



# OIL IN TIMOR - LESTE

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## INTRODUCTION

For the “developed” world, oil and gas are essential. Every country, especially rich ones, depends on oil to maintain their economy and their lifestyles. On the other hand, many countries with petroleum deposits rely on them as their principal source of income.

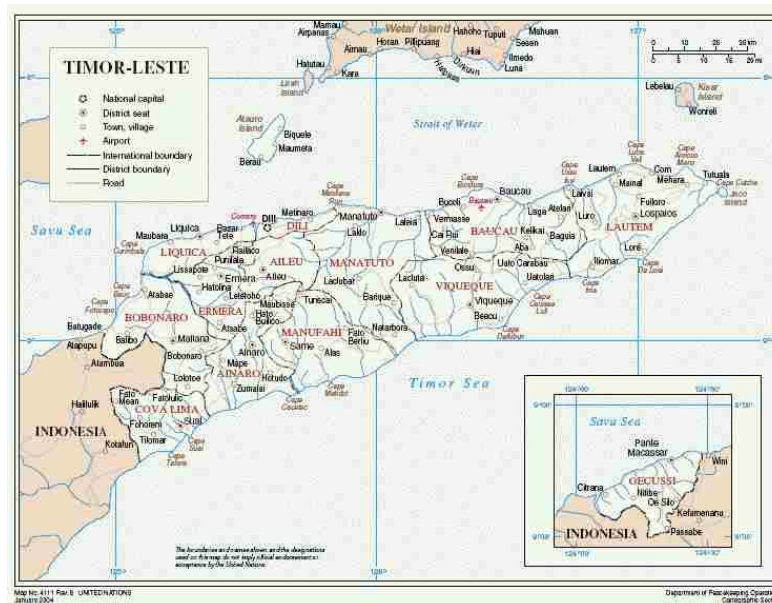
In recent decades, humankind has discovered that oil is not the blessing many believed it would be. Oil has become of one the main causes for suffering, political crises, environmental destruction and economic injustice. It often damages security – internal and external, local and global, personal and national. Around the world, many countries are enduring these effects.

Because the potential money from oil exploitation is so large, it attracts greed and corruption, often causing invasion, war and other conflicts. It widens the gap between rich and poor, promoting social jealousy, injustice, and inequality.

Petroleum development is also one of the environment’s worst enemies, destroying communities, livelihoods and habitats as well as disrupting the earth’s climate.

In many countries with oil deposits, from Angola to Aceh to Nigeria to Iraq, political and economic priorities of governments and oil companies from rich countries create a trail of blood and corpses.

Timor-Leste (also called East Timor) is one case among many. It has suffered tremendously partly because if its oil and gas reserves, while receiving no benefits from those reserves. Now that the nation is independent and peaceful, we can learn from its history what greed for oil can do. And the people of Timor-Leste can learn from the experience of others, and perhaps avoid the pitfalls of oil dependency: environmental destruction, war, dictatorship, militarism and economic injustice.



MAP OF TIMOR-LESTE

Better quality graphic (annex 1)

## Clean Slate

As the world's newest nation, Timor-Leste is inventing its government, economy, and laws. It has no external debt and no war. There is negligible pollution because there is no mining or industry. Crops and livestock are organic because there is no money for fertilizer and pesticides. Chain stores and transnational companies are absent because there are not enough people who can afford their products.

Timor-Leste has just started exploiting its petroleum; projects so far are many miles off the coast, out of sight and mind. This could be an opportunity to do things right, to avoid the "resource curse" that petroleum extraction has inflicted on so many other countries.

Economic pressures are enormous. Timor-Leste's only significant export is coffee, whose price is at historically low levels. More than three-fourths of the people live by subsistence agriculture. More than 40% of adults cannot read; infant and maternal mortality are an order of magnitude higher than in rich countries. Malaria and tuberculosis are rampant. Only a few people have access to clean water, electricity or telephones. Timor-Leste's Human Development Index is the worst in Asia, lower than every non-African country except Haiti.<sup>1</sup>

This endemic underdevelopment stems from centuries of brutal and exploitative foreign domination by Portugal (1520-1942, 1945-1975), Japan (1942-1945), and Indonesia (1975-1999). It was magnified by the systematic destruction Indonesian soldiers and their militia proxies inflicted just before they left after 24 years of brutal occupation that took the lives of 200,000 people, one-third of the pre-invasion population.

From October 1999 until May 2002, Timor-Leste's 860,000 citizens were governed by the United Nations, which continued to have a Mission until mid-2005. Billions of dollars of international "assistance" poured in, belated conscience money from an international community who sat on their hands for a quarter-century of genocide. During this period, foreign money annually spent on Timor-Leste was three times the country's GDP. In addition to US\$2 billion spent on UN missions, multilateral and bilateral aid averaged \$300/Timorese citizen/year, the highest in the world.<sup>2</sup>

This "assistance," half as much as the total Timor-Leste expects to receive from petroleum development over the next 20 years, produced negligible economic development. It never entered the country's economy, going instead to salaries and costs of international soldiers, advisors and consultants, or to purchase equipment or fuel from abroad. Less than 1% of the UN transitional government's budget was spent on salaries for Timorese people.<sup>3</sup>

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<sup>1</sup> UNDP, *Human Development Report 2005*, page 22. <http://hdr.undp.org/reports/global/2005/>

<sup>2</sup> *Ibid*, page 170, Figure 5.4.

<sup>3</sup> The \$563 million UN transitional government budget for FY 2001 is analyzed in the April 2001 *La'o Hamutuk Bulletin*. Timorese UN staff were paid a total of \$5.5 million, an average of \$240/month. The average salary of an international UN staffer in Timor-Leste was more than 30 times this amount. <http://www.laohamutuk.org/Bulletin/2001/Apr/bulletinv2n1.html>

Timor-Leste is now independent – whatever that means in this era of globalization. Its citizens can, through their democratic government, make their own decisions about how to govern themselves and improve their lives. But for now, they remain aid-dependent.

During the first year of independence (2002-3), \$531 million was spent by the government and aid agencies. The Government budget itself was \$84 million, which included \$27 million in local revenues and \$21 million from petroleum, with the balance from foreign donors. More than five times this amount was spent by the UN, multilateral and bilateral agencies administering their own projects outside of government control, with little impact on the local economy.<sup>4</sup> Aid has been steadily decreasing, with some negative effects on employment and retail business. Unemployment, already high, is increasing.

At present, there is almost no non-oil trade activity. In 2004, Timor-Leste exported products worth just \$7 million; 99% of this was coffee, half of which was sold to the United States. During the same period, the country imported \$113 million worth of goods, an unsustainable trade deficit. Nearly a third of the imports were fossil fuels, and 53% of all imports came from Indonesia.<sup>5</sup>

At this point in its history, it is hard for Timor-Leste to imagine improving its citizens' lives without selling oil and gas. That path leads to petroleum dependence for two generations, with all the attendant risks and consequences.

Oil and gas revenues will form the great majority of Timor-Leste's economy and government revenue for a while, but the deposits will be exhausted within the lifetimes of many children alive today. Since the oil and gas reserves are offshore and downstream processing will be done in Australia, hardly any spin-off revenues will enter Timor-Leste, with little secondary economic effect. The Timorese government plans to invest most of the profits in a Petroleum Fund, which should provide revenues after the petroleum is gone. But if that money is mismanaged, squandered or stolen, and if other sectors of the country's economy are not developed, Timor-Leste's people will face permanent poverty.

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<sup>4</sup> After independence, a smaller UN mission supported the Timorese government, with a two-year budget of \$517 million, of which 0.8% paid local salaries. For a breakdown of this and other public sector spending in Timor-Leste during 2002-3, see the May 2003 *La'o Hamutuk Bulletin*.

<http://www.laohamutuk.org/Bulletin/2003/May/bulletinv4n2.html>

<sup>5</sup> Democratic Republic of Timor-Leste (RDTL) Ministry of Planning and Finances, *Timor Leste Overseas Trade Statistics, 2004* (published March 2005). Figures for the first eight months of 2005 show the same patterns.

<http://dne.mopf.gov.tp/trade.html>

Here are some basic statistics. All money figures are in millions of United States dollars, the legal currency of Timor-Leste.

	2005	2010	2050	Comment
Population <sup>6</sup>	947,000	1,216,000	3,265,000	Highest growth rate in the world, a fertility rate of eight children per woman.
Land area <sup>7</sup>	15,007 km sq			7% of the land is irrigated. Maritime territory is under dispute.
Petroleum GDP <sup>8</sup>	\$703	\$3,135 <sup>9</sup>	0	These figures follow the government's assumption of only including the Bayu-Undan oil and gas field. Other actual and potential fields could increase Timor-Leste's oil revenues by a factor of three or more. The Bayu-Undan field will be exhausted by 2023.
Non-oil GDP	\$341	\$391	?	2050 depends on how well other sectors of the economy are developed.
Oil percentage of GDP	67%	89%	0%	This does not include interest from investing surplus oil revenues in the Petroleum Fund, which will become increasingly significant over time, and may replace oil revenues when the oil runs out.
Domestic non-oil percentage of government revenues	18.5% <sup>10</sup>	6.1%		Excludes donor contributions. Not all the revenues will be spent; the surplus is invested abroad in a Petroleum Fund. Petroleum Fund interest is not included.

## Historical Background

Timor-Leste's constrained future prospects come from a traumatic past, imposed by foreigners. It's no coincidence that the new nation is economically dependent; it had political dependence forced upon it for more than 450 years.

<sup>6</sup> United Nations *World Population Prospects, 2004 revision*, page 44.

[http://www.un.org/esa/population/publications/WPP2004/2004Highlights\\_finalrevised.pdf](http://www.un.org/esa/population/publications/WPP2004/2004Highlights_finalrevised.pdf)

<sup>7</sup> *CIA World Factbook*, 2005. <http://www.cia.gov/cia/publications/factbook/geos/tt.html>

<sup>8</sup> *RDTL Combined Sources Budget*, as presented to the Development Partners Conference in April 2005, page 26. Extrapolated to 2010 based on projected oil revenues (page 40) and adjusted for increase in projected oil price since the document was written. The remaining figures in this table are taken or calculated from data in this document.

<http://www.mopf.gov.tl/tldpm/RDTL%20Planning%20Documents%20and%20Publications/Background%20Paper/RDTL%20Background%20Paper%20April%202005%20-%20English.pdf>

<sup>9</sup> The RDTL Budget document was based on a projected 2010 oil price of \$38/barrel, but in September 2005, NYMEX futures predicted \$61.4 (<http://futures.tradingcharts.com/chart/CO/CO>). If oil production rates are as expected, government revenue from petroleum will be more than \$3,100 million in 2010. Since no downstream or spin-off revenues come to Timor-Leste, only taxes and royalties are included.

<sup>10</sup> Government revenues for 2005 are \$206 million, including \$36 million from domestic revenues, \$159 million from petroleum, and \$11 million from donors. *RDTL Combined Sources Budget*, page 10.

In the 16<sup>th</sup> century, Timor-Leste's petroleum reserves were worthless. But it had sandalwood, marble, and (later) coffee, which attracted colonial powers. Portuguese traders and missionaries came to Timor-Leste and exploited the natural and human resources. When Portugal left Timor-Leste in 1974, civil war broke out, caused by Portugal's failure to facilitate self-determination and by Indonesian destabilization.

Indonesia, Timor-Leste's closest neighbor, is the fourth most populous nation on earth, with 230 times as many people as Timor Leste. For more than a century, Indonesia (formerly the Dutch East Indies) has been a leading global oil and gas exporter, providing vast income to the Netherlands and Royal Dutch Shell. Since then, Exxon, Unocal, Chevron, Texaco and many others have shared in the spoils. In 1965, a U.S.-supported military coup overthrew a nonaligned government, and approximately a million Indonesians were massacred. President/General Suharto's military dictatorship was firmly in control when Portugal abandoned Timor-Leste a decade later. United States President Richard Nixon dubbed Indonesia "the real prize in Southeast Asia", and it remained a strong U.S. ally in the Cold War even after Vietnam defeated the United States in April 1975.

Seven months later, Indonesia invaded Timor-Leste with the approval of the U.S., Australia and other western Countries. They killed 50,000 Timorese people, mainly with U.S.-supplied weapons, in the first six months. The next quarter-century of military occupation took around 200,000 lives (one third of the pre-invasion population), nearly all of them civilians. Other human rights violations -- torture, rape, indiscriminate arrests, population displacement, land expropriation, etc. -- were pervasive and incessant. Although the United Nations voted nine times to condemn the violation of Timorese people's right to self-determination, other nations did nothing to end it. Indonesia was too important economically and strategically.

The people of Timor-Leste resisted the occupation and repression for more than a generation. In addition to a small guerilla army in the mountains, the resistance included a large clandestine movement, widespread noncooperation, and diplomatic efforts. Although the rest of the world ignored the atrocities being committed in Timor-Leste, Indonesia was never able to conquer the people's hearts, and the spirit of *ukun rasik 'an* (independence) still burned.

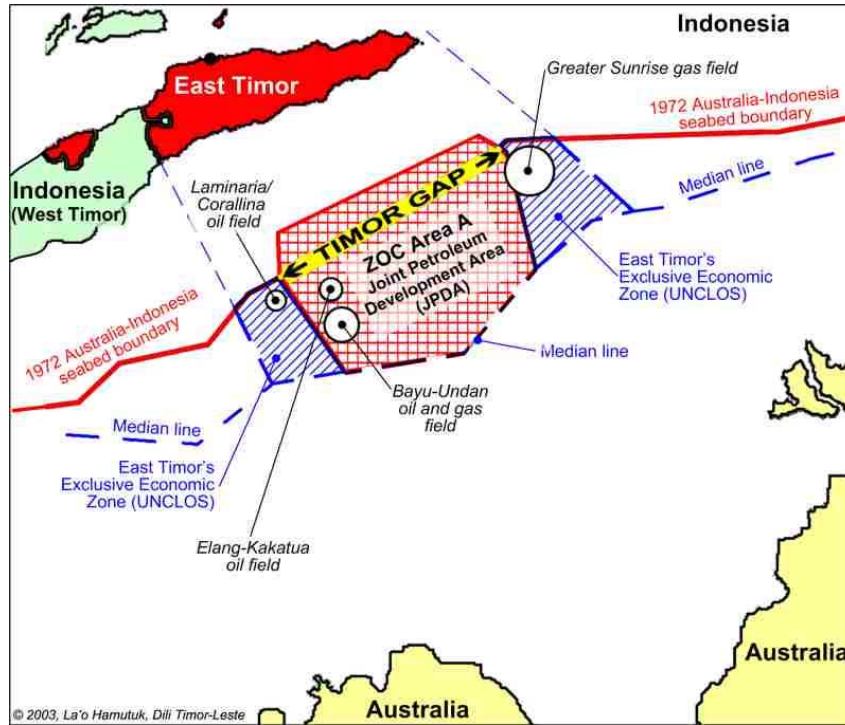
This struggle reached its climax in 1999, when political changes in Indonesia allowed the United Nations to conduct a referendum in Timor-Leste. Nearly 80% of the Timorese chose independence. Once again, the thirst for freedom was answered in blood, as militias backed by the Indonesian military conducted a scorched-earth campaign. They killed 1,500 more people, displaced ¾ of the population to the mountains or to Indonesia, destroyed all the infrastructure and burned down 75% of the buildings in the entire country. When an international military force finally arrived, the Indonesian troops left peacefully, having accomplished their mission. Six years later, none of the architects or commanders of these crimes against humanity have been held accountable.

The United Nations governed Timor-Leste beginning in October 1999, and Timor-Leste restored its independence as a sovereign country on May 20, 2002. Today it is the 191<sup>st</sup> Member of the United Nations, and one of the poorest.

### **Oil and Gas Reserves**

Timor-Leste is blessed, or condemned, because of large deposits of oil and natural gas under the Timor Sea. The on-shore deposits, including oil and gas seeps which have been collected or flared for over a century, are less-well surveyed and probably smaller than those under the sea, where war didn't

interfere with oil exploration. Many of the offshore fields are in disputed territory; this map and chart<sup>11</sup> lists the major known fields which should belong to Timor-Leste under current international legal principles.



**MAP OF OIL AND GAS RESERVAS**

Better quality graphic in Annex 2

<sup>11</sup> Map and data from La'o Hamutuk, which compiled them from government and industry sources.

Offshore oil and gas fields closer to Timor-Leste than to any other country									
Name of field	Location	%TL under treaties	Status	Total oil reserve million barrels	Total gas reserve trillion cubic feet	Oil already produced million barrels	Gas already produced trillion cubic feet	Total carbon in reserve <sup>12</sup> million metric tons C	Carbon already released million metric tons C
Operator <sup>†</sup>									
Greater Sunrise Woodside	20% in JPDA <sup>13</sup> , rest claimed by both countries.	50% <sup>14</sup>	On hold until boundary or other agreement is finalized.	290	7.7	0	0	233	0
Bayu-Undan Conoco-Phillips	JPDA	90%	Began production in 2004; TL's principal income.	400	3.4	20	0	135	2
Buffalo Nexen (was BHP)	JPDA	90%*	In production 1999-2004, now being decommissioned.	31	0	31	0	4	4
Elang-Kakatua Conoco-Phillips	JPDA	90%*	Began production in 1998; nearly exhausted.	56	0	50	0	7	6
Laminaria-Corallina Woodside	Just outside JPDA; claimed by TL & Australia. Occupied by Australia	0%	Began production in 1999; mostly depleted. Australia has taken \$1.2 billion in revenues.	210	0	167	0	25	20
<b>TOTAL</b>		<b>61%</b>		<b>987</b>	<b>11.1</b>	<b>268</b>	<b>0</b>	<b>403</b>	<b>31</b>

<sup>†</sup> In addition to companies which operate projects, joint venture partners in these fields include Royal Dutch Shell, Santos, Inpex, Osaka Gas, Tokyo Electric, Paladin and Agip.

\* These fields started production under the illegal Timor Gap Treaty. The revenue split and ownership has changed twice since 1999.

Many small nations have oil and gas deposits under their soil and seas, but few endured as much suffering and violence even before these resources were extracted. Timor-Leste is a small, poor country. The profits a colonizer can make from coffee, sandalwood and marble are small change;

<sup>12</sup> Carbon tonnage based on conversion factors supplied by OilWatch: 117,340 metric tons carbon per million barrels of oil; 25,900,000 tC per trillion cubic feet of natural gas.

<sup>13</sup> JPDA is the Joint Petroleum Development Area, which was shared 50-50 between Indonesia and Australia under the illegal 1989 Timor Gap Treaty. Since Timor-Leste's independence, it is shared 90% to Timor-Leste and 10% to Australia.

<sup>14</sup> As of September 2005, no agreement has been approved on a permanent maritime boundary, unitization agreement, or other allocation of Greater Sunrise between Timor-Leste and Australia, although they have been negotiating since 2001. A 50-50 revenue split has been reported, but other rumored deals have collapsed in previous years.



Timor-Leste is strategically significant only to Australia and Indonesia. But the potential petroleum wealth compelled Indonesia and Australia to go down a criminal path.

### **Occupation I: Indonesia**

As Portugal withdrew, the chaotic situation in Timor-Leste in 1974-5 made it easy for Indonesia to move in, and Cold War politics encouraged Western approval. Economic considerations were also key – Indonesia and Australia wanted to get their hands on the tens of billions of dollars worth of oil and natural gas in the Timor Sea between Timor-Leste and Australia.

Indonesia and Australia started to divide the Timor Sea in the 1960s, but Timor-Leste's colonial ruler, Portugal, declined to participate in their boundary discussions, leaving ownership of the most lucrative fields unclear. As Portugal withdrew, Indonesia asked its neighbors and allies what they would do if Indonesia annexed Portuguese Timor. Australia's ambassador in Jakarta urged his government to support Indonesia's invasion because he expected Australia to have an easier time negotiating with Indonesia than with an independent Timor-Leste.

He was right. Soon after Indonesia claimed Timor-Leste as its 27<sup>th</sup> province, it began to negotiate with Australia. The "Timor Gap Treaty" was signed in 1989, as the two foreign ministers clinked champagne glasses flying over the Timor Sea. It created a "zone of cooperation" for joint petroleum development in Timor-Leste's maritime territory, later called the JPDA. Although the area is closer to occupied Timor-Leste than to Australia, Indonesia gave Australia 50% of the revenues – a concession for Australia's legitimization of an illegal, brutal occupation. Australia thus became the only democratic country ever to legally accept Indonesia's annexation of Timor-Leste. Needless to say, the people of Timor-Leste were neither informed nor consulted.

The Timor Gap Treaty came into effect in early 1991. On November 12 of that year, Indonesian soldiers gunned down a peaceful protest at a Dili cemetery, killing more than 271; this massacre was unusual in that it was witnessed by international journalists. Photos and videos of the "Santa Cruz Massacre" were shown around the world, the first glimpse most people had of Indonesian brutality which had already killed one-third of Timor-Leste's people.

One month later, contracts were awarded for Timor-Leste's stolen resources. The companies eager for this blood-soaked oil included Royal Dutch Shell, Woodside Petroleum Ltd. (which later became Woodside Australian Energy), Santos, and Phillips Petroleum (later ConocoPhillips), all of whom are still exploring and exploiting Timor-Leste's maritime petroleum resources. ConocoPhillips' small Elang Kakatua oil field was the first. Discovered in 1994, it began making money for Indonesia and Australia in July 1998, and is now mostly depleted.

The largest field in the joint area is the Bayu-Undan oil and gas field – 400 million barrels of condensate (liquids) and 3.4 trillion cubic feet of gas. ConocoPhillips and its partners began developing this field in the late 1990s, while it was still stolen territory.

The 1997 Asian Economic Crisis led to the fall of Suharto, creating the space for Timor-Leste to vote for independence. As a result, Indonesia forfeited its never-valid claim to Timor-Leste's petroleum riches. The occupation of Timor-Leste had been costly to Indonesia; the oil money was just starting to come in when Indonesia left Timor-Leste in 1999. In October 1999, as the smoke was still rising from the destroyed buildings of Timor-Leste and most of its population were refugees, the oil companies

decided their development plans for Bayu-Undan. Laminaria-Corallina started production a month later.

## **Occupation II: Australia**

International law and political realities have changed since Indonesia and Australia carved up the seas before and during the Indonesian occupation of Timor-Leste. Under the 1982 UN Convention on the Law of the Sea (UNCLOS), maritime boundaries between nearby states are drawn on the median line, halfway between the coastlines. Under this principle, all of the fields in the above chart belong to Timor-Leste. These principles, rather than agreements signed by other nations over illegally occupied territory, establish the new nation's rights.

As Timor-Leste's belated independence became inevitable, Australia continued to lust after revenues from Bayu-Undan, the larger Greater Sunrise gas field, and lucrative Laminaria-Corallina. With support from Woodside and Phillips Petroleum, Australia wanted to continue the Timor Gap Treaty's joint development area, sharing the revenues with Timor-Leste instead of Indonesia. They also refuse to recognize current international legal principles, preferring obsolete ones which privilege larger countries.

Two months before Timor-Leste's independence, Australia withdrew from processes for settling maritime boundary disputes using the International Tribunal for the Law of the Sea and the International Court of Justice. Instead, Canberra forced its poor, small neighbor into an unbalanced negotiation where Timor-Leste's right to a maritime boundary is indefinitely postponed (probably for generations, until all the oil and gas is extracted) in return for a share of the money from the oil and gas. With tremendous human needs and no other source of income, the newborn government felt it could not risk delaying Bayu-Undan, and the UN acquiesced.

Fourteen hours after the birth of the Democratic Republic of Timor-Leste on May 20, 2002, it signed the Timor Sea Treaty with Australia – continuing the joint development area with a 50-50 revenue split, even though the entire area is on Timor-Leste's side of the median line.

One of the first laws the new nation enacted was a "Maritime Zones Act," asserting their sovereign right to maritime territory. Areas east and west of the JPDA are claimed by both countries, but Australia refuses even to talk about where a permanent boundary should be. Although the Timor Sea Treaty is "without prejudice" to a future maritime boundary determination, Australia continues to act as if fields outside the JPDA are in its territory, even those which are closer to Timor-Leste.

Bayu-Undan offshore development was uninterrupted. Liquids production started in 2004, with gas being pumped back into the ground and condensate being loaded on tankers from a floating platform. A gas pipeline is being constructed to Darwin, Australia, giving Australia most of the jobs and all the downstream revenues. There, the gas will be liquefied and shipped to Japan. Production will peak around 2010, and the field will be exhausted by 2023. The project is already two-thirds of Timor-Leste's GDP, supplying four-fifths of its government income.

From 1999 through 2005, Australia has taken in more than US \$1.2 billion<sup>15</sup> from Laminaria-Corallina, an oil field much closer to Timor-Leste. This field, just outside the JPDA and claimed by both countries, is nearly exhausted. Timor-Leste has protested this theft of its resources, but Australia will not discuss the issue.

In defiance of Timor-Leste's claims, Australia signed new contracts for most of the contested territory adjacent to the JPDA. When Australia puts such areas up for bid, they advise companies that "East Timor has declared an exclusive economic zone and continental shelf extending two hundred nautical miles from its baselines which includes this release area. Australia does not accept the East Timorese claim to the extent that it overlaps areas over which Australia exerts jurisdiction. Australia has exercised exclusive sovereign rights over this area for an extended period of time, and has notified East Timor that it will continue to do so."<sup>16</sup> As Australia continues to profit from past complicity with Indonesia's crimes, Timor-Leste citizens have formed the "Movement Against the Occupation of the Timor Sea" to demand that their southern neighbor respect their rights, as their northern neighbor finally had to.

Greater Sunrise, the largest field closer to Timor-Leste than to Australia, is 20% inside the JPDA and 80% outside. In 1972, Australia and Indonesia (without Portugal's participation), assigned the 80% area to Australia. Woodside has long had a contract to develop Sunrise, but has barely started because ownership is contested. After several false starts and rumored agreements, Sunrise development was officially suspended at the end of 2004, while Timor-Leste and Australia work out their differences. They have reportedly settled on a 50-50 split of upstream revenues (an improvement over the 18% that Australia was initially willing to share with Timor-Leste), but are deadlocked over who will make development decisions.

Timor-Leste's government wants a pipeline from Sunrise to the south coast of Timor-Leste, where an LNG plant would be built. The new nation's first major industrial facility nation would provide jobs (although the highest-skilled, best-paying ones will go to foreigners), tax revenues, gas for domestic use, and a model for other projects. It will also bring pollution and dangers of accident, corruption, destruction of local communities, poisoned agriculture and disrupted fisheries. Although the benefits and risks for Timor-Leste have not yet been fully studied, government leaders are trying to convince the reluctant oil companies it is in their economic interest. Australia, having used the Bayu-Undan LNG plant to spur development in its sparsely populated Northern Territory, sees another such facility for Greater Sunrise as an economic boon.

## **Social and environmental impacts**

Up to now, significant Petroleum development in Timor-Leste has been far offshore, out of sight and out of mind. As a result, it has little detectable social or environmental impact, and the only economic impact has been from tax revenues and royalties.

Although Timorese fishermen have harvested the resources of the sea for centuries, they have small boats and rarely go far from land. Local people also collect shellfish and aquatic plants from the shore.

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<sup>15</sup> Calculated by La'o Hamutuk based on sales and tax figures in Woodside's annual and quarterly filings with the Australian Stock Exchange.

<sup>16</sup> *Release of Offshore Petroleum Exploration Areas 2005, Australia, Guidance Notes for Applicants.*  
<http://www1.industry.gov.au/acreagereleases2005/html/guidance.htm>

They believe that the wealth from the sea must be managed sustainably for future generations, and Timor-Leste's small population, lack of an export capability, and limited technology have helped enforce that ethic. A significant oil spill could endanger near-shore ecosystems, and the growing population and economic and cultural shifts could extend the fisheries out to sea.

In addition, Timor-Leste is considering selling fishing rights to other countries to diversify its economic base; as offshore oil developments increase, this will be increasingly at risk. The Timor-Leste government hired a Chinese/Norwegian consortium to do offshore seismic prospecting. Although the work was completed without known incident in early 2005, concerns were raised that environmental safeguards were inadequate.

Small-scale, on-shore oil and gas development in Timor-Leste goes back to the Portuguese era, with oil seeps being harvested for community use, while flaming gas seeps provided spiritual inspiration. A few small refineries, now abandoned, produced gasoline and kerosene for local use, with no exports or large projects. Timor-Leste hopes to explore and exploit its on-shore oil and gas in the coming decades. Although onshore reserves are commercially significant, they are probably smaller than those under the sea. Given their potentially larger impact on local environment and communities, some have suggested that onshore projects be delayed as Timor-Leste gains experience in managing offshore ones, but the government has rejected this idea. If Timor-Leste is able to attract the Sunrise gas liquefaction plant, environmental and social dangers will escalate further.

Timor-Leste has a monsoonal climate, with five months of daily downpours alternating with seven months of almost no rain. Its residents primarily collect wood for cooking or to boil water (almost no water is potable without being boiled). Combined with slash-and-burn agriculture and deforestation by Indonesian soldiers as a counter-insurgency tactic, much of the country's indigenous forests have been destroyed. Erosion is a significant problem, as is flooding and landslides, creating further problems for the very limited transportation infrastructure. Environmentally-related illnesses, especially malaria, dengue fever and tuberculosis, are widespread.

The impact of petroleum development from land displacement, spills and pollution could be significant. Timor-Leste has little food security and a fragile agricultural system; any disruption could exacerbate malnutrition or cause famine. The country is not yet capable of managing chronic existing environmental problems, raising doubts that they can deal with the acute dangers from petroleum projects.

Timor-Leste has virtually no experience with responsible government administration, industrial projects, or environmental protection. In its haste to develop its oil reserves, it enacted legislation to manage petroleum projects. The 2005 Petroleum Act, which defines the relationship between oil companies and the government, has many loopholes. Environmental impact assessments are inadequate, landowners and community rights can be easily transgressed, sacred or ecologically sensitive areas are not protected. Government authority in relation to the companies resides in a single individual, without transparency, oversight, or checks and balances. Timor-Leste seems to be listening to advice from the petroleum industry, but learning little from the experiences of people who are living with the negative impacts of such development.

### **Managing the money**

In contrast with the scant information or attention given to managing petroleum companies, Timor-Leste has had public discussion about how to manage money from its oil and gas reserves. The current

international focus on “transparency and accountability,” combined with a perception that corruption within Timor-Leste’s government is a greater danger than malfeasance by petroleum companies, has drawn great attention to these issues.

In 2005, the government established a Petroleum Fund. The Fund provides for revenues from oil and gas to be invested abroad, so that the interest can be spent “for the benefit of future generations” after the oil and gas is exhausted. Although this is a laudable concept, it is not a proven one. Timor-Leste based its Petroleum Fund on that of Norway, which was a rich country with long-established integrity and professionalism in government before it received oil revenues. To date, no petroleum-rich countries whose people were not already rich have avoided the “resource curse” by using an oil fund.

The Timorese people have high expectations from this Fund, believing that it will be used to develop the country and eradicate poverty, to expand social services, increase domestic investment, create jobs, and build infrastructure. For its part, the government says it wants to do this, highlighting education, health and agriculture as requiring financing.

However, the Petroleum Fund Law is full of loopholes. This law does designate how the money is to be spent, it simply is used to fill any deficit in the government budget. Although sustainable levels are recommended, there is no prohibition on spending oil money as quickly as it comes in. There is no requirement that it be used to develop other sectors of the economy, and provisions for transparency and accountability are not as strong as they need to be.

The majority of Timor-Leste’s people are rural farmers. Most outside the capital have not received substantial information regarding the oil fund. Because of the lack of information, the people are alienated from decisions about how the fund will be managed, and fear a continuation of the pattern of opacity, corruption and arbitrary decisions established during the Indonesian occupation. Other oil-producing countries have bad experiences with poor planning, corruption, collusion and nepotism, which may well be repeated in Timor-Leste.

Timor-Leste’s economy and government will be dominated and dependent on oil revenues for the next several decades. None of the petroleum legislation requires that other sectors of the economy, such as tourism and agriculture, be developed, a mistake which has had disastrous consequences elsewhere.

## **Financial Debt**

Timor-Leste is fortunate; it began its life as a nation with no external debt, and the current government is committed not to borrow money.

It was not an easy decision. Prior to independence, a National Plan was developed with heavy influence from World Bank and other foreign consultants. The Plan establishes public services at a very low level (health care and education are greatly reduced from the last few years of Indonesia’s occupation; the entire budget is less than \$100 per citizen), and the free trade, privatization and fee-for-service biases of the IFI’s come through in many places. The Bank also established a financing mechanism to enforce these conditions; money from donors can be blocked unless the Bank is satisfied that the Plan is being followed.

Foreign donors were asked to contribute money to implement the Plan until oil revenues were adequate. The authors of the National Plan based their projected need for donor contributions on

ConocoPhillips' timetable for Bayu-Undan. But Bayu-Undan, like many large projects, started production started nearly a year behind schedule.

With declining international donations, Timor-Leste found itself facing a \$129 million budget shortfall for 2004-2006. The World Bank hastened to offer "concessional" loans to fill the gap, but the government declined. Several months of debate and uncertainty ensued, although the decision not to borrow was eventually borne out by rising oil prices and further cuts in the meager government budget. At present, the government budget has a surplus (which is put into the Petroleum Fund), which will probably continue for the next 40-50 years, until the oil and gas is exhausted.

In many countries, the temptation to borrow against future oil revenues has proved irresistible. Timor-Leste's Petroleum Fund law partly guards against this, by saying that money in the Fund cannot be used as security for borrowing. However, potential lenders will know that the Fund money will fill any deficit in the government budget, and that debt repayment would come out of that budget. So even with a technical prohibition on using the Fund as collateral, they could be confident that Fund money would be available for debt service.

Although the international financial institutions failed to make Timor-Leste into a debtor nation, they still have extraordinary power, including detailed oversight of the government budget and policies. The World Bank, for example, pays the Prime Minister's advisors on oil issues; the IMF hired the foreign architect of the Petroleum Fund and designed the central bank (Banking and Payments Authority) which will manage it. Unsustainably low levels of public services have been implemented at the Bank's suggestion. In effect, the World Bank has imposed the restrictions of structural adjustment on Timor-Leste, even though the country has never borrowed money, let alone rescheduled or defaulted on a payment.

## **Ecological Debt**

Timor-Leste's contribution to global climate change is miniscule, largely due to poverty and lack of industrialization. In 2004 the country burned about 600,000 barrels<sup>17</sup> of petroleum products, releasing about 70,000 tons of carbon into the atmosphere. Per capita, this is less than one-twentieth of global average fossil fuel consumption, although it will increase if the country becomes more developed.

Because of Timor-Leste's small land area and few remaining forests, its vegetation is not a major carbon sink, although its ocean area (yet to be agreed upon) would help.

Timor-Leste's undersea petroleum reserves contain about 400 million tons of carbon. They will be burned in Japan and other countries over about four decades, returning carbon to the atmosphere at a rate 140 times higher than current fuel consumption in Timor-Leste. People in rich countries and transnational energy companies will reap most of the benefits which accompany this degradation of the atmosphere, although Timor-Leste will receive a share.

Carbon dioxide which results from burning fuel is a greenhouse gas, but methane (natural gas) has more drastic effects on the atmosphere. If any of Timor-Leste's thousand trillion cubic feet of natural gas escapes while it is being extracted, re-injected, transported or liquified, its effect on the global climate would be 23 times worse than if it was burned at its intended destination.

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<sup>17</sup> Derived from RDTL Overseas Trade Statistics, op. cit, based on import of \$36,757,000 worth of fuel in 2004.

In 2003, the United Nations Development Program and the Timor-Leste government hosted the “First National Workshop on Climate Change.” The two-day conference included much discussion about global impacts of fossil fuel consumption and ways it could be reduced worldwide. Once activist observed that the most effective contribution Timor-Leste could make toward reducing global warming would be to leave its fossil fuels in the ground, and asked if the country could receive financial incentives comparable to the revenues it would receive from selling them. The experts agreed that this was impossible, far beyond current international consensus on how to deal with the threat of climate change, even though it would only cost about one-third of the value of the oil and gas, since costs of extraction and company profits need not be compensated. However, in addition to the political obstacles, it could be difficult to evaluate how much gas and oil is not being extracted.

The workshop also discussed the local effects of climate change on Timor-Leste. A drier wet season and wetter dry season would impact on agriculture, much of which is not irrigated. More intense and more frequent storms, including cyclones, could increase the occurrence of floods and landslides, damaging the population and infrastructure. Because most of Timor-Leste (except the capital, Dili) is well above sea level, rising ocean levels would not have a huge immediate impact, although temperature increases might eventually require farming to migrate upwards. (A few days later, one Timorese activist joked that rising sea levels would improve economic justice in Timor-Leste, as many who live along the coast are relatively affluent compared with the bulk of the people who live by subsistence agriculture in the hills and mountains.)

Ecological debt is not only about climate change. Timor-Leste’s physical and human environment was seriously damaged many times over the last century by bombing, burning, forest clearing, property destruction, and other tactics inflicted by Indonesia and previous occupiers. foreign military forces. Although it is difficult to see who benefited from this aside from a few Indonesian soldiers, political leaders and businessmen, it is clear who was harmed, and the debt should be paid.

For Timor-Leste, the oil and gas under its territory has done little. While Australia and Indonesia have pocketed taxes and royalties, international oil companies have made billions. By September 2005, Timor-Leste’s government had received approximately \$80 million from oil royalties,<sup>18</sup> in addition to \$262 million in oil-related taxes. Over the next four decades revenues to Timor-Leste from oil and gas could total \$25-30 billion.<sup>19</sup> This is a fraction of what Timor-Leste should receive as just compensation for the suffering Timor-Leste experienced from international crimes.

Calculating monetary compensation to human death and suffering is morally and practically difficult, but a number could give some idea what the Timorese people are owed by those who committed crimes against them. Some courts assess triple damages for willful and illegal acts. Punitive damages, to deter similar crimes in the future, are often much larger.

A very crude calculation puts the damage inflicted by Indonesia against the Timorese people at more than \$58 billion. Using the same methodology Portugal and Japan are liable for \$8 and \$13 billion respectively. Each of these occupations were malevolent and illegal, so triple damages would be the minimum appropriate reparations. Therefore, the people of Timor-Leste are owed more than \$235

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<sup>18</sup> Timor Sea Designated Authority website report on *Petroleum related revenue*, <http://www.timorseada.org/ftp.php>

<sup>19</sup> RDTL Budget, April 2005, op. cit., page 40, puts expected total Bayu-Undan revenues to Timor-Leste at \$4.9 billion, which current oil price projections would increase to around \$8 billion. Sunrise and other fields could yield twice again as much.

billion dollars by former colonial rulers and their allies. Australia, the United States, Britain and other nations who provided military, diplomatic or political support to Indonesia's occupation must share the responsibility for damages. This includes not only bringing individual perpetrators to justice and paying reparations to the nation, but also providing compensation to the victims and their families.<sup>20</sup>

Compensation owed to Timor-Leste by foreign occupiers									
Occupier	start	end	mont hs	displacement	deaths	home destruction	arrest/ torture/ rape	imprison-ment	
Portugal	Jan-1901	Jul-1975	5053	1,000	30,000	100	200	100	
Japan	Feb-1942	Aug-1945	42	50,000	50,000	1,000	1,000	1,000	
Civil war	Jul-1975	Sep-1975	2	10,000	1,500	1,000	3,000	4,000	
Indonesia occupation	Dec-1975	Jan-1985	109	300,000	190,000	60,000	15,000	21,000	
Indonesia occupation	Jan-1985	May-1999	172	30,000	10,000	5,000	1,000	500	
Indonesia pre-ballot	May-1999	Oct-1999	5	50,000	300	100	300	300	
Indonesia post-ballot	Oct-1999	Oct-2000	12	500,000	1,200	70,000	-	-	
Cash value per event or month				\$100 per month	\$250,000	\$20,000	\$3,000	\$200 per month	DEBT total
Portugal	1550-1975			\$505,302,632	\$7,500,000,000	\$2,000,000	\$600,000	\$101,060,526	\$8,108,963,158
Japan	1942-45			\$210,032,895	\$12,500,000,000	\$20,000,000	\$3,000,000	\$8,401,316	\$12,741,434,211
Civil war	1975			\$2,039,474	\$375,000,000	\$20,000,000	\$9,000,000	\$1,631,579	\$407,671,053
Indonesia occupation	1975-85			\$3,275,328,947	\$47,500,000,000	\$1,200,000,000	\$45,000,000	\$458,546,053	\$52,478,875,000
Indonesia occupation	1985-99			\$516,315,789	\$2,500,000,000	\$100,000,000	\$3,000,000	\$17,210,526	\$3,136,526,316
Indonesia pre-ballot	1999			\$29,582,237	\$75,000,000	\$2,000,000	\$900,000	\$301,974	\$107,784,211
Indonesia post-ballot	1999-2000			\$350,986,842	\$300,000,000	\$1,400,000,000	\$0	\$0	\$2,050,986,842
<b>Total Indonesia</b>	<b>1975-2000</b>								<b>\$57,774,172,368</b>
<b>TOTAL</b>				<b>\$4,889,588,816</b>	<b>\$70,750,000,000</b>	<b>\$2,744,000,000</b>	<b>\$61,500,000</b>	<b>\$587,151,974</b>	<b>\$79,032,240,789</b>

## Conclusion

As a new nation, Timor-Leste is facing many decisions about its future. One of the most critical is how and whether to develop its large undersea reserves of oil and natural gas. With almost no other sources of revenue to develop its economy and social services, the nation has few options.

Timor-Leste's one million citizens believe that their petroleum reserves can provide a way out of the poverty, disease and illiteracy they have inherited from centuries of colonialism and decades of foreign military occupation. They hope to avoid the path followed by so many other similar nations, where oil and gas development brings suffering -- where corruption, violence, mismanagement and environmental devastation far outweigh any benefits. They have the advantage of knowing what went wrong in other countries, and the disadvantage of having no good models to follow.

A realist would advise Timor-Leste to find another way to meet the needs of its people. A realist would say that the risks and damages from petroleum development are worse than the benefits that could be

<sup>20</sup> This chart could be open in excel with Microsoft Project.



provided by its revenues. A realist would empathize with the desperate situation of the people, but would say that extracting oil and gas will only make things worse, as it has done in so many places.

But the Timorese are not realists. They struggled for more than a generation against a brutal enemy 200 times their size, even though one-third of their people were killed. They had no international support for their struggle, and no chance of militarily defeating their Indonesian occupier. But today they are free, albeit, at a tremendous price.

Perhaps the people of Timor-Leste can beat the resource curse as well. This will be a more difficult struggle than the one against the Indonesian occupation, and the costs could be as high.

Today, Timor-Leste's leaders should be strategizing for this battle, but they appear to underestimate the difficulty they are facing. It is up to their people to educate them and hold them accountable.

#### **LIST OF ANNEXES:**

- Timor-leste Map

- Oil and gas fields in Timor Leste

- La'o Hamutuk Bulletins:

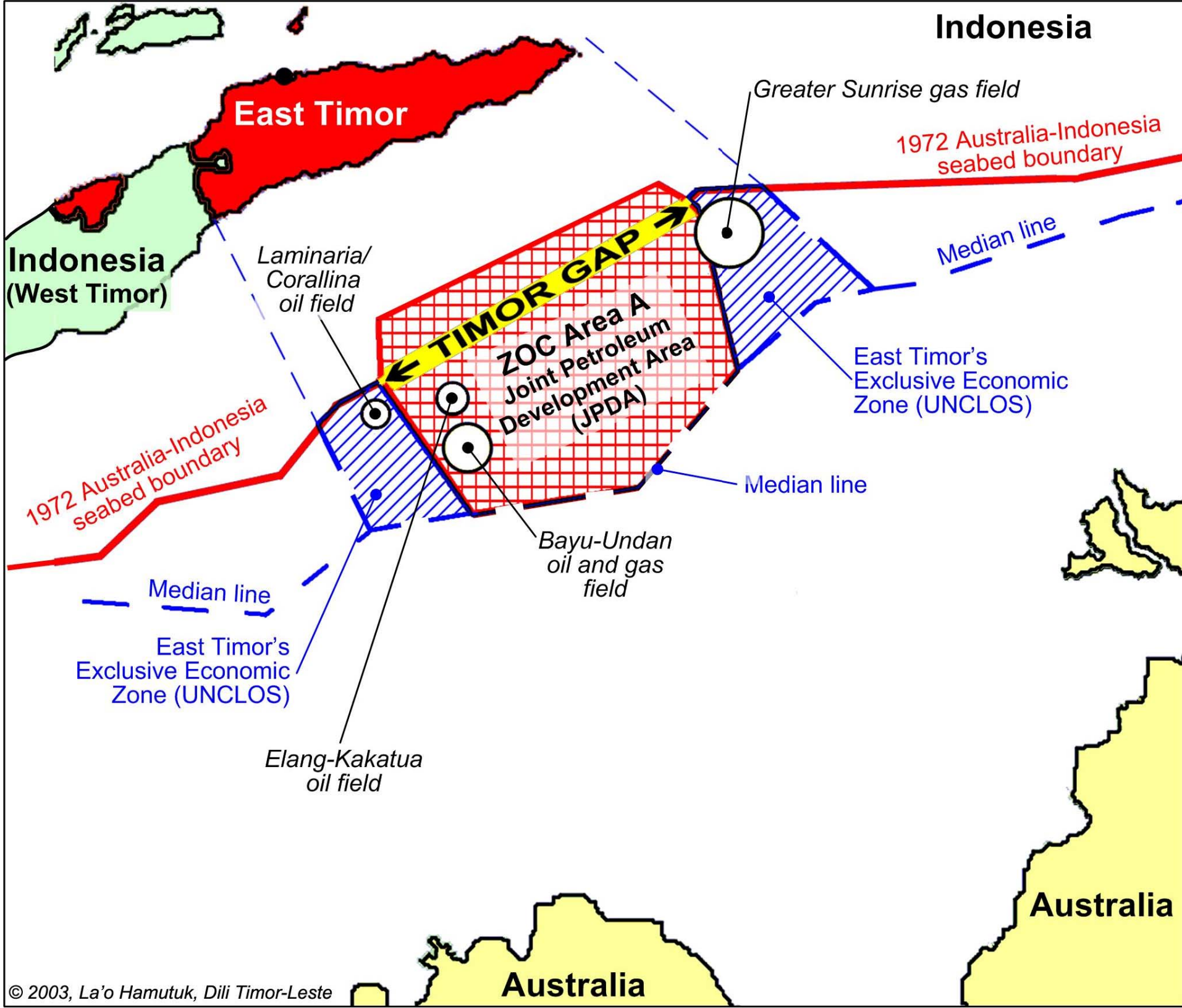
04-2001

05-2003

- Supplemental information on Timor-Leste's legal situation with regard to environment and human rights



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.



# The La'o Hamutuk Bulletin

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## FUNDING EAST TIMOR'S RECONSTRUCTION: AN OVERVIEW

People in East Timor have many questions about the hundreds of millions of dollars that have flowed into the country since September 1999. Most have little idea where the money is going. The lack of public awareness, transparency, and participation in funding matters leads many to conclude that something is wrong. At the same time, there is a pervasive perception that, given the levels of funding, there has been insufficient progress in the rebuilding of East Timor.

At a meeting of international donors in Dili on 29 March, for example, Xanana Gusmão criticized various aspects of the reconstruction process, telling the donors of money ill spent and delays in the implementation of projects. The CNRT leader told the conference attendees not to be "overly impressed" with all the activity in Dili, stating that "in the interior the economic situation of the population has not changed much" since the Indonesian military's September 1999 campaign of terror and destruction.

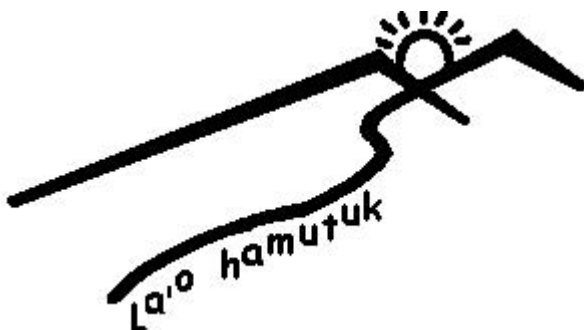
While such problems are not merely matters of funding, funding is central to the concerns raised by Xanana and many others. That is why this issue of the *Bulletin* focuses on the primary external funding sources in East Timor, and how their money is spent.

Undoubtedly, there is a great deal of money involved in the international community's efforts in the territory. Indeed, donors to East Timor have allocated more than one billion US dollars since December 1999.

Despite its small size and an economy based on subsistence agriculture, East Timor presently has one of the most complex external funding and public finance structures in the world. It is important to understand the different sources of this money, what it pays for, and the decision-making processes that govern its allocation. In this way, the people of East Timor can better evaluate the uses of this money, and more effectively influence its future flows and, thus, the reconstruction process.

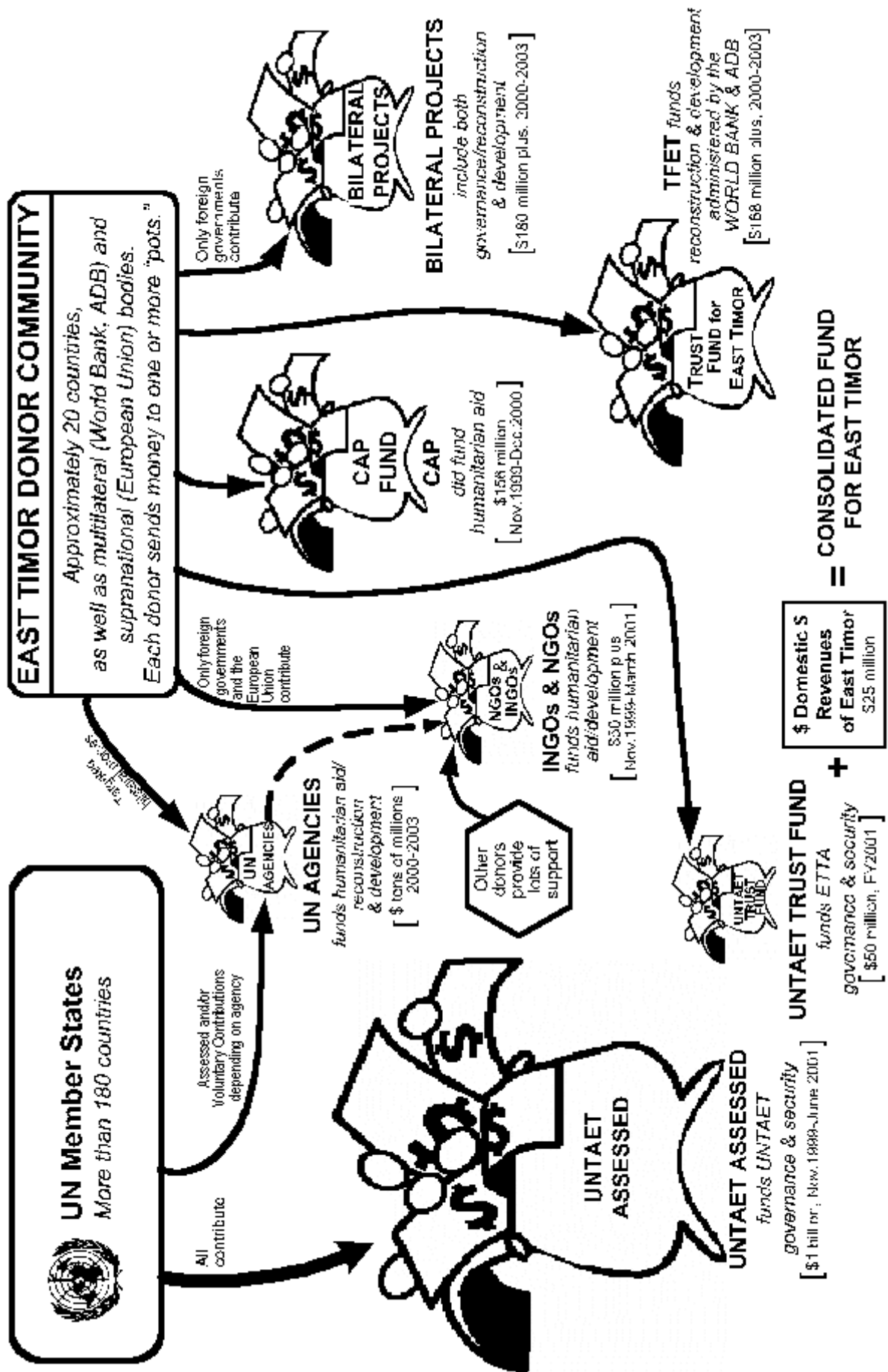
### Inside . . .

Figure: International Funding in East Timor .....	2
External Funding: Sources and Uses .....	3
Decision-making for External Funding .....	5
East Timor Transitional Administration Budget ....	6
UNTAET Assessed Budget .....	6
Bottled Water Facts .....	9
Editorial: Equipment Should Stay after UNTAET Leaves .....	9
Commentary: Taxes in East Timor .....	10
In Brief .....	12
Editorial: UN High Commissioner for Human Rights Facilitates Indonesia's Impunity .....	15
Editorial: CivPol-Community Relations Need Repair .....	16
Editorial: Money Matters: Priorities and Process	20



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# International Funding in East Timor (Figure 1)



# EXTERNAL FUNDING: SOURCES AND USES

Almost all of the funds available to East Timor for reconstruction, governance, and security come from foreign governments. Although internal funding mechanisms—such as revenues from the Timor Gap and the new tax system—also yield money for public sector activities, funds coming from outside sources are currently much larger and, thus, deserve close review.

External funding goes into seven different “pots” (see figure 1). These seven “pots” support activities in one or more of three main areas: relief and/or humanitarian assistance; governance and security; and reconstruction and development. Voluntary financial contributions provide the funds of five of the seven “pots,” while contributions that member-countries of the United Nations must make supply the funding for the largest “pot.”

A description of these “pots”—or places where funds reside—follows. (*All amounts in US dollars.*)

## **CAP Monies and Related Work**

In late September 1999, in the aftermath of the TNI post-referendum campaign of terror, the UN’s Office for the Coordination of Humanitarian Affairs (OCHA) launched a Consolidated Inter-Agency Appeal (CAP). Typically, OCHA is the UN agency that coordinates the international response to humanitarian emergencies.

OCHA’s proposed budget for humanitarian operations called for \$183 million for East Timor and \$15 million for humanitarian needs in West Timor. In response, foreign government representatives committed \$156 million in voluntary contributions to the CAP at the Tokyo Donors Conference in December 1999.

While an additional \$40-\$50 million went to emergency relief efforts outside the CAP process, the major portion of aid to refugees, including the provision of water, health services, and shelter kits was funded by CAP monies. UN agencies such as the United Nations Children’s Fund (UNICEF), the United Nations Development Program (UNDP), the United Nations High Commissioner for Refugees (UNHCR), the World Food Program (WFP), and the World Health Organization (WHO) were involved in the effort. International agencies such as the International Organization for Migration (IOM) and the International Committee of the Red Cross (ICRC), as well as numerous other international non-governmental organizations, also participated. The various implementing agencies spent almost all of the money in voluntary contributions received for this effort in the 13-month period from November 1999 to December 2000. No additional funding of the CAP is anticipated. (For a review of OCHA, the CAP, and its impact, see the *La’o Hamutuk Bulletin*, Vol. 1, No. 2.)

## **Assessed Contributions to Maintain UNTAET**

By far the largest “pot” of money is the one that supports the establishment and maintenance of the UNTAET mission. This is the only “pot” that does not rely on voluntary contributions; rather, all foreign governments that are members of the United Nations are expected to contribute to it. Almost all funds for the budgets of UN peacekeeping operations (such as UNTAET), as well as the regular budget of the United Nations, come from the assessed contributions of UN Member States.

An assessed contribution is an amount of money that a Member State is supposed to contribute. The UN General Assembly approves the amount of each assessment, which is based on the ability of a country to pay (taking into account principally the country’s Gross National Product relative to all other countries’ GNPs). Starting next year, the scale used for peacekeeping operations will be one that has 10 levels of assessments based on each country’s per capita income.

The UNTAET assessed contributions budget finances expenses related to the UN involvement in East Timor which include the peacekeeping forces, civilian police, UN buildings, UN vehicles, UNTAET staff, and communications. The assessed budget does not include the costs of running an East Timorese government, namely the East Timor Transitional Administration (ETTA). Finally, this budget does not fund development or reconstruction projects.

UNTAET’s budget for the final eight months of the last fiscal year (November 1999-June 2000) was almost \$400 million. The budget for the present fiscal year, FY2001 (1 July 2000 - 30 June 2001), is \$563 million (see pages 5-7). Notably, the East Timorese people have little input in developing and modifying this budget. Rather, UN staff and committees in New York and Dili create and modify this budget.

## **Consolidated Fund for East Timor (CFET)**

The CFET “pot” of money is both the smallest and, along with the INGO/NGO “pot,” the most accessible to local input and East Timorese participation in decisions around its use. It finances the embryonic national government (ETTA), which the international community is helping to build within the UNTAET structure. The CFET pays for the emerging national government’s operational costs, including the building of basic institutions, the provision of public services, the repair of government buildings, and civil servants’ salaries.

The CFET has two parts. The first part is made up of voluntary contributions from foreign governments in

the form of the UNTAET Trust Fund (UNTF or UNTAET TF). The United Nations set up the UNTF in October 1999 to help finance an East Timorese governing body—the East Timor Administration (ETA), which later evolved into the East Timor Transitional Administration (ETTA).

The second part of the CFET is made up of East Timor's domestic revenues. These include monies gained from the collection of taxes and import duties, as well as revenues from the exploitation of oil and natural gas reserves in the Timor Sea.

For the present and near future, the UNTF and donors are supposed to contribute enough monies to the CFET to ensure that with whatever domestic revenues are generated, the ETTA is sufficiently funded. But the hope is that the UNTF's and donors' share will diminish over time as domestic revenues increase. All of this is predicated on a very modest annual national budget of approximately \$60 million.

The initial amount contributed by the UNTF was \$32 million. At the June 2000 Lisbon Donors Conference, donors allocated an additional \$16 million in voluntary contributions for FY 2001 and \$25 million for FY2002 to supplement the CFET.

### **Trust Fund for East Timor (TFET)**

The TFET "pot" contains money for reconstruction and development projects and is the second largest of the "pots." In October and November 1999, representatives from the World Bank, the International Monetary Fund, and various national governments visited East Timor to assess its needs and circumstances. Both the IMF mission and the World Bank-led Joint Assessment Mission helped inform policy recommendations and assistance requests.

Soon thereafter—in December 1999—the first international donors conference for East Timor took place in Tokyo. There, donors pledged a total of \$523 million in voluntary contributions: \$32 million for UNTF; \$147 million for a future Trust Fund for East Timor (TFET); \$33 million pledged to bilateral programs, but left unallocated (not yet designated to be spent in a certain place or program); \$156 million for the CAP humanitarian aid, and \$155 million left completely unallocated to the trust funds or for bilateral programs. (Subsequent donors conferences have not solicited additional pledges, but rather only reviewed progress and strategy and made allocation decisions.)

The conference established the Trust Fund for East Timor (TFET) managed by the World Bank and the Asian Development Bank to finance and oversee reconstruction and development projects. (For a review of the World Bank and its projects in East Timor, see *La'o Hamutuk Bulletin*, Vol. 1, No. 4.) Additional money from the unallocated fund has augmented the initial

\$147 million, bringing the current amount budgeted for TFET to \$167.4 million. This amount is spread out over three years and, with additional monies from the unallocated pledges, is likely to average \$60 million/year. While funding will continue after 2003, it is expected to diminish considerably. International and East Timorese advocacy might stimulate some additional pledges of support.

Presently, a Donor Council made up of donor representatives and facilitated by the Donor Coordination Unit (part of the ETTA National Planning and Development Agency) discusses, evaluates, and approves development and reconstruction projects as well as transitional governance assistance supported by TFET monies.

### **Direct Bilateral Funding**

The "pot" that contains money for government-to-government assistance also has considerable in-kind (non-monetary) donations, such as agricultural and office equipment. Foreign governments have negotiated directly with UNTAET and ETTA to provide assistance. The bulk of direct bilateral assistance provided by these foreign governments has supported transitional governance and services. For example, programs of the United States government (USAID), the Australian government (AUSAid), and the Japanese government (JICA) have covered some operational costs for generating electricity, rebuilt some schools, and trained and built capacity in ETTA staff. Direct bilateral aid also helps fund reconstruction and development.

Including the bilateral support for transitional governance, bilateral donors have spent between \$50 and \$90 million to date. It is estimated that donors will spend \$160 to \$195 million over a three-year period. We will explore direct bilateral aid in a future issue of the *La'o Hamutuk Bulletin*.

### **Funding for UN Agencies**

UN Agencies initially funded by the Consolidated Appeal Process still operate in East Timor although they now raise their funding through normal agency channels. Voluntary contributions from UN member states fund most UN agencies. Some of the administrative costs of some of the agencies are covered by the regular UN budget that is funded from assessed contributions. A few agencies also receive support from other areas (i.e. UNICEF receives significant non-governmental support and the WFP receives significant multilateral and bilateral support). Finally, bilateral monies fund some of the East Timor-specific activities of some agencies.

These agencies do a wide range of work especially in the areas of relief and development. While it is difficult to calculate their combined spending in East Timor, it runs into the tens of millions of dollars.



### Funding for INGOs and NGOs

There are many local and international non-government organizations doing a wide range of work in East Timor, especially in the areas of relief and development/reconstruction. The “pot” that would collectively hold their funding has the most diverse funding sources. Some international non-government organizations (INGOs) have been in East Timor for many years while others have only recently begun operations here. These INGOs, in turn, provide some financial support to local non-government organizations (NGOs). Almost all of the money that supports the work of the dozens of international non-government organizations and over one hundred local NGOs originally comes from outside East Timor.

All of the contributions to local and international NGOs are voluntary and include some foreign government monies. In some cases, monies also come from UN agencies and supranational bodies. While it is difficult to calculate the annual combined spending of local and international NGOs in East Timor, it runs into the tens of millions of dollars. INGOs direct more than 90% of these funds. While some of the estimated \$50 million INGOs have spent in East Timor since late 1999 came from the CAP process, most monies for both INGOs and local NGOs come from individuals; community, activist/solidarity and church groups; foundations; and/or foreign government grants and in-kind donations. Additionally, some local NGOs have income-generating activities. ❖

## DECISION-MAKING PROCESSES FOR THE EXTERNAL FUNDING ‘POTS’ AT A GLANCE

UNTAET ASSESSED BUDGET	DIRECT BILATERAL ASSISTANCE	NATIONAL AND INTERNATIONAL NGOs
Dialogue and information exchange lead to agreement between UNTAET and United Nations (New York) staff and committees. Inflexible once annual budget is approved.	After negotiations, agreement is reached between each donor government and UNTAET/ETTA.	Internal, varied processes which are often influenced by funding organizations.

UN AGENCIES	TRUST FUND FOR EAST TIMOR (TFET)	CAP FUND
Largely internal for each UN agency; heavily influenced by policy directives of the UN General Assembly. Several have Executive Boards that provide final approval on budgets.	Informal and formal discussions take place between UNTAET/ETTA, donors, and World Bank/Asian Development Bank; after which there is Cabinet agreement; NC endorsement of 6-month work program; then TFET donor council final approval.	OCHA consulted with UN Agencies, and other organizations that respond to emergencies. They secured agreement amongst them on approach and responsibilities.

UNTAET TRUST FUND (UNTF)	CONSOLIDATED FUND FOR EAST TIMOR (CFET)*
Donors’ discretion, primarily at donor coordination meetings. Monies are then used to augment domestic revenues and meet the needs of the East Timor Consolidated Budget.	ETTA departments submit proposals, seek Cabinet agreement, then NC approval. If seeking new funding, donor and international financial institutions’ approval is also required. * See page 6.



## Reviewing the East Timor Transitional Administration's Budget

The boundary between the East Timor Transitional Administration (ETTA) and UNTAET can be difficult to understand. ETTA will become the administration of East Timor when UNTAET leaves next year. In July 2000, a cabinet system of government was established, comprising eight departments and a few autonomous agencies such as the Central Payments Office (future Central Bank), and the National Planning and Development Agency. A legislative body, the 36 member National Council, was also established. Altogether, this structure constitutes ETTA. ETTA is expected to have some 11,000 public employees by June 2001.

In effect, the government in East Timor has two budgets: one for ETTA (in the form of the East Timor Consolidated Budget, ETCB); and one for UNTAET (via assessed contributions). (Both have a fiscal year that runs from 1 July to 30 June.) Presently, ETTA is within the UNTAET structure. ETTA is comprised of East Timorese civil servants (as distinct from UNTAET local staff) and is defined by specific activities that its various departments carry out. Thus, Economic Affairs is both a department of UNTAET and of ETTA; the East Timorese civil servants within Economic Affairs receive their salary from the ETCB and have specific tasks that help to build an Economic Affairs department in the evolving/emerging independent East Timor government.

It is noteworthy that UN local staff are paid on average nearly twice as much as ETTA local staff. Officials justify this by saying that the country cannot afford to continue to pay its local staff at the same level the UN pays, ignoring the fact that the UN's presence has inflated prices and otherwise distorted the economy.

The budget for next year (July 2001 to June 2002) is currently being developed. In March and early April, each of the eight departments proposed a budget to be considered by the Cabinet during late April and early May. The National Council will consider the final Cabinet recommendations and make their recommendations in mid-May. More discussion may be necessary before final approval is won. Throughout this process, the community can have input, even if it is not encouraged.

A potentially promising approach to making future budgets is "combined sources budgeting." This entails a review of various funding sources before resources are allocated. This year, the Central Fiscal Authority (CFA) prepared a booklet that presented funding and allocations from three different sources: the Consolidated Fund (CFET), the Trust Fund for East Timor (TFET), and bilateral funding. While the three funds' budgets were created through separate decision-making processes, by presenting their allocation information together, a clearer picture of sector (health, education, justice, etc.) activity resulted. The CFA proposed that the 2001-2002 budget be a product of combined sources budgeting.

While *La'õ Hamutuk* appreciates the value in this approach, we caution that decision-making processes must be open and transparent. Moreover, people at the community level should be able to effectively participate in the decision-making processes that determine not only how resources are allocated within each particular sector, but also how resources are distributed amongst the various sectors.

*La'õ Hamutuk* will discuss this budget further in a future *Bulletin*. ❖

## A Closer Look at the UNTAET Budget

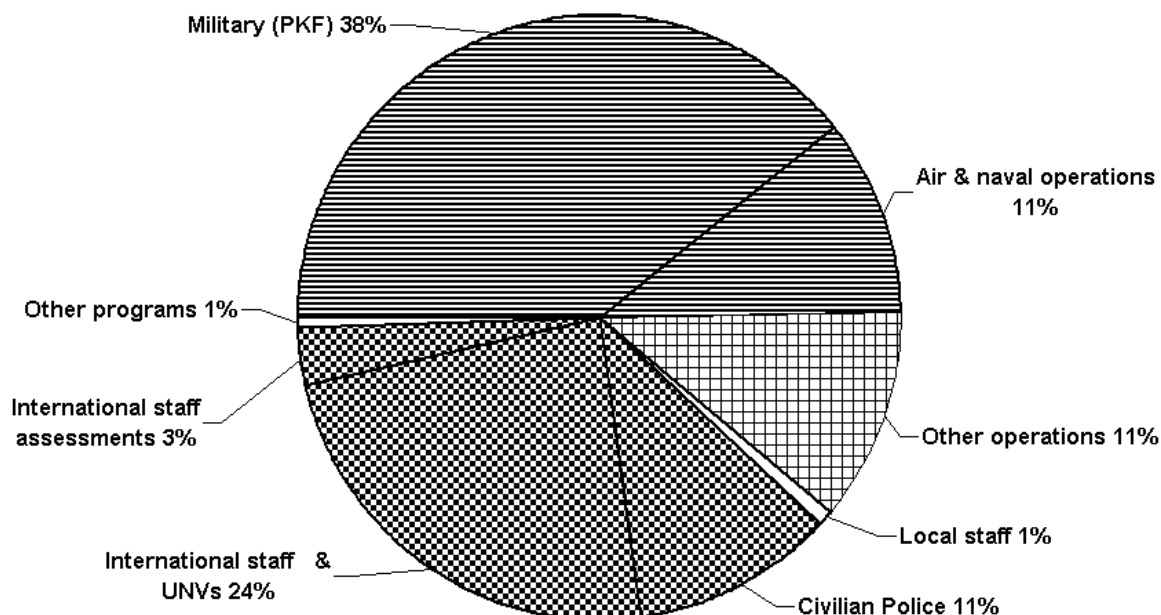
The UNTAET budget is by far the largest pool of funds available for East Timor. Nevertheless, the East Timorese people have little input in its creation, and there is no mechanism to allow for local involvement in its review. It is useful to understand more clearly what is in this budget.

The first approved budget covered a seven-month period from December 1999 to June 2000 and amounted to \$350 million. Of that amount, \$155 million was allocated for operations, \$100 million for military personnel, \$85 million for civilian personnel, and \$9 million for staff assessments ("taxes" taken out of international staff salaries *before* the salary is paid and applied to the UN membership dues of each staff member's country of citizenship).

The next approved budget covering Fiscal Year 2001, from July 2000 through June 2001, amounts to \$563 million. That budget breaks down as shown on page 7, with notes on page 8.

# UNTAET Budget for Fiscal Year 2001 (US\$563 million total)

July 2000 - June 2001



## \$220 million for military personnel

- ☑ approximately 150 military observers (**\$6.5 million**)
- ☑ military contingents, approximately 8,000 soldiers (**\$150 million**)
- ☑ contingent-owned equipment (**\$35 million**)
- ☑ self-sustainment (troop and police needs including catering, laundry, medical and dental, bedding and furniture, and communications) (**\$37 million**)
- ☑ death and disability compensation (**\$2 million**)

*Note that more than half of the operations budget below is also for military purposes.*

## \$124 million for operations

- ☑ air operations (**\$58 million**)
- ☑ naval operations (**\$2 million**)
- ☑ premises / accommodations (**\$9.4 million**)
- ☑ infrastructure repairs (**\$11 million**)
- ☑ transport operations (**\$14.5 million**)
- ☑ communications (**\$14 million**)
- ☑ other equipment (**\$4 million**)
- ☑ supplies and services (**\$10 million**)
- ☑ air and surface freight (**\$1.4 million**)

## \$199 million for civilian personnel

- ☑ approximately 2,000 local staff with an average pay of \$240 per person per month (**\$5.5 million**)
- ☑ 1350 Civilian Police provided Mission Subsistence Allowance to cover their living expenses, \$95 per person per day amounting to \$3,000 per person per month. (**\$61 million**) CivPols also receive a salary from their national governments.
- ☑ approximately 1,200 international staff with an average pay of \$7,800 per person per month, which includes their per diem at approximately \$3,000 per month, the service (recruitment) allowance (a financial incentive based on employment history to join the mission), and the family allowance (**\$112 million**)
- ☑ approximately 800 United Nations Volunteers paid a "modest living allowance" of \$2,250 per person per month, as well as transportation to/from East Timor, settling-in allowance, and misc. (**\$21 million**)

## \$17 million for staff assessments

### \$3 million for other programs

- ☑ election-related supplies and services (**\$1.8 million**)
- ☑ public information programmes (**\$1.6 million**)
- ☑ training programmes (**\$0.1 million**)

# UNTAET ASSESSED BUDGET NOTES AND HIGHLIGHTS

## Military personnel

- ☑ Military observers, unlike the peacekeeping forces, receive the MSA of \$95 per person per day.
- ☑ For military personnel, \$1.15 per person per day is budgeted for bottled water, which collectively amounts to just over \$10,000 per day. (See box on Bottled Water Facts, page 9.)
- ☑ The 256 military staff officers assigned at force headquarters have a laundry service based in Dili that costs \$8,333 per month. The entire laundry and cleaning budget for military personnel is \$2.1 million this fiscal year.
- ☑ The dental plan coverage for all military personnel costs almost \$7 million this fiscal year. The medical plan costs \$1.5 million.
- ☑ While UNTAET only pays peacekeeping soldiers directly a \$1.28 per day allowance, contributing countries receive an agreed upon amount of money for the troops they send (troop reimbursement), and each country then pays their own soldiers. For troop reimbursement alone, UNTAET in this fiscal year will pay a total of \$97 million to the 25 troop-contributing countries. UNTAET also covers all costs related to the troops including transportation, insurance, medical coverage, food and lodging. Significantly, UNTAET also leases military equipment from the countries that contribute troops.

## Civilian personnel

- ☑ The average international staff person is paid more than 30 times the average local UNTAET staff person.
- ☑ SRSRG Sergio Viera de Mello's monthly salary is between \$12,000 and \$15,000. His pay is thus more than 50 times that of the average local UNTAET staff person.

## Operations

- ☑ UNTAET had a contract with the floating Hotel Olympia that initially paid \$891,000 per month for staff accommodations.
- ☑ The air fleet of 21 helicopters and 5 fixed-wing aircraft will cost \$58 million this fiscal year. UNTAET rents all of this equipment. The various helicopters rent from \$650 to \$13,500 per hour. Their fuel costs range from \$71 to \$1,010 per hour. Annual insurance costs \$112,000 per helicopter.
- ☑ The UNTAET budget allocated \$2.1 million for upgrading of airstrips and \$2.3 million for road works. Yet, according to *The World Bank, Background Paper for Donors' Meeting on East Timor, Lisbon, Portugal, 21-23 June 2000*, "[Road] damage attributable to heavy military vehicles used by INTERFET or the UNTAET PKF is estimated by the ADB to total \$21 million." Combined with previous submissions, UNTAET has made less than \$5 million available thus far from the assessed contributions budget for road maintenance related to the military operation.
- ☑ 125 more UNTAET vehicles were purchased this year at an average cost of \$23,000 each.
- ☑ \$9 million is budgeted for petrol this year.
- ☑ The mobile telephone budget went from \$30,000 per month for last fiscal year to \$50,000 per month for this fiscal year. While this budget should cover only work-related and necessary phone calls, there is no effective enforcement of this policy. Currently, UNTAET provides approximately 350 mobile telephones to civilian and military personnel.

## Compared to society

- ☑ Unemployment for the East Timorese population is around 70%. Per capita income is around \$300. If UNTAET's international staff outlays were distributed among East Timor's population, their average income would nearly triple. ❖

(Money Matters, *continued from page 20*)

graves from 1999 simply due to the lack of forensic experts and sufficient morgue space.

The 6 September, 1999 massacre at the Catholic church compound in Suai, for example, is not one of the five initial cases. Local leaders in Suai complained to the visiting Security Council delegation in November that individuals who participated in the killing spree are living freely among the local population. Kenji Isezaki, UNTAET's local District Administrator admitted that "We've had to release criminals who've confessed to rape and murder" due to a lack of resources for investigation.

These people have not been subjected to vigilante retaliation because of a community decision not to administer popular justice, based on the expectation that they will one day appear before a court. Although the United Nations recently made additional resources available following the Security Council visit, there is still a danger that if investigations and prosecutions do not speed up, acts of revenge will take place.

Even East Timor's embryonic court system is impoverished. At the Dili courthouse, for example, there is a shortage of translators; there are also regular power cuts and no system for electronic recording of the trials. For photocopies, the registrars' office must go to the nearby CivPol office. And there are no funds to house and support witnesses from outside Dili.

### **A Bad Process or Misplaced Priorities?**

Why is there so little money for such matters? Because of the non-public nature of the budget process, it is difficult to know. In terms of assessed funds (which provide UNTAET's budget), it appears that there are significant opportunities for UNTAET to influence budgetary allocations.

UNTAET's budget process begins in Dili. UNTAET's Department of Administration asks each department to determine what its needs are. After Administration approves the resulting budget, it goes to New York where the departments of Peacekeeping Operations and Management screen it. In consultation with UNTAET, Management then decides what to change, to keep, and/or eliminate, and then sends an overall budget proposal to the NY-based Advisory Committee on Administrative and Budgetary Questions (ACABQ).

The ACABQ carefully reviews every detail of the proposal. When it identifies problems, the ACABQ requires UNTAET to revise its proposal. Once satisfied, the ACABQ sends a report to the UN General Assembly's Fifth Committee. The Fifth Committee (on which all UN member states are represented) then decides whether or not to support the proposed budget. In the case of support, it drafts a resolution for final approval by the General Assembly.

A lot of politics take place within this complicated process. Powerful countries especially are in a position to shape the final budget. The ACABQ, for example, is fully aware that the United States contributes one-quarter of the United Nations budget, and thus often recommends changes to budgets that the U.S. would like made.

We do not know what changes ACABQ made that might explain shortfalls in specific UNTAET departments. The UNTAET budget proposal for FY2001 was US\$592 million. The ACABQ recommended reductions worth about \$29 million (about 5 percent of the original proposal), which resulted in a final budget of \$563 million.

To the extent that there are unfulfilled needs, there are a variety of courses of action that UNTAET might pursue. In its "Background Paper for Donors Meeting on East Timor" (for the December 2000 meeting in Brussels), for example, UNTAET/ETTA identified a number of "unfunded priorities" as part of an effort to get donors to increase their funding by supporting specific projects. These "priorities" included capacity building for East Timorese civil servants, civic education, reintegration into society of former FALINTIL guerrillas, and ferry service between Dili and Oe-cusse. Funds for infrastructure, housing, and criminal justice, however, were not on the list. Why not?

### **Inflexibility of Funds?**

UNTAET is not permitted to use funds that it receives from the United Nations to rebuild East Timor. It must restrict its spending to matters of peacekeeping and governance. At the same time, UNTAET cannot move funds from one department to another (for instance, from the PKF to the Serious Crimes Unit). If, for example, UNTAET were to reduce the money it spends renting and operating planes and helicopters—an amount roughly equal to ETTA's entire budget of \$60 million—it could not use the savings to provide more funds to the East Timor Transitional Administration.

It is for such reasons that Sergio de Mello has asked the Security Council to allow UNTAET more flexibility in how it spends its money, so that UNTAET can provide support for ETTA—ostensibly to undertake activities that UNTAET cannot.

While this would be a welcome change, there is no doubt that UNTAET could have made—and could still make—much better use of the money it does control.

The now-departed Hotel Olympia is perhaps one of the more obvious examples. While it was understandable that UNTAET needed to provide emergency housing to international staff in the early months of the mission, might there have been a better way to use the more than US\$7 million UNTAET spent on the floating hotel?

### **No Commitment to Stimulating Local Economy**

A big part of the problem is that the United Nations appears to have no policy to use its funds to help stimulate the East Timorese economy. Instead of spending so much money on the foreign-owned Olympia, UNTAET could have used a significant portion of the funds in a more constructive fashion. UNTAET could have, for example, encouraged international staff to rent rooms from East Timorese families and thus enabled families to fix up their houses or to start businesses. Instead, those monies had little effect on the local economy—most of the Olympia's employees were not East Timorese.

Buying into narrow IMF logic of "fairness," UNTAET champions competitive bidding whereby contracts go to the

lowest qualified bidder. At the same time, because there is no consultation with the local community about spending matters, there is no exploration of alternative methods (that ultimately might prove to be more cost-effective in the long run) of spending funds and meeting UNTAET's (and East Timor's) needs. In this manner, UNTAET fails to support local economic development over non-East Timorese interests.

Just take the case of water: UNTAET spends over \$10,000 per day (almost \$4 million annually) on bottled water for the PKF alone. (See Bottled Water Facts, page 9.) Had UNTAET awarded the contract for bottled water to Parmalat (an East Timorese company), instead of Aquase (an Indonesian company), it is estimated that 1,000 local jobs would have resulted. At the same time, because Parmalat uses reusable 19-liter bottles, instead of disposable, 1.5 liter, single-use bottles, there would be a lot less waste and environmental damage.

A better choice would be to use the money to build and/or repair a potable water system. At a recent presentation, for example, eight engineers estimated that \$2 million would be sufficient to rehabilitate the water purification and delivery system for Dili and provide potable water to nearly all the city's residents. Other studies estimate as much as \$10 million. For an estimated \$18.5 million nearly all of the city's water pipes could be replaced, not just repaired to a serviceable level.

### Why is the International Community Here?

Without a doubt, many internationals come to East Timor with the best of intentions, with a selfless willingness to share the burden of rebuilding East Timor. But the high wages enjoyed by UN international staff (in contrast with UN Volunteers) and by some employed by international NGOs creates an impression that personal gain is often a significant motivation.

While there is a sensible argument that internationals should receive higher salaries than East Timorese due to the generally higher cost of living in the home countries of international staff, the average wage differential between East Timorese and internationals is obscene. Even UN Volunteers—the lowest paid international members of the UN mission—receive almost \$30,000 per year, 34% more than East Timorese Cabinet Ministers. Meanwhile, the average local UNTAET staff member receives \$2,880 annually.

Unfortunately, recent actions by *some* internationals reinforce the resulting perception of greedy and insensitive foreigners.

In late January, for example, UNTAET announced a small reduction in the daily living allowances of international staff (see "In Brief," p. 12). That upwards of 200 international staffers expressed outrage at this very minor cut is, in and of itself, outrageous. As one aid worker stated to a reporter, "You have to question their dedication."

Also recently, a group of international NGOs has launched a campaign protesting attempts by ETTA to tax the wages of their international employees. Arguing that these taxes will undercut their ability to do humanitarian work, these international NGOs are threatening non-payment or even their departure.

Why should internationals who have relatively high earn-

ings be exempt from supporting East Timor's embryonic government? All who live in East Timor benefit from government services such as police, ambulances, firefighters, law courts and roads. This also applies to World Bank, UN, and IMF (non-local) staff — all of whom are exempt from paying taxes. Additionally, some companies that have UN contracts have not paid taxes and are likely, alongside the UN itself, to argue their exempt status based on a fifty-year old UN convention. Taxing the profits of those businesses would generate an estimated \$5-10 million annually. (See Tax chart, page 11.) While the tax revenue from the INGOs would be considerably less than this, the best leadership that the INGOs could provide in terms of capacity-building and modeling would be to pay their taxes and encourage their staff to do so too. If East Timor cannot raise taxes from locals and foreigners, then it will not be able to provide essential government services like health and education, ironically the very areas the INGOs are promoting.

### Time for Budgetary Democracy

UNTAET can act to make budgetary matters more transparent and efficient.

**First, UNTAET should translate and publicize all budget-related documents.** Many of the relevant documents are very difficult to obtain. One easy step would be to ensure that most of the material on the internal UNTAET website is also posted on ETTA's publicly accessible website ([www.gov.east-timor.org](http://www.gov.east-timor.org)). Another step would be the establishment of a public documents room in each of the UNTAET district offices as well as in the UNTAET/Dili headquarters.

**Second, UNTAET should democratize the budget making process by involving East Timorese civil society** in decisions about priorities and the allocation of funds. Tied to this is the Timorization of UNTAET—a process that is advancing much too slowly.

**Third, UNTAET should serve as a much more vocal advocate for the East Timorese** by identifying publicly and lobbying for funding for unmet needs, as defined in conjunction with civil society.

In sum, the problem is three-fold:

- 1) There is not enough money for East Timor to rebuild in a manner that will ensure a standard of living consistent with international human rights standards and basic notions of justice;
- 2) Spending decisions are not made with serious consideration for their long term impact; and
- 3) There is not enough transparency, public knowledge, and effective input by East Timorese civil society over the money that does exist.

International supporters of East Timor, working with local organizations, can play an important role in securing more funds, and greater control over the funds by the East Timorese people. In this regard, international advocates can lobby their governments to provide more genuine support (in terms of funds and political power) for East Timor. UNTAET can begin to support this human rights activism by ending the practice of closed-door discussions about budget matters. ❖

## Editorial: Money Matters: Questions of Priorities and Process

The question of money is one of the most sensitive matters faced by UNTAET. Many in East Timor and abroad wonder where the hundreds of millions of dollars have gone that the United Nations has provided to the mission from assessed contributions.

Undoubtedly, UNTAET has achieved much with the funds: it has overseen a generally successful humanitarian relief program in the aftermath of the Indonesian military's September 1999 campaign of terror and destruction; it has provided security from the TNI and its militia; and it has set up a functioning administration for the soon-to-be independent country. At the same time, it has helped to lay the foundation for the transition to full independence. These are not insignificant accomplishments.

Yet, the situation remains extremely difficult for the majority of East Timorese. Unemployment is pervasive, hunger is common, and basic social services remain highly inadequate. Meanwhile, the budget of UNTAET is more than 10 times that of the East Timor Transitional Administration (ETTA)—the future government of an independent East Timor.

These factors, combined with impressions that UNTAET has much more money than for which it can show concrete benefit, have led to a good deal of displeasure. Sergio Vieira de Mello acknowledged the validity of these sentiments last June, when he stated "Something's not right when UNTAET can cost 692 million dollars and the budget of East Timor is little more than 59 million. ... It should come as no surprise that the United Nations is targeted for so much criticism, while the East Timorese continue to suffer."

And last November, de Mello told the UN Security Council he found it "frankly absurd, as a transitional administrator, to preside over a UN mission that spends 10 assessed dollars on itself for every voluntary dollar spent administering the country for which the Council made us responsible."

### Insufficient Resources

ETTA is the beneficiary of some of these voluntary dollars. Funded through the UNTAET Trust Fund and internally generated revenues, ETTA serves, in effect, as an auxiliary to UNTAET. Its resources are simply inadequate given its tasks.

ETTA Infrastructure Minister João Carrascalão, for example, used the occasion of a visiting delegation from the UN Security Council last November to explain the poverty of resources experienced by the embryonic East Timor government. "We need at least 100 million dollars to rehabilitate the basic services that the population needs and to set up a proper administration, and now we are running on a budget of 15 million dollars," Carrascalão told a reporter.

A conservative estimate, according to Carrascalão, of the damage to East Timor's infrastructure wrought by the Indonesian military and its militia in September 1999 was \$3 billion. The current budget is woefully insufficient not only for rebuilding the infrastructure, but also for hiring and training the personnel to carry out the work. Given current fund-

ing levels, he estimated that his department would not have adequately-trained personnel to be self-sufficient even after five years.

The lack of sufficient resources extends to sections of the UNTAET mission as well. In early March, three prisoners—two convicted murderers (from the jail in Gleno, Ermera) and one convicted rapist (from the prison in Becora, Dili)—escaped. One of the escapees was João Fernandes, the first militia member convicted of a serious crime. A court had recently sentenced him to 12 years for killing a pro-independence activist in Maliana in September 1999. "[T]here are indications that there are limitations in the current [prison] infrastructure," stated Isabel Hight, the Director of Prisons. (UNTAET subsequently apprehended two of the three escapees, expending considerable resources in the process.)

At the same time, UNTAET officials assert that they do not have the funds to investigate many of the serious crimes committed in 1999. Scarce resources have forced UNTAET to prioritize five high-profile cases initially, and thus to neglect the important first phase of investigation of other cases. Indeed, there has been no excavation of a large number of

(Continued on page 18)

### What is La'o Hamutuk?

*La'o Hamutuk* (*Walking Together* in English) is a joint East Timorese-international organization that monitors, analyzes, and reports on the principal international institutions present in Timor Lorosa'e as they relate to the physical and social reconstruction of the country. *La'o Hamutuk* believes that the people of East Timor must be the ultimate decision-makers in the reconstruction process and that the process should be as democratic and transparent as possible. *La'o Hamutuk* is an independent organization, encouraging effective East Timorese participation in the reconstruction and development of the country. In addition, *La'o Hamutuk* works to improve communication between international institutions and sectors of East Timorese society. Finally, *La'o Hamutuk* is a resource center, providing literature on development models, experiences, and practices, as well as facilitating contacts between East Timorese groups and development specialists from various parts of the world.

*In the spirit of encouraging greater transparency, La'o Hamutuk would like you to contact us if you have documents and/or information that should be brought to the attention of the East Timorese people and the international community.*

See review of World Bank's Transition Support Program, page 10.

## UNMISET and Internal Security in East Timor

The first United Nations mission in East Timor (UNAMET) arrived in May 1999. Since then the UN has sent two other missions: UNTAET and currently UNMISET. Each has its own mandate and objectives:

- ◆ **UNAMET - United Nation Assistance Mission in East Timor – May to October 1999.** The UN first came to East Timor to organize and carry out the referendum in which the East Timorese people chose independence.
- ◆ **UNTAET - United Nation Transitional Administration in East Timor – October 1999 to May 2002.** After the referendum and the violence that surrounded the vote, UNAMET was replaced by UNTAET, with the mandate to govern until East Timor could govern itself. As a transitional government, UNTAET had total sovereignty and absolute power to govern East Timor in every aspect, with no local accountability. (*See La'ó Hamutuk Bulletins Vol.2 No.1-2, Vol.2 No.4, Vol.2 No.6-7 and Vol.3 No.1*).
- ◆ **UNMISET - United Nation Mission of Support in East Timor – May 2002 to June 2004.** On 20 May 2002, East Timor officially became an independent country with its own government. Therefore, UNTAET was replaced by UNMISET, with the mandate to give support to the new government until May 2004, supporting the long-term stability and security of the country.



Prime Minister Mari Alkatiri's home after the 4 December 2002 civil disorder.

After nearly a year of UNMISET's presence in East Timor, many still do not understand what UNMISET is or what its mandate or responsibilities are. This article will try to clarify some questions about UNMISET, especially in regard to its responsibilities for the internal security of East Timor.

### UNMISET's Mandate

UN Security Council Resolution 1410, passed 17 May 2002, authorized the formation of UNMISET for an initial period of one year. UNMISET has three main tasks:

- √ “to provide assistance to core administrative structures critical to the viability and political stability of East Timor.”
- √ “to provide interim law enforcement and public security and to assist in the development of a new law enforcement agency in East Timor, the East Timor Police Service.”
- √ “to contribute to the maintenance of external and internal security of East Timor.”

UNMISET has a Mandate Implementation Plan, composed of three programs:

1. Stability, Democracy and Justice
2. Public Security and Law Enforcement
3. External Security and Border Control

The Mission is headed by a Special Representative of the UN Secretary General (SRSG), Indian diplomat Kamallesh Sharma, and a Deputy Representative, Sukehiro Hasegawa from Japan, who also heads UNDP in East Timor. UNMISET consists of a civilian component, which includes the office of the SRSG, Civilian Support Group (technical advisors to East Timor's government), Serious Crimes Unit and Human Rights Unit, as well as a civilian police component and a military component (*see Table 1, next page*).

(Continued on page 2)

### Inside . . .

- Millennium Development Goals conference ..... 9
- WB Transition Support Program assessed ..... 10
- Diagram: Where does East Timor get money? .... 12
- Editorial: No Justice No Peace ..... 16



**Table 1:  
UNMISSET's Authorized Maximum Strength**

Civilian Staff	455 international staff 977 national staff 241 UN Volunteers
Civilian Police	1,250 civilian police
Military	5,000 military personnel (including 120 military observers)

According to the December 2002 Report of the Secretary-General on UNMISSET's budget for July 2003 to June 2004, UNMISSET's two-year budget is approximately U.S.\$517 million. About 62% of this goes to personnel, with 22% spent on civilian staff. Although UNMISSET has nearly twice as many East Timorese as international staff, only 0.8% of the budget (3% of the civilian personnel money) pays for local staff (see Graph 1).

**Public Security and Law Enforcement**

This article will focus on UNMISSET's Mandate for Internal Security and Law Enforcement, which states that UNMISSET is responsible to "provide interim law enforcement and public security and to assist in the development of a new law enforcement agency in East Timor, the East Timor Police Service" and to "contribute to the maintenance of the external and internal security of East Timor." Thus we will look mainly at the mandate and performance of international police, not of the military.

According to the Mandate, this program has two objectives:

1. to continue providing executive policing;
2. to support the development of a national police service through training, co-location and timely and coordinated handover of responsibilities.

What does this mean? First, that UNMISSET, through its police component UNPOL, will provide police services un-

til the national police is prepared to do so. Second, that it has the responsibility to train and prepare the national police force – Polisia Nasional de Timor Leste (PNTL) – as a professional, democratic, efficient, sustainable and community-based police force. UNMISSET has overall responsibility for security in East Timor, with the UNPOL Commissioner and the SRSG as ultimate decision makers in regard to security in the country until operational responsibilities are fully handed over to the East Timorese authorities. "Until that time, they [the national police] would remain under the command of the international police commissioner reporting to my Special Representative," according to the Mandate Implementation Plan.

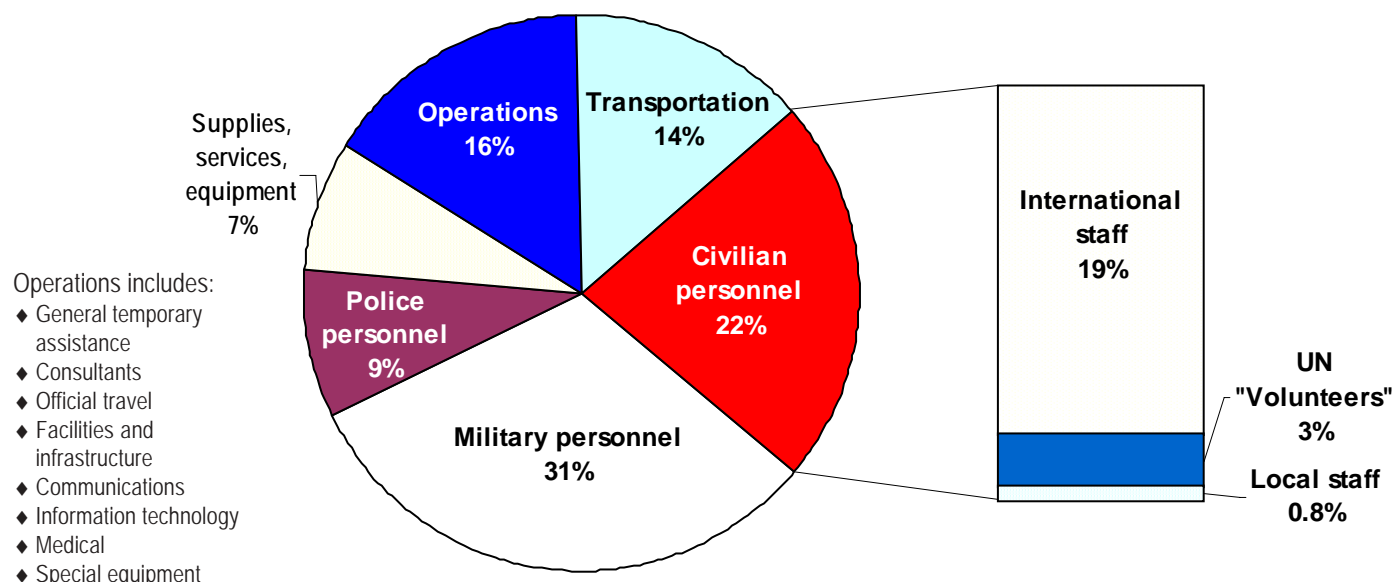
**UNPOL Component in East Timor**

According to UNMISSET's Mandate, "the programme would be implemented by the UNMISSET police component, assisted by a small number of civilian experts." When the Mission was established on 20 May 2002, the UNPOL component was 1,250 officers spread among the 13 districts of East Timor. Following the Mandate's orders that "downsizing of UNMISSET should proceed as quickly as possible, after careful assessment of the situation in the ground," this number has been gradually reduced according to a plan made at the beginning of the Mission. In March 2003, the UNPOL contingent in East Timor included 662 officers (see Table 2, next page).

**Training and Development of the National Police**

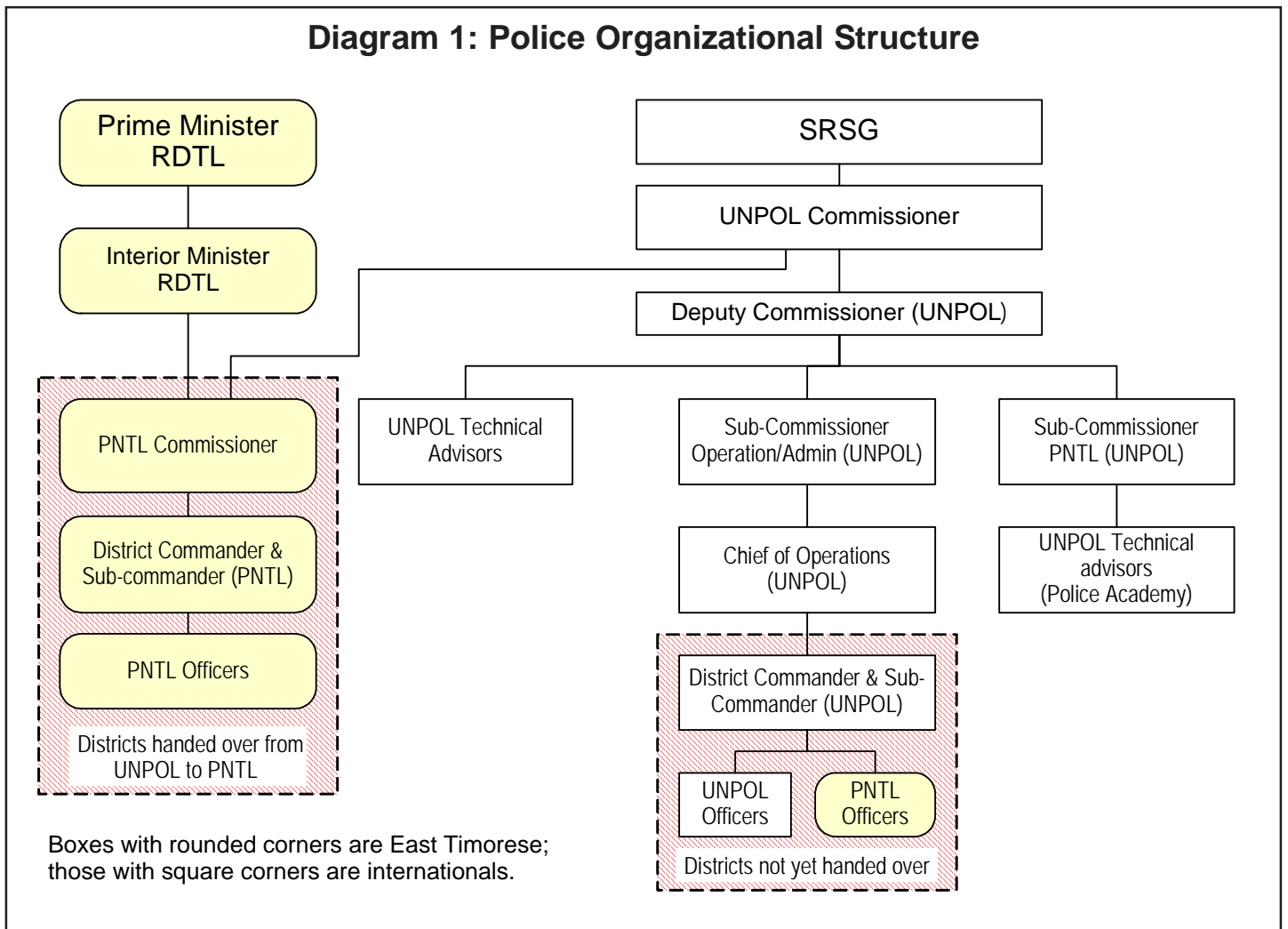
The East Timor national police force, PNTL, was formed on 27 March 2000 with 50 recruits. Police candidates were recruited and selected by UNPOL in Dili and throughout all districts, and the recruiting process was based on international criteria such as height (at least 155 cm for women and 165 cm for men), and the candidates had to pass medical and other tests. There was no consideration of whether the candidate had been pro-autonomy or pro-independence,

**Graph 1: UNMISSET Expenditures 2002-2004  
(\$517 million over two-year mission)**





**Diagram 1: Police Organizational Structure**



which generated protests from parts of East Timorese civil society. The East Timor police now number 2,530, and another 253 recruits started the training at the Police Academy on 31 March 2003.

As already mentioned, one of the objectives of UNPOL in East Timor is to train the national police force and prepare them to assume full responsibility for the internal security of the country after UNMISSET leaves.

The training for the East Timorese National Police is composed of:

- √ Basic Training: three months classroom training in the Police Academy
- √ Field Training: nine months “on the job” training
- √ Specialist Training: such as bomb search, investigations and basic intelligence
- √ Special Training: given to special units such as the UIR (Rapid Intervention Unit, see page 7) and the UPV (Vulnerable Persons Unit)
- √ Professional Courses: management and administration.

**Police Academy**

The selected candidates undergo three months of basic training at the Police Academy, where they learn theory and become familiar with police work. The training program was prepared by the UN and covers 54 subjects, with monthly exams. Many national police recruits have only middle school education, so they sometimes have trouble understanding all of the material covered in such a short period.

All officials interviewed by *La’o Hamutuk* agreed that the basic training given to the PNTL is not enough to prepare a professional police force and that three months is a very tight timeframe. The Joint Assessment Mission on the Timor Leste Police Service, held from 18 to 29 November 2002, recognized in its Aide-Memoire: “All TLPS [now

**Table 2: UNPOL Personnel**

DISTRICT	UNPOL
Dili .....	482
Baucau .....	58
Aileu .....	3
Manatuto .....	4
Viqueque .....	24
Bobonaro .....	36
Liquisa .....	5
Oecussi .....	30
Manufahi .....	4
Covalima .....	38
Ermera .....	11
Ainaro .....	4
Lautem .....	17
<b>TOTAL .....</b>	<b>662</b>

Source: UNMISSET, March 2003

PNTL] recruits receive twelve weeks of basic training in addition to field training. However, it's widely acknowledged that this is insufficient and further training is required to strengthen basic policing skills."

UNPOL says that the time period for the training is limited because it has only two years to prepare 2,830 East Timorese national police officers, and it faces time pressures to reach high targets for the numbers of recruits trained. However, the training of the East Timorese National Police didn't start with UNMISSET, but during the UNTAET Mission, in the beginning of year 2000. When UNMISSET started in May 2002, the East Timorese police already had about 1,800 officers (*see Graph 2, page 6*). That means that, in the two years of its mandate, UNMISSET was required to train around 1,000 officers, not 2,800.

*La'o Hamutuk* has just received information that a new curriculum for six months basic training has been developed and will be implemented prior to the end of the Mission. With the new curriculum, the timeframe for the training will continue to be one year, six months basic training plus six months field training. But until now, five months after the Joint Mission made its recommendation, PNTL recruits are still receiving the same three months basic training.

Until May 2002, the training at the Police Academy was entirely given by UNPOL officials and international experts. During this period, besides the short timeframe, communication was another problem in the Academy. Most of UNPOL officers giving the training used English, which most East Timorese recruits do not understand. According to a UNPOL technical advisor, as well as PNTL officers interviewed by *La'o Hamutuk* at the Police Academy, interpretation further reduces the time for training, apart from the fact that in many cases the interpretation is not very accurate.

After independence, PNTL officers began giving the basic training and now command of the Academy has been handed over to PNTL, following the UN plan. UNPOL officers at the Academy are now technical advisors, in an advisory role, monitoring the classes, helping with administration and giving assistance when needed. They also prepare PNTL instructors and, along with international experts, give specialized training on scenarios, human rights, management and other topics. There are currently 44 PNTL instructors and 31 UNPOL technical advisors in the Police Academy.

## Field Training and Executive Policing

The first objective of the Internal Security and Law Enforcement programme is "to continue providing executive policing." Since the establishment of the national police force, the executive policing in East Timor has been functioning as a "joint service," provided by UNPOL and PNTL, under the command of the UNPOL Commissioner who reports to the SRSG in East Timor.

The first nine months of "joint service" after graduating from the Police Academy is called "field training" or "on the job training." The recruits return to the towns where they were selected to put into practice what they have learned in the Academy. During this period, a PNTL recruit works side-by-side with a UNPOL counterpart. After finishing the field training, the recruits are tested and evaluated to become professional police officers. But until the district where they work is handed over to the PNTL command, they keep working with their UNPOL counterparts in this joint service.

According to UNPOL Deputy Commissioner Denis McDermott, UNPOL priorities in East Timor change depending on the context and development of the situation. Police service is part of UNPOL's mission, but with the development of the national police, PNTL is usually at the front of daily police operations, while UNPOL now mostly monitors and advises, concentrating its activities on training and investigation.

The "field training" and "joint service" described above have had some problems and difficulties:

1. **Lack of a Common Language:** most UNPOL officers working as counterparts of PNTL officers don't speak Tetum or Indonesian, and most PNTL officers don't speak English. This makes communication between East Timorese and UNPOL counterparts difficult, although translators are provided in some cases, especially in the stations. But in daily policing, when PNTL and UNPOL officers are working together in the field,

there is usually no one to make the bridge between them. The majority of PNTL officers interviewed by *La'o Hamutuk* stated that communication is a big problem, especially in the field.

2. **Insufficient Knowledge about Local Culture:** some PNTL and UNPOL officers interviewed by *La'o Hamutuk* stated that UNPOL officers lack knowledge about the local culture, which may be a problem in field policing. This was also acknowledged by the Joint Assessment

**Table 3:  
32 Countries provide  
741 Civilian Police**

Argentina .....	9
Australia .....	58
Bangladesh .....	25
Bosnia-Herzegovina .....	10
Brazil .....	9
Canada .....	20
Chile .....	6
China .....	76
Egypt .....	12
Ghana .....	69
Jordan .....	40
Malaysia .....	44
Mozambique .....	6
Nepal .....	35
Niger .....	3
Norway .....	4
Pakistan .....	9
Philippines .....	74
Portugal .....	14
Russia .....	5
Samoa .....	2
Singapore .....	25
Slovenia .....	2
Spain .....	5
Sri Lanka .....	38
Sweden .....	10
Thailand .....	36
Turkey .....	11
Ukraine .....	7
United Kingdom .....	12
United States .....	58
Zambia .....	7
<b>Total .....</b>	<b>741</b>

Source: SG Report on UNMISSET  
6 November 2002

Mission on the PNTL, which reported that “deficiencies in regard to language and culture by some UNPOL staff have hampered the effectiveness of some technical assistance.”

3. **Methods:** the first three months of training in the Police Academy, whether given by UNPOL or PNTL officers, follows a curriculum prepared by the UN. But when PNTL officers undergo field training, they work with internationals from all over the world (*see Table 3*), each with his/her own methods of policing and of applying the theory in practice. This confuses the new East Timorese officers, who see different examples of implementing what they have just learned in the Academy. In fact, these differences raise problems even among UNPOL officers working together.

### PKF Back-up Support

The Peace Keeping Force (PKF, the military component of UNMISSET) has, as a secondary task, to give back-up support to the police “in the event of serious or large scale internal security incidents exceeding police capabilities”. Back-up support normally starts with a request from the District Commander to the UNPOL Commissioner, but the SRSB must make a formal request to the PKF Force Commander.

According to the November 2002 Report of the Secretary-General on UNMISSET, UNPOL had, up to that date, required support from PKF to re-establish order on four occasions related to “issue-based security groups” provoking violence. Since this report, the police have requested back-up support from PKF at least three more times: during the civil unrest in Dili on 4 December 2002, and during the two armed incidents in Atsabe and Atabae, in January and February 2003.

The use of military support to deal with internal security affairs is very problematic. Although it may be necessary in cases of extreme threat to security, it should be avoided as much as possible, and its limits and roles have to be very clear. As the name says, it is support given to the police force to re-establish order and provide security, but the responsibility for controlling internal security incidents remains with the police.

Confusion over the roles of police and military are not the only problem with using the military for internal security. The military is not trained to deal with civilians. They are trained to fight wars, to take actions against enemy soldiers, and normally, to kill. To involve the army in civilian disturbances or civil unrest can be very dangerous, and is a bad precedent for a nation building a new democracy. UNPOL requested PKF support seven times in ten months, a very high rate for any country.

There are opinions, even inside PKF, that PKF is doing the police’s work in some places, like Dili, because the police cannot do their own job. In many cases, like in the 4 December incident, people expect the PKF to take action, which shows that the role of UNPOL and PKF is not clear to most people, especially in cases of civil disturbances. The fact that the population so often sees PKF in the streets may increase their confusion.

The question is: Why does UNPOL so often need support from the military in East Timor? The police should be well prepared, trained and equipped and have enough personnel to ensure law and order in internal security matters. The cases in which the police need military support should be exceptional.

### Handover and Downsizing

Operational responsibility for day-to-day executive policing is transferred to the National Police Command gradually, district by district, according to a plan made before the beginning of the Mandate, with the agreement of the Transitional Government. Under this plan, the national police service will assume full executive responsibility for policing in all 13 districts by January 2004, and UNPOL will take on a technical advisory function. Seven of the 13 districts have been handed over to the PNTL command (*see Table 4*).

With the handover, an East Timorese District Commanding Officer, who reports to the PNTL Commissioner, assumes responsibility for command of routine policing, but UNPOL keeps a few personnel as technical advisors. The performance of PNTL officers is still reviewed by Mobile United Nations Police Teams. And until January 2004, when executive responsibility for all the 13 districts, headquarters and specialized units is handed over, PNTL and UNPOL are under the control of the UNPOL Commissioner, even in districts where PNTL has responsibility for daily operations. As described in the agreement between UNMISSET and the RDTL Government on the transfer of police responsibilities “the

**Table 4: UNPOL to PNTL Handover**

#### Already handed over

Date	Responsibility
May 2002	Aileu district
May 2002	Dili port
May 2002	UIR Baucau
June 2002	UIR Dili
June 2002	Manatuto district
June 2002	Dili District Court
Sep 2002	Security of the Police Academy
Oct 2002	Manufahi district
Nov 2002	Ainaro district
Dec 2002	Ermera district
Jan 2003	Immigration
Jan 2003	Maritime unit
Mar 2003	Liquisa district
Apr 2003	Lautem district
May 2003	Viqueque district

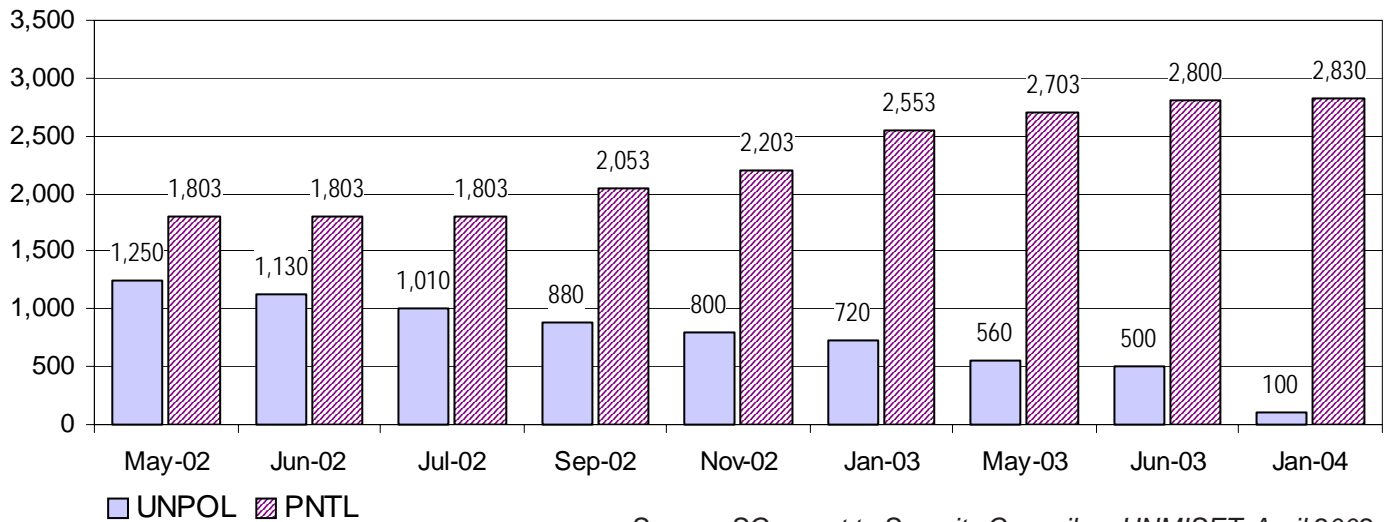
#### Planned for future handover

June 2003	Dili airport (Comoro)
June 2003	Bobonaro district
June 2003	Border patrol
June 2003	Covalima district
Aug 2003	Oecussi district
Sep 2003	Baucau district
Nov 2003	Dili district
Jan 2004	Headquarters

Source: UNMISSET



**Graph 2: UNPOL and PNTL planned force strength**



Source: SG report to Security Council on UNMISSET, April 2002

East Timorese Commissioner shall, following District/Unit handover, promptly bring all Operational Command and Control matters to the attention of the UNPOL Commissioner, for his appropriate action.”

With the gradual handover of operational responsibilities to PNTL commanders, UNPOL strength has already been gradually downsized. The downsizing plan was drafted according to the handover plan (see Graph 2, next page) and when the national police assume total command the UN police will remain in an advisory role, with 100 technical advisors, until June 2004.

The plan for the handover of responsibilities and downsizing has been questioned many times, since the great majority of UNPOL officials we interviewed believe that with the little training received the National Police are, in some cases, still not ready to assume responsibility. In November 2002 the Joint Assessment Mission recommended that “it may be that the timeline for handover merits further consideration taking into account both the current skill levels of the PNTL officers and relevant political factors.” When *La’o Hamutuk* asked the Deputy Commissioner of UNPOL about this recommendation, he said that “the agenda for the handover will continue as planned. We have to leave East Timor in 2004, so we don’t have time to delay the handover of responsibilities to the PNTL.” Even though Denis McDermott agrees with the plan, also said that he is “well aware that a lot more work still needs to be done to leave the PNTL in a position to maintain law and order in the future.”

But after the events in Dili, Atsabe and Atabae (see below) UNMISSET authorities changed their minds. The Special Report of the SRSR presented to the Security Council

on 10 March, recommends several changes in the UNMISSET plans in order to address security challenges, including that “... UNMISSET would ensure that handover takes place at a pace that does not jeopardize stability....”

### The events in Dili, Atsabe and Atabae

Three major events affecting internal security took place in East Timor in the last few months.

On 4 December 2002, a demonstration initiated by students protesting in front of the National Parliament against the attitude of the police during the arrest of one of their classmates the day before was manipulated and directed to

attack specific targets symbolic of the Prime Minister or of the unequal wealth of foreigners. During the protest in front of the Parliament three demonstrators were killed, reportedly by PNTL police (see *La’o Hamutuk Bulletin Vol.3, No.8*).

The ineffective police response to this incident is still unexplained. There are several questions being asked: why did the police shoot into an unarmed crowd? How could the mob have walked around Dili for several hours, and in nearly

every incident, the police arrived after the destruction was complete, although they have helicopters, motor vehicles and sophisticated communications equipment? Why did UIR, the unit specially trained to act in civil disturbances, not act to control the protest? Where were the UNPOL counterparts of the PNTL officers who were deployed in front of the Parliament? Why were UNPOL and PNTL officers, plus PKF troops, which gave back-up support to the police in this event, unable to control an unarmed crowd of about 200 people? Why were PKF troops protecting places such as foreign embassies and UN facilities, while nobody, for example, was

### Material Resources

When talking about developing East Timorese sustainable institutions, such as the National Police force, we cannot forget that these institutions require well-prepared human resources in addition to adequate material resources. PNTL now depends on UNPOL’s material resources like computers, cars, radios and equipment necessary to perform their duties. UNMISSET authorities are aware that PNTL will still need these resources after the mission leaves. UNPOL has made several requests to UNMISSET to leave the important equipment with PNTL, but it’s still not clear if it will happen.

protecting the Prime Minister's house, which was the last target attacked by the mob?

Answers given to *La'o Hamutuk* by UNPOL officials are quite vague. First they said that the police weren't able to control the crowd because it split into several groups, heading (on foot) to different targets at the same time. That still doesn't explain why, with all the equipment and personnel that UNMISSET has, they weren't able to figure out where the groups were heading and block the roads. It was also said that there weren't enough police personnel to control the crowd of 200 people, even counting PNTL and UNPOL officers posted in Dili, plus the back-up support of the PKF. Regarding the UIR, instead of being deployed to control the crowd, it was deployed to protect the UNPOL Headquarters and the Dili Police Station. A UNPOL official told us unofficially (although his superiors deny this) that, after UIR's intervention in civil disturbances in Baucau some months before, the command decided to "preserve their image," and not send them to the streets. Some UNPOL officials told us that "they weren't prepared" to deal with such an event, even though they are responsible for internal security in East Timor.

What is clear is that the responsible authorities, UNMISSET and UNPOL, didn't take effective action to prevent or control the situation. Why they didn't is not yet clear. It is clear from the UNMISSET Mandate that PNTL is under the command of UNPOL. On 13 December, nine days after the event, SRSG Kamalesh Sharma stated that "some discipline problems were evident within the Timor Leste Police Service, and immediate steps have been taken to deal with it." Mr. Sharma never mentioned who was in command of PNTL that day, nor who was responsible for their training. As a high-ranking UNPOL official told us, "if the PNTL committed any mistakes on 4 December, that's many people's fault, and since UNPOL is the one responsible for their training and command, it is the most responsible for the way [PNTL officers] act."

Just after the event, UNPOL opened an investigation into the causes of the disturbance and UNPOL and PNTL performance, as well as the actions taken by PNTL officers involved in the killing of the three demonstrators. In February, the UNPOL Deputy Commissioner told *La'o Hamutuk* that they were only waiting for the results of ballistic tests to complete the inquiry, and that once completed the outcome will be forwarded to the Prosecutor General. By late May, almost six months after the incident, the results of the investigation have not been released, and nobody has been charged.

According to UNPOL officials, however, some things changed after 4 December: UIR has gone through further

training in crowd control skills and appropriate use of force, and new equipment for crowd control was acquired and officers received training on how to use this equipment. If they weren't prepared and well equipped to respond effectively at that time, now they say they are.

The other two events involving internal security occurred in January and February, near Atsabe, Ermera district and Atabae, Bobonaro district, both near the Indonesian border. In both cases armed groups attacked the local population, with seven deaths in Atsabe and two in Atabae. The precise motivation for the attacks is still unknown, but, according to the a UNMISSET report "there is an increasing amount of credible evidence to suggest that former militias and armed groups may be establishing bases within the country with the objective of undermining stability."

Both in Atsabe and in Atabae, the intervention of the military, PKF and the East Timorese Armed Forces (FDTL), confused who has the responsibility to handle such cases. According to Deputy SRSG Hasegawa, these are internal security matters, and therefore the responsibility of the police. But, once more, the police did very little. In Atsabe, FDTL carried out arrests (most of which were overruled by a judge the next day for being unconstitutional) and remained in the area, along with Portuguese PKF, to guarantee security. In Atabae it was PKF, not police, who searched the area after the attacks and arrested

### UIR

The Rapid Intervention Unit or UIR (Unidade Intervensãun Rapida) is a special unit of East Timorese police trained to respond in cases of riot, civil disorder and crowd control. There are two UIR units, one based in Dili, composed of 130 officers, and another in Baucau, with 60 officers. UIR officers were recruited from all police officers, but now it's made only among officers who volunteer to take part in the unit. UIR has already been handed to the PNTL, and the unit receives special training outside the Police Academy. They were first trained by the Portuguese Intervention Corps (CIP), followed by training from Malaysia and Australia. After the 4 December incident, UIR received further training in the use of force and crowd control from Malaysia, a country with a poor record of police respect for human rights.

suspects. In both cases, the population asked for the presence of FDTL and PKF, because they lack confidence in the police to guarantee their security.

These three events clearly show the fragility and inefficiency of UNPOL's ability to guarantee internal security in East Timor. In his March 2003 report, the SRSG recommends several changes in UNMISSET plans for UNPOL. "The events of recent months suggests that serious deficiencies in Timorese and international capabilities already exists, and can invite further problems," says the report, which calls for freezing the downsizing of UNPOL and PKF until December 2003, and recommends a revised strategy for the military and police forces. These events made the UN authorities in East Timor officially recognize problems previously identified by many others, including the weakness of training and the problems stemming from the rush to hand over districts in order to meet downsizing schedules.

The suggestions made by the SRSG include:

- √ to adjust the composition and strength of UNPOL and the schedule for its downsizing;
- √ to provide further training to PNTL, especially in crowd control;

- ✓ to include an international police unit specialized in emergency situations and civil disturbances, which will be prepared to act when the situation exceeds the capacity of UIR while it is still under training;
- ✓ to increase UNPOL monitoring and advisory presence in districts that have been handed over to the East Timor Government;
- ✓ to adjust the planning for handover to take place at a slower pace.

These recommendations were approved by the UN Security Council on 5 May 2003, as part of Resolution 1473.

### Conclusion

A stable and secure environment is essential for the development of any nation. And it's clear that in East Timor there are still many problems regarding security. UNMISSET, as the institution responsible for maintaining security in East Timor and establishing sustainable Timorese structures for after it leaves, is responsible to solve these problems.

East Timor has many economic, social and historical reasons for its special security problems: Massive unemployment, a lack of education and other public services; limited mutual respect between government and civil society; frustration with the pace of democratic and economic development; widespread post-conflict and post-traumatic stress; lack of confidence in peaceful processes for change. These problems are the

legacy of centuries of colonial rule and decades of military occupation. The three-year UNTAET government and the first year of UNMISSET made some progress in addressing these problems, but there is far to go and the responsibility of the international community has not ended.

*La'õ Hamutuk* welcomes Security Council Resolution 1473, which makes important recommendations aimed to address security problems. We also hope that these recommendations are implemented, and do not stay only on paper. The Joint Assessment Mission made similar recommendations back in November, but very little has been done to make them happen.

We know that guaranteeing security in East Timor is not an easy task. If UNMISSET is to leave a stable East Timor, however, it is not enough to acknowledge the problems in meetings, missions and reports. The Mission has to fully commit itself to face and resolve these problems, and to make serious investment in training and preparing a professional national police force, able to perform its tasks in the best way possible. ❖



### Who is La'õ Hamutuk?

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# A Review of the First Year of the Transition Support Program

At the May 2002 Dili donors' conference the future government of the Democratic Republic of East Timor estimated that it would need an extra \$30 million to finance the first year's national budget. This is in addition to the \$42 million it could raise within East Timor. The national budget is used to pay for government offices and the salaries of civil servants and officials. It also pays for government services and functions like defense, public safety, education, health care and infrastructure. It is expected that from 2005 to 2020 sufficient revenues will be received from the royalties from the exploitation of East Timor's oil and natural gas resources in the Timor Sea to finance the entire budget without external support.

A donor working group consisting of the World Bank, the International Monetary Fund, the Asian Development Bank, Japan, Portugal, Australia and the United Kingdom agreed to consolidate donor contributions to the national government budget through a facility similar to the outside financial support for the UNTAET Consolidated Fund for East Timor (CFET), which financed the transitional administration (ETTA/ETPA) (see *La' o Hamutuk Bulletin* Vol.2 No.1-2). The donor working group recommended that the World Bank act as trustee for the new facility, which became the Transition Support Program (TSP). Prior to the donors' conference, the East Timorese government had not wanted the World Bank to control these funds and had asked the UN to control them instead, but the UN and donors refused. The TSP began in July 2002, a few days after East Timor joined the World Bank.

The donor working group wanted the government and the World Bank to agree on how the money would be spent and monitored. The program was supposedly negotiated between the government, donors and the World Bank. In fact the government presented its draft action plans for the fiscal year (July 2002 until June 2003) to the World Bank. The World Bank then selected those items they considered the most important for the Transition Support Program and specified the timetable for implementing the selected activities.

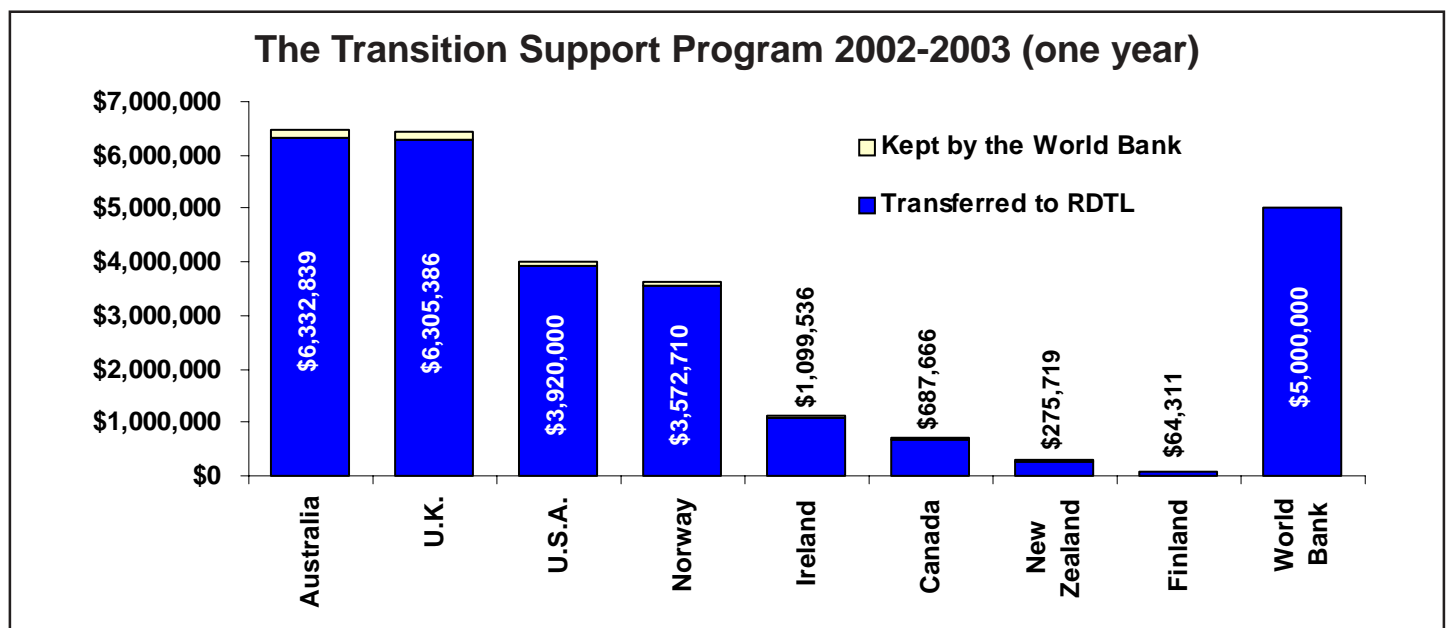
International organizations finance and administer other programs outside the government budget. These include UN, which finances UNPOL and the PKF, and bilateral projects such as Portugal and education, and Japan and agriculture (See *La' o Hamutuk Bulletins* Vol.3 Nos.2-3, 6, 7, 8). Altogether this is called the Combined Sources Budget. The government administers the national budget including the areas identified by the Transition Support Program, but the World Bank is supposed to monitor the TSP areas only.

As trustee of the TSP, the World Bank receives funds from donors and transfers them to the government. The donors have each agreed with the World Bank to transfer funds at a certain date. East Timor's government has signed a separate contract with the World Bank to receive each donor's contribution. Currently some donors have signed one year agreements with the World Bank and some have signed three year agreements. The World Bank attempted to persuade all the parties to sign three year agreements. The government resisted, fearing that the World Bank would control the funds by transferring the money in small installments and delaying or canceling installments if East Timor's government failed to meet their conditions. Funds from each donor for each year are transferred soon after the World Bank receives the funds from that donor.

Portugal has not provided funds through the TSP process, but will contribute \$3 million dollars directly to the government of East Timor in June 2003 for the 2002-03 fiscal year. The Portuguese embassy here would not explain why Portugal chose not to distribute funds through the TSP or if they placed any conditions on their contribution.

The government had consistently asked for the TSP to enable the transfer of donor contributions to the budget as determined by government. It was under the impression that there would not be any more conditions. However, the World Bank has placed general conditions: the government may withdraw the funds as long as it "has maintained a macro-economic policy satisfactory to the Bank." The World Bank says that this is a standard phrase, which is in the agreement

**See diagram of all East Timor's funding sources on pages 12-13.**



to prevent any major changes in government policy. There are also standard World Bank restrictions prohibiting spending on certain items such as alcoholic beverages and tobacco.

Some of the conditions are specific to East Timor many of which had already been completed when the TSP began. These include:

- ✓ Preparing a budget for the 2003 fiscal year
- ✓ Limiting the number of civil servants to 16,400
- ✓ Allocating more than 35 percent of the national budget to health and education and less than 22 percent to defense and public law and order
- ✓ Employing a private management team for its Power Service from 20 May 2002 to 30 August 2002
- ✓ Appointing a consultant to prepare terms of reference and performance indicators for the management contract for the East Timor Electricity Authority.

The agreement also states that if the government does not comply with these conditions the World Bank can stop transferring the money. For this fiscal year this does not mean much, as the World Bank has already transferred most of the funds. However, it could cause problems with the next two years of the Transition Support Program. The World Bank has acknowledged that they might stop funding if there were significant policy changes.

The donor contributions to the Transition Support Program are detailed in the graph on the previous page. The World Bank keeps 2% of all bilateral donor funds. As of April 2003 the World Bank has taken \$450,000 and will earn approximately \$1,300,000 over the three year period. The World Bank states that this is standard for all trust fund arrangements. World Bank officials we talked to were unable to tell *La'o Hamutuk* where all the money went. Some of the money has gone to the World Bank's East Asia and Pacific regional office, and part of this may find its way back to the World Bank office in East Timor.

In addition to money from donor countries, the World Bank contributes \$5 million of its own money to the TSP for the first year, and \$3 million more for the second year. The Bank has placed additional conditions on its own contribution. Following the regulation of the World Bank's charter, these funds cannot be used for 'goods and services' from within East Timor, but only from outside the country. In practice this does not have any effect since the government imports goods worth more than \$5 million per year. Although the World Bank claims to promote poverty reduction, it seems strange that this is to be done without spending any of the money within the country.

The World Bank sees the TSP as a way to influence East Timor's development. An internal World Bank document from April 2002 states that World Bank's financial contribution to the TSP is "essential for the success of the Bank's future operations in the country. Donors are looking to the Bank to play a strong role in the design and negotiation of a program for the post-independence period, 2002-2003 and beyond."

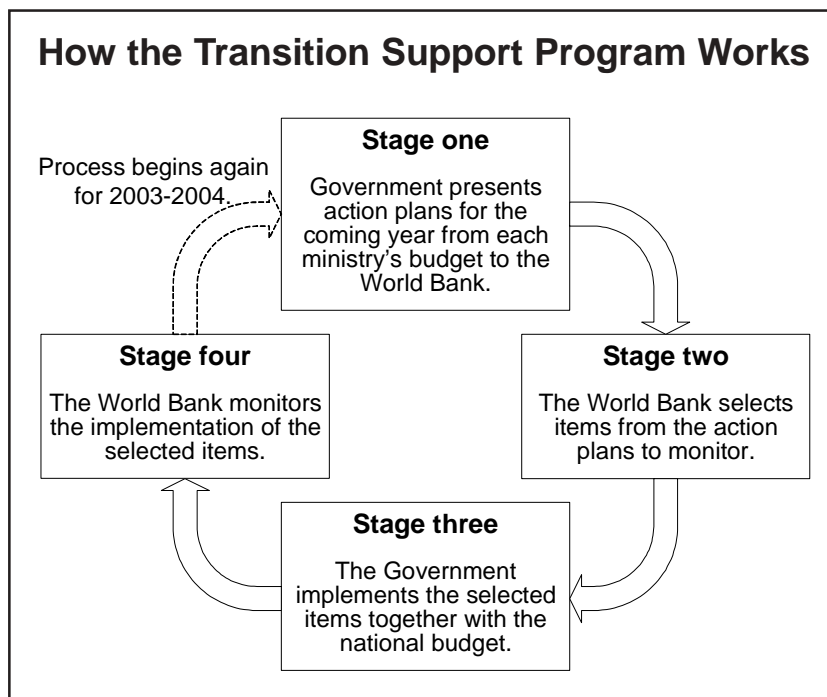
This is the first year of the Transition Support Program. The government has resisted World Bank attempts to interfere in the national budget through the TSP negotiating process. The World Bank planned to send a TSP appraisal mission in February, comprised of World Bank officials and representatives from the donors, to evaluate the first year of the TSP and plan the second year. The government objected to the mission coming while they were preparing next year's budget, fearing that the World

Bank would become involved in the budgeting process rather than accepting areas chosen by the government. The World Bank agreed to postpone the mission, and it came in April 2003 after the budget was drafted. So far, TSP planning for the second year is a more cooperative process than the first year was.

Worldwide, the World Bank encourages a model of development that promotes dependency on exports and foreign investment. It does this by promoting economic liberalization,

which can mean the removal of import and export tariffs, and limiting government regulations on, for example, wages or working hours. It also supports the privatization of government enterprises like electricity and water and reduces government spending by insisting that people pay for services like health and education. Although these policies often hurt the poor, the institution is not open to ideas outside of this framework.

The Transition Support Program is a multi-donor program, but the World Bank occupies an extremely powerful position as the intermediary between the donors and the East Timorese government. The World Bank should remember that the money moving through to the Transition Support Program is not its own money. Donor countries have made grants to East Timor to support development priorities in the national budget and the National Development Plan. The World Bank's role is to transfer the funds from the donors to the government and monitor a program that has been agreed on by the donors, the World Bank and the government. It should not abuse its position to advance its own agenda, but should keep its promises and respect East Timor's sovereignty. ❖





# How does East Timor's Government get money to spend?

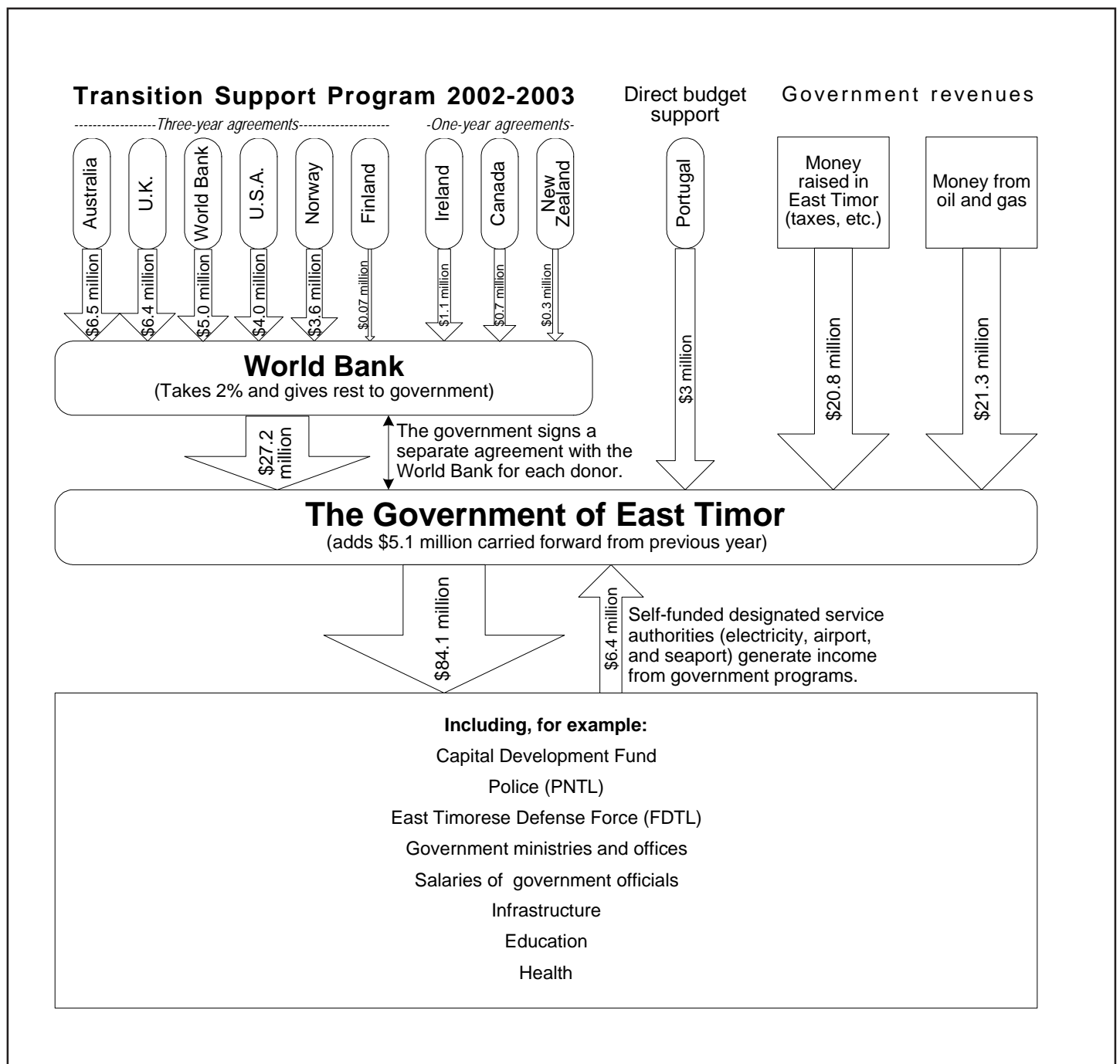
East Timor's government receives money from:

- ✓ **Bilateral (government) donors.** Most of these come through the World Bank-managed Transition Support Program (see previous article), although Portugal supports the government here directly.
- ✓ **Taxes and fees** and other government activities which generate income. Most of this is from wage tax, sales tax, import duties and excise taxes.
- ✓ **Oil and gas sales.** This is from early stages of Timor Sea oil and gas development, and is expected to increase significantly in three or four years.

These are shown in the diagram below. The data is taken from several sources, and some of the figures have changed slightly in the course of the year, so they may not be precisely current or exact. Nevertheless, we believe this is an accurate portrayal of East Timor's funding sources and streams.

The size of each arrow represents approximately how much money is involved.

All figures are in United States dollars, for the current fiscal year (July 2002-June 2003). This data comes from the Medium Term External Financing Requirements (2002-2003) report and other sources.



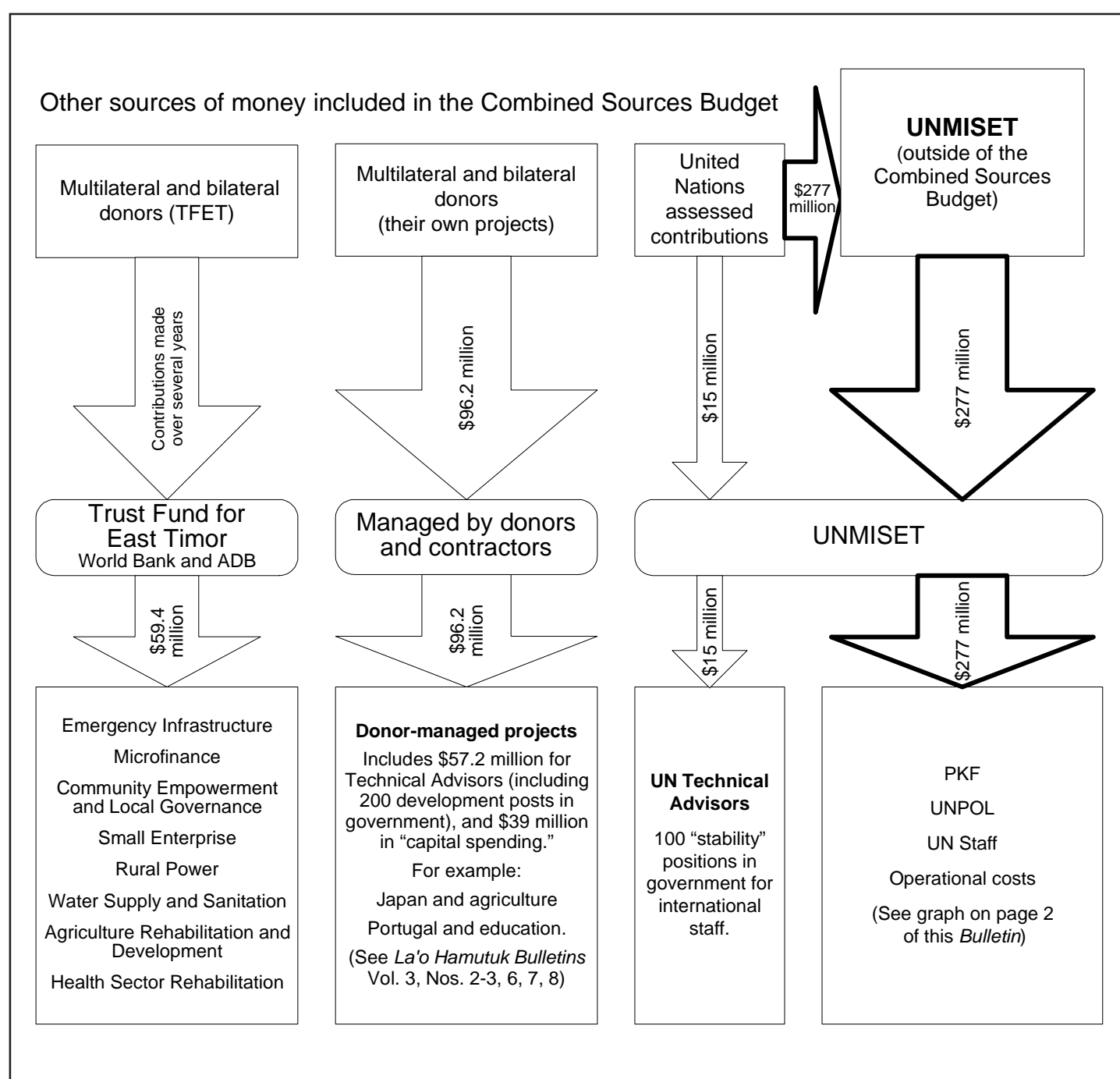
# Who else spends public money in East Timor?

In addition to East Timor's government programs, many donors fund projects directly. Although these are not controlled by the RDTL government, they are included in the Combined Sources Budget, and are considered when planning programs and allocating resources. There are four main components of the Combined Sources Budget:

1. **The RDTL government budget** (see previous page): \$72 million.
2. **The Trust Fund for East Timor (TFET)**, supported by many donors; managed by the World Bank and the Asian Development Bank. TFET is smaller than it was during UNTAET. \$58 million this year.
3. **Direct aid projects** chosen and managed by such agencies as UNDP, AusAID, USAID, governments and donors. This year, these add up to \$96 million.
4. **A small part of the UNMISSET budget** — funded from dues assessed of UN member states — pays international advisors who work within the RDTL government and its programs, about \$15 million.

About 95% of the UNMISSET budget is not part of the Combined Sources Budget. We show it below because it is larger than all other public expenditures in East Timor added together. See Graph 2 on page 2.

All figures are in United States dollars, for the current fiscal year (July 2002-June 2003).



## **Supplemental information on Timor-Leste's legal situation with regard to environment and human rights**

Although it has been independent for only three years, Timor-Leste is gradually signing and ratifying many international conventions involved with human rights, economic rights, the environment and other issues. These treaties are very important for small, new nations which rely on international law for their protection, and for the future of Timor-Leste's people. After enduring centuries of colonization and military occupation, with destruction of our environment and countless violations of our human rights, Timor-Leste's people hope that such experiences will never be repeated. Even as they resisted the Indonesian military occupation, their real struggle was to end human rights violations and to secure economic, social and political rights.

Timor-Leste has already signed and ratified the following international conventions to demonstrate their hopes for peace, justice and the rule of law:

- International Convention on Civil and Political Rights and Second Optional Protocol.
- International Convention on Economic, Social and Cultural Rights.
- Rome Statue of the International Criminal Court
- Convention on Elimination Discrimination Against Woman (CEDAW) and Optional Protocol.
- International Convention Against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment.
- Convention on Rights of the Child, and optional protocol on the sale of Children, Child Prostitution and Child Pornography.
- International Convention on the Protection of the Rights of all Migrant Workers.

These rights are also guaranteed by Timor-Leste's Constitution, but some are concerned that they are not being respected. Law have already been passed regarding defamation, immigration and other areas which violate constitutional rights, and the new court system is not functioning effectively to enforce the constitution and the rule of law. In addition, basic legislation to implement political, economic, social, cultural and civil rights have not yet been passed. Although the Timor-Leste Constitution discusses basic human rights, it does not specifically protect indigenous rights. Because of the pervasive repression of the Indonesian occupation, there are very few people still living traditional lifestyles on their traditional lands, and their interests are not represented effectively in public and political debates.

The Constitution also gives the State the responsibility to defend the environment and promote sustainable economic development. (Article 61.3: "O Estado deve promover acções de defesa do meio ambiente e salvaguardar o desenvolvimento sustentável da economia.") The state is also charged with responsibility to protect the environment and preserve natural resources.

Timor-Leste has signed or will shortly sign the Biodiversity Convention and the Convention on Climate Change, but ratification may not take place until 2006. When ratified, these international Conventions will help protect Timor-Leste's local environment, as well as the small nation doing its part to protect the global environment, showing its commitment to international principles and legal processes. They will also allow Timor-Leste to receive benefits from the Carbon Fund.

Timor-Leste is creating its entire body of domestic law, gradually replacing Indonesian and United Nations laws. Up to now, the environmental legislation has not been written. The Petroleum Act, passed in mid 2005, is weak on protecting the environment, which could cause problems for Timor-Leste. As other laws are written, they could be better or they could follow this discouraging model.

La'o Hamutuk is concerned that the underlying commitment to the environment and human rights in Timor-Leste's Constitution and international conventions ratified by the country not be fulfilled. Timor-Leste's experience over the last few years indicates that the involvement of non-state actors -- including oil companies, foreign governments, International Financial Institutions such as World Bank and IMF -- often constrains Timor-Leste's ability to implement its principles. In addition, centuries of colonialism and occupation, including the UN transitional government from 1999-2002, have set patterns of arbitrariness and corruption where the contents of laws or treaties were frequently violated with impunity. Timor-Leste is trying not to follow that model, but it is deeply ingrained.

Although public "consultations" were held regarding drafts of Timor-Leste's petroleum laws, the laws as enacted include many dangerous loopholes, omissions, conflicts of interest and other fundamental problems. Most of the suggestions from civil society were ignored, and the regime gives virtually all decision-making authority to the Ministry of Petroleum. That Ministry is also responsible to approve proposals to minimize or clean up environmental damage. The Ministry evaluates and approves contracts with oil companies, supervises the companies, and is also in charge of resolving disputes. Most of its decisions cannot be reviewed by or appealed to other authorities, and many are not even required to be made public. The Ministry's principal responsibility is to facilitate petroleum development, an inherent conflict of interest because they will be reluctant to slow petroleum development, and protecting the nation or implementing international conventions will get lower priority.

The Petroleum laws are also problematic with regard to transparency and human rights. Although Timor-Leste's government has endorsed the Extractive Industries Transparency Initiative (EITI), the laws actually prohibit companies from releasing information to the public without permission of the government. In addition, the weak state of Timor-Leste's judicial system and the long history of human rights violations, often with impunity, gives little confidence that human and community rights will be respected regarding petroleum development.

Timor-Leste's ratification of international human rights and ecological conventions is an important first step. But it will take much more work to ensure that the rights and protections guaranteed by these conventions are actually respected in the nation. Potential negative consequences of oil company activities are only a few of the obstacles to sustainable development in which all Timor-Leste citizens can enjoy their independence and freedom.

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