

Chapter 7 SPENDING TIMOR-LESTE'S PETROLEUM REVENUE

When developing countries exploit their natural resource wealth, spending the natural resource revenue is expected to improve the lives of their citizens. Chapter Two explained how and why this assumption is not always realised. In Chapter Three we learned there is much to improve in Timor-Leste, economically, socially and environmentally. So, there are many reasons why spending Timor-Leste's petroleum revenue wisely is important. But, Chapter Four explained that Timor-Leste's Petroleum Fund Law does not define what petroleum revenue is spent on. Rather, petroleum revenue funds the Budget and decisions about what the Budget is spent on are made by the Parliament through the budget process. What petroleum revenue is spent on can determine how sustainable development is, and is also an important factor in avoiding the resource curse. For this reason it is important to know participants' opinions about what Timor-Leste's petroleum revenue should be spent on (through the budget process).

This is the second of three chapters that discuss the empirical results of the fieldwork research. This chapter focuses on the expenditure of petroleum revenue, and presents findings from the semi-structured interviews and the Point*Wizard research to explore how participants believe Timor-Leste's petroleum revenue can best be spent to create their vision for Timor-Leste. Chapter Six explored how Timor-Leste's petroleum revenue can be invested financially to achieve sustainable development, whilst this chapter analyses how Timor-Leste's petroleum revenue can be spent, and which spending options are the most sustainable. The chapter is divided into three parts which explore the participants' vision for Timor-Leste, how petroleum revenue can be most wisely spent, and participants' priorities in terms of budget expenditure.

Figure 7.1 illustrates the relative importance of what petroleum revenue is spent on compared to the six other petroleum revenue management criteria explored in this research (discussed in Chapter Six). By far, the participants in this research believe that what Timor-Leste's petroleum revenue is spent on is the most important of these petroleum revenue management criteria (decisions). This criterion (decision) is almost four times as important as 'which currency petroleum revenue is invested in', almost twice as important as 'whether petroleum revenue is spent sustainably', and one and half times as important as the next most important criterion (decision), 'how budget expenditure is financed'.

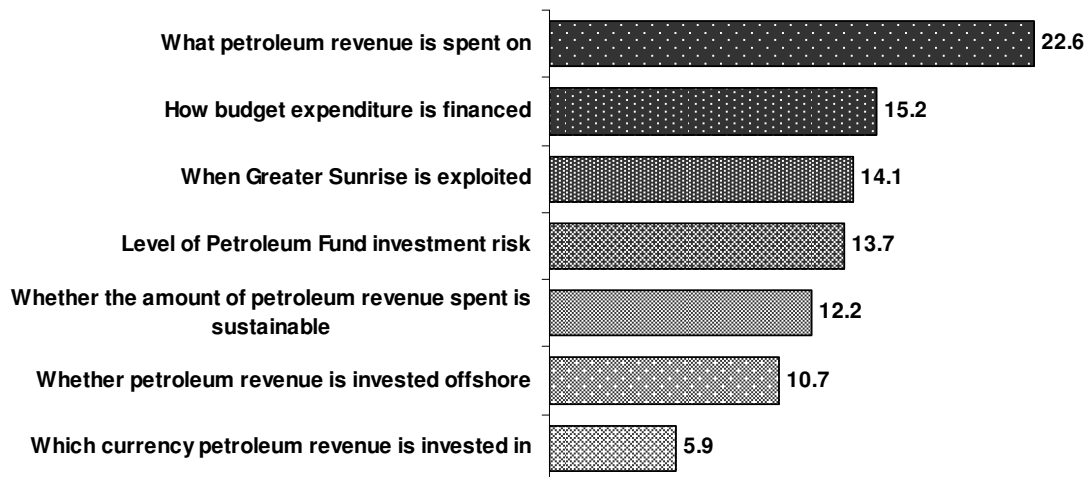


Figure 7.1 The relative importance of seven petroleum revenue management criteria (%)

7.1 Investment with a vision

This section analyses the results from the semi-structured interviews, which provide an overview of what participants said about the future of Timor Leste when asked about their own lives, the lives of their children and their thoughts about, and hopes for, the future of Timor-Leste¹⁵⁵. Appendix 8 provides a selection of the participants' responses to these questions which are a useful reference to observe the subtleties of the discussion in this section. More detailed quotes are provided throughout this chapter¹⁵⁶. Following the semi-structured interviews, the percentage of participants that identified an issue as important was calculated and it was found, significantly, that 96% of the East Timorese participants wanted the quality of life to improve¹⁵⁷. Of the East Timorese participants, 96% also identified education as an important issue, and health and poverty (separately) were important issues for 83%.

Quality of life, education, health and poverty were the most important issues for the East Timorese participants when they were asked about the future. These are the most basic needs that were identified as the most important. The participants' comments reveal that the majority of participants were optimistic that spending petroleum revenue would improve the quality of their (and others') lives, and that spending petroleum revenue could lead to Timor-Leste's sustainable development. Essentially, the East Timorese participants in this research imagined that the future for them and Timor-Leste was brighter. These results are particularly significant given that, two years after this research was conducted, the quality of life for most of those East

¹⁵⁵ Participants without children were asked about the future in relation to the lives of children in general.

¹⁵⁶ All quotations in this chapter are from either the semi-structured or Point*Wizard interviews, unless specified otherwise.

¹⁵⁷ The methods used to analyse the semi-structured interview data and arrive at these results was explained in Chapter Five.

Timorese participants is undoubtedly worse as a result of the internal conflict, which began in April 2006. This section will explore participants' vision for, and concerns about, the future of Timor-Leste. The discussion is divided into two themes; quality of life and economic development.

7.1.1 Quality of life

The comments of the participants clearly indicate that the East Timorese people desire a better quality of life. The desires they spoke of were not superficial, but improvements to meet basic living standards; the desire to have three meals a day, for their children to go to school rather than having to work, and the desire to be free from struggle. Such improvements are essential for many East Timorese if they are to avoid premature death or find relief from poverty. Some participants made comments that suggested they thought petroleum revenue was the solution to improving the quality of life for East Timorese people. Unfortunately, in many countries with natural resource wealth, petroleum revenue has widened the gap between the rich and the poor.

Participants were concerned that Timor-Leste's petroleum revenue might be mismanaged (because of corruption) and the revenue might not be equitably distributed, that the rich would benefit and the poor would not. There is already a marked distinction between the (relatively) rich and the poor in Timor-Leste, which roughly follows the distinction between those living in urban and those in rural communities. East Timorese living in rural communities are most certainly disadvantaged in terms of their access to a whole range of government services such as health, education, electricity, water and roads, as the participants pointed out. Since the crisis, which began in April 2006, many of those living in urban areas have become internally displaced and are living in refugee camps¹⁵⁸, creating a surge in the numbers of disadvantaged East Timorese. Despite the East Timorese participants' optimism about the future, the numbers of disadvantaged and poor East Timorese has grown since this research was conducted, and the gap between the rich and the poor has continued to increase.

The participants suggested many ways in which petroleum revenue could be used to improve the three most important issues for participants; quality of life, education, and health. Box 7.1 provides a summary of a range of indicators that the East Timorese participants' thought would facilitate improvement in these three areas. Since the research was conducted, the Government has abolished fees to attend primary school. However, some of the indicators (e.g. children having a more carefree life) would have declined as a result of the internal conflict. If all of these indicators were monitored (but they are not), they might indicate improvement or decline,

¹⁵⁸ As at April 2007, 70,835 East Timorese people were receiving food from refugee camps (Ministry of Labour and Community Integration 2007). Not all of this number would be living in the IDP camps.

but, more importantly, the participants' comments have revealed that they are easily able to articulate their vision for the future and define what kinds of improvements they desire¹⁵⁹.

Box 7.1 Summary of indicators of improvement identified by East Timorese participants in the semi-structured interviews

Quality of life would be improved if:

- there was more freedom (e.g. political freedom)
- children had more opportunities and a more carefree life
- children went to school and did not have to work
- housing was good
- people ate three meals a day
- there was globalisation/access to communication (including television from other countries)
- there were more jobs
- there was less flexibility and therefore more assurance in police and judicial operations
- people had access to social justice
- there was equitable distribution of wealth
- the level of crime was reduced

Education would be improved if:

- School attendance was free/ Parents could afford to send their children to school (and to higher levels)/the system of school payment was aligned with income/Education was not only for the rich¹⁶⁰
- People had better access to schools, particularly in rural areas (either more schools or better roads)
- Education was 'independent and liberating'/There was a good, established curriculum
- Resources were increased: Good teachers, more teachers (smaller class size), books, materials, infrastructure (e.g. laboratories)
- Tertiary institutions were accredited and properly organised ('to the equivalent standard of Australian Universities')

Health and nutrition would be improved if:

- there was enough (more) protein in people's diet
 - people had better access to health services, particularly in rural areas
 - families were educated by the Department of Health
 - there was better sanitation
 - there was good circulation of food
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Participants also raised other important issues that they thought should be addressed to achieve their vision of the future. However, these issues were raised by only 30%, or less, of the participants. Roads were an issue for seven East Timorese participants (30%), most notably to improve access to markets for producers. Six East Timorese participants (26%) mentioned the need for good water supply (and or sanitation). Yet, only four East Timorese participants (17%)

¹⁵⁹ Some participants also specified criteria that could be used to monitor improvements (e.g. for health: the number of clinics, child mortality rates, and life expectancy, and for education: the number of children attending school, the literacy rate, and the level of schooling attained).

¹⁶⁰ Since the research was conducted, Primary School fees have been abolished.

mentioned electricity supply was an issue, including that they wanted no blackouts and power all night. Environmental issues, or natural resource management, were identified as an important issue for more East Timorese participants (26%) than those who mentioned electricity, whilst only three East Timorese participants (13%) mentioned gender equality was an issue (and they were all women). These results indicate that social issues (e.g. health and education) were significantly more important than issues about infrastructure (e.g. electricity supply, roads and water) at the time the research was conducted. This distinction gave rise to the idea that spending on health and education might be preferred over spending on infrastructure. The idea of spending preferences was explored during the Point*Wizard research, and will be discussed in the following section.

Throughout the semi-structured interviews, the East Timorese participants expressed their dissatisfaction with the Government's ability to meet their basic needs and, that they want to be heard in the Government's decision-making in this regard. 48% of the East Timorese participants referred to the need for greater participation in government decision-making and without that opportunity the perception that the decision-makers, and the rich, benefit, whilst the masses do not, may become problematic. The potential for such a disjuncture between civil society and government to become a security issue was clearly underestimated at the time of this research. Only 48%, of the East Timorese participants, identified security as an issue (half as many as education). The results of such research undertaken today would undoubtedly be very different because the crisis in April 2006, and the ongoing violence, brought security to the forefront of everyone's mind (Sabina et al. 2006).

When participants talked about security, during the semi-structured interviews, they recognised the legacy of the violent past and desired a stable future. The recognition of the impact of the violent occupation and the colonial institutions of the past appears in the participants' comments (see Appendix 8). Stability at the local level was identified as important and these comments surrounded the process of reconciliation being undertaken in Timor-Leste at the time. Participants felt that peace in the community and leaving conflict in the past would only come through this process of reconciliation. However, security issues relating to veterans and the political organisation called the Council for the Popular Defence of East Timor (CPD-RDTL)¹⁶¹ were also identified as a potential cause of conflict. Some participants talked about the veterans having unrealistic expectations (e.g. asking to be paid by the Government) and that they had a lack of capacity to discuss their issues formally (because of a lack of education). As a means of resolving the veterans' issues, Maria Paixão (Partido Social Democrata) suggested the veterans should be paid, whether they are employed or not. Since the research was completed the Government has established a program to pay veterans. This option of distributing revenue to

¹⁶¹ CPD-RDTL is a political organisation that 'does not recognise the legitimacy of the current government, the Constitution or the UN presence'. (Simonsen 2006 :593)

those who need it most means that revenue is not distributed equally, but it does have the ultimate aim of bridging the gap between the rich and the poor. The issue of security will be discussed further later in this chapter.

7.1.2 Economic development

When talking about the future, 74% of the East Timorese participants mentioned economic development as an issue. Some regarded it as the most important issue for Timor Leste. Participants thought that managing the economy was a big challenge for the Government, particularly managing the influx of revenue from petroleum resources. They recognised that the health of the economy underpinned improvements in health, education and other sectors. The strongest link in the discussion was between economy and agriculture. Participants noted that the majority of East Timorese lives depend on subsistence agriculture, so the issue of road quality and access to markets was raised numerous times. This section explores the participants' comments about economic development.

The key way in which participants imagined the economy would develop was through an increase in employment (or paid work). Jobs and wealth creation are central to participants' vision and they expected that with an increase in jobs, a range of benefits would result. Put simply, they said that if people had jobs, they would have money, and be able to pay for food and health services, including medicine. These are important insights as some participants assume that petroleum revenue is the solution to this dilemma, that it can be used to create jobs and reduce poverty. Some of the participants acknowledged that the task of creating jobs is a challenge. They said there are currently not enough jobs, even for university graduates returning from Indonesia or Australia, let alone jobs for the thousands of unskilled East Timorese who have not finished secondary school (or even primary school).

Some assume that if petroleum revenue is used to develop a petroleum industry that jobs will be created. Currently, jobs in the petroleum industry are primarily offshore and mostly highly-skilled. Only a handful of East Timorese have jobs in the industry. As explained in Chapter Four, the option of developing industry-related jobs onshore is being pursued, but even including unskilled jobs (such as in catering and hospitality) associated with such an industry, the great existing demand for employment will not be met. Participants acknowledged the need to diversify and develop industries other than petroleum so that jobs can be created in other industries. There was some awareness that this was desirable because when petroleum resources were exhausted other industries would be more important to Timor Leste's economic survival. Some participants understood that to ignore other industries could lead to symptoms of the 'Dutch disease'. One of the participants, the former Prime Minister, Mari Alkatiri, said 'Our policy is to avoid being a petroleum dependent country', and thereby signified his intention to avoid Dutch disease.

Participants made many suggestions for creating jobs outside of the petroleum industry by investing petroleum revenue. Investing large amounts of natural resource revenue to create big infrastructure projects has not always been successful (as discussed in Chapter Two). A small number of participants suggested investing in large scale infrastructure, such as ports, but more often the suggestions were to invest in small to medium scale industries. Maria Paixão (Partido Social Democrata) suggested soap and orange juice factories could be built to create jobs (like those that existed in Portuguese times). Other participants suggested investing in resources which could support small scale industries, such as improving the conditions of fishermen by resourcing them with skills and equipment. Some participants also mentioned agriculture, providing assistance to farmers and improving agricultural self-sufficiency. Investment in tourism and agriculture were the most often cited solutions to employment creation. How these sectors might develop will be the subject of further consideration in section 7.3.3.

There are many obstacles to job creation in Timor-Leste, regardless of the industry. At the outset, the economy must be able to support the development of new industries, and the business environment must be stable to assure investors. Participants viewed the development of institutions as crucial to Timor Leste's economic well-being. In particular, laws and mechanisms for land and property, the judiciary, and urban planning were essential for contracts to be adhered to and, therefore, for investment. Some of the participants remarked that having the US dollar as Timor-Leste's currency was a good step towards Timor-Leste's economic stability. This was one of the conservative economic policies which the Fretilin government developed.

The Petroleum Fund is another example of a financial institution designed to support wise economic management. However, the benefits of these conservative economic policies take time to appear and the person in the street sees no apparent benefit in the short-term. This is frustrating for the many unemployed East Timorese who seek jobs. The growing numbers of unemployed and unskilled young people are voicing their frustration through violence and perpetrating much of the ongoing conflict (Scambray et al. 2006). Given the conflict between the inherent long-term outcomes of conservative economic development and so many East Timorese' desperate need for immediate solutions, it is not surprising that, in his interview for this research, Alkatiri remarked 'When I talk to them [school children] they tell me they want to be the Prime Minister and I tell them, [chuckle] oh, no, its too hard' (Mari Alkatiri, former Prime Minister). To respond to the immediate and basic needs of the population, whilst trying to put in place a framework for strong economic development in the future, is hard work.

The results of the semi-structured interviews presented in this section have painted a picture of how petroleum revenue might be spent to achieve participants' vision of Timor-Leste in the future. The findings illustrate that the East Timorese participants are clear about their aspirations and they regard petroleum revenue as the potential means to achieve them. In their vision of the

future, East Timorese participants expressed a desire to meet very basic needs, but were certain that their quality of life would improve. Since the research was conducted their quality of life has declined. At the time of the research, they viewed health and education as the most important issues in the future, whilst infrastructure and security were less important. Their comments about security revolved around the past. Yet, Timor-Leste today is not secure (Department of Foreign Affairs and Trade 2007). Participants were concerned that petroleum revenue may benefit a few and exacerbate the gap between rich and poor. Traditionally, when this phenomenon occurs, frustration and discontent lead to conflict, and the resource curse. The contrast between the participants' vision and Timor-Leste's reality today is stark. The solutions to their problems are underpinned by solid economic development, which is difficult, if not impossible, to achieve in a climate of uncertainty and volatility. Participants imagine that if jobs were created their problems would disappear, but sustainable economic development takes time. People who can not meet their basic needs do not want to spend time continually struggling. Resolving that tension, between responding to immediate needs and developing long-term strategies for economic development, is difficult. The recent crisis has ensured that the Government's time is taken up by fighting fires (both metaphorically and literally) and meeting the immediate needs of the internally displaced, to the detriment of developing strong institutions that will build the economy, and ensure that the vision the East Timorese participants so articulately imagined might be a reality.

7.2 Spending petroleum revenue wisely

Chapter Six discussed how petroleum revenue can be invested wisely. That discussion focussed on investing petroleum revenue in financial instruments to create a sustainable source of wealth. Petroleum revenue can also be spent to create sustainable development. This section explores how petroleum revenue can best be spent to ensure that both current and future generations benefit from it. In the introduction to this chapter the importance of 'what petroleum revenue is spent on', relative to other petroleum revenue criteria (decisions), was highlighted; participants felt this criterion (decision) is the most important. This section explores that criterion, which has the following categories (choices): durable capital (e.g. roads, electricity, and ports), social services (e.g. health, education), consumable capital (e.g. cars, computers) and/or individual payments to all East Timorese citizens (i.e. royalty payments). The categories (choices) were selected as they provide for different outcomes in terms of how sustainable expenditure is.

The participants' ranking of the four categories (choices) within the criterion of what petroleum revenue is spent on is illustrated in Figure 7.2. The participants' comments about each of these categories (explored in this section) express their ideas about the importance of ensuring that what petroleum revenue is spent on meets the needs of both current and future generations. The participants made a clear distinction between spending petroleum revenue on social services

and/or durable capital, as compared to spending it on individual payments and/or consumable capital. Participants suggested that spending petroleum revenue on durable capital or social services would have more sustainable outcomes than spending it on individual payments or consumable capital. Thus, this section divides discussion of the four categories into these two groups as identified.

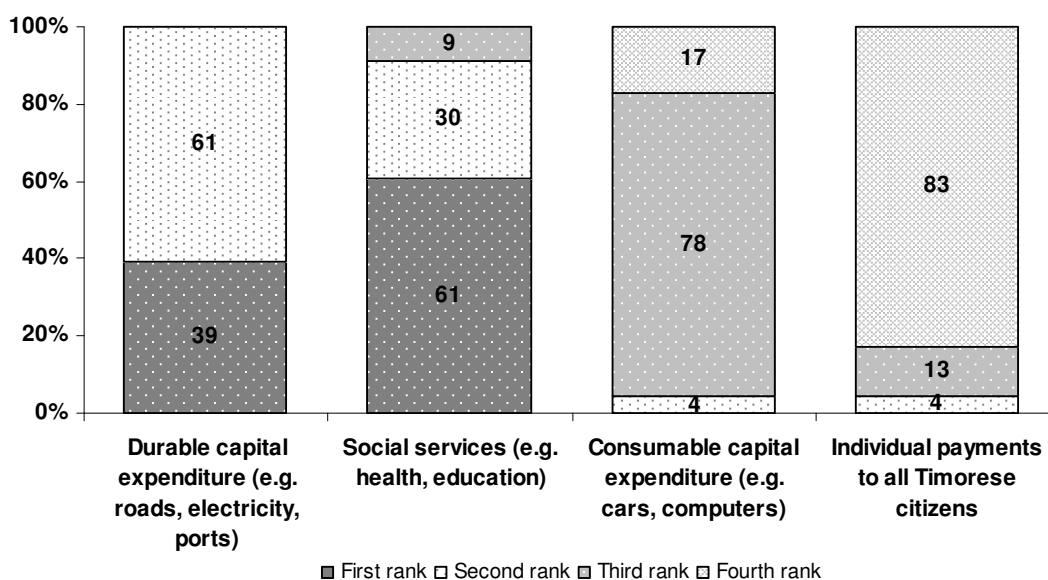


Figure 7.2 Rankings of the categories within the criterion of ‘What petroleum revenue is spent on’

7.2.1 Social services and durable capital expenditure

Using petroleum revenue to boost expenditure on social services was the most preferred of all the categories (choices) of what petroleum revenue could be spent on; 61% of the participants ranked social services first. The criterion (decision) of ‘what petroleum revenue is spent on’ was the most important of all the petroleum revenue management criteria (decisions), which means that the number one priority for petroleum revenue management in Timor-Leste, for most participants, is that petroleum revenue should be spent on social services (e.g. health and education). Spending petroleum revenue on durable capital was the second most preferred category (choice); 39% of the participants ranked it first and the other 61% ranked it second¹⁶². These results corroborate and provide additional quantitative data to support, the findings of the semi-structured interviews. That is, that using petroleum revenue to improve social services is more important to participants than spending it on infrastructure (or durable capital). This

¹⁶² No participant ranked spending on durable capital third or fourth which means that these options were always preferred, to spending petroleum revenue on consumable capital, or individual payments.

section explores the comments of the participants about these two categories (choices) in terms of their sustainability. The relationship between the two categories is also discussed.

In theory, increasing expenditure on social services, such as health and education, will result in an increase in human capacity and resources. The contribution of healthy and educated East Timorese people to the future of Timor-Leste is essential if Timor-Leste is to develop sustainably. The East Timorese participants made this clear in their comments; without human resources there can be no economic development. Some of the comments from participants on this topic, from both the semi-structured interviews and the Point*Wizard interviews, are provided in Box 7.2. Both the Prime Minister at the time, Mari Alkatiri, and the Minister of Natural Resources, Minerals and Energy Policy, Jose Teixeira, made comments that indicated they thought human resource development was more important than developing infrastructure. This is significant given they were the key decision-makers in regards to petroleum revenue management at the time. The NGO representative (whose comment is provided in Box 7.2) recognised that investing in health and education now would benefit future generations. Further comments specifically about investing in health and education will be discussed in the following section. Suffice to say that spending petroleum revenue on social services was the participants' first choice and they indicated such expenditure would provide the most benefit to both current and future generations.

Box 7.2 Participants' comments about spending petroleum revenue on social services and durable capital

Expenditure on Social services is more important

We will invest in human resources... In the first five years the fund will be for human resource development. (Mari Alkatiri, former Prime Minister)

Spending on social services is more important... *What will petroleum revenue be spent on?* Education and Health.

Not physical/infrastructure. Forget about road building. It needs to be spent on human development. (Jose Teixeira, Minister of Natural Resources, Minerals and Energy Policy)

Give priority to education... you can not do anything without human resources. (Male District Community Leader)

Human resources depend on health. (Male NGO)

Education because we need to develop our human resources. (Young Male District Veteran)

We are working from a minimal base now. Health and Education are the priorities. These will have a very strong impact on future generations [if we develop them now].

Right now we just have the basic conditions. (Male NGO)

Durable capital expenditure is more important

In the first years we need to create infrastructure, agricultural, medium and small scale industry so that people can be productive. In this way I believe the money that will come from the depths of the sea shall be well applied and well spent. (Xanana Gusmão, Citizen of Timor-Leste)

We need infrastructure. First we need good roads all over. (Fernando 'Lasama' de Araujo, Partido Democratico)

There will be a better standard of electricity, water, roads, and infrastructure. This will come from the revenue from natural resources. (Female District Bureaucrat)

First I would be concerned with private activity. First poverty reduction. *How?* To create national infrastructure. I want to dream of good agriculture. People need good roads to establish good production. (Male Bureaucrat)

Spending petroleum revenue on durable capital was the participants' second preference overall. Yet, 39% of the participants indicated it was their first preference. The example given to explain durable capital in the interview was roads, electricity and ports. Participants, and others, sometimes describe durable capital as 'infrastructure', so the terms are used interchangeably. Of those participants who thought petroleum revenue should be spent on durable capital, the most interesting comments came from Xanana Gusmão (identifying as a citizen in this research) and the President of Partido Democrático¹⁴⁹, Fernando 'Lasama' de Araujo. The following quote explains how Gusmão justifies his preference (using agriculture as an example of infrastructure):

We need to develop other things like agriculture so that parents have the means to send their children to school. Education is essential for the capacity of the nation.... (But) the more we educate youth, if we don't at the same time activate agriculture, the youth will go to urban areas to look for work that is not there. If we continue to spend money on education, and we have reduction of policy in agriculture, we will not be able to be self-sufficient in agricultural products. (Xanana Gusmão, Citizen of Timor-Leste)

The fact that the (then) President (identifying as a citizen) and a leader of the opposition preferred spending on infrastructure over social services contrasts with the Government of the day. This contrast, between the priorities of the Government of the day, and those of the (then) President and the opposition, is one way in which the latter can distinguish themselves from the Government.

Participants in favour of spending revenue on infrastructure, as a first priority, argued that it was required to establish a good base for the country's development and would therefore enable sustainable development. The participants argued revenue that is spent to create something useful, whether that is an individual's education or a road, can create benefits in other sectors. The participants gave examples, such as individuals using their education to create a small business, or to teach their family about good health practices. A new road can allow rural communities to take their produce to market or give them easier access to schools and health clinics. The comments in Box 7.3 indicate that participants recognised that spending on social services and durable capital potentially benefits other sectors, and thus that they are interconnected. Although the method of this research required participants to choose between spending on social services and durable capital, some participants commented it was difficult to make that choice, as both were important. For example, improvements in health result from better education, or education is a necessity for economic development of the nation. Economic development is a priority so that families can afford to send their children to school. Participants not only repeatedly expressed a connection between social services and infrastructure, but also stressed their inter-dependence. They explained that spending in both sectors is required for Timor-Leste to meet the needs of both current and future generations.

Box 7.3 Participants' comments about durable capital and social services expenditure**Spending on durable capital benefits social services**

Infrastructure is what we need to develop this country economically and socially. You need good infrastructure in order to support attempts to bring in vital capital input which will create employment. (Jose Teixeira, Minister of Natural Resources, Minerals and Energy Policy)

It is quite difficult because water is important for health. Water can be understood as infrastructure. (Male NGO)

Public Works because when you have infrastructure you will also be able to help indirectly the community in rural areas to sell their products. (Male Decision-maker)

Infrastructure is also important. If there are no roads; we will only focus on youth in the urban areas. Youth are also in rural areas. (Male NGO)

Spending on social services benefits development

Education is important if we look to have a good country. To have a technological country like the US or G8.

Human resources are important. If we have human resources we have knowledge and then tourism will be developed by the human resources. (Male Decision-Maker)

Education is needed to produce good human resources and competitive human resources for global economic development. (Male NGO)

Spending on both durable capital and social services is important

There needs to be mental as well as physical development. (Male Decision-maker)

When petroleum revenue comes, it should not be given to individuals and not spent on physical (like infrastructure), but first we want to spend to invest in human resources and second we want to invest in capital because one day petroleum resources will be finished. (Male Decision-Maker)

Both are important. Human and capital development. Both will contribute to economic development and the eradication of poverty. (Male Foreign Adviser)

Participants viewed health and education, ultimately, as the most important sectors for expenditure because these needs are more basic, and therefore acutely apparent and immediate to participants. Roads and electricity are important to economic development, but a lack of revenue in these sectors is not likely to cause immediate detriment. Participants pointed out that East Timorese people die without access to good health services, and without better education services (for all East Timorese, at all levels), poverty will remain.

7.2.2 Individual payments and consumable capital

In Chapter Six, the results indicated that participants felt very strongly about some petroleum revenue management issues (e.g. that debt should be avoided). Using petroleum revenue to pay royalties to individuals (or individual payments) is another issue that participants provided an almost homogenous response to. Figure 7.2, on page 177, shows that 83% of participants ranked the option of using petroleum revenue to provide individual payments to all East Timorese citizens last (and 96% third or last). When participants were faced with this option, invariably they made a comment denouncing the idea and always took the other option in order to avoid individual payments (rather than because they preferred the alternative). By contrast, the participants' decision of whether to spend petroleum revenue on consumable capital was a corollary of their intent to spend it on social services or durable capital, or their passion to avoid

spending it on individual payments. Spending on consumable capital was ranked third by 78% of the participants. This section explores the participants' comments on spending petroleum revenue on individual payments and consumable capital.

Participants' preference to avoid using petroleum revenue to fund individual payments was a central theme of their comments when faced with this choice. Some of the participants' comments are provided in Box 7.4, and they indicate their passion to avoid this option. To use petroleum revenue in this way was regarded as a waste, and seen as potentially disastrous. There was only one participant, a male decision-maker, who chose this option over spending on social services; the final comment in Box 7.4 is his. This participant had recently read an academic paper on individual payments (by Casassas et al. 2004) and thought it was a good idea, in combination with spending on infrastructure. Other than this participant, all other participants' opinions on this topic were the same; using petroleum revenue to fund individual payments is not a good idea.

One of the themes in the participants' comments was that individual payments were the least sustainable of the four spending options. Participants felt that providing individuals with money was a wasteful use of the petroleum revenue because it provided only short-term relief or benefit. This option was the one which provided the least opportunity to return long-term benefits to the wider community, let alone the individual or future generations. They also argued that giving people money would make them lazy and create a culture of dependency, causing further problems. Some of the participants explained that this kind of dependency already existed in Timor-Leste. The similarities between the effects of natural resource revenue and aid or donor money were discussed in Chapter Two. The East Timorese have been inundated with donations, at the individual, community, and the bilateral level, over the last seven years (and even more acutely during the recent violence). The scale of donations presents issues of dependency, and some participants recognised this issue needs to be addressed. The decision-makers, in particular, advocated a more holistic approach to using the petroleum revenue in comparison to the current donation driven situation.

Another problem with spending petroleum revenue in this way that participants identified was that it might lead to inflation. Einar Risa (Commissioner and former Executive Director, TSDA) argued that if money were paid directly to the citizens, spending would invariably increase (and not necessarily for what he considered the priority items, health and education) and that spending effect could cause inflation. Instead, participants suggested that petroleum revenue would best be spent if it provided collective benefits. Representatives from NGOs and foreign advisers recognised that petroleum revenue is a public good, and that the people of Timor-Leste will benefit more from its collective use.

Box 7.4 **Participants' comments about the option of individual payments**

No long-term benefits

I do not believe that subsidising people's lives contributes to social development or economic growth. In the long run the effect would be detrimental to Timor-Leste. (Male Foreign Adviser)

Avoid individual payments because they [East Timorese people] don't know how to save. (Male NGO)

Creates a mentality of dependency

I am against [individual payments]. The State can not be seen as a paternal state. The people, themselves, must become productive. This is stupidity. (Xanana Gusmão, Citizen of Timor-Leste)

If you start giving people money they will never work and society will be destroyed. (Jose Teixeira, Minister of Natural Resources, Minerals and Energy Policy)

I don't want to give individual payments to East Timorese. It will reduce the human resources; it will create lazy people that don't want to go to school or work. (Male District Community Leader)

Don't make your people feel the State as a patron. (Male NGO)

Has an inflationary effect

There is a tendency to create inflation by handing it out directly to the citizens. And how would you decide how to distribute it anyway? They need to have a reasonable economic policy and money should be spent on the people who need it most. It would be 'unsocial' to do otherwise. (Einar Risa, Commissioner and former Executive Director, TSDA)

Petroleum revenue should be spent for collective benefit

I wouldn't entertain that idea [individual payments]. You need to promote social and physical infrastructure and to create the conditions for development rather than giving directly which creates dependency... You don't make decisions on a per capita basis. The National Development Plan outlines the needs and priorities. The National Vision was achieved through consensus and we shouldn't lose track. We shouldn't compromise our broad goals. No. We need an alternative mechanism for the eradication of poverty. (Jose Teixeira, Minister of Natural Resources, Minerals and Energy Policy)

No. I am not for the Alaskan model. This is my personal political philosophy. You need to do what is best for the Public Good (not individuals). You need to know what society needs the money for. (Einar Risa, Commissioner and former Executive Director, TSDA)

Pro-individual payments

Individual payments actually eliminates the poverty line aspects. *Like a subsistence subsidy?* It does have that effect. If you have options between the two, durable capital expenditure enhances more the capacity of society to meet its own needs, so you go for self-reliance of the individual citizens. (Male Decision-maker)

Participants explained (as discussed in section 7.1) that East Timorese are desperately in need of very basic services, so the idea of giving them money to meet their needs might appeal, in theory, but it is almost impossible to meet all individuals' needs in this way. If, for example, each East Timorese person was given \$500 per annum the Petroleum Fund would probably be exhausted within three years and there would be no money to run government, let alone provide the health and education services that are desperately needed. Without a comprehensive personal tax system, or any significant formal mechanisms, or structures, in which all East Timorese engage on a regular basis, in conjunction with the lack of financial understanding, or engagement with the banking sector, combined with the problems of how such a mechanism would be defined (e.g. would it be per family, or per person and how would all the potential loop holes be avoided), such a proposal would be problematic in many ways. These issues could be addressed, given time and resources, but the responses of the participants indicate that

support for such an initiative does not exist at the moment. On the contrary, participants have expressed that meeting collective needs is a greater priority, and given the participants' apathy towards the suggestion, exploring the reasons why this is a bad idea further is not necessary.

The option of spending petroleum revenue on consumable capital (e.g. cars and computers) was not widely commented on during the interviews. However, sentiments about avoiding unproductive spending were expressed throughout the research. A young female said 'I don't want to spend money on cars' and a decision-maker also suggested it was un-constitutional to spend revenue on consumable capital because it was not sustainable. Fernando 'Lasama' de Araujo (Partido Democratico) expressed frustration with the amount the current government spent on cars and computers and general government finance waste due to bureaucracy:

We don't need Vice Ministers, Secretary of States, government cars. We could privatise the cars, loan to the public servants with [a] low price so government doesn't spend on gas and maintenance. We could just have several cars in each department and they can use them to go to the districts. We could use private cars to go to work... I just want to comment about the Government, every year they buy computers, cars which they can only use for one year.
(Fernando 'Lasama' de Araujo, Partido Democratico)

Consumable capital is the budget item that has the most potential for abuse because the limit for procuring works without a tender is US\$15,000, whilst the limit for procuring goods (US\$10,000) and services (\$6,000) without a tender is less (United Nations Transitional Administration in East Timor 2000). Comparatively speaking, each item may represent a relatively small cost, but the possibility of wasting a large amount of revenue exists. In the 2006-07 financial year, the goods and services component represents 39% of the total budget, and minor (consumable) capital a further 6%, which means almost half the Budget is spent on consumables, which some participants believe make a smaller contribution to Timor-Leste's sustainable development¹⁶³. Spending revenue on consumables is necessary for the Government to conduct its business, but the participants have expressed that ensuring this kind of revenue is spent wisely, and not wasted, will be important. Ultimately, the result will depend on the strength of the institutions, and this will be discussed further in the next chapter.

7.3 Budget spending priorities

The results of the semi-structured interviews (discussed in section 7.1) showed that participants' vision for the future of Timor-Leste indicated some issues were more important than others. The Point*Wizard research, which elicited the relative importance of the petroleum revenue management criteria (decisions), indicated that what petroleum revenue was spent on was the

¹⁶³ In 2005-06, 50% of the Budget was spent on goods and services, and minor capital. The reduction, in this spending, to 45% of the 2006-07 Budget, is because the capital component of the budget increased from 28% to 38% (the salaries component decreased).

most important criterion (decision), and that spending revenue on social services and infrastructure was more important than spending it on consumable capital or individual payments (discussed in section 7.2). The research presented, so far in this chapter, leads to a need for a more specific understanding of which particular budget sector participants think most needs to increase.

In Timor-Leste, petroleum revenue is the means to increase spending in each sector; the State's budget can be increased by withdrawing revenue from the Petroleum Fund. Between 2005-06 and 2006-07, the State budget increased significantly, by 122%. This section begins by exploring the relative importance, to participants, of increasing funding to fourteen budget sectors¹⁶⁴. The order of participants' relative importance is compared to the order of the Government's actual increases in expenditure for each of those sectors¹⁶⁵. This provides an indication of whether the Government's spending priorities reflect the participants', or not. The section then discusses participants' comments specific to each of the sectors, and assesses the relative importance of increasing funding to each sector.

Figure 7.3 depicts participants' relative importance of the 14 budget sectors when they were asked 'The Government of Timor-Leste receives revenue from petroleum exploitation and may choose to increase its budget. Which option would you choose if you were to increase the Budget?' The participants were, effectively, asked to choose between two budget sectors at a time¹⁶⁶ (Chapter Five provides a detailed explanation of the research method). The groups of sectors shall be discussed later in this section. However, there are observations to be made from their relative importance. The results show that Health and Education are the sectors that participants felt most needed increased funding. This finding concurs with the results presented previously in this chapter. Participants also noted a connection between these two sectors. When asked to choose between these two sectors, participants often expressed this choice was more difficult than others¹⁶⁷. Sometimes Health was a priority, and sometimes Education was the priority. One participant said 'Health comes first. No life, no need for education' (Female Foreign Adviser).

¹⁶⁴ The Government of Timor-Leste's state budget is actually divided into 23 budget sectors, however only the most relevant or most pertinent to the issues discussed in the semi-structured interviews were identified in this research. Further, Water and Electricity were extracted, and referred to separately, from the Ministry of Natural Resources, Minerals and Energy Policy, and the total for 'Justice' includes other budget categories (i.e. Tribunals, Provedor of Human Rights and Justice, and the Public Prosecution Office).

¹⁶⁵ Comparing the increase in Government Budget between two years is not as effective as looking at longer term trends (because one-off expenditures will inflate the results). However, the figures to establish longer term trends were unavailable at the time of the research.

¹⁶⁶ In order to answer these questions, the participants were shown a bar graph indicating the relative budget expenditure of each of the 14 sectors. Conceivably, participants' responses may have indicated their preference for which sector they thought was more important, rather than which sector they thought should receive additional funding, however it is likely that, for some participants, their responses would have been the same, regardless.

¹⁶⁷ Nine participants chose Health and Education as equal (Point*Wizard allows participants to choose 'equal', but the participants were asked to limit the number of times they chose 'equal' to three or less). Health was more important than Education for 17 participants, and Education was more important than Health for 18 participants.

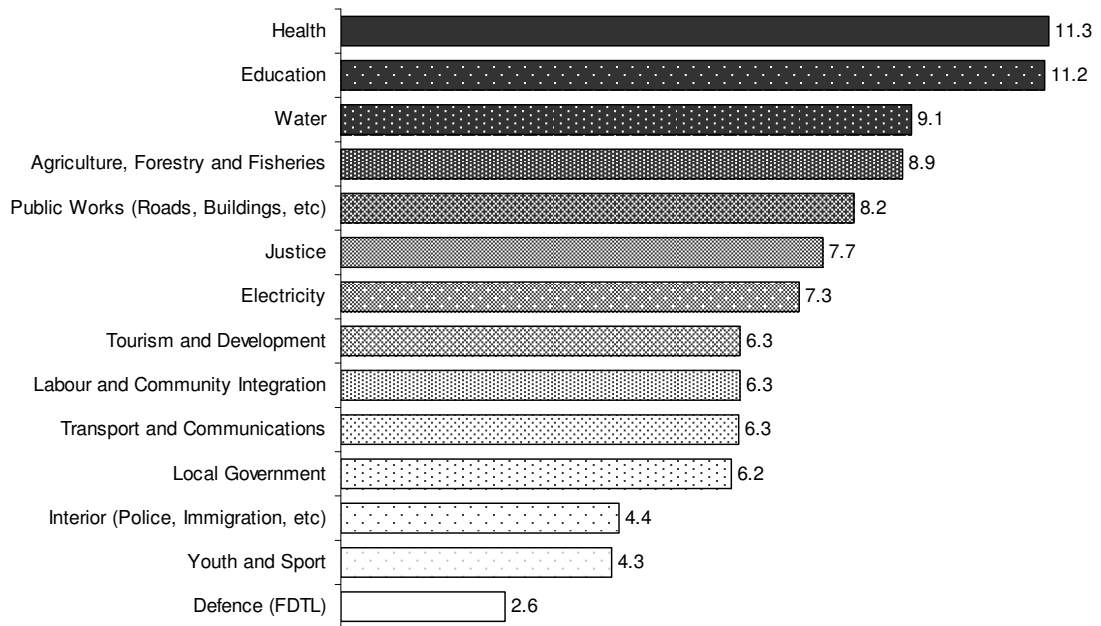


Figure 7.3 Participants' relative importance of additional spending for the budget sectors (%)

After Health and Education, increasing expenditure for Water, Agriculture, Forestry and Fisheries, and Public Works is also important to participants. Conversely, participants' thought the need to increase spending to Interior¹⁶⁸, Youth and Sport, and (particularly) Defence, was least important. Increasing expenditure to Health and Education was more than 2.5 times as important, to participants, than increasing expenditure to Interior and Youth and Sport, and 4.3 times more important than increasing expenditure to Defence. This is a remarkable finding given that the research was conducted just seven months prior to a crisis, which highlighted the desperate need to strengthen the institutions of Police and Defence, and the problems surrounding the large numbers of unemployed young males. If this research was conducted today, the results may be different. These results show, either that the crisis and the institutional breakdowns that occurred were not expected by the participants, or that they did not expect that government funding to these sectors would have prevented the crisis. There were few comments about weaknesses in the Police or Defence and no participant mentioned a distinction between the East and the West of Timor-Leste (a core issue which developed during the crisis), so it is assumed that participants did not expect the crisis. The only indication that participants were concerned about issues of security, at the time of the research, was in terms of ensuring the Justice system had increased funds. Increasing expenditure to Justice was less important than Health, Education, Water, Agriculture, Forestry and Fisheries, and Public Works, but more

¹⁶⁸ The Department of the Interior was identified by most people as the department which funds the East Timorese police, although it also has other funding responsibilities.

important than eight other sectors. The comments of the participants indicated that Justice was necessary to resolve issues of the past. The participants' views on Security (covering Justice, Youth and Sport, Interior, and Defence) shall be discussed further in section 7.3.5.

Figure 7.4 compares the difference between the order of the participants' relative importance for increased spending to each sector, and the order of the Government's actual increases in spending to each sector¹⁶⁹. Appendix 9 provides the details of the Government's actual increase in spending to each sector. Figure 7.4 illustrates the sectors in decreasing order of difference between the participants' relative importance and the Government's actual increase. For example, the greatest difference is between the participants' order of Defence (last) and the place of Defence in the order of the Government's actual increase to expenditure (third), so Defence is at the top of the diagram. The place of Defence in the order of participants' relative importance, might have been higher if the research had been done since the crisis, and the Government's significant increase to spending on Defence, since the last financial year, can be wholly explained by their plans to purchase a naval patrol boat to police the southern maritime borders (MOPF 2006b). Nevertheless, there are some other significant differences, between the participants' opinions about which sectors' budget should be increased and the Government's actual increase to expenditure.

The differences that are most instructive to focus on are those which the participants ordered more in need of increased funding. The participants felt that, after Health and Education, Water was the sector most in need of increased funding. Yet Figure 7.4 shows that the Government's actual increase to spending ordered it third last. The difference between these two rankings is stark and illustrates a disconnection between the Government's priorities and the participants'. Participants also ordered Justice much higher than the Government's actual spending. The whole of Government's budget increased by 122% between 2005-06 and 2006-07, but Justice received a decrease in funding (minus 8%). Justice was the only sector which decreased in funding in 2006-07, which is an extraordinary fact, given the widely reported deficiencies in the Justice system (e.g. JSMP 2006b).

The other stark finding was the lack of priority given by the Government to increasing spending on Health compared to the participants. Although the Health budget was increased by US\$11.4 million (between 2005-06 and 2006-07) this is much less than the increase to the Public Works budget (US\$40.9 million). The participants thought Health was 1.4 times more important to increase funding to, than Public Works., but, the difference between the Government's actual increase to Health and Public Works is a factor of 3.6, in favour of Public Works, and contrasts

¹⁶⁹ The participants' relative importance of each sector was numbered 1-14 (i.e. 1 being the highest priority for increased expenditure [health] and 14 being the lowest priority [Defence]). The Government's actual increase in spending to each sector was put in order from highest to lowest, and numbered 1-14 (e.g. Public Works had the largest increase in funding between 2005-06 and 2006-07 so it was numbered 1).

with the participants' preferences to prioritise spending on Health. Some may argue that Public Works is a more costly sector because the majority of its expenditure is on capital. The capital component of the Public Works' budget is 84% whilst the capital component of the Health budget is just 39%. However, the total portion increase of each reveals that the Government of Timor-Leste prioritises extra funding to Public Works. The budget for Public Works increased by 447% (between 2005-06 and 2006-07) whilst the Budget for Health only increased by 80%. There were, however, some similarities between the order of participants' preferences, and the actual increase in Government expenditure. Education, Transport and Communications, and Youth and Sport were ordered equally, by participants and the Government. Tourism and Development, Labour and Community Integration and Interior were also close in order.

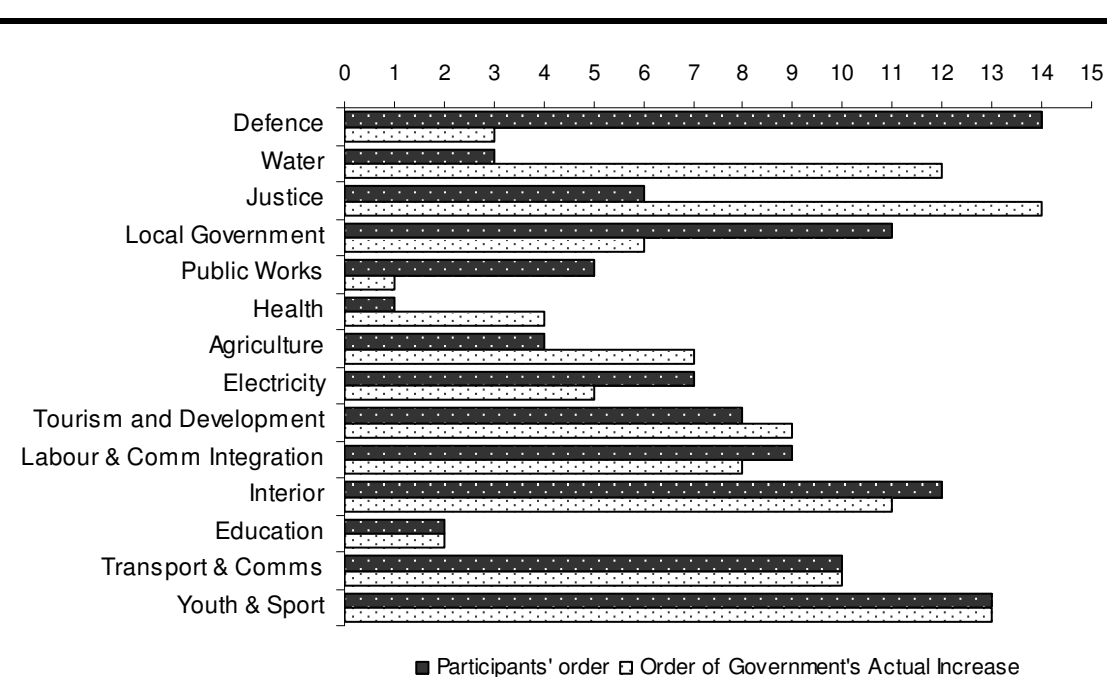


Figure 7.4 Comparison of participants' order of relative importance and the order of the Government's actual increase in spending to each sector (1 being the highest)

The 14 budget sectors have been divided into five groups for the purposes of discussing similar themes and also because of the similarities in the way the sectors in a group contribute to the overall aim of sustainable development. The five groups are depicted in terms of their order of relative importance in Table 7.1. The first row numbers the participants' order of relative importance of increasing funding to each of the sectors below it (e.g. Health is number one and Defence is number 14) and the first column denotes the section and the sector group heading that each sector belongs to. Two sectors, Agriculture, and Youth and Sport, have relevance to two sector groups, and therefore appear across two rows.

Sustainable Development or Resource Cursed? – Chapter Seven

Sector Group & Section	Order of relative importance													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Social services 7.3.1	Health	Education												
Infrastructure 7.3.2			Water		Public Works		Electricity			Transport Comms				
Local Development 7.3.3				Agriculture				Tourism & Development						
Disadvantaged groups 7.3.4								Labour & Community Integration		Local Govt			Youth & Sport	
Security 7.3.5						Justice					Interior			Defence

Table 7.1 Order of participants' relative importance of budget sectors linked to sector groups/chapter sections

Health and education have previously been discussed as Social Services in this chapter, and again they are ordered first in this research method. Electricity, Public Works, Transport and Communications, and Water represent the Budget sectors that participants would regard under the heading of Infrastructure (also named durable capital previously in this chapter). Although the relative importance of these sectors is spread throughout the order, as a group they are generally of greater importance than the other groups. Tourism and Development, and the Department of Agriculture, Forestry and Fisheries (sometimes simply referred to as Agriculture) are discussed under the heading of Local Development because they both have the potential to improve livelihoods and contribute directly to the economy. Another sector group was named Disadvantaged Groups to cover participants' discussion of issues that affect minorities, or a specific group of people that require government services, without which they would be disadvantaged. Sectors addressed under this heading include Agriculture, Labour and Community Integration, Local Government, and Youth and Sport. Thus, for example, Local Government has apparent benefits for people at the village level, as does Agriculture, and Labour and Community is expected to benefit veterans, people without jobs, internally displaced people, etc. Finally, the sector group named Security includes analysis of participants' discussion about Defence, Interior, Justice, and Youth and Sport. This section closes with a discussion about the way in which spending petroleum revenue on each of these sector groups contributes to sustainable development.

7.3.1 Social services

Participants considered that health and education are the most basic services, and the most in need of extra budgetary spending. Some selected comments made by participants when they were faced with choices involving Health and Education are presented in Appendix 10. The participants specifically mentioned 'diseases that kill people', which need to be addressed in Timor-Leste, such as tuberculosis, malaria, dengue, and HIV and AIDS. Participants also identified health issues, such as mental health, and family planning. Participants also stated that they want their children to get a good education, but the system of education is now basic and they want the education system to improve.

Participants also pointed out that improvement in these social services will benefit and support other sectors, and sustainable development. They made connections between improvements in health and education, and other sectors. For example, better educated East Timorese will improve sectors such as Tourism and Justice (particularly lawyers). They also recognised that improvements in Education will help reduce the impact on the environment, and improve security because, they said, the uneducated are unemployed, and have nothing to do, and they cause trouble. Education, particularly vocational education, was seen as the way towards 'advancement' and globalisation. Specifically, some participants were in favour of directing

funding towards technical or professional (or work place training) education so that capacity could be built more quickly. This connects with the participants' desire for independent government (discussed elsewhere in the research) as they see that improving Education will reduce Timor-Leste's reliance on foreign advisers.

The results reveal an iterative relationship between these two sectors. Participants suggest that improvements to Education will enhance Health outcomes (e.g. family planning and sanitation), and better Health will enable people to participate, and not miss out (on work or school) because of illness, or malnutrition. Participants made comments that indicate the quality of Health services impacts on everything. For example, a Female NGO worker said 'If people are healthy they will be better able to attend education'. Comments also indicated that being healthy enhances the ability of East Timorese to learn. Participants explained that the interconnectedness of these sectors made it difficult to choose which one was more important.

Specifically, participants identified both capital and human resource constraints in both sectors. They said the Budget required additional funding for infrastructure to support these sectors and they gave examples. There are not enough clinics or hospitals, and more medicine is required in the Health sector. Schools require desks, chairs, books, and computers. Both sectors are also desperately in need of human resources. The Health sector requires more doctors and nurses, and the Education sector requires more teachers. In addition, some participants noted that the East Timorese universities require accreditation.

Finally, participants who attributed less priority to these sectors (and suggested they do not require increased funding from the Government) did so because, they believe, they are more appealing to donors, and therefore the Government as a whole might benefit by prioritising other sectors to spend their revenue on. Kadhim Al-Eyd (Former Resident Representative, IMF) suggested it may be worth being mindful of the propensity of donors; 'there is still a great deal of sympathy [from donors]. They [Timor Leste] can still attract a great deal of aid. They can get funding for health and education.' Al-Eyd noted that donors have a propensity to fund 'the sexy areas' of health and education and that it would be wise for Timor-Leste to use its petroleum revenue to fund projects that donors are less likely to (e.g. power and roads).

7.3.2 Infrastructure

Health and Education were the funding priorities for participants, but, thereafter, extra budgetary funding to sectors constituting the infrastructure of Timor-Leste was welcomed. Appendix 11 provides a selection of participants' comments on the four sectors under the heading of Infrastructure (Electricity, Public Works, Transport and Communications, and Water). Of all the infrastructure sectors, Water was the sector that participants thought was the most in need of extra funding. Participants' comments in response to choices that involved Water revolved around it being a basic necessity. For example, 'Water because it's necessary,

because it's a human right' (Male NGO). Thereafter, participants primarily talked about the need to have good infrastructure, particularly in the form of Public Works and Electricity, to enable economic development.

Infrastructure was regarded, by participants, as the key to foreign investment in Timor-Leste. Roads and electricity are basic necessities without which, participants said, business (e.g. tourism) could not be conducted, and foreign investment would not be viable. Some participants also remarked on the need for better infrastructure so that industries, other than those based on Timor-Leste's petroleum resources, could develop. In this respect, participants acknowledged that infrastructure was the key to avoiding petroleum dependency.

Participants also identified several benefits of improvements to infrastructure (due to increased budget) that would support other sectors. They complained about the quality of the roads and suggested improvements to Timor-Leste's roads would enable people to have better access to schools, health care, and enable East Timorese to access markets to sell their produce. Comments about Transport and Communication included similar benefits for access. Participants imagined that spending more on Public Works would create more jobs in construction, and that would have flow on effects in terms of better security (e.g. less unemployed young men making trouble). Participants recognised that all sectors need basic infrastructure and gave many examples (e.g. agriculture needs water, defence needs communication, health depends on electricity and water, etc.).

Some of the participants also differentiated between the needs of rural and of urban East Timorese in regards to infrastructure. Transport and Communication was seen as important in terms of connecting people in the rural areas with information. The needs of rural and urban East Timorese were also differentiated in regards to Water. Participants recognised that people in urban areas generally have good access to drinking water and sanitation, whilst some people in the districts have none, and must walk long distances to access water. Electricity was, for some, not important to meet people's everyday basic needs (evidently in rural areas where they didn't have electricity), but rather more important for business.

7.3.3 Local development

There are two budget sectors that have the greatest potential to impact on local development, Agriculture, Forestry and Fisheries (or Agriculture), and Tourism and Development¹⁷⁰. Appendix 12 reveals the comments participants made about these sectors. Agriculture was the most important of these sectors, according to participants. Repeatedly, participants pointed out that the majority of East Timorese people rely on Agriculture for their livelihoods (for example,

¹⁷⁰ In theory, Local Government might be a sector which would be expected to enhance local development, but the participants' comments about Local Government did not contribute to this discussion.

a District Community Leader called Agriculture ‘the economy of the people’). Thus, improving Agriculture would benefit the majority of the population. Participants stressed that training farmers and fishermen could enable sustainable livelihoods, and opportunities for East Timorese people to be self-sufficient. Comments about Agriculture prompted participants to talk about the lack of support for the sector, and that the lack of jobs in rural areas is causing the population to flow to urban areas. Participants’ responses indicated that Agriculture was fourth in order of relative importance. By contrast, in the order of the Government’s actual increase in budget, Agriculture was seventh. The budget for Agriculture constituted 4.4% of the State’s budget, which indicates why participants complained that funding for Agriculture was insufficient.

Tourism was regarded, by participants, as a sector that might also bring benefits at the local level, and also an industry that would provide revenue (from taxes) for the Government. Both sectors were expected to provide jobs, and develop industries alternate to the petroleum industry, thereby providing real opportunities for Timor-Leste to develop economically. Such opportunities were welcomed by participants, particularly as they were seen as being community-oriented, and providing potential for communities to be self-sufficient. However, providing additional funding to Tourism and Development was not a high priority for participants; it was only marginally more important than extra funding for Labour and Community, Transport and Communications, and Local Government. Rather, participants suggested that establishing the necessary infrastructure would enable an environment in which Tourism would thrive.

7.3.4 Disadvantaged groups

Consideration of four budget sectors generated comments from participants about the need to support specific groups of East Timorese; Agriculture, Labour and Community Integration, Local Government, and Youth and Sport. A selection of participants’ comments about these sectors is provided in Appendix 13. Comments about the neglect of people’s needs in rural areas were commonly heard when participants were faced with choices involving Agriculture or Local Government. Comments about Agriculture have already been discussed, in section 7.3.3, so they will not be explored further. After Agriculture, Labour and Community Integration was the most important of these sectors, although participants did not prioritise the need to increase funding to these sectors (other than Agriculture).

Participants’ comments about Local Government indicated that resources available at the local level were minimal, and that the system and mechanisms of administration were not complete. These anomalies rendered rural communities, who may be reliant on the resources of Local Government, disadvantaged. The participants’ comments about the question of funding to Local Government followed two trains of thought; either there was little benefit in increasing funding to Local Government (a centralised model), or participants desired an increased connection

between the Government and local communities (decentralisation). Some participants were eager for better communication and better service provision, from which they expected improvements to Local Government. They said that, under the current system, Local Government representatives had all the responsibility, but not enough power or finance. They were supportive of a model in which local communities were more involved in decision-making and argued that a connection with the community would lead to a more productive use of petroleum revenue; a bottom-up approach. Participants that were opposed to decentralisation argued that the scale of investment, needed to establish an effective administration at the local level, was disproportionate to the benefits it would provide.

Participants acknowledged there were groups that required specifically designed government support. Young people, veterans (and widows), and rural communities were the focus of the majority of this discussion, whilst comments about the needs of women, and children arose in discussion about Health services. Participants suggested young people required attention and support because they are idle, they represent a large portion of the population, and they are symbolic of the future of Timor-Leste. Others suggested their needs could be addressed by provided extra funding to Education. The needs of veterans were also identified by participants. Some participants believe veterans of the resistance should be paid, or that their commitment to Timor-Leste must be recognised in some way. Participants suggested that providing support to both young people and veterans was necessary to ensure security and stability in Timor-Leste. Since the research was completed the Government has established a fund for veterans and a community development scheme where funds are distributed to local community projects.

7.3.5 Security

The results of the Point*Wizard research indicate that participants do not advocate an increase in expenditure to Interior, Defence or Youth and Sport. These sectors were the least important to participants. The participants did, however, suggest that the Justice sector requires additional funding, and that improvements to the Justice sector will make Timor-Leste more secure. In comparison, the Government's lack of financial support to the Justice sector has been noted (on page 186). Participants' comments about all of the security-related sectors are presented in Appendix 14. Some participants did acknowledge that security is necessary, to encourage foreign investment. But, in general, they did not acknowledge any major issues for security at the time the research was conducted. Rather, they suggested that resources should be directed to resolving issues from the past (e.g. bringing those who perpetrated crimes against human rights, to justice).

Participants noted that Justice is a very weak institution. They talked about the fact that the East Timorese judges do not have the capacity to effectively run the courts. Mostly, their comments (particularly from participants who were themselves awaiting justice) were connected with the

lack of justice for serious crimes. They said that the time that courts take to resolve cases is long. Some participants also seemed to think that if people were educated, or there were no problems (crimes), there would be no need for the Justice sector.

In some cases, participants thought increasing expenditure on Defence was a waste of money. They suggested that diplomacy or negotiation was a better, and more cost effective, means of addressing conflict. In terms of ensuring Timor-Leste's security from an external aggressor, some suggested that would be impossible, that it would require too much expenditure to make it worthwhile. They acknowledged Timor-Leste would need to rely on international forces in the case of renewed conflict with Indonesia. Negotiation was also advocated in participants' comments about effective policing. They said that policing should be dealt with at the community level.

Participants who advocated the need for increased expenditure to Interior and Defence were mindful of the need to control borders, both land and maritime. Participants acknowledged that smuggling and drug trafficking took place. One participant stressed the problem of illegal fishing and suggested a naval boat was required. But, the majority of participants' comments about increasing funding were to mention that police and soldiers' salaries were too small. Other participants' comments included the need for funding for capacity development, and police training to make them more professional. They said that some police had bad habits which had come from Indonesian times, and a decision-maker said 'they need to understand [that] they work for the people, they are not above the people'. Participants also mentioned police were under-resourced. For example, they are unable to travel to the districts to attend to crimes, and some pay, themselves, for the petrol to run their motorbikes. Not one participant suggested that revenue should be used to fund the purchase of weapons.

7.4 Spending for sustainable development

The Point*Wizard research method asked participants to choose between two budget sectors at a time, and thus provided an understanding of the relative importance of increasing expenditure to 14 budget sectors. However, the participants' responses to the dilemmas posed by the Point*Wizard research also illustrate that the benefits to each sector, from increasing budget expenditure with petroleum revenue, are not isolated. Rather, the participants' comments suggest that improvements in one sector have flow-on effects. There are relationships, or connections, between the sectors and, together, these connections ultimately enable sustainable development. Figure 7.5 illustrates these linkages, and reflects the comments of the participants and depicts their priorities in terms of budget expenditure on the five sector groups.

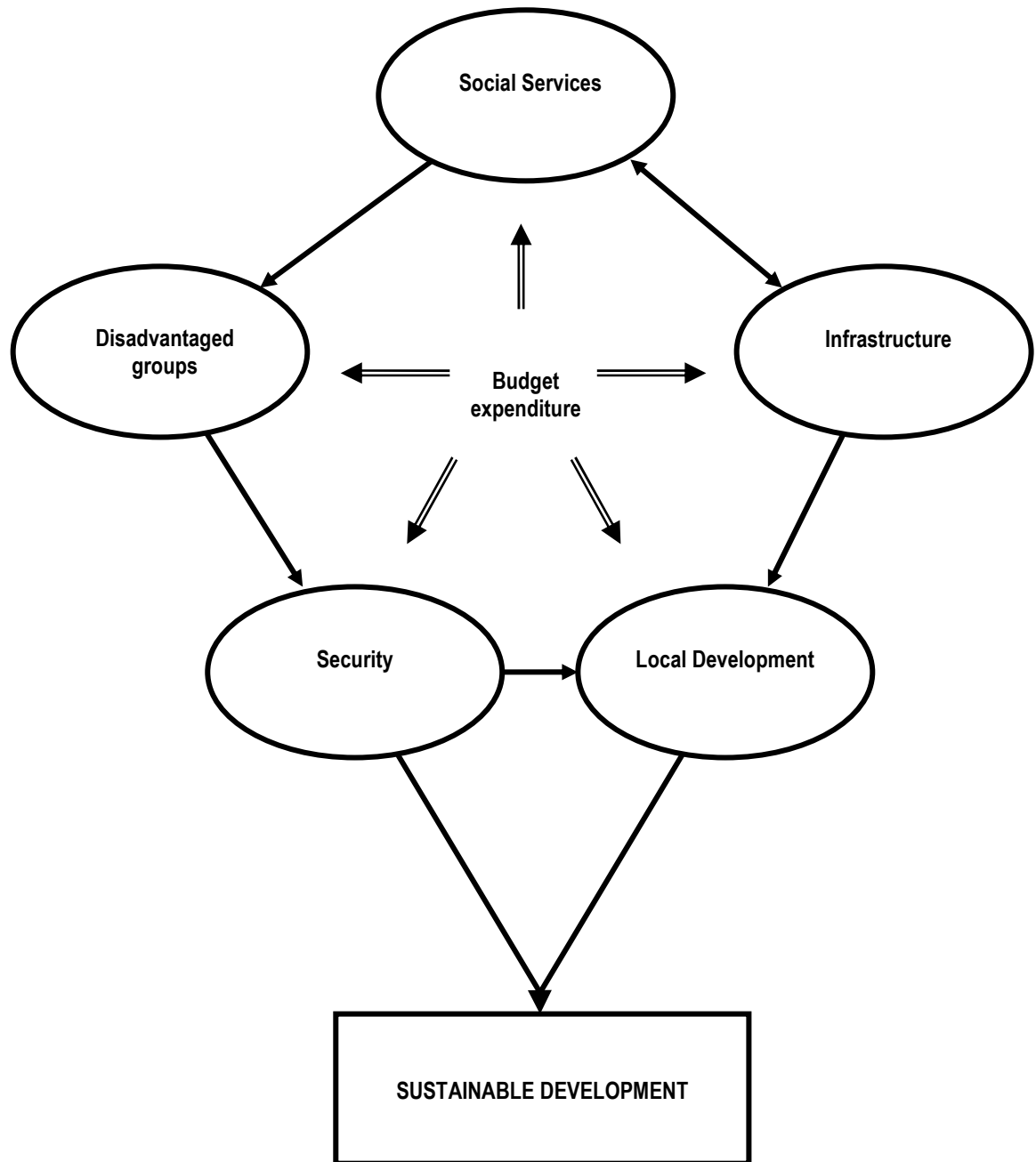


Figure 7.5 Key linkages (between sectoral expenditure) for sustainable development in Timor-Leste

At the centre of Figure 7.5 budget expenditure flows to all the sector groups, and the ultimate outcome of budget expenditure is sustainable development. Timor-Leste's Petroleum Fund is the primary source from which the State's budget is funded. This framework shows the importance of social services, or Health and Education, which has been reiterated throughout this chapter, by placing it at the apex of the figure. Participants identified Health and Education as the most basic of all the needs. Together, Health and Education provide the human resources without which all the other sectors, and any aspect of development (sustainable or otherwise)

will not eventuate. Infrastructure is also important in this framework. Participants stressed that improvements to Infrastructure generated benefits for Social Services so the arrow between these two sector groups is double-ended. According to participants, these sector groups are reliant on each other.

If the Government of Timor-Leste were to depict its actual expenditure in this way, the figure would look different. Although the Government's model might support the idea that Infrastructure and Social Services generate benefits to the other, the Government of Timor-Leste prioritises spending on Infrastructure. Despite its messages of a commitment to Health and Education, the Government of Timor-Leste's total spending on infrastructure (including capital) constitutes 30.3% of the Government of Timor-Leste's budget in 2006-07, whilst spending on Education and Health constitutes just 19.2% of the Budget. The total budgets for Health and Education increased by 80 and 92%, respectively, but the budget for Public Works increased by 447%, Transport and Communications by 122%, and Water by 129%. The majority of expenditure towards the Infrastructure sectors is towards capital expenditure. As discussed, the Government of Timor-Leste has been unable to execute its capital budget. Thus, participants' concerns that Timor-Leste's infrastructure be improved will be difficult to address unless budget execution is addressed. This problem will be explored further in the following chapter.

On the left side, Figure 7.5 also shows (via the arrow) that improvements to Social Services will result in improvements for Disadvantaged Groups (healthier, better educated East Timorese will be less disadvantaged). If East Timorese are less disadvantaged, this will result in improvements to Security, and improvements in Security will enable an environment in which Local Development (Agriculture, Tourism and Development) can occur. On the right side, the figure illustrates that improvements to Infrastructure will also result in better opportunities for Local Development. Together, Local Development and Security, and all the improvements that generate that environment, will lead to sustainable development. There are, of course, many other linkages to be made between the sector groups as their interconnectedness is complex, but this diagram simplifies that complexity and focuses on the most pressing connections as discussed by the participants. The figure, the research method, and the comments of participants, are based on the assumption that a budget allocated to their priorities might result in improvements to all sectors. However, the following chapter will illustrate that identifying which sectors require increased expenditure is not the solution to avoiding the resource curse in Timor-Leste, but just one part of it.

This chapter explored what participants consider to be the most important decision in managing Timor-Leste's petroleum revenue; how Timor-Leste's petroleum revenue should be spent. The participants clearly expressed a vision that the quality of life for East Timorese people would be better in the future, and petroleum revenue would be used to create that vision. Spending on

health and education was their biggest priority, but participants recognised that economic development depended on improvements to infrastructure. Participants favoured spending on social services and durable capital (infrastructure) over using petroleum revenue to fund consumable capital or individual payments (which most participants were determined to avoid) because they recognised that type of expenditure would have more sustainable benefits. In terms of choosing budget sectoral priorities, the order of participants' spending priorities differed from the Government's. Spending on Police, Youth and Defence were low priorities but this research was conducted prior to the crisis in 2006 and the results may be different today. Ultimately, the results of the research painted a picture of the interconnectedness of sectoral spending to achieve sustainable development.