
Economic Development in Timor-Leste

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Introduction

Funding: Australian Aid Program

Aims:

- Reflect on Stage I Strategic Development Plan
- Explore the role of agricultural development in addressing poverty and creating an economy that is growing sustainably

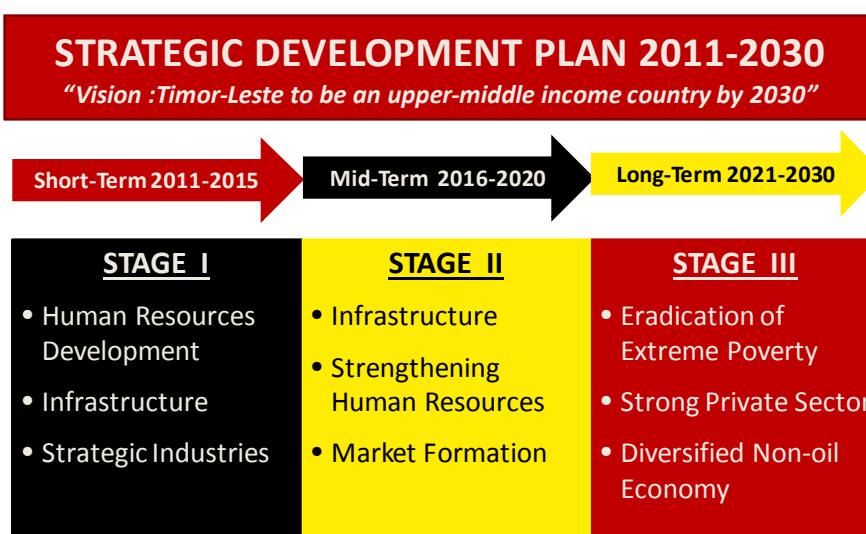
SDP: “To become an Upper Middle-Income Country by 2030”
with a healthy, well educated and safe population by 2030

- Planning action towards this goal is difficult:
 - Many competing priorities
 - Much co-ordination required across many areas
 - Some initiatives can have unhelpful social impacts

- Nobody has all the answers!
We are here to listen and learn, and humbly reflect from an outsider’s perspective



SDP phases of implementation



STAGE I

- Human Resources Development
- Infrastructure
- Strategic Industries

All three priorities are essential for successful development

- **Infrastructure** – the things that facilitate economic activity. But: they are not (sustainable) economic activity in themselves.
- **Human Resources** – people capable of taking the economic opportunities created by the infrastructure.
- **Strategic Industries** – infrastructure alone will not do it. Needs to be accompanied by more “grass roots stimulus”, targetting specific priority sectors.

STAGE I

- Human Resources Development
- Infrastructure
- Strategic Industries

What impacts on poverty can we expect to see during Stage I?

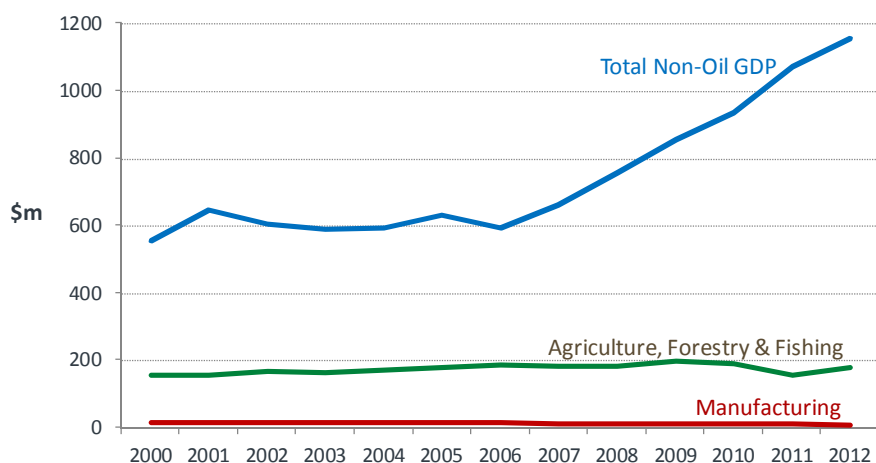
There are unlikely to be major impacts on poverty during this stage. Why?

- Investments in human capital and large scale infrastructure have little short term returns.
- Some impact might be felt through “strategic industries” – agriculture and manufacturing.

Except that these are the areas where progress has been most difficult to achieve.

Non-Oil GDP at Constant Prices

Real Non-Oil GDP has increased strongly overall,
but not in agriculture or manufacturing



Why has growth in manufacturing been slow?



Constraints

- Labor costs are relatively high and educational standards are poor
- Poor business climate
- Inflation was high from 2011 to 2013 likely pushing up costs for businesses
- Import duty rates are low and do not give an incentive to produce domestically
- Government has not yet identified specific sub-sectors (e.g. food processing, brewing etc) of manufacturing where Timor-Leste could compete

Many of these issues are now being addressed

- Improving business climate; with introduction of SERVE (one stop shop)
- Inflation has fallen and access to education has improved
- CoM recently established a working group to review import duty and excise to encourage domestic production (without reducing overall domestic revenue)
- Ministry of Finance and ESCAP are undertaking study on economic diversification

Evidence of sharp increase in number of international companies interested in investing in Timor-Leste



Why has growth in agricultural production been slow?



No detailed study has been done on this issue. But likely causes are:

Poor Incentives

- Access to money in rural areas from pensions, remittances, labor on PDID schemes *arguably* means that there is less incentive to work long hours to produce food to sell
- Access to jobs and education in Dili may have encouraged urban migration of younger more productive farmers
- Importation of subsidized and non-subsidized international rice probably improves living standards but lowers domestic prices and production

Limited Support Services

- Limited access to subsidized inputs (fertilizer), extension services and marketing

Cultural Constraints

- Farmers may not regard main staple crops (rice and corn) as business opportunities
- Poor harvest in 2011 (due to heavy 2010 rains) and access to subsidized rice may have led to a shift in tastes away from corn toward rice

Inefficient Investments

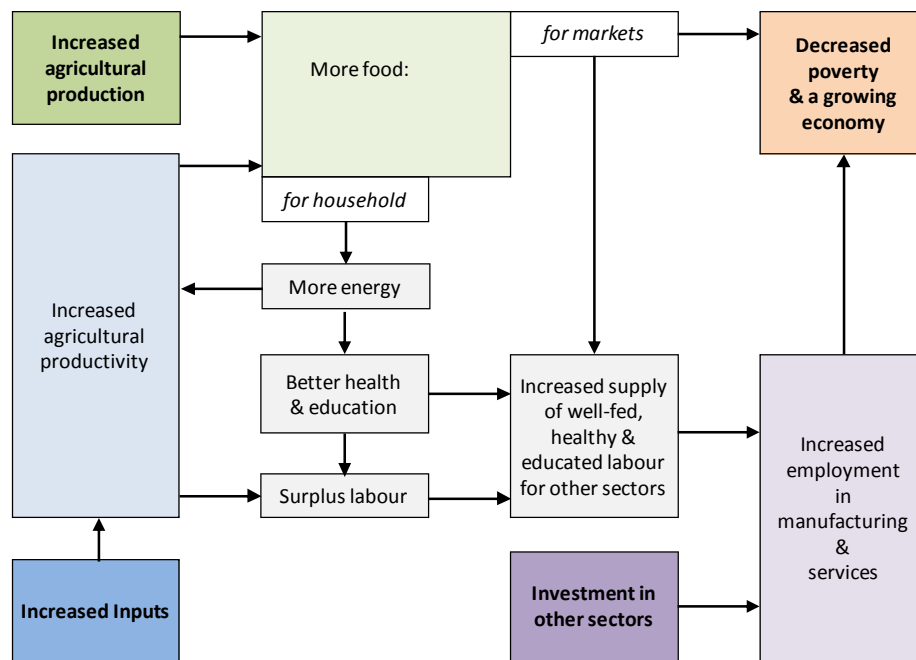
- Large scale investments in weir based irrigation schemes seem are unlikely to significantly increase production

9

The Agricultural Sector

Why a priority sector?

- Development almost always starts with agriculture - where the people are, and how the people actually live.
- Development involves modernising economic activity in both agricultural and “urban” sectors (manufacturing, services), and some rebalancing between the sectors.



Cambodia's Story

Cambodia has some historical similarities with Timor-Leste:

- Conflict 1970-1999, followed by peace-building
- 80% of the population is rural
- Largely subsistence agriculture (with very different crop mix and export profile – mainly rice)
- In 2007, the poverty rate was 50.1% (53.2% in 2004)

Cambodia's Story

Figure B1: National Poverty Rate, Cambodia 2004-2011

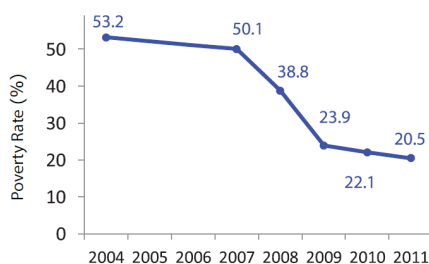
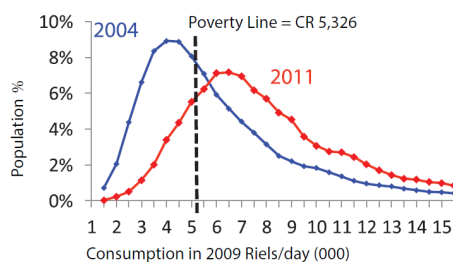


Figure B2: Population Shares By Consumption, Cambodia



Source: World Bank staff estimates based on CSES

Cambodia's Story

How did they do it?

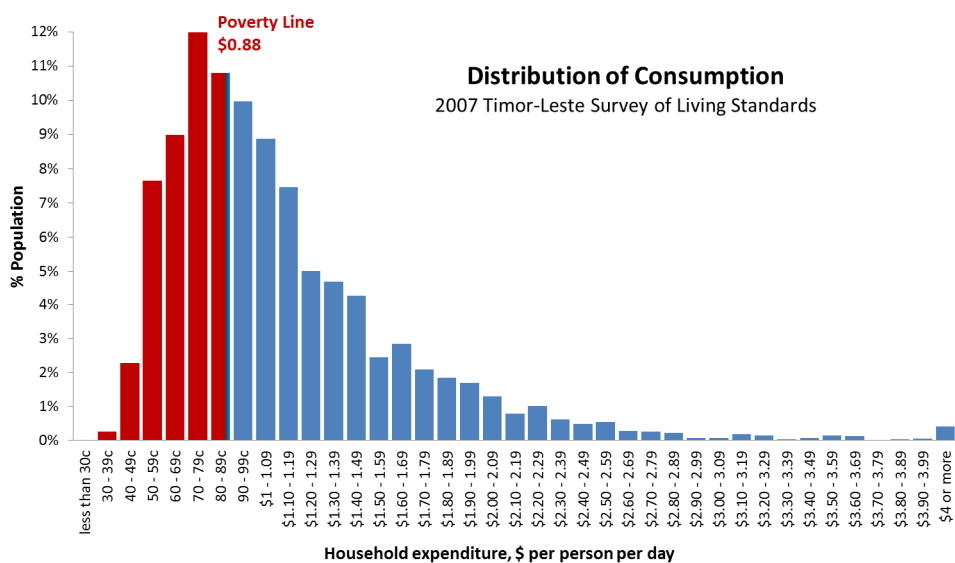
- Government investment in basic rural infrastructure (roads, rural irrigation, etc.)
- Very little urbanisation
- Nearly doubling of cash crop production (rice) through improved yields and expanding cultivated area
- Luck: sizeable increase in world rice price

Poverty in Timor-Leste

Consumption Poverty, TLSLS 2007:

- 49.9% below the consumption poverty line

Consumption Poverty

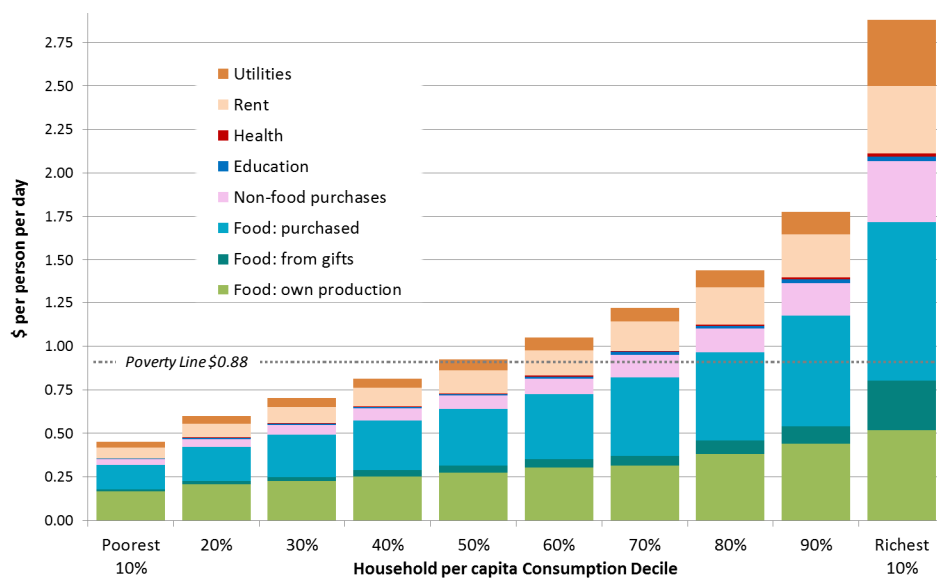


How is Consumption Poverty Calculated?

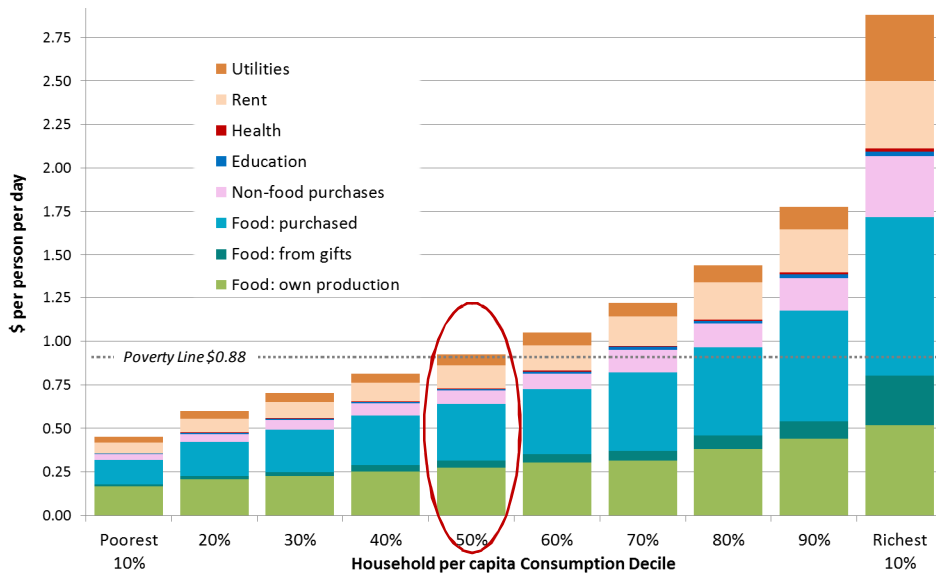
Adds up the value of per capita household expenditure (actual or imputed) on each of:

- Utilities
- Rent
- Health
- Education
- Non-food purchases
- Non-food purchases
- Food

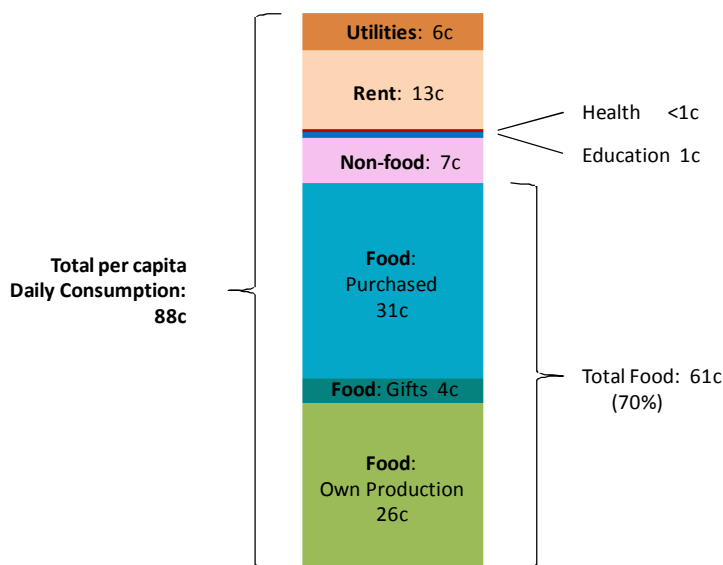
Components of Household per capita Consumption



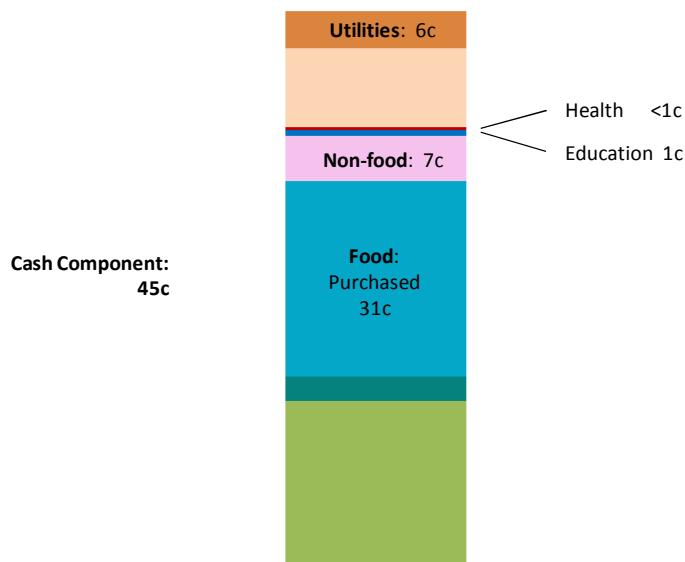
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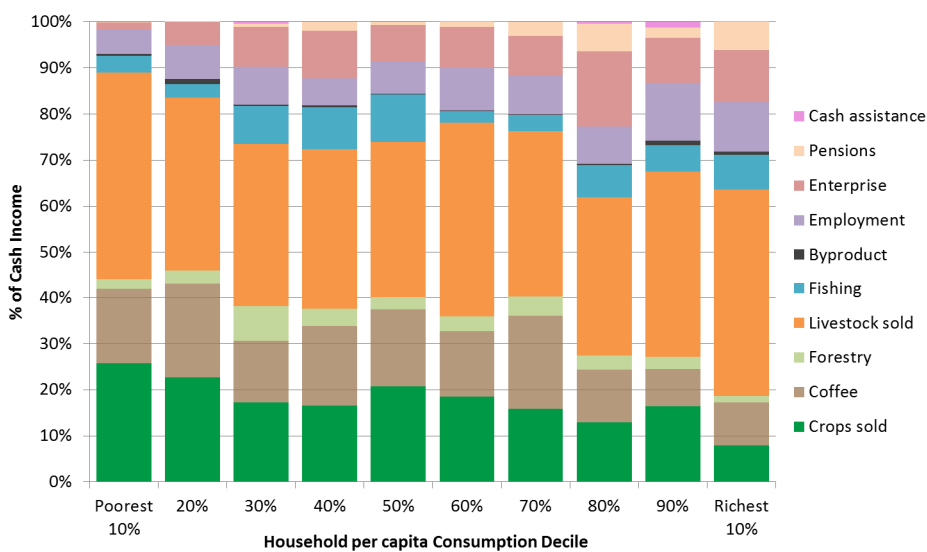
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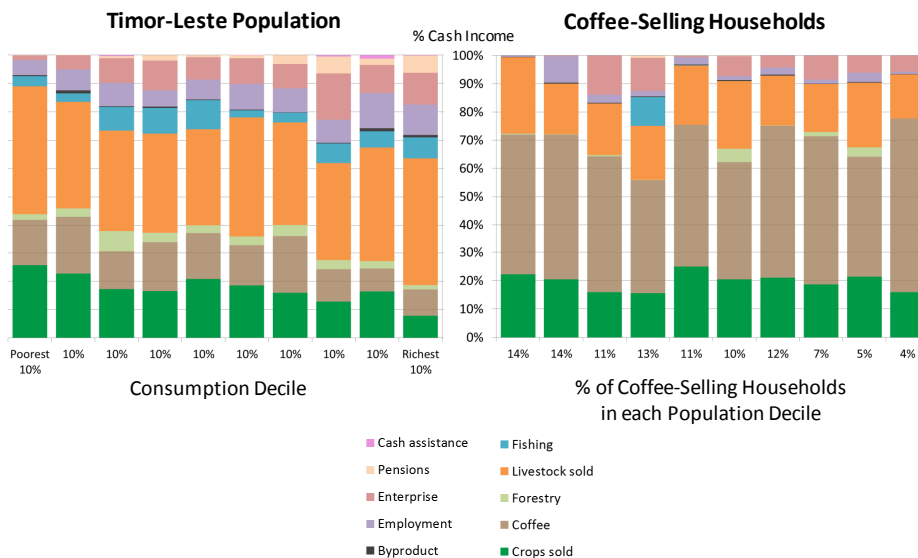
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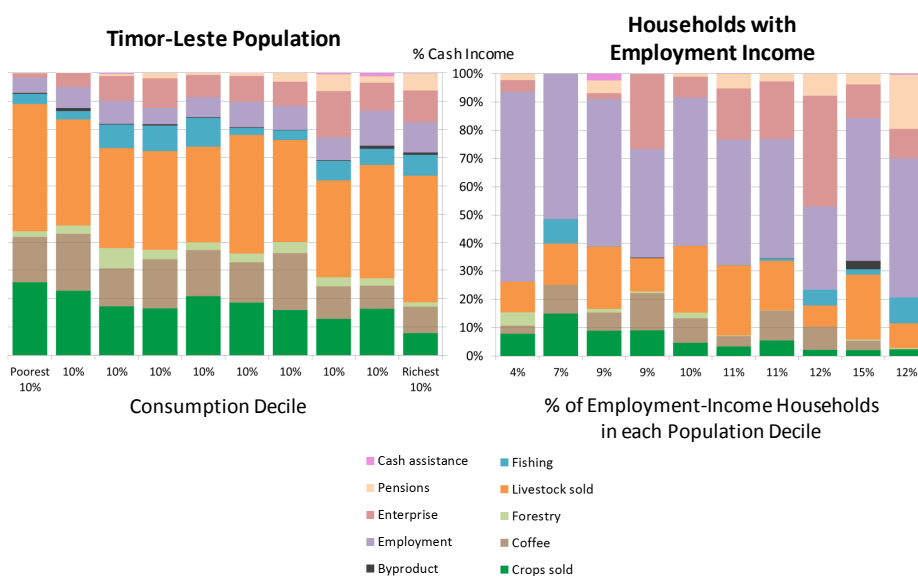
Where Does the Cash Come From?



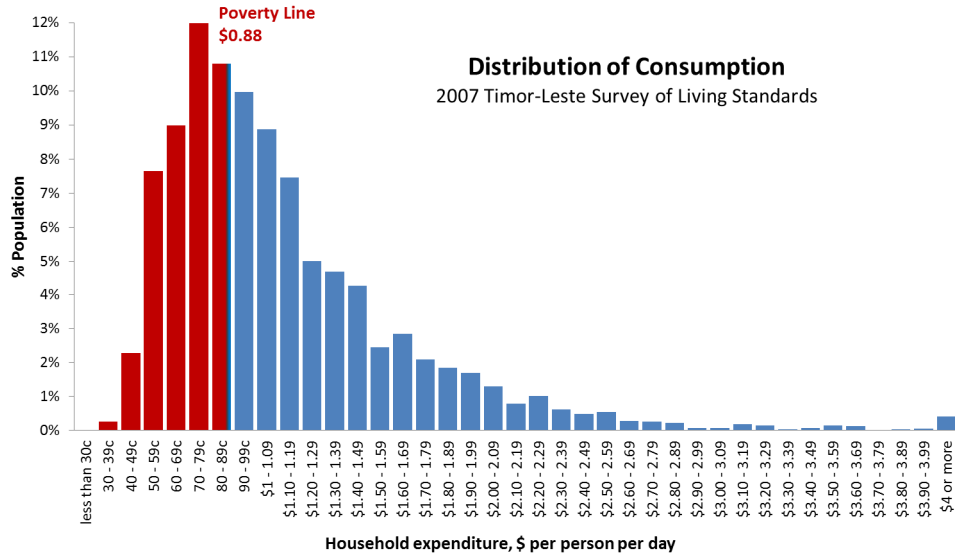
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Where Does the Cash Come From?



What could Help Boost Households Over the Poverty Line?



Simulation: What if ... ? Growth in Agriculture

Suppose all the crop & coffee-selling households (47% of population) could increase their production ...

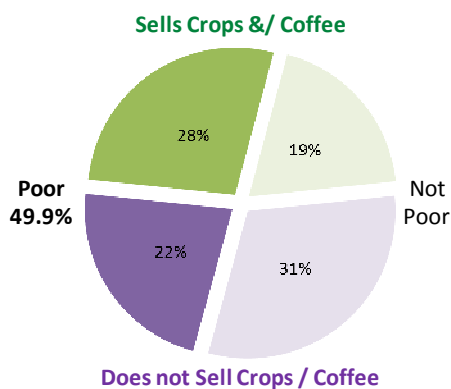
...What would happen to the poverty rate?

Simulation: What if ... ? Growth in Agriculture

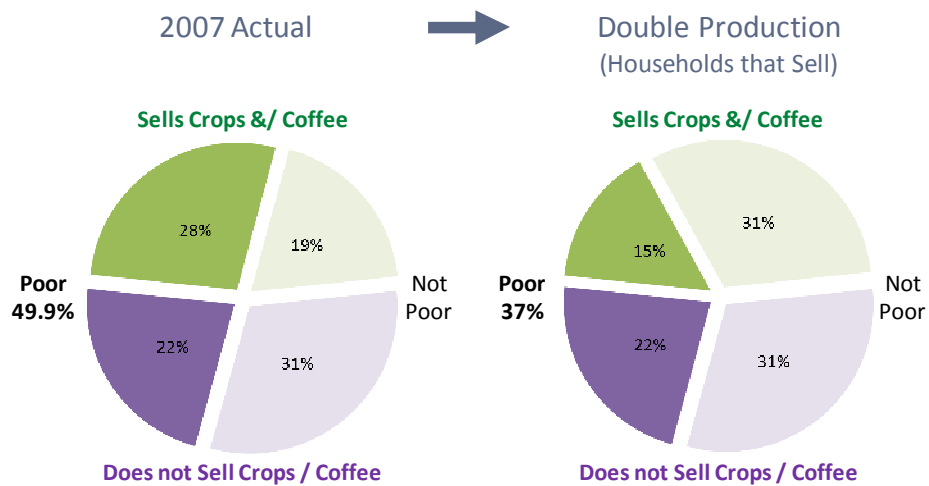
	% Population	Poverty Rate amongst these Households
Sells Crops (but not coffee)	26 %	57 %
Sells Coffee (but not crops)	5 %	63 %
Sells Crops & Coffee	16 %	61 %
All above	47 %	59 %

Simulation: What if ... ? Growth in Agriculture

2007 Actual



Simulation: What if ... ? Growth in Agriculture

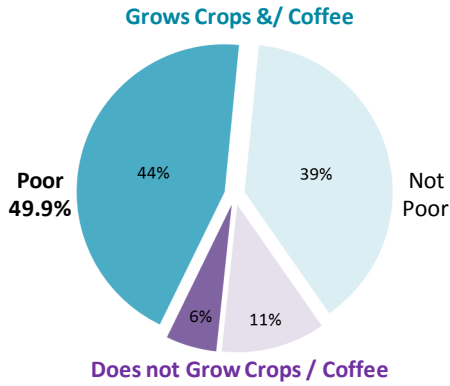


Simulation: What if ... ? Growth in Agriculture

	% Population	Poverty Rate amongst these Households
Grows Crops	83 %	53 %
Sells Crops	42 %	58 %
Does not Sell Crops	41 %	48 %
Grows Crops &/ Coffee	83 %	53 %

Simulation: What if ... ? Growth in Agriculture

2007 Actual

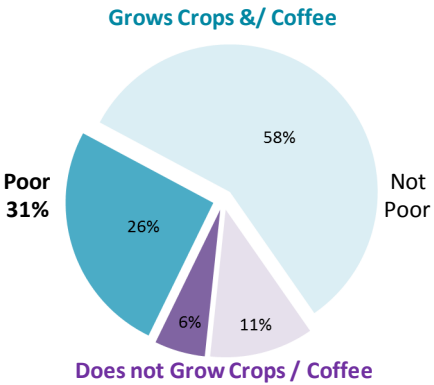
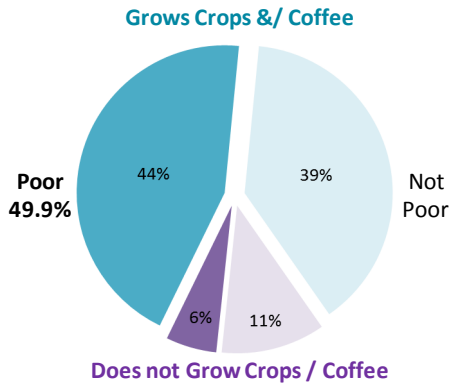


Simulation: What if ... ? Growth in Agriculture

2007 Actual



Double All Production



Simulation: What if ... ? Growth in Agriculture

- Is doubling crop & coffee production achievable?
- Is it possible to sell all this produce?
- Is it enough to be just above the poverty line?
- What are the multiplier effects / consequences?

Simulation: What if ... ? Growth in Employment

- On average, in 2007 a non-agricultural worker earned \$100 per month.
- Suppose we doubled the number of households with employment income (from 22% to 44%), allocating this extra income to selected households who don't already earn employment income) ...

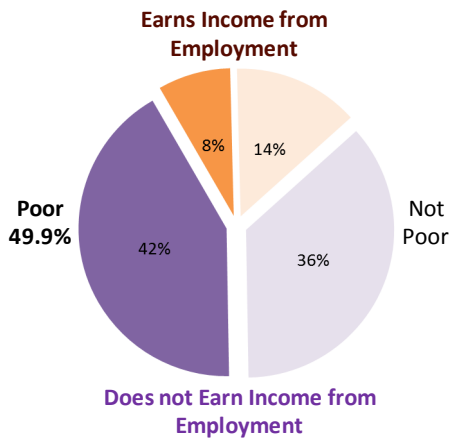
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Simulation: What if ... ? Growth in Employment

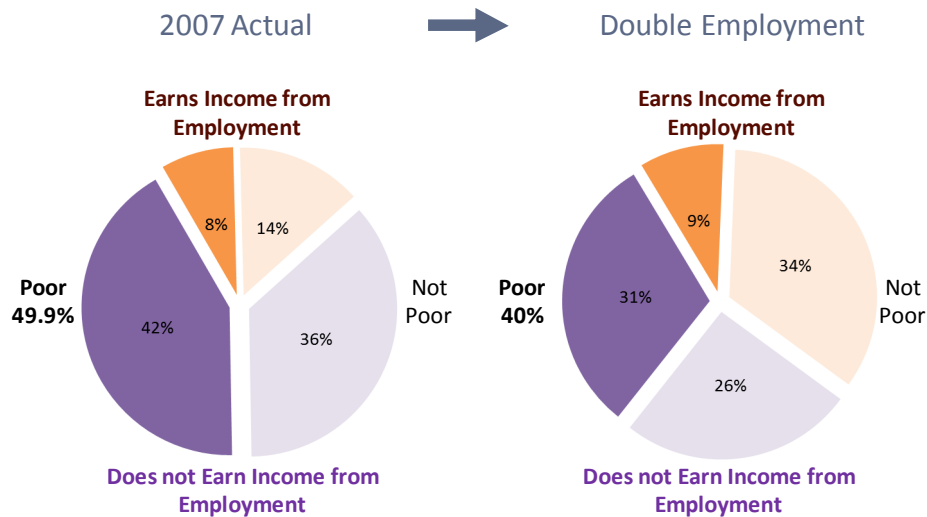
	% Population	Poverty Rate amongst these Households
Earns Income from Employment	22%	36.6%
Does not	78%	53.5%
Total	100%	49.9%

Simulation: What if ... ? Growth in Employment

2007 Actual



Simulation: What if ... ? Growth in Employment



How can Agricultural Production be Increased?

We observe three complementary approaches:

1. Addressing constraints
2. Setting goals
3. Creating opportunities

1. Addressing Constraints

Identifying and addressing the major constraints.

For example ...



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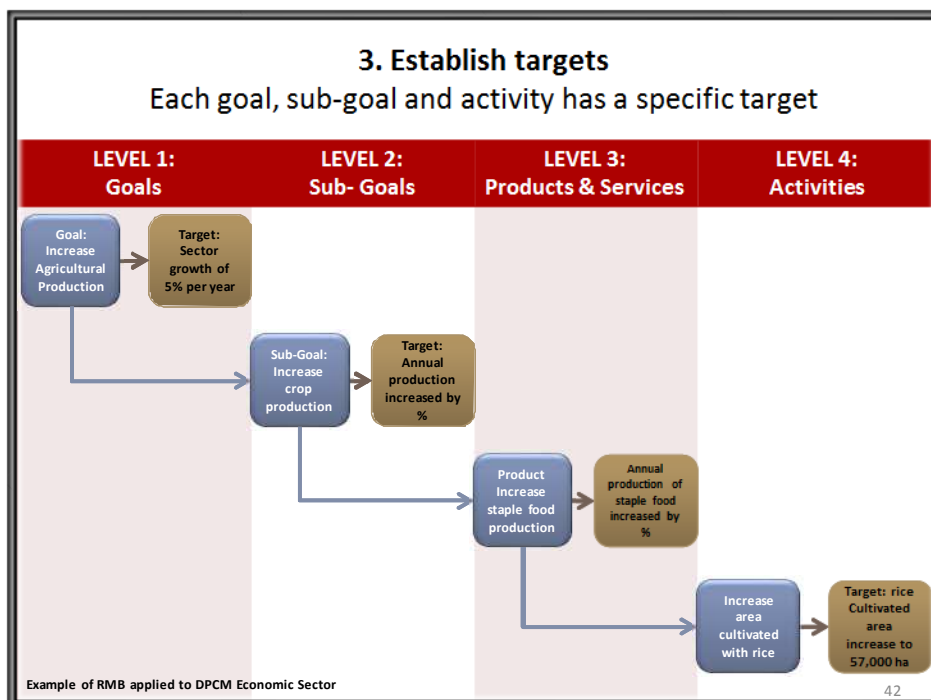
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2. Goals, Responsibilities & Targets

An application of Results-Based Management:

- Setting broad goals, and more detailed sub-goals
- Giving clear responsibility to people for working towards these goals
- Setting targets against which to measure progress

For example ...



3. Opportunities in Agriculture

What is currently working well, or could be significantly transformed and scaled up with some support and encouragement?

1. Locally based rural development programs that address the whole supply chain.
2. Focus on crops and producers with an existing level of marketed surplus, and those with market potential.
3. Food processing facilities.

Summary

- (1) Strategic Development Plan lays out some broad directions, and establishes priorities.
- (2) It is much tougher to achieve progress in some areas than others.
(e.g. agriculture, education, private sector)
- (3) Substantial reductions in poverty can be achieved through modest growth in human capital-intensive sectors.
- (4) We see great value in a focus on supporting and expanding programs that work.