

**SUSTAINABLE DEVELOPMENT OR
RESOURCE CURSED?
AN EXPLORATION OF TIMOR-LESTE'S
INSTITUTIONAL CHOICES**

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STATEMENT OF ORIGINALITY

I declare that this thesis is the result of my original work and all sources have been acknowledged.

Jennifer Drysdale

3 July 2007

Dedicated to the memory of

Phil Pagan

9.11.1968 – 1.9.2007



A more gentle soul I can not imagine

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Abstract

This thesis explores the institutional choices available to Timor-Leste to manage their natural resource wealth wisely and avoid the resource curse. Timor-Leste is a poor country and its challenge is to use its large per capita resource wealth to alleviate poverty and enable sustainable development. This research examines the Petroleum Fund Law, and other mechanisms to manage petroleum revenue that the Government of Timor-Leste has established. These mechanisms appear to be resilient, but remain untested. Based on field interviews in Timor-Leste, the study offers insights into the opinions of East Timorese and foreign advisers about how Timor-Leste's petroleum revenue should be managed, and how a poor country can raise the living standards of its people.

A framework that identifies human and social capital as essential to the quality of institutions is developed in this research, which proposes that the pre-condition of institutions affects the management of natural resource revenue. As a result of history (not its natural resource wealth) Timor-Leste's productive institutions are weak and destructive institutions, such as corruption, are strong. The preferences of the research participants, identified using semi-structured interviews and multi-criteria decision analysis, revealed that what petroleum revenue is spent on is the most important petroleum revenue management decision. Further, health and education were regarded the highest spending priorities. Petroleum revenue management decisions that may affect Timor-Leste's economic, social and political independence were also important to participants.

Timor-Leste's sustainable development depends on continued assistance in the form of foreign advisers to address its lack of human capital. A commitment to transparency should counteract the lack of trust between government and civil society. Timor-Leste will also need to invest more in people, and recognise that the wise management of its petroleum revenue depends as much on good governance as the mechanisms designed to manage it. The people of Timor-Leste's fierce determination to overcome the challenges they face, against all odds, may help Timor-Leste to avoid the resource curse.

Acronyms

ABC	Australian Broadcasting Corporation
ANU	The Australian National University
AusAID	Australia's Aid Program
bbls	Barrels
BPA	Banking and Payments Authority (Timor-Leste's Central Bank)
CMATS	Certain Maritime Arrangements in the Timor Sea (Treaty)
CPD-RDTL	The Council for the Popular Defence of East Timor
DII	Development Impeding Institution
DUP	Directly Unproductive Profit-seeking
EITI	Extractive Industries Transparency Initiative
ESI	Estimated Sustainable Income
F-FDTL or FDTL	Defence Force of Timor-Leste
GDP	Gross Domestic Product
HDI	Human Development Index
IAB	Investment Advisory Board
IMF	International Monetary Fund
InterFET	International Force for East Timor
JPDA	Joint Petroleum Development Area
JSMP	Judicial System Monitoring Program
MCDA	Multi-Criteria Decision Analysis
mm	million
MOPF	Ministry of Planning and Finance
MoU	Memorandum of Understanding
MRSF	Mineral Resources Stabilization Fund
NGO	Non-Government Organisation
NOK	Norwegian Krone
PD	Partido Democratico
PPP	Purchasing Power Parity
PSD	Partido Social Democrata
SIP	Sector Investment Program
tcf	trillion cubic feet
TSDA	Timor Sea Designated Authority
TSO	Timor Sea Office
UDT	Timor Democratic Union
UNAMET	United Nations Mission in East Timor
UNDP	United Nations Development Program
UNMISSET	United Nations Mission of Support in East Timor
UNMIT	United Nations Integrated Mission in Timor-Leste
UNOTIL	United Nations Office in Timor-Leste
UNTAET	United Nations Transitional Administration in East Timor
USAID	The United States of America's Aid Program

Non-English Terms

Belun	An East Timorese NGO (Friend)
Falantil	The East Timorese resistance or Armed Forces for the National Liberation of East Timor
Firaku	People coming from the east of East Timor
Fretilin	East Timorese Political Party
Kaladi	People coming from the west of East Timor
La'ó Hamutuk	An East Timorese NGO (Walk Together)
Lalenok ba Ema Hotu	An East Timorese NGO (The Mirror to the People)
Lulik	Animist spirituality or sacred object
Luta Hamutuk	An East Timorese NGO (Fight Together)
Malae	Foreigner
Partido Democratico	East Timorese Political Party
Partido Social Democrata	East Timorese Political Party
Suara Timor Lorosae	Local newspaper
Suco	Village
Tetum	A local language spoken widely in Timor-Leste
Uma lulik	Sacred house

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