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Viewing cable 08CHENGDU286, MCC ELIGIBILITY: THE CASE FOR TIMOR-LESTE

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SIPDIS

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SUBJECT: MCC ELIGIBILITY: THE CASE FOR TIMOR-LESTE

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¶1. On December 12, the Ambassador briefed Finance Minister Pires, Foreign Minister da Costa, Vice Prime Minister Guterres, Acting Speaker of Parliament Guterres, the head of Timor's MCC team, and President Jose Ramos Horta on the MCC Board's decision to not reselect Timor-Leste as Compact eligible and to offer Timor instead a Threshold Program. Among the government leaders, the reaction was subdued. They conveyed clear disappointment with the outcome, particularly given the hard work the government made in the past year to maintain eligibility. The finance minister pointedly noted with discouragement the board's decision to select the Philippines, although it too failed the corruption indicator. All were bewildered with the intent and meaning of a threshold program. Once we explained the purpose of a threshold program, and the investment it would represent, they welcomed the continued commitment by the U.S. in Timor's development. Indeed, the head of Timor's MCC-team quickly identified anti-corruption, land/property rights, project management capacity building (i.e., government effectiveness), and girls' primary education as possible targets of a threshold program. Both he and the finance minister inquired how quickly a threshold program could begin.

¶2. President Ramos Horta's reaction was sharply negative. Long a skeptic of the MCC, he again blasted the Compact process as overly bureaucratic and complex, and unresponsive to Timor-Leste's needs. The U.S., he opined, should be straightforwardly generous in its assistance, especially to fragile states such as Timor-Leste, and not require that they reach some sort of policy perfection before delivering aid. He stated it was shocking that the MCC should deny compact eligibility after the meticulous and strong compliance of the Gusmao government over the past year with all of the MCC's compact development requirements. A veteran of MCC's engagement in Timor over the past four years, the president regretted the repeated and "wasted" investments in personnel and financial resources the country has made in trying to secure MCC eligibility. The decision represents a lack of genuine U.S. commitment to the development of Timor-Leste, said Ramos Horta. As such, he told the Ambassador that he would recommend to the Prime Minister that the offer of a threshold program be rejected.

¶3. Additionally, the President said he would propose to the government that it reverse Timor's agreement on Article 98, reconsider the bilateral SOFA, and review its policy of strong support of U.S. positions on human rights in the UN and other fora. He stated flatly that he would not now consider recognizing Kosovo in response to U.S. advice.

¶4. We have not yet been able to speak to the Prime Minister, the crucial actor in any decision to engage on a threshold program. He has been briefed on the MCC decision and we have

been told by several that he welcomes the continued engagement and commitment by the U.S. that a threshold program would represent. We expect that we will have a chance to speak with the PM during the course of the coming week, and likely no later than when we deliver the formal letter from MCC's CEO on the Board's decision. We will continue to brief and solicit feedback from other political leaders, including the opposition, and report as appropriate.

¶5. We anticipate further negative fallout once the opposition becomes aware of the decision not to reselect. Fretilin, the leading opposition party, has been actively using the corruption issue and, in its view, Timor-Leste's unlikely prospects for MCC eligibility to criticize the government for many months. For example, it opposed funding a special MCC team within the finance ministry to prepare Timor's bid for a compact, stating that the money will be wasted as Timor will not be found eligible due to the government's record on fighting corruption. In a recent public statement, the party's secretary general, Mari Alkatiri, predicted the MCC Board would not reselect Timor, and the party is likely to use the Board's decision to again criticize the Gusmao government, perhaps loudly. This, in turn, may complicate a determination by the government to accept a Threshold Program.

¶6. Comment. We anticipated the President's irritation with the MCC board's decision, although not its intensity. We suppose he will now add the MCC to his list of examples of U.S. "failures" to acknowledge Timor-Leste's record of supporting U.S. initiatives in international organizations, such as the UN. It

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will also reinforce his view that U.S. assistance has been halting and skewed to efforts such as supporting the development of institutions, such as Timorese political parties ("a luxury in Timor," said Horta), instead of targeted at effectively raising the incomes of Timor's rural poor. We can rebut this view, and will do so. At this point, we do not expect the government to take his advice regarding the Threshold Program, but will need to track this closely. Similarly, we believe any reversal of Timor's stance on Article 98, or a reconsideration of the SOFA, to be highly unlikely. What may be more difficult to counter will be his expressed intent to take a different approach to questions such as recognition of Kosovo. The recent effort to gain Timor's support for a UN resolution on Iran demonstrated that Ramos Horta's active approval was crucial.

¶7. The promise of an MCC compact provided the U.S. with great potential influence on Timor's development. The public consultations required by the MCC and held in the past months throughout Timor-Leste raised awareness among the Timorese public not only of the critical importance of fighting corruption, but also of the prospect of a major investment by the U.S. in Timor's future. The decision to offer a threshold program instead will be seen by many Timorese, and not only the President, as signifying a relative decline in our commitment to Timor's development. The concomitant slippage in our potential influence occurs in the context of a general reduction in the sway Timor's development partners enjoy over the government's decision-making given the maneuverability provided by country's modest oil wealth. We nevertheless will engage the government on an early acceptance of a Threshold Program, both to help prepare Timor to someday again become Compact eligible, and as a means of retaining influence toward the improvement of the government's policy and performance. End comment.

KLEMM