

# Evaluating the Legacy of State-building in Timor-Leste

Joanne Wallis and Guteriano Neves

With the benefit of almost 20 years of hindsight, in this article we evaluate the legacy of state-building in Timor-Leste. We find that much of the academic critique of the state-building mission has proven to be largely accurate: political and economic development has indeed been challenged by the legacy of key decisions made during the early state-building process. First, the focus on centralised state institutions has led to the underdevelopment of administrative, political, and economic decentralization. Second, the partisan nature of the constitution-making process has facilitated the continued concentration of political and economic power in the hands of certain elites. Third, the ambiguous—and at times conflictual—division of powers between state institutions has facilitated the emergence of political clientelism and undermined broad-based economic diversification and development.

**Keywords** Timor-Leste, state-building, economic development, decentralization, clientelism

## Introduction

The state-building mission in Timor-Leste was undertaken at a unique moment of optimism regarding the potential of the international community, represented by the United Nations (UN), to build liberal democratic institutions of governance in new and fragile states (UN 2004). When Timor-Leste recovered its independence in 2002, it was widely praised as a state-building success story. On the surface, this praise seemed well-deserved; after 24 years of oppressive Indonesian occupation, a devastating scorched earth campaign that accompanied the August 30, 1999 referendum on its political future, and then two and a half years of UN-led state-building, Timor-Leste re-emerged with many of the institutions one expects to find in a liberal democratic state. However, Timor-Leste was soon revisited by conflict and instability, most notably during the major security crisis in 2006. Emerging from that crisis, Timor-Leste has experienced relative peace and

stability, which when combined with the flow of petroleum revenues from the Timor Sea, has enabled the government to invest in development programs.

Timor-Leste is an important case because it was a paradigmatic example of post-Cold War state-building undertaken with a UN mandate accompanied by widespread international support. The importance of this case is reflected in the very substantial body of academic critique it has generated. These critiques converge on the fact that the state-building operation, and the newly independent state, focused as they were on creating centralised government institutions, both failed to reach into the rural areas where 80 percent of the population lived, or to engage with the local socio-political practices and institutions that provided order to their lives (Chesterman 2002; Lemay-Hebert 2011; Ospina and Hohe 2002; Richmond and Franks 2008). This was partly because the constitution-making process, which established government institutions, involved little public participation and was instead highly partisan (Aucion and Brandt 2010; Baltazar 2004; Goldstone 2004; Wallis 2014). As a result, for the first few years after independence many Timorese continued to primarily follow the local socio-political practices centred on their village (*suco*) and hamlet (*aldeia*), which remained the most important forums for local political participation and community public goods provision (Asia Foundation 2002; Hohe 2004). Therefore, the scholarly consensus was that state-building in Timor-Leste resulted in the creation of shallowly rooted and poorly understood state institutions that, at independence and in the years immediately following, were disconnected from the ordinary lives of the majority of the Timorese people. The overwhelming recommendation was that the state substantively engage with local socio-political practices and institutions to mediate the relationship between the nascent state and the wider society (Chesterman 2002; Chopra 2002; Chopra and Hohe 2004; Federer 2005; Goldstone 2004; Gunn and Huang 2004).

With the benefit of almost 20 years of hindsight, this article seeks to evaluate the legacy of state-building in Timor-Leste and assess whether these critiques of the mission—most of which were made a decade or more ago—have been borne out in practice. To do this, we analyze the performance of the Timor-Leste state since independence, concentrating on political and economic development, since both are key to conflict prevention and peace. Our analysis represents the outcome of a relatively rare collaboration between an international academic who has been involved in this academic critique, and a Timorese intellectual who has played key roles in both government and civil society. While the remainder of this special issue drills down into specific issues, our article intends to provide a contextualising overview of the performance of the Timor-Leste state.

Based on our analysis, we find that much of the academic critique has proven to be correct: political and economic development has indeed been challenged by the legacy of key decisions made during the state-building process. First, the focus on centralised state institutions has led to the underdevelopment

of administrative, political, and economic decentralization. Second, the partisan nature of the constitution-making process has facilitated the continued concentration of political and economic power in the hands of certain elites. Third, the ambiguous—and at times conflictual—division of powers between state institutions has facilitated the emergence of political clientelism and undermined broad-based economic diversification and development.

Timor-Leste was a Portuguese colony. On November 28, 1975, a group of Timorese nationalist leaders united under the banner of *Frente Revolucionaria de Timor Leste Independente* (Revolutionary Front for an Independent East Timor—FRETILIN) and unilaterally declared independence. On December 7, 1975, with the complicity of Western powers, Indonesia invaded the territory and occupied it for 24 years. For a quarter of a century, despite heavy-handed military rule, the Timorese managed to organize a popular resistance throughout the country, which culminated in an UN-run referendum on their political future. An overwhelming majority (78.5 percent) rejected the special autonomy status offered by Indonesian President Habibie. In response, pro-Jakarta militias, with Indonesian military support, launched a campaign of systematic and structured violence which killed more than a thousand people, destroyed more than 80 percent of basic infrastructure, and resulted in more than two hundred thousand Timorese either fleeing or being forcibly moved into Indonesian West Timor (CAVR 2005). The UN then asserted sovereignty and the UN Transitional Administration in East Timor (UNTAET) worked with certain Timorese elites to conduct state-building.

Timor-Leste returned to internal conflict in 2006. The conflict started in the barracks of the military, triggered by alleged discrimination against members from the western part of the country, and this resentment coalesced with those disenfranchised Timorese who had been sidelined by the state-building process. An International Stabilization Force, consisting of Australia, New Zealand, Malaysia, and Portugal, was invited to restore peace and stability. As outlined below, since 2006, Timor-Leste has remained relatively politically stable and has gradually improved its economic development.

## Political Development

We analyze the performance of the Timor-Leste state, concentrating first on political and then economic development. Despite power struggles among political elites, divisive political rhetoric and political uncertainty, Timor-Leste's Constitution has endured, and democratic principles are upheld. Freedom House (2021) categorises Timor-Leste as a free country, scoring 71 out of 100; with 100 indicating the highest degrees of freedom. While there have been crises—notably in 2006 and political deadlock since 2017—political leaders have consistently

resorted to constitutional and peaceful mechanisms to resolve conflicts.

Importantly, the Timor-Leste government has reflected the scholarly consensus and sought to engage with local socio-political practices and institutions. In 2004, it introduced limited administrative and political decentralization to the *sucos* and *aldeias* (Decree Law on Community Authorities No. 5/2004). *Chefe de Suco* (chief of village) were empowered to “lead activities” in a broad range of areas, including: “peace and social harmony”; “food security”; “education, culture and sports”; and “maintenance of social infrastructure.” Suco councils were created to “promote debate on, and the planning, follow-up, and control of, activities to be carried out in the suco.” Although the suco councils were technically “new” bodies, they quickly became “fairly institutionalised” because they consisted of figures who possessed local authority (Cummins 2012, 119; Cummins and Leach 2012). Therefore, while much state-level decision-making and development continues to occur in Dili, ordinary Timorese are no longer entirely disconnected from the central government (Wallis 2017). The *sucos* continue to be the primary forum for political participation in rural areas, not necessarily because of the failures of state institutions, but because people feel more attached to their local community than to the state.

However, Timorese citizens have also embraced the practice of democracy at both the state and local levels. One indication of this is that elections are held every five years to elect the President, members of parliament (MPs) and the *chefe de suco*. Political party leaders are conscious that, rather than resorting to violence, they should channel their competition for political influence through elections, which are generally judged as being free and fair. There are very high voter turnout levels, with more than three-quarters of eligible voters casting votes in all four parliamentary elections since independence, and almost three-quarters in all six rounds of presidential elections. Given that voting is voluntary, that there is a requirement that people vote in their home districts (necessitating lengthy and expensive journeys for many) and despite transport and communication being difficult, voter turnout levels suggest a high level of interest in state-level political participation through democratic means.

However, political development has been challenged by the legacy of the state-building process. Bearing out the scholarly critiques, the focus primarily on centralised state institutions during the state-building process has led to underdeveloped administrative and political decentralization. The partisan nature of the constitution-making process has facilitated the continued concentration of political and economic power in the hands of certain elites and has led to an ambiguous—and at times conflictual—division of powers between state institutions.

### *Decentralization*

UNTAET followed the Indonesian administrative system, which was also adopted

by the independent state. Each of Timor-Leste's 13 districts and 67 sub-districts is headed by a centrally appointed administrator. Below the sub-districts are 442 sucos, below which are 2,225 aldeias. However, UNTAET engaged little with the sucos and aldeias, giving them few formal avenues to influence the state-building process or to receive resources to facilitate the everyday work of local governance they conducted.

UNTAET's failure to substantively engage with sucos and aldeias influenced the constitution-making process and meant that decentralising administrative and political powers was not seen as a priority. Consequently, while the Constitution mandated administrative decentralization, a lack of resources and capacity meant that administrative decentralization did not occur until 2004 (it was then clarified and a wider range of political and administrative functions were decentralised in 2009) (Law on Community Leaderships and Their Election No. 3/2009). This meant that, at independence, sucos and aldeias were recognised merely as administrative divisions, rather than as formal institutions, and therefore had no formal institutional avenues to influence central government decision-making or to receive government resources. The administrative decentralization that occurred in 2004 recognised the significant local socio-political role that local actors performed and provided them (and in turn the population) with formal links to the state. Oversight of sucos was also improved via the Directorate for Suco Administration in the Ministry of State Administration and this enhanced links between the sucos and the sub-district and district administrations (Wallis 2014).

Despite the above, as the local government law characterises suco and aldeia chiefs and councils as *community leaders*, under the administrative decentralization system, they are not formally institutionalised in the structures of public administration. Therefore, they are given limited support, are unable to access significant resources and have little influence over higher levels of government. This has undermined their performance and generated frustration and confusion concerning their status (Interview with a public servant, September 3, 2013; interview with a member of civil society, September 4, 2013; interview with a governance advisor, July 18, 2013). Moreover, while *chefes de suco* are paid an incentive, it is small, meaning that their work is "essentially voluntary" (da Costa Magno and Coa 2012, 169; Asia Foundation 2014), which is perceived as "unfair" (Interview with a member of civil society (a), July 17, 2013; interview with a member of civil society (b), July 17, 2013). According to the local government law, suco chiefs are not supposed to have a formal job, although some work or run businesses, which restricts the time they have to perform their duties. This exacerbates concerns about the capacity of suco and aldeia chiefs to plan and implement projects, particularly as many sucos are large both in terms of geographical size and population (the average size is 2,000 to 3,000 people), or are socially fractured, which means that it can be difficult and expensive to generate

mutual societal trust (Cummins and Maia 2012).

Moreover, while the Constitution provides for political decentralization (s. 72 (1)), progress on merging Timor-Leste's 13 districts and 67 sub-districts into 12 municipalities (the Oecusse enclave has a separate regulatory framework) led by elected representatives, has been slow (MSATM 2008a; 2008b). While a law establishing municipalities was passed in 2009 (Law on Territorial Administrative Division No. 11/2009), the first municipal elections have been delayed due to concerns about the slow progress of local capacity-building. The government is instead engaged in a program of "pre-decentralization", described as "deconcentration," whereby administrative competency and resources are being delegated to the districts in preparation for the formation of the municipalities.

### *Concentration and Division of Powers*

A key aspect of the state-building process was creating a Constitution to provide the legal framework for the exercise of state power, including creating institutions of government. UNTAET argued that an elected Constituent Assembly should draft, debate and adopt a constitution, claiming that this would ensure the process was perceived to be Timorese-owned (UNTAET 2000). However, because the Constitution was drafted and adopted by an elected Assembly this politicised the constitution-making process and Constitution. Commentators have argued that the FRETILIN majority in the Assembly (it held 55 of the 88 seats) created an apparently weak Presidency because it was almost inevitable that, due to his prominent role in the resistance, their political rival, independence hero Kay Rala Xanana Gusmão, would become the first President (Shoesmith 2007). As the Assembly voted to convert itself into the first Parliament at independence, the FRETILIN majority knew that they would dominate the first Government and accordingly ensured that the Constitution created a powerful government.

Timorese constitution-makers institutionalised a "semi-presidential" system (Shoesmith 2007) based on an ambiguous model of the "separation and interdependence of powers" (s. 69). The President is the Head of State and the Prime Minister is the head of the Government. The President's main powers include being able to: exercise a right of veto over parliamentary statutes and government decree laws; request constitutional review of legislation and government actions; declare a state of emergency; appoint or dismiss certain state officials; and grant pardons and commute sentences. The Government is "responsible for conducting and executing the general policy of the country and is the supreme organ of Public Administration" (s. 103). It consists of the Prime Minister, Ministers and Secretaries of State, and any of their Deputies. The Council of Ministers, consists of the Prime Minister, Deputy Prime Ministers (if any) and Ministers. Ministers are appointed by the President on the recommendation of the Prime Minister.

While the Government is "accountable" to the President and Parliament

(s. 107), there is no substantive mechanism to ensure this. The Government is empowered to develop a “Program of Government” in which it enumerates its policies, and which must be submitted to Parliament for consideration (ss. 108 and 109). The Parliament may either approve this Program or reject it by an absolute majority. If the Program is rejected twice, the Government will be dismissed. The Government may also be dismissed by a vote of no confidence, passed by an absolute majority of the Parliament. Since the Parliament is directly elected by the people, and arguably is the state institution that has the best chance of representing them, limiting its ability to hold the Government accountable raises questions about how much influence the Timorese people have over centralised political decision-making.

Compounding these questions is the fact that the Parliament can authorise the Government to make laws by decree on a wide range of matters. While one-fifth of MPs may petition for such laws to be submitted to Parliament for appraisal, Parliament cannot review laws approved under the exclusive legislative powers of the Government, which include matters relating to “its own organisation and functioning” and “the direct and indirect management of the State” (ss. 115 (3) and 116 (d)). As this phrase is not defined, the Government is arguably empowered to make laws by decree—without the oversight of Parliament—in relation to a broad range of issues. However, the President does have a right of veto over Government law making by decree.

Successive Governments have interpreted their powers broadly. For example, while Parliament made 56 laws between 2002 and 2006, the Government issued 81 laws by decree, often in areas with significant political consequences, including the *Penal Code*. This has marginalised the opposition within Parliament. The size of Governments has also expanded; in 2012 the CNRT Government consisted of 53 members (17 ministers, 11 vice-ministers and 25 secretaries of state), which is only slightly smaller than the 65-member Parliament. The expanded size of the Government was criticised by journalists and civil society groups for being “completely unnecessary for such a small country” (FRETILIN Vice President Aresenio Babo quoted in Agence France Presse 2012) and as creating “an oligarchy” because it will be “too big and full of political interest” (Mericio Akara, Director of Luta Hamutuk, quoted in Tempo Semanal 2012). However, this expansion was defended by some commentators on the grounds that it was not excessive in comparison to other countries and that a large government was required to administer Timor-Leste’s growing resource revenues and to advance development (Gosford 2012).

The other challenging aspect of the ambiguous nature of the separation of powers has been the trend towards Presidents stretching the interpretation of their legal and symbolic powers to engage in matters pertaining to the executive. The first President, Xanana Gusmão, interpreted his landslide electoral victory as giving him an enormous mandate. He used this platform to criticise the



FRETILIN Government and used his powers to delay the implementation of legislation, particularly by referring it for judicial review. After the 2006 security crisis, Gusmão invoked a state of emergency and announced that he had taken control of all military and security matters. While the constitutionality of this move was questionable, it was approved by Parliament one week later. The second President, José Ramos-Horta, arguably exercised powers beyond those enumerated in the Constitution; for example, by exercising budgetary and policy powers that were reserved for Parliament. The third President, Taur Matan Ruak, stressed his independence from government and was particularly critical of the highly centralised nature of the government's approach to economic development, which led him to veto the 2016 state budget.

Significantly, while none of the first three Presidents were formally connected to a political party, the fourth, Francisco Guterres ("Lú-Olo"), was elected explicitly as a FRETILIN candidate in 2017. This became important when the 2017 Parliamentary election did not deliver a clear majority. As FRETILIN received the most votes (although not a majority), Guterres relied on section 106 (1) of the Constitution<sup>1</sup> to appoint a minority FRETILIN-*Partido Democrática* (Democratic Party—PD) alliance government, which held 30 of the Parliament's 65 seats. Section 106 (1) had already generated controversy after the 2007 election, when President Ramos-Horta had relied on a contrary interpretation and invited the *Aliansa Mudansa ba Progresu* (Alliance of Change for Progress—AMP) coalition (which held a majority of Parliamentary seats) to form a government, despite the fact that FRETILIN had received the most votes.

After the FRETILIN-PD minority government was sworn in, three opposing parties formed the AMP coalition led by Gusmão and, relying on section 106 (1), requested that the President name them as the new government. Guterres refused. The AMP then voted down the FRETILIN-PD government's program. After some stalling, Guterres dissolved Parliament and called fresh elections. This was controversial, as arguably he should have instead appointed the AMP coalition government (Feijó 2018). Significantly, while these events were unfolding, broader society remained calm.

The parliamentary election in May 2018 saw the AMP coalition take office with a parliamentary majority of 34 seats, and Ruak appointed Prime Minister. However, this failed to provide a foundation for political stability, as tensions again emerged between the Government and the President. Guterres rejected candidates for the Government nominated by the AMP and refused to pass emergency budget measures, instead referring them to the Court of Appeal, which ultimately approved them.

Therefore, all four Presidents have demonstrated the wide-ranging powers a President can wield to frustrate Parliament, particularly in a situation of cohabitation, in which the President comes from a different political party to that of the Government (Elgie 2010).



Another legacy of the state-building process is the electoral system, which has facilitated the continued concentration of political and economic power in the hands of certain elites. Under the auspices of UNTAET, a National Council consisting of selected Timorese leaders decided that the 2001 Constituent Assembly election would utilise a hybrid electoral system. Voters would elect a district representative (one from each of the 13 districts) through district-wide plurality, which was seen as “offering the advantage of the personalization of the candidates and assuring their accountability before the electorate” (Aucion and Brandt 2010, 256). Voters would also elect 75 national representatives on a closed party list system, whereby people voted for a single party, with the party choosing the order of candidate priority. This proportional system was seen as offering the “advantage of placing all voters on an equal footing and encouraging plurality” (Aucion and Brandt 2010: 256). It could also mitigate the corruption that has emerged in neighbouring Pacific Island states which use plurality systems in single-member electorates and where vote-buying is commonplace. However, it also meant that the national representatives would not be accountable to, or obliged to consult with, specific constituencies. It also empowered political parties, and forced individuals and groups to work through them, as while people could stand independently, the time and expense involved in campaigning on a national scale were prohibitive.<sup>2</sup>

Since independence, Parliamentary elections have followed the proportional system utilised for the Constituent Assembly election, with three amendments. First, the position of district representatives was abolished; the number of national representatives also being reduced to 65. A second amendment required every third candidate on a party list to be female (Law on the Election of the National Parliament No. 6/2006). Third, parties were required to win at least 3% (increased to 4% in 2017) of total valid votes in order to gain a seat in Parliament (Constitution, s. 65; Law on the Election of the National Parliament).

The legacy for political participation, (so key to encouraging people to compromise and settle their differences peacefully through state institutions), of continuing the proportional electoral system is mixed. The proportional system combined with the nation-wide electorate offers greater opportunities for women to be elected, assisted by the “every third candidate must be female” rule. It also provides smaller parties with the opportunity to gain seats in Parliament, and therefore, arguably, for a wider range of views to be represented. However, the 4 percent threshold required for parties to win seats means that very small parties are unable to win a seat. By way of example, after the 2012 Parliamentary election, parties which won votes from one-fifth of Timorese voters still failed to gain representation in Parliament. It also strengthens established political parties, particularly their leaders. These effects can be compared to parliaments in the neighbouring Pacific Islands, where plurality voting results in weak parties, as candidates are encouraged to run highly personalised electoral campaigns.

Since parties are weak, it allows MPs to switch political allegiance and this results in frequent votes of no-confidence. However, the flipside of the proportional system is that it encourages parties or coalitions to rely on certain elites who have established profiles—usually generated during the resistance—that resonate on a national level. This has helped to entrench the concentration of political power in the hands of those elites. Moreover, as people cannot vote for specific candidates there is no way to ensure that MPs will represent all regions. This is said to have created a situation in which MPs have “little awareness...they are elected to serve their constituents” (Federer 2005, 110), but instead focus on persuading “party leaders to place them sufficiently high on the party list to gain a seat” (Shoesmith 2008). This suggests that the proportional system may not be the best way to ensure that MPs represent the interests of the people. Nevertheless, this criticism overlooks the fact that local dynamics of kinship ties and other social networks have given rise to a *de facto* form of constituency, with MPs being well-known in their local area. In addition, MPs are allocated one day a week to visit their constituents or conduct party business. While one study found that some MPs are reluctant to use this day to leave Dili (NORAD 2008), others frequently visit rural areas. Despite this, rather than approach MPs, Timorese people often complain to the person they know and feel most comfortable with, such as their *chefe de suco*, who may in fact have no capacity to respond.

## Economic Development and Livelihoods

### *Decentralization*

Economic development and improvement in peoples’ livelihoods are crucial to peacebuilding. However, as predicted in the academic critiques, the centralisation of control and expenditure of financial resources, and the limited ability of local leaders to influence and access state resources, have hindered broad-based national economic development. This in turn has meant that achieving the national goal of the widespread improvements in peoples’ livelihoods has remained elusive.

As noted, during the UNTAET state-building period and in the first few years after independence, formal political institutions remained highly centralised. The FRETILIN Government, in office from 2002 to 2007, faced enormous budgetary and institutional constraints which limited its ability to implement widespread development programs and meant that the everyday lives of many Timorese improved little (World Bank 2013). This fed into the 2006 security crisis, which would not have taken hold on such a large scale but for an environment complicated by “poverty and its associated deprivations, including high urban unemployment and the absence of any prospect of meaningful involvement and employment opportunities in the foreseeable future, especially for young people” (UN 2006, 9).

In 2005 royalties from oil production in the Bayu-Undan and Kitan petroleum fields began to flow into the state's coffers and have since accounted for more than 80 percent of state revenue. Since 2005, total receipts from the Petroleum Fund have been \$22 billion (MoF 2019) and in 2017 revenues from petroleum were more than \$2 billion; this is more than ten times domestic revenue (GoTL 2020a). Petroleum revenues are paid into the Petroleum Fund. The *Petroleum Fund Law* was adopted by the first FRETILIN government and introduced the concept of Estimated Sustainable Income (ESI)<sup>3</sup> to prudently manage petroleum revenues by limiting the amount the Government may withdraw from the Petroleum Fund. However, subsequent governments have taken a less conservative approach. Guided by the concept of frontloading fiscal policy, the 2007-2012 *Aliança da Maioria Parlamentar* (Alliance for a Parliamentary Majority) Government and the 2012-2017 *Bloku Governu Koligasaun* (Government Coalition Block) Governments abrogated the Petroleum Fund Law by withdrawing sums in excess of the ESI. The basis of their frontloading fiscal policies was that the government's withdrawal from the Petroleum Fund would be mitigated by the stimulation and growth of the non-oil economy and the resultant increase in domestic revenues (Lopes and Mendes 2014). Another example is how, in 2017 the Government, following the ESI, should have withdrawn only \$481 million; it instead withdrew more than \$1 billion (MoF 2019). Since its inception, more than \$10 billion has been transferred from the Fund to finance the state's budget. This has seen government spending substantially expand; between 2008 and 2012, annual spending increased from \$483.6 million to \$1,197.4 million.

The Strategic Development Plan (SDP), adopted by the *Aliança da Maioria Parlamentar* Government in 2011, identifies "building and maintaining core and productive infrastructure" as a central pillar of the government's growth, productivity, job creation and private sector development strategies (GoTL 2011, 70). This is also important because most basic infrastructure was destroyed during the violence surrounding the 1999 referendum; by 2000 it was estimated that around 70 percent was destroyed and/or was unusable (World Bank and MoF 2015). Infrastructure consumes a significant portion of the government's annual spending and between 2008 and 2012, this grew significantly. Spending on capital development in 2008 was \$86.4 million; representing 17.8 percent of total state spending (GoTL 2020b). By 2011, the figure had reached nearly \$555 million, which represented more than 50 percent of the total spending and non-oil GDP. This meant that Timor-Leste had "one of the highest rates of infrastructure spending in the world" (World Bank and MoF 2015, xii).

Although public infrastructure investment has generated positive results, notably access to electricity, improvements in road networks and access to social services such as education and health, by far the largest portion of the infrastructure (and general) budget has been invested in major projects intended

to build up the private sector. The two most notable investments are the *Tasi Mane* petroleum infrastructure project on the south coast and the *Zona Especial de Economia Social de Mercado* (Special Social Market Economic Zone—ZEESM) in the enclave of Oecusse. Both projects are critical to understanding Timor-Leste's development, as they represent the vision of modernity as promoted by the AMP Government (Bovensiepen and Yoder 2018). The Tasi Mane project aims to create a corridor of petroleum infrastructure along the south coast, including the Suai Supply Base cluster, the Betano Refinery and Petrochemical Industry cluster and the Beaçõ LNG-Plant cluster (GoTL 2011). According to the SDP, the petroleum sector is seen as the key pillar of future development and economic growth and the Tasi Mane project is characterized as aiming to bring the economic development of the petroleum industry to Timor-Leste's shores (GoTL 2011). The ZEESM was not detailed in the SDP, but a later law explained that it would promote development by facilitating connections between Oecusse and international markets through a free trade zone, tourism investments and research and development initiatives (Law No. 3/2014 Creates the Special Administrative Region of Oecusse and establishes the Special Zone of Social Market Economy). Since their inception, both projects have been the subject of debate and have incurred significant costs; between 2014 and 2019, the total expenditure for the ZEESM being nearly \$650 million. In 2017 alone, the Central Government spent \$171.8 million on ZEESM, representing 12 percent of total spending. As for the Tasi Mane Project, in 2016 and 2017, Government annual spending on the project was \$94 million and \$67.7 million respectively (GoTL 2020b).

The World Bank (2016, 155) has warned that the Timor-Leste government has a "limited capacity" to implement such major infrastructure programs, with execution rates for the infrastructure budget low and increasingly high prices demanded for construction works. Indeed, institutional weaknesses and low economic absorptive capacity have led to inefficiency and mismanagement of public spending, reliance upon higher rents, corruption, inflation, and higher dependency on imported goods and services. This raises questions about whether large infrastructure projects are the best way to promote human development and enhance livelihoods, as they come with an opportunity cost; in that the spending devoted to them takes funding and human resources away from other types of developmental projects (Meitzner Yoder 2015). Further questions about these projects arise from accusations of corruption, such as single-source contracts and contracts awarded to companies owned by people closely linked to the government (Bosso 2015). This includes direct award projects not subject to competitive tender processes, such as for the Dili Road, which cost around \$114 million in 2014 and 2015 (RDTL 2019).

A significant amount of the spending goes on financing the government's daily operations, with costs increasing over time. In 2017, 15 percent of the \$1.3

billion total budget was used to pay for public servants and public employees. In the same year, around \$25 million was used for vehicle-related spending, including purchasing new cars; \$28 million for the operational materials and supplies; more than \$20 million to finance local and overseas travel; \$40 million for operational expenses; and \$85 million to pay for professional services, including national and international advisers. This means that the public service has emerged as the largest formal sector employer, although this is partly explained by the fact that significant investment has been needed to create and develop the institutions and capacity of government.

The impact of the Government's spending upon resource allocation for peoples' livelihoods is one of the most controversial issues facing Timor-Leste. Many changes are observable in terms of improvements in living conditions, poverty reduction and overall human development. As noted, public investment has contributed to increased access to electricity; by 2016, 73 percent of households had access. Hundreds of national, regional and rural roads have been constructed. Human development indicators have gradually improved; Timor-Leste has risen from a UN Human Development Index rank of 158 (out of 177) in 2004 (the first year it was indexed) to 141 (out of 189) in 2020, and is now classified as having a level of "medium human development" (UNDP 2020). This is an impressive rise for a country that in 2002 was the poorest state in Asia, and one of the 20 poorest countries in the world (UNDP 2002).

However, economic development has primarily benefitted the small middle class, mostly in Dili, compared to the majority of the population who live in rural areas. Consequently, while agriculture continues to be source of livelihood for over 70 percent of the rural population (GDS, FAO, and UNFPA 2019), its level of labour productivity is low compared to other economic sectors (World Bank 2019). Most formal employment is concentrated in the public and private sectors, which are also largely created and concentrated in Dili (GDS 2019). To address the centralisation of economic development, there have been some attempts to increase development in rural areas, including decentralization schemes (Wallis 2014). Although these schemes were small in scale, they were perceived as being quite successful; in 2012 this encouraged the AMP government to accelerate decentralised development via the *Programa Nasional Dezenvolvimentu Suku* (PNDS, National Program for the Suco Development) (Decree Law on the General Regime of the National Program for the Suco Development (PNDS) No. 08/2013). Since 2014, this program has seen suco and chiefs directly involved in the planning, construction and management of small infrastructure development projects, valued at up to \$50,000 per suco (art. 11 (1)). While these decentralised development projects saw significant resources distributed to rural areas, the quality of rural development projects has varied, with claims that a degree of patronage has been involved, with construction contracts being allocated to potential spoilers, such as veterans, those involved in the 2006 security crisis, and

people connected to political leaders and parties, many of whom were fostered during the resistance or from family ties (ICG 2013).

Therefore, although gains have been made and poverty is declining, it remains high by regional and international standards. Based on the national poverty line, poverty in Timor-Leste was 41.8 percent in 2014; declining from 50.4 percent in 2007. However, the significant gaps between urban and rural poverty persist; 28 percent compared to 47 percent, respectively Dili, by far, has the lowest poverty level, at 29 percent (GDS 2016). Moreover, in 2016, 45.8 percent of Timorese lived in what the UNDP defines as “multidimensional poverty,” that is, they experienced multiple deprivations at the individual level in health, education, and standard of living; while 26.1 percent were vulnerable to multidimensional poverty; and 30.7 percent lived below the income poverty line (UNDP 2019). In the future, these challenges are likely to be exacerbated by the fact that about half of the population is under 18 years of age and the birth rate is high (4.5 births per woman) (GDS and UNFPA 2018), placing strains on health and education services, as well as seeing thousands of young people seeking to enter the labour market each year.

#### *Politicization of Economic Development*

The other main legacy of the state-building process is the politicization of economic development. As predicted by the scholarly critiques, and –in terms of the constitution-making process in particular—this has been encouraged by the concentration of political power in the hands of certain elites, the centralisation of power in the Government, and the limited oversight that Parliament has been able to exercise (Kingsbury 2009; Shoesmith 2007; Simonsen 2006). This is partly due to the nature of the petroleum industry, which relies on capital and sophisticated technology, rather than on labour (Karl 2004). As the population has largely failed to benefit directly through employment and general participation in the oil industry, this has encouraged political decision-makers to use petroleum revenues in the present as a mechanism of delivering the dividends of independence. Indeed, petroleum rents have made it possible to purchase peace, political loyalty, and short-term prosperity. While rents enable the government to take the easier, expedient but ultimately unsustainable path of short-term gain, this means that it is not engaged in serious attempts to diversify the economy and encourage equitable, realisable, and sustainable broad-based economic development, which is necessary if developmental levels are to improve for ordinary Timorese people, particularly in rural areas (Scheiner 2015). Therefore, big spending has become the dominant strategy, as influential groups are funded for short-term consumption (Kammen 2019).

Therefore, the government’s over-reliance on public spending and the injection of easy money into the market has made Timor-Leste a rentier economy, “where only a small number of people are engaged in productive activities;



whereas the majority are engaged in rent distribution” (Beblawi 1987). This has made it difficult to develop more productive sectors. Many Timorese are dependent on public spending, which is one of the characteristics of a rentier economy. Certain groups with political connections have direct access to rents and benefit disproportionately without having to work hard. The government’s approach of satisfying immediate needs without considering the long-term impact has also conditioned society to depend on the government (Neves 2018). Discussions around the country suggest that people are accustomed to relying on government subsidies and expect the government to continue to provide them; this sadly, also reflects a legacy of occupation, as the Indonesian government used similar tactics such as subsidizing electricity and rice production in order to win and maintain popular support.

These spending dynamics have led to a growth of patron-client politics (Kammen 2019; Neves 2018; Scambary 2015), that is, a phenomenon where there are alliances between clients and patrons. Under these alliances, clients receive certain benefits such as government payments, contracts, jobs, or protection in exchange for political support which translates into votes during elections (Stokes 2011). Clientelism in Timor-Leste began to take root after the 2006 crisis as part of the government’s strategy of buying peace through selectively providing short-term benefits to individuals or groups perceived as posing significant threats toward peace and stability (ICG 2013; Wallis 2013). The economic benefits involved cash payment schemes, government contracts for infrastructure projects and public employment opportunities (Neves 2018). Consequently, after infrastructure, since 2008, the next largest proportion of the state budget has gone towards cash payments (Decree Law on the Pensions of the Combatants and Martyrs of the National Liberation No. 15/2008; Decree Law on the Support Allowance for the Aged and Disabled No. 19/2008). By far the largest scheme is for veterans of the resistance and their families, with pensions ranging from “superior pensions” of US\$750 per month to “survivor pensions” of between \$230 and \$287.50 per month. Indeed, while cash payment schemes cost \$147 million in 2018; (representing 12.6 percent of total government spending), payments to veterans accounted for almost 62 percent of this total (GoTL 2020b). Payments to veterans can be characterised as clientelism as they are arguably not based on need, but instead aim to appease veterans who are a substantial political lobby group, many of whom were involved in the 2006 security crisis. In contrast, the two other major schemes are both much smaller. The “support allowance,” to meet the “basic needs” of the elderly and disabled, is \$30 per month (MSS 2008; 2009). The *Bolsa de Mãe* (Mother’s Purse) program, which aims to provide the neediest households with a monthly subsidy to assist in feeding and educating their children, gives households with one child \$5 per month, those with two children, \$10 per month, and those with three or more children, \$15 per month (World Bank 2013). While there are questions about whether these two schemes



are well-targeted, they are less suggestive of clientelism as they are targeted at ostensibly vulnerable groups. Therefore, not all cash transfer schemes necessarily involve clientelism; while there are questions as to whether they are the most efficient ways to alleviate poverty, they are often chosen because they are relatively straightforward to administer, which is important in an environment of limited institutional capacity (Wallis 2019).

As time has passed, clientelism has become one of the mechanisms used to expand political party bases (Kammen 2019), facilitated by the combination of the proportional electoral system and nation-wide electorate, which has encouraged political parties to coalesce around key elites and their ability to disburse economic benefits. Clientelism has been facilitated by the easy money of petroleum rents, which makes it simpler and cheaper to distribute the windfalls from petroleum and to purchase peace through patron-client networks in exchange for political loyalty. It is infinitely easier than the long road of building strong institutions (Neves 2018). Yet this poses challenges for Timor-Leste, which is now an oil-dependent country, without much oil. The existing oil fields reached their peak in 2012 and are expected to be depleted by 2023. Timor-Leste is therefore racing against time (Scheiner 2015). People are increasingly concerned about this challenge; a Nation-wide Public Perception Survey in 2018 revealed that 32 percent of respondents saw economic diversification as the biggest concern for the nation (Monteiro 2019).

## Conclusion

The challenges to political and economic development faced by Timor-Leste appear to bear-out many of the predictions made in the critical scholarly literature on the state-building process. Challenges to political development have arisen partly from the legacy of the focus on centralised state institutions during state-building, which contributed to the underdevelopment of administrative and political decentralization and limited the ability of the large rural population to influence centralised decision-making. Challenges have also arisen from the legacy of the partisan nature of the constitution-making process, which has facilitated the continued concentration of political and economic power in the hands of certain elites, and from the ambiguous—and at times conflictual—division of powers between state institutions. Challenges to economic development and livelihoods are partly a legacy of the focus on centralised state institutions during state-building, which meant that economic development has primarily been centralised in Dili, rather than in the rural areas where most Timorese people live. Therefore, while the government has engaged in considerable spending, particularly over the last decade, it has failed to improve the daily lives of the majority of the population. Challenges have also arisen from the politicisation of

economic development, with the concentration of political power in the hands of certain elites, the centralisation of power in the Government, and the limited oversight that Parliament has been able to exercise. All of this has facilitated the use of economic resources for political purposes. This has provided space for politicians to use informal and clientelistic networks to distribute economic resources for political purposes, rather than embarking on long-term investment in strategic sectors that, in the fullness of time, could well have directly benefitted the entire population and also strengthened the critical process of institution building.

Our findings raise questions about those actors and individuals who bear responsibility for certain decisions made during the state-building process, particularly those who allowed the constitution-making process to be politicised and to centralise the development of state institutions and the economy in Dili. These continue to hamper political and economic development, and consequently, peacebuilding. As the state-building process was led by UNTAET, which had assumed sovereign power, much of the responsibility rests with UNTAET itself, including Transitional Administrator Sérgio Vieira de Mello—given the considerable influence over the design of the constitution-making process exerted at the time (Wallis 2014). However, certain Timorese elites also bear responsibility, including those who took an active role in the constitution-making process and in state-building more broadly, since ultimately the Constitution was written and ratified by an elected Constituent Assembly. Political elites since independence have also made decisions which have both helped and hindered political and economic development. However, as we have argued here, many of those political, economic, and spending decisions have been shaped by pre-existing institutional structures. The one group which bears the least responsibility are the ordinary Timorese people, who having endured occupation and conflict, deserved better from both the UN and their own elites.

## Notes

1. Section 106 (1) states that: “The Prime Minister shall be designated by the party with the most votes or the political party or alliance of political parties with a parliamentary majority and shall be appointed by the President of the Republic, after consultation with the political parties sitting in the National Parliament.”
2. In order to stand independently at the district level, applicants had to secure 100 signatures of support; at the national level they required 500 signatures. UNTAET Regulation No. 2001/2, s. 34.
3. The ESI represents 3% of the net present value (or total lifetime value) of the country’s oil resources. The Law allows the ESI to be withdrawn from the Fund each year to contribute to the annual budget. Withdrawals above the ESI require special explanation from the Executive and approval from Parliament.

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**Joanne Wallis** is Professor of International Security in the Department of Politics and International Relations at the University of Adelaide. Joanne is the author or editor of seven books, including *Constitution Making during State Building* (2014) and *Pacific Power? Australia's Strategy in the Pacific Islands* (2017). She is the chief investigator on two Australian Research Council Discovery Projects, and also the chief investigator on a Defense Strategic Policy Grant analyzing the potential of a networked security architecture in the Pacific Islands. Email: joanne.wallis@adelaide.edu.au

**Guteriano Neves** is an independent policy analyst based in Dili, Timor-Leste. His areas of expertise are political economy, the "resource curse" and petroleum dependency, and foreign aid. His publications include *The Political Economy of Petroleum Dependency* and "Political and economic challenges of petroleum dependency in Timor-Leste" in *The Promise of Prosperity: Visions of the Future in Timor-Leste* (ed. Judith Bovensiepen). He earned a Master of Public Policy from the Crawford School of Public Policy at the Australian National University. Email: guteriano@gmail.com

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