



**Conceptual framework for reconstruction,
recovery and development of East Timor
(draft)**

**Prepared by UNDP
September 1999**

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1 Executive summary

The mission of a consolidated international programme in East Timor will be to support the development of an independent East Timorese nation with an effective system of governance and whose citizens are in command of their own destiny. This is a long-term goal. Given the problems associated with the transition, however, a key approach to international support (in particular of UNDP) will be to link relief aid with a sustainable long-term development programme.

Achieving this goal requires navigating through the traumatic period of transition. The movement from Indonesian control to East Timorese control will take place after an interim period of UN administrative control. One key challenge confronting the UN Administration, the East Timorese leadership and the East Timorese community will be to ensure the process is as seamless as possible. This will mean avoiding to the greatest extent possible vacuums of authority and service delivery, and of conflicts between all of these different groups over the timing of the transfer of authority. It also means devising mechanisms to ensure there is expeditious progress along the path from Indonesian to UN to East Timorese control over East Timor.

For the international community there is a vital need for coordination including the UN Administration, other UN agencies, the international financial institutions, bilateral donors and NGOs. For this purpose an **assistance coordination body** should be established as a matter of priority.

The programme of support being developed by UNDP for East Timor can be broken into three broad groups. The first part deals with the immediate emergency issues focusing on the rehabilitation of damaged infrastructure and social services. The second broad area of support focuses on the longer term issues of nation building including governance. This includes the development of the basic institutions of the state, capacity building for policy building and implementation. The third broad area focuses on economic development, including policy making capacity building, sectoral development programs and projects as well as human resources development.

During the interim period (the period of the UN Administration), East Timorese constitutional, political and administrative systems, combined with structures emerging from within civil society will have to evolve. UNDP is uniquely placed to support the development of these institutions through providing advice to East Timorese leaders as well as through providing positive administrative capacity support programs from the planning of East Timorese governance institutions to the operationalising of these institutions.

The implementation of this program of support should not wait until the initial emergency situation has been brought under control. Capacity building incorporating the effective and substantive involvement of East Timorese leaders in the process of policy making should be encouraged as soon as possible once the UN Administration is in place.

This programme of support will begin within the next few weeks and be implemented with an initial four year time frame in mind.

The first part of this program of support addresses the urgent need to rehabilitate the region's infrastructure. This process should begin with an assessment of damage, then a program for repair and rehabilitation, followed by the repair work leading to service delivery. This program of rehabilitation should begin as soon as security conditions permit and is to be carried out in conjunction with the capacity building activities. This programme of activities

should involve input from, and sharing of information with, the East Timorese leadership from the time the technical assessments have been completed. This programme of support should begin within weeks and conclude within one year.

2 Background understandings

This report is a revision to an initial document produced by 2 September. This report incorporates the following understandings:

1. The UNSG accepts the consultations as a legitimate expression of the people of East Timor;
2. Indonesia's civil administration has disintegrated;
3. The Indonesian National Assembly (MPR) accepts that the people of East Timor have rejected the offer of autonomy, and agree to its separation from Indonesia;
4. During the early phase of the transitional period (September to November) substantial destruction of private property and movement of the population takes place creating a humanitarian emergency, perhaps with most damage concentrated in Dili and the westernmost regions of East Timor.

3 Issues to consider in developing a comprehensive program of support in East Timor

The overall mission of the UN Administration in East Timor is to facilitate the creation of a viable and independent nation state as soon as possible. To achieve this will require initial humanitarian support for those members of the population in distress as a result of the destruction associated with the transition process. Nonetheless this emergency situation should in no way distract the UN Administration from assisting the East Timorese devise systems and approaches to managing their own affairs and taking full command of their own future.

4 Support for policy making and capacity building

The above includes providing considerable technical support by experts offering ideas and explanation of options (such as the possible impact of particular choices and scenario building) to the East Timorese leaders as they grapple with the vast array of models from which they will have to choose.

This expertise should also include support for developing institutions of the state, including a constitution, mechanisms and systems for citizen representation, effective legislative agencies, a functioning judicial system, establishment of relationships between central and local authorities, and mechanisms for healthy governance. In addition there is a clear need very early on to regularise a formal relationship between the UN Administration and the emergent East Timorese authorities. This should include consideration of mechanisms for managing the dynamics of the phased reduction of the UN Administration as it is replaced fully by East Timorese leadership. The UN Administration has a strong role to play during this period of time providing emergency humanitarian services including, during the early periods of Phase III, as the population continues to return and resettle.

Planning for economic recovery and development must also be a very high priority. Again expertise should be provided to the East Timorese authorities to assist them consider options for the future as they discuss these issues with the UN Administration.

The long-term development needs of the economy must include a high priority to the agriculture and agriculture support sectors. Support industries including agricultural inputs, distribution, marketing and financing will also be important areas of focus. Tourism and related ancillary service activities also represent a good development possibility. The return of Macau by Portugal to China late in 1999 offers the possibility for some new investment to move to East Timor, especially given that senior East Timor leaders have indicated they wish to develop a “Portuguese friendly” policy, including to Portuguese speaking countries such as Brazil. The emerging petroleum industry offers considerable prospects for East Timor in terms of revenue from royalties and value added activities such as tourism from oil and rig workers on recreation leave. Given the very small size of the economy, niche market type activities could provide significant benefits. Areas such as furniture production incorporating the use of local motifs and textiles could be one such activity.

While humanitarian concerns and activities will represent an appropriate initial priority during Phase II and the early parts of Phase III, there is a clear need for substantial thinking to be given to the long term development needs of East Timor. These developments include the need for the East Timorisation of a government structure. This includes the replacement of the outgoing Indonesian administrators as well as the interim United Nations’ administrative infrastructure with a sustainable national administration.

This fact should provide some indication of the nature of the UN administrative infrastructure to be used, and how it should be established. The process should be one of taking over the existing infrastructure and systems and making them operational in the new context. East Timor should not be considered *terra nullis* insofar as the emerging UN Administration is concerned. In planning its interim role, the UN Administration must, right from the onset, maximise the use of East Timorese human resources, including from:

- the existing administration in East Timor,
- among the expatriate East Timorese population who may soon be returning to the territory,
- the hundreds of East Timorese students who have recently returned, or will soon return to the territory from other regions of Indonesia and elsewhere, and
- other residents of East Timor (specifically Indonesian “migrants”).

This means there is a need to incorporate administrative mechanisms and technologies that are sustainable in the long term. This entails adopting a very cautious attitude to applying any “state of the art” type systems and facilities, as these will simply break down in the absence of significant foreign capital and skills input. This would then burden the fledgling economy with a further expensive skills gap to be financed through imports. Such an outcome would not represent a move towards sustainable administration. Nonetheless reform of this infrastructure to cater to the needs of the community under the new circumstances will be required. Here a partnership between the new East Timorese leadership and the UN Administration must be applied in a substantive manner.

A second key objective of the UN administration should be to **facilitate the introduction of a sustainable and independent process of governance**. Such a system entails the introduction and application of appropriate level technologies and human resource management systems, which will permit the functioning of an East Timorese process of government focused on meeting the near and long term needs of the society. It also entails most crucially the incorporation of East Timor citizens into positions of importance, and not just as “apprentices” or “shadow partners”. The emergent political and administrative culture of this territory can only be determined by the local citizenry. Imported systems will not be sustainable, although the advice and the exchange of ideas and experience can assist the territory’s leaders avoid some mistakes made elsewhere. Even so mistakes will still be made.

This should be seen as part of the process of nation building and growing, rather than as great setbacks. The implications and consequences of such mistakes should, insofar as possible, be borne domestically rather than being used by outside groups to intervene in the unfolding political processes. The presence of foreign donor funds should not *per se* be used as an excuse to influence the outcome of the flow on from these experiences. This means the local authorities must enjoy some autonomy and room to move as they and their society struggle to develop internal mechanisms of management.

5 The relationship between UN Administration and the leaders and people of East Timor

For the people of East Timor there is not likely to be endless patience for yet another foreign administrative class managing their affairs. This should be seen against the background that this would be the fourth such group in the past 60 years (following the Japanese occupation, the long-term rule by the Portuguese and finally the Indonesians). **This suggests most strongly that the UN Administration's prime objective in East Timor must be to make itself redundant as soon as possible.**

One of the important political challenges confronting the UN Administration is how to engage effectively the emerging leadership and other community groups in East Timor. As the incoming administration in the territory, yet serving the community and leaders of East Timor, the UN Administration will have to develop effective working relationships with these groups, all the while appointing local figures into positions of authority. Strategically the UN Administration needs to consider the implications of managing a local administration that is very powerful and well resourced, especially if it has to work with, or as part of, a very poorly equipped and resourced East Timorese leadership and community. The question of whether this imbalance represents a healthy outcome in terms of respect for the constitutional break down of authorities and powers between agencies of the state should best be reviewed independently, not internally (within the UN Administration), as the Administration is likely to confront a conflict of interest in positioning its own administration in the whole society.

In the near term, the UN Administration should be very aware of the impact that its very presence will have on the small East Timorese economy. The fact that this presence will not be a permanent one should suggest a sensitivity to avoid, to the greatest extent possible, the undermining of any preexisting economic structures and institutions as they re-emerge. Consideration must also be given to the impact the departing UN Administration will have on the economy and how to avoid a dislocating and deep recession of the local economy when this takes place. These unintended side effects will also include dislocating the skilled end of the labour market with the potential for unsustainable wage increases (beyond productivity and capacity of local business to pay), and a recognition that sudden shifts in local income distribution could well have socio-political side effects. Mechanisms to counterbalance the side effects of the UN Administration should be explored as a matter of priority.

6 Economic Policies

6.1 Views of the East Timorese leadership on economic development

In addition to assisting build up a domestic capacity for governance, the UN Administration and the national leadership need to pay careful attention to the economic needs of the territory.

To date the *de facto* political leader of the territory, Mr Xanana Gusmao, has identified the following principles as guiding possible economic policy:

1. Maintenance of the Rupiah as the national currency;
2. Protection of the rights of Indonesians to live and work in East Timor;
3. Prioritise education at the level of removing illiteracy;
4. Encourage a market based economy, with selective intervention;
5. Welcome foreign investment;
6. Maintain an open door policy to Indonesia;
7. Retain solidarity with the Portuguese.

These principles would suggest a moderate to pragmatic approach to economic policy making. The incoming leadership appears not to favour the more aggressive approach to economic change instigated by leaders in other former Portuguese colonies such as Angola and Mozambique in the mid-1970s. The tone of comments made so far would suggest that East Timor leaders believe that Indonesia can not be excluded from their development strategy, and that indeed the territory will remain closely linked to its large neighbour for market access etc. This position, adopted prior to the post ballot destruction, may now be more difficult to sustain.

6.2 Confronting the economic challenges

These considerations suggest the incoming leaders possess a relatively sober impression of the territory's economic prospects. In many ways, this view is supported by assorted economic data. The territory's per capita income, estimated last year to have reached almost US\$ 300¹, is the second lowest within Indonesia and among the lowest in ASEAN and the lowest in the South Pacific Forum². The transitional phase, including assorted civil destruction, will reduce economic output this year, including in the all-important agricultural sector, which still employed 76% of the labour force in 1996³. This will have implications in terms of the capacity and role of the domestic private sector in distributing basic food products to the community.

One further feature of the local economy is the unusually large size of the state sector of the economy. Using Indonesian Central Agency of Statistics definitions of the state services sector, this sector contributed some 20%⁴ of the East Timor economy as compared to only

¹ Very tentative estimates of possible economic output for the year 1998 (at prevailing prices and exchange rates at end of year) by author. This figure is very low, in part, due to the existence of a huge gap between the extent of the Rupiah's depreciation and the much lower reflation of the value of economic output which has occurred in terms of inflation. In comparison to Indonesia, East Timor's per capita income is nearly 40% of the national average. By 1996 it had already overtaken the per capita income of the neighbouring province of East Nusa Tenggara.

² Asian Development Bank: Annual Report 1998, P 248

³ *Statistik Indonesia Tahun 1997* (Chapter on regional economic output and growth)

⁴ Projections based on figures from *Timor Timur dalam Angka 1997* P 285-287

4%⁵ of the total economy of Indonesia, (the East Timorese economy is about 0.2% of the national total). The collapse of the private sector will see the public sector assume an even greater role in the economy from this year.

6.3 The likely economic impacts of a UN Administration

This huge state services sector is likely to grow substantially during 1999 (certainly in dollar terms) if we assume that the UN Administration operations are considered to represent "public administration". By next year Indonesian Government financed activities are expected to cease while that of UN Administration expands to well beyond electoral related activities to cover the whole range of public service activities, including emergency support.

The impact of this change will be very significant on the whole economy of East Timor. The impact of these changes should not be trivialised. Consumption patterns of a new and foreign consumer class is likely to impact on the import needs of the economy. The outgoing Indonesian middle classes procured products, which were imported from within the same economic (currency and balance of payments) region, namely Indonesia. There was consequently effectively no balance of payments impact for East Timor. An independent East Timor will have to balance its own external payments system regardless of whether it is part of a Rupiah block or not. With agricultural output expected to be very poor for next year's main harvest (to March 2000), the need to provide basic food imports to sustain the local population, including those not considered to be DPs, will need to be considered to last to at least the end of the year 2000. One factor mitigating against the balance of payments impact of this need to import significant amounts of basic food products, will be that the payments will also be sourced from overseas. This will essentially reduce the costs of these food imports to the status of gifts, rather than forex consuming imports.

6.4 Shaking up the existing private sector especially micro -enterprises

While the economy of East Timor has been more or less crippled since the announcement of the result of the ballot, this does not mean that private sector and micro-enterprises are not able to quickly pick up and run once security permits. Even so the shift in the consumption patterns of the new officials is also likely to threaten the position of small scale merchants and micro-businesspeople, who depended traditionally for sales to the now departing Indonesian civil servants and their families. While no doubt traders will emerge to meet the assorted consumer and other needs of UN Administration staff, the probability that this servicing will require a larger capital outlay than many of these people have is likely to lead to some displacement of business opportunities to the better financed. Being able to access imported goods for private distribution and sale to the new temporary middle class in East Timor will also require sourcing of goods from different places, and more often than has traditionally been the case from regions beyond Indonesia. This will call for businesspeople with networks linked to these markets.

In practice this will be the Sino-Indonesian business community (who have traditionally come from Surabaya and Ujung Pandang), who have settled in the region during recent years. While they have no doubt left the region now, there is strong reason to believe many will return once security has been re-established. The displacement of one set of micro-business players with better financed players is not likely to cause much of a problem in the early years, as the displaced will mostly be Indonesian citizens, not East Timor, and they have returned to Indonesia, thereby relieving potential socio-economic stress. Traditionally, the communal relationship between the Sino-Indonesia population and the local population of East Timor been relaxed. The long term dominance of the local economy by the Sino-Indonesian or perhaps more correctly Sino-East Timorese may well cause resentment among the indigenous population if economic opportunities can not be found for them too.

⁵ Statistik Indonesia 1998 P 543-555

If the UN Administration is to be guided by the view of the leader of East Timor that a market based economy is to be encouraged, **attention will need to be paid to the potential damage which can be done to business prospects as a result of the crowding out impact of UN Administration operations or the local economy.**

6.5 Crowding out a small labour market

Other issues of an economic nature which need to be considered in planning the implementation of UN Administration programs is the impact on the small local labour market of absorbing a notable proportion of better skilled labour in the region. This can have a crowding out impact on the re-emergence of a local private sector and drain the potential skills base of this sector. It may also lead to labour cost inflation and have the longer-term impact of distorting the actual productivity versus remuneration balance of labour, and again weaken the capacity for local business to grow. One factor mitigating against this problem, however, is very high levels of unemployment and underemployment in the region, including among the better educated. Even so the market is fragile and is therefore apt to easy shock and distortion.

6.6 The short-term impact on income distribution: the beneficiaries

A sharp realignment of patterns of income distribution is also in the making, with fixed asset owners, such as house (those not damaged significantly or destroyed), hospitality and transport owners enjoying considerable income boosts. The reported prices of rent for middle class homes in Dili prior to the ballot was already superior to that which can be obtained in Jakarta, even in some of its more fashionable suburbs. Looking ahead will see bumper income opportunities for these people. This may have the advantage of spurring further house construction in the expectation of sustained solid house rental prices. This will add support to market driven and financed reconstruction. This will have some downstream benefits to the construction sector and to construction workers. For transport providers (be they car owners or car rental drivers) the influx of new high income consumers also offers significant income increases. Hotel operators and staff will also enjoy very good opportunities for higher incomes - owners through full occupancy and workers through larger tips from these new non-Rupiah based clients. For all of these groups, the UN induced economic activity of this year and the next will bring considerable benefits. The same too will be the case for construction related industries.

6.7 The short-term impact on income distribution: the losers

On the other hand fixed income earners, who have no access to the new consumers, may find greater difficulties in making ends meet. The decline in domestic food production, the need to pay for imports (now that Indonesian subsidies on basic food products and other goods will disappear) may erode further the purchasing power of these citizens. People without income, caused by the closure/failure of micro-enterprises, crop failure and/or loss etc as well as any persons displaced will confront several options. The first is simply to move elsewhere in the region (including to Indonesia), or to become dependents of the state through some form of welfare, be it through support as a DP or through some form of subsidised make work system under state finance. In the section dealing with clearing and reconstruction, this work can make a very valuable contribution to the economy and represent less welfare than genuine economic value added. In any case these people are not expected to be net beneficiaries, at least initially, of the new administrative structures in East Timor. Fixed income earning citizens such as pensioners may also endure an income squeeze assuming a disruption in payments from Indonesia.

The UN Administration in East Timor will need to look by the medium term at the fee structure of the health service. While it is clearly not in accord with the principle of

encouraging the emergence of a market based economy to significantly subsidise the local health system through state intervention, the impact of the current disruption to health services does merit special consideration. Even so the authorities should not be tempted to provide an unsustainable levels of subsidy to the local health system as this will ultimately place a great strain on the territory's modest budgetary means. In addition conflict for other social resources such as public investment in education suggests that a significant subsidy on the local health system can not be sustainably institutionalised.

7 The returning population

As security is restored in regions across East Timor, the population will begin to return. In the end, however, many will settle in different areas to those from which they originated. This means that pre-ballot patterns of population distribution will not be replicated in the future. One likely outcome will be that the rate of urbanisation will increase, as the urban areas are likely to be secured before rural areas. The replacement of commercial and even subsistence farming within international food support, combined with ongoing security concerns, will undermine the capacity for a quick return of the rural population to their villages. Once settled in urban areas, it will be a slow process, if it ever occurs, for the rural population to return to the villages.

One further consideration will be that the spread of the population across the country will vary. With better prospects for security across the eastern half of the country, the population had been 28% of the total. This is likely to increase. Dili's population, which had been 20% of the total, is also likely to increase. The western region (which including the enclave had contained almost 53% of the total population is likely to fall)⁶.

Implications of this changed distribution of population have to be considered in planning the location for developing or even repairing infrastructure. This also has implications in terms of urban planning and management as well as sectoral and spatial planning and development of the region.

8 Potential pitfalls to development

In addition to the economic challenges confronting East Timorese leaders identified above, other problems may arise which could add to the challenges. One problem could be the status of Indonesian nationals. While the East Timorese leadership has currently indicated that they are happy for Indonesian nationals resident in East Timor to stay, local communities may not share these same sentiments. Communal fault lines are pronounced and apt to opening on the basis of religion (with the Catholic population of East Timor frustrated at the perceived greater opportunities traditionally for economic advance enjoyed by Muslims and Protestants alike from Indonesia). Other fault lines apt to be opened include national ethnicity (with now liberated East Timorese having little patience with the ongoing presence of citizens from the former powers that be). The impact of open conflict along these lines is likely to reduce the potential for these people (many of whom have skills) to return to East Timor, thereby aggravating the skills gap within East Timor.

Within the East Timorese population itself splits could be found on the issue of regionalism, with potential fault lines being geographic (more Indonesian linked regions such as Bobonaro, Ambeno and perhaps Kovalima) or linguistic (non-Tetum speaking regions to the eastern ends of the territory such as Lautem). The potential of old conflicts (including between different clans of loyalty) to reopen should not be ignored. This too would undermine efforts at development, and have to be addressed through strategies initially of communal reconciliation

⁶ Basic data sourced from *Timor Timur dalam Angka 1997* P38

and in the longer term through the development of appropriate political institutions able to manage these faultlines.

9 Programme concepts

9.1 Infrastructure: physical and social

9.1.1 Rehabilitation of infrastructure

Beyond the provision of emergency assistance to the displaced population, the UN Administration in East Timor will need to focus early attention on the rehabilitation of disrupted infrastructure. An immediate stock take of physical infrastructure, particularly utilities, will be needed in order to determine what is still functioning and what needs to be repaired/replaced or abandoned. Repairs and replacement of damaged components of the infrastructure needs to be undertaken quickly in order to support the reestablishment of regularised administration. An immediate question arises as to who should undertake these series of tasks, namely identification, review of results then repair/replace or abandon pieces of infrastructure. To the greatest extent possible local people, commercial enterprises and public enterprises should be involved in the rehabilitation process. The most urgent infrastructure needs here will include accommodation for returning residents, securing telecommunications and electricity supplies as well as ensuring that water supplies and waste management are functioning. Other pieces of infrastructure that need to be assessed and restored include the ports, airports, roads, bridges. These latter group should be reconstructed in consultation with the INTERFET forces, which have to ensure the security of these facilities once restored (given that they are either outside populated areas or are important centres used by the INTERFET).

While damage to public administration building is generally limited (in comparison to privately owned buildings), there may be considerable damage done to the computers, storage and registry facilities within these facilities. These issues need to be redressed in order to support the early resumption of service delivery.

9.1.2 Urban planning and management

Widespread destruction of urban areas will require clean up support assistance. Given the large scale unemployment which will confront the returning population as well as the need to provide ongoing humanitarian support for these people there will be a good opportunity to pay these people to work in cleaning away destroyed property. This work is a necessary precondition for the longer-term process of rebuilding the region's towns and cities. It is clearly foreseen that the level of urbanisation will increase significantly as a result of the dislocation of the population.

Capacity building of local authorities in the field of urban management and planning must take particular priority. This includes matters related to the management of land tenure and use as well as operation and management of urban services. These issues will be very sensitive in regions where population growth has been very sudden and unpredicted and where others have fled the region. In addition the quality of public registries of land titles will also be severely tested.

In the longer term the rebuilding process will allow for more detailed incorporation of urban planning and management and the incorporation of urban redesign, sustainable sewerage and drainage development, roads and footpath development as well as secure placement of pipes and cables. The potential for the development of public facilities, land-use re-designation such as for commercial centres and government administration will need to be explored. It is imperative, given the very long term impact of any decision made with regard to town and

city design, that local residents and East Timorese leaders be closely involved in the process of decision making on town planning matters.

9.1.3 Rehabilitation of social services

Social services, especially health and education, will need to be reestablished as soon as possible. While initially focused on emergency provision, there is a clear need to move quickly to focus on developing a more permanent service provision. These services should be established in areas where the population is concentrated. Re-establishing these services will require both hardware (buildings and equipment) as well as staff (doctors, nurses, teachers and support staff). Both will require outside support.

The support agencies will need to take closer account of the wishes of the East Timorese leaders particularly in certain areas of education. Many basic questions need to be addressed, such as what language/s will be used for instruction, what subjects will be taught as well as discussing issues of curriculum content. The origins of staff (doctors, nurses and teachers) are less likely to be areas where East Timorese leaders will be able to have much say.

9.1.4 Post school education and training

Given that the construction sector will be a large employer of people over the next 4 years, thought should be given to skills training for East Timorese workers involved in both clearing away destroyed property and in reconstruction (no doubt, given the small labour pool, the same people).

The period of reconstruction will require a large pool of skilled and semi-skilled involved across the full range of areas of construction, carpenters, plumbers, electricians, bricklayers, cabinet makers, house painters etc. These skills need to be taught to members of the local population.

In addition the skills to maintain and repair vehicles needs to be taught. This would suggest skills as mechanics, panel beaters and painters.

Both of these needs suggest strongly that a program of vocational training and education have to be up and running very quickly. While some vocational training and education infrastructure does exist, it will need to be rehabilitated and refocused in order to deliver the training required.

In the medium term, training activities need to focus on areas such as agriculture as well as tourism (including food preparation and wider issues of hospitality such as language training).

The region's shortage of teachers, particularly at the high school level, while able to be filled by international volunteers, must from the medium term be addressed by trained local teachers. This would suggest a priority need for developing teacher training and education programs. These programs of curriculum development need to be undertaken in close consultation with the East Timorese people.

9.1.5 Sports and culture

The events of recent weeks combined with decades of civil instability have left the community traumatised socially and dislocated geographically. As a result, there has been a decrease in social cohesion, lack of mutual respect and sense of community responsibility and a reduction in a sense of trust in a judicial system and peaceful problem solving. These factors constitute significant constraints to an early resumption of socio-economic and political development.

In addition to measures aimed at providing direct assistance to sustain human life and activities aimed at bringing together groups of disputing factions in the community, popular sports and popular culture related activities can contribute to the resumption of normal community life.

9.2 Governance related issues

A core component of any package of support to the East Timorese must include a comprehensive program to assist them conceptualise, create, found, operate and develop a wide range of institutions of state. This must begin with the very basis of any state, a basic set of rules governing the organisation of the nation such as a constitution. It always requires the array of institutions which operate to protect and advance the interests of the people, from the Executive together with public administration and lower levels of government, the Legislature, and the Judiciary.

9.2.1 Developing a national constitution

One of the most fundamental aspects of nation building is the development of, and agreement to, a basic set of rules that outline and define the powers and role of assorted agencies of the state and the relationship between these agencies and the citizenry in general. The international community can offer to provide constitutional expert assistance to the national leadership as they have to come to grips with determining the structure of the state. International assistance may also offer to assist facilitate discussion between different groups of leaders, should existing mechanisms be poorly developed.

Nonetheless, the international community should recognise that the very act of developing a mechanism for agreeing to a process for developing a constitution itself represents an important element of nation building, and also of developing a means whereby leaders and the community learn to manage internal conflict peacefully. Excessive international “assistance” could ironically facilitate the conclusion of negotiations on the final result but actually leave the system vulnerable to internal rifts, as the process of reaching the final agreement was “artificially” subsidised by outside pressure and encouragement. This “hands off approach” is not a “soft” option to supporting nation building, but rather is a very hard headed reflection of the fact that in the end only the East Timorese can create an East Timorese nation. International good will can only go so far. Ultimately the East Timorese have to be fully, involved in, and responsible for decisions taken on basic matters of the state.

Once agreement on the contents of the constitution has been reached, consideration needs to be given to how this constitution will be accepted by the population. This could entail some form of a plebiscite or referendum on accepting the constitution. If possible this plebiscite should be undertaken by the local authorities. However if the vote on the adoption of the constitution is seen as something which should be undertaken by a “neutral” or non-national agency, the international community, perhaps some agency related to the UN Administration, could be well placed to offer such support.

9.2.2 Developing an electoral system

In regard to the emergence of an East Timorese process of governance the issue of how important it is to conduct national elections will emerge. The answer on the timing and priority of such elections will depend on the presence of firstly, a reasonably coherent polity, in terms of a relatively tranquil political environment (meaning the absence of any major armed confrontation taking place or seriously threatening to take place). An election in a deeply divided society may not necessarily assist strengthen national cohesion. Indeed it could very well undermine it, and quite violently so.

If, however, widespread calm exists, the territory should move to hold some form of national elections. If the political leadership is willing to engage in competitive elections, the international community should offer whatever assistance it feels capable of offering shy of actually seeking a mandate to “run” the elections. East Timor must develop its own electoral infrastructure to run its own elections. Outside support, therefore, should be restricted to that form of technical assistance that assists the implementation of a competitive election. This would include assistance with dispassionate advice on possible electoral systems available, and suggestions of how any of these could be adapted to meet the specific needs of East Timor. This will be the regulatory development phase of the electoral process when the electoral system and electoral infrastructure are developed.

The next phase of assistance could be seen in technical support for the electoral infrastructure in terms of electoral commodities and systems (counting technologies, training for officials etc) as well as ancillary electoral infrastructure such as support for effective civil society participation, voter education and information, support for electoral monitors if they exist, and of providing possible information sessions on the electoral system for parties and candidates.

9.2.3 Developing a legislature

Once the elections have been completed, a new parliament will take office. What role this parliament will play in national administration will be determined by the Constitution and by the actual interplay and build up of experience between the Executive and the Legislature over time. Even so representatives will need to be effective both in terms of the parliamentary Chamber work as well as being representatives in the electorate. To act as intermediaries within their constituencies (should this be the basis of the system) or as figures able to bring different societal groups together will be important skills which MPs will need to develop. The international community may be able to provide assistance to MPs in learning these skills.

9.2.4 The judiciary

As a follow up to the establishment of a Constitution will come the need to institutionalise some form of legal system including a judicial process. This will also be important in the immediate post-Indonesia period when legal ambiguity and vacuums will need to be avoided, and where present addressed. The UN Administration needs to consider very carefully how it intends to relate to the legal codes and processes in place. What form of legal processes will be applied once the Indonesians leave? Much consideration needs to be given to what kind of legal expertise can and should be used. There should be technical assistance provided to support the institutionalisation of an East Timorese judicial system. Answers to these questions must be discussed with East Timorese leaders.

While the UN Administration will have to command the judicial system during its mandate, the East Timorese will ultimately have to manage a judicial system.

9.2.5 Local government

What relationship should exist between the central authorities in Dili (should it remain the capital) and the local authorities? In what form should these assorted powers and responsibilities be determined - in the Constitution, or in laws, government decrees or UN Administrative guidelines? These are important questions to consider in the light of the potentially different views within various regions of the territory on the nature of the state. For example in the western regions, there may be calls for a very decentralised relationship with very wide levels of autonomy, whereas the view in Dili or Baucau may be in favour of a strong central government. These are deeply political questions in which the people and leaders of East Timor should be key players. Technical assistance in terms of the presentation of alternative models for central/regional relations and scenario building of the potential

outcomes of particular possible courses of action would be helpful. Issues to consider should include what revenue raising possibilities and powers each level should have. Here support from regional taxation authorities and the IFIs will be of value.

9.2.6 Ethical administrative practices

Some of the pitfalls that can affect newly independent states is that remuneration for public servants falls behind price increases creating income stress and temptations to use position to extract rent from service users. The appeal to patriotism may be reflected in a willing to forgo and sacrifice for some time, but this does not last. An effective system for remuneration that reflects real costs of living rather than solidarity with the poor is more likely to encourage officials not to misuse their position for rent seeking.

One further factor likely to encourage rent seeking is where mechanisms for supervision and control are lax, corrupted or not present. While it is the case that the cost of applying the necessary monitoring infrastructure is neither inexpensive nor simple to manage, some areas can be prioritised. For example, thought needs to be given to identifying public sector activities that are particularly vulnerable to being corrupted. Among these would include the public sector procurement process. The UN Administration should give serious consideration to establishing an effective and secure procurement process that has a good chance of surviving once the transition to East Timorese control has been completed. This would need to be developed with the support of the local leadership so as to provide the system with the potential for political support and longevity once the transition has been completed.

Work will also need to be undertaken to ensure that the remuneration packages for local civil servants is able to at least meet basic needs and contains appropriate codes of conduct to dissuade officials from misdirecting scarce resources. This should entail a review of staffing numbers. The departure of one set of officials opens an historic opportunity to restructure the domestic administration with a view to fewer officials and/or more efficient administrative structures. This could pave the way for better conditions for those who are employed. One important factor to which UN Administration officials should be sensitised is the potential relationship between peace and reconciliation and opportunities for employment. Offering employment with the state, in the absence of a buoyant local economy, to friends of the new system or recent converts to the system, can often be a useful way to assist cement the presence of the new system peacefully. This is by providing the new recruits to the system with a legitimate stake in the system. In the case of East Timor, many Indonesian and other nationals will remain in position of importance for the foreseeable future, given the still low skills base of the local citizens. The provision of employment, even at low pay rates may assist ameliorate the emergence of frustration at the lack of opportunities for the local population “all the while foreigners are enjoying all the best jobs”.

All of the above issues outline the need for East Timor to have some form of indigenous system of governance which is supported by the local population and insofar as possible is in tune with the needs and capacities of the community.

9.3 Development prospects

Despite the substantial economic challenges confronting East Timor both structural (its human and natural resource based limitations, geographic isolation from major communications thoroughfares), and organisational (such as a stable social, political, economic and legal infrastructure), there are some areas where economic potential could be tapped.

9.3.1 Rehabilitation and development of agriculture

Agricultural land, crops and livestock have been badly affected by the dislocation and destruction of the past 3 months. Restocking lost livestock will be important. In addition to supporting farmers and their families during the immediate period, the process of restocking and provision of necessary supporting infrastructure (feed for animals and veterinarian services) must also be considered as necessary investments to support the rehabilitation of the livestock industry. Clearing damaged/destroyed crops will have to be undertaken, followed by replanting taking into consideration season and the potential for crop mixing. Plantation estates (coffee) are also likely to have been badly affected, given that it is understood that it is now coffee harvest time. Damaged coffee shrubs may need to be replaced. This will provide an opportunity for renewal of crops or exchange of coffee for other crops. Security over newly restored plantations and crop farmland will be an important issue both in terms of the security of the investment in the land and or crop restoration but also in terms of the security of the people whose property has been restored. These farmers and their families may in danger if the opponents of independence continue to use destructive and violent means to express their fears, frustrations and disappointment.

No economic strategy for East Timor could be considered viable which did not include a strong focus on support for agricultural development. The sector is by far the largest absorber of employment in the territory. Increased output also offers the best prospects for reducing what is expected to be a quite chronic current account deficit within the territory's balance of payments. The agriculture development strategy should include:

- rehabilitation of areas destroyed or left fallow. Part of this process must include settling any issues relating to land tenure and access to land use;
- regeneration particularly of plantation crops which have not been renewed (such as coffee);
- development of new areas of agricultural endeavour, particularly in the southern regions and in sub-sectors such as basic cereals (maize and perhaps rice) as well as livestock production such as cattle raising and fattening. Horticulture may also have some potential in the moister regions of the southern lowlands and cooler hinterland highlands;
- in addition to agricultural extensification, work will need to be done on intensification, that is increasing agricultural productivity. This represents one important way to sustainably raise the standard of living of farmers in particular and the community in general.

In order to achieve these objectives several tools for intervention need to be considered, including the role as well as pros and cons of chemical agricultural inputs to raise productivity taking into consideration impact on the environment and balance of payments (should some form of chemical import dependency be threatened). Training for farmers, including awareness of the value or otherwise of traditional farming skills should be undertaken. Encouragement of the establishment of effective and efficient agricultural markets across the territory will be required in order to reveal any comparative advantages for possible export, as well as to ensure prices for agricultural products which are as inexpensive as commercially possible. For the Administration this may need reviewing where obstacles, including state created obstacles, exist and how these can be removed. This will require working teams involving the Administration, farmer groups, distributors and market managers, as well as perhaps incorporating expert advice on agricultural market structures.

9.3.2 Agribusiness and food processing

Once agricultural production and distribution is on the path to recovery and development, one new focus for the agricultural sector will include the possible use of produce into more value added forms, other than fresh supply to markets. This would include revitalising and developing a larger food processing industry. At present about 60% of all manufacturing

activity in East Timor (which represents under 4% of total GDP) represents food and beverage production. There remains room for growth in areas such as coffee processing. Opportunities for non-coffee food exports are likely to remain limited until such time as a surplus can be produced and more importantly until such time as export quality can be assured balanced against the need for competitive pricing.

9.3.3 Tourism

East Timor enjoys some potential for developing into a tourist destination. Prior to the collapse of the Portuguese colonial administration the region was a regular tourist spot for people from northern Australia, with direct airlinks between Baucau and Darwin. The landscape of East Timor retains a clean natural beauty, with good quality beaches. Interest in developing tourist facilities is already evident with reports of Brazilian hotel operators making tentative visits

9.3.4 Niche activities

The very small size of the East Timorese economy is such that a few selected investments could make a significant impact on local employment opportunities and the services account side of the current account. This would also refer to the impact of the immigration of only a few highly skilled managers and owners of capital. Activities, which could be included, as niche type markets, could be in areas such as the manufacturing of souvenirs with an East Timorese flavour, for example developing local weaving products. At present such products tend to be produced as basic cloth for clothing (such as shawls). However in order for broader uses of the cloth to be achieved, dyeing techniques would need to be refined (to ensure the cloth is colour fast).

Cloth usage could be extended to include furniture upholstery, thereby feeding into one further niche industry, furniture production.

9.3.5 Seeking migrants with skills

The passage of sovereignty over Macau from Portugal to China at the end of this year, provides East Timor with a unique opportunity as it emerges as an independent territory. Some residents of Macau may see value in spreading their financial and investment portfolios to beyond Macau to other inviting regions. Indeed at the change of Portuguese to Indonesian control several residents of East Timor moved to Macau. Some may now wish to return to East Timor. Some of the tourist strengths of Macau could be brought to East Timor, such as hotels, restaurants and entertainment. The unhealthy side effects of the tourist industry should be pre-empted. The effective management of tourism in a conservative traditional society could be gained from places such as Monaco, while healthy regulation of the tourist industry could be found from regional countries, such as Australia.

9.3.6 Petroleum and energy

The opening of the Timor Gap for production will lead to a revenue flow to East Timor. Even so there are several other flow-on effects which could be gained for the territory in terms of servicing this industry. Ultimately in the long term the territory should be capable of housing a refinery to assist meet some of its own needs as well as the needs of the immediate region around Timor including the southern Moluccas and the East Nusa Tenggara region of Indonesia. The administration of the Timor Gap Authority, which is currently split between Darwin and Jakarta will need to be adjusted with the infrastructure in Jakarta moving probably to the city of Dili. While much of the food and other essentials supplied to the crews working in the mining areas are currently sourced from Darwin, there is no reason why some products, say horticultural, could not be included from East Timor, especially if the southern region and highlands are able to be developed for horticulture.

The nature of income flows to the treasury of East Timor from the oil and gas flows may need to be reviewed. Are production sharing contracts the most expeditious way to proceed or should some form of direct royalty payment to the East Timorese authorities be made? In addition an energy pricing policy needs to be developed, given that at present the region enjoys energy subsidies paid for by the central authorities in Jakarta.

The territory also needs to review whether coal fired energy sources are the most appropriate, or whether gas or oil fired generation facilities should be developed in the region. In addition if energy is cheaper and in surplus in East Timor, there may be the possibility of exporting electricity to western Timor if this is commercially and politically feasible.

9.3.7 Finance and banking

The new economy will be in need of developing its financial sector, which forms a key element in the infrastructure of any economy. Concepts quoted from Mr Gusmao that East Timor should develop itself as a financial and tax haven may be a long-term goal, again allowing the economy to take advantage of niche activities, which can provide a significant boost to a very small economy. However in order to sustain a financial and tax haven type industry, it is likely that a more developed financial and legal system be developed first. Of higher priority than encouraging this type of sector initially should be the development of a more sound domestic financial system. Currently the banking system is overwhelmingly public sector owned (that is Indonesian), with the private sector banks representing less than 20% of banking assets⁷. The local Provincial Development Bank, however, does have a wider reach out beyond Dili than other banks. Given that this is clearly an East Timorese bank, there is less of an issue over its long term status. There are no foreign banks operating directly in East Timor (although many have cooperative arrangements with the large Indonesian banks through agreements with Jakarta). Theoretically Indonesian banks, of course, will become foreign banks. The medium term prospects of these institutions will be a matter of further discussion between Dili and Jakarta.

⁷ Bank Indonesia – *Keuangan Daerah Propinsi Timor Timur Juni 1999* P 3