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Viewing cable 07DILI359, CHALLENGES IMMENSE AS GOVERNMENT PASSES THREE MONTH I

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07DILI359	2007-11-08 11:16	2011-08-30 01:44	UNCLASSIFIED	Emb

VZCZCXRO1330
RR RUEHCHI RUEHCN RUEHHM
DE RUEHDT #0359/01 3121116
ZNR UUUUU ZZH
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UNCLAS SECTION 01 OF 03 DILI 000359

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DOD FOR OSD, PLEASE PASS TO USAID

E.O. 12958: N/A

TAGS: PREL PGOV TT

SUBJECT: CHALLENGES IMMENSE AS GOVERNMENT PASSES THREE MONTH MARK

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Summary

¶1. (SBU) Three months after taking office, Prime Minister Gusmao can tally several accomplishments: selecting some energetic and skilled ministers, a couple of key legislative victories and the proper identification of policy priorities all linked to resolving causes or consequences of the 2006 crisis. Fretilin appears to be maturing into its role of parliamentary opposition, aggressively scrutinizing government programs while rebuilding and readying itself for an opportunity to return to power. Major challenges remain for the new government, including in the short term the drafting and passage of a 2008 budget, and taking effective action to resettle the tens of thousands of refugees that continue to huddle in wretched camps across Dili and elsewhere. Weak institutions, poor administrative capacity, tremendous poverty, a disillusioned populace and a fractious leadership riven by personality conflicts will hinder the government's ability to spur the nation's development. Our focus remains on assisting Timor-Leste - in concert with the UN and other donors - with essential elements of reform: implementing property rights, professionalizing the military and police, advancing the rule of law, prompting economic growth and strengthening the capacity of key institutions of this still very vulnerable democracy. End summary.

Two political uncertainties: a) whither Fretilin?

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¶2. (SBU) Since the parliamentary elections of June and the installation of a new government in August 2007, two uncertainties have dominated Timor politics: a) how well will the ruling coalition perform and b) whither Fretilin? On the latter, concerns of just a couple of months ago that either the party or its supporters would continue to take to the streets, violently or otherwise, and seriously destabilize the government have faded. Although Fretilin maintains its stance that the government is illegal and unconstitutional, it has become an active and arguably constructive player in parliament, thoroughly scrutinizing the government's recently passed transitional 2007 budget. Negatively, it promises a blanket "nay" to all government legislation; positively, its close oversight of government programs promises a level of supervision and discipline that the previous Fretilin government - to the nation's detriment - never had to face.

¶3. (SBU) Indeed, some question the party's future relevance. Observers informed us that a recent, oft-delayed national party retreat was sparsely attended and flat (but not without some enthusiasts - press accounts, later confirmed, noted that several in attendance urged creating cells to foment anti-government activity). Former supporters fault the party's strident claims of governmental illegitimacy, combined with a reluctance to mount a proper legal challenge, as incoherent and weak. That said, former PM Alkatiri appears once again to have consolidated control over the party, has launched efforts to strengthen local affiliates, and both privately and publicly asserts his confidence that Fretilin will be back in power within two years. Meanwhile, he waits for the government to stumble.

And b) will the coalition deliver?

¶4. (SBU) Whether the government can improve on its predecessor's poor record of delivery of essential public services, providing security and justice, and enhancing the country's economic performance remains to be seen. Centrifugal forces within the four-party ruling coalition, generated by both personality and policy, seemingly have lessened with the successful passage of the government's program and the

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transitional 2007 budget, but remain dangerous. (Astonishingly, the four party chiefs have not met since the government took power in August.) Ministers now are focused on drafting and passing a full 2008 budget. The news emanating from this process is not always pretty: some ministries sought wildly ambitious increases in spending, others saw pet (but potentially productive infrastructure) projects cut. Further, in the rush to complete a draft budget, the reliance on international technical advisors has deepened, undermining efforts to enhance the administrative capacity of Timorese ministerial staff, even their basic comprehension of the budget process.

Weak managerial capacity

¶5. (SBU) In theory, once completed, the budget will clarify the government's program priorities and, once implemented, increase the delivery of public services. Even with the best budget in place, however, government operations will continue to be hamstrung by very weak administrative capacity. The middle managers that compiled a record of executing less than 10% of

the 2006 capital budget are still in place. Ominously, the ongoing shutdowns of the country's electricity company, with rolling blackouts averaging more than 12 hours a day in Dili, is darkening the government's effort to establish itself as competent. Cognizant of the possible political damage, the PM himself responded with publicized visits to the main power station and direct appeals to his Indonesian counterpart for help with extra engineers and generators.

Short term priorities

¶6. (SBU) The new government deserves credit for clearly and correctly identifying its short term priorities. These are dealing with the IDP camps, the military "petitioners" and the fugitive desperado Alfredo Reinado - all three either cause or consequence of the 2006 crisis. Upon taking office, the government sought to develop a policy on IDPs quickly and placed deputy prime minister Guterres in charge. Among government leaders there is general acceptance that IDP policy must include action on property rights, an end to the full provision of food rations, a housing program and improved security and policing in residential neighborhoods. To date, however, there's been no meaningful action on any of these components. Meanwhile, some of the camps have become increasingly politicized. The nationwide distribution in late October of some 1000 new tents, needed due to the approach of the rainy season, led to disturbances at one camp midway between Dili and Baucau. Camp leaders claimed the government shortchanged them for political reasons, scuffled with Portuguese police and shut down traffic on the sole east-west corridor for several hours.

¶7. (SBU) Bringing Reinado to justice and putting to rest the financial and political claims of the military petitioners also will not come easy. In both cases, the government has opened channels of consultation or negotiation, but they have not yet borne fruit. If not handled astutely and resolutely, they could generate charges of regional favoritism or impunity, or again become serious political flashpoints.

Structural challenges

¶8. (SBU) Beyond the short term problems, Timor-Leste's leadership must confront the many unresolved dynamics behind the 2006 crisis that continue to impede the strengthening of key democratic institutions, the realization of social and economic development and the ability of the state to function free of a UN mandate. These include a still unreconstructed security

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sector (especially the police); an inadequate justice sector; astonishingly poor infrastructure; dangerously high youth unemployment; a highly centralized government with poor public outreach and feedback mechanisms; and enormous requirements for investment in education and human capital. Timor's population remains disaffected and disillusioned, but with high expectations that the recently elected president and government will deliver on their 2007 campaign promises to hasten justice, security and economic development. Until these underlying political and social conditions are resolved, the nation remains vulnerable to future punctuations of violence and instability.

Uncertain security sector reform

Â¶9. (SBU) Security sector reform arguably is one of the government's most critical tasks given the collapse of, and conflict between, the police and military that occurred in 2006.

But, there are notes of discord. In one of our conversations with the prime minister, constitutionally responsible for the police and military, he downgraded security sector reform as a lower tier priority. Always a man of action, President Ramos Horta, although he has no executive authority for this sector, took the initiative in August by establishing a team under his leadership to develop policy and coordinate with the UN and other interested parties. But, he appointed as head of his reform team a former minister of defense who resigned in disgrace after the 2006 crisis, and who envisions a leisurely ten or 15 year timeline for reform. Observers believe it's only a matter of time before the latent President-PM conflict over who has authority for security sector reform bursts into the open.

Â¶10. (SBU) Meanwhile, former PM Alkatiri questions the legality of ISF operations in Timor, despite having signed the invitation to enter the country in 2006. Some Timorese police commanders publicly have scorned UNPOL mentoring (a key component of the UN's mandate to build a responsible and professional force) and the number of misconduct infractions by UNPOL-screened police officers has risen steadily in recent months, including two murders. Plus, more than one government leader has suggested privately that UNPOL is constraining, not supporting, the reconstruction of the Timor police. With police behavioral and discipline problems again on the rise, this is wishful thinking alarming in its implications.

Our focus

(SBU) Embassy Dili's priorities are to assist Timor-Leste strengthen its democratic institutions; provide security and a competent, responsive justice system; and use the skills of its people and its natural resource wealth to create sustainable economic and social development. Concretely, we are urging Timor's leadership to enact full property rights as a step towards resolving the IDP problem and improving the investment environment. We are developing a large youth employment program centered on strengthening vocational skills. We are engaged vigorously (and gratefully) with PACOM on the possible expansion of programs aimed at the professionalization of Timor's military and are exploring with the Department of Justice a resumption of programs to support the reconstruction of its police. Strengthening the administration of justice and spurring employment in rural districts are other program priorities. With the aim of improving local donor coordination among bilateral partners and across UN agencies, we're exploring possible security sector trilaterals respectively with Australia and Japan, and with Australia and Portugal. And we're trying to lure China into any donor mechanism available.
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