Investing in Productive Sectors to Strengthen Economic Diversification in Timor-Leste

"Reducing Dependence on Oil and Gas Exports Through Agriculture and Transformative Industries"

OXFAM

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ABOUT THE

NATIONAL WORKSHOP

La'o Hamutuk (LH), in collaboration with Oxfam in Timor-Leste (OiTL) and Core Group Transparency (CGT), held a national workshop on 17-18 March 2026 to bring together representatives from the Government, the private sector, academics, researchers and civil society and community organizations to gather opinions through sharing experiences, study results, and important lessons related to investment in the productive sector in Timor-Leste.

The workshop raised several ideas for contributing to Timor-Leste's economic diversification policy, as a sustainable alternative approach to improving people's well-being. In addition, participants acknowledged the need for collaboration among ministries, the private sector, academia and civil society organizations. Therefore, strong and participatory collaboration will improve fiscal policy and encourage State budgetary processes to give adequate attention to strengthening economic diversification in Timor-Leste.

EXECUTIVE **SUMMARY**

Timor-Leste has been independent for more than two decades, but there has been no significant change in its economic structure because of dependency on oil and gas extraction (which ended in 2025), and it continues depend on capital and investment returns from the Petroleum Fund, whose balance is beginning to decline. Timor-Leste's largest source of public-sector financing comes from the Petroleum Fund. La'o Hamutuk's analysis shows that 85% of the total revenue projected in the 2026 General State Budget (OJE) comes from the Petroleum Fund. Politicians will likely continue to promote political hopes and narratives around the oil and gas sector and extractive industries as major sources of State revenue, and lack of diversify into other strategic sectors.

On the other hand, Timor-Leste's dependence on imports also remains high, while non-oil exports remain very low. Data from INETL show that, in 2024, Timor-Leste imported goods with a total value of $953 million, while non-oil exports amounted to only $22 million (INETL, 2025). Total oil exports in 2024 amounted to $51 million, but from 2026 onwards, there will be no oil exports. According to a BCTL report, Timor-Leste's total imports of services amounted to $357 million, while total exports of services amounted to $82 million in 2024 (BCTL, 2024). Thus, the total trade deficit in 2024 was approximately $1.2 billion. Although the Government and development partners emphasize the importance of private-sector development and increased export diversification as key components of Timor-Leste's economic diversification and highlight available opportunities , most private-sector businesses remain heavily dependent on public spending and do not diversify their investments to support productive sectors for job creation.

TIMOR-LESTE TODAY

The National Strategic Development Plan (PEDN) 2011–2030 identifies agriculture, tourism, and the oil sector as key areas for Timor-Leste's economic development. However, in practice, renewable productive sectors, particularly agriculture and tourism, continue to receive inadequate attention in budgetary policy. La'o Hamutuk's analysis of expenditures in the 2026 General State Budget shows that the agriculture sector received only 1.9% of the total, while the Tasi Mane Project received 3.7% (La'o Hamutuk, 2025). Although 70% of Timor-Leste's population is involved in agriculture, the sector contributes only 20% to the Gross Domestic Product (GDP) (INETL, 2024). Timor-Leste has the potential to develop a specialized niche tourism market that offers services tailored to visitors' specific preferences, particularly in areas such as scuba diving, historical and cultural tourism (Prime Minister Xanana Gusmão, 2018). However, the number of foreign visitors remains relatively low, although in the post-Covid-19 period, the number was increasing, and the Government has developed a national strategic plan for tourism development 2023-2030 (UNTL, 2023).

The Government of Timor-Leste, various development partners and other relevant entities have emphasized the importance of strengthening the private sector to produce a diverse range of high-quality products in large quantities to meet domestic and export demands. Although, in recent years, the Government has provided support and opportunities to develop and strengthen the private sector as an important pillar of the economy, the majority of private-sector businesses remain heavily dependent on public expenditure. Domestic consumption, as a contributor to GDP, also continues to show a high dependence on public expenditure through salaries and wages, as well as government transfers for subsidies (Lopes, H. 2023). Fiscal data also indicate a strategic failure in prioritizing the state budget. In 2024, transfers and subsidies to state-owned enterprises soared to $201 million (MF, General State Accounts, 2025). This amount was higher than the budget allocated to education and health; this imbalance indicates that the State is taking a significant risk by allocating substantial financial resources to the public corporate sector, which remains largely dependent on government subsidies, rather than investing in human capital, which is a fundamental pathway to sustainable long-term economic growth and poverty reduction.

In addition to weak development in productive sectors, Timor-Leste continues to face excessive dependence on public expenditure, a relatively small private sector, and a lack of innovative planning to participate actively in economic diversification. Timor-Leste also depends heavily on imports, including for basic needs. The Global Information and Early Warning System on Food and Agriculture (GIEWS) report published by the FAO in November 2025 shows that approximately 60% of cereals consumed in Timor-Leste are imported from other countries (FAO, 2025). According to INETL data, in 2024 alone, Timor-Leste spent $95 million to import cereals to meet domestic needs (INETL, 2025).

KEY RECOMMENDATIONS

- The Government should improve its foreign employment policy to encourage young people’s participation in economic diversification when they return to TL.
- Agricultural production growth should focus on domestic consumption and there must be sufficient seed production in the country.
- Review education policy to guide economic diversification; government scholarship programs should prioritize areas important for economic diversification.
- Improve collaboration between various entities to reinforce and strengthen economic diversification in Timor-Leste.
- There is a need for a clear policy for transformative industries with innovative ideas.
- Infrastructure investments need to be integrated and geared towards diversifying the economy.
- Timor-Leste should have begun infrastructure for water retention, water source protection and water and land management.
- The government should invest more to develop human capital and the productive sector to ensure the sustainability of the economy.

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INTRODUCTION

The issue of economic diversification is strongly linked to the sustainability of the State and the well-being of its people. It is recognized that Timor-Leste's current stability and peace are partly sustained by its money. However, when Timor-Leste financial resources are used up, the country could once again be at risk of conflict (Cummins, D. et. al, 2019). To ensure that Timor-Leste has sufficient resources to finance public expenditure and national development, the Government established the Petroleum Fund in 2005 to invest and manage revenues from oil and gas.

In 2011, the Government developed the Strategic National Development Plan 2011–2030 (PEDN), with the vision of transforming Timor-Leste into a high-middle-income country by 2030; the plan emphasizes the development of agriculture, tourism, and the oil sector, especially downstream, as key drivers of Timor-Leste's economic development.

However, in comparative terms, fiscal policy and public budget allocations during this period have paid less attention to renewable productive sectors. The Government has pursued an expansionary fiscal policy, characterised by high levels of public spending and low taxes, as well as substantial investment in infrastructure to boost economic growth. However, these measures have not been sufficient to increase domestic production. Infrastructure investments have not been adequately integrated with key sectors for economic development, such as agriculture, tourism and the environment, nor have sufficient investments been made in basic services and human capital, including education, health, and access to clean water.

The planning and budgeting processes in each key ministry have not been based on an integrated and consultative vision. As a result, their budget plans tend to resemble "shopping lists" rather than genuine investment plans. These realities indicate that the relevant ministries are not sufficiently committed to investing in high-potential non-oil productive sectors and unable to generate inclusive economic growth (Workshop Participant, 2026), or to increase people's participation in the economy.

In addition to domestic policies, the Government also pursues policies aimed at Timor-Leste's regional integration and accession to global economic institutions, with the goal of strengthening the country's economic diversification process and increasing production and exports from Timor-Leste. This external policy is also intended to strengthen Timor-Leste's capacity to withstand global economic shocks. In October 2025, Timor-Leste officially joined ASEAN. Membership in the ASEAN regional bloc and global organisations such as the World Trade Organization (WTO) requires the State to adjust, amend, and develop policies and laws to align with WTO standards and ASEAN frameworks.

WHY IS **ECONOMIC DIVERSIFICATION** IMPORTANT?

Timor-Leste's Petroleum Fund (PF) resources are currently very limited; therefore, the Government needs to use these resources carefully to invest in and develop productive sectors, human capital and basic infrastructure in order to diversify the country's economy. "Diversification [of Timor-Leste's economy] is important and urgent [because] we need a sustainable economic model," and this is the role of all stakeholders, and "investment [in] the productive sector is the way. But it must be strategic and efficient" (Vice Ministry of Finance, 2026, National Workshop, 2026).

La'o Hamutuk, together with civil society organisations and international and national institutions such as the World Bank, the IMF, the Ministry of Finance, and the Central Bank of Timor-Leste, has raised concerns about the Timor-Leste's risk of falling over a fiscal cliff when the PF runs out. The same concern was also raised by entities that participated in the national workshop. Timor-Leste's heavy dependence on the Petroleum Fund means that the end of these resources will create economic and social problems until the country finds new sources to finance public expenditures.

The Government's own projections show that Timor-Leste is already moving towards a fiscal deficit. Similarly, a World Bank report has drawn attention to the fact that "without new revenue measures or expenditure adjustments, the [fiscal] deficit continues to grow, and with the projection that the Petroleum Fund will run out in 2038, this situation will threaten fiscal sustainability and economic stability" (World Bank, 2025, p. 33). The IMF warns that when Timor-Leste runs out of financial resources, the import of food and other basic needs may stop and basic services such as medical care could also be disrupted (IMF, 2025). The end of the Petroleum Fund would also mean that the Government of Timor-Leste may no longer be able to pay civil servants' salaries, provide subsidies to veterans and members of the security and defence forces, or finance the activities of public entities. Therefore, given the limited resources that Timor-Leste has, it is crucial to develop non-oil productive sectors.

Diversifying Timor-Leste's economy, particularly through productive sectors such as agriculture, tourism, and non-extractive industries, will help the country achieve its strategic priorities and ensure economic development and scientific and technological progress; building a society based on social justice; promoting the physical and spiritual well-being of citizens and also promoting development that is connected across sectors and regions, as well as the equitable distribution of national products; developing, promoting and ensuring equal opportunities access for women and men. This is important because a diversified economy can ensure that everyone has an equal opportunity to achieve a better standard of living.

KEY CHALLENGES

Discussions during the two-day workshop identified several challenges that pose barriers to economic diversification in Timor-Leste:

- There is a lack of political commitment to key sectors such as agriculture, tourism, health, education, and transformative industries.
- There is a lack of merit-based human resource management, as the large number of employees in ministries, but they have not contributed effectively to addressing existing challenges.
- There is a lack of strategic investment and a supportive business environment for entrepreneurs in productive sectors, such as cooperatives, community organisations, and youth groups, to have access to capital, markets, laboratories, certification, consumer awareness, and other essential support services.
- Timor-Leste continues to depend heavily on imports, including for basic needs.
- The private sector is highly dependent on public expenditure, which discourages investment in productive sectors.
- Uncertainty over land titles discourages domestic and foreign investors from investing in strategic sectors in Timor-Leste.
- Complex and lengthy administrative procedures and bureaucratic processes make it difficult for entrepreneurs in Timor-Leste to access financing to expand their businesses at the micro, small, and medium enterprise (MSME) levels.
- The government has not made adequate efforts to promote research in various areas, such as education, technology, and innovation, to generate data and information that can support public policy decision-making.
- Basic infrastructure limitations, such as local roads and bridges, telecommunications (including expensive internet services and weak network coverage), inadequate irrigation systems (irrigation that suits to Timor-Leste's topography) limited access to clean water, and others.
- Limited availability of qualified and adequately prepared human resources to attract foreign investment.
- Carelessness in public expenditure which limits sustainability of public finances and risks socio-economic instability.
- The global geopolitical crisis creates uncertainty in global financial markets, which potentially have implications for Timor-Leste's economy.

ANALYSIS OF **KEY FACTORS CONTRIBUTING** TO **ECONOMIC DIVERSIFICATION** IN **TIMOR-LESTE**

The key factors presented and discussed during the national workshop were:

Development and Investment in the Education Sector

Development and investment in the education sector, from primary to higher education, including vocational and technical training, and also in the area of research and innovation is an area that participants agreed is essential to strengthening economic diversification in Timor-Leste.

The government and participants agreed that education is key to development across all sectors. However, insufficient attention has been given to education, particularly in terms of establishing a clear direction to support the diversification of Timor-Leste's economy. The Government has identified sectors that are important for Timor-Leste's economic diversification but has not ensured that curriculum and establishment of education systems are adequately designed to prepare human resources with the specific skills required for identified priority areas. To date, education has focused primarily on the social sciences, which does not adequately address structural challenges, particularly the need to develop and produce human resources that reflect our social realities while adapting to global technological changes.

Although government expenditure has been substantial, spending on education has remained relatively low – accounting for only 9–10% of the total state budget over the past 10 years – and funding for research and development has remained very limited. That is why La'o Hamutuk has repeatedly called for an increase in the allocation of the State Budget for education to a minimum of 15%. Timor-Leste's neighbours in Southeast Asia, such as Vietnam and Malaysia, allocate 15-20% of their total annual budgets to education. Another country that has transitioned from an economy solely dependent on oil and gas exports to one in which most of its gross domestic product (GDP) comes from the non-oil sector is the United Arab Emirates, which annually allocates 14–15% of its budget to education. Similarly, Rwanda, in Africa, a country emerging from a long period of conflict like Timor-Leste, allocates 14–15% of its annual budget to education.

Research is particularly important because it can foster innovation and invention of new technologies, increase productivity and generate ideas for more effective policies in key areas. In addition to allocating substantial budgets for research and development, it is essential to establish and strengthen an adequate ecosystem that supports an efficient and effective research process. Increased investment in education must likewise be accompanied by sufficient attention to strategic areas, including infrastructure, curriculum development, teacher quality, science and technology, teaching and learning equipment, libraries, laboratories, and other essential educational resources. This is important to ensure that a large budget is not spent solely on wages and salaries, and goods and services.

Youth

The 2022 Population and Household Census shows that more than 70% of Timor-Leste's population is under the age of 35 (INETL, 2023). Many young people have started doing productive activities to advance economic diversification. The government has various policies and programs to support young people's creativity. In addition, the government offers training programs to equip young people with the skills needed to respond to the demands of the regional labour market. Through the foreign employment program, the Government also facilitates access to employment opportunities for young people in selected countries through agreements with their respective governments.

However, the Government does not have an effective monitoring and follow-up system for young people who receive government support. The Government's monitoring and evaluation system does not adequately capture the impact of its investments in young people and therefore focuses primarily on reporting expenditure levels. Lengthy and complex bureaucratic procedures discourage young people who are serious about developing and implementing their activities from seeking government support. Some participants in the national workshop even expressed concerns that support for youth groups is sometimes politicized. Foreign employment opportunities are not sufficiently designed to encourage young people to return and contribute to Timor-Leste's economic development. Many young people take advantage of overseas opportunities as a form of long-term employment because they often find opportunities to work in other countries. As a result, they may not reinvest their earnings in Timor-Leste's economy.

Land

After many years, Timor-Leste adopted a Land Law, a positive step toward economic development. However, there is still no strong and clearly defined land management system, particularly with regard to land titles. Land titles are important for economic development, yet to date, the Government has not issued land title certificates to many citizens. When they do not have formal land titles, citizens do not have secure access over their land and have difficulty using their land for economic development. Uncertainty in land titles also contributes to the suboptimal use of land in Timor-Leste. Furthermore, this uncertainty has resulted in a lack of reliable data on landowners and landless people.

The issue of land use is particularly important, given that most of Timor-Leste's population is engaged in agriculture, an activity that is closely tied to land. The 2019 Agricultural Census showed that approximately 66% of Timor-Leste's 213,000 households, or around 141,000 households, are engaged in farming activities across approximately 216,000 hectares of land. Of these 141,000 households, around 66% reported having less than one hectare of agricultural land, and representing only 8% of the total agricultural area in Timor-Leste. Meanwhile, 30% of farming households reported having agricultural land holdings ranging from 1 to 4 hectares, representing 36% of the total agricultural area. Thus, approximately 96% of Timor-Leste's farming households practice agriculture on 48% of the country's total agricultural area, while approximately 2% of households with 10 hectares or more of land practice agriculture on 52% of the total agricultural area. These households claim ownership of their land based on certificates dating from the Portuguese and Indonesian periods, reference numbers, or they do not have any certificates. (Ministry of Finance and Ministry of Agriculture and Fisheries, 2020).

Agriculture and Agribusiness Sector

For many years, the Government has defined the agricultural sector as an important component of Timor-Leste's economy, focussed on developing an agricultural industry capable of processing agricultural products for domestic consumption and export. However, the reality shows otherwise. A large proportion of the food consumed in the country comes from abroad. In 2025, for example, 60% of Timor-Leste's cereal needs were met through imports (FAO, 2025). Coffee dominates Timor-Leste's non-oil exports, increasing its share from 80% ($18 million) in 2024 to 82% ($37 million) in 2025 (INETL, 2026). This data shows that agricultural production for exports is still small and there is little diversification. Relying on a single product for more than 80% of exports makes the economy unstable when coffee production is affected by pests, global coffee prices decline, or climate change affects production.

Transformative Industries

According to the World Bank's April 2026 economic report on Timor-Leste, the manufacturing sector is likely to receive limited attention and continues to face significant challenges. The sector continues to experience low productivity, limited market access, and to face structural constraints (World Bank, 2026). Furthermore, greater attention by the Government to the extractive sector in recent years has had negative implications for the development of non-mineral sectors, as it can divert capital and labour away from these sectors (Neves, 2026). Private investors have no incentive to invest in areas such as manufacturing when other sectors offer more attractive and easier. Workers are likely to prefer employment in sectors that provide higher and more stable incomes. Consequently, the manufacturing sector remains underdeveloped and is currently unable to make a significant contribution to Timor-Leste's economy.

La'o Hamutuk's research also shows that the Government's attention to the development of innovative industries in the country remains insufficient. Timor-Leste already has several policies, laws, and regulations that can support the development of the industrial sector; however, there is a need for a specific national policy on innovative industries (La'o Hamutuk, 2021). A national policy, accompanied by effective implementation, could help foster the development of innovative industries, particularly those involved in processing agricultural products, and enable them to play a role as an important agent in Timor-Leste's economy. This is particularly important because the majority of Timor-Leste's population is engaged in agriculture.

Connectivity

Over the years, the Government has made substantial investments in infrastructure, some of which have contributed to economic development in Timor-Leste. Many of these infrastructure investments have not been adequately planned or well-integrated with other sectors. The highway associated with Tasi Mane and the two international airports in Suai and Oecusse, which have been operational for nearly 10 years, have not generated significant economic returns. Connectivity between rural and urban areas also remains inadequate. Internet connectivity is often slow and unreliable, which may further constrain the development of digitalization in Timor-Leste.

Tourism

The Government has developed the National Strategic Plan for Tourism 2023-2030 with the intention of making tourism an engine of Timor-Leste's economy. However, the World Bank's 2026 report indicates that, although tourism is expected to experience significant growth, it will remain far below the amount of imports, resulting in only a limited impact on the economy (World Bank, 2026). The tourism sector is also affected by the country's investment in connectivity infrastructure. Tourism and infrastructure policies have not yet been integrated. For example, community-based tourism and ecotourism have not been sufficiently integrated into infrastructure development. There are no adequate programmes or budget allocations for the operation and maintenance of public infrastructure, including tourism infrastructure, resulting in these facilities not functioning optimally.

The lack of adequate budgets and maintenance has caused many costly tourism infrastructures built by the Government to deteriorate. The management of these infrastructures to provide revenue to the State has not been implemented properly and consistently across the country.

Economic Agents

Public discourse on economic development in Timor-Leste has long emphasized the roles of the public sector, the private sector and development partners. This tendency has largely overlooked the role of cooperatives, an economic structure that the Constitution itself recognizes as an economic agent in Timor-Leste. Most existing cooperatives are credit, savings and lending money, while few production cooperatives exist. Producer groups and innovative industries face various challenges that require the attention and support of the State to enable them to develop and become good agents of economic development.

On the other hand, the Government of Timor-Leste, together with development partners and other relevant stakeholders, has emphasized the key importance of private-sector development and increasing and diversifying the economy through higher exports. Although, in recent years, the Government has provided greater attention and opportunities to develop and strengthen the private sector as an important pillar of Timor-Leste's economy, much of the private sector remains heavily dependent on public expenditure. As a result, the public sector continues to be the dominant agent of economic development in Timor-Leste.

BARRIERS TO ECONOMIC DIVERSIFICATION

As a newly-independent country in the 21st century, Timor-Leste has privilege of learning from the experience of other countries about the processes of state-building and overall development. This privilege provides Timor-Leste with an opportunity to develop public policies that enable the country to avoid the negative experiences and mistakes of other nations. The Petroleum Fund, for example, was established with reference to Norway's experience in establishing and managing its Sovereign Wealth Fund. This has helped Timor-Leste manage its financial resources derived from non-renewable resources in a more transparent and sustainable manner.

However, the implementation of this fiscal policy has not been prudent or consistent with the principle of sustainability and is likely to undermine the principle of intergenerational equity that the Petroleum Fund provides to Timor-Leste. With repeated violations of the Estimated Sustainable Income (ESI), Timor-Leste has pursued an increasingly unsustainable fiscal policy. These policy decisions have led civil society organizations such as La'o Hamutuk to warn for many years about the risk of Timor-Leste falling over a fiscal cliff.

Despite repeated calls for economic diversification and the importance of building a sustainable economy, Timor-Leste's political leaders have not demonstrated sufficient political will to translate this rhetoric into action. Successive governments over the past two decades, have not demonstrated a strong commitment to using the Petroleum Fund to diversify sources of income and production by prioritizing productive sectors. Although agriculture and tourism have been identified as important sectors for economic development, they continue to receive less attention and investment than the extractive sector. Consequently, Timor-Leste remains heavily dependent on oil and gas exports as its primary source of government revenue. Limited investment in productive sectors has also contributed to the country's heavy dependence on imports, including basic needs, due to insufficient domestic production.

By the end of 2025, Timor-Leste's Petroleum Fund had received approximately US$37 billion:, US$25 billion from oil and gas revenues and US$12 billion from returns on the Fund's investments. By the end of 2025, successive governments had withdrawn a total of US$19 billion from the Petroleum Fund to finance the annual General State Budget. Consequently, the balance of the Petroleum Fund at the end of 2025 stood at approximately US$18.31 billion.

Among the sectors that contribute to Timor-Leste's development, education plays a crucial role and has been identified as a key priority in government policies in recent years. However, the implementation of these policies has not been carried out effectively or in close coordination with society. The lack of policy continuity in governance, particularly when governments change from one political party to another, has affected education. La'o Hamutuk's analysis shows that, over the past 10 years, the share of the State Budget allocated to education has remained stagnant at around 9–10% (La'o Hamutuk, 2025). This lack of sustained commitment to education has weakened all levels of the education system, including pre-primary, primary, secondary, vocational, and tertiary education. Among the issues identified, the national workshop highlighted that weaknesses in the education system contribute significantly to the skills mismatch in Timor-Leste, which is a critical impediment to the country's economic diversification.

Institutional capacity issues in public and private institutions will also continue to contribute to weakening the process of economic diversification in Timor-Leste. Most necessities are imported, but Timor-Leste does not have an adequate mechanism to ensure the quality of imported goods. Therefore, there is no way to measure whether the imported goods are safe for people's lives. Domestically produced products do not have clear standards, and, as a consequence, face difficulties in competing with similar products from abroad. There is also no certification mechanism for products that Timor-Leste exports.

Cooperation among entities within the public sector, as well as between the public and non-public sectors, remains weak, disoriented, and poorly integrated. Sectoral self-interests among public institutions have contributed to lengthy and complex bureaucratic processes. The heavy dependence on public expenditure has resulted in a relationship between the public and private sectors that resembles a client–contractor relationship rather than a genuine partnership. The cooperative sector and business associations have also not yet played their full potential roles. Most cooperatives and innovative industry groups require institutional strengthening to enable them to function as effective economic agents. Investments by academic institutions are likewise not well integrated, and weakens evidence-based decision-making. Many research findings remain confined to academic libraries, and much of the research is not sufficiently oriented towards priority and urgent national issues.

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EXISTING **POLICY OPTIONS** AND **OPPORTUNITIES**

Fiscal Policy

Timor-Leste's Petroleum Fund is recognized as one of the most prudent, transparent, and sustainable fiscal instruments in the region. Through transparent and sustainable management, including the application of the Estimated Sustainable Income (ESI) formula, Timor-Leste's fiscal policy aims to limit unsustainable government spending while promoting intergenerational equity. This fiscal policy is intended to ensure that Timor-Leste has sufficient financial resources to support its development process and build an economy that genuinely improves the well-being of its people and strengthens the State.

However, the implementation of this fiscal policy has not been prudent for many years. Since 2009, successive governments have effectively disregarded the ESI rule by repeatedly withdrawing amounts above the Estimated Sustainable Income (ESI) to fund the annual State Budget. These fiscal policy decisions have contributed to inefficiencies in the allocation and execution of the State Budget and have not led to sufficient improvements in the well-being of the people of Timor-Leste.

The attitudes of political leaders have also raised concerns about their commitment to promoting the well-being of the population as a whole. Instead, there appears to be a tendency to view Timor-Leste's limited resources primarily as a means of securing and maintaining political power during electoral cycles. A significant consequence of this fiscal recklessness is that Timor-Leste has been unable to diversify its economy, despite facing the prospect of a fiscal cliff and uncertainty about future sources of government revenue.

Policy for increasing domestic production vs imports

The Government of Timor-Leste recognizes that increasing domestic production is key to developing a sustainable and diversified economy. The Government has developed various policies and programmes aimed at increasing domestic production. These policies and programs are supported by public investment, although the level of investment remains insufficient. However, policies aimed at promoting domestic production lack a clear focus and tend to be disoriented. On the other hand, existing policies in other areas discourage or constrain domestic production.

In the agricultural sector, for example, the Ministry of Agriculture does not yet have a clear policy for producing seeds that are suitable for agricultural production in the country; most seeds are imported from abroad. A large proportion of the food consumed in Timor-Leste, particularly staples such as rice, wheat, and other cereals, continue to be imported from abroad. Policies and investments aimed at increasing domestic production have not covered all the areas necessary. For example, the Government has invested in agricultural mechanization and irrigation, but it has paid insufficient attention to water retention andsoil productivity. Similarly, foreign employment policies may encourage productive labour to move abroad, thereby reducing the domestic workforce available to increase production within the country. Some public subsidy policies may also have the unintended effect of reducing domestic production rather than promoting it.

The policy of nurturing the private sector vs reliance on the public sector

For many years, the Government of Timor-Leste has developed policies aimed at building and strengthening the private sector. Through various programs, the Government has supported the creation and development of national and sub-national private-sector enterprises. The Government has also introduced policies to increase the capacity of the private sector in various areas so that it can play a bigger role in national development.

In addition to strengthening technical and administrative capacity, Government policies and programs have also sought to facilitate financial capacity of private-sector businesses. However, the Government's policy to enlarge and strengthen the private sector has not yet shown significant results. This policy, on the contrary, perpetuates and increases dependence on public expenditure. The Government's policy of creating space for the private sector to play a role in economic development has not achieved its objectives.

Cooperatives and business associations

The Constitution of the Republic recognizes production cooperatives and families as key agents in Timor-Leste's economy. Over the past decade, the Government has demonstrated its commitment to cooperative development by establishing a Secretary of State dedicated to cooperative affairs. Many business associations have also received support from the State through various programs. Almost all of these cooperatives and business associations were established through initiatives by the members themselves. The number of cooperatives has continued to increase, although most active cooperatives are engaged in savings and credit activities (Secretary of State for Cooperatives, National Workshop, 2026).

Of the cooperative groups that have received financial support from the Government, most have not survived. Budget support from the government to cooperative groups, instead of helping to develop and expand cooperatives, weakens the cooperative spirit and eventually the groups split apart, although the name may still exist. There are also business associations that have been established primarily to take advantage of opportunities for financial support from the State. Most of these groups with this intention are unsustainable; however, some have successfully used government support to sustain and expand their business activities. Over the years, support for many of these groups has reportedly been provided on the basis of political affiliation rather than their seriousness, capacity, efforts, or actual needs (National Workshop Participant, 2026). Unfortunately, this reality has created a situation in which groups that genuinely deserve support do not receive it, while groups that are not serious receive government assistance. As a result, public investment does not always achieve its intended objectives.

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Renewable Energy

Timor-Leste has significant potential for renewable energy development, particularly in solar and wind energy, hydropower, and ocean renewable energy. With high levels of solar radiation throughout the year, the country has favourable natural conditions for developing a clean, sustainable, and competitive energy system.

The development of the renewable energy sector can be an important pillar of national economic diversification. This sector can reduce dependence on costly diesel imports, create new employment opportunities in engineering, installation, operation, and maintenance, attract foreign investment, contribute to fulfilling Timor-Leste's regional and international climate commitments, including ASEAN goals and strengthen fiscal resilience to global fuel price volatility.

However, the development of this sector will face several structural challenges, including the absence of net-metering and grid-code policies, limited investment in electricity infrastructure, a lack of technical capacity and specialized human resources and lack of effective integration with other productive sectors, such as agriculture through irrigation and tourism through off-grid electricity solutions.

Therefore, the Government and the Electricidade de Timor-Leste, Public Enterprise (EDTL, E.P.), need to prioritize the development and implementation of net metering and grid code policies, establish a national target of achieving at least 30% of electricity production from renewable energy sources by 2030, and develop vocational training and capacity-building programs to prepare the national workforce for the renewable energy sector. These measures are important for accelerating the transition to a green economy, strengthening energy security, and promoting inclusive and sustainable economic growth.

Learn from countries that have diversified their economies

In the 21st century, following the restoration of Timor-Leste's independence, we continue to face the challenge of reducing our heavy fiscal dependence on nonrenewable resources and building a productive, diversified, and sustainable economy. International experience has shown that countries that depend heavily on oil and gas experience fiscal vulnerability, income crises, and weak economic structures when these resources are not managed prudently and with a long-term vision. In Timor-Leste, the EITI has shown that the country's economy remains strongly dependent on oil and gas, with this sector contributing significantly to public revenues in recent years. Meanwhile, a WTO document on Timor-Leste highlights the country's historically low level of export diversification compared with other countries.

Thus, the lesson from other countries is not to copy any model exactly, but rather to identify principles that can be adapted to the realities of Timor-Leste, such as transparency, industrial policy, investment in human capital, food security and prudent management of resource revenues. From the perspective of La'o Hamutuk and other civil society organizations, one of the most important principles is that natural resources should not be regarded as the nation's primary objective, but rather as a means, if managed and used responsibly, to achieve sovereignty and intergenerational justice.

The United Arab Emirates (UAE) provides an example of how hydrocarbon revenues can be used as initial capital for economic diversification. The IMF's 2025 report indicates that the UAE economy remains strong, driven by non-oil activities, investment in infrastructure, transportation, advanced technology and services, with strong growth projected for 2025 and 2026. An important lesson for Timor-Leste is that funds from nonrenewable resources should serve as instruments of transformation, rather than merely as sources of current expenditure. Such investments should be directed toward productive sectors, high-quality public services, and economic opportunities for the entire population.

Brunei Darussalam also provides relevant lessons, although with some limitations. The official document outlining Brunei's Vision 2035 sets out guidelines for building a country with an educated and highly skilled population, a high quality of life, and a dynamic and sustainable economy. At the same time, Brunei's official SDG website demonstrates the country's continued commitment to implementing the 2030 Agenda and for food security, both of which are highly relevant to Timor-Leste. The key lesson for Timor-Leste is that if we want to achieve economic sovereignty, we must invest in domestic production, agriculture, aquaculture, and food processing in order to reduce our dependence on imports.

Singapore has demonstrated that a country without abundant natural resources can succeed by focusing on human capital, good governance, and disciplined public policy. The World Bank's official profile of Singapore highlights the country as an important centre for collaboration, services, knowledge, and institutional capacity. For Timor-Leste, the key lesson is that education, technical and vocational education and training (TVET), public health, ethical governance, and institutional capacity must be placed at the centre of national economic policy. Chile also provides an important example of resource revenue management and economic diversification. The International Trade Administration highlights the significant contribution of Chile's agricultural and related sectors to the country's exports, with major products including wine, fresh fruit, dairy products, salmon, pork, poultry, and forest products. This does not mean that Chile is no longer dependent on mining; rather, it demonstrates that revenues from the extractive sector can be channelled into productive sectors. The lesson for Timor-Leste is that natural resources can serve as a bridge toward building agricultural, fisheries, and agro-industrial value chains, rather than becoming a barrier to the development of local production.

Malaysia also provides a useful orientation: transformation on economy based on food and traditional for manufacture, electronic and higher-value sector. Reuters reports that the Malaysian government is pursuing policies to attract major investment in the semiconductor sector and develop the largest integrated circuit design park in Southeast Asia. The lesson for Timor-Leste is not to seek to become Malaysia, but rather to learn from its experience that state-led industrial policy, support for innovation, technical and vocational training, and integration with global markets are key to economic modernization. If Timor-Leste wants to reduce its dependence on food imports and create decent employment opportunities, we need an industrial development plan that connects agriculture, fisheries, processing, and local/ regional markets.

Timor-Leste needs to change from a model of dependence on natural resource revenues toward a model based on productive diversification, fiscal justice, and food sovereignty.

The World Bank's documentation on Timor-Leste clearly highlights that the country's economy face structural challenges as well as significant opportunities for diversification; the EITI also emphasizes Timor-Leste's high dependence on petroleum revenues, and the WTO indicates that export diversification remains low compared with other reference countries and the Government of Timor-Leste likewise recognizes these challenges.

From this reality, public policy must evolve, the Petroleum Fund must be managed with a strong intergenerational responsibility, and investments should prioritize agriculture, fisheries, productive infrastructure, education, health, local industries, and transparent governance.

Thus, the main lesson we can learn from these countries is that natural resources are temporary means; human capital, transparency, and productive capacity provide the permanent foundations. Timor-Leste must seize this opportunity before it is too late to strengthen an economy that does not depend solely on oil and gas. We must pursue clear policy priorities: reduce imports, increase domestic production, invest in our youth, and protect the national interest from extractive models that benefit only a small group. Natural resources must serve the entire population, rather than becoming a curse for future generations.

CONCLUSION

Timor-Leste restored its independence 24 years ago. Over the past two and a half decades, the country's development across all sectors, including the economy, has depended heavily on revenues from non-renewable natural resources, particularly oil and gas. The Petroleum Fund has been the primary source of financing for most public investments and government expenditures. Economic agents, outside the public sector, such as private businesses, cooperatives and other business associations, have not been utilized to their full potential. This is partly due to the economy's excessive dependence on public expenditure and partly because these agents have not received sufficient attention and support.

As an independent country at a time when many nations have successfully transformed their economies through their development process, Timor-Leste has opportunity to learn from the experiences of other countries. Timor-Leste also has the policies to ensure that it can avoid the failures experienced by other countries. However, 24 years after restoring independence, Timor-Leste continues to have an economy that depends heavily on a single source of income. More concerningly, this source is non-renewable and no longer generates new revenue. It is only a matter of time before Timor-Leste's financial resources from oil and gas run out, while uncertainty remains over alternative sources of financing for public expenditure and economic development.

Timor-Leste has sufficient potential that can be used to diversify its economy and move away from the fiscal cliff. However, this process must begin with urgency, prudent policies, and courageous leadership with the political will to prioritize the well-being of the people and the nation. Economic diversification of Timor-Leste requires the participation of the entire population, the active engagement of all economic agents, and policies guided by a clear vision. The most effective approach is to use oil and gas money to develop productive sectors and innovative industries, thereby diversifying sources of state revenue to finance sustainable development.

This policy brief identifies several problems and challenges and provides recommendations that can contribute to strengthening economic diversification in Timor-Leste.

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RECOMMENDATIONS

1. **Short-term recommendation; focus on immediate and urgent action to address**

- The Government should include business plans among the selection criteria for young people participating in foreign employment programs. This would encourage young people to develop clear plans for using their money, experience, and knowledge that they gain through the program to contribute to economic diversification when they return to Timor-Leste.
- Starting with the 2027 budget, public investment aimed at increasing agricultural production should prioritize meeting domestic consumption needs. It is recommended that, by 2028, domestic agricultural production should meet at least 50% of the country's domestic consumption needs.
- It is necessary to increase investment in seed production in the country, including investment to ensure the quality and quantity of seeds needed to increase agricultural production. In the 2027 budget, the Government, through the Ministry of Agriculture, Fisheries and Forestry to allocate resources to produce at least 20% of the country's seed requirements, with the goal of reaching 50% by 2030. With sustained investment over time, seed production can also include local foods with high nutritional value.
- Through the 2027 budget, the Government, through ministries such as the Ministry of Youth, Sports, Arts and Culture, the Secretary of State for Vocational Training and Employment, the Ministry of Agriculture, Fisheries and Forestry should allocate between 3-5% of their budget to support existing youth groups to carry out economic activities, in order to increase their economic participation.
- Government support should include creating these groups as a space to inspire and learn together, with the aim of increasing and expanding young people's participation in economic activities across the country. The Government will also work with relevant partners, including the United Nations (UN), Oxfam, and relevant civil society organizations.
- Starting with the 2027 budget, the allocation of public resources to public and private educational institutions should include at least 20% for technology and digitalization. In addition, FDCH should allocate 30% of its scholarships to students pursuing studies in technology and digitalization.
- The Government should develop a clear plan and timeline to promote the manufacturing industry, particularly industries that process products for basic needs in the country. In 2027, the Government, through the Ministry of Commerce and Industry should develop a plan to guide the processing industry, including a detailed timeline, with the objective of establishing industries to produce a range of products by the end of 2032.
- Starting with the 2027 budget, the Government, through the Ministry of Agriculture, Fisheries and Forestry, the Ministry of Youth, Sports, Arts and Culture, and the Ministry of Tourism and Environment should allocate at least 3% of their respective budgets to the conservation of springs, water resources, and land resources.

2. Medium term recommendation; institutional consolidation and infrastructure development

- Infrastructure investments should include investment in water retention infrastructure and the protection of water sources. Other than the natural retention of rainwater by vegetation, the volume of water retained in Timor-Leste is currently very low. Under the 2027 budget, the Government, through the Ministry of Planning and Strategic Investment should allocate funds to conduct a study on the current water retention rate and that of existing infrastructure. Starting with the 2028 budget, the Government should allocate funds to develop infrastructure for rainwater retention at least 10–15% by the end of 2032.

- Investment in infrastructure, such as water, electricity, roads, irrigation, and water retention must be integrated and closely linked to the development of innovative industries, encourages production, and promotes micro small, and medium-sized entrepreneurship.

- It is necessary to establish a proper mechanism, comprising representatives from the Ministry of Higher Education, the Ministry of Planning and Investment, the Ministry of Commerce and Industry; representatives of public and private higher education institutions, and representatives of the Chamber of Commerce and Industry, to monitor the skills mismatch and identify appropriate solutions. This mechanism should be led by the Coordinating Ministry for Economic Affairs and to begin its initial work in mid-2027.

- By the end of 2027, the Government, through the Secretary of State for Cooperatives, needs to develop a clear policy establishing appropriate investment guidelines to encourage and promote cooperatives that work on production.

3. Long-term recommendation; Sustainability and structural transformation

- By the end of 2027, the Government through the Ministry of Economic Affairs Coordination will have developed its own policy document setting out the principles and guidelines to guide the diversification of Timor-Leste's economy.

- By the end of 2027, the Ministries of Education and Higher Education need to conduct a comprehensive review of education policies to ensure that Timor-Leste's formal education system at all levels produces high-quality human resources who have quality and ability understand the country's socio-economic realities and are prepared to enter the workforce, who are able create their own employment opportunities and to others, able to improve the quality of their and respond effectively to the challenges that Timor-Leste facing.

- By the end of 2028, the Government, through the Ministry of Tourism and Environment, in collaboration with the Ministry of Agriculture, Fisheries and Forestry should have a clear policy to use, manage and protect land quality and productivity in Timor-Leste.

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