often ignored.

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.

Independent judiciary

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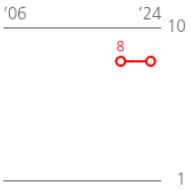

The judicial branch is less developed than the other branches of government and struggles with inadequate resources for discharging its functions, both in terms of staff and in material conditions.

The fundamental problem is the lack of human resources. Foreign aid has been important in this sector, but then the language barrier is felt acutely, and translation programs have been implemented with very limited success. The training of new judges is being pursued, but so far with limited success.

In 2019, Timor-Leste enacted legislation to remove the power of the Audit Court to review large contracts in the petroleum sector. The Audit Court has issued several reports finding weaknesses in government financial management, corruption and lack of legal compliance, although some of its recommendations are not followed up upon.

Otherwise, the courts are generally independent, although the Court of Appeal continues to serve as the interim replacement for the constitutionally defined Supreme Court. In 2022, the Court of Appeal upheld a politically charged conviction of a Catholic priest for sexual abuse of children. This was notable as some very powerful political forces, including Xanana Gusmão, offered open, public support for the defrocked priest.

The Anti-Corruption Commission 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 made public, so it is hard to assess if referrals are consistently pursued.

Prosecution of office abuse

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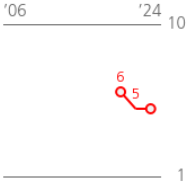
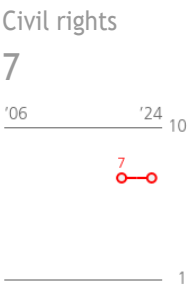


Many of the frequent (and sometimes not well-founded) allegations of abuse of power on social media do not result in prosecution. At least one person convicted of corruption has fled the country. Although a number of officials, including ministers, have been prosecuted and convicted, mostly for relatively small cases, petty corruption is common and perceptions of larger violations are widespread. While relatively minor transgressions like misuse of government vehicles attract substantial public ire, large-scale cases of corruption, involving tens of millions of dollars or more, are too sensitive to bring to court.

Before and after the COVID-19 pandemic, civil rights were usually guaranteed and protected. Although there is little blatant discrimination on the basis of race or ethnicity, jobs or government contracts may be awarded based on political preference. Growing popular anti-Chinese sentiment has not led to overt discrimination.



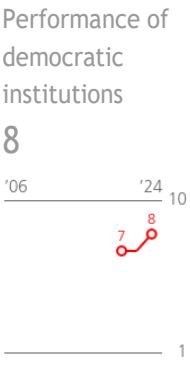
Gender-based violence is widespread. It is illegal, but authorities are often unable or unwilling to provide redress, although public education has sought to reduce it. Although same-sex sexual orientations are often concealed, Timor-Leste has the most active and visible LGBTQ+ rights movement in Southeast Asia, which is changing public attitudes. The freedoms of association and assembly are generally respected, albeit with some controversial restrictions against protests being conducted within 100 meters of official buildings.

Torture is rare, there is no capital punishment, and extrajudicial killings are infrequent.

There are no formal mechanisms for redressing violations of citizens' rights, although the provedor does receive and investigate complaints concerning official actions. Justice and the rule of law apply to everyone, although people in Dili and/or with more resources and connections find them easier to access than others do.

4 | Stability of Democratic Institutions

Timor-Leste has a unicameral parliament and a directly elected president. President José Ramos-Horta was elected in 2022, defeating an incumbent supported by the parliamentary majority. Deputies chosen in the 2018 early parliamentary elections will face elections in May 2023.



Parliament and the executive function smoothly. The executive proposes legislation, parliament enacts it after open debate, and the president usually promulgates it.

Complicating this picture, the semi-presidential system divides executive power between a directly elected president and the more powerful position of prime minister, who requires the confidence of parliament. While Timorese presidents have typically been independents, FRETILIN's Francisco "Lu Olo" Guterres' tenure from 2017 to 2022 ushered in Timor-Leste's first period of "cohabitation" between a president and prime minister from different parties. Until 2020, this created some substantial political tensions in the "divided executive." The election of Ramos-Horta as president in 2022 reduced those tensions, despite his candidacy being backed by the CNRT, although tensions are re-emerging as partisan maneuvers begin prior to the 2023 election.

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

Commitment to democratic institutions

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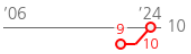

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5 | Political and Social Integration

The party system 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). The 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 the CNRT is supported primarily by those who are loyal to Xanana or who benefited from the CNRT's allocation of state resources. Three other parties have significant parliamentary representation: PD, which emerged in 2001 out of the student resistance movement; PLP (formed by the 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. One other coalition won three seats in the 2018 election, while four contesting parties won none. In 2018/2019, the ruling coalition was comprised of the PLP, the CNRT and KHUNTO, but a realignment in May 2020 created a new majority that included the PLP, FRETILIN and KHUNTO. Most of the 14 candidates in the 2022 presidential election ran without party affiliation, although the three highest-votes winners had party support. There are several smaller parties that sometimes win parliamentary representation by exceeding the 4% proportional representation threshold in the single national district.

Party system

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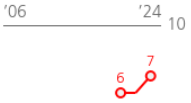

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Most political parties are organized around persons rather than policy or ideology. Internal democracy is limited in all parties, and many are dominated by strong leaders and have limited capacity to represent rural or grassroots interests. Voter volatility is moderate, though first-time voters without strong party affiliations comprise some 20% of the national electorate in each five-year electoral cycle.

Political polarization, particularly the competition between the CNRT and FRETILIN, has been a dominant factor in Timor-Leste politics since 2006, except for a brief period between 2015 and 2017, when they were in a grand coalition-style alliance. The CNRT, now in opposition, usually votes against government proposals.

Although clientelism continues, it appears to be less widespread under the current multiparty government than when a single party (either the CNRT or FRETILIN) governed in past years.

Independent civil society groups are numerous – and some enjoy substantial memberships – but tend to be concentrated in the capital Dili. Many depend on government funding, a feature that tends to reduce their capacity for advocacy. The rural majority, primarily poor subsistence farmers, are not effectively represented by non-government organizations. Therefore, the interests of middle- and upper-class people in Dili tend to dominate national political discussions. Student and church groups are vocal and sometimes influential. Some groups play a key role in democracy as forums for critical discussion of public policy issues that would otherwise not get a public hearing or would be confined to narrow, formal political circles (examples here include La'o Hamutuk, Fundasaun Mahein). Because most people work outside the cash economy, either as self-employed or in subsistence farming, trade unions are mostly irrelevant. Social interests are frequently represented through personal or informal channels.

Interest groups

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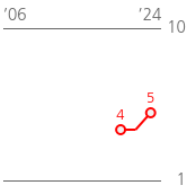

Social media is unrestricted, influential and widely used. Online publications are increasing. Many organizations (and some state agencies) use Facebook as their primary channel for communicating information.

People in Timor-Leste value democracy because of the tremendous struggle and suffering they went through to achieve it. The traumas of the Indonesian occupation were refreshed during the 2006 "crisis," reinforcing people's appreciation of democratic procedures as essential.

Approval of democracy

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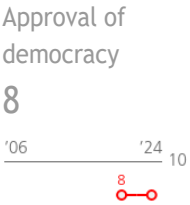


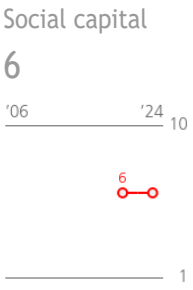
Voter turnout remains high, and major political disputes are resolved through elections, demonstrating that most citizens approve of democratic procedures. No significant social force or movement questions the democratic processes by which the country has been governed since the restoration of independence in 2002. The legitimacy of democratic institutions is further supported by a strong popular understanding of political rights and civil liberties.

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. In an early 2022 Asia Foundation survey, 62% felt that the government is doing a good job (2018: 57%).

In the first round of the 2022 presidential election, 77% of registered voters cast ballots (the highest turnout since 2007) and nearly as many voted in the runoff.

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

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 based in networks or created to resist the Indonesian occupation. However, these associations are often not visible through public opinion surveys.



According to an Asia Foundation survey in early 2022, 61% of people in Timor-Leste believe that security has improved over the past year. Only 4% think it has worsened. However, 53% expressed concern about tensions in their community, an increase since 2018. No recent polling data on inter-citizen trust is available.

II. Economic Transformation

6 | Level of Socioeconomic Development

In 2014, 41.8% of the Timorese population lived below the national poverty line (government's Living Standards Survey – the latest official data available). The most recent Multidimensional Poverty Index (2016) value was at 0.222, with 48.3% of the population experiencing multidimensional poverty.

Poor people primarily live in rural areas, and poverty is more severe among women. Urban areas present improved opportunities but exhibit a visible disparity in the distribution of income and wealth. In 2021, Timor-Leste recorded a score of 0.378 on the Gender Inequality Index.

Published data shows inequality in Timor-Leste – the Gini Index was 28.7 in 2014 – to be lower than in comparable countries. However, this may be due to the fact that the statistics do not account for the very small number of extremely wealthy individuals, while the rural majority, who are predominantly subsistence farmers, live below or near the poverty line.

The UNDP Human Development Index (HDI) for Timor-Leste rose significantly until 2015 due to increasing petroleum income and then declined. In the 2021 HDI, Timor-Leste ranked 140, the same as the previous year. However, its score of 0.607 is lower than it was in 2010, representing the ninth largest fall of all countries surveyed. This decline is a result of declining oil and gas income as reserves are depleted, as well as a lack of progress in economic diversification or improvement of services and living standards for the rural majority.

Economic indicators		2019	2020	2021	**2022**
GDP	$ M	2028.6	2158.4	3621.2	**3163.3**
GDP growth	%	23.5	31.9	5.3	**-17.5**
Inflation (CPI)	%	1.0	-	-	**-**
Unemployment	%	4.5	4.8	5.0	**4.9**
Foreign direct investment	% of GDP	3.7	3.4	1.9	**8.3**
Export growth	%	1051.4	207.5	8.2	**-**
Import growth	%	5.8	11.2	9.6	**-**
Current account balance	$ M	134.0	-308.0	1022.3	**-674.3**
Public debt	% of GDP	9.5	10.1	6.5	**5.6**
External debt	$ M	203.4	231.8	278.6	**-**
Total debt service	$ M	7.2	8.1	9.6	**-**
Net lending/borrowing	% of GDP	5.7	-13.4	-6.8	**-**
Tax revenue	% of GDP	22.9	12.7	15.1	**-**
Government consumption	% of GDP	47.2	44.4	28.3	**-**
Public education spending	% of GDP	4.2	3.7	3.0	**-**
Public health spending	% of GDP	3.4	5.4	-	**-**
R&D expenditure	% of GDP	-	-	-	**-**
Military expenditure	% of GDP	1.7	1.8	1.1	**1.1**

Sources (as of December 2023): 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

Market organization

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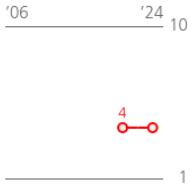

Despite the implementation of free market policies, numerous challenges hinder business development.

International companies and investments are welcome, although the constitution prohibits non-citizens from owning land. Instead, foreign investment often entails partnering with local entities or entering into long-term leases. Market access is generally unhindered; however, domestic markets are small, and there is a scarcity of entrepreneurs and skilled workers. Many private sector businesses primarily rely on the state as their main customer, often engaging in rent-seeking activities.

In some sectors, laws give preference to local contractors, suppliers, and workers. In practice, this is not a significant barrier to foreign companies, and Timor-Leste remains heavily dependent on imports. 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. However, high inflation in 2022/2023 is increasing public calls for price controls.

Levels of poverty constrain 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. Subsistence agriculture is significant, especially in rural areas.

In 2021, the government acceded to the 1958 U.N. Convention on Recognition and Enforcement of Foreign Arbitral Awards and enacted a legal regime for voluntary arbitration.

The government has invested significant amounts in port and cement projects operated by private companies and is discussing similar investments in a resort. The Tibar Port, financed through a public-private partnership (PPP), began operation in late 2022. In that same year, the Court of Appeal found significant irregularities in the allocation of public funds to the cement project, and the money will be recalled. The Pelican Paradise luxury resort, which has been delayed for many years, may soon begin construction. Aside from oil and gas exploration and extraction, a Heineken beverage plant is the only operating project financed by foreign direct investment (FDI).

The state-owned oil company TimorGAP, funded by public funds in the absence of its own revenues, is involved in several oil and gas exploration ventures, some of which are in partnership with foreign companies. However, none of these have produced anything, and most may not be commercially viable.

Foreign investors have been hesitant to invest in Timor-Leste's emerging petroleum industry for several years. A recently concluded, heavily delayed bidding round for new oil and gas exploration has resulted in the selection of only one foreign company new to Timor-Leste (HTS of Kazakhstan). However, Santos and Eni, who were already operating in Timor-Leste, may also be recognized, along with the inclusion of TimorGAP and a private Timorese company.

The state has spent significant public funds promoting and developing two major infrastructure projects – the Tasi Mane oil and gas project on the southern coast and the ZEESM (Special Social-Economic Market Zone) project in Oecussi. The concept behind both of these state-led initiatives was that initial investments by the state would attract private investors; however, that has not been the case so far.

The majority of households live by working in the informal sector and the above indicators are not relevant to them. Less than a quarter of the working-age population is in the cash economy – about 27% are subsistence farmers or fishers, 21% are students, and the rest are retired, unemployed or engaged in unpaid household work.

Competition policy

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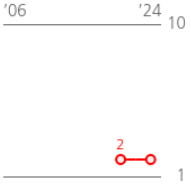

There are very few large companies in Timor-Leste, and most of those that exist are government contractors. Consequently, little state protection of competition is required, and the state does not make significant efforts to prevent collusion. Nevertheless, the state supports competition and dismantled the telecommunications monopoly in 2012. Importers and retailers, both foreign and domestic, selling to the general public, enjoy unrestricted competition. The population is growing increasingly concerned about small retailers owned by individuals of Chinese descent, including those who import counterfeit traditional Timorese textiles (tais) from China.

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

Some legislation in the petroleum sector requires the utilization of Timorese suppliers and workers to the extent applicable, although this is not a notable aspect of either the workforce or domestic economy.

There is no antitrust law or competition authority, and Timor-Leste is not a member of the International Competition Network.

Trade policy is very liberal, with low import duties (MFN average 2.5%, lower than 93% of countries) and low tax rates. In late 2022, the government increased import duties on expensive cars and certain items detrimental to public health, such as tobacco, alcohol and sugary drinks. Inconsistent messaging, along with price-gouging by retailers, resulted in confusion and a negative public reaction. Additionally, there are newly implemented quarantine laws aimed at limiting the importation of plants and animals that could potentially harm indigenous species, though these laws adhere to international standards.

Liberalization of foreign trade

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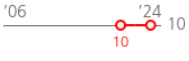

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The country joined the International Center for the Settlement of Investment Disputes in 2016.

The government has been making efforts to join the Association of Southeast Asian Nations (ASEAN) since 2011, and quite actively since 2019. Progress is anticipated in 2023, particularly as Indonesia assumes the chairmanship of ASEAN. Should Timor-Leste be admitted, it would facilitate free trade with the nations that currently account for approximately 80% of goods that Timor-Leste imports.

Timor-Leste has been seeking WTO admission since 2016. In 2022, it revised its Customs Code to be in compliance with WTO rules and expects to be accepted in 2023.

However, trade is largely one-sided, as most containers leave empty after unloading their cargo. In 2022, goods imports amounted to $786 million, while non-oil goods exports reached $29 million, with 89% of that being coffee. Gathering accurate information about oil exports is challenging due to the non-renewable nature of this resource, resulting in inconsistent and incomplete official data. As for services, annual imports amount to approximately $700 million, while exports hover around $60 million.

In 2022, Indonesia supplied 32% of goods imports, with 16% coming from China (including Hong Kong), followed by Taiwan, 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 in 2022 were primarily sold to Canada, Indonesia, Germany, China, the United States and Australia.

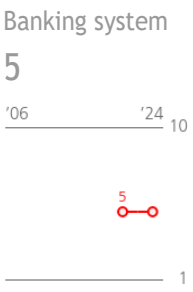
There are low nontariff barriers to international trade. The government is spending large sums of money on infrastructure for international shipping, road transport and air travel.

All private sector commercial banks in Timor-Leste are branches of banks from Portugal, Indonesia and Australia, operating under the supervision of the Central Bank of Timor-Leste. The state-owned National Bank of Commerce has received repeated "recapitalization." A growing number of bank branches and 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 IMF, nonperforming loans were about 2.5% in 2021 – a slight increase over 2020 but less than half the level in 2018/2019.

In 2021 and 2022, the central bank issued public warnings regarding banking scams, but it remains unclear as to whether these scams are on the rise or widespread.

Banking system

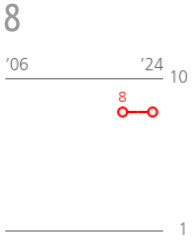


8 | Monetary and fiscal stability

Timor-Leste uses the U.S. dollar as its currency. It 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. It issues coins.

After public spending stabilized in 2013, annualized inflation rates (based on consumer prices) were 1% to 2%. However, prices began to increase in 2021, with national year-on-year inflation of 5.3% in 2021 and 6.9% in 2022. Prices are generally lower in Baucau, the second-largest city, than in the capital or rural areas. In early 2023, retailers took advantage of increased import duties on a few items to escalate their prices overall. This may lead to price regulation.

Monetary stability

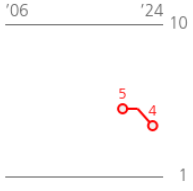


Timor-Leste has no public debt to individuals, although plans are being made to issue government bonds.

Foreign debt is low but growing. Contracts signed for loans from the World Bank, ADB and Japan total about $850 million, of which $280 million has been disbursed to date, all for road construction. The 2023 state budget authorizes up to $200 million in new loan contracts, and less transparent methods may be used to secure financing for future petroleum projects. In late 2022, the World Bank noted that "Timor-Leste remains at moderate risk of overall and external debt distress beyond the medium term."

Since oil and gas revenues declined in 2015, Timor-Leste's current account balance has fluctuated with the (unrealized) price of its investments in international stocks and bonds. Trade in non-oil goods and services runs an annual deficit of about $1.4 billion.

Fiscal stability



Approximately 85% of state expenditures are paid out of the sovereign wealth Petroleum Fund, allowing spending to exceed non-petroleum revenues without incurring debt. The PF, which currently contains about $17.4 billion (nine times the 2023 state budget), no longer receives significant oil and gas income. It is mainly invested in overseas financial instruments that generated more than $9 billion in revenue from 2005 to 2021 but lost nearly $2 billion in 2022.

The Ministry of Finance now warns of a "fiscal cliff" that could force an 85% cut in state expenditures when the Petroleum Fund is exhausted in 2035 (some analysts fear it could come sooner). Nevertheless, current policies do little to delay or avert this threat, despite repeated warnings from the World Bank, IMF and civil society. Although the urgency of diversifying the economy is often discussed, not much is done to make it happen.

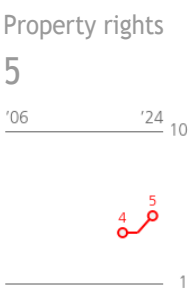
After declining slightly due to political uncertainty between 2018 and 2020, state spending increased by 27% in 2021 and by 20% in 2022. It is expected to continue growing.

Since 2009, the Estimated Sustainable Income (ESI) formula for Petroleum Fund withdrawals – based on projected investment returns and petroleum revenues – has been exceeded every year except one. From 2017 to 2021, the government withdrew $5.1 billion from the PF (1.9 times ESI), and the projected withdrawals for 2023 to 2027 would amount to $7.3 billion (3.4 times ESI). Withdrawals in 2022 reached a total of $1.4 billion (2.5 times ESI), marking the second-highest amount on record.

Some policymakers still believe the country will receive substantial rents from petroleum and mining in the future, as it did from 2006 through 2014. However, this is unlikely to happen. The state continues to spend far more than domestic revenues and investment returns can support.

9 | Private Property

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

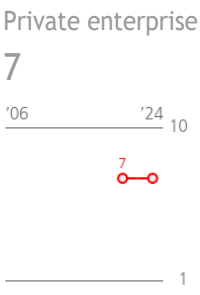


Timor-Leste is transitioning from a hodgepodge of often illegitimate "legal rights" granted by Portuguese colonizers (until 1975) and Indonesian occupiers (1975 – 1999), together with collective and customary rights based on Timorese culture. Like other Pacific states, much of the country, especially in rural areas, is subject to customary ownership rights. These rights are generally respected, though they can be, and are, modified by the state for major development projects. Compensation regimes are often controversial.

Three laws enacted in 2017 established the first comprehensive legal framework for individual property rights. These rights are based on the recognition of prior property rights, with compensation provided when claims overlap. The laws also set rules for state expropriation of private land and corresponding compensation. Furthermore, the laws acknowledge informal property rights and community ownership. Nevertheless, the subsidiary regulations for the new regime are being developed at a slow pace, and the system is not yet fully operational.

Moreover, safeguards to protect community rights during state expropriation, or state-assisted expropriation by large companies, are not always effective. Controversial evictions from urban properties are a complicating factor.

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



At 10%, corporate and personal income tax rates are among the lowest in the world.

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, aviation and telecommunications are predominantly private; and both public and private actors are involved in TV, radio, health care and education. The government recently established state-owned companies to provide water and electricity.

The state has created public-private partnerships or bought shares in nominally private companies in the container port, cement production and telecommunications sectors, with discussions underway regarding airports and medical diagnostics. The state owns the airports and ferries.

The state-owned TimorGAP petroleum company has not yet generated significant revenues and receives large subsidies ($182 million from 2021 to 2023) 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, although the loan has been devalued because auditors believe it may not be repaid.

10 | Welfare Regime

Social safety nets

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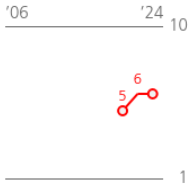

Timor-Leste has been implementing a public sector-driven welfare regime. Social welfare is backed by public spending in various areas, including health care, which receives around 5% of the 2023 state budget; education, allocated 9%; and direct payments, such as those provided to veterans, young people, mothers and the elderly, which receive an 11% budgetary allocation.

Some of these programs are politically motivated – such as the generous veterans' pension, which was designed to buy peace and recognize those who carried out the struggle for national liberation. Additionally, 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 not many people are currently receiving benefits due to the country's young population and the small number of people in formal employment (subsistence and informal workers are not covered). Universal pensions for individuals over 60 experienced their first significant increase in 2023.

The majority of these systems are not available to non-citizens. The few foreigners in Timor-Leste (0.6% of the 2015 population) are rarely as poor as most Timorese citizens and thus rarely require social safety nets.

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

To mitigate the economic impact of pandemic control measures, the government initiated in 2020 the distribution of a monthly basket containing food and necessities to all individuals, prioritizing the use of domestically sourced materials whenever feasible. The program has continued. Moreover, the state disbursed $200 to each household (with the exception of select highly compensated public employees) by the end of 2022.

Equal opportunity

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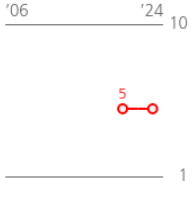

Timor-Leste is, to some extent, a dual society. The quarter of the population who live in the capital have greater access to education, employment and health care, as well as access to other opportunities compared to the rest of society, although even there women have fewer opportunities than men. Conversely, in rural areas, "customary" principles that discriminate based on gender, disability and age are still influential. The most affluent or well-connected individuals go overseas for health care and education.

About 3% of the public education system receives aid from Portugal and operates in the Portuguese language, with significantly more resources than other public schools. These schools are limited to children with a Portuguese-speaking parent, which perpetuates the privileging of "assimilados," which occurred during the Portuguese colonial period and ended nearly 50 years ago.

School enrollment is 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 minor component of the broader economy. As reported by the government's 2021 Business Activities Survey, the private sector employed 52,200 individuals, with males comprising 70% of the workforce, and 88% of these employees were located in Dili. While there is a noticeable increase in women's employment, the number of men working in the private sector has declined by 23% since 2014, despite the working-age population growing by approximately 18% to around 850,000. A significant portion of the population, especially women, engage in informal work in outdoor markets, agriculture and domestic labor; however, a majority of these individuals are unpaid.

Timor-Leste law requires that every third candidate on the party lists for parliamentary elections be a woman. Currently, there are 26 women in the 65-member parliament. However, women are poorly represented in leadership, holding only seven of the 45 top executive positions. Furthermore, they occupy a mere 2% of the elected suco chief positions in local government (community authorities). The public sector job distribution is heavily skewed toward men, with at least two-thirds of positions filled by them. This disparity is even more pronounced outside of the capital. At the same time, discrimination based on religion, ethnicity and race is less widespread than it is in Dili.

Although discrimination is legally prohibited (except for against sexual orientation), political and family connections continue to be crucial for acquiring high-level public sector positions. This is partly due to the limited pool of educated and experienced individuals in the country. LGBTQ+ activists have increasingly challenged the absence of legal protections against discrimination based on sexual orientation, which were omitted from an early draft of Timor-Leste's constitution in 2002. The impacts of pre-2002 colonialism and occupation are gradually diminishing, although individuals and companies associated with the ruling political parties have higher chances of obtaining employment and securing contracts than others.

Companies operating in Timor-Leste are permitted to hire non-citizens if they can demonstrate their inability to recruit Timorese citizens possessing the required skills.

11 | Economic Performance

Output strength

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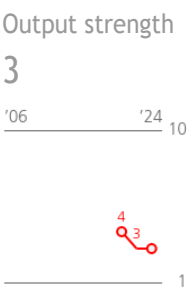

Timor-Leste's economy relies on converting finite, non-renewable oil and gas resources into monetary assets. Oil production began in 2005, has been declining since 2014, and is projected to cease in 2023, though it could potentially resume if additional commercial reserves are discovered and developed. Timor-Leste's fossil fuel resources have contributed significantly to the growth of the country's Petroleum Fund, which currently amounts to approximately nine times the annual state budget. This fund serves to protect government spending from fluctuations in oil prices and investment revenues, at least for the time being. Although non-oil tax revenues have shown improvement in recent years, they still remain relatively low, with both individual and corporate taxes set at a flat rate of 10%.

Although government debt and financial balances have mostly been managed responsibly to date, when the oil and gas wealth (half of which has been saved and invested) is exhausted, the situation will change drastically unless the domestic economy has been significantly diversified. In 2022, the Ministry of Finance began warning of a "fiscal cliff" that would force an 85% cut in public spending in 2035. Others have become more outspoken about this danger, which some fear could come sooner than the ministry expects.

Although the 2019 maritime boundary agreement with Australia removed some obstacles to the exploitation of new oil and gas fields, Greater Sunrise remains the only reserve that might conceivably provide more than a small fraction of the $23 billion in revenues received from the depleted Bayu-Undan field. Progress on Greater Sunrise has been stalled for years due to debates over the appropriate mode of development and a lack of financing. Many hope that other undeveloped fields will provide significant revenues in the future, but this is doubtful. Exploration wells drilled in 2021/2022 have not found commercially viable deposits.

About a quarter of the working-age population works in the formal economy, while a larger portion are subsistence farmers and fishers. The public and private sectors each employ approximately 10% of the working-age population. Women are more prevalent than men in low-paid occupations.

From 2014 to 2021, employment by private sector businesses declined by 16% (government Business Activities Survey), even as the working-age population grew by 18%. The national median age of 21 highlights the specific challenges Timor-Leste faces in creating employment and education opportunities for young people.

The rapid growth of state spending has shrunk since 2012, which has had a ripple effect on the economy. State spending experienced a 30% drop from 2016 to 2020 due to political uncertainty and the COVID-19 pandemic, resulting in a 10% decline in non-oil, constant-price GDP. In the following two years, spending increased by 53%, but GDP only rose by 7%. Taking population growth into account, GDP per capita in 2022 was less than what it was 12 years earlier.

Many internationally used statistical measures do not accurately represent the situation in Timor-Leste due to the dominance of offshore oil revenues and overseas investments, which are not consistently captured in GDP. The significant role of public spending in the formal economy and the substantial subsistence/informal sector also complicate the use of conventional measures.

The largest components of GDP are construction and public administration – paid for by the state – that are rising and falling with state spending. The productive sectors of agriculture and manufacturing are shrinking and are essentially unchanged since independence in 2002.

State spending comprises the majority of the economy, exceeding 105% of non-oil GDP in 2022. Approximately 85% of the state budget is financed by withdrawals from the Petroleum Fund.

Since 2015, the Petroleum Fund's income has primarily originated from overseas financial investments, which experienced a significant decline in 2022. During the period from 2019 to 2021, the investment return was nearly three times that of oil and gas revenues. Nevertheless, it should be noted that this source of income may not be dependable in the future.

Formal unemployment is higher in urban areas and among young people. Only about one-fourth of the working-age population is formally employed. Prices in Timor-Leste are usually higher than in neighboring countries and, after a decade of stability, began to increase in 2021/2022.

12 | Sustainability

Even though the constitution establishes the importance of protecting the environment, the 2012 Environmental Basic Decree-Law sets the framework for other environmental legislation, such as the Environmental Licensing Law and the Biodiversity Law. Timor-Leste is an active participant in international climate change forums and is enacting a climate change law.

Environmental policy

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However, the legal framework concerning the environment is only intermittently effective. Large public policy projects normally take precedence over environmental concerns. Moreover, environmental licensing laws are often not enforced. CSOs and international agencies encourage the executive to pay more attention to environmental concerns; however, most of the time, there is a lack of real incentives. Additionally, public programs for renewable energy have been largely abandoned. Furthermore, the public consultations required by law, especially for oil drilling projects, do not effectively inform or heed affected communities.

Responsibility for environmental regulation of petroleum-related projects was transferred from the Secretary of State for Environment to the National Petroleum and Mineral Authority – a change that resulted in a significant weakening of oversight.

In 2021, Timor-Leste experienced its most severe floods in decades, worsened by COVID-19 and the absence of effective urban planning, construction codes and zoning regulations. 44 individuals lost their lives, and 34,000 households were affected. While emergency relief efforts alleviated some of the suffering, this calamity has heightened public and government focus on climate change mitigation and prevention, as well as their focus on urban planning and building codes.

Education policy / R&D

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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. Repeated political revisions of curricula have made things worse. Most schools are grossly under-resourced, with large class sizes, few textbooks and in poor condition. Many teachers require additional training and experience. However, selective Portuguese-language public schools, serving about 3% of Timor-Leste students, receive special assistance from Portugal and high government allocations and thus have more resources than other schools. The same goes for Catholic and international schools, which are only accessible to families with money.

In 2018 and 2023, some government officials tried to make Portuguese the official language of instruction in all public schools – a move that many people are against. Significant grassroots and UNESCO efforts are underway to raise the profile of traditional languages.

Secondary education is concentrated in the major cities, making it more difficult 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 donors' scholarships.

Education receives only 9% of the 2023 budget appropriations, although this allocation is higher in terms of dollars than it has been in the past. The government intends to increase the number of teachers and enhance the country's educational infrastructure.

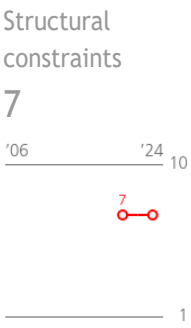
The literacy rate among young people (15- to 24-year-olds) is 84%, slightly higher for women than for men. Adult literacy stands at approximately 68% (UNICEF), with a higher rate for men compared to women. It is worth noting that many individuals did not receive education under Portuguese and Indonesian rule.

R&D is limited, although the government has recently introduced a national research funding scheme. Bi-annual academic conferences and a small number of journals are raising the profile of R&D in the country. Academic positions at Timorese universities prioritize teaching over research, although Timorese researchers are publishing more extensively than before. The government has not yet enacted a comprehensive national research policy. There are few formal research training opportunities, including PhD programs, in Timorese higher education institutions.

Many public and private projects rely on technical advisers from overseas.

Governance

I. Level of Difficulty



Timor-Leste is a small country and has been self-governing for only 21 years. Much of the over-30 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 the 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, and oppositional and hierarchical command – different skills than those optimal for peacetime democracy. 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 21. The postwar generation is now a significant voting bloc, playing a growing role in society and being socialized in a democratic environment.

The post-conflict nation began with widespread poverty and illness and a very small number of people with formal education or 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 most can access electricity and mobile phones (including expensive internet), water and rural roads are still lacking in many places.

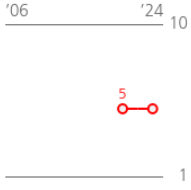
Despite many talented and dedicated senior public servants, the overall level of human resource development in the highly centralized public administration remains a challenge in terms of service provision. Education – both academic and technical – remains a major challenge with a large demographic “youth bulge,” under-resourced universities, and insufficient vocational training.

Things could have been much worse – offshore oil and gas reserves have provided a temporary substitute for the inadequate local economy. Since 2005, Timor-Leste has received $24.9 billion in petroleum revenues, which were deposited into its Petroleum Fund, and has earned $7.5 billion in investment returns. $15 billion has been spent from the fund (paying for 85% of all state activities). If current trends continue, the fund could be entirely depleted within a decade.

This extractive windfall has created a popular mindset that cannot envision more sustainable economic development. The “resource curse” brings unrealistic expectations that rents from non-renewable mineral wealth 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, young population and precautions taken, Timor-Leste had less community spread and fewer deaths from COVID-19 than most of the world. Natural disasters – and specifically the repeated flooding of Dili – have highlighted problems with urban planning and rural-urban migration to the capital. Although pandemic precautions created economic and social hardships, they also catalyzed the formation of a stable governing coalition and provided opportunities to advance toward sustainable policies.

Civil society traditions



During the Indonesian occupation, there was no democratic space for civil society until 1997. 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 taking actions that might discomfort the authorities.

In addition, there is 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 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 that 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 village councils/community authorities) 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.

Conflict intensity

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The independence period began with a few episodes of violence, most notably the political-military crisis of 2006/2007 that resulted from the United Nations' mishandling of land rights after widespread destruction and displacement after the 1999 referendum, the different historical roots of the police and the military, factional disputes between political leaders, regional differences and other factors. These causes were magnified by pervasive trauma. However, since 2009, the country has been largely peaceful, and no significant incidents of political violence, by either the government or people, have occurred since 2014, when a joint police-military action against one of the few remaining anti-system actors killed one of its leaders. Religion and ethnicity are not significant sources of conflict, although anti-Chinese racism is growing. The political elite has alternated between consensus and heated verbal confrontation – but all within the constitutional framework for debate. Political leaders and social media posts often provoke or exacerbate partisan polarization, which has waxed and waned over the years and rose during the 2023 parliamentary election campaign. The semi-presidential system can also lead to embedded tensions within the executive, particularly when the president and prime minister come from opposing parties, though these have eased since the new president took power. Domestic violence remains a major concern in Timor-Leste, with piecemeal formal state responses yet to effect the needed cultural changes.

There are no religious or ethnic conflicts. Nor does political polarization involve most people. Strong, effective, independent electoral administrative agencies help manage and reduce partisan political conflicts, even at the most sensitive times.

II. Governance Performance

14 | Steering Capability

Question Score

Prioritization

5

In 2010, the government produced a National Strategic Development Plan (2011 – 2030), but this plan is primarily aspirational, with many broad goals and no cost assessments or detailed paths to implementation. More than half the period covered by the plan has elapsed. In 2021, the Prime Minister's Office found that only 26% of the 2015 and 2020 targets had been fully implemented, while another 23% had been achieved by 80%.

The principal political party in the governing coalition changed in 2017, 2018 and 2020, and most ministers changed as a result. Ministries are frequently awarded to coalition parties as a means to cement alliances. When a new political group assumes power, they often discard systems and human capacity that their predecessors had developed. However, the announced programs of each government are not very different, with the result that projects started by previous administrations often continue. The current government has announced ambitious legislative priorities for 2023 and plans to review the National Strategic Development Plan, which could be interrupted if the government fails to win a majority in the upcoming parliamentary election.

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 about one-sixth of state budget appropriations.

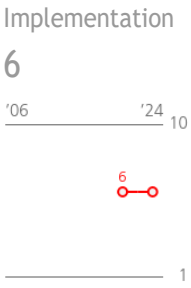
While in power, CNRT-dominated governments have strongly promoted a major petroleum infrastructure project on the southern coast, which would require a capital investment of more than $18 billion, crowding out other significant economic development. The potential for social and economic return from this project is doubtful, but powerful political forces (including many uninformed citizens) support them, which is a manifestation of the "resource curse" thinking that resulted from the financial domination of petroleum over the last 15 years. Although the coalition formed in 2020 (without the CNRT) initially announced it would reassess the project, the government continues to promise that it will go ahead, although the state has spent very little on it since 2019. Delays are blamed on Australia and international oil companies, without acknowledging that the lack of financing demonstrates that international investors doubt the project is financially viable. In early 2023, the oil companies in the Sunrise Joint Venture began to re-evaluate options for developing

the project. The informal power of CNRT leader and former resistance commander Xanana Gusmão is such that it is difficult for other political actors to reform core aspects of the Strategic Development Plan (and its centerpiece of the oil and gas megaproject on the southern coast). This remains true even when Gusmão's CNRT is part of the opposition, as it is currently.

Because state spending makes up the majority of economic activity, rent-seeking by contractors, employees and pensioners is common. Decreased public disbursements since 2016 have led to widespread economic effects, worsened by the COVID-19 pandemic. From 2016 to 2021, inflation-adjusted government spending per capita dropped 21% and constant-price, non-oil GDP per capita fell 16%.

Although the Petroleum Fund may finance the state for another decade, the limited private sector economic activity, low 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 oil and gas deposits turn out to be much more lucrative than expert observers expect. Although the Ministry of Finance and others have recently underscored the threat of a disastrous "fiscal cliff," the government has not yet taken significant measures to avert, delay or ameliorate the situation.

Policy implementation remains challenging in Timor-Leste, despite defined strategic goals and elaborated public policies to respond to some of them. Plans involve both public spending and private or foreign direct investment. However, the only significant, functioning non-petroleum FDI project is a Heineken beverage plant, which opened in 2018. Construction on other promised large-scale projects has not yet begun. The Audit Chamber recently identified corruption in a major project, leading the government to withdraw the $50 million it had set aside for it. A container port, built by a public-private partnership, began operation in late 2022 but development of other non-road infrastructure has been repeatedly delayed and is often poorly implemented.



There are also longer-term problems with capacity to achieve strategic priorities. Although a few priorities (such as electrification and maritime boundary negotiation) have been largely achieved, broader goals regarding poverty, health care, economic diversification, decentralization 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 the needed political support for effective implementation. 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 that could serve the entire population. As noted above, Xanana Gusmão has turned the proposed southern coast petroleum development into a nationalist symbol, making it difficult for others to suggest different strategic directions, even when they are in power in government.

Because Indonesia had limited the authority (and experience) of Timorese administrators during the occupation, newly independent Timor-Leste relied on international advisers. International consultants remain a familiar presence in many government departments, although their number and influence have decreased significantly, and the power to make decisions rests with Timorese officials. As more Timorese people return from studying overseas, they bring back diverse policy knowledge, although many of them are sucked up by international organizations that pay better than the government bureaucracy.

There are positive stories of policy learning since independence, with Norway providing the model for the sovereign wealth fund under the first government. Subsequent changes made the fund less robust than before in terms of harboring Timor-Leste's oil wealth for future generations, but it remains a policy success. In the main, however, 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 social, environmental or community impacts or about projects that did not fulfill their promises of wealth generation. Between 2015 and 2020, government leadership (most ministers) changed every year or two, making it hard to innovate or be flexible. In addition, experiential knowledge is often lost during transitions. Although the last three years have seen more stability, its longevity depends on the upcoming elections.

Cosmetic changes in mechanisms (such as creating a new agency rather than fixing a dysfunctional one) occur frequently, but deep, effective changes in policy or implementation are rare. The number of autonomous agencies (public institutes and enterprises) has greatly increased since 2015, splintering public administration and increasing the difficulty of oversight. In 2020, electricity and water supply were spun off from the Ministry of Public Works to become public enterprises, with no visible improvement in service delivery.

In 2021/2022, the administration restructured the state budget process based on "program-based budgeting," but the success of implementation has been mixed, with some improvements and some steps backward. The redesign of several government websites in 2022 has made information harder to obtain and reduced transparency.

The Planning, Monitoring and Evaluation Unit (UPMA) in the Prime Minister's Office became an autonomous agency (ANAPMA) in 2021. The agency is challenged by the limited monitoring and evaluation capacity of government entities and hopes to standardize and improve learning from past experience.

15 | Resource Efficiency

Efficient use of assets

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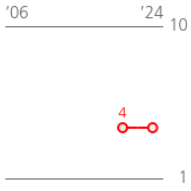

The quality and efficiency of the civil service and government bureaucracy are still substandard. The heritage of Portuguese colonial neglect, Indonesian corruption and Timorese resistance created an entrenched culture that has proven difficult to change.

Government personnel receive more than one-third of allocations in the 2023 budget (32% for personnel and 5% for "professional services"). 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 the accountability of political appointees who head ministries and departments is rare. 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 after the administration proposes it to parliament, and large changes are rarely made at that stage. Annual budget deficits are filled with money from the Petroleum Fund. State debt is relatively 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. Audit Court recommendations regarding state finances and performance are often not implemented. State accounts auditing and budget transparency are fairly good, although they have been deteriorating.

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 and 71% in 2021 due to the COVID-19 pandemic. After removing the invalidated Veterans Fund, it rose to 83% in 2022. Many execution problems stem from poor planning and budgetary design. However, previously limited assessments of the results or effectiveness of government programs, which often perform below expectations even when fully funded, may be expanding.

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 little. Donors and others have long advocated more decentralization to an intermediate municipal level, 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 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, attracted foreign investors or improved the living standards of the local population.

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

Policy coordination

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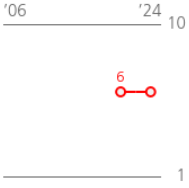


Policy coordination is relatively weak and further challenged by the political reality of multiparty coalition governments. However, a few ministers are working to improve communication and coordination across the government, as is the Agency for Planning, Monitoring and Evaluation (Agência Nacional de Planeamento, Monitorização e Avaliação/ANAPMA). Most coordination is vertical through ANAPMA or powerful ministers, rather than horizontal between ministries with specific portfolios. In particular, the prime minister and the minister for the presidency of 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.

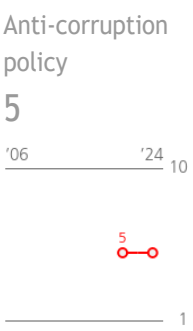
In some areas, such as environmental licensing and budgetary management, institutions in the petroleum sector have assumed authority that would logically belong to others.

The 2021 and 2022 state budgets were enacted on time, but the government proposed revisions during the first half of each year, leading parliament to amend the budgets. The 2021 revision, justified by the pandemic and flooding, reallocated funding from other areas to relief measures. In 2022, however, a revision added $1.2 billion (a 58% increase), most of which was for a brand new Veterans Fund rushed through before the newly elected president took office. Six months later, the Court of Appeal ruled that the Veterans Fund violated the constitutional requirements for "proportionality" (allocating money without a clear explanation of the benefits from it) and "fair and equitable use of natural resources" (since the money, derived from oil revenues, would benefit a small fraction of the population). As a result, it has not been established or funded.

The COVID-19 pandemic motivated the government to provide additional assistance to families and businesses. These schemes were administered in a relatively efficient manner. Some were extended even after the pandemic was largely over.

Although annual state budgets have included a volume of annual action plans for over a decade, only in 2022 did the first Major Planning Actions Law, part of a newly revised, program-based budgeting process, come into effect. This pilot run had limited success (it lists 263 measures without indicating their allocations or importance) but may prove to be a valuable learning experience.

The Provedor (Ombudsman) and Anti-Corruption Commission investigate alleged mismanagement and corruption but can only refer cases to the prosecutor. However, there is often leniency toward well-connected people involved in corruption, with the result that prosecution is not always undertaken or effective. Although a number of officials, including ministers, have been prosecuted and convicted, mostly for relatively small cases, petty corruption is common, and the perception that large violations are occurring is widespread. Minor infractions like personal use of government cars tend to attract more public ire and attention than substantial forms of corruption.



State spending is nominally audited by parliament, which must approve the state accounts for the previous year, as well as by the Audit Chamber in the Court of Appeal, which also has prior review power for large state contracts. However, the capacity and thoroughness of these audits are limited, and their recommendations are frequently ignored.

In 2020, Timor-Leste enacted an anti-corruption law, bringing the country into compliance with the U.N. Convention Against Corruption that it had joined in 2009.

In October 2022, the Audit Chamber reported embezzlement and corruption involving public financing of a yet-to-be-built cement plant, but no charges have yet been brought. The state will withdraw most of the funding allocated for the project.

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.

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 intermittently contains information on some tenders, but it is difficult to use.

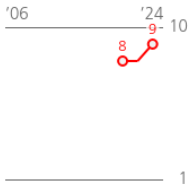
Similarly, laws that require environmental licenses for major projects are often violated without sanction by both public and private proponents.

From 2015 to 2019, Timor-Leste fell on the Open Budget Survey's oversight ranking. Although the score improved slightly in 2021, it is still considered inadequate because there is no independent supreme audit institution.

Transparency, access to information, and audits of state spending have deteriorated in recent years, 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

Consensus on goals



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 21-year-old nation emerging from centuries of foreign autocratic rule and a generation of brutal war.

In spite of occasionally bitter and vehement partisan disputes, all current political actors support the constitution, the electoral system and the 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: 77% of registered voters turned out for the 2022 presidential election, the highest turnout since 2007.

Virtually everybody in the Timor-Leste elite agrees with market economy principles, although they do not always apply at the rural and community level, where subsistence and bartering are 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 bring.

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 brewery), and a public-private container port began operation in 2022. Other promised projects 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 usually contracted to the international private sector.

Some government services, such as water and electricity, were recently spun off to public enterprises, which could eventually lead to privatization. Although some in civil society question these and other PPPs, most major political actors support these initiatives.

In Timor-Leste, there are very few important actors who assume anti-democratic stances, although Xanana Gusmão – former military commander, president and prime minister, currently without a portfolio – has influenced Timor-Leste's otherwise democratic institutions, even from the opposition, due to his substantial charisma. Internal decision-making of most political parties tends to be centralized in one leader, but 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.

Anti-democratic actors

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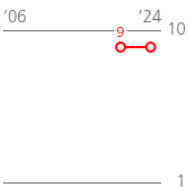

Government policies have favored the emergence of a new entrepreneurial group and small middle-class population, which are linked to the operation of a democratic polity and thus have widened the social basis of democracy, although the rural majority remains largely disempowered.

Former military officers (e.g., Lú-Olo, Taur Matan Ruak, Lere Anan Timur 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. Occasional policy suggestions to introduce national military service, for example, reflect these biases but have not acquired any traction. The disproportionate political power, resource allocation and policy space granted to the petroleum sector also erodes democracy.

The constitution designed a political system that offers room for the accommodation of different interests and different power bases within the executive. 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.

The greatest cleavage is between urban and rural, which correlates strongly 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.

Cleavage / conflict management

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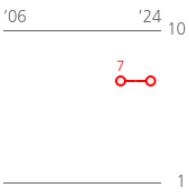


Conflict is largely averted through disempowerment, patronage and co-optation. Even when people disagree with the national consensus, they are unlikely to resort to conflict.

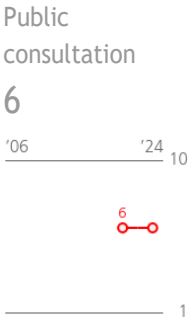
Political polarization is sometimes high, with tensions between FRETILIN and CNRT politicians. Smaller parties, including PLP, PD and KHUNTO, can align with either side. The current majority coalition, including FRETILIN, PLP and KHUNTO, may change after the 2023 election.

Although partisan polarization has been contained within the normal institutional framework, it can have significant social and economic impacts, such as when it delayed the enactment of the state budget in 2020.

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 the CNRT based on allegations of corruption. The conflict between the president and prime minister was contained within the constitution and ended when a 2020 rearrangement brought the president's party into power. In 2022, Lú-Olo lost his re-election bid to former President José Ramos-Horta, who was supported by the CNRT. The new president is strongly informed by the desire for consensus-building, and this remains true in his current term.

Although partisan rhetoric can be heated at lower party levels and on social media, the country's political divisions are like those in many other multiparty parliamentary democracies. Competent, independent and widely trusted electoral administration agencies are effective at minimizing partisan conflict in the immediate wake of elections.

Civil society has significant space for self-organization. Students and young people vociferously protest perceived injustices, especially the privileges of current or former officeholders. Protestors are occasionally arrested or beaten. However, poor and rural people are less organized, vocal and influential than students and young people.



Because 97% of Timor-Leste's population is Catholic, the Church has substantial influence in agenda-setting and policy formulation, especially in areas like education, abortion and family planning.

Community-level authorities have been integrated, to a large extent, into the democratic process but have limited budgets and limited capacity to resolve issues locally. The banning of political parties at the local level has helped reduce partisan conflict in traditional communities. Community authorities often promote policy decisions made by the public administration. However, local conflict mediation by traditional leaders occasionally bypasses legal justice processes.

Since 2015, a government-supported, NGO-implemented social audit has reported on the implementation of some government programs, but the findings have little impact.

Civil society groups actively debate policy issues. They have frequent access to political leaders, partly due to the small size of the country and the elite. However, formal mechanisms for public involvement in policymaking have narrowed in recent years, with fewer public hearings and consultations by the government and parliament. Many civil society groups do not have enough resources and knowledge to propose detailed policy alternatives. La'o Hamutuk and Fundasaun Mahein are important exceptions here.

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.

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

Reconciliation

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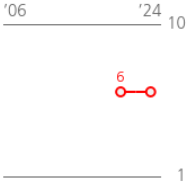

Timor-Leste was born through a dramatic process of liberation, which began when the Portuguese dictatorship was ousted in 1974 and Lisbon began to decolonize. This was followed by Indonesia's large-scale illegal invasion and occupation (1975 – 1999), which killed about a quarter of Timor-Leste's people. 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. 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, who were required to confess their crimes to be received back into their villages.

During the U.N. 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 legacy 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 becomes less democratic, these issues fade further into the background.

After the CAVR report was issued in 2005, the governments of Indonesia and Timor-Leste formed a Truth and Friendship Commission to discuss cases of human rights abuses in 1999, but Indonesia has refused to fulfill most of its commitments. Nevertheless, most Timorese leaders see no alternative to subservient relations with Jakarta, often submerging their own human rights or other principles to seek favors from the largest regional power, which is also Timor-Leste's largest trading partner. In 2022, President Ramos-Horta awarded a medal of merit to a former Indonesian general who had overseen numerous atrocities during the occupation and was strongly criticized by civil society.

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. The state has made substantial efforts to pay tribute to their memories, appeasing demands for the prosecution of perpetrators. As a rule, however, military veterans of the struggle against Indonesia receive much more vocal recognition than civilian clandestine resistance figures or civilian victims.

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

Effective use of support

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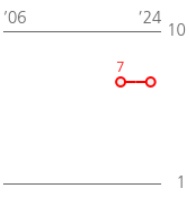

International aid played a major role in Timor-Leste between 1999 and 2006, but the amount and importance of aid declined after oil revenues increased. Donor contributions (direct budget support plus donor-run projects) averaged 12% of the combined sources budget between 2016 and 2022 (down from 80% between 2003 and 2006).

For a decade, Timor-Leste has been a world leader in the international movement by fragile states (G-7+ 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 sometimes rationalizes its own underfunding because donors support programs in those sectors, even though most donor programs lack the national reach or sustainability necessary for significant development.

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

In 2022, Timor-Leste and the United States Millennium Challenge Corporation signed a $420 million, five-year aid agreement, the largest in the country's history, primarily for water, sanitation and education.

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 (but not lenders) have usually avoided these areas, preferring to fund governance and training, education, health, water supply, sanitation and agriculture.

Credibility

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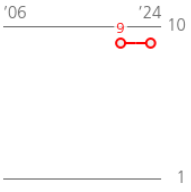

Timor-Leste is acknowledged as a reliable international partner by most bilateral and multilateral institutions. It has ratified many international conventions, although its capacity to fulfill reporting requirements is limited. It has joined multilateral institutions, including the United Nations, U.N. agencies, the World Bank, IMF, ADB and the International Center for the Settlement of Investment Disputes, and usually complies with their regulations. In 2016, it applied to join the WTO and ASEAN, the applications for which are still pending. Timor-Leste frequently participates in international conferences on climate change and in the U.N. Human Rights Council processes. It underwent its third Universal Periodic Review for Human Rights in 2021/2022. In 2022, Timor-Leste ratified the Treaty on the Prohibition of Nuclear Weapons.

Between 2015 and 2018, Timor-Leste invoked compulsory maritime boundary conciliation with Australia under the U.N. Convention on the Law of the Sea (UNCLOS). This was the first time that this mechanism had ever been used, and it successfully produced the Maritime Boundary Treaty. In addition, Timor-Leste continues to lead the G-7+ group of fragile states and is active in the Community of Portuguese-Speaking Countries (CPLP).

In 2022, Timor-Leste's parliament ratified a tax agreement it had signed with Portugal in 2011.

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.

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. 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. Nearly all commercial flights to Timor-Leste depart from Indonesia or Australia, though these were cut back 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. In November 2022, ASEAN agreed “in principle” to admit Timor-Leste as a member, though subject to meeting certain “milestones,” which would be assessed by member states. Dili hopes that Indonesia’s leadership of ASEAN in 2023 will facilitate its finally achieving membership in the regional body. Although it has opted to align with Asia rather than the Pacific, the country also takes part in forums in the Asia-Pacific region, including holding observer status in the Pacific Island Forum and Melanesian Spearhead Group.

In late 2022, after Indonesia announced that it would not seek re-election to the U.N. Human Rights Council, Timor-Leste announced its candidacy. However, three months later, the Indonesian government changed its mind. Timor-Leste then withdrew and endorsed its former occupier.

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

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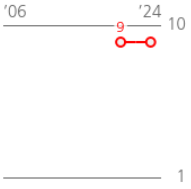

Strategic Outlook

Timor-Leste is one of the world's smallest and youngest nations, with one of the world's youngest populations. As a highly petroleum-dependent country, Timor-Leste will face severe hardships when its Petroleum Fund is exhausted.

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 traditions and some of the divisive legacies of the 1970s. Optimists expect that evidence-based decision-making will replace the wishful thinking and personal allegiances that have shaped policy direction to date. The next parliamentary elections, in which 17 parties were competing, were scheduled for May 2023, though it seems unlikely that they will produce dramatic policy shifts.

It will take several years for the economy to recover from five years of negative growth. Although the Petroleum Fund could cover the recovery period, the fund is unlikely to last more than 10 years. Without this cushion from non-renewable oil and gas wealth, Timor-Leste may be unable to meet the basic needs of its population. If stock markets fall further or politicians "invest" in megaprojects without returns, insolvency could occur even sooner.

The previous generation of leaders chose to hire foreign companies to construct major projects, such as national roads, airports, power plants and petroleum infrastructure, instead of focusing on developing the country's human capital and implementing decentralized service delivery, which are crucial to its future. While citizens are increasingly demanding the government uphold their social and economic human rights, and although recent administrations have verbally acknowledged the need to do this, adjustments must be made to budget allocations. Enhancing human capital will augment the country's ability to propel economic growth. Administrative decentralization, aimed at promoting regional development and mitigating migration into Dili, is long overdue.

Large-scale pending projects, many of which have been delayed for years – including the Suai petroleum supply base, Pelican Paradise resort, Betano oil refinery and most of the south coast highway – will require tens of billions of dollars to build. However, 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 missed opportunity costs – are rare in Timor-Leste. But implementing them is essential if the remainder of the nation's petroleum birthright is to be used, as the 2005 Petroleum Fund Law says six times, "for the benefit of current and future generations."

A serious effort is required to diversify the economy and develop the non-oil sectors based on Timor-Leste's greatest asset – its people. Currently undeveloped oil and gas resources, including Sunrise, might fund the country for a few more years, but they cannot match the amount of revenue already received. To narrow its trade deficit, Timor-Leste could reduce imports by strengthening agriculture and light industry to meet domestic needs and by replacing electricity generated from imported diesel fuel with renewable energy. Community-based tourism could generate much-needed foreign exchange.

Unfortunately, the last 16 years of converting oil and gas wealth into dollars have created a rent-seeking mentality – the expectation of income without hard work. Many politicians and citizens are unwilling or unable to envision the future, despite its inevitability, without oil money.

Before Rui Gomes became finance minister in September 2020, he developed an economic recovery plan to address the effects of the COVID-19 pandemic. The plan prioritizes human capital, agriculture, tourism, housing, education, health and social protection instead of costly physical infrastructure. It presents "public policy measures that may facilitate the essential economic and social transformation of our country, aiming to enhance both its income and development while promoting greater human well-being." However, over two years have passed since then, and minimal progress has been made toward achieving those crucial objectives.