



8<sup>th</sup> CONSTITUTIONAL  
GOVERNMENT

# ECONOMIC RECOVERY PLAN

August 2020





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# PREFACE

COVID-19 disease has brought profoundly negative effects on the world economy. Timor-Leste naturally was not immune to the sudden stoppage that nations had to make in their economies to fight this new disease. The weaknesses of the world economy and the development models of each country were too exposed, putting to the test their own capacities to deal with this great threat to public health.

At the beginning of the pandemic, the 8th Constitutional Government defined a set of nineteen measures aimed to mitigate the negative impact of this new reality on households and businesses. However, with the prolonged presence of the pandemic, the social consequences and the global economic crisis demanded more robust medium- / long-term measures from the Government, in order to recover from the crisis as quickly as possible, and in a sustainable manner. To this end, the Commission for the Preparation of the Economic Recovery Plan was created, to support Timor-Leste economic recovery by creating a clear, objective and realistic plan.

Despite all the uncertainty we are experiencing, COVID-19 brought to Timor-Leste the opportunity to develop our economy, making it more productive and efficient. It is true that over the last 20 years, through the Restoration of Independence, several progresses have been made in Timor-Leste in health, education, infrastructure, communication, basic sanitation, social protection sectors but even so we still have much to improve in order to achieve more inclusive growth, a greater appreciation of the Timorese and the creation of a more resilient economy. Therefore, the main focus of this Plan is people.

Before the first State of Emergency period, caused by the pandemic, Timor-Leste was already going through a difficult period and the structural challenges have become even more evident since then. We live in a subsistence economy, with the majority of the population living off their own agricultural resources and facing many challenges. We remain very dependent on oil revenues and a significant part of employment and income comes from an informal economy. The level of training and qualification of our human resources is low, thus resulting in low productivity in both the private and public sectors. Our capacity to attract and seize foreign investment is minute and we remain very dependent on imports. Social protection does not reach all Timorese in the same way. These are just some of the examples that make our economy vulnerable, and the pandemic has highlighted the gap between Timor-Leste and countries in the region. It is therefore essential to implement all social and economic mechanisms in order to build a prosperous nation, focusing increasingly on creating more decent jobs and balanced opportunities for all, without neglecting the main pillars of development of any society: education and health.

COVID-19 has worsened the performance of Timor-Leste as a country, and forecasts show a decline in gross domestic product for the current year, caused by the reduction in the performance of economic agents and the contraction of supply and demand, consequences of social distancing, closing borders, closing some companies and lack of investment. Although this Plan intends to respond to the negative impacts generated by the pandemic, the measures defined here go further and aim, above all, to develop various sectors of economic activity, as this moment is also seen as an opportunity to design a set of measures to respond to the structural problems that already exist in our economy and society.

For this reason, different measures were defined, according to the time horizon for its implementation: short term (extension of support to families and companies until December 2020. These are temporary measures that essentially aim to protect employment and guarantee income for families and companies in difficulty, seeking to minimize the stagnation of economic activities and services recorded since the beginning of the pandemic) and medium term (structural measures that will allow the economy to recover in the medium- / long-term, since they do not intend only to respond for the direct and added challenges of the pandemic).

These are recovery measures with economic transformation, aimed at creating more decent jobs, consolidating social programs for public investment and changing productive structure that contribute to Timor-Leste's economic growth. The proposed measures have a range of 2-3 years and implementation is expected to start as early as 2021). This is an opportunity not to go back, to the point before the crisis, but to correct the country's course. Hence the idea of transformation.

We are currently experiencing a period of great uncertainty, challenges and resilience for Timor-Leste, but we believe that the measures proposed here will allow for a gradual recovery of our country's economy. We intend a more solid and inclusive future for our country, based on a more just and prosperous economy, as well as on human resources better prepared for the labour market. Therefore, it is important to guarantee the survival and expansion of the business sector, the maintenance and creation of new jobs, the diversification of the supply of goods and services, in order to reduce dependence on imports and stimulate consumption, mainly through greater demand for national products. It is essential to build a society and economy that invests in Timor-Leste and the Timorese.

Dili, August 18<sup>th</sup>, 2020

O Primeiro-Ministro,  
  
Taur Matan Ruak

# EXECUTIVE SUMMARY

**People are the centre of this Plan.** The idea is not new, but it is just as important today as it was in 1990, when the United Nations Development Program (UNDP) launched the first Human Development Report, with exactly this purpose: to put people at the centre of the development process. That first UNDP Report opened with a similar phrase - "*people are the true wealth of a Nation*" - which has become iconic and has decisively marked the way of thinking about Human Development and, consequently, public policies.

This Economic Recovery Plan was born to recover the national economy, affected by the COVID-19 pandemic. But we believe that this is also an opportunity to design public policy measures that may help the necessary economic and social transformation of our country, to make it not only a country with a higher income, but also a more developed country, with greater human well-being.

## INTERNATIONAL SITUATION: THE COVID-19 PANDEMIC

The COVID-19 pandemic had its most evident start in China, during the second half of January 2020.

From this country, it expanded to other countries in February/March 2020, gradually reaching the whole world.

In an attempt to halt the expansion of the pandemic, with all its public health implications, many countries have adopted measures to limit the movement of their citizens, forcing them to stay in their homes.

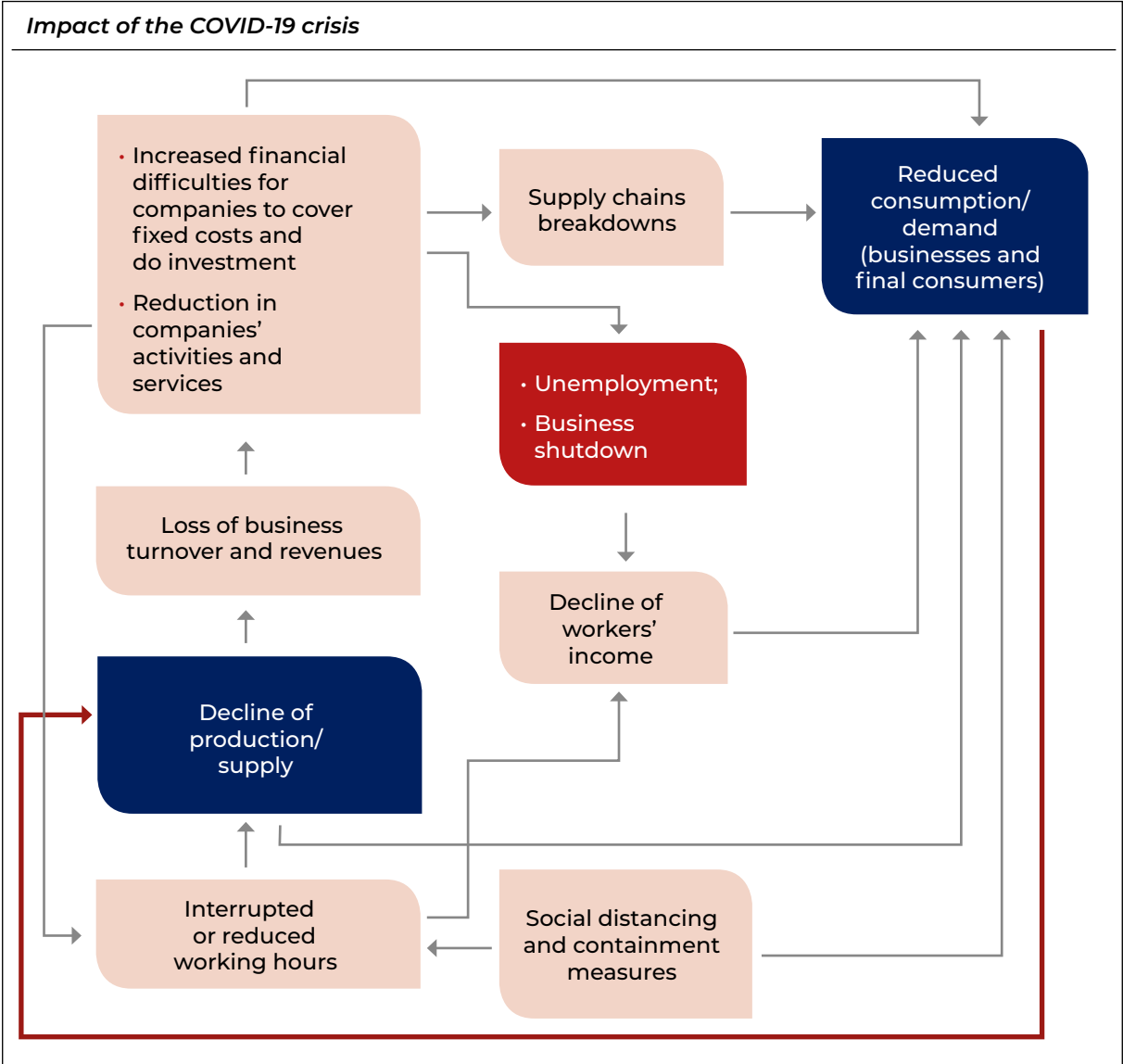
This could not fail to have an impact both on the production of goods and services, and on consumption (mainly families' but also companies' consumption), with both economic aggregates decreasing their values, bringing instability in the world stock markets and other commodities' markets (for example, fuels).

This pandemic, being initially a public health problem, already strongly affected the world economy, both on the supply side - business activity reduction/suspension, with production and supply of goods and services fall, and with impacts on employment and in hours worked - either on the demand side - family income reduction (given the unemployment or the reduced working hours, or as a result of decreed measures for social distance and mandatory confinement to contain the disease spread), and the consequent consumption fall. The aggregated supply and demand contraction are cause and effect of each other.

In addition to the consumption decline, unemployment – due to the demand reduction, but, above all, due to the supply contraction – has been a serious consequence of this crisis. Unemployment has an impact on people's income and, thus, affects the level of poverty and inequality in income distribution. Throughout the world, COVID-19 has even affected all Human Development indicators, including income, health and education.

GDP development is usually compared, in similar situations, with the profile of the letters "V" (decline but fast recovery), "U" (decline and recovery in about 2-3 years) and "L" (decline and recovery in about 3-4 years).





Calculations point to a severe global economic shrinking (GDP growth rate of -4.9%) which is expected to be short-lived – curve in “V” if the public health situation is brought under control and countries are able to halt the negative effects of the pandemic, by taking rapid economic recovery measures.

**DIAGNOSIS OF THE ECONOMIC AND SOCIAL SITUATION IN TIMOR-LESTE AND THE IMPACT OF COVID-19**

The economic policy to be adopted in Timor-Leste to face the crisis must start, first of all, from a correct “diagnosis” of the situation of our country and the identification of the main problems detected.

Since the Independence restoration, significant progress has been made at different levels of Human Development, namely in education, health, social protection and economic growth. Despite this, neither growth has been truly inclusive, nor has really been reflected in sustainable poverty reduction and human development, with indicators still revealing many problems in the national economy.



Timor-Leste is, at this stage of its evolution:

- A subsistence economy (largely) in a slow transition to some kind of modernity, but still with very high levels of poverty;
- An economy heavily dependent on state economic activity, which is highly dependent on the country's oil revenues;
- An economy that, in our vision, has, as his main problem, the lack of employment for his citizens, namely jobs that generate enough income to meet the identifiable needs, in the context of "human development".

"Human development is a process of expanding people's choices (...) so that they have a **long and healthy life, acquire knowledge** and have access to the **necessary resources** for a decent standard of living. If these essential choices are not available, many other opportunities will remain inaccessible."

*(in UNDP, Human Development Report, 1990)*

- A very low level of human capital development (education, health), in absolute terms and regarding the majority of neighbouring countries, where it has been decided to invest significantly in physical capital (infrastructure) - relegating investment in people to the background;
- Malnutrition in children;
- Low levels of productive investment (public and private), reflected in the productive structure and labour low productivity;
- Very high weight of the informal sector and vulnerable employment;
- Inequality in income distribution;
- Heavy reliance on foreign production (imports);
- Low capacity to attract foreign investment;
- High number of citizens still without social protection.

These characteristic elements of the national economy are essentially structural, and already existed before the crisis caused by COVID-19, having been further aggravated by the political instability of the last 2-3 years and by the proposal for General State Budget Law for 2020 rejection, last January.

COVID-19 has further aggravated the situation, either by economic effects on the demand and supply side - similar to those that have occurred worldwide (see figure above) - either by the fear that has taken hold, translated into the economic agents lack of confidence, including workers, companies/service providers/producers and consumers.

Although, fortunately, the public health impact was reduced, the Central Bank of Timor-Leste (BCTL) estimates a drop in real GDP of -6% in 2020, an effect of the contraction of supply/production and demand/consumption.

The effects on employment may have been deferred for later, given the support approved by the Government during the emergency period, but income have been reduced, with many workers reducing working hours or having contract suspension. Companies, many of which were already decapitalized, lost revenues, reduced activity and investment - and many began, meanwhile, to close activity, after the support of the Government ending.



The drop in income and the contraction of supply, but also the measures adopted for confinement and social distance, led to a reduction in demand/consumption and private investment by families. BCTL estimates a contraction in domestic demand of -10%, with -6% in private demand. Many internationals also leaved the country, contributing to the drop in demand.

Although the impact was generally felt on the economy, as a whole, some activities and sectors were particularly affected:

- Economic activities related to the tourism sector, including hotels and restaurants;
- The informal sector, mostly without social protection;
- The companies and civil society entities relying mostly on foreign workers, who left the country.

## THE ECONOMIC RECOVERY PLAN: STAGES AND PURPOSES

This Economic Recovery Plan aims, from the outset, to recover economic activity and growth, affected by the current crisis caused by COVID-19. Although we consider it difficult for the GDP growth curve to have a “V” shape, we do not want it to be “L” shape. We therefore have to do our best to make it have a “U” profile - the tightest possible, i.e., that the return to the 2019’ GDP level may happen, worst case scenario, in about 2 years.

This is, partly, within our reach, if we adopt the appropriate economic policy measures. This document main goal is the definition of these measures, covering several economic, but also social activity sectors.

It is not, however, intended to return only to the starting point, the point at which the crisis was declared. All countries – and Timor-Leste also – realized that the depth of this crisis was largely due to the weak “foundations” of the economy and society. In other words, this should also be understood as an opportunity to design public policies capable of responding to the pre-existing structural problems of our economy and society.

That is why the policies to be adopted must have a **double purpose**:

- 1) **to sustain** the economy, so as not to let the crisis worsen and to defend the people’s well-being, on the one hand, and
- 2) **to transform** the foundations of Timor-Leste’s economy and society so as to make them more resilient to future shocks, while at the same time adjusting paths that were being taken and which, we believe, did not allow a significant improvement to the Timorese well-being.

This Economic Recovery Plan therefore foresees two different stages:

- **a first stage**, of a (very) short-term response, already in the second half of 2020, to mitigate the impacts of the crisis caused by COVID-19; and
- **a second stage**, with medium-term measures – many of which with long-term effects - aimed at economic recovery, within a 2-3 years outlook, seeking to respond not only to the increased difficulties caused by the pandemic, but fundamentally to the pre-existing (cyclical and structural) problems (namely the lack of employment) of the national economy, otherwise, with no substantive change in relation to the past, we will continue at the mercy of any new crisis that may arise – and, in addition, we will remain “developing” at a lower level.

In the **first stage**, of very short term, in the immediate post-pandemic period, temporary measures are proposed, aimed at the **mitigation of the crisis impacts**, but already beginning to guide the intervention towards a longer-term recovery of the national economy.

At this stage, the **purposes** are essentially to **secure as much as possible the jobs existing before the crisis and recover household's income**, by maintaining employment and direct support to citizens, and by **supporting the survival of companies in the market and the resumption of their activity**. This way, it is intended to ensure consumption levels similar to (or at least not much lower than) those existing in the pre-COVID-19 period – an essential factor in not reducing the people's standard of living and in mitigating the impact of the economic downturn. Given the loss of jobs and income, and the constraints on the demand and supply sides, the aim is to directly support people and businesses to recover from the crisis, and not to increase the burden of costs they have to bear.

In the **second stage**, and taking into account the direct support from the previous stage, structural measures are proposed, of economic **"recovery with transformation"**, to be implemented already from 2021, extending to 2022 and following years, having an impact on the medium-long term.

At this stage, there are three main **purposes** of the proposed public policies: the **creation of new productive and decent jobs**; the **implementation and consolidation of social programs of public investment (education, health, housing, social protection)**; and the **change of the productive structure and of the factors that contribute to economic growth**.

These interventions, however, must be seen in the framework of the national economy pre-COVID-19 diagnosis. In other words, – even because of the limited timeframe in question (2-2.5 years) – one must also think of medium-long term solutions, which impacts the sustainability level, and aimed at responding to the structural problems identified, namely at the national productive sector level and its great difficulty in generating minimally productive jobs, on the one hand, and the low income level of the majority of national citizens – which is, in fact, another face of the problems related to employment – , on the other. Particularly, we need to consider measures/programmes which can create a considerable number of productive jobs, generated by labour-intensive rather than capital-intensive investments, but not overlooking, of course, all types of investment.

## STAGE I: MITIGATION OF THE COVID-19 CRISIS ECONOMIC AND SOCIAL IMPACTS: SHORT-TERM (2020)

At Stage I four measures are proposed, focused on demand/consumption (and meeting basic needs) recovery and supply/production (supporting the recovery of business activity and specifically supporting the most affected sectors – including the tourism sector and the informal sector) recovery.

Measures	Aim	Recipients	Eligibility requirements	Details	Cost
<b>Food Basket (Nov+Dec)</b>	<ul style="list-style-type: none"> <li>support families in meeting basic needs</li> <li>combat hunger and most vulnerability</li> <li>Support local farmers, producers and traders</li> </ul>	Families	Universal	<ul style="list-style-type: none"> <li>Deliver in voucher or basket form</li> <li>Composition: food, hygiene and cleaning items</li> <li>Per capita basis; take into account the size of the family</li> <li>Prioritizing domestic products or products purchased on the local market</li> </ul>	71,5 million USD (amount may be revised)
<b>Recovery subsidy (Aug to Dec)</b>	<ul style="list-style-type: none"> <li>Support employers and individual entrepreneurs to resume economic activity</li> <li>Specifically support the Tourism sector, severely affected by the crisis</li> <li>Increase the immediate liquidity of the beneficiary entities</li> </ul>	Employers and individual entrepreneurs	<ul style="list-style-type: none"> <li>Activity resumption (except tourism sector)</li> <li>Register with the Social Security and Tax system</li> <li>Obligation to not dismiss workers</li> </ul>	<ul style="list-style-type: none"> <li>The subsidy is calculated based on two factors: loss of turnover and number of employees</li> <li>Loss of turnover: comparing the invoicing in Jun/2019 with that of the corresponding period (Jun/2020)</li> <li>Beneficiaries may use the subsidy to meet the necessary expenses</li> </ul>	35 million USD (amount may be revised)
<b>Contributory exemption (Jul to Dec)</b>	<ul style="list-style-type: none"> <li>Support workers who are in a total lack of social protection</li> <li>Encourage formalization</li> </ul>	Employers and individual entrepreneurs	<ul style="list-style-type: none"> <li>Activity resumption (except tourism sector)</li> <li>Register with the Social Security</li> </ul>	<ul style="list-style-type: none"> <li>Employer's contribution exemption (6%)</li> <li>In the case of workers voluntarily registered with the Social Security: partial exemption from social security contribution is 6%</li> </ul>	3, 6 million USD
<b>Special support for informal workers (Oct to Dec)</b>	<ul style="list-style-type: none"> <li>Support workers who are in a total lack of social protection</li> <li>Encourage formalization</li> </ul>	Self-employed and informal sector workers	<ul style="list-style-type: none"> <li>Register with the Social Security in August/September</li> <li>Obligation to maintain contribution for 6 months</li> </ul>	<ul style="list-style-type: none"> <li>The subsidy is fixed, in the amount of 60% of the first scale of the optional membership: 36 USD = 60%x60 USD</li> <li>Contribution rate: 4% in the months in which the measure is in force; 10% in the following 3 months</li> </ul>	33 million USD (amount may be revised)

## PHASE II: POST-COVID-19 ECONOMIC RECOVERY: MEDIUM AND LONG TERM (2021-2022 AND FOLLOWING)

The current economic and social crisis caused by COVID-19 is not unprecedented, other crises have been battering economies over the years. But, due to the way it simultaneously affected supply and demand, and expanded throughout the world, this crisis can only be paralleled with World War II.

In 1942, during World War II, inspired by Keynes, W.H. Beveridge proposed an ambitious public intervention plan, to ensure economic and social reconstruction, income redistribution and the universality of social support, to combat what he called “five giant evils of society [for reconstruction]”: want (that should be tackled through adequate income for all), disease (that should be tackled through the creation of a National Health System), ignorance / illiteracy (that should be tackled through free and universal education), squalor (that should be tackled through guaranteeing housing for all) and idleness (that should be tackled through employment policies).

Today, fortunately, the world is not plunged into war on a global scale, times are different and the answers naturally require adaptation to new times. However, as in other moments in history, as in World War II, the current crisis caused by COVID-19 has shown the importance of having public services — in particular, the National Health System, the public education system and the social protection system — with quality and comprehensive and, generally, the role of the State in the economy and society, so that populations are more protected (including in clinical terms) and are more resilient to this type of “shocks”. It is necessary to improve public services, not necessarily at the expense of a larger State, but of a better State - which also supports and encourages the essential private sector of the economy.

The public policy measures proposed in Phase I - for the second half of 2020 - with the aim of mitigating the crisis impacts in the very short term, only make sense if they constitute a first step in our future as a country, with a more inclusive and resilient economy than the one we had until the beginning of COVID-19.

This Plan for Economic Recovery therefore proposes, in Phase II, an ambitious set of economic policy measures focused on people and human development, in order to respond to the structural problems identified and to better prepare the economy and society for the future .

### **“Human development” must become the epicentre of the economic policy of the 8th Government.**

It is not just about having income, but also having access to goods and services that allow the satisfaction of human needs in the most diverse domains such as education, health, housing, food / nutrition, and social and cultural participation. Both education and health are the two main pillars of human capital development, important for the functioning of a modern society and the country’s long-term economic development.

The future of Timor-Leste, as a free and sovereign country the is one in which the population has access to a higher level of education, better health care, and better health and with more material well-being. All of this requires more productive, socially protected, and better-paid jobs.

But proclaiming principles is not enough. It is necessary to implement the principles, in fact, through the annual allocation of resources in the State Budget. This is where the greatest difficulty lies: moving from the proclamation of principles to the real allocation of public resources, that make those principles concrete in our citizens’ lives.



Specifically, the annual State Budget will have to provide for an effective allocation of resources, that include more resources for education, health, and food/nutrition. The “rule of thumb” would be to set, as a goal of the new allocation of resources, the doubling of spending in these areas, over the period of 5 years, starting already in 2021.

The following table summarizes the proposed measures.

Sector/Areas	Proposed Measures
<p><b>Agriculture</b>  (and small agri-food industry)</p>	<ul style="list-style-type: none"> <li>• Set a renewal policy of Timor-Leste’s coffee plantation, with subsidies for growers who replace old plants with newer and more productive ones;</li> <li>• Develop forestry exploration, namely sandalwood and teak, supported by the law approved in 2017;</li> <li>• Encourage planting of trees for firewood to avoid indiscriminate logging; improving the quality of rural extension; introduction of livestock education;</li> <li>• Implementing, in the long term, a (partial) import substitution policy, particularly rice:             <ul style="list-style-type: none"> <li>○ increase control of imports (increasing rates);</li> <li>○ encourage national production, through seeds supply and market/support to the production flow guarantee (a program of State purchase and production’ distribution);</li> <li>○ Intensify the use of power tillers (but not tractors) in rice cultivation;</li> <li>○ Create “ productive seed banks” and make them available to farmers.</li> </ul> </li> <li>• Support the private sector in increasing meat production, with animal confinement and health control:             <ul style="list-style-type: none"> <li>○ Organize massive animal vaccination campaigns;</li> <li>○ Provide cattle raising farmers with seeds of forage plants;</li> <li>○ Build water points for livestock in the villages, using public labour-intensive rural employment programs.</li> </ul> </li> <li>• Promote and support agricultural associations, namely through direct support to institutions that promote microcredit in rural communities;</li> <li>• Promote, along with Universities or other Institutions, training courses (at a higher level, of long duration; but also, technical-intensive of short duration) in specific areas such as tropical agriculture and livestock;</li> <li>• Strengthen support for projects such as “Quinta Portugal” or others of a similar nature, to increase technical assistance to producers of coffee and other agricultural products.</li> </ul>



Sector/Areas	Proposed Measures
<p><b>Tourism</b></p>	<ul style="list-style-type: none"> <li>• Create a state-owned company to boost the sector;</li> <li>• Improve vocational education/training in this area by upgrading a tourism school to a high, international level;</li> <li>• Promote the recovery of former administrators' residences and "military buildings" to preserve our heritage and support tourism, potentially with support from Development Partners and UNESCO;</li> <li>• Rehabilitate rural roads that appeal to tourist interest, using labour-intensive public employment programs;</li> <li>• Control (extinction) of crocodiles on the north coast to make beaches safe;</li> <li>• Build/create (Metinaro?) a theme park dedicated to the dissemination and preservation of Timorese culture and crafts;</li> <li>• Promote Ecotourism, combining accommodation with coffee or rice plantations, for example;</li> <li>• With the sector National Strategy approved as a background, define a concrete plan to develop tourism, in stages. Due to its characteristics, start now with the "eastern end", municipalities of Baucau, Viqueque, and Lautém, as the initial priority area for the development of tourism (which will be followed by other areas); within 5-6 years, rehabilitate the Baucau airport to receive charter flights;</li> <li>• Build the already planned National Library-Museum in Dili;</li> <li>• Develop advertising and marketing campaigns about Timor-Leste, to be disseminated abroad, highlighting the natural wealth of the country's seas and mountains.</li> </ul>
<p><b>Housing</b></p>	<ul style="list-style-type: none"> <li>• Build neighbourhoods with proper infrastructure in some cities (example: Dili, Baucau, Pante Macassar) for the implementation of low-income housing for social housing, with delivery to residents after 25 years of rent payment - the promotion, ownership, and management of this program should be of Social Security or a new institution to be created (National Housing Institute?), linked to Social Security;</li> <li>• Ensure basic sanitation, water supply at home and electrification, throughout the country, in stages;</li> <li>• Construction of a modern waste and wastewater treatment plant (Dili)</li> <li>• Construction of public fountains.</li> </ul>



Sector/Areas	Proposed Measures
<p><b>Education</b></p>	<ul style="list-style-type: none"> <li>• Increase the percentage of spending on education in the context of annual GSB until, at least, the end of the legislature, setting as a goal for 5 years the doubling of the weight of these expenses in the GSB;</li> <li>• Extend the number of CAFE — Centres for Learning and School Training up to, in a first phase (5-6 years), to 2-3 per municipality;</li> <li>• Extend the network of secondary education, pre-school and vocational training centres;</li> <li>• Promote maintenance / restoration works of school buildings (more and better schools with a reduction in the number of students per teacher), in cases involving small recoveries, they can be carried out within the framework of public labour-intensive employment programs;</li> <li>• Establish an agreement with Portugal and Brazil to enable support for the new CAFE to be created; use founding from development partners for the CAFE creation and the restoration works of school and vocational training buildings;</li> <li>• Improve teacher training programs for the various levels of education;</li> <li>• Produce and distribute school schoolbooks to students and teachers;</li> <li>• Recover the 13 Educational Planning Charters already drawn up, update them and use them as an important educational planning and strategy tool;</li> <li>• Introduce improvements in school meals (in the menu and in the implementation process);</li> <li>• Create a credit line, on concessional terms, for financial support to Accredited Private Higher Education Institutions, replacing current public subsidies;</li> <li>• Define retention programs for young graduates, in order to avoid “flight” abroad looking for job opportunities.</li> </ul>
<p><b>Health</b></p>	<ul style="list-style-type: none"> <li>• Increase current expenditure on health, in order to significantly improve the health services provided to patients, equipment, materials and training of human resources quality;</li> <li>• Strengthen financial and technical support for Family Health, School Health and Occupational Health Programs;</li> <li>• Carrying out conservation works for hospitals and health centres, in cases involving small recoveries, they can be carried out within the framework of intensive labour-intensive public employment programs;</li> <li>• Strengthen public investment in expanding hospital infrastructure and health care centres across the country, based on an appropriate plan;</li> </ul>



Sector/Areas	Proposed Measures
<p><b>Health</b> (cont.)</p>	<ul style="list-style-type: none"> <li>• Reinforce public investment in training and accreditation of human resources in the health area;</li> <li>• Develop agreements with private entities (including the third sector) for the concession of the management (potentially partial) of hospitals, clinics and health centres, with State subsidy, increase health services offer and quality, without creating barriers to access;</li> <li>• Promote the constant improvement of health personnel training (agreements with WHO and development partners), both at a scientific and technical level (for example for handling equipment) and at a pedagogical level;</li> <li>• Develop campaigns - directly or by supporting social solidarity institutions in this task - on the ground, on good hygiene practices (such as hand washing), use of medicines, and the use of health services, avoiding the use of traditional practices that are not scientifically proven.</li> </ul>
<p><b>Social Protection</b></p>	<ul style="list-style-type: none"> <li>• Approve the already prepared National Social Protection Strategy, and design annual implementation plans, which must be taken into account in the preparation of the annual State Plans and Budgets;</li> <li>• Create alternative mechanisms / instruments for social benefits payment, avoiding payment in cash and the associated risks, helping to “bank” the economy, and reducing the costs of implementing social benefit measures;</li> <li>• Operationalize the Disability Verification Service;</li> <li>• Approve the constitution and management model of the Social Security Reserve Fund;</li> <li>• Increase the coverage of the “Grants for the Mother” Program;</li> <li>• Create protection in case of death, in the non-contributory regime;</li> <li>• Create protection against illness and unemployment, in the contributory regime;</li> <li>• Implement active employment programs - public rural employment program, in labour-intensive areas, such as construction industry (rural roads, fountains, markets, small works to recover public facilities) or tourism;</li> <li>• Develop massive information campaigns for rural workers and the informal sector, in order to encourage their adherence to the social security regime — to support this adhesion, through the State's co-participation in the contributory rate;</li> <li>• Study the possibility of, in the longer term, creating a new social protection measure, aiming at guaranteeing a minimum income for all citizens with income shortages.</li> </ul>

Sector/Areas	Proposed Measures
<b>Institutional Aspects</b>	<ul style="list-style-type: none"> <li>• Approve and publish the “Land Law” and all other related legislation;</li> <li>• Prepare and approve the necessary regulatory framework for the operation of companies (such as bankruptcy, mergers, access to credit, etc.);</li> <li>• Improve the functioning of the Courts, giving them the ability to decide on civil cases, not just criminal ones;</li> <li>• Prepare and approve a new GSB Framework Law, including the entire Public Administrative Sector;</li> <li>• Prepare and approve a Chart of Accounts, for the private and public sectors;</li> <li>• Proceed with a reform in the Public Administration: create a fair system for evaluating the performance of employees; promote short training courses aimed at specific areas; strengthen the capacity and skills of the human resources services of the various public bodies, in order to make some procedures less bureaucratic; restructure the workforce, making the retirement process mandatory from the age of 60; Implement the effective issuance of the “identity card” (with unique and lifetime identity number) universally;</li> <li>• Change the current General Directorate of Statistics into a Public Institute, with autonomy - possibly under the Prime Minister or the Deputy Prime Minister and Minister for Planning and Planning political responsibility;</li> <li>• Reformulate the composition of the National Labour Council, so that Social Security integrates it, in order to promote an effective social dialogue, coordinated, in the areas of employment and social security;</li> <li>• A mandatory registration system for unemployed / jobseekers;</li> <li>• Improve Labour Inspection services, especially by providing them with more resources;</li> <li>• Create a timely communication mechanism between business registration services (SERVE), tax services (Ministry of Finance) and Social Security — making business registration more efficient, faster and less bureaucratic;</li> <li>• Tax reform: create redistributive, fair and that foresee for tax exemptions / benefits in certain situations tax codes (economic policy to encourage the private sector);</li> <li>• Establishment of a partnership with the banking sector, aiming to create financing conditions for companies and small businesses: negotiation of loan conditions (volume, interest rate, grace period). Banks must potentially be compensated by granting appropriate tax benefits;</li> </ul>

Sector/Areas	Proposed Measures
<b>Institutional Aspects</b> (cont.)	<ul style="list-style-type: none"> <li>• Interministerial Coordination: there should be coordination between the various Ministries that comprise the 8th Government, in order to avoid duplication of tasks / responsibilities, as well as to properly direct existing resources, based on the scope of each Ministry;</li> <li>• Effectively initiate the process of administrative decentralization, in a first phase - and in view of the necessary scale gains - through the creation of regions (4 or 5), endowed with autonomy;</li> <li>• Create a pilot project — 2 or 3 Municipalities— “mobile citizenship vans”, to bring some essential public services (civil registration and data update, medical assistance / general and medication consultation, payment of social benefits, delivery of goods and food support ) to the most isolated populations, in order to break down access barriers.</li> </ul>
<b>Optical Fiber Installation</b>	<ul style="list-style-type: none"> <li>• Accelerate the entire process of installing optical fiber through the submarine cable that will connect Timor-Leste with the rest of the world.</li> </ul>
<b>Renewable, Sustainable and Alternative Energies</b>	<ul style="list-style-type: none"> <li>• Use of the natural resources that Timor-Leste has available - sun, sea and wind - as a way to reduce fuel costs, in addition to being an environmentally friendly energy source.</li> </ul>



# CHAPTER I: ECONOMIC AND SOCIAL CONTEXT

## 1.1 POST-COVID-19 INTERNATIONAL ENVIRONMENT: 2020-2021

The COVID-19 pandemic had its most obvious start in China, during the second half of January 2020.

From this country it spread to other countries in February/March 2020, particularly in the European Union (Italy and Spain, for example) followed by its expansion to the American continent (USA, Brazil and others). In the Association of Southeast Asian Nations (ASEAN) countries, COVID-19 had already affected, at the beginning of April 2020, more than 15 thousand people, causing the death of more than 500 (ASEAN. 2020. *Economic Impact of COVID-19 Outbreak on ASEAN*, ASEAN Policy Brief. [https://asean.org/storage/2020/04/ASEAN-Policy-Brief-April-2020\\_FINAL.pdf](https://asean.org/storage/2020/04/ASEAN-Policy-Brief-April-2020_FINAL.pdf)).

To halt the spreading of the pandemic, with all its implications for public health, many countries have adopted measures to limit the movement of their citizens, forcing them to stay in their homes. This could not fail to have an impact both on the production of goods and services and on consumption (mainly by households but also by businesses), with both economic aggregates decreasing their values, bringing with it, instability in world stock markets and other markets (e.g., fuels).

COVID-19 may affect the global economy, mainly in three ways:

- directly affecting production due, inter alia (but not exclusively), to population containment measures, to halt the spread of the disease;
- by disrupting supply chains and markets (notably the world trade, with a sharp drop in exports and exportable production); and
- through the direct impact on business and financial markets. The intensity of the impact also depends very much on both the measures adopted by the countries and the reaction of the population to the surge of the pandemic and its consequences.

In fact, this pandemic, being initially a public health problem, has already strongly affected the world economy both on the supply side – reduction/suspension of business activity, with the fall in production and supply of goods and services, and with impacts on employment and hours worked – whether on the demand side – reduction of household income (given the unemployment or the decreasing in working hours, or as a consequence of the decreed measures of social distancing and compulsory confinement, to contain the spread of the disease), and the consequent fall in consumption. The contraction of aggregate supply and demand is both a cause and an effect of each other.

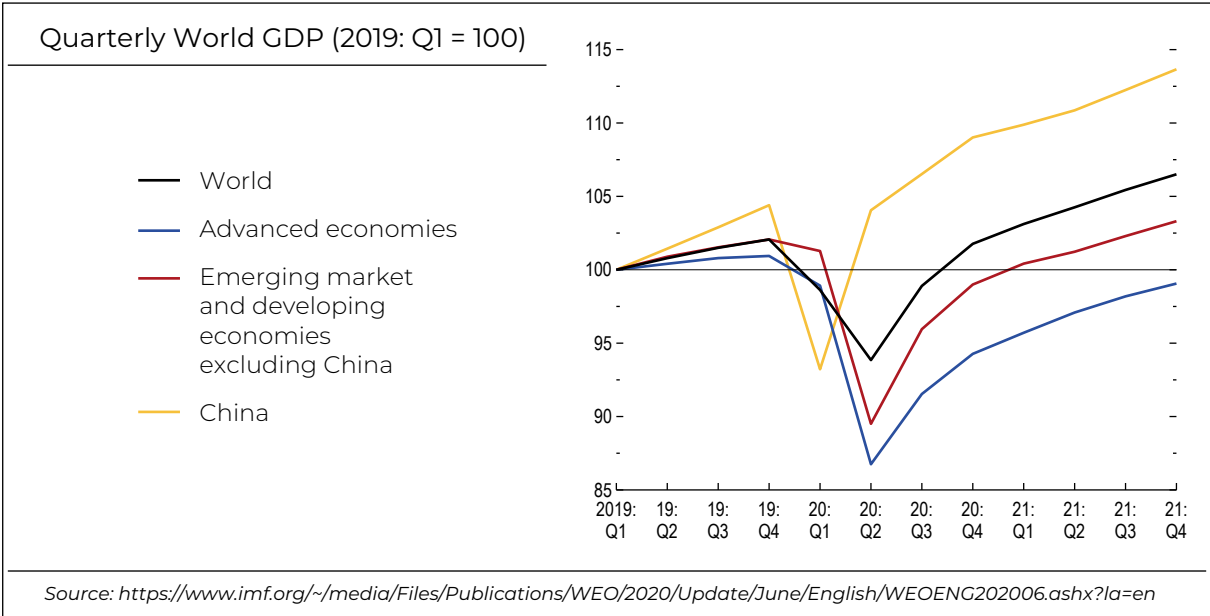
In practice, the measures adopted for compulsory confinement and social distancing, necessary to contain the spread of COVID-19, have resulted in the supply of goods and services contraction, with a decrease in production, which has led to a reduction in working hours and

unemployment for thousands of people around the world, with an impact on the reduction of household income. This, in turn, has also led to a contraction in demand, in consumption, since people have less disposable income. Economic growth is therefore affected by the simultaneous fall in consumption and production.

The most current estimates of the impact on production in 2020 are as follows:

<b>Estimated GDP development in 2020 (%)</b>	
Advanced economies	-8
Euro Zone	-10,2
ASEAN-5	-2
Emerging and developing Asia	-0,8
World	-4,9

Source: FMI World Economic Report Update, June 2020.  
<https://www.imf.org/~media/Files/Publications/WEO/2020/Update/June/English/WEOENG202006.ashx?la=en>



Economic growth estimates for emerging and developing Asia are now -0.8% and reflect a very significant economic slowdown, followed by a recovery of +7.4% in 2021 – mainly thanks to +8.2% from China and 6.2% from ASEAN 5, as also shown in the table below, taken from the June/20 edition of the IMF’s World Economic Outlook Update.

The configuration of the estimated GDP development curve, as in the graphic above, reminds us of the letter V. This is one of the possible configurations of this curve, that means a recovery, in the year right after the crisis, of a large part (if not the whole) of the production decrease. In fact, the +5.4% after the -4.9% of the estimates for the world means that the GDP value in 2021 will be much slightly higher than that of 2019, the pre-crisis value.

Economists, when looking at other past experiences, can identify other profiles, namely a U-crisis curve, with a longer duration (2-3 years) than that of the V – and in L – with a sharp fall in GDP and a longer recovery over time (3-5 years). Another version for this crisis of COVID-19 is that the curve is in W shape – eventually with a second fall smaller than the first -, in case of, plausible for many, a second “wave” of the virus emerges during the winter of 2020-21.

Overview of the World Economic Outlook Projections  
(Percent change, unless noted otherwise)

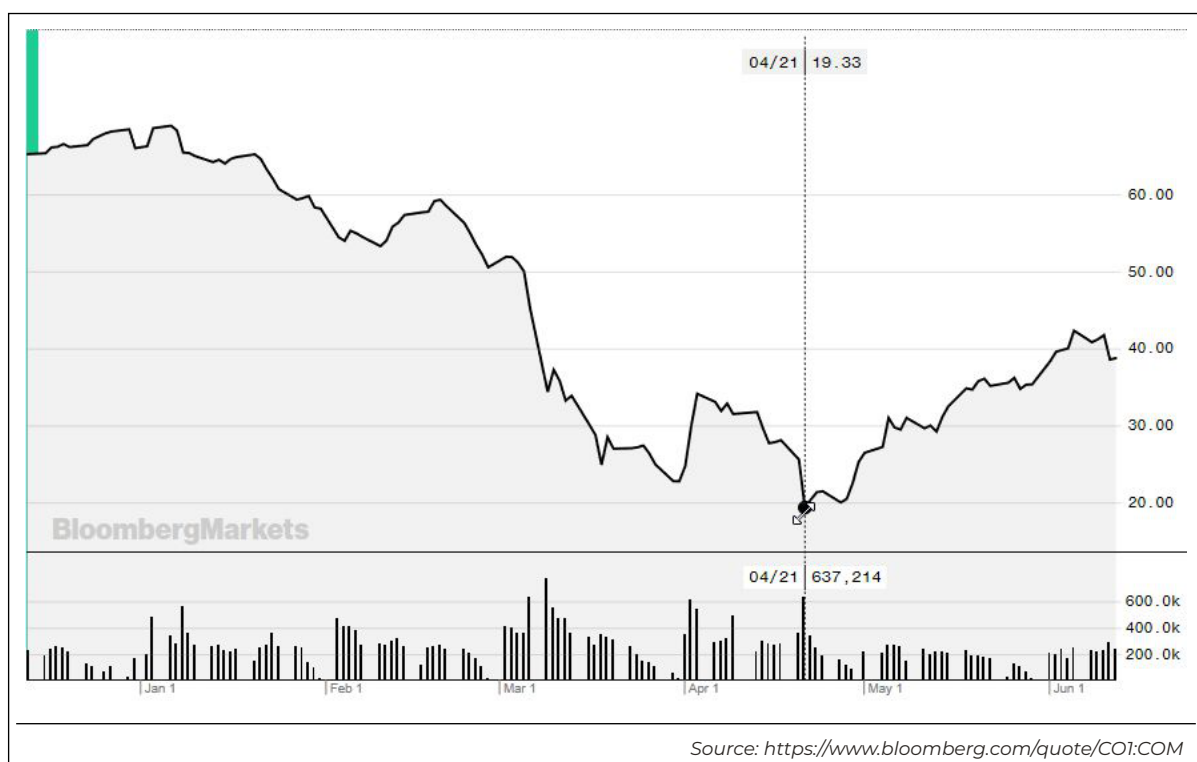
	Year over Year						over Q4 2/		
			Projections		Difference from April 2020 WEO Projections 1/		Projections		
	2019	2020	2020	2021	2020	2021	2020	2021	2022
United States	2.9	2.3	-8.0	4.5	-2.1	-0.2	2.3	-8.2	5.4
Euro Area	1.9	1.3	-10.2	6.0	-2.7	1.3	1.0	-8.6	5.8
Germany	1.5	0.6	-7.8	5.4	-0.8	0.2	0.4	-6.7	5.5
France	1.8	1.5	-12.5	7.3	-5.3	2.8	0.9	-8.9	4.2
Italy	0.8	0.3	-12.8	6.3	-3.7	1.5	0.1	-10.9	5.5
Spain	2.4	2.0	-12.8	6.3	-4.8	2.0	1.8	-11.4	6.3
Japan	0.3	0.7	-5.8	2.4	-0.6	-0.6	-0.7	-1.8	0.0
United Kingdom	1.3	1.4	-10.2	6.3	-3.7	2.3	1.1	-9.0	6.9
Canada	2.0	1.7	-8.4	4.9	-2.2	0.7	1.5	-7.5	4.6
Other Advanced Economies 3/	2.7	1.7	-4.8	4.2	-0.2	-0.3	1.9	-5.1	5.5
Emerging and Developing Asia	6.3	5.5	-0.8	7.4	-1.8	-1.1	5.0	2.4	3.9
China	6.7	6.1	1.0	8.2	-0.2	-1.0	6.0	4.4	4.3
India 4/	6.1	4.2	-4.5	6.0	-6.4	-1.4	3.1	0.2	1.2
ASEAN-5 5/	5.3	4.9	-2.0	6.2	-1.4	-1.6	4.6	-1.4	6.1

Source: <https://www.imf.org/-/media/Files/Publications/WEO/2020/Update/June/English/WEOENG202006.ashx?la=en>

The observed curve final form will depend on many factors, including the economic policy implemented to cope with the crisis.

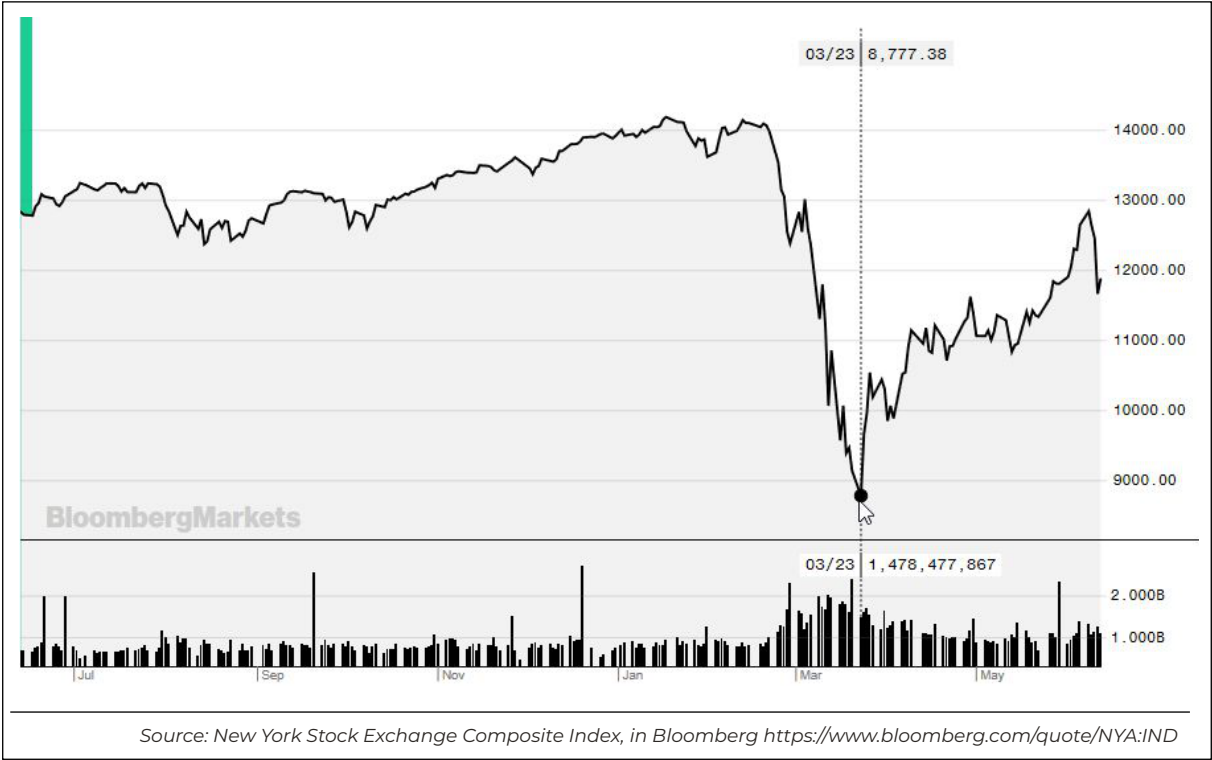
**The economic and social policy suggested in this document aims, for Timor-Leste, to change what is feared to be a U-shaped recovery, into a V-shaped recovery – or U-shaped recovery as short as possible.**

The fall in production was reflected in the evolution of international prices of raw materials, particularly oil, as illustrated in the graph below for the first half of 2020.



Source: <https://www.bloomberg.com/quote/COI:COM>

But the biggest impact seems to have been on international financial markets. The chart below illustrates the behaviour of the New York Stock Exchange composite index in the recent past (since July/19). It shows the sharp drop in prices during the month of March/2020 with the “historic” low on the 23<sup>rd</sup> of that month. Since that date, although in a precarious way, there has been a recovery in the value of stock market indexes.



It should be noted, for Timor-Leste, that this evolution of the international stock exchanges (in this case the New York Stock Exchange) has translated into a significant fall in the Timor-Leste’s Petroleum Fund capital value, during the first quarter of 2020, as reported in this year first quarter report, published by the Central Bank of Timor-Leste.

Capital Account	\$'000
Opening book value (01 January 2020)	17,691,816
Receipts during the period	181,111
Transfer to General State Budget	0
Investment Return	-843,994
Closing book value (31 March 2020)	17,028,934

Source: [https://www.bancocentral.tl/uploads/documentos/documento\\_1588566307\\_9544.pdf](https://www.bancocentral.tl/uploads/documentos/documento_1588566307_9544.pdf)

However, most of the losses reported during this quarter had, by the end of last April, been recovered (Petroleum Fund capital increase during the month of April/20 of almost USD 600 million, value highly increased since then).



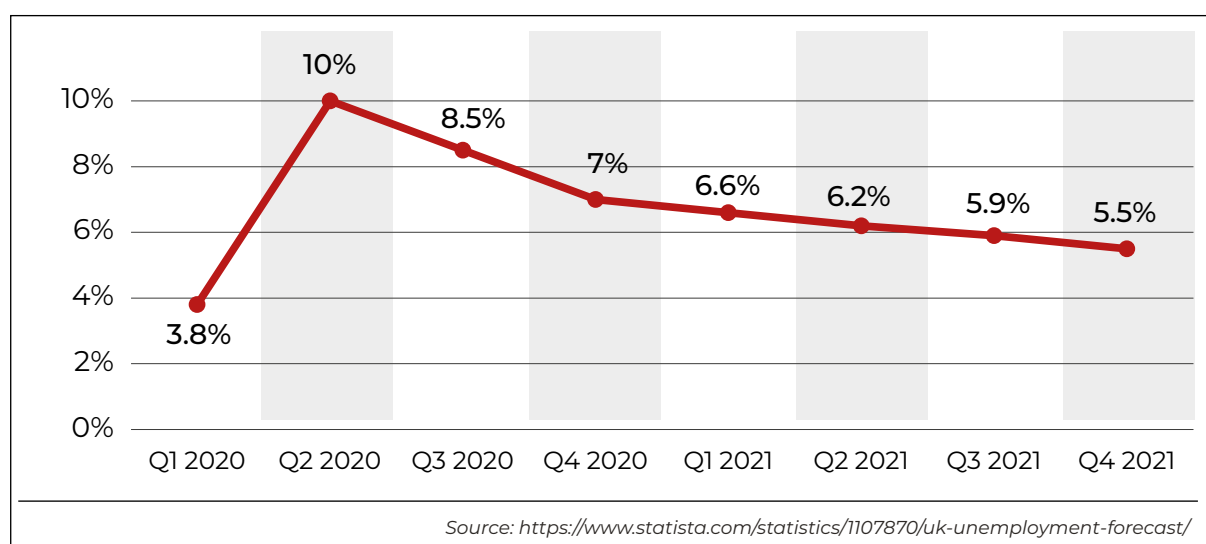
## CAPITAL

Opening balance in previous month	17 028 934
Capital movement during the month	-126 192
Net income for this month	697 834
<b>TOTAL EQUITY</b>	<b>17 600 576</b>

Source: [https://www.bancocentral.tl/uploads/documentos/documento\\_1591146449\\_2479.pdf](https://www.bancocentral.tl/uploads/documentos/documento_1591146449_2479.pdf)

Besides the **production**, the pandemic mainly influenced the **employment** – high rise in the unemployment rate in the more advanced economies – and people's **income**.

The unemployment rate in the United Kingdom, the country that hosts the biggest Timorese emigrants community, and that may feel the effects of this evolution, causing some of them to return to our country, and an increased pressure on our labour market, has evolved as shown in the graph below – which also illustrates the current expectations on the evolution of this rate until the end of 2021, where it will remain above the pre-crisis rate (1<sup>st</sup> quarter of 2020): Unemployment rate in the United Kingdom: Q1 2020= 3.8%; Q2 2020= 10%; Q1 2021= 6.6%; Q4 2021= 5.5%.



The eventual return of the national emigrants in the United Kingdom to Timor-Leste will also have another relevant economic impact: the loss of remittances that every year enter Timor-Leste and help the economy of their families.

Evolution of the international economy in 2019, 2020 and 2021 (data from the International Monetary Fund, IMF) is as following:

**Evolution of world GDP:** 2019 = +2.9%; 2020 = -4.9%; 2021= +5.4%

**Brent oil barrel price:** 2019 = 64 USD/barrel; 2020 = 36.9 USD/barrel; 2021 = 39.5 USD/barrel

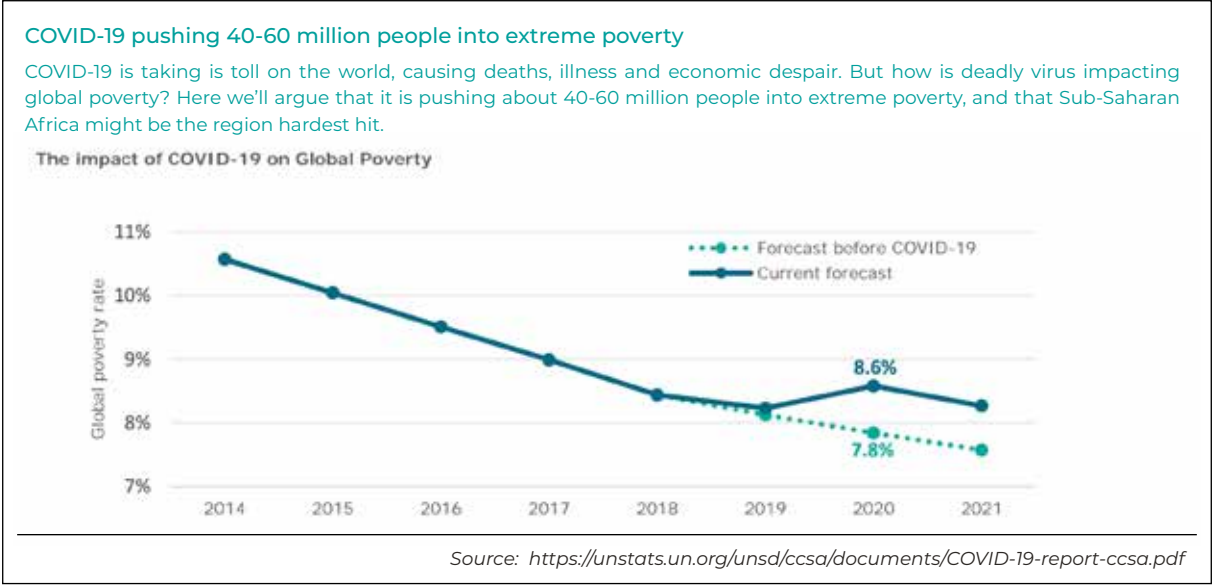
**Unemployment rate in Eurozone:** 2019 = 7.6%; 2020 = 10.4%; 2021 = 8.9%

**Unemployment rate in UK:** Q1 2020 = 3.8%; Q2 2020 = 10%; Q1 2021= 6.6%; Q4 2021= 5.5%

Sources: <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020> and [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/OEMDC/ADVEC/WEO/WORLD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEO/WORLD)

As can be seen, the impact of COVID-19 on the world economy was strong (estimated growth rate for 2020 of -4.9%), mainly focusing on the first and second quarters of 2020. The biggest impact will have been on production and (un)employment, with both recovering slowly both in the European Union and the United Kingdom.

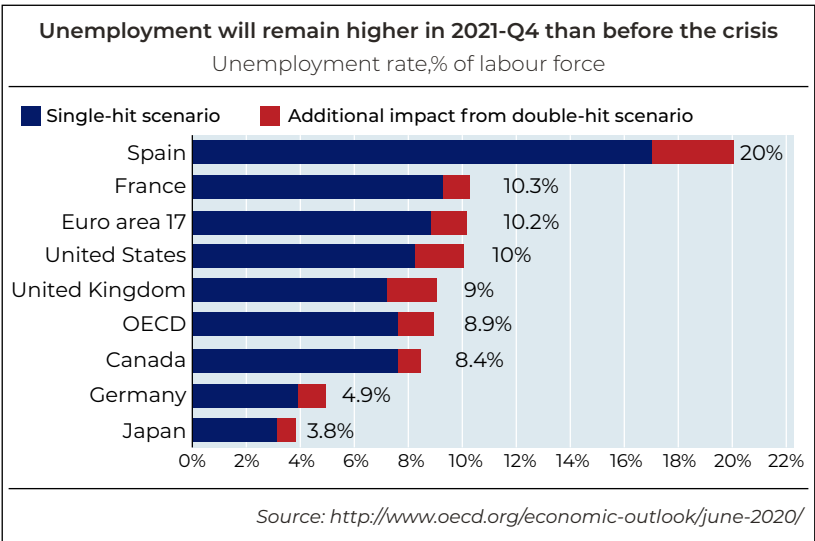
This effect on employment is estimated to have an impact on income and consequently on the level of poverty and inequality in income distribution, the latter worsening with the increase in the number of individuals in extreme poverty.



The IMF estimates that, while the impact of the crisis was massive and rapid, the recovery will also be, on the assumption that the “foundations” of the international economy have remained relatively intact, facilitating recovery.

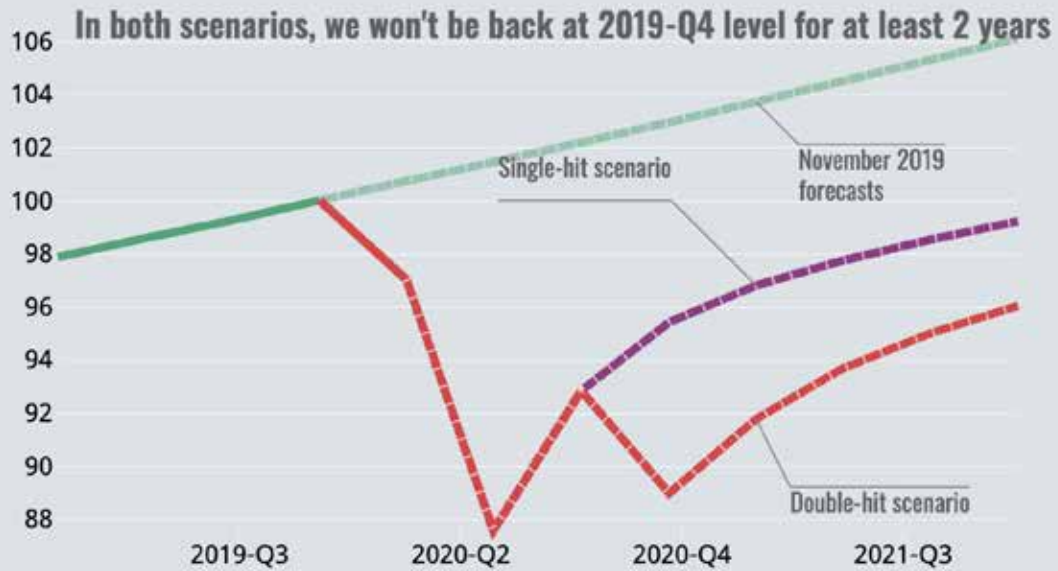
The Organisation for Economic Cooperation and Development (OECD), the international organisation that brings together most of the most developed countries, has more pessimistic forecasts for the near future, with unemployment remaining high until at least 2022, and production resuming very slowly – namely because of difficulties in the recovery of international trade (which will limit production for exportation) and in the tourism and international flights sector. The difficulty in the economic recovery may be greater if, as many fears, a second wave of the pandemic during the autumn/winter of 2020 is confirmed.

This phenomenon may have a negative impact on international flights to and from our country.



## A collapse in output followed by a slow recovery

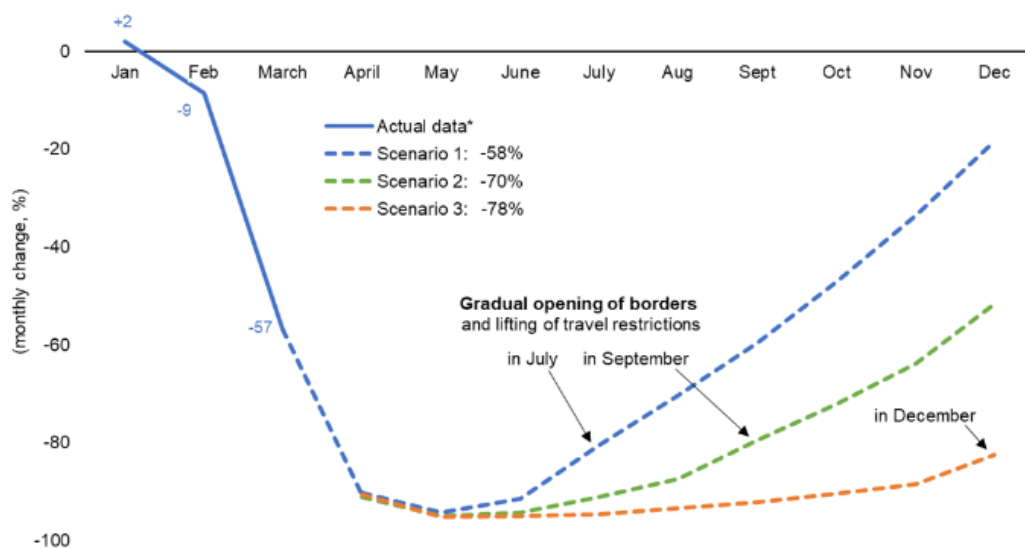
World GDP, index 2019-Q4=100



Source: OECD (2020), "OECD Economic Outlook No. 107 (Edition 2020/1)", OECD Economic Outlook: Statistics and Projections (database).

Source: <http://www.oecd.org/economic-outlook/june-2020/>

## International tourist arrivals in 2020: three scenarios (YoY monthly change, %)



Source: <https://www.unwto.org/international-tourism-and-covid-19>

As a public health issue, and due to its effects on economies and societies, the COVID-19 pandemic is triggering a “human development crisis”, as described by the United Nations Development Program (UNDP):

*“the crisis is strongly affecting all the elements that compose Human Development: income (with the biggest contraction of economic activity since the Great Depression [1929]), health (directly causing more than 300,000 deaths and indirectly potentially leading to another 6,000 deaths in children, every day, for preventable causes, for the next 6 months) and education (it is expected that the rates of effective non-participation in school, that is, counting children who are unable to access the internet — in primary education, fall to actual mid-1980s levels)” - (UNDP. 2020. Human Development Perspectives – COVID-19 and Human Development: Assessing the Crisis, Envisioning the Recovery. New York.)*

Timor-Leste, in particular, due to its economic dimension, is relatively isolated from contact with the international economy and its evolution. For this reason, its impact on the country’s economy has few transmission channels — which is not to say that this impact is necessarily small.

The main channels are as follows (the sequence below is arbitrary, not a sign of their relative influence), in general, and in 2020 in particular:

- (Negative) influence of the evolution of the stock exchange indexes on the income of the Petroleum Fund;
- (Negative) influence of the evolution of the price of crude oil (and gas) (Brent) on international markets — influence on the value of the revenues from the exploration of the Timor Sea and on the potential profitability of the projects planned for Tasi Mane (at least in the coming years);
- (Negative) influence of the fall in employment in the main economies (namely the United Kingdom) on Timorese emigration;
- Brexit (negative) influence on Timorese emigration to the United Kingdom;
- (Negative) influence of the reduction in international passenger flows, namely in the flow of tourists to Timor-Leste.

None of these influences is, unfortunately, quantifiable, due either to the great degree of uncertainty that still looms over the evolution of the international economy, or to the insufficiency of our national statistical system - which must, therefore, be greatly improved, particularly in relation to production (reliable quarterly indicators) and to employment (where it will be necessary to invest in encouraging the registration of unemployed people looking for a job).

## 1.2 ECONOMIC-SOCIAL SITUATION IN TIMOR-LESTE DIAGNOSIS AND COVID-19 IMPACT

### 1.2.1 PRE-COVID-19 ECONOMIC-SOCIAL CONTEXT

The economic (and social) policy outlined for this post-COVID-19 Economic Recovery Plan is based on the “diagnosis of the situation”, which is done using quantitative (statistics) and qualitative information about the country. It is not easy to make an accurate diagnosis due to the weaknesses of the national statistical system, although we have to recognize that the statistics service has been improving a lot, for example, in the area of National Accounts (production, international trade, etc.).

The statistics insufficiency is particularly high concerning data of (very) “short term” that allow, in the event of a cyclical crisis such as that of COVID-19, to have quickly updated information to identify and measure the main problems and to help in the definition of measures to address them. This is an area that needs to be improved (a lot) in the short to medium term. Without a good “diagnosis” of the situation, it becomes difficult to define an adequate economic policy. This was evident in the current situation that questioned almost everything that was known about the country’s economic and social situation until the second half of this year.

Specifically, we are talking about data on production (and its short-term variation), employment and the labour market, as well as household income and expenses. These are areas that will need to be greatly improved in the short term or, in the “worst” case, in the medium term.

The “diagnosis” of the situation thus uses not only the (few) available and reliable statistical data but also qualitative information of a variable nature, which, one and the other, allow, nevertheless, to serve as a basis for the definition of measures for cope with the current economic and social situation.

The following is based on the statistical (quantitative) and qualitative information available, both before and after the COVID-19 pandemic and its impact on Timor-Leste.

## **A Slow Transition Subsistence Economy**

We can safely say that by the end of 2019, Timor-Leste’s economy is best described as being in a state of a slow transition from a subsistence to a market economy. Although there has been some growth in the private sector, the most recent data (2019 Agricultural Census) reveal that 66% of the population are still subsistence farmers, so it can be said that this transition is still in the initial stage. From the statistical data, we can confirm that there are signs of a slow transition from agriculture, in terms of a rather modest decline in the number of families that depend on agriculture as their main source of income, from 76% in 2010 to 66% in 2019.

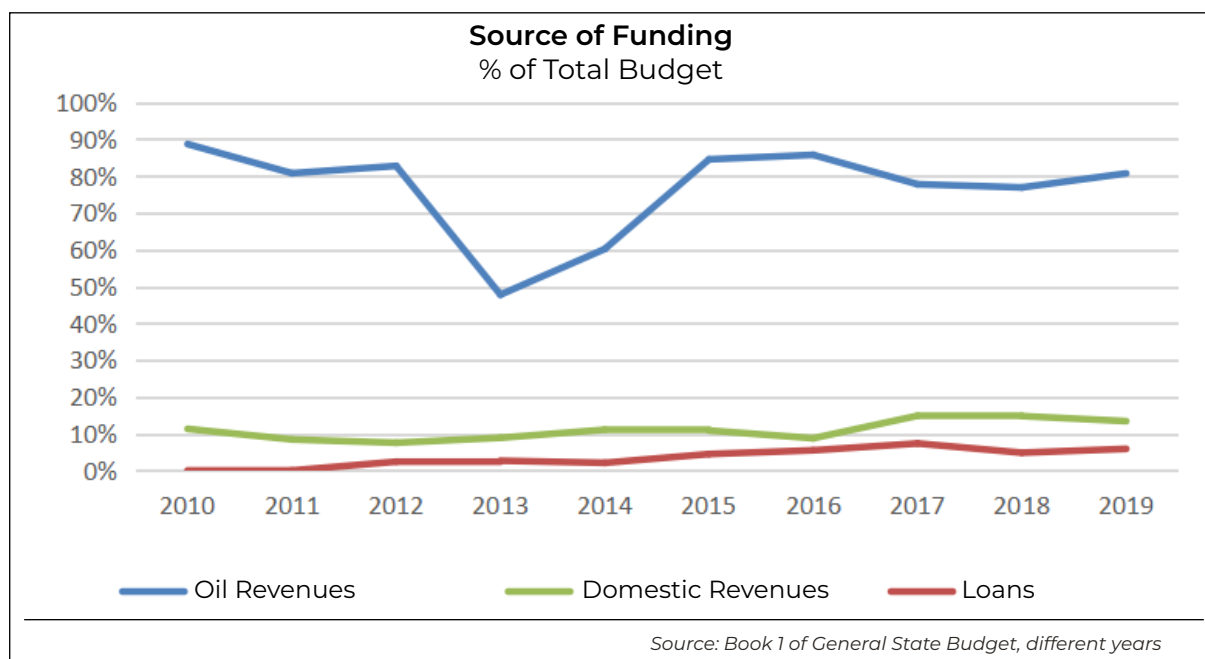
From the 2015 Census, on the practices used by our farmers, we can see that only a small percentage of them use “modern” techniques to improve productivity; for example, 8% use coverage; 15% use improved quality seed varieties; 10% use organic or chemical fertilizer; 20% use a hand tractor or four-wheel tractor and 8% use an irrigation system. In terms of land surface, 66% of farming families have less than 1 hectare and 98% have less than 5 hectares of cultivated land. Indeed, the agricultural sector remains predominantly a subsistence economy with modest resources and family-based. The current situation does not seem to have changed substantially.

The sluggishness of this transition in itself creates a complex environment for policy formulation, because several economic sectors in transition have very diverse needs. For example, the type of support and basic infrastructure that a subsistence farming family needs is very different from the type of support and infrastructure needed to expand a beverage business.

In fact, several efforts have been made, for more than a decade, to (re)build the primary sector and increase its productivity, but so far progress has been very slow. Timor-Leste produces little of its land and the existing labour, but consumes a lot, because of the easy path chosen, using the money of Petroleum Fund to finance consumption. This behaviour is in line with the most basic macro-economy precept, that is, a country that instead of expanding and developing its productive capacity, consumes more than it produces, which may prove unsustainable in the upcoming future. With this behaviour, the country will grow little and in an unsustainable way, having to be always dependent on other sources of financing, both for the annual General State Budgets and for production.

## Dependence on Petroleum Revenues

Lacking of a diversified economy with limited production capacity, the Petroleum Fund has been the main source of funding for the General State Budgets and production for over a decade, as the following graph shows. Timor-Leste is, in fact, one of the few countries that relies heavily on its oil reserves in the Timor Sea.



International experience shows that it is common in many emerging economies to be heavily dependent on foreign aid or revenues from the exploration of their natural resources for some time, especially as their economies are not diversified and developed, productivity is low, and the tax base is limited. However, it is good to keep in mind that the big challenge ahead is that these countries see the supply of natural resources declining from year to year, both because of the falling price of the *commodity* and because of the reduction in the production volume. In Timor-Leste's case, oil production revenues have been decreasing in recent years, mainly because of the production volume as well as the fall in the oil price.

For Timor-Leste to grow continuously in an inclusive and sustainable way, more and better ways must be found to strengthen its production capacity and diversify its economy outside the oil sector. International experience also shows that countries rich in natural resources should already perform better, compared to countries that do not enjoy the same resources, if a significant portion of the revenues from the exploration of these resources had been invested in the human capital development, in infrastructure to support productive sectors, and in creating incentives for domestic or foreign companies, towards economic and social development and the economic modernization.

For Timor-Leste, the message is simple: we must rely less on our natural resources and rely more on what we can produce with our own sweat, creativity and imagination, which would imply more resources devoted to tourism, agriculture and manufacturing. For these sectors to become strong enough and serve as alternative sources of revenue in the future, the Government needs to have ambition on the economic side, to allocate adequate investment to help them grow and expand, thus allowing for a sustained increase in decent employment and wages.



## **Economic Policies and Priorities Definition**

Like previous governments, the Program of the 8<sup>th</sup> Constitutional Government is focused on the development of four main sectors: agriculture, tourism, oil and manufacturing. The 8<sup>th</sup> Government considers the existence of adequate infrastructure, human capital, legal structure and efficient institutions as the main “prerequisites” for progress in these sectors.

So far, there has been a large investment to develop the oil sector and basic infrastructure (roads, electricity, airports, etc.) that could potentially support the development of other sectors. But, at the same time, the agricultural, tourism and manufacturing sectors have received considerably less attention in the last decade.

Annual General State Budgets clearly show that the structure of spending in key areas such as health and education – essential to support people to become better involved in economic activity – have also declined over the past seven years. Similarly, investment in important sectors such as agriculture and tourism, trade and industry haven’t got enough attention either.

## **Growth, Human Development and Poverty**

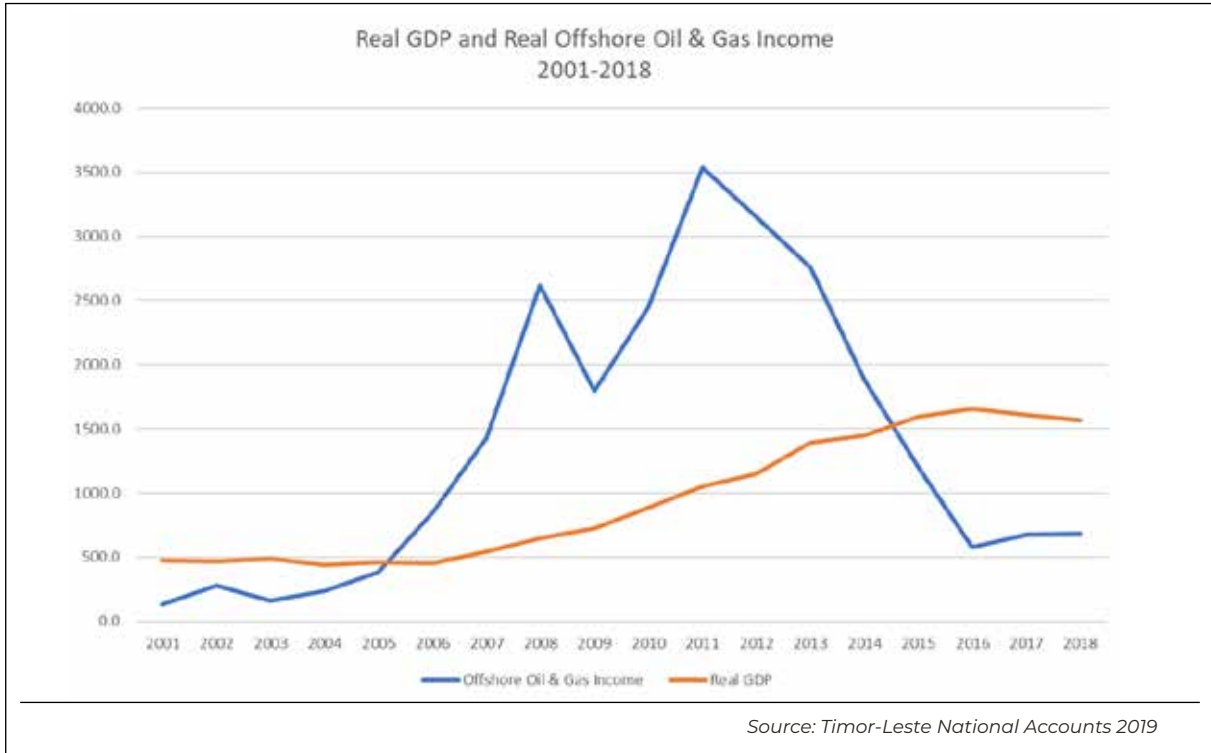
While the National Accounts point to an average growth above 5% between 2007 and 2017, there is little evidence of growth in the production capacity of domestic economy. As we have mentioned, the agricultural sector continues to be the main source of income for more than two-thirds of the population and there is hardly any significant growth in this sector.

Population migration from rural areas to urbans is constant; even so, urbanization is not as fast as the international standards. There is, however, a growing trend in the working-age population, but the level and nature of economic growth in non-agricultural sectors is not able to generate enough jobs for the growing working-age population. The high percentage of unemployment and underemployment among young people and adults is a visible symptom of this economic reality.

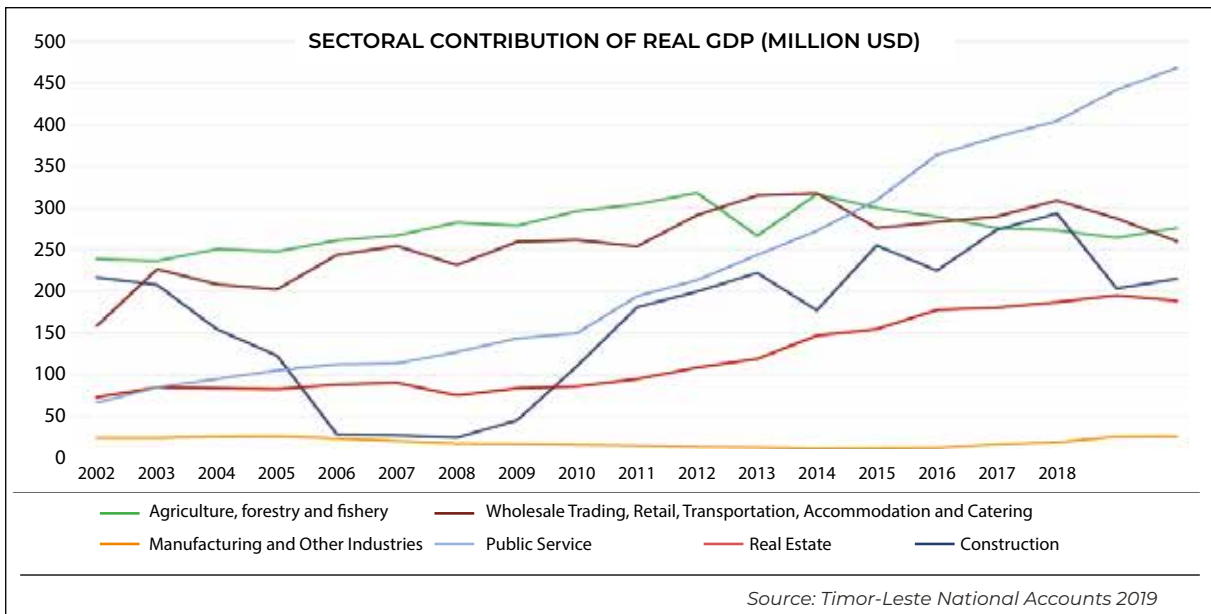
But, even if there has been growth, its impact on poverty reduction depends very much on the nature of that growth. If growth occurs in sectors of the economy where people are very poor, for instance by increasing the income of many small farmers, the nature of that growth is “inclusive”, because it is oriented towards poverty reduction. On the other hand, if growth occurs mainly through the construction of a high-tech factory that absorbs a small percentage of employment, mainly highly skilled workers, it is likely that this type of growth will benefit only a very small proportion of citizens, who will obviously be the most skilled and those with a high standard of living. Surely, that kind of economic growth is not considered “inclusive”.

Real GDP has grown steadily over 10 years since 2007, indicating an increase in non-oil production. However, this growth has not occurred in productive sectors such as agriculture, manufacturing or tourism. On the contrary, most of the GDP growth has been driven by public spending, which is financed through transfers of money from the Petroleum Fund. Although public spending has allowed money to circulate in the economy, through infrastructure and the provision of jobs in public administration, this type of job creation may not be sustainable because it depends on oil revenues. The nature of growth is also no longer inclusive, because it affects only a small portion of society and, especially, urban middle-class residents.





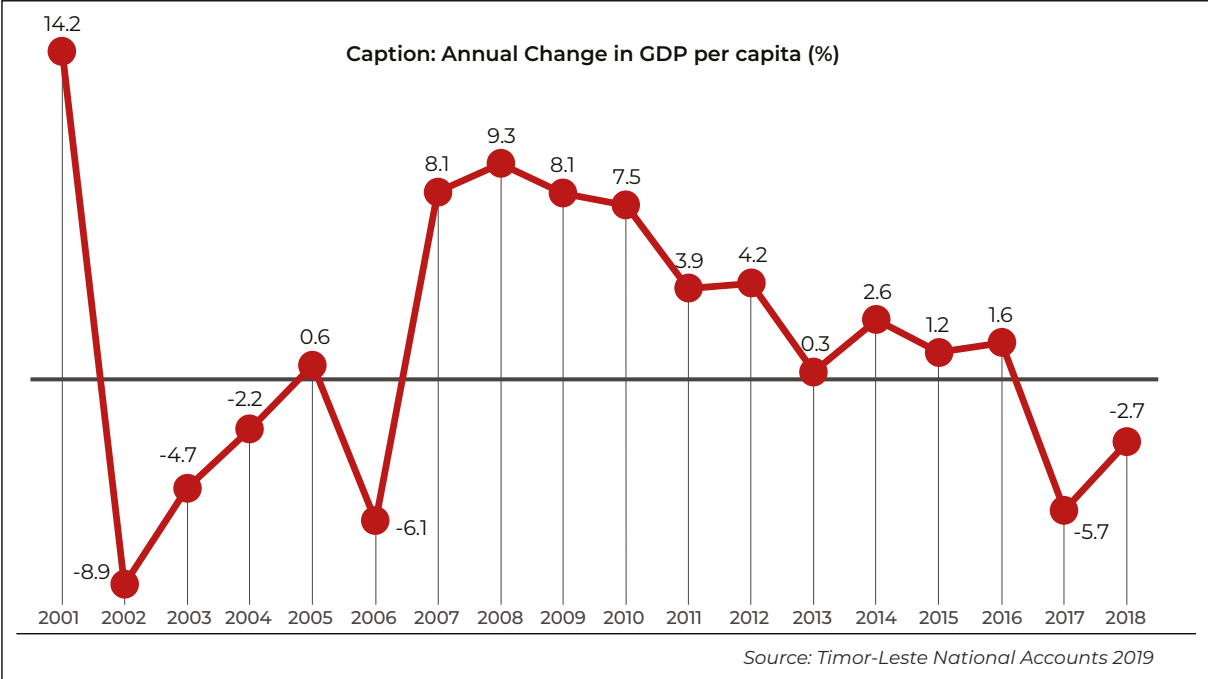
The following chart shows the GDP distribution by main sectors.



The total manufacture stagnation over the whole period and the very slow agricultural growth until 2010, with a steady decline since 2012 should be noted. On the other hand, the sectors that grew rapidly are those mainly associated with Public Service, with an increase of more than USD 400 million in real terms. The rapid growth in construction is almost all driven by public procurement and much of the growth in wholesale and retail services are also associated with government activities.



As for real GDP per capita, the “production per person” in the economy, as the next chart shows, is actually lower than it was in 2012 and about 8% lower than the 2016 peak. Although growth is reasonable in the period from 2007 to 2016, the annual growth rate of real GDP per capita is, on average, less than 1% per year since 2002.



The almost stagnation of real GDP growth per capita has its consequences. In 2018, Timor-Leste ranked 131 (out of 189 countries) in the Human Development Index (HDI), with an average human development rate higher for men (male HDI higher than female HDI), especially concerning gross national income per capita. Despite the (almost) maintenance of the HDI value, in recent years (2016 to 2018) – for which gross national income, which includes oil revenues, is taken into account – the National Accounts show a reduction in non-oil GDP, over the same period they were of: -3.8% in 2017 and -0.8% in 2018<sup>1</sup>. However, according to recent forecasts by the Central Bank of Timor-Leste (BCTL), in 2019 the economy has recovered, with a GDP growth rate of 4.6%<sup>2</sup>, after two consecutive years in recession.

Consumption (public and private) is by far the main factor in the national GDP. In 2017 and 2018, due to constraints on the execution of the General State Budget (GSB), private consumption was even more important than the public, both in absolute terms and in terms of growth: in 2018, household consumption grew 2.2%, while the public consumption decreased -1%<sup>3</sup>. Investment (almost exclusively public and in capital goods - gross fixed capital formation) is still very limited, having also fallen in recent years. Business investment is very low and fell sharply in 2018 — which is certainly not unrelated to the fact that many companies survive on public tenders and are largely decapitalized. BCTL’s forecasts point to a slight increase in corporate investment in 2019, however, being just over half of the 2017 figures.

On the other hand, exports remain very low and far lower than imports, clearly revealing one of the biggest constraints of the national economy: the very low domestic production, with the consequent great dependence on goods produced abroad, even for final consumption

<sup>1</sup> Values at constant prices: base year = 2015  
<sup>2</sup> Values at constant prices: base year = 2015  
<sup>3</sup> Values at constant prices: base year = 2015

and satisfaction of basic needs. This makes the national economy very exposed to crises like the current one.

The National Accounts show, therefore, that consumption has been the most important growth factor of the economy in recent years. In household consumption, the most important shares are related to the consumption of goods and services inherent to the satisfaction of basic needs, namely food and housing. Expenditures on health and education are, however, relatively low, and much lower than expenditures on culture and transportation, mostly because among us education and health are “tendentially” free – there are no fees in public schools but there are expenses associated with school attendance (student uniforms, education material and others) that can be relatively high, when viewed in the national context.

Also, on the public consumption side, the largest share concerns the consumption of current goods and services, almost twice as high as the consumption of investment goods.

Once industry is, unfortunately, insignificant in terms of national production, the agricultural sector - on which the subsistence of most families depends - remains important, but has been reducing its relative weight in GDP, contrary to services, in particular “public administration, defence, education, health and social activities”, which represents almost 30% of GDP in 2018. “Modern” private services, that is, those provided to companies, are very limited; most are personal services, of very low qualification. This is one of the facts that contribute to the qualification of our economy as “in development”. The development will involve, in particular, an inversion of the type of predominant services.

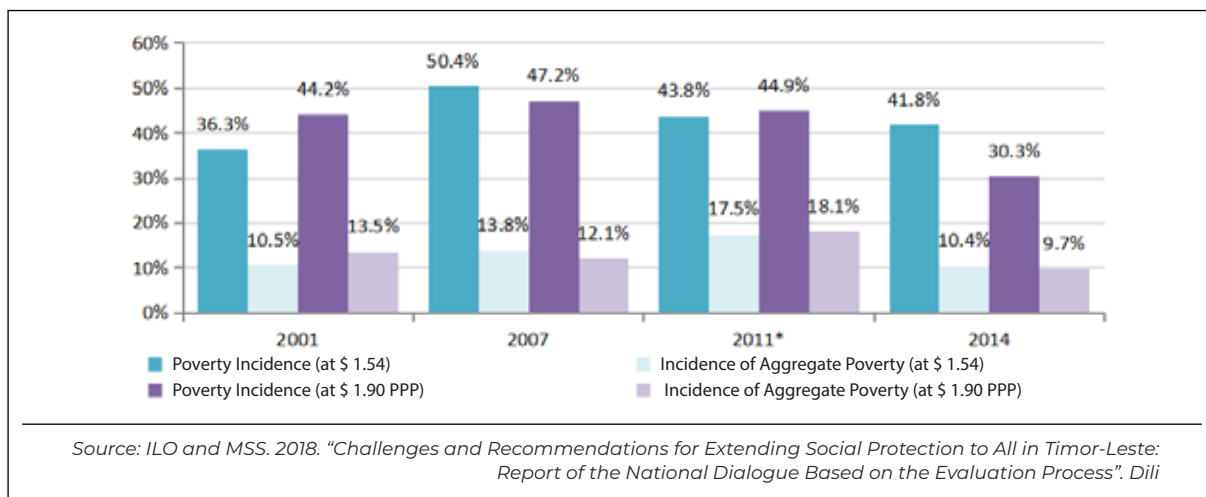
In terms of investment, in 2018 — that was, as said before, almost exclusively public, despite all the legislative changes that have been made in the “environment” of private investment and that have been clearly more or less irrelevant — this investment is basically directed at infrastructure “other than buildings” — namely roads, ports, airports — and the investment in public housing and other buildings (such as schools and health infrastructure), or in technology, machinery and equipment, is almost irrelevant. In other words, the greatest (public) investment effort is directed at roads and other infrastructures, other than buildings, with some analysts considering the costs borne by the State for these constructions to be clearly inflated - in addition to being oversized, leading to an objective waste of resources that could be better invested in other activities of the State. This is a very relevant area that will require revision in the near future, i.e., in the medium and long term.

In fact, in addition to the reduced investment in the productive sectors (mainly agriculture, manufacturing and tourism), investment in the social sectors, in particular in health, education and housing, has been equally low, as mentioned.

With 41.8% of the population living below the national poverty line (official data from 2014) — and 16.3% in severe multidimensional poverty, according to UNDP — Timor-Leste’s health situation and education, both in statistical terms (quantity) and in qualitative terms, helps to classify the country as “developing”, regardless of economic growth. That is, even in the period of economic growth - measured by GDP and GDP per capita - the rate of poverty incidence, based on the national poverty line (USD 1.54 per capita / day), increased between 2001 and 2014, although there was a reduction between 2007 and 2014<sup>4</sup>.

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<sup>4</sup> Poverty data in Timor-Leste have been estimated (in the “Living standards surveys” / “Timor-Leste Survey of Living Standards”) for 2001, 2007, 2011 and 2014. However, in 2011 the methodology was based on income levels, so the data for 2011 are therefore not completely and directly comparable with those for 2001, 2007 and 2014, in which consumption levels were used as a basis.



The latest official data available on poverty are from 2014 and show that the incidence of poverty is higher in rural areas (47.1%) than in urban areas (28.3%), and among children up to 15 years old (49%). Poverty is lower in the elderly (26.8%), situation that may result from the creation, in 2008, of the social pension "Support Subsidy for Elderly and Invalids" (SAII). Among working-age adults, the incidence rate of poverty is still high (38.6%), however, it can be seen that in households where the "head of household" is employed in the formal market (private or public), the rate drops to 27.5%. On the contrary, in the self-employed workers (many informal), the poverty rate is higher, reaching 53% in agricultural workers.

		2007	2011	2014	Variation 2007-2014
<b>National average at \$1.54 per day</b>		<b>50,4</b>	<b>43,8</b>	<b>41,8</b>	<b>-17,0%</b>
<b>National Average at \$1.90 per day PPP</b>		<b>47,2</b>	<b>77,8</b>	<b>30,3</b>	<b>-35,8%</b>
<b>Area</b>	Urban	45,2	20,0	28,3	-37,3%
	Rural	51,5	53,4	47,1	- 8,5%
<b>Head of Household</b>	Men	50,6	44,0	43,4	-14,2%
	Women	43,5	32,3	27,6	-36,5%
<b>Age</b>	Children (0 a 15 yrs.)	56,1	50,3	49,0	-12,6%
	Adults (16 a 59 yrs.)	45,9	39,0	38,6	-12,6%
	Seniors (above 60 yrs.)	33,6	30,0	26,8	-20,2%
<b>Employment Situation (Head of Household)</b>	Self-employed, agricultural	49,0	51,2	53,0	+8,1%
	Self-employed, non-agricultural	-	38,5	31,7	-
	Employed	28,0	12,6	27,5	-1,7%
<b>Education Level (Head of Household)</b>	Tertiary	17,7	3,8	24,7	+39,5%
	Secondary	34,3	21,6	34,3	0,0%
	Primary	50,1	45,0	41,9	-16,3%
	Pre-primary	54,3	38,5	46,8	-13,8%
	No formal education	57,5	47,0	48,0	-16,5%

Source: ILO and MSS. 2018. "Challenges and Recommendations for Extending Social Protection to All in Timor-Leste: Report of the National Dialogue Based on the Evaluation Process". Dili

These poverty statistics, however, hide vulnerability problems that are difficult to measure. More than monetary (income) poverty, it is important to understand the nature of multidimensional poverty and people's capacities to access essential goods and services. In fact, even those families that live above the national poverty line, often and especially in the interior of the country, have difficulties in accessing goods and services that allow them to satisfy basic needs, namely in terms of education, health, social services or even quality nutrition. The 2014 data suggest that about 25% of households (29% in rural areas) face difficulties in meeting food needs, 28% (30% in rural areas) in meeting educational needs, 19% (23% in rural areas) in meeting health needs, and almost 30% (33.5% in rural areas) in meeting housing needs. This situation does not appear to have changed substantially today.

On the other hand, habits and traditions (traditional "culture") are, especially in some regions of the country, factors that prevent, or at least delay, human development itself, since it leads many families to invest their income (and often even get into debt) in festivities and ceremonies, to the detriment of other areas.

In terms of health, there is a generalized improvement in the functioning of public services in the national health system, which is free of charge, and enormous advances achieved at various levels: in recent years, life expectancy at birth has increased (60.2 years in 2001; 68.6 years in 2016), mortality rates dropped and malaria was considered officially eradicated. However, despite progress, the indicators are still worrying. Timor-Leste has maternal and neonatal mortality rates for children under 5 years old, still high, close to the figures for Laos and Papua New Guinea, but with a much worse performance than other countries in the region. The fact that just over half of births are attended by medical personnel, and also the fact that nutrition levels are relatively poor, clearly helps in this respect. Timor-Leste is even one of the countries in the world where the prevalence of stunting among children under five is higher — with a worse result than Timor-Leste, there are only Burundi and Eritrea.

However, the number of doctors per 10,000 inhabitants stands out: 7.2 — a number much higher than that revealed by Indonesia or the Philippines, for example. The commitment that Timor-Leste has made in training doctors abroad, namely in Cuba, but now also among us, have highly contributed to these numbers.

Member State	Total population (000)			Life expectancy at birth (years)			Healthy life expectancy at birth (years)			Maternal mortality ratio (per 100 000 live births)
	Male	Female	Both	Male	Female	Both	Male	Female	Both	
	<b>2018</b>			<b>2016</b>			<b>2016</b>			<b>2017</b>
Brunei Darussalam	223	206	429	75.3	77.6	76.4	67.0	68.8	67.9	31
Cambodia	7 930	8 320	16 250	67.3	71.2	69.4	59.4	62.1	60.8	160
Indonesia	134 788	132 882	267 671	67.3	71.4	69.3	60.4	63.0	61.7	177
Lao People's Democratic Republic	3 546	3 516	7 061	64.2	67.4	65.8	56.9	58.8	57.9	185
Myanmar	25 883	27 825	53 708	64.6	68.9	66.8	56.9	59.9	58.4	250
Papua New Guinea	4 392	4 214	8 606	63.6	68.3	65.9	56.7	59.5	58.0	145
Singapore	3 014	2 744	5 758	80.8	85.0	82.9	74.7	77.6	76.2	8
Thailand	33 833	35 595	69 428	71.8	79.3	75.5	64.0	69.8	66.8	37
<b>Timor-Leste</b>	<b>641</b>	<b>627</b>	<b>1 268</b>	<b>66.8</b>	<b>70.4</b>	<b>68.6</b>	<b>57.7</b>	<b>60.7</b>	<b>59.2</b>	<b>142</b>
Vietnam	47 681	47 865	95 546	71.7	80.9	76.3	64.2	70.7	67.5	43
<b>Global</b>	<b>3829 425</b>	<b>3765 271</b>	<b>7594 696</b>	<b>69.8</b>	<b>74.2</b>	<b>72.0</b>	<b>62.0</b>	<b>64,8</b>	<b>63,3</b>	<b>211</b>

Source: [https://www.who.int/gho/publications/world\\_health\\_statistics/2020/EN\\_WHS\\_2020\\_Annex2.xlsx?ua=1](https://www.who.int/gho/publications/world_health_statistics/2020/EN_WHS_2020_Annex2.xlsx?ua=1)

	Proportion of births attended by skilled health personnel (%)	Under-five mortality rate (per 1000 live births)	Neonatal mortality rate (per 1000 live births)	Tuberculosis incidence (per 100 000 population)	Malaria incidence (per 1000 population at risk)	Hepatitis B surface antigen (HBsAg) prevalence among children under 5 years(%)	Reported number of people requiring interventions against NTDs
<b>Member State</b>	2010–2019	2018	2018	2018	2018	2015	2018
Brunei Darussalam	100	12	5	68	-	0.34	1
Cambodia	89	28	14	302	23.7	0.56	4 182 394
Indonesia	95	25	13	316	3.9	1.07	100 847 287
Lao People's Democratic Republic	64	47	23	162	4.2	1.94	2 031 804
Myanmar	60	46	23	338	3.4	2.03	41 778 536
Papua New Guinea	56	48	22	432	184.5	2.24	6 261 977
Singapore	100	3	1	47	-	0.47	6
Thailand	99	9	5	153	0.4	0.17	55 073
<b>Timor-Leste</b>	<b>57</b>	<b>46</b>	<b>20</b>	<b>498</b>	<b>0.0</b>	<b>0.87</b>	<b>1 293 316</b>
Vietnam	94	21	11	182	0.1	1.20	6 147 296
<b>Global</b>	<b>81</b>	<b>39</b>	<b>18</b>	<b>132</b>	<b>57.4</b>	<b>0.80</b>	<b>1755 331 611</b>

Source: [https://www.who.int/gho/publications/world\\_health\\_statistics/2020/EN\\_WHS\\_2020\\_Annex2.xlsx?ua=1](https://www.who.int/gho/publications/world_health_statistics/2020/EN_WHS_2020_Annex2.xlsx?ua=1)

Even so, due to the lack of infrastructure, medical personnel and accessibility difficulties, many citizens, especially in the most remote regions of the country, still do not receive the necessary health care and often rely on traditional medicine.

In order to health and quality of life results to increase, it is essential that the Government dedicates a larger share of the General State Budget to this area. Data from the World Health Organization (WHO) show that the percentage of GSB allocated to health is, in our country, much lower than in other countries in the region, being about half of the world average.

According to the UNDP Human Development Report, in 2018 a child of school age can expect to receive, due to the official education system, 12.4 years of schooling - and with no significant difference in terms of gender - which is apparently a relatively positive figure. Even so, and according to the 2015 Census, about 19.3% of children and young people between 3 and 29 years old never attended school. Among those who attended, 71.6% reached a lower level than secondary, and only 8.1% reached higher education (polytechnic or university). Illiteracy is still a reality, especially in rural areas, where more than 10% of the population over 5 years of age cannot speak, read or write in Tetum language.

It should be noted that those 12.4 “theoretical” years of possible schooling are denied in practice with an average schooling of 4.5 years, one of the lowest in Southeast Asia, which, naturally, has repercussions on the low qualification of our labour - which is an important factor in reducing the interest of potential investors. This leaves us in a situation that is not at all competitive with other countries in the region, regarding the “attractiveness” of our country as an investment recipient.

Even if the problem of school attendance is overcome, it is important to know in more detail the quality of teaching – and for this, the qualification of teachers is a key factor – and the preparation of education system for the job market. The same UNDP report reveals that, in 2018, only 28.2% of the workforce was considered skilled labour. However, data on labour vulnerability shows that 71.2% of total workers (total employment) pertain to people hired as unpaid family workers and self-employed workers.

The low qualification of the labour force has important repercussions on the labour market, both in terms of productivity and even in terms of actual employment. It is not surprising, therefore, that this is an important factor that contributes to the reduced attraction of private investment (mainly foreign), and that unemployment is high.

According to official statistics, the active population (15 to 64 years old) was 55.12% (2015 census), but the rate of labour participation was, in 2016, only 46.9% of the active population (data from the 2016 Labour Force Survey) — which, nonetheless, represents a strong growth in relation to the 2013 data (30.6%). Official data from 2016 point to an unemployment rate of around 10.4% (11% in 2013) and a youth unemployment rate (15 to 24 years) of 32.9% (21.9% in 2013) — but it is believed that these numbers are probably higher, since there are reasons to believe the statistical information on the labour market as of poor quality, not reflecting the reality.

The sector that employs more people (2016) is services with 50.2% (representing an increase from 2013, when it was 45.1%), followed by agriculture with 32.2% (representing a reduction from 2013, when it reached 40.5%) and industry with only 17.5% of the workforce employed (which, even so, shows an increase from 2013). However, among the employed workforce, 71% is in the informal sector of the economy and only 29% in the formal sector (2013). The jobs considered vulnerable, which have greater tendency to informality, have been growing in recent years (54.5% in 2013 and 58% in 2016), especially self-employment, which already represented, in 2016, 42.9% of all jobs.

A significant part of the working population (15.1% in 2016, however, representing a significant decrease from 25.7% in 2013) works in subsistence agriculture, and therefore, is not included in the official accounts as part of the “labour force”, which helps to explain the low participation of labour.

The State is, still, the largest employer, taking up more than half (54.6% in 2013) of paid jobs. This situation probably didn't change significantly in recent years.

The pressure on the labour market is even greater given the country's demographic profiling, with a very young population – according to the latest 2015 *Census*, about 60% of the population is under 25 years old (of which, 39% is under 15). Among the working population, almost 52% are young people between 15 and 29 years old. Young people of working age, and especially those who reach higher levels of schooling, seek to “escape” from subsistence agriculture and rightfully seek out urban areas, in search of paid work that matches their expectations. This puts greater pressure on the labour market, on services and on the very small existing industry, with no capacity to respond, to take in. The result is often emigration to other (foreign) markets, especially the UK, as mentioned above.

Still on employment, it is worth noting that:

- What could be called the “**modern sector**” of the economy probably do not employ more than about 80-100 thousand people, including civil servants. According to the existing data, currently, there are 80 thousand paid jobs created.
- The level of **underemployment, informal employment and hidden unemployment** (workers with very low productivity or occupying low-skilled jobs until later in life) is, apparently, very high, including many young people who are attending the national higher education system, which is of lower quality when compared with the countries of the region and does not really prepare them for working life.
- Unemployment is not higher merely because the country has now a relatively large number of **emigrants** (over 20,000 in the United Kingdom alone) and many young Timorese are scholarship holders and are studying abroad.
- The labour market is still problematic with regard to the **workforce qualification** and what we might call **work ethics**. Both are only changeable in the long-term, namely

through better adjustment of the educational system (formal and vocational training) to the needs of the country and the investment – whether public or private – since this requires a qualified workforce that today does not exist among us. This requires, right now, an increase of public investment in the formal education and vocational training sector, with increases in the allocated funds to these sectors, in annual budgets.

- o Some **statistics on education in Timor-Leste and its neighbours**: years attended (and expected years of attendance):
  - Timor-Leste: 4,5 (12,4)
  - Indonesia: 8 (12,9)
  - Laos: 5,2 (11,1)
  - Thailand: 7,7 (14,7)
  - Vietnam: 8,2 (12,7)

*(Source: UNDP Human Development Report 2019, Human Development Index and its components, página 300; <http://hdr.undp.org/sites/default/files/hdr2019.pdf> )*

Despite the portrayal of a difficult situation in terms of human development, we must recognize the enormous effort that has been made in Timor-Leste since the Restoration of Independence, to create a social protection system – even if with separate and not always coordinated measures – which aims to protect people at all stages of human life, contributing to reducing and preventing poverty, and ensuring income.

The table below summarizes the main social protection programs and measures currently implemented by the Government, in the four warrantees/areas recommended by the International Labour Organization (ILO Recommendation No. 202).

### Main Programmes and Public Measures of Social Protection in Timor-Leste

#### 4 Warranties – Social Protection Floors (ILO)

Basic Healthcare	Basic income security for children	Basic income security for working age population	Basic income security for the elderly
National Health System (free and universal); Integrated Community Health Services (SISCA); Health in the Family; Social Support to vulnerable patients.	Bolsa da Mãe (Mothers grant); School Meals; Immunization/ Vaccination Programmes; Social Support to children in conflict with the Law; Material Support to children and pregnant women (medicines, vaccines and therapeutic food).	Social Benefits of contributory scheme; Rural employment programmes (cash for work and Roads for Development); Social Support to victims of gender-based violence; Social reintegration of prisoners; Social support to vulnerable people and families.	Non-contributory pension (SAll); Contributory scheme pensions; funeral service.

*Source: Prepared with data from ENPS (ILO and MSS. 2018). "Challenges and Recommendations for the Extension of Social Protection to All in Timor-Leste: Report of the National Dialogue Based on the Evaluation Process". Dili)*



However, even at a basic level, the social protection system does not yet cover all citizens. On the one hand, the coverage of child protection programs is still quite lower; on the other hand, basic income security is not yet guaranteed to all working age population who do not earn adequate income, either because they are unemployed or employed in the informal sector of the economy.

The establishment of the new social security contributory scheme has ensured protection, both at working age and in old age, to a very significant number of workers – according to NISS information, more than 82,000 workers are already registered, which corresponds to almost 100% of workers in the formal sector, according to data from the latest Labour Force Survey of 2016. However, the vast majority of workers (about 70%) are in the informal sector.

The social security system still does not offer protection in unemployment and sickness, making people more vulnerable in these situations, which was the case with the current pandemic caused by COVID-19.

In old age and health, however, coverage is practically total: all citizens can – at least theoretically, despite the accessibility problems in some areas of the country – benefit from the National Health System, and all elderly people have access to a social pension, regardless of the social contributions they have made throughout their lives.

To ensure basic incomes and healthcare for all (horizontal dimension), and then to continuously guarantee higher levels of protection (vertical dimension), it is necessary to invest a larger and more solid share of public budgets in social sectors, including social protection and active employment measures, education and health. Only then will the economic growth be accompanied by human development; only then will it be possible to achieve the Sustainable Development Goals.

Provided with the economic and social context of Timor-Leste, presented above, it then allows us, in summary, to identify **characteristic structural elements** (long-term):

- **low income levels** - in many cases just above the mere survival - and still high levels of poverty, with significant regional inequalities.
- a still worrying portrait, in terms of human capital development, both in quantitative and qualitative terms, with emphasis on the **children's malnutrition problem**.
- **large number of citizens still without social protection.**
- **low levels of productive investment (public and private)** reflected on lower productivity of the productive structure and workforce.
- very **limited number of productive jobs** – namely within the most 'modern' sectors of any economy – and **high levels of unemployment and underemployment, all combining to generate low levels of income.**
- **inequalities in income distribution.**
- **poor health, education and people's income support systems.**
- **high dependence on foreign production (imports).**
- **high dependence on oil revenues to finance the State** and indirectly, due to its activity, finance the production.

Of all these elements **the most determining one is the lack of productive and decent jobs** because it affects many of the other elements identified, from productivity to investment. Therefore, the strategy suggested here, and the economic policy measures for its implementation, focus mainly on the creation of such jobs. **The measures proposed here can (and should), for the most part, be implemented already in the General State Budget for 2021, extending to 2022 and upcoming years.**





Regarding the conjunctural elements (short-term), it is worth mentioning the low or stagnation of national production (measured by Gross Domestic Product) linked to the political instability of the last 2-3 years and which is estimated to have been around -3.8% in 2017 and -0.8% in 2018. Despite the recovery in 2019 (+4.6%), the crisis caused by the current COVID-19 pandemic will probably be reflected in a new economic recession (-6% this year), with effects and period still unknown.

**1.2.2 COVID-19 IMPACT**

Until the end of 2019, everything seemed to be going reasonably well, until the COVID-19 pandemic emerged, which radically changed the situation, in March this year, with the movement restrictions. But, the non-approval of the proposed 2020 State Budget Bill, in January this year, further contributed to the economic recession acceleration in 2020. The fragility of the Timorese economy is revealed in crisis situations, such as the one caused by COVID-19.

Although COVID-19 pandemic affected, in terms of actual patients, a limited number of residents in the country (Timorese or not), it had a disproportional economic and social impact (when compared to this number), due to a certain panic that set in among the population, that ended up, in significant numbers, abandoning their workplaces and even their residence. This situation resulted in a considerable number of closures of production units (of goods or services, such as, in this case, catering) and the consequent closure (temporary in many cases) of these units, with a consequent drastic decrease in production and possibly employment. It should be noted that the latter impact seems to have been, at a global level, the largest, not generalized to all sectors but mainly concentrated in some, namely the most labour intensive ones, such as tourism and catering, as other services.

The Central Bank of Timor-Leste (BCTL) recently foresaw the following evolution of production in the country (GDP):

	USD millions								% Growth		
	2014	2015	2016	2017	2018	2019	2020	2021	2019	2020	2021
GDP REAL	1549	1597	1653	1591	1578	1651	1552	1602	4.6%	-6.0%	3.2%
GDP Nominal	1447	1597	1656	1610	1569	1665	1582	1648	6.2%	-5.0%	4.2%
GDP Deflator	93.4	100.0	100.2	101.2	99.4	100.9	101.9	102.9	1.5%	1.0%	1.0%

The table above shows that the BCTL estimates a drop in real GDP of -6% in 2020, a significant drop, a drop almost identical to that of the crisis in 2006. For 2021, which compares well with the estimates of the International Monetary Fund (IMF) for the world economy, the BCTL forecasts a weak recovery in real GDP of +3.2%. It should be noted, however, that, especially in Timor-Leste, making estimates of production variation are not easy and, therefore, subject to errors that will only be corrected later, so this estimate should be viewed with the caution that the situation advises, particularly if there is a second wave of pandemics.

Naturally, the drop in production and employment, or at least in the number of hours worked, brought with it the drop in families income, which is particularly important in Timor-Leste, due to the relevance of private consumption in the total national expenditure, so a policy of sustainability of income should be seen not only as a “microeconomic” policy aimed at families, but also as a macroeconomic policy to support consumption and, through it and at least in part, support national production.

The issue of household income level drop must be seen in the more structural context, of a relatively low average income level and a very uneven income distribution and worsening in the context of the current crisis. It is recalled here that the average level of monetary income

of households in rural areas is very low and that the same is true, although at a higher level than in rural areas, in urban areas, where many of the jobs pay wages of around from 130-150 USD / month.

According to the existing Social Security records, the average declared salary is 250 USD / month, but this number is mainly inflated by the value of the wage bill of international companies and less of national companies in more modern sectors. All this contributes to a high level of poverty and extreme poverty, as already mentioned, leaving many of our fellow citizens with (very) little room for manoeuvre to face crises like the current one.

The fact that the social security system does not protect against unemployment, and the fact that the vast majority of workers in the informal sector are not protected, has made the situation of many citizens even more difficult, increasing their vulnerability and incapacity to react to the crisis.

Not being the cause of poverty and low income, the COVID-19 pandemic has aggravated the situation in Timor-Leste, in terms of employment and income, both in the formal and informal sectors, as in most of the affected countries.

Indeed, even though the measures approved by the 8<sup>th</sup> Government, in the State of Emergency period, were not too restrictive (except for public transport drivers), the truth is that panic on the one hand, and the social distancing measures adopted (and necessary) on the other hand, led to a reduction in working hours and the suspension of many employment contracts. There was, then, a reduction in production / supply (essentially in the provision of services and commerce), which brought with it turnover and revenue losses.

Without revenues and liquidity, many companies, which previously were already decapitalized, had big difficulties to face fixed costs, starting with personnel costs (including salaries and responsibilities, as taxpayers before the tax system - despite the contributory exemption for social security, between the months of March and June), but also with electricity, rents, raw materials, and other goods necessary for its activity, most of which are imported. Supply chains for goods and services have been affected and, in some cases, interrupted.

As result, there was a drastic reduction in the people's income and also in the employing companies' income, including in the informal sector.

The most affected sectors ended up to be, of course, those linked to tourism, catering and public transportation, given the borders closing and measures of social distancing.

Even in Public Administration, although there was no drop in income, the same requirement for social distancing and the fear of infection also led to a reduction in working hours and to remote working (teleworking), often in non-ideal conditions ( for example, many employees do not have access to computers or internet at home). This, probably, in some cases, have affected productivity and in other cases, with customer service, have affected speed of service delivery or even its suspension (as in the case of work visas, for example).

The shock on the supply side, with the reduction in companies' activity, services and public administration, had repercussions on the demand side, leading to its contraction, thus, affecting consumption. For this, as mentioned above, contributed the income reduction, but also the social distancing measures adopted and the generalized fear of contracting the disease. In Timor-Leste, even workers who have not seen their incomes affected, including civil servants, have reduced their demand for goods and services, both due to the requirement of maintaining social distancing and avoiding leave home unnecessarily, or also due to the contraction of supply. This fact led, once again, to the continued reduction of supply: if no one consumes, there is also no incentive to provide services and to offer/produce goods, and much less to make investments (as in the acquisition of raw materials and goods for resale), especially in a context of fear of infection. This was the case, for example, in restaurants, hotels, or commercial stores.



Naturally, the huge reduction of foreigners in the country also contributed to the demand drop, either due to the abrupt decrease in the flow of tourists entering the country, with reflexes in the activity drop in companies linked to the tourism sector or due to the fact that many foreign workers have returned (albeit temporarily) to their countries of origin.

In nominal terms, the BCTL predicts a drop in domestic demand of -10%, with -6% of private demand and -14% of public demand, in 2020.

	2014	2015	2016	2017	2018	2019	2020	2021	% Growth		
									2019	2020	2021
HHs FCE	864	883	913	987	1 024	1 080	1 026	1 062	5%	-5%	3.5%
HHs GFCF	22	26	25	23	21	22	21	22	8%	-8%	5.3%
Companies GFCF	84	85	90	111	43	58	46	48	35%	-20%	3.9%
<b>Private Demand</b>	<b>970</b>	<b>994</b>	<b>1 028</b>	<b>1 121</b>	<b>1 088</b>	<b>1 161</b>	<b>1 093</b>	<b>1 132</b>	<b>7%</b>	<b>-6%</b>	<b>4%</b>
Public FCE	771	776	759	722	734	879	787	843	20%	-11%	7%
Public GFCF	435	412	469	349	413	330	258	256	-20%	-22%	-1%
<b>2. Public Demand</b>	<b>1 207</b>	<b>1 188</b>	<b>1 228</b>	<b>1 070</b>	<b>1 147</b>	<b>1 209</b>	<b>1 045</b>	<b>1 099</b>	<b>5%</b>	<b>-14%</b>	<b>5%</b>
NPISHs	83	53	70	37	43	57	51	54	31%	-10%	4%
Aid Foreign	224	199	189	187	169	206	186	194	22%	-10%	4%
Changes in inventories	30	21	26	26	23	26	23	24	12%	-10%	4%
Acquisitions less disposals o	0	0	0	0	0	0	0	0	2%	-10%	4%
<b>3. Add-ons</b>	<b>336</b>	<b>273</b>	<b>285</b>	<b>251</b>	<b>236</b>	<b>289</b>	<b>261</b>	<b>272</b>	<b>22%</b>	<b>-10%</b>	<b>4%</b>
<b>4. Domestic Demand</b>	<b>2 513</b>	<b>2 455</b>	<b>2 542</b>	<b>2 443</b>	<b>2 471</b>	<b>2 659</b>	<b>2 400</b>	<b>2 503</b>	<b>8%</b>	<b>-10%</b>	<b>4%</b>
Exports	66	49	52	38	43	47	25	36	10%	-47%	44%
-Imports	-1 131	-907	-938	-871	-945	-1 040	-843	-891	10%	-19%	6%
<b>5. Net External Demand</b>	<b>-1 065</b>	<b>-858</b>	<b>-886</b>	<b>-833</b>	<b>-902</b>	<b>-993</b>	<b>-818</b>	<b>-855</b>	<b>10%</b>	<b>-18%</b>	<b>5%</b>
<b>6. GDP</b>	<b>1 447</b>	<b>1 597</b>	<b>1 656</b>	<b>1 610</b>	<b>1 569</b>	<b>1 665</b>	<b>1 582</b>	<b>1 648</b>	<b>6%</b>	<b>-5%</b>	<b>4%</b>

Despite the adopted restrictive measures allow the import of essential consumer goods to continue, the levels must have fallen, according to the estimates of the BCTL, as seen in the table above. Global imports probably have fallen, at nominal level, -19% in 2020, and the prices increased, with impacts also on the consumption reduction.

In practice, and as was generally the case worldwide, in Timor-Leste, the pandemic caused by COVID-19 had a double economic impact, affecting aggregate supply and demand, with a drop in production (especially in service provision) and consumption. In Timor-Leste, and given its weight in GDP, the fall in private consumption is particularly worrying, both immediately and from a macroeconomic point of view.

The reduction in economic activity, on the supply/production side (maintenance of services, companies) is, however, also problematic, as it creates imbalances in the market, leading to unemployment and the consequent loss of income, which still brings bigger problems in the medium term, also on the demand side, in terms of consumption capacity.

Fortunately, in terms of public health, and without cases of local/community infection, COVID-19 was controlled, and the Government took absolutely essential preventive measures, given the recognized weaknesses of the national health system, of which the maximum exponent was the very small number of mechanical ventilators in the country to help the most serious patients.

Thus, and of course, in addition to the imposed measures of social distancing and closing of borders, we believe that the economic effects were aggravated by the fear that was installed, resulting in the lack of confidence of economic agents, including workers, companies/service providers/producers and consumers. The rapid and significant reduction in the number of foreigners in the country has also had an enormous impact, both in terms of reduction and by the drop in activity, especially in some sectors, which are more dependent on foreign workers (hotels, restaurants).

Given this reality, the 8<sup>th</sup> Government adopted nineteen measures of immediate socio-economic support, which aimed to respond in order to mitigate the employment and people's incomes (in the formal and informal sectors) drop, but also to mitigate the companies' difficulties in supporting fixed and operational costs (including personnel costs and financial costs). Of these measures we can highlight:

- 1) **the “extraordinary employment support allowance”** (for employers in the private sector and their workers registered within social security system).
- 2) **the monetary support for families** (targeted for all families, provided that none of its members has a monthly income above 500 USD).
- 3) **the moratorium on the fulfilment of obligations arising from credit concession agreements.**

Concerning the extraordinary employment support allowance, its effectiveness in maintaining jobs will depend on how companies will respond in the short term, that is, whether or not they will honour their commitment to maintain jobs for a period of time of three months after the “State of Emergency”, in which Social Security directly supports wage costs, through a subsidy of 60% of workers' declared monthly wages. This commitment by companies seems to be very difficult to maintain given the economic situation, which has not improved enough to justify the maintenance of many of these jobs. What we have been seeing is that more than 100 companies have closed their businesses recently, regardless of the will of companies and workers.

The measure also aims to support companies to bear part of the fixed costs (wages) and thus enable some companies to stay in business (even if lower than before) for some time, until the general economic situation improves and allows them to stay in the market. In addition to the subsidy itself, employers have benefited from an exemption (generally 6%), of the social security contribution, which, in some cases, can mean a significant aid in supporting fixed costs.

According to data obtained from the NISS, the measure could cover around 10 thousand workers, from the formal and informal sectors, and cost about USD 7 million. By ensuring a substitute income for salary, in cases of income loss, this measure has also allowed to bring more people into the social security system, including employers who were not yet registered (and whose registration is mandatory) and self-employed or informal workers. Indeed, in this period when the “extraordinary enrolment scheme” was in force, the social security contributory scheme's growth rate was very significant: 30.73% for employers; 8.15% for workers; 1.437% for workers in the informal sector (of optional membership). This scenario is quite positive, because it means that more people are now covered by the system and may, in times of crisis, have greater resilience capacity.

Regarding the monetary subsidy to support families, the purpose was to directly support families, to boost consumption and prevent people, especially those who have lost income or who were already poor, from becoming more vulnerable and poorer. This measure aimed, essentially, to reach those not covered by the contributory social security system, in particular the unemployed and workers in the informal sector. According to information from the Ministry of Social Solidarity and Inclusion (MSSI), the cash benefit of 100 USD/month should cover 300,000 households, and be paid for three months. The costs of the measure are quite high, both because of the amount of the subsidy itself, with an estimated cost of USD 89.55 million, and because of the amount spent on implementing the program. The evaluation of the results achieved, of course, still have to be done. It is hoped, however, that this support will have ensured a minimum income for all families and, thus, guaranteed minimum consumption levels.



These first two measures, which translate into direct income transfers (*Cash transfers*), on the one hand, are aimed on supporting employment (first measure) and, on the other hand, on helping to mitigate the reduction in household income effects (both measures) The Government recognizes that this is important for maintaining a level (albeit low) of household consumption and domestic demand in the economy in general, essential for maintaining a reasonable level of economic activity in the country and of many of its producers and companies. Part of that household consumption will be directly in goods produced in our country, particularly in the more rural areas; another part will be in imported goods, but, both sale and consumption, even so, boost the national economy, i.e., to support domestic and households demand is also to support national production and the national economy, which is essential at this time. In other words, these measures, assuming an emergency situation, seem adequate to prevent the drastic loss of current jobs and, at the same time, to try to stimulate demand, to avoid further job losses, which would occur if consumption dropped too much.

Alongside direct support to families, workers and companies, the Government has tried, to avoid the closure of many of them (companies), to facilitate the liquidity of companies through measures that impact on the reduction of their operating costs, especially financial costs. The moratorium on compliance with obligations arising from credit concession contracts falls within this category, allowing companies, individual entrepreneurs, non-profit organizations and individuals, to benefit from a reduction and deferral in the payment of obligations relating to credit concession contracts previously signed.

It is recognized, however, that companies, and other private sector employers, are in a worrying financial situation, in many cases heavily decapitalized. The economic crisis caused by the pandemic, but also the pre-existing problems in terms of saving capacity and profit creation, contributed to this. Thus, the socio-economic support measures adopted by the 8<sup>th</sup> Government during the first half of 2020, because they are temporary, may be insufficient, for economic recovery, on the one hand to ensure the continuity of many companies in the market and thus the production/supply of goods and services and employment, and, on the other hand to ensure the stimulus to consumption (and avoid the loss of new jobs).

# CHAPTER II: INTERVENTION PRIORITY AREAS AND PROPOSED MEASURES

## 2.1 PURPOSES OF THE INTERVENTION: SHORT AND MEDIUM/LONG-TERM

After the first socio-economic support measures adopted by the 8<sup>th</sup> Constitutional Government, it is now important to recognize that it is not enough to put a “dressing on the wound”, it is necessary to take economic and social policy measures capable of responding to the Timor-Leste’s conjunctural and structural issues described in the previous chapter.

The intervention must have, therefore, two distinct stages: a first stage of a (very) short-term response, already in the second half of 2020, to mitigate the impacts of the crisis caused by COVID-19; and a second stage, with medium-term measures – many of which with long-term effects – aimed at economic recovery, over a two-year horizon (until 2022), seeking to respond not only to the increased challenges caused by the pandemic, but fundamentally to the pre-existing issues (cyclical and structural) of the national economy (namely the lack of jobs), otherwise, with no substantial change in relation to the past, we will continue at the mercy of any new crisis that arises – in addition to remaining “developing” at a low level.

In **the first stage**, in the very short-term, within **post-pandemic immediate period**, the purposes are essentially to guarantee, as much as possible, the existing jobs before the crisis and to recover family incomes, by maintaining employment and direct support to citizens. This way, it is intended to ensure consumption levels similar (or, at least, not much lower) than those existing in the pre-COVID-19 period – an essential factor in maintaining the population’s standard of living and in mitigating the impact regarding the economic recession. Given the loss of jobs and income, and the constraints on the demand and supply sides, the aim is to directly support people and businesses to recover from the crisis, not increasing the burden of costs they have to bear.

In **the second stage**, and taking into account the direct support from the previous stage, the purposes will be more **medium-term**, aimed at **recovery with economic transformation**, at the creation of new productive and decent jobs, at the execution and strengthening of social programs related to public investment (education, health, housing, social protection), and to the productive structure and the factors that contribute to economic growth modification.

These interventions should, however, be seen in the framework of the national economy pre-COVID-19 diagnosis. In other words, - even because of the limited time horizon in question (2-2.5 years) – it is also necessary to think about medium-long term solutions, with impacts on sustainability, and aimed at responding to the structural challenges identified, particularly at

the national productive sector level and its great difficulty in generating minimally productive jobs, on the one hand, and the low level of income of most national citizens – which is, in fact, another face of the problems related to employment – on the other hand. To be specific, it is necessary to think of measures/programmes that create a considerable number of productive jobs, generated by labour-intensive rather than capital-intensive investments, but not neglecting, of course, any kind of investment.

The proposed measures for the second stage are, therefore, in practice, medium-long term measures, which are (should be) implemented from now on (GSB 2021 and subsequently) and with effects in the short-medium term, and were designed exactly for this purpose.

## 2.2 SOCIAL-ECONOMIC IMPACTS OF THE COVID-19 CRISIS MITIGATION: SHORT-TERM (2020)

Others may define different types of economic and social policy measures. Probably, however, these alternative policy packages to adopt, will not prove adequate to the country we have, but to an “ideal” country, where the capacity to implement measures would be greater. However, this would make our country what it is not: a country with a higher level of development than ours today.

The presented proposals are temporary, for the very short term, and take into account the following considerations:

- The real impacts of the pandemic caused by COVID-19 are still unknown, but, as in the whole world, there will have been a shock on the supply side, and a shock on the demand side: both were affected, in a cause-effect relationship. The **most significant impacts** will have been on **income reduction** and **on employment**, as well as on domestic **demand (and investment)** by households and businesses.
- The measures adopted by the Government, during the state of emergency, aimed, on the one hand, at mitigating the declining in revenues of registered Social Security employers (generally, entities in the formal sector of the economy) and securing pre-existing jobs; and, on the other hand, partially making up for the loss of income of families living in the informal sector of the economy. The intention was to intervene on the supply/production side and on the demand/consumption side.
- The measures referred to above are in force until the end of June.
- After the end of the State of Emergency, the Government may still maintain some measures to restrict movements (such as border closing/control), to prevent new infections, with repercussions on the economy, essentially in activities related to the Tourism sector.
- Many of the national economy “problems” are basically structural, aggravated by the political crisis, and COVID-19 only made the situation even worse.
- The country is still living in a duodecimal regime since the beginning of the year. The 2020 General State Budget (GSB) should only be submitted to the National Parliament after September 15<sup>th</sup>, so, in practice, the time horizon for implementing measures using the 2020 GSB will only be about 2 months (November and December).
- Given the limited time available, it is believed that the **greatest efforts should be concentrated on the design and implementation of measures for the medium term (2021-2022)**, with effects also in the **long term**.
- Despite this, it is considered important to take measures that, between the months of July (when the temporary socio-economic support created comes to an end) and



October (when the 2020 GSB should be in force), prevent the economy from stagnating or reducing further. In particular, it is considered important to maintain acceptable levels of consumption and support the maintenance of companies in the market – otherwise the effects on the economy will become more significant, with an even greater reduction in consumption and eventually an increase in unemployment.

### **2.2.1 SUPPORT TO FAMILIES AND LOCAL PRODUCERS: “BASIC BASKET”**

**Measure:** Ensure a “basic basket” (food and other items for comfort and satisfaction of basic needs, such as cleaning and hygiene) to all families in the country, through the distribution of *vouchers* (in the capitals of the Municipality) or baskets (in the other regions of the country).

**Objectives:** The first major **objective is to support families in meeting basic needs**, starting with food, and also contributing to fight hunger and the greatest vulnerabilities in some of the poorest and most isolated regions of the country. It is believed that, although there may have been an increase in agricultural cultivation in recent months, on the one hand, there will still be no harvest; and, on the other hand, some families may even be in a situation of hunger.

A second objective is to **support local farmers**, producers and even traders, to also encourage local supply, guaranteeing the flow of products.

**Recipients and eligibility conditions:** the “Basic Basket” is aimed at all families in Timor-Leste, **universally**.

**Technical specification of the measure:** The “basic basket” consists of food and other comfort goods and satisfaction of basic needs (such as cleaning and hygiene goods), starting from a base/quantities per capita, taking into account the demographic structure and family size, to ensure the availability of adequate goods (and, in the case of food, offering the necessary nutrients). Data on the number of households and their size were recently collected for the implementation of the monetary subsidy to households (100 USD/month/household), which makes it possible to adapt and to size the “basic basket” to the type of household.

The “basic basket” is delivered in the form of baskets or in the form of vouchers, which can be exchanged at stores/commercial establishments (exclusively in the Municipalities capitals).

Where the “basic basket” is delivered in the form of a basket, the goods that comprise it must be, at least in part, national products, purchased from local farmers or traders. It is proposed that, whenever possible, at least 50% of the food items that make up the basket are national products; and when this is not possible – due to insufficient local supply – be purchased from local businesses.

In places where the “basic basket” is delivered in the form of vouchers, it is necessary to establish agreements with the local commerce (stores, markets) so that the vouchers can be exchanged for goods that make up the “basic basket”.

**Implementation:** The implementation of the measure must follow the “implementation guide” designed for this purpose, and involve the following steps:

- 1) Construction of the “basic basket”, with the goods that compose it and the necessary quantities per capita, for two months;
- 2) After the identification of the families, their structure and size (database recently created under the measure “cash grant to families”) the “food basket” is sized for each family type;
- 3) Based on the identification of families, calculate the number of families who reside in the capitals of the Municipalities and in other regions of the country;



- 4) In places where baskets are offered, establish agreements with local producers (farmers, producers or traders) to purchase goods to compose the baskets;
- 5) In the basic basket, to establish agreements with other entities (local authorities and Social Solidarity Institutions) for the implementation in the field: purchasing of goods to fill in the baskets, building the baskets, and their distribution to families. To facilitate and decentralize the implementation process, and guarantee that the food baskets effectively reach the families, it is proposed that the Government subsidizes/funds these Entities in the field, because they are closer to the citizens, in order to let them assume this role;
- 6) In places where vouchers are offered, establish agreements with local businesses (stores, markets) so that vouchers can be exchanged for goods that make up the “basic basket”.

**Duration:** the baskets or vouchers are **distributed twice**, in the months of November and December

**Funding:** The measure is financed by the 2020 GSB. Eventually, support may be obtained from donors/development partners, specifically to cover operating costs

**Cost:** The cost of the measure depends on the size of the households and the agreements that to be established with the Institutions/Entities that, in the ground, support the Government in implementing the measure. A first estimate (which should be revised according to those data) points to a total cost of the measure of about USD 71.5 million<sup>5</sup>.

## 2.2.2 SUPPORT TO COMPANIES AND OTHER EMPLOYERS – PRIVATE SECTOR

### 2.2.2.1 ECONOMIC RESUMPTION SUPPORT GRANT

**Measure:** Create a **monthly cash subsidy** for **employers** who resume their regular activity, provided they are in legal status, enrolled in the social security and tax system (even if they may have debt). The measure is extended to entities whose activity is strongly related and dependent on the tourism sector, even if they are not able to restart their normal formal activities, specifically hotels/inns, travel agencies, airlines and organizations linked to tourism (diving, for example).

**Purpose:** The purpose of the measure is **to support employers** (companies, individual entrepreneurs, self-employed workers) to **resume economic activity**, helping them to bear the fixed costs (wages, rents, taxes or other) and to make small investments necessary for their activity (such as purchasing of goods for resale or raw materials).

It is believed that between March and June, the employment support subsidy (with the fixed amount of 60% of the wages declared to Social Security) helped to ensure many jobs' continuity, at the entities that went into *lay off* (suspension or reduction of activity), in the state of emergency period, where the economic activity was strongly reduced, with the companies (including trades and services) working only partially, to maintain social distances and limit the risks of infection. Now, the purpose is the opposite: to support the regular resumption of companies and other employers' activities. Many of these employers will be decapitalized and will not have sufficient revenues (or savings) to allow them to resume their activities and secure the supply of goods and services and jobs. Therefore, the goal is to give some kind of relief to companies and employers to resume their activities.

<sup>5</sup> Calculations: 1.3 million people x 25 USD per person/“basic basket” x 2 times = 65 million USD. To this cost we add 6.5 million (10%) in operating costs/implementation.

**Recipients and eligibility conditions:** the subsidy to support economic recovery is **aimed at all employers who resume economic activity**, as long as they are registered with the Social Security and tax system, even if they may have debt.

Employer organizations that have tax or social contribution debts may benefit from the support, but this does not waive the subsequent payment of the debt.

The measure is **extended to entities whose activity is strongly related and dependent on the tourism sector**, even if they are not able to reopen their normal and formal activities, specifically hotels/inn, travel agencies, airlines and organizations linked to tourism (diving, for example).

**Technical specification of the measure:** The subsidy is calculated based on the weighting of two criteria: the loss of turnover and the number of employees:

Turnover (turnover declared in Jun/20, compared to that declared in Jun/19)	Wage costs (employees and amounts declared to the SS in Feb 2020) - excludes annual allowance				Energy costs (electricity)	New workers (Recruited as of August)
	Individual workers, or employers up to 50 workers	51 to 10 workers: 50% of the declared wages	101 to 500 workers	More than 500 workers		
loss greater than 50%	40% of the declared wages	50% of the declared wages	55% of the declared wages	60% of the declared wages	4% costs reported to MoF	+2% Supporting the wage costs of these workers
loss between 20% and 50%	20% of the declared wages	30% of the declared wages	35% of the declared wages	40% of the declared wages	3% costs reported to MoF	
loss less than 20%	5% of the declared wages	15% of the declared wages	20% of the declared wages	25% of the declared wages	no support	
gains turnover	no support	no support	no support	no support	no support	

The loss of turnover is calculated by comparing the annual turnover declared to the Ministry of Finance in June 2020 with the statement in the same period of the previous year.

The subsidy is **granted directly to the employers**, monthly between August and December (at the end of each month), on the condition that the workers are not dismissed during the implementation of the measure and in the following two months (until February 2021), with the exception of fair dismissal (duly proven by the Labour Inspection) and at the worker's request. Referring to the support for salary costs, the amount granted is to support companies to pay salaries, but these represent the tax and contribution base.

The employer / individual worker still has the obligation to make monthly statements to Social Security, and must normally declare the amount paid to workers as a salary, which is the basis of tax contribution.



The basis for calculating the subsidy component related to support the payment of wage costs is the Remuneration Statements submitted to Social Security in February 2020, with employers having to declare the values of the wages of new workers hired as of March 2020.

If the employer creates jobs in the period in which the measure shall in force (August to December 2020), that is, if in that period it hires new workers, it will also benefit from an extra 2% support in the payment of these workers' wages.

**Implementation:** Considering that the 2020 GSB will probably only be in force at the end of October / beginning of November, and that the current grant to support companies in suspension or reduction of activity ends in June, it is considered that waiting 4 months without any support can signify the closure of companies, the bigger reduction of production/supply and the dismissal of workers, since many entities - especially national ones, with lower savings rates - do not have revenues that allow them to remain in the market and pay wages and other fixed costs.

Thus, it is proposed that the **measure be implemented with the support and through commercial banks**, with which the Government would enter into agreements. This way, banks would grant this subsidy, in the form of monthly non-repayable loans (without interest) to the applicant entities, with the presentation of a government guarantee that would compensate the banks as soon as the 2020 GSB is in force.

The analysis of the applications and the calculation of the subsidy value can be done by the banks themselves, or by government entities. If the latter solution is chosen, it is suggested to set up a team that includes the NSSI, the MoF and SEFOPE, to make the process easier and faster.

**Duration: the allowance is monthly and lasts for 5 months** (August to December).

**Financing:** The measure is financed by the 2020 GSB.

**Cost:** The cost of the measure depends on the loss of turnover of the entities, as well as on the number of applications submitted. However, and in a high estimate, the measure could cost, at most, about USD 35 million<sup>6</sup>.

**Note:** *It is necessary to analyse, with the Ministry of Finance (who may be asked for a legal opinion), the legality of the proposed procedure, which would involve funding the budget, but only making the expenditure after the 2020 GSB comes into force, although there are agreements with the banks so that the measure could be carried out now. Subsequently, it is necessary to negotiate the procedure with the banks and check their availability.*

## 2.2.2.2 SOCIAL SECURITY CONTRIBUTION WAIVER FOR EMPLOYERS

**Measure:** Maintain the social security **contribution waiver** for parcel **paid by employers** (6%), for further 6 months, with the loss of Social Security income compensated by the State.

**Objective:** To support employers to face fixed costs, increasing their liquidity, by eliminating/dispensing the cost of paying social contributions under their responsibility.

**Recipients and eligibility conditions:** The measure is aimed at **all employers and individual workers registered within social security** (mandatory or optional) – until the end of the extraordinary registration period created by Decree-Law no 16/2020, of April 30<sup>th</sup>, that is, until

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<sup>6</sup> Calculated by the maximum values foreseen in the table above, for the approximately 3 thousand eligible entities (registered in the social security and in the tax system): (40 thousand workers x 252 USD (median salary value) x 62% x 5 months) + (3 thousand entities x 6 thousand USD (average amount paid for electricity in large companies) x 4% x 5 months)

May 27<sup>th</sup> – as long as they have their situation regularized (with effects on May 2020)<sup>7</sup>, and as long as they are in one of the following situations: either to resume regular activity or, failing to do so, to be entities related and dependent on the tourism sector (hotels/inns, travel agencies, airlines and entities linked to tourist itineraries) which, due to the nature of their activity, cannot resume it normally.

**Technical specification of the measure:** The measure is without prejudice to the obligation of employers to keep submitting Remuneration Statements every month, and the Payment Guides issued will only refer to the contributory rate borne by workers (4%), exempting the employer from their own contribution (6%).

In the case of workers enrolled in optional membership - including domestic service workers, self-employed workers, self-employed entrepreneurs and managers and administrators - the contribution waiver is only 6%, while the social contribution corresponding to 4% continues to be charged.

**Implementation:** The measure is immediately implemented by the NSSI, through information registered in the Social Security Information System.

**Duration:** the waiver lasts for 6 months, between July and December 2020.

**Financing:** The measure is financed by the 2020 GSB, which compensates the Social Security Budget, transferring the global amount in November, after the entry into force of the 2020 GSB.

**Cost:** The maximum cost of the measure is around 3.6 million USD<sup>8</sup>.

### 2.2.2.3 SPECIAL SUPPORT FOR INFORMAL SECTOR WORKERS

**Measure:** Grant an **extraordinary subsidy**, equivalent to 60% of the incidence value of the first level of optional membership (60% x 60 USD = 36 USD), for 3 months (October to December) **to self-employed and informal sector workers** not yet registered within Social Security, and who register between July and September 2020, on the condition that they keep social security contributions for, at least, another 3 months, after the end of the granting period (that is, until March 2021).

**Objective:** **Support workers who are in a situation of total social deprotection**, and allow, at the same time, the formalization of these workers, increasing their future capacity to face risks.

**Recipients and eligibility conditions:** The measure is aimed at **all self-employed and informal sector workers** who register within social security between July and September, under the condition that they keep social contributions for, at least, another three months, after the end of the granting period, that is, until March 2021.

**Technical specification of the measure:** The subsidy has a value of 60% of the contributory incidence base value, corresponding to the first level of optional membership in the contributory social security regime; that is, the subsidy has a value of 36 USD = 60 USD (1<sup>st</sup> level value) x 60%.

During the granting period (3 months, from October to December 2020), the beneficiaries will pay a reduced contribution rate of 4% on the value of the first level (that is 4% x 60 USD = 2.4 USD), so the net value is 33.6 USD (36 USD of the grant – 2.4 USD social contribution).

<sup>7</sup> A regularized situation is understood to mean entities that do not technically owe social security debt, either because they do not have arrears, or because they have agreed on instalment agreements with Social Security.

<sup>8</sup> Calculation: 40 thousand workers x 252 USD (median salary) x 6% x 6 months.

In the following 3 months (January to March 2021) – in which they are required to maintain enrolment and social contributions – beneficiaries will contribute the normal contributory rate on the value of the first level (that is, 10% x 60 USD = 6 USD).

**Implementation:** The measure is implemented by the NSSI.

**Duration:** the measure lasts for 3 months (October to December 2020).

**Financing:** The measure is financed by the 2020 GSB.

## 2.3 POST-COVID-19 ECONOMIC RECOVERY: MEDIUM AND LONG TERM (2021–2022 AND FOLLOWING)

*“There is no democracy with hunger, nor development with poverty, nor justice in inequality” - Pope Francisco*

*(In <https://agencia.ecclesia.pt/portal/vaticano-nao-ha-democracia-com-fome-diz-o-papa>)*

*“Using national and international statistical data, we concluded that Timor-Leste faces serious problems with food, health and education, with problems of quantity and quality in all these dimensions.”*

*(In National Parliament of Timor-Leste, Opinion of the Economy and Development Commission on PPL No. 9/2019 – GSB 2020 (DEC 19), page 6 “Summary and Conclusions”)*

The pandemic caused by COVID-19, exposed the weaknesses of both the world and national economies, questioning the model of economic and social development and, at the same time, testing the existence of national capacities to anticipate and manage such huge risks. Being a serious health threat, with perverse effects on the world and national economies, COVID-19 thus requires a change in the behaviours and ways of life of societies and their leaders, towards a more inclusive economic growth and where the resources that are available to the country are valued effectively. This is also the opportunity that we must seize to make the economy grow, in order to create decent and productive jobs so that prosperity embraces everyone. And progress is only possible with more productivity, better infrastructure, modernization of processes and more qualified and prepared resources for the next challenges.

A large number of countries continue to reflect on the consequences for the future of the economic crisis that has been plaguing everyone, looking for ways to overcome it. Many are concluding that post-COVID-19 life will never be the same as in the recent past. Leaders from rich and poor countries take this opportunity to try to “correct the route” of the past in order to have a better and resilient future and to prepare their economies (and their citizens) to face future crises. Therefore, it is not worth thinking about “changing just a few things so that everything stays the same”.

In the short-term, the State will play a decisive role in laying the foundations for economic recovery and protecting employment, income and business, seeking to stop that this prolonged recession, which is plaguing our country, leads the economy into a depression where there will be widespread stagnation of economic activities and services. The State will continue to help in the capitalization of businesses and families in difficulty.

The public policy measures proposed for the second half of 2020, with the aim of mitigating the crisis impacts in the very short term, as well as those proposed to be followed, aiming at

our country's economic recovery by the end of the 8<sup>th</sup> Constitutional Government's mandate, **only make sense if they are a first step in our future** as a country, with a more inclusive and resilient economy than the one we had until the beginning of COVID-19.

A more inclusive and resilient economy that is based on the effective use of the country's resources is the key to fairer, more prosperous and lasting growth. And only that way will we be able to reduce poverty levels.

For this purpose, some of the fundamental lines of what is needed to build our economy in the future and the effort that the country will have to make in the near future are outlined.

The diagnosis made for this Economic Recovery Plan clearly demonstrates the need to remove some of the obstacles that inhibit and limit the country's growth and economic development, focusing on human development for a rapid economic diversification.

Human development must become 8<sup>th</sup> Government economic policy epicentre; its simple definition, according to the United Nations Development Programme (UNDP), is as follows:

*"Human development is a process of enlarging people's choices (...) for people to live a long and healthy life, to be educated and to have access to resources needed for a decent standard of living. If these essential choices are not available, many other opportunities remain inaccessible.*

*But human development does not end there. Additional choices, highly valued by many people, range from political, economic and social freedom to opportunities for being creative and productive, and enjoying personal self-respect and guaranteed human rights.*

*Human development has two sides: the formation of human capabilities – such as improved health, knowledge and skills – and the use people make of their acquired capabilities – for leisure, productive purposes or being active in cultural, social and political affairs. If the scales of human development do not finely balance the two sides, considerable human frustration may result*

*According to this concept of human development, income is clearly only one option that people would like to have, albeit an important one. But it is not the sum total of their lives. Development must, therefore, be more than just the expansion of income and wealth. **Its focus must be people.**"*

(UNDP, 1990, "Human Development Report 1990: Concept and Measurement of Human Development". New York.  
<http://www.hdr.undp.org/en/reports/global/hdr1990>)

As the above quotation says, the *"focus [of development] must be the people"* because, as the first sentence of that first Human Development Report of 1990 also says, *"people are the true wealth of Nations."*

The concept of "human development" thus goes beyond simple "economic growth" and concerns the expansion of people's capacities (freedoms) to have access to decent living standards (income), knowledge (education) and to live long and healthy lives (health). It is not only about having an income, but also about having access to goods and services that enable human needs to be fulfilled in the most diverse fields such as education, health, housing, food/nutrition, social and cultural engagement. Both education and health are the two main pillars of human capital development, important for the functioning of a modern society and the long-term economic development of the country.

**The future of Timor-Leste as a free and sovereign country is the one in which population has access to a higher level of education, better health care and more material well-being, namely in terms of quantity and quality of food available. All this requires more productive and better paid jobs.**

What follows are not new principles in Timor-Leste; they are always present and are concerns of almost all government programs and the stated purposes of their annual budgets.

But proclaiming principles is not enough. They must be truly implemented, through the **annual State Budgets allocation of resources**. This is where the greatest challenge lies: to move from proclaiming principles to the actual allocation of public resources, which has real implication over the lives of our citizens.

**Specifically, annual State Budgets will have to provide for an effective allocation of resources that includes more resources for education, health and food/nutrition.** The “**rule of thumb**” would be to set as the goal of the new allocation of resources, **doubling the spending in these areas over the 5-year period, starting already in 2021**. This is, moreover, the recommendation of the Economic and Development Commission (Commission D) of the National Parliament, in its report on the 2020 Budget Law draft submitted by the Government in December 2019:

*“What is suggested, therefore, is that there should be a re-balancing between spending on physical capital and human capital, by significantly increasing the resources devoted to the improvement of the latter over the course of this legislature. It might be an advisable goal to reach the end of this legislature with about twice as much as is dedicated to it now”.*

*(In National Parliament of Timor-Leste, Opinion of the Commission of Economy and Development on the PPL No. 9/2019 – GSB 2020 (DEC 19), page 6 “Summary and Conclusions”)*

The country has opted for a very market-open economy, so the State must support the development and consolidation of the national private sector. This does not mean that the State will participate directly in production – unless there are “market failures” – but mainly in creating the conditions that frame and guide the country’s economic and social development.

This support includes the need to clarify and quickly legislate on the “Land Law”, which has been a barrier to productive investment in the country by the private sector. Because it has hindered the development of economic activity, particularly private investment, the functioning of the justice system needs to be thoroughly reviewed, including the legal framework for the companies’ operations (transparency of the public services’ action, intolerance to corruption, financing mechanisms through access to credit, bankruptcy/insolvency regime and deliberation on disputes and commercial arbitration, since the courts almost only deliberate on criminal cases).

The State is primarily responsible for creating the appropriate legal environment for investment.

It is on these legal areas that the World Bank’s “Doing Business 2020” publication ranks Timor-Leste the worst ratings. This is a powerful disincentive to private investment, both domestic and, most importantly, international, which is essential if our productive structure is to gain “volume” and technical and managerial capacity.





The country's development builds on a strong private sector, even though it is based on micro and small/medium companies as shown by available statistics (SERVE, Social Security). Support for these trade, industrial and services companies will be mainly indirect and only exceptionally direct, through the State involvement in production, but preferably with a view to boosting certain sectors of production, from which it should be withdrawn as soon as possible.

As we have said, indirect support involves the creation of a business environment conducive to the emergence and consolidation, of both domestic and foreign companies. This includes the preparation and publication of appropriate tax legislation – tax reform obeying the principles of greater incentive to companies and greater social justice –, the creation of an education system (including vocational training) that provides for technically prepared workers with an appropriate work ethic, and the development of a quality road network (partly already completed or in an advanced stage of completion).

In addition to the qualification of human resources, which is fundamental for fostering investment, whether domestic or foreign, it is also important, obviously, the legal framework that accommodates this investment. One of the main limits to investment and which should be changed as soon as possible is the definition of appropriate laws on corporate insolvency, on mergers and on anything that interferes with their access to credit, a particularly important aspect for domestic companies. National enterprises are the main affected ones from the credit limits imposed by banks operating in Timor-Leste, one of the most important of which is the almost non-existence of the possibility of providing real guarantees until all legislation related to the "Land Law" and its implementation, for which the Government and the National Parliament are responsible, has been passed.

In some areas, and at an early stage, the State should encourage, support and promote domestic product, also facilitating its outlets to markets, with a view to replacing some of the imports and making the country less dependent on goods (mainly food) produced abroad and often of unknown quality.

The economic policy options suggested here have as their background the overriding need to create new jobs, better wages and more social protection for workers and thus higher productivity, since the lack of decent employment is the main problem in Timorese society, with all its consequences in terms of low levels of human development. This also implies public investments in the extension of social protection system coverage and a great effort to formalize the informal sector.

The State continues to play a fundamental role in the economic and social development of the country, not only through direct and indirect support for private initiatives, but also through the indispensable role of providing better and more comprehensive public services – particularly in the National Health System, the public education system and the social protection system.



The current crisis caused by COVID-19 has shown the importance of having these services and, generally, the State's role in economy and society, so that populations are more protected (including in clinical terms) and more resilient to this type of "shocks".

The State's role is also essential facing another structural issue in the national economy, which is to rely heavily on oil revenues. Alternative ways of financing the economy and public spending (and investment) must be found, namely by improving the tax administration system and building a tax code/tax regime that is fair, redistributive and encourages the practice of citizenship. It should be noted that people and companies are only available to pay taxes if quality support and services are provided in return.

More than a "bigger State", the Timorese State needs to be a "better State". Therefore, the State must affirm itself by the **quality of services** provided to the population and not by the **number of people** under its control.

This adjustment of priorities in the medium to long-term is in line with the concerns highlighted for the short-term: ensuring decent, minimally well-paid jobs so that families can escape poverty and meet their physical (food in quantity and quality and health) and intellectual (education, in a comprehensive sense) needs.

The human development of the country particularly requires appropriate interventions in areas described in the following paragraphs. The effective **timing of measures** to be taken **depends** mainly on the Government's **implementation capacity** and the **financial availability** to do so. A key criterion of selecting measures should be their **impact in terms of creating "productive and decent" jobs**.

The measures to be adopted should also take into account two other crucial aspects of "human development": sustainability and equity. In other words, it is important that the programmes and measures to be implemented do not leave anyone behind, have lasting results over time, and do not jeopardize future generations.

### 2.3.1 ECONOMIC SECTORS

To boost domestic product should be a permanent concern, particularly industrial production, in order to achieve "import substitution" for some products, even if this is limited. In medium-term, such substitution will not be possible for the vast majority of products, even because many of them require, in order to be viable, a scale of production which is beyond the reach of the domestic market. In some cases, such "import substitution" will require, as a matter of scale of production, the export of part of the production, which will not be easy in the context of Southeast Asia, given the existence of economies much larger than Timor-Leste and in a process of industrialization much more advanced than ours such as Indonesia, Malaysia, Philippines, Vietnam, Singapore, among others.

The mentioned substitution policy of some products may require, as in other cases where this strategy has been used in the early stages of development (notably in the 'Asian Miracle' countries - Korea, Taiwan, Malaysia, for example), some protection of the '*infant industries*' through barriers (customs or other) that protect them from competition of imported (till then) products and of which substitution is sought.

In Timor-Leste's case, this protection is all the more necessary as the country is geographically located within a region along with several countries that, due to their characteristics – namely size of their internal market and different qualifications –, will always tend to be "absorbing elements" (such as zero in the multiplication, annulling the final result) of our country's development process, competing in the national market with national productions.

National companies have many limitations in terms of organisational capacity, human and financial resources. This will require a close collaboration between the private sector (national or foreign acting between us), the State and the banking sector.

The State will be responsible for creating the conditions for investment (human capital, infrastructure; legal framework, possible collaboration with the private sector for the creation of more companies).

The private sector, which must be the main player in this “strategy of (limited) import substitution”, must seek the means to launch its companies, namely to have some financial and management capacity. Both are extremely scarce among us and this requires a great deal of openness to links with foreign capital.

Finally, it will be up to the banking sector, with the support of the State, to provide the necessary financial means available, but are not mobilized because the entrepreneurs are not able to present the projects and the real guarantees due. On the other hand, a very significant number of companies do not have organized accounting, and this has also is a barrier to the supply of bank credit to private sector.

State support should be defined within an appropriate legal framework and the establishment, in partnership with the banking sector and the private sector, of attractive financing conditions, in terms of credit volume and loan conditions (volume, interest rate, grace period).

This support, to be negotiated between the parties, is particularly important at this economic recovery stage, to give many companies the minimum conditions to survive the current economic crisis, and if not, as has already been seen in most countries, risking that many of them will disappear definitively from the market, with all the consequences of reduced production and, above all, employment, which will lead to a deep social crisis. In a sense, one could almost say that the choice at the moment is between spending a little more resource now, and maintaining some social stability, or not spending them, and facing a deep and lasting social crisis in the near future.

The conditions for such support should include a loan period of about 4-5 years, with at least an initial grace period of 1 year. The interest rate, to be negotiated with the banks, can be based on 6-month LIBOR plus about 2-3 percentage points. Banks should be compensated for the financial effort with such loans, with appropriate tax incentives.

Parallel to this, and to support initiatives to boost the country's economy, a **National Products Promotion** campaign should be carried out, as a way of increasing consumption of products produced in Timor-Leste (whatever their nature or sector). Valuing and promoting national production should be the goal of this campaign, which aims to add value and give relevance and prominence to national production. By consuming national products, we will be providing greater growth and development to our economy, as well as supporting our farmers, shepherds, craftsmen, etc. And, as already mentioned, by reducing the volume of imports, we will be investing in a higher quality national product.

That's why **it is essential to establish a solid collaboration between all national producers** (and the scarce national industries) in order to foster a greater consumption of the products produced in Timor-Leste, thus becoming an essential economic lever for the development of the country.

The promotion of national production should be one of the focuses for the country's economic recovery, which will bring, as main advantages: valuing local products, fostering a national awareness and pride across all Timorese, transforming consumption habits (**“Made in Timor-Leste” / “Our Product”**), revitalising local economy and agro-business (agriculture, livestock, fishing, handicraft, etc.), reduction of external dependence, through the reduction of imports volume, increasing production capacity of local companies, higher quality local products, more competitive prices (compared to imported products), improving local infrastructure (production and distribution), building the capacity of human capital, developing local communities (especially out of Dili), improving production processes and irrigation, improving the living standards of national producers.

Choose what **is ours is fundamental in order to the national production to gain more and more relevance and be more consumed**. As such, this campaign can be operationalized by placing stamps (or something similar) on all national products, with the purpose to identify that a certain product is produced in Timor-Leste (“Made in Timor-Leste” / “Our Product”). This stamp would be associated to a certain symbolism that is intended to transmit to all consumers or tourists who visit our country, namely: national affirmation, appreciation of the local product, appeal to local consumption, national pride, building of a national “brand”, confidence in national products, proximity to local communities and visibility to the outside (“made in Timor-Leste” / “Our Product”). Simultaneously, a communication campaign should be developed to promote national products through several formats: promotional video (TV), social networks and newspapers/magazines. This campaign should give prestige to local products, but also focus on the existing production process, in order to highlight the quality of our (organic) products. Below, we share some examples of campaigns that are already in place in other countries:



### 2.3.1.1 AGRICULTURE AND FOOD AND CASH CROPS

Agriculture occupies about 2/3 of Timorese people of working age, and people who live on subsistence agriculture make up about 15% of the active population (Labour Force Survey, 2016). It is, therefore, a fundamental economic activity in our country, responsible for the income of more than 60% of our fellow citizens.

This is the opportunity to reflect **on what future we want for Timor-Leste, especially for the interior of the country, which is characterized by many asymmetries!** It is the time to define economic policy measures that ensure the sustainability of our water, mineral and non-mineral resources, the valorisation and planning of the territory, the protection of local populations and economies.

Agriculture, in all its multiple dimensions, is crucial to the country’s development, the use strategies of territorial space and its valuation. In this sense, agriculture is a key vector of the Economic Recovery Plan.

During the post-COVID-19 economic recovery period, investment in agriculture will be the fastest way to achieve economic progress for the benefit of more than two-thirds of our population living in the interior of the country. This has been a neglected area for a long time, so it needs a new impetus for development, and there, agriculture can play a fundamental role in generating value. Good management of agriculture is crucial to protecting the environment, biodiversity, water resources and fighting fires, which has been one of the problems the country faces. A strong agricultural sector will be the key to improving food security and protecting our economy from future crises. The threat of COVID-19 has taught us to place greater importance on high food production, to meet the population basic needs and to ensure that there is sufficient and affordable food for citizens.

The reasons for increased investment in agriculture include:

- The current low productivity of our farmers should not be seen as a constraint, but as an opportunity to achieve “quick wins” in terms of productivity and income advances through simple and low-cost interventions.
- Even with some unsuccessful programs in the recent past, we still have many examples of success. And, these examples of success are mostly those involving the private sector.
- The fact that the vast majority of successful examples are not properly accounted for in aggregate demand, has received little attention in terms of scaling up successful initiatives.
- Several external factors have contributed to the working’ age people’s emigration from rural areas to cities, thus hindering significant improvements in the agricultural sector. Investment in the agriculture modernization may reverse this trend.
- Mistaken investments, result of excessive direct intervention by the State in production, have given more importance to local subsistence production and less attention to improving productivity and commercialization; there is still little recognition on the importance of economic incentives to farmers; there is insufficient integration of private sector actors.
- **There is no other sector** that can generate the level of development and employment opportunities for so many families as agriculture. For example, according to very optimistic forecasts, tourism will absorb around 15,000 jobs by 2030, and the LNG factory will create around 500 jobs. Agriculture now employs about 200,000 workers - Suppose that workers’ income was doubled, and we would have a bigger impact on reducing poverty.

In Timor-Leste, agricultural production is classified into the following categories:

- crops (an important part of which is for self-consumption).
- Cash crops (coffee and other less important products such as vanilla and some fruit plants/trees).
- Forests.
- Livestock.

It is a common characteristic to almost all of them that they are productions that qualify as “labour-intensive”; they are, therefore, appropriate to support the current phase of our development (even in a structural medium-long term perspective) and the current cyclical situation (short term).

**Food crops** are those that are primarily intended for immediate consumption (self-consumption) by rural households, but that can generate a surplus of marketable production, both in rural and urban markets. In either case, it generates monetary income for farmers, which they need to meet some of their needs — including investing in their children’s education. In this group we can include maize, rice and a wide variety of other agricultural products (potatoes, mandioc, sweet potatoes, yams, beans, soy, etc.). Timor-Leste has everything to gain if, in this agriculture area (notably in rice production, but not only, as will be mentioned later), technical cooperation with Vietnam increases, whose agricultural policy has benefited its peasants and the country in general.

**Cash crops** are main crops such as coffee and, to a much lesser extent and limited to some locals/growers, productions such as coconut, cashew and cocoa or other less common in the country (such as vines and some fewer common fruits among us).

The **forest**, which has been a “poor relative” of agricultural activity, plays a role with some relevance and with a lot of space to develop in our country, namely in soils with less agricultural aptitude, because they are located in more mountainous areas, and with high slope — the



majority in Timor-Leste. Development partners such as the European Union (which supports German cooperation) have been developing work in this area (*Ai ba Futuru* project) in several municipalities in the country, and their efforts must be supported and extended.

**Livestock** is an important source of protein-rich foods (cattle — *Karau vaka, karau timur*—, small ruminants — *bibi timur* and *bibi malae* —, pigs – *fahi*).

Any of these productions have particular problems relating to **production** but also to **marketing**, either to the domestic market and the international market.

**Livestock farming** can contribute to the improvement of the population's diet, namely to reduce some chronic diseases of the youngest (physical and intellectual development difficulties). Some of the animals (namely buffaloes, cows, sheep and goats) can give rise to a small milk and cheese production industry – although there is an idea that Timorese have some difficulties digesting these products, they may have an interesting market amongst the catering and hospitality industry and the expatriate community in the country. A *sine qua non* condition is the sanitary control of animals, a function that the State, considering public health issues and as a way of supporting producers, must develop as soon as possible (medium-term), through the organization of massive vaccination campaigns.

The fact that the country is mountainous presents reasonable conditions for raising cattle in a forestry and pastoral system, a method that associates cattle raising on the forest cover. But the intensification of the system always implies the cultivation promotion of fodder. It can be done by planting forage trees. These plants are easily consumed by cattle, without the need for imported equipment, such as the production of hay or silage. Redi Kamodi, a forestry and pastoral project based on these principles, is already in operation.

The State could supply seeds of these plants to livestock farmers, to accelerate the intensification process and promote the necessary rural extension with its technicians – who need to have adequate and quality training, transforming them into real drivers of the transformation of the rural world.

The increase in the production of goats, pigs and poultry must be carried out in a confinement regime, and supported by the State, but must be mainly the work of the private sector. In fact, goats - and sheep as well - are important barriers to the necessary reforestation, when raised in freedom, as they eat all young plants, accelerating desertification.

In the long term, the livestock sector should benefit from a cold chain (refrigerating warehouse equipment) promoted by the State, that allows the conservation of meat and milk, and facilitates its circulation throughout the country.

The lack of veterinary higher education is another obstacle to this sector, and the Universidade Nacional Timor Lorosa'e has an important role to play here. The State must also provide support in creating and maintaining water points for livestock in the villages. The provision of irrigation water by simple gravity systems, from the mountains, can also assist in the production of fodder in the dry season. The promotion of agricultural cooperatives is another factor of great importance in this sector.

The 7<sup>th</sup> Constitutional Government proposed to the National Parliament, which approved it, legislation aimed at boosting **forest production** (Law No. 14/2017, of 2 August) to which the country, mountainous and with generally poor and inclined soils, is especially adequate.

This forestry line should lead to the development of yield tree plantations (sandalwood, mahogany, teak, agar) and for firewood (example: white eucalyptus, casuarina, albisia) that prevent people from cutting down trees without much criteria to use them as fuel domestic.

This law is a good starting point for boosting forest production, with a consequent increase in farmers' incomes — one of the fundamental objectives in the context of the current effort to define a post-COVID-19 economic recovery strategy — and improving the natural



environment, namely with soil fixation in mountainous areas, victims of great erosion. Quality rural extension, which must be strongly supported, has a fundamental role to play here.

As for **cash crops**, the most prominent is **coffee**.

Timor-Leste's coffee has a reputation for being among the best in the world. This reputation can continue "if and only if" it is treated (production and roasting) as it should be, in order to increase the quantity and quality.

Actually, it must be acknowledged that both (production and roasting) are currently insufficient and, despite all the "lip service" provided to it, there is much to be done, that will naturally be reflected in the income of the country's growers and exports, essential for its sustainability. Although, it seems to us that an in-depth study of the coffee "political economy" is necessary, we present below several recommendations.

The "Timor Hybrid" is now present in many varieties grown around the world, from Brazil to Colombia, from China to Vietnam (today one of the world's largest producers and exporters) and India.

The success of the development strategy for coffee production and marketing in Vietnam, which is now the world's third largest exporter, leads us to suggest that one of the steps to be taken is to send a study mission to that country and to implement similar measures, particularly in terms of quality control and world marketing strategy. Strengthening economic cooperation with this country in coffee sector can be particularly important.

Two Portuguese entities can provide important support to true "revolution" needed to increase national production and control its quality. These entities are the International Coffee Rust Research Centre (CIFC – Portuguese acronym) in Oeiras/Portugal and the Quinta Portugal Project in Aileu ([https://www.facebook.com/QuintaPortugalAileu/?epa=SEARCH\\_BOX](https://www.facebook.com/QuintaPortugalAileu/?epa=SEARCH_BOX)).

The *CIFC* is the entity responsible for the establishment and dissemination of coffee varieties which, because they come from the "Timorese Hybrid", are quite resistant to the main disease of the plant (rust), and have an improved productivity.

The Project mentioned above, which was stemmed from the Portuguese Agricultural Mission, is responsible for the dissemination of varieties and cultivation practices that increase the production and improve the quality of Timorese coffee among the national growers – in the Aileu Municipality, but not limited to it.

The suggestion is twofold:

- that the activity of Quinta Portugal be dynamized (multiplied) with significant reinforcement of its technical and financial capacity, in order to reach more producers and
- that CIFC be a privileged advisor to Timor-Leste in this field.

This will result in a significant improvement of our country's coffee plantations and the quality of the coffee produced. This will allow, in the medium-term, the sustainability of coffee processing factories, with an increase in coffee value and in our exports value.



It is easy to see that one of the fundamental issues of our coffee plantations is their low productivity, due to the advanced age of the plants.

One renewal technique for the coffee plants is to eliminate the old plants and planting young ones. The main issue with this solution is that the land in Timor-Leste is very steep and the trees have a very developed root system. Both situations make it difficult to adopt this solution in our country.

A relatively “simple” alternative is an extreme pruning of the older plants and their grafting with new, more productive plants. This practice has been adopted in some places in Timor-Leste but just at an experimental dimension. In fact, this technique causes a decline in production of the targeted areas for, at least 3-5 years, which translates into a sharp drop in the farmers’ income – reasons for their objections to adopt it.

Another solution is to adopt a phased intervention policy (for example, 25% each year) and compensate farmers for the lost part of their income. This process can start as early as 2021 – even if at a limited dimension – and counts on the support of (our) development partners, namely Portugal (which already supports through Quinta Portugal) and the European Union, which supports similar programmes in African countries.

Such a solution is inevitable over the next 10-25 years for the renewal of our coffee plantations. The result will be an increase of income for farmers, due to increased coffee production and its quality – better payed in the international market.

The most common practice in our country has been the use of some (2 or 3) of the sprouts that arise from the natural sprouting after pruning. This technique should be scaled up.

This improvement in quality requires that, at the same time of the coffee plantation renewal, significant improvements be made in the agricultural practices – tasks in which the Quinta Portugal Project can help, if it is effectively further supported and expanded.

Improving the quality of coffee production is reflected in export earnings, allowing for increased exports to countries that pay better (USA, Canada, Germany) and eventually reducing sales to markets that pay worse (Indonesia, for receiving worse quality coffee).

<b>TIMOR-LESTE COFFEE EXPORTS, 2017-2019</b>									
	<b>2017</b>			<b>2018</b>			<b>2019</b>		
	Quant. %	Value %	Price Kg	Quant. %	Value %	Price Kg	Quant. %	Value %	Price Kg
Indonésia	20.2%	7.4%	0.99	35.6%	10.5%	0.74	50.1%	29.9%	2.61
Canada							13.4%	22.7%	4.40
USA	21.6%	33.4%	4.17	19.1%	32.8%	4.27	12.1%	21.3%	4.59
Germany	22.8%	22.5%	2.67	12.1%	11.4%	2.35	5.2%	4.6%	2.29
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>2.70</b>	<b>100%</b>	<b>100%</b>	<b>2.49</b>	<b>100%</b>	<b>100%</b>	<b>2.61</b>

Source: DGE, international trade statistics

Along with this improvement in coffee plantations and cherry coffee, new plants with large market acceptance must be introduced (example: vanilla, strawberries, grapes, persimmon, and loquats).

The reference to the Quinta Portugal Project allows us to mention other projects of a similar nature (e.g. TOMAK, Ai Ba Futuru and others): support for farmers to modernizing their crops. A selection of these projects should be made, to figure out the ones that have had the best

impact on the populations, in order for the State to support them and/or to be supported by our development partners.

Considering that one of our agriculture's issues is the marketing the products, it is therefore suggested to encourage the participation of marketing organisations (e.g. coffee) in providing technical assistance to farmers, by granting them tax advantages.

Rural extension should also foresee the cultivation of some spices (clove, pepper, ginger, vanilla) integration and promotion, in high altitude agroforestry systems, particularly in coffee plantations, but also in palm trees plantations.

The soils of Timor-Leste, particularly the mountainous ones, are generally poor (not very fertile, with acidity). The increase of production requires the adjustment of these characteristics. The State must find ways to support farmers in soil improvement and crop fertilization. For example, in coffee production, organic fertilizer can be used.

There is an urgent need to **support companies in this sector** and **get them to do the extension** and, at the same time, invest in rural extension programs with own and qualified technicians in soil improvement and fertilization for food crops (rice, corn, cassava, etc.) and also for agroforestry *commodities*.

This is all the truer as experience seems to show that rural extension by State technicians, often poorly trained and without motivation, is not very effective and should be improved with the training of such personnel. Local municipal agricultural directorates should be given more support to improve their performance in rural extension sector, which should be the centre of their activity.

Finally, the **food crops**. These are mainly rice, maize, beans, soya and cassava. As has been said, the production of these goods is basically for self-consumption, being carried out from a subsistence perspective, without any motivation to increase the production scale – specifically given the familiar form of production (with reduced hectares of land and fewer use of appropriate technology), the challenges in selling the production<sup>9</sup> and the competition from the same products, especially rice, coming from abroad and reaching markets in Timor-Leste at much more competitive prices.

In the medium-term, particularly in relation to rice, a policy should be adopted to increase the national self-sufficiency of this important product in the Timorese diet. Current circumstances do not allow this to be done, because of the impact this would have on people's consumption, but a policy of import control (limits on quantities imported and increases in import tariffs) must be considered in the medium-term of about 5 years. This will eventually translate into a rise (slower or faster, depending on policy) in producer prices (and consumption), as an incentive to cultivate many of the land abandoned in the post-independence period – notably because of the influence of obtaining "easier" incomes (such as veterans' pensions and competition from "cheap" rice imported from Vietnam). It should be noted that a similar policy has been adopted by other countries in the region. This import control strategy can/should be **complemented by the creation of direct public incentives for production** – specifically through the "seeds" supply – **and for the marketing of products**, in order also to ease the price increase trend for the final consumer.

Rice cultivation has benefited from some mechanisation through tillers. This should be encouraged in order to reduce the human effort and increase the cultivable area, but the use of relatively heavy tractors has proved to be a real "disaster" among us, due to the great challenge of maintenance and keeping them productive – the budget allocations of the Ministry of Agriculture and Fisheries for this purpose have always been ridiculously low, increasing the number of unused vehicles. The solution to this situation may be to

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<sup>9</sup> Even when farmers have a way of transporting products, in most cases the low quantity produced does not justify transport costs from rural areas to urban centres.



define a “minimum” fleet to be kept in operation, but to quit the policy of extended “heavy” mechanisation with tractors, as practised a few years ago.

Important to the dynamization of rice production is the choice of the most productive varieties, and adapted to the taste of the Timorese, while taking advantage of the lessons learned from international cooperation agreements, that end up languishing and have no continuity (notably from China). Given that Vietnam has massive areas of mountain rice production, its cooperation in providing appropriate seeds (but adapted to Timor-Leste) should be sought.

These experiences are important in building more productive seed banks and making them available to Timorese farmers. This is something that can be implemented in a relatively short period, but that needs to be taken seriously to have continuity and be reflected in our farmers’ incomes.

In the most mountainous regions, slope irrigation systems, and terraced rice cultivation – as already practiced in many places – should be supported. The State can/should support both of these agricultural practices with technical and financial support, in order to develop the food self-sufficiency of local communities and the country.

An important aspect to be reviewed in organizing and operating the rural world is the **role of cooperatives** and the State Secretariat that oversees them itself.

Cooperatives must be supported so that producers receive the value of their production effectively and on time. It is not acceptable that the payments come with a significant delay. Agricultural cooperatives must therefore be managed more professionally and count on the support of the State and especially development partners.

One solution adopted in some countries is to set up a programme to ensure that products be bought from producers and send to consumer markets. In many countries this process is done by State institutions/programmes, by private entrepreneurs or by producers’ cooperatives.

The latter, in Timor-Leste, are not really a success story, and only in the long-run will they be able to find more professional ways of operating and be able to provide their members with adequate services.

In the absence of this kind of cooperatives, it is necessary to consider the possibility of reviving the previous public programme in Timor-Leste “*Povo Kuda, Governu Sosa*” – but without the problems that led to its replacement, the least of which is not the accumulation of debts to producers. Whatever the solution is, we must ensure the payment “in time” of the productions delivered by the producers, who are always in need of liquidity for their consumption and investment.

But the main agents of marketing are private traders. There must be, however, **(public) control price mechanisms** to prevent domestic producers from being exploited.

Whenever possible, more value should be added up to national agricultural production, by introducing some industrial processing for part of the production, even if limited.

Overall demand for konjac is strong and growing, with the highest demand coming from China and Japan. Over the last three years, there has been a significant increase in exports from Timor-Leste, mainly to China. Official statistics recorded 1,669 Metric Ton of dry konjac chips exported in 2018, compared with 568 Mt in 2017 and 20 Mt in 2016. In 2019, exports were significantly lower due to some industry-specific issues. Konjac is the second largest export of goods in Timor-Leste (after coffee), in terms of value.

Konjac is suitable for many Timorese farmers. The economic production of this product is quite healthy. A farmer can plant Konjac on land also used for coffee trees to get additional value from that land. A farmer who uses the land entirely for this purpose can earn at least USD 2,000 per hectare in addition to his coffee income (currently coffee income is less than USD 1,000 per hectare, so this is a considerable increase in income).

## Proposal for an Action Plan for Agriculture 2020-2023

Sector	Strategic Plan and Commitment	Condition	Focused Support	Industry Level Investment
<b>Coffee farmers and associated profit crops</b>	There is a strategic coffee plan: a clear statement on the plan is needed	Improve export processes for coffee and other products, including standardization of the certificate of origin system for all crops	Support Development Partner expansion and commercial initiatives to increase production and productivity on the farm and improve product quality  Support companies with direct costs to obtain organic certification	Support the Coffee Association (ACT) and its activities, including coffee festivals and competitions  Work with ACT to establish a national quality rating system that allows for tiered pricing  Establish a Coffee Marketing Council to build the Timor Coffee Brand internationally
<b>Konjac: consortium with coffee trees</b>	Preparing an industrial plan for Konjac			Negotiating with China for Konjac import
<b>Maize producers</b>	Preparing a strategic plan for maize production		The Commission and the supporting initiative to deal with immediate pest threats (including the Fall armyworm)  Support programmes to reach 3-4 maize producer groups linked to clustering, to improve productivity and the supply chain. Use existing aggregators as programme implementers. Include a possible short-term input subsidy for farmers	Support research on maize production efficiency, including hybrid maize suitability testing  Commission and support initiative to deal with pest threats (including the fall armyworm), including an awareness campaign focused on maize farmers

## Proposal for an Action Plan for Agriculture 2020-2023

Sector	Strategic Plan and Commitment	Condition	Focused Support	Industry Level Investment
<b>Commercial Maize Production: Animal Feed</b>	Preparing a strategic plan for animal feed production	Work with the Agricultural Input Retailers Association (ANSATIL) to solve problems with the import of agricultural inputs  Developing standards on pet food production	Focused support to 3-4 local companies that already own the machinery to start local animal feed production immediately  Target: support to existing producers to increase local soybean production; this is a key limiting factor in local animal feed production	Provide ANSATIL with core multi-annual funding to support an expansion of import, production and distribution of agricultural inputs
<b>Chickens, Eggs, Pigs and Cattle</b>		Chickens: identify options to address current restrictions related to the availability of day-old chicks (DOC) (currently imported)  Cattle: Implement measures related to Indonesian requirements to allow the export resumption of livestock from Timor-Leste	Chickens: Support MAECOM (Community Economic Action Movement) to expand the network of community owned and run chicken farms  Pigs: Support programmes to manage African Swine Fever (ASF) through the establishment of pig stalls and help existing companies to replace ASF losses with piglet production  Cattle: Support pilot partnership of meat processors and large farmers in experimental confinement  Cattle: Supporting slaughterhouse management to improve quality and reliability	Pigs: Develop an ASF recovery plan for the pig sector, using technical / donor resources offered. Expand awareness campaign on MF / MAF ASF

## Proposal for an Action Plan for Agriculture 2020-2023

Sector	Strategic Plan and Commitment	Condition	Focused Support	Industry Level Investment
<b>Rice Producers</b>	Prepare a strategic plan for Timorese rice, including commitment to develop the industry		<p>Complete the proposed irrigation rehabilitation programme and finance the establishment of users and water producers' groups in each area</p> <p>Support the expansion of existing programmes to improve productivity and efficiency</p> <p>Provide a subsidy (for up to three years) for local rice aggregators to be passed on to farmers, allowing the retail price to be competitive with imported rice</p>	Market research and start of the establishment of an international market niche for Timor Rice (Australia, New Zealand)
<b>Community Silviculture</b>	Preparing a national strategy for the sandalwood industry	<p>Amend the law to allow the export of sandalwood, along with an appropriate policy for the responsible harvesting of sandalwood trees</p> <p>Proposed progress: Foundation for national carbon neutral certification scheme</p>	Financing private companies in the large-scale production and distribution of sandalwood	
<b>Aquaculture Farmers</b>		Formalize the current MAF policy to change the Gleno Hatchery (GoTL) to focus on tilapia breeding, allowing the private sector to develop the fry (fingerling) market	<p>Supporting private sector expansion in providing construction for fish ponds and / or subsidising the construction of new fish ponds</p> <p>Support small farmers with fish fry, using a voucher system with private hatcheries</p>	Support knowledge/capacity improvements in aquaculture by linking relevant public and private organisations

In relation to coffee, current estimations are that 38,000 families produce coffee for sale; that is, if each producer can double his coffee production and obtain additional income from complementary crops such as Konjac, he can obtain an additional income of USD 2,000 per year, on average, or USD 76 million in total. The impact on GDP is at least twice the domestic impact, with more multiplying value-adding effects, meaning an increase of, at least, USD 150 million per year in GDP.

About the forestry, according to the assessment made by FAO, it is estimated that there are 240,000 hectares of land available for forest production, not including the one reserved for conservation or other protected purposes. If the wood industry, in Timor-Leste, will develop according to the usage and income levels of neighbouring countries (Malaysia and Indonesia are used as comparators), this would result in an annual wood production of 500,000 m<sup>3</sup>, (Source: timbertradeportal.com).

At conservative prices of USD 200 per m<sup>3</sup>, this would represent USD 100 million per year in production value, when full capacity is reached. The impact of GDP on the forestry sector would be over USD 200 million, not including the multiplier effects. Certainly, to reach these levels we would need to wait a few years for the trees to reach maturity; but significant progress is possible in the short term, with existing stock, together with the annual income from the sale of carbon credits.

Following, we present a table with results from a simulation, showing the significant contribution that agriculture may have in GDP and in poverty reduction.

	Current situation	A Realistic Vision for 2030
Number of families	150.000	120.000
Productivity	Low	2-3 times the current production
Income	1,000 USD per family	2,500 USD per family
Poverty	50% of rural households	20% of rural households
Real GDP (Agriculture)	USD 300 million	USD 750 million

**2.3.1.2 TOURISM**

The Association of Hotel Owners (HOTL) estimates that, since the beginning of 2020, the country’s hospitality and tourism sector has suffered a 95% reduction in sales revenue, due to reduced domestic consumption and a significant decline in the area of air, land and sea transportation. The drop, both in supply and demand sides, has put unprecedented pressure on restaurants, hotels and travel companies to keep their doors open, retain their employees and pay operational costs (rent, utilities, etc.).

Tourism in Timor-Leste is very small in number and limited, in terms of the maturity level of the “brand” and “products”. The Asian Foundation’s International Visitor Surveys establish annual tourist arrivals at around 10,000 per year, with the most common country of origin being Australia (over 30%). Ten thousand tourists a year means approximately 30 tourists arriving in Timor-Leste every day — a very small number (which places Timor-Leste at 187 out of 190 countries in the world, according to World Bank data in 2017).

There seem to be few tourists from other parts of Asia. With a tourist spending an average of 600 USD on the local economy (estimate based on data from the Asia Foundation’ survey), current figures suggest that tourism corresponds to around 6 million USD per year, which represents less than 0.5% of GDP. This insignificant value is a good start, but the industry itself still has a long way to go!



The tourism sector has been presented, for several years, as one of the main alternatives for the development and diversification of the national economy, both in terms of production and in terms of employment, since it creates many jobs, which don't require very high qualifications. It must be recognized, however, that it has not deserved, namely by the “slice” of the annual budgets that it is destined, the allocation of resources compatible with the centrality that is said to have. It is essential, also in this sector (as in others), to change this situation and give it the budgetary importance it needs and deserves, as a source of the production and absorption of high unemployment or underemployment.

Higher concentration of budgetary resources in this sector is therefore, essential, both in a medium and long-term perspective. What is suggested is exactly this, and that can be implemented, albeit gradually, starting now (2021 GSB and following).

A “National Tourism Strategy” has been published since the VI Government (2017), which provides a set of very generic ideas about the sector and its role in the development of Timor-Leste.

We can have this Strategy as a background for the future, but we should take into consideration that:

- The National Tourism Strategy, as it stands, is little more than a set of very general guidelines and does not mention specific programs and projects for this sector, which is the centre of our attention within the framework of this Economic Recovery Plan;
- There is a certainty that, at least in the coming years, the impact of the COVID-19 pandemic will be very strong, requiring a review what was planned for the future. It is too early to determine the true impact of this pandemic on tourism, both globally and nationally.

For both reasons, the following should be seen as a set of guidelines that **may need to be revised in the medium term**, when the effects of the pandemic on the international tourism market are clearer. Anyway, investment in the Tourism sector seems to us to be an investment of the future, even because it is also important to find answers to attract national tourists (to do tourism within our own country).

Because it is an essentially labour-intensive activity – although the volumes of capital it requires, particularly in hotel and similar facilities –, this sector is one of the most appropriate, alongside with others (agriculture, housing construction, small-manufacturing industry), to contribute to the country's economic recovery, particularly with regard to improving the level of employment, both in the medium and long term.

Following we present a set of suggestions / proposals for sector development in the medium-term — but with evident long-term consequences, as well — helping to restore employment and income levels for many families:

- Promote the development of the tourism sector in the medium and long term as one of the populations' income and employment sources and the State coffers, and assume the consequences of this in terms of budgetary structure, with an increase in the weight of the sector, either in current State expenditure and in infrastructure.
- It is suggested to create a state-owned company dedicated to the implementation of tourism policy in its various dimensions. It is therefore essential to pay attention to the institutional structuring of policies and their implementation.
- Public investment (or, alternatively, in a public-private partnership) in infrastructure useful for tourism. An essential component of tourism, more in some countries / regions than in others, are national monuments. Timor-Leste, due to the conditions of its history, is not, it must be recognized, very rich in this area.

There are, however, many constructions, namely from the time of the Portuguese colonization, that can still be preserved and even become tourist attractions. An

immediate action, that has the potential to generate a lot of jobs, is the preservation of this heritage, for which technical and financial support from development partners and UNESCO can ultimately be requested. Taking into account the experience of Goa / India in this link between preservation of the built heritage and tourism, it is suggested the possible recourse to the support of that State of India.

Examples of infrastructure that must be preserved and even restored to a point where they can be used today (namely as small accommodation to support **local tourism**) are some of the residences of former municipal administrators (Portuguese) and the so-called “tranqueiras” (military buildings). An example of the latter is Baguia one which was restored a few years ago by the State Secretary for Culture. An example of the residences is Maubara — although the fact that their works had been stopped for several years, because the loss of interest from the State, as a result of the abandonment of Portuguese cooperation, due to financial difficulties in the context of the economic crisis that the country experienced about a decade ago.

A list of these buildings (not exhaustive), includes:

**Manatuto** — The Administrator’s residence building, located on an isolated hill, with excellent views over the floodplain, city and sea. Place of heavy road traffic and now with relatively easy access to Dili, which could become an attraction for its commercial exploitation.

**Laga** — Historic building to be used in outside the old “tranqueira”. It served as a residence, among others, for the family of ex-President José Ramos-Horta and is in a reasonable state of conservation, but which can easily be in ruins if it is not subject to maintenance works. Due to its location, close to Baucau, it can use the technical support of the Baucau’s Pousada; it has a stunning landscape on the way to Ponta-Leste.

**Maliana** — Former administrator’s residence. Crossing point for the hot springs of Marobo and the southwest border area, that can “double” the support for tourism in the region, that is given now by the Balibó fort.

**Batugadé** —buildings inside the old fort (“tranqueira”) near the beach. Place near the road to the border. Alternative to Maliana and Balibó, and possible attraction point for Indonesian tourists (Atambua).

**Maubara** — complete the works and start is commercial exploration in ways to be decided.

**Ossu** — the old fort mainly requiring relatively simple conservation works. Timor Telecom has a transmission tower on site and, in return, may be in charge of site conservation.

All the buildings mentioned are full of History. The use and architectural restoration of will contribute to the preservation of cultural heritage, as well as to the identity of the Timorese Nation.

- The suggested recovery / maintenance works have the advantage of being essentially job generators for undifferentiated workers, namely residents in the rural areas where the buildings are located. For this reason, they should deserve special priority in the coming years - but ensuring the quality of the work to be carried out, as was done with the recovery of Baguia’s old fort (“tranqueira”).
- The important to the functioning of touristic units (lodge, hotels and restaurants) is the adequate professional training for their workers. The currently training practiced among us is of low quality, resulting in poor quality services to tourists and other



users. It is essential to create a quality Hospitality School, that is a reference for others in the country, and “measure” for the standard of services in this area. Eventually, a functioning school can be used, and upgrading its quality. Example: Baucau, which you can use as a training partner for his students, the famous Pousada de Baucau.

- With the support of local authorities and / or of well knowledgeable people in the territory, identify some road routes or trails of undeniable tourist interest and do some works to improve its conditions for using it. This concern, in particular and as an example, some rural roads with access to places of special tourist interest (landscapes) such as the road that, from the Baucau-Venilale road, passes through the “lagoons of Venilale” and goes on to this city, from the East. Another example is the old road connecting Maubara to the border, through Vatuvou.
- The rural road rehabilitation program should be broader and include other roads whose rehabilitation will create more jobs. It can follow the example of the roads in the Australia-funded program “Roads 4 Development”, but avoid excessive spending on foreign technical advice.
- Creation of some infrastructures that can diversify the country’s touristic offer and attract national and foreign tourists. As an example, mention the creation of a golf course somewhere near of Baucau (on the road to Wataboo beach, for example) that, in the long term, could attract foreign tourists who will be able to use the now rehabilitated Dili-Baucau road and/or a rehabilitated Baucau airport — at least in some periods of the year (dry season or, generally, from March to October).
- **Control of crocodiles** on the northern coast, to allow the risk-free use of their beaches.
- Creation of health support facilities for tourists, such as, for example, **recovery units for dive accident victims** along the north coast. Pousada de Baucau started installing such a unit but did not complete it. This quality health support will be very important in the post-COVID-19 period because, at least in the coming years, one of the fundamental points to take into account in the choices of tourists regarding their destinations is exactly the availability of health quality support facilities, and regarding on this, it is important to *upgrade* the services provided by the Hospital Nacional Guido Valadares but also by other regional hospitals.
- **Increase overseas advertising about the country’s tourist wealth** (for example, through the Timor-Leste embassies), namely the wealth of the Timor-Leste’ seas (north coast, Ataúro and Jaco) for sport diving and *snorkelling*, but also the mountains for climbing. This will imply greater budget allocation for marketing campaigns and promotion of the country abroad, namely with the nearest countries and with which there are air transport connections, such as Australia, Indonesia and Singapore.
- **Promote Eco-Tourism units**, combining accommodation with, as an example, coffee or rice fields, giving a more sustainable view of tourism and enabling tourists to have new experiences in Timor-Leste and greater contact with nature.
- Creation, possibly in the vicinity of Dili — Metinaro or Liquiçá — of a quality “**theme park**” **on Timorese culture and history**. The creation of such “theme park” about Timor-Leste’s culture and history, could preserve these elements for the future, for example,





“typical” houses from each region and also craft activities. This “theme park” can be an important pole of attraction for national and foreign tourists, namely for students, who are thus able to get to know their country better. This is important because of the existing lack of knowledge, due to the limited circulation of the Timorese population within the national territory, even today.

Make sure that the construction of the ***Pelican Paradise*** project starts in 2021.

- Start the **construction of the Museum and National Library preparations** on the already selected land, near the Presidency of the Republic, in an area that was used as an airport during Portuguese rule. It should be noted that there is an amount (around 10 million USD) that has been allocated, in the petroleum prospecting agreement signed by Timor-Leste and ENI Italy, to (partly) finance this work. This should be a priority work, and programming and construction should start immediately.
- There is a big advantage in articulating the power of the State with **civil society groups** (namely NGOs, whose emergence must be encouraged) that are especially dedicated and technically prepared to support the reconstruction and conservation of our heritage. Civil society should get more involved with this objective and State should help and get support from groups that originate from it (civil society) and who demonstrate scientific and technical capacity to assist in the proposed task. The Goa experience, in India, can be used as a reference.
- In the administrative decentralization process that is to be implemented, **the country's cultural heritage should be protected by the central organs of the State**, because its nature is national and not just local. Remember that there are examples of how, left to themselves, local authorities can, due to lack of knowledge and technical unpreparedness, “destroy” components of the natural heritage (example: “dollar beach”) and architectural heritage (Baucau municipal market, who lost its historic characteristics, due to a local municipality intervention, without inform the State Department of Culture).
- Study the possibility of **an agreement with one or two airlines** that ensure, at controlled prices, air connections abroad — particularly with Singapore, Bali and Darwin, or more one or two cities in Australia (Sydney, Perth). This agreement could foresee the Timorese State firmly assuming a certain percentage of the available seats, that would profit to the flights and could be used by Timorese on official trips — including Timorese students abroad.

Indicative levels of public investment in the next three years (2021–2023) include USD 2 million per year for specific activities in the tourism industry:

- Consulting services for the implementation of the strategic plan — markets, themes and product auditing.
- Develop a marketing strategy and information base, especially digital marketing, in order to give the country greater visibility abroad.
- Identify a list of product actions that can be developed
- Support the Hotel Owners Association (HOTL) and reconstitute the Tourism Industry Association, as industry advisory bodies, but also as vehicles of greater exposure to the tourism experience outside Timor-Leste.
- Work on restoring air services to Australia and Singapore, including preparing a post-COVID-19 service standard.

### 2.3.2 HOUSING

In addition to the tourism sector, a sector that, for the most diverse reasons (economic and social), may be privileged in the short and, mainly, in the medium-long term is that of **civil construction** and public works, due to the large number of jobs that normally creates, associated with the resource of low qualified labour, as the great majority of labour in Timor-Leste.

Within the civil construction sector, we believe that, also obeying the principles of social equity, **the construction of low-cost / economical housing** that could be made available to its tenants at low rents, should be privileged.

Some principles underlying the implementation of this policy:

- The habitations must be built with materials that allow **maximum national incorporation and moderate costs**, being absolutely excluded from this housing construction program solutions like the “millennium villages” because of the large imported materials component, the very poor (and little resistant) quality of construction and the problems generated in the process of its distribution — it is suggested, for example, realization a socio-economic study on these “millennium villages”.
- These houses must be built in “**neighbourhoods**” with **adequate infrastructure** and within the framework of the urbanization process of the areas to be built – which requires the acceleration of the publication of the legislation on territorial planning, halt in the National Parliament for a few years now.
- In order to make better use of urban space, priority should be given to constructions of 2 or at most 3 floors in order to avoid the use of lifts which would make construction more expensive and would require the provision of imported technical means, in addition to the subsequent maintenance requirements. In two-floor dwellings, priority should be given, where space is available, to twin houses/livings (for example, one side for a family and the other for the other), of two floors, with a small yard that can be used for growing the fruit and green vegetables.

A construction component should be provided with the participation and direct involvement of the future tenants in the construction works – supervised and monitored by a competent foreman/master. The State will be responsible for drawing up and making available building plans and construction plans to be made available to builders, eventually association and interest groups or cooperatives members.

- The tenants, when paying the rent, are **amortizing the debt for a dwelling** that will be theirs after 20 or 25 years.
- Since this type of urbanization is unusual to the traditional housing of the Timorese, the tenants must commit themselves to obeying strict rules of collective coexistence in this type of housing. Any systematic disrespect of these norms should be punished by expelling them from the dwelling.
- Even if this is not the main objective, the dwellings to be built must be of, at most, two different quality levels, which will naturally correlate with different monthly costs.
- The ownership and initiative of the dwelling’s construction should be of a **public entity** which is responsible for the management of the state-owned housing units, but which can integrate a component allowing the participation of the beneficiaries in the construction itself. It may be decided, eventually, that this entity:
  - be part of the social security system: either the **National Institute of Social Security (NISS)** itself; or

- an autonomous body under the Ministry of Social Security such as the “National Institute of Social Housing” (*INSH*).

In either option, the “social housing” programme could be co-financed by the State, through loans from commercial banks.

As part of this housing policy, but not limited to it, efforts must be made to improve basic sanitation, the water supply with controlled quality and electrification, particularly (but not only) in rural areas, where the conditions are already met, but still isn’t for reasons that are difficult to understand.

All these projects have (at least) two characteristics that seem essential to us:

1. they are essentially **job creators**, specifically less qualified jobs, and therefore adjusted to the characteristics of our current workforce;
2. they are, once implemented, important **contributions to the health situation** of our population.

It is up to the Government to decide on the priorities of the works to be carried out. However, we suggest that an intervention should be planned for the next two years, in the areas mentioned, at least in some neighbourhoods of the city of Dili (area of the central square of the city, e.g. Bairro Pité).

Still related to the subject of sanitation, the construction of a modern waste and waste water treatment plant for the city of Dili should be considered over the next few years.

At a later stage, an intervention (sanitation, controlled quality water supply, electrification, waste management and wastewater treatment) should be made in other cities, namely Baucau, Maliana and Pante Macasar.

Wherever possible, efforts should be made to **provide water fountains** for the rural population, but water quality control available should not be neglected, ensuring frequent chemical controls.

### 2.3.3 HUMAN CAPITAL: EDUCATION, HEALTH AND SOCIAL PROTECTION

Despite the progress achieved, the current level of human capital development is still revealing a situation far from that which we desire for our country – with worrying indicators at different levels, namely poverty, (poor) nutrition, maternal and infant mortality, workforce (low) qualification, unemployment and vulnerable employment, social protection coverage, (barriers to) access to goods and services, and regional inequalities. Even in periods of higher economic growth, this has not translated into real poverty reduction and human development – and, at least in part, this is a reflection of the funds allocated annually by the State to these sectors.

The following two tables show information taken from the General State Budgets (GSB) of several years.

The following table shows the amounts predicted for several programmes of the Infrastructure Fund for the period 2011-2019.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total 11-19
<b>Programmes</b>										
Health + Education	5098	17745	10463	7127	4751	2452	1205	608	2063	20515
Irrigation + Tourism	2634	9229	6953	12074	16966	4397	3406	4098	2742	62500
the total of those 4 above	7732	26974	17416	19201	21717	6849	4611	4706	4805	83015
<b>Physical capital</b>										
(electricity + ports + airports + Tasi-Mane + bridges + roads	5506868	590551	381776	239990	188162	587901	187037	283166	228054	3066085

What is to be highlighted is the huge discrepancy between the funds allocated to different programmes over time. It should be noted that although the Government Programmes and Budgets discourse emphasise the importance of Health, Education, Agriculture/irrigation and Tourism sectors, the TOTAL amount of the Infrastructure Fund for the 9 years, from 2011 to 2019, was around USD 83 million – in sharp contrast to the USD 3,066 billion allocated to physical capital – 37 times more than the amount allocated to the 4 sectors initially mentioned.

The following table shows the funds allocated between 2009 and 2019 for the sectors of education, health, agriculture, social solidarity and veterans, and tourism, trade and industry.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total 09-19	% 09-19
Health	32,893	35,692	37,914	48,323	65,058	67,217	67,849	42,387	43,715	42,709	45,371	526,128	3.56
Education	62,570	67,486	70,139	94,773	92,008	106,618	99,866	100,613	86,074	72,727	81,973	934,847	6.33
Social Solidarity & Veterans	74,523	69,597	104,678	127,986	148,958	146,716	197,165	157,959	162,346	153,061	158,671	1,501,660	10.17
Agriculture	33,914	16,398	12,909	16,186	25,164	25,247	25,677	22,343	16,192	7,016	14,709	215,755	1.46
Tourism, Trade and Industry	61,008	38,374	27,209	18,894	23,270	27,826	32,488	18,286	14,196	5,532	7,775	274,858	1.86
<b>Total Budget</b>	<b>902,000</b>	<b>859,000</b>	<b>1,500,800</b>	<b>1,674,130</b>	<b>1,850,900</b>	<b>1,677,900</b>	<b>1,570,000</b>	<b>1,562,200</b>	<b>1,386,800</b>	<b>1,459,100</b>	<b>1,989,600</b>	<b>14,759,974</b>	

Unit: thousands of USD - Source: Book 1 & 4 of General State Budgets (several years)

It should be noted that during the period in question, the funds allocated to health were only 3.5% and the education sector received an allocation of 6.3% of the total General State Budgets and with a downward trend; in the same period, agriculture received 1.4% and tourism 1.8%, also with a downward trend, in contrast with public transfers to social solidarity and veterans exceeding 10% of the total budgeted.

In the last GSB proposal presented for 2020 (that of December 2019), the amount allocated in both “current expenditure” and “capital expenditure” for human capital and agriculture (the amount for the Tourism sector was excluded here) is, in total, around USD 210 million (120M for education + 70.8M for health + 19.9M for agriculture), once again, in contrast with spending on physical capital.

TABLE: HUMAN CAPITAL AND AGRICULTURE SPENDING (Million USD and %)			
	USD) GSB 2019 (1.482 Billion USD)	GSB 2020 Oct (1.950 Billion USD)	GSB 2020 Dec (1.668 Billion USD)
Education: Min. Education + Min. Higher Education + HCDF + IF_Education	82,4 + 7,1 + 20 + 0,67 = <b>110,17</b> (7,4%)	<b>164,7</b> (8,4%)	96,075 + 7,210 + 13 + 3,8 = <b>120,085</b> (7,2%)
Health: Min Health + NHGV + IF_Health	46,2 + 10,5 + 1,1 = <b>57,8</b> (3,9%)	<b>73,6</b> (3,8%)	58,4 + 12,07 + 0,7 = <b>70,77</b> (4,2%)
Agriculture: MAF + IF_Agriculture	14,7 + 1,6 = <b>16,3</b> (1,1%)	<b>29,4</b> (1,5%)	17,299 + 2,6 = <b>19,899</b> (1,2%)
<b>TOTAL (Edu+Health+Agr)</b>	<b>184,3 (12,4%)</b>	<b>267,7 (13,7%)</b>	<b>210,8 (12,6%)</b>

Source: Draft Law on GSB

If the purpose, as proposed in this Economic Recovery Plan, is to improve Timor-Leste's human capital in the medium- to long-term, it will have to be strongly strengthened through the resources allocated to it in the General State Budgets – from, at least, 2021 onwards.

### 2.3.3.1 EDUCATION

One concrete proposal to **improve the educational situation** is to **increase the annual budget for the education sector by, at least, 2 percentage points per year, until it doubles its actual level.**

But because the issue is not only quantitative, allocating more budgets does not in itself solve the sector's problems. The stakes must be twofold: extending the education coverage, at all levels up to secondary school (inclusively); and improving its quality.

This implies, for start, investment in infrastructure (the class size – example: 88.4 students/class – in secondary school makes it impossible to improve the quality of education) and materials (such as schoolbooks and other support materials). In the short- to medium-term – already in 2021 GSB – we believe that it is possible, for the improvement of education, **to increase both current expenditure** (with, for example, improved students' access to study materials and increased quality training for teachers) and **investment expenditure** (improvement of school infrastructure: better equipped schools). The latter type of expenditure makes it possible to absorb a significant number of local workers, by expanding the labour market into labour-intensive activities, as required by the characteristics of the cyclical national economy situation and labour market. These works should be strongly monitored by the central authorities, in terms of their planning and implementation, to ensure their quality.

The effort to extend the coverage and quality of education are, however, ongoing tasks, and the results of which will only be visible in longer period – this cannot, and must not, prevent work to begin right now, to achieve those results!

In this regard, and particularly considering the **quality** of education increasing and **the secondary and pre-school education expansion**, a good option might be to **extend the CAFE network** to double the number of its students by the end of this legislature. Extending this network also has the advantage of directly supporting the training of the Timorese teachers involved – this aspect is an important CAFE added-value as it puts those teachers in touch with better scientific and pedagogical practices.

The teachers' training – including scientific and pedagogical levels – plays a key role in the development of the education sector: only with trained teachers is it possible to improve the quality of the teaching provided. And this will be reflected on improvement of the country's human resources qualification and, thus, the real development.

But **increasing the quality of teaching is also essential to increase investment (national and international)** on national productive sectors – in order to cope with the attractiveness of other countries in the region with a higher educational level than Timor-Leste. With the existing levels and with no other factors of competitiveness with other countries, **Timor-Leste's ability to attract foreign investment is very limited – as the recent history of investment in the country shows**, despite having legislation that is especially attractive to investment.

Essential for the improvement of human capital and enhancing qualified employment is the expansion of vocational education/training. At this stage, perhaps more than significantly increasing the number of graduates, it is essential to improve their quality by improving existing schools/training centres. It is likely that this will only be possible, as at the beginning

of the vocational training centres in Tibar (Portuguese cooperation) and Becora (Brazilian SENAI), with the help of some development partners, due to the usual high cost of the equipment to be installed in the schools and lack of technically prepared staff to train the students.

A specific message regarding higher education in Timor-Leste. The State should be more demanding with regard to the quality of this education in the country, both at UNTL and at private universities. Unfortunately, many courses provided are not of adequate quality, particularly in private universities, giving impression, that they are “concealing” what would be a large group of unemployed or underemployed young people. Moreover, one also gets the impression that many of those who graduated from these universities end up not finding a job in the labour market or finding it in completely different areas of their degrees.

In short, we believe that the country needs a better university / higher education and not necessarily greater, as it has been the policy until now, wasting many resources that are scarce – by the State and by the families, who pay for a course that ends up being of little use to their children.

Given the limited resources and the importance of investing in quality improvement of higher education, we consider that, instead of continuing to give public grants free of charge to the Private Higher Education Institutions – where students pay tuition fees which, in some cases, are of high value – it would be preferable to give grants which are conditional and make the Institutions responsible. Therefore, it is proposed to create a Loan Fund, with an initial capital granted by the Government, to be managed by commercial banks (one or more), to support those private Institutions, so that they can invest in the improvement of their physical infrastructure and the training of their human resources. This “credit line” should offer concessional market conditions, starting with subsidised interest rates, and the access to this credit should require conditions and/or projects assessed in advance.

There is still a waste of resources when the State offers scholarships for nationals to study abroad and after their return does not take advantage of them. How many graduates end up, once they return to the country, seeing the doors of the labour market closed – including from the State that has paid them for their studies!... – and having to emigrate in order to perform tasks far below their skill sets.

The State must set an example on improving its workforce qualification. There are several cases of graduates abroad, who do not found jobs among us and end up emigrating, wasting the resources spent on their training without any benefit to the country. According to UNDP data, in 2018 only 28.2% of the Timorese workforce was qualified. It is therefore time to invest more in education as one of the possible ways to increase productivity levels in Timor-Leste and, as a medium-/long-term consequence, to reduce poverty. Young people up to the age of 25 make up a considerable share of our population, so education will be the main driver of Timor-Leste’s development in the coming years.

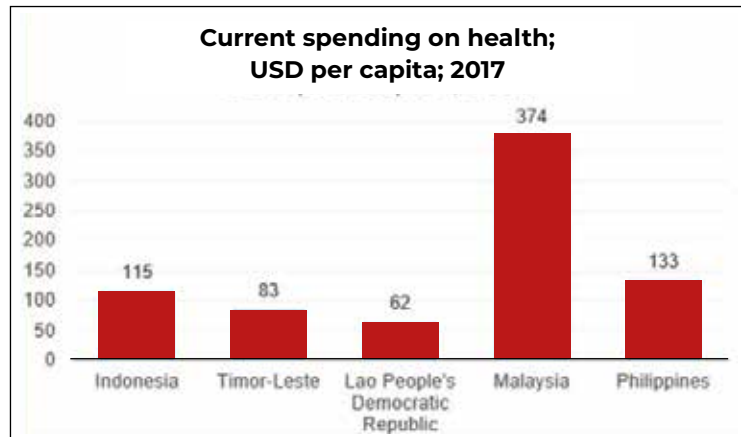
A final remark on a matter that is essential: to create conditions for a coherent and organized policy of improvement and distribution of the infrastructure, physical, technical and human resources of educational establishments throughout the country. To this end, and as a concrete proposal, we suggest that the 13 **Educational Charters** (one per municipality and for the Administrative Region of Oe-Cusse Ambeno), drawn up in 2014/2015, jointly by the Timor-Leste’s Ministry of Education and the Portuguese Catholic University, under the coordination of a recognised specialist in educational policy, to be recovered. These Educational Charters – which will now have to be updated – containing a diagnosis of the country’s educational situation, represent an important planning tool, with concrete proposals for strategies for the reordering of the educational network. This work can be used as a basis for the definition of concrete policies, in each Municipality, aimed at extending compulsory education to all, alleviating accessibility problems in some regions, and providing schools and teachers with decent working conditions, in favour of an inclusive and quality education.

### 2.3.3.2 HEALTH

Timor-Leste has been making a great effort in health sector. However, compared to other countries in the region, it falls short, according to the indicator of current spending on health in 2017 per capita. Therefore, there seems to be room/necessity for an increase in this expenditure.

In upcoming years, the focus on health will have to be on the National Health System (NHS), its human resources, hospitals and equipment, health centres and the preparation of a system capable of dealing with new emergency situations.

What follows are just a few notes on some aspects that we believe are important to review within this sector (the list does not assume a greater or lesser relative importance of the items mentioned):



- The COVID-19 pandemic demonstrated to most countries how unprepared they were in the health sector. In Timor-Leste, it was possible to control the negative effects of the pandemic on the population, but it was perceived that if the impact had been greater, the country was not at all prepared to respond, notably life support equipment. An immediate measure to take is to equip national hospitals, namely Guido Valadares National Hospital and a few other referral hospitals, with appropriate equipment (e.g. “artificial lungs”) and trained professionals capable of using the equipment.
- There are many complaints about the **cleanliness** of the facilities and about the **humanity** with which patients are treated. Both can be greatly improved by adopting “good practices” and proper training. Development partners, including non-governmental organizations and religious orders, can play an important role in training staff in any of these areas; both in training schools and in hospitals and health clinics, but staff supervising these activities must be properly prepared to ensure their effective implementation by health professionals. The presence of technicians from development partners in Timor-Leste, – namely Cuba – should be taken advantage to the maximum.
- The National Health Service (*NHS*) is public and free of charge – an essential pillar of the Social State and a fundamental basis for human development, enshrined as a right in the Constitution of the Republic. But we know that it can be difficult for the State to reach all citizens directly, with quality services. For this reason, the possibility of some hospitals/health services or parts of them being handed over to private management (including the third sector – namely the Catholic Church and religious orders linked to it), under State subsidy, until a set of routines is well established in the current practice of health personnel – the development of public-private partnerships in this area can be a strategy to explore. The service, for the citizen, should continue to be free of charge, but its quality should be improved. Eventually, consideration could be given to introducing a contribution from NHS users to some services (“moderate fees”) – always exempting the poorest and most vulnerable.
- A challenge experienced in the day-to-day operation of health facilities is lack of capacity to maintain and repair increasingly sophisticated equipment. A solution must be found to avoid, as happened some time ago at *HNGV*, that most equipment (in the case of haemodialysis treatment) would be inoperable for several months, implying patients’ journey overseas (Bali) despite the fact that the repair is simple.



- This refers to the apparent inability to make full use of the Clinic’s resources built near the Pante Makassar Reference Hospital. This clinic must be equipped with necessary material and human resources to fully perform the task for which it was set up, it being understood that this would require a management contract with the company that built it or another.
- One type of disease that is common in Timor-Leste is lung disease, namely tuberculosis. It is believed that the treatment of these patients requires the establishment of at least one specialized hospital centre dedicated to this disease (the former Dr. Carvalho hospital on the outskirts of Dili, or another in an area suitable for the treatment of these patients in Laclubar).
- Health authorities should build efforts to limit the population’s recourse to “traditional” medicine. Resource, by the patients and their families “to tradition” has cost many lives and this cannot continue. The use of “traditional” “practices” will tend to be reduced if it increases the capacity of the national health system to properly treat the patients who reach for it.

### 2.3.3.3 SOCIAL PROTECTION

*“Social protection plays a key role in promoting sustainable development, in bringing about social justice and in realizing the human right to social security for all. In this regard, social protection policies are essential elements of national development strategies in order to reduce poverty and vulnerability throughout the life cycle, and to support inclusive and sustainable growth, increasing household income, promoting productivity and human development, propelling domestic or demand, facilitating the structural transformation of the economy and promoting decent work.”*

Source: ILO, World Report on Social Protection – 2017 - 2019

Social Protection plays a very important role in human development, but also in economic development, not only because of the direct support it gives to citizens, but also because of the multiplier effects it produced – especially to money transfer and active job creation programs – as the quote above refers.

The recent crisis caused by COVID-19 has shown us all the importance of having strong social protection systems, which allow people to be more protected and more resilient in such situations – worldwide, the social protection systems (and social security) were the ones that gave more immediate, coherent and targeted responses. And, of course, the countries, and within these, the people who had the least capacity to respond to the crisis, were those who, before it, were already worse off in terms of social protection. At the end of the 90s, the Asian crisis had also revealed the same.

In Timor-Leste, and as in other areas of human capital, significant progress has been made since 2002 in the Social Protection system – including social assistance, social security and social services. However, and as mentioned in chapter 2, the system does not yet cover a significant part of the population – with particularly low coverage for children and the working age population working in the informal sector. On the other hand, the system is also not yet comprehensive in terms of covered contingencies and the socio-economic risks it protects throughout life – in particular, even under the contributory regime, there is still no protection against in the disease or unemployment.

Even so, during this pandemic, the first answers to support people, families and companies were found already in the national social protection system.





Over the years, social protection measures and programs, especially in terms of “social assistance”, have been developed and implemented separately, trying to meet the needs, but without a strategic planning and coordination that allow the expansion of coverage (vertical and horizontal) in a permanent and sustainable way.

Therefore, the first measures proposed is the **National Social Protection Strategy (NSPS) approval and start of implementation** – elaborated with technical support from the ILO, in a participatory manner, involving various Ministries and State bodies, Social Partners, Civil Society and Development Partners. NSPS represent an important instrument for programming interventions in a strategic, progressive and sustainable manner, according to the country’s technical capacity and financial availability. NSPS already includes a set of concrete measures, around the objectives of poverty reduction, increasing social security coverage and improving the institutional level of social protection systems.

Without prejudice to those “finer” measures, we will the liberty of presenting the following proposals, to develop in the medium term, some of them, starting as early as 2021:

- Operationalize the **disability verification service**, which will enable people to start protecting, within the framework of social security, people with permanent or temporary disability (as in the case of disease) for work.
- Improve the system and instrument for operationalizing cash transfer payments, avoiding payment in cash – in addition of security issues, this will help to reduce the costs of implementing these types of measures, and help to **“bank” the economy**. It should be noted that only about 30% of the Timorese population has a bank account.
- Approved the constitution and management model of the **Social Security Reserve Fund (SSRF)**, beginning the capitalization of the reserves already accumulated in the contributory social security regime, to ensure its future sustainability, that is, that there will always be enough money to pay pensions in the future. As fundamental principles, it must be ensured that: the SSRF is managed independently, by a suitable institution, and with permanent access to the capital market; that the investment is carried out taking into account balanced criteria of security, liquidity and profitability; that there is a complete and clear separation between SSRF funds and State Funds – SSRF funds are “under surveillance” of social security, but belong to social security contributors, regime beneficiaries, and therefore it is not legal for the State to treat them as its own, using them to finance itself.
- In the scope of **social assistance**, create conditions for the **Bolsa da Mãe program** to increase its coverage – recognizing that this program may have a significant impact on poverty reduction among children, who are currently a particularly vulnerable group to poverty.
- Under the **non-contributory** social security regime, create **protection in death**.
- Under the social security contributory regime, create **protection against illness and unemployment** – sickness benefit and unemployment benefit properly controlled, to prevent abuses.

Regarding unemployment protection, we believe that it is only meaningful if related to active employment policies: that is, the objective is to protect the loss of income of those who were working, lost their jobs, but are available return to work / look for work. Therefore, we believe that is important, before implementing benefits, to improve the unemployment registration system and places (“job centres”) and to implement active employment measures (including professional internships) and training – under penalty of risking that the “unemployment benefit” becoming an unconditional “minimum income”, which takes beneficiaries to the informal market.

- Develop awareness and information campaigns, in a massive way, so that **informal workers and family farmers can participate in the social security regime** - even

if this may imply, at an initial stage, some State co-participation in the contribution rate. This measure will help to formalize the economy, while ensuring dignified social protection for groups of people / workers who, by the nature of their activity, are more vulnerable and are more unprotected.

- Invest in the development of **active employment programs**, supported directly or indirectly by the State, namely intensive rural employment programs. Concrete examples could be programs for the construction of public goods - fountains, markets, rural roads of no less quality than the “*Roads 4 Development*” program, etc. – but also other types of local entrepreneurship programs. These programs, being intensive in labour, without requiring high qualifications, allow to generate jobs, ensure income and, at the same time, contribute to improving local public infrastructures, especially in rural areas. In this context, given the good practices and experiences of other countries, it is suggested, for example, a study mission to India, a country with practical experience in similar programs.

### 2.3.4 INSTITUTIONAL REFORM

Our desire is not only for the national economy to grow, but also that this growth to be reflected in greater human development: an economy that creates decent jobs and opportunities for all; a just and supportive society, with less poverty and less inequality, and with qualified human resources; an economy where everyone has access to essential goods and services (nutrition, health, education, housing) and benefit from adequate social protection throughout the entire life cycle.

For this reason, more than “recovering” the economy in the post-COVID-19, it is important to solve the existing structural problems, helping the necessary economic and social transformation, in order to achieve the goals that Timor-Leste proposes. And this task can and should start now.

The measures proposed in this Plan have exactly this objective, are quite comprehensive and “touch” in various areas and sectors. But it is important that **these measures to be really implementable**, otherwise the “Plan” will be only a good intention letter. For this reason, it is important that everyone contributes to this common goal, in a combined strategy: State, Private Sector / Companies, Banks, Civil society institutions and the citizens themselves. We believe, however, that the State plays a primary and irreplaceable role — either by creating the necessary regulatory framework, by supporting and monitoring private initiative, or even by intervening directly in key areas, to ensure that no one is left out in the development process. Thus, we aimed at a State, as has been said, essentially better, and not necessarily bigger.

This means that the proposed measures are only possible for the economic and social sectors, if accompanied by interventions in terms of “capacity building” and **Institutional reforms**.

The following are some suggestions for improving the functions of the State apparatus in order to increase the benefits for citizens. This list is far from exhaustive and is only indicative.

- **Legislation necessary for private investment:** in particular, as already mentioned, it is urgent to pass the “Land Law” and other legislation essential to the life of companies - including bankruptcy / insolvency regime.
- **Role of the Courts:** it is considered essential that the Courts analyse and decide not only on criminal law cases but also on civil law cases. Not doing so, turns out to be a “decision” in favour of the “strongest” and against the “weakest” ones, and in prejudice, for example, of companies that do not invest in our country.

- **Budgetary Framework:** elaboration and approval of a new budgetary framework law, which improves, corrects/revises and completes the current Budget and Financial Management Law and integrates the framework and management (budgetary and financial) rules of the entire State General Budget, that is, the entire Public Administrative Sector — including, apart from the Central State Administration, also the Social Security Sector, the Special Administrative Region of Oé-Cusse Ambeno and the future Local Government bodies. This new law should, among other aspects, include the clarification of concepts, the budgetary perimeter and the revenue cycles and expenditure; program budgeting; multiannual planning; the rules for the postponement of the budget law, when necessary; as well as the improvement of the entire process, from planning, budget, budgetary and financial execution, data production, accountability and inspection.
- **Accounting Plan:** for the public and private sectors, it is fundamental to develop and approve a “Accounting Plan” (which, for the State, will have its own characteristics), which allows financial and accounting control and the consequent transparency in accountability. This is very important not only for the companies themselves (and for their own internal knowledge) but also for the State, in the perspective of supporting private initiative.
- **Public Administration Reform:** aiming to make the State apparatus more efficient and more productive, four measures are proposed:
  - To create a performance evaluation system for State employees, which privileges merit and therefore, be encouraging. The performance evaluation system must be adjusted to the professional categories of Civil Servants and must be aligned with the tasks performed (TOR) and annual goals, which must be previously determined. It is also recommended to modernize this process through the use of an adequate computer system, to avoid manual work and the transport of paper forms to Dili.
  - To improve the system of short-term training (intensive courses), to be implemented during working hours, aimed at specific areas of the activity being developed. The definition of the Annual Training Plan must be in accordance with the position and category occupied by each Public Official, as well as in accordance with their career progression. Training courses that have nothing to do with each employee’s job description should be avoided. For all of this to work, there must be a competences matrix across all public employees, and another matrix specific to each ministry, highlighting the technical knowledge required.
  - without prejudice of the role played by the Civil Service Commission, to reinforce, technically and in skills, the human resources teams/services of the various organisms, in order to make some procedures in the Public Administration more agile and less bureaucratic. It is recommended that these teams have technical training in the area of Human Resource Management, namely recruitment and selection, training management, performance evaluation, career management and administrative management of human resources, so that they can make a greater contribution and respond quickly to the CSC.
  - to restructure the Public Administration workforce, making the retirement process mandatory for Public Officials over the age of 60.
- **Civil registration:** create the necessary conditions for all citizens in Timor-Leste to be registered in a single and mandatory civil document (such as the “identity card”), with lifetime numbering – it should be remembered that, although the identity card was created for everyone in 2004, this civil identity card is still far from universal. This document is essential to reduce/avoid fraud and make it easier to provide benefits and social support, in addition to being an important instrument for revitalizing

citizenship. The main purpose of this document is to allow the creation of a single database, associated with one and only one citizen, concentrating the maximum amount of information regarding his citizenship.

One can even think about creating a single card that gathers civil, tax, social security and health information (even if it has several “numbers” associated).

- **Statistics Service:** The General Directorate of Statistics (DGE) of the Ministry of Finance has been doing an important work — sometimes with the support and collaboration of other institutions and international organizations. However, it is crucial that the production and public availability of official statistical information is regular and independent of direct political power. However, it is of utmost importance that studies and technical analyses on the statistics produced are also developed in various areas (on the Census, National Accounts, Poverty, Labour Market, etc). We believe that this is only possible with an autonomous body (Indirect State Administration). The proposal, therefore, is to change the current DGE into a Public Institute (possibly under the tutelage of the Prime Minister himself or the Vice Prime Minister and Minister of Planning and Territory).

Still in the area of statistics, it is fundamental that, without prejudice to the rules of confidentiality, anonymity and data protection, microdata necessary for the production of indicators or specialized studies - for example, in the area of poverty, to be shared within the Government and related to the matter.

- **Social Dialogue:** in view of the direct relationship between the area of social security (in particular the contributory social security regime) and the area of work, and the importance of the participation of Social Partners in the discussion and dialogue in those matters, it is important to strengthen the relationship between these two areas of public intervention. Thus, it is proposed that Social Security become part of the Social Dialogue body operating in our country (currently named “National Labour Council”, as provided for in the Labour Law).
- **Labour Inspection:** It is well known that an area in which there are numerous violations of legality in our country - which prides itself on being a rule of law - is that of observing the rules applicable to the labour market. The General Labour Inspectorate and the SEFOPE services charged with monitoring more closely the relations between employers and employees seem to have insufficient staff to develop their activity in a timely manner - namely for the protection of workers - and therefore they should not only see strengthened their staff, but also be encouraged to act preventively and not just in reaction to complaints of cases of proven illegality because, often, workers avoid reporting these situations, for fear of becoming unemployed and in a worse situation than the one they live in.
- **Labour market:** To improve statistical information on the labour market and, in particular, on unemployment, it is suggested that the enrolment/registration system for jobseekers to be improved, making this registration mandatory, for public support purposes, whether training, internships, scholarships, employment support programs, or future unemployment benefits. This measure should start to be worked on, so that in a period of 2 years, unemployment benefit can be created.

On the other hand, the registration of employers (namely companies) can and must have relation with business, tax and social security records, i.e., a **specific mechanism** must be created to allow that, when an entity makes its commercial registration (with the SERVE), information is immediately sent to the Ministry of Finance and Social Security – the ideal would be a “**computer communication**” through a database interface, but, if this is not possible by now, an alternative mechanism, even if manual, should be created so that information circulates and helps to further formalize the economy. The absence of this computer communication, which links various types

of information inherent to business activity, result in processes such as “tax evasion”, incorrect/incomplete turnover statement, non-enrolment of employees in Social Security and, consequently, in the reduction of revenue for the State and for Social Security, in addition to the lack of protection for workers.

- **Fiscal Reform:** it is not possible to implement public policies that generate expenditure – starting with the “Social State” that emanates from the Constitution of the Republic -, without adequate revenues. As mentioned above, one of the biggest structural problems in the national economy is its strong dependence on oil revenues, also to finance current State expenditures. The existing tax system is limited and not much redistributive, so it is proposed that it be thoroughly revised, taking into account, among other aspects: the creation of progressive levels of income tax, increasing the rate on higher income; fair treatment of taxation on social benefits (in particular, social and minimum pensions); the provision of tax exemptions in specific cases, and for a specific time, to directly encourage the economy; the increase in customs duties on certain goods whose import is intended to be replaced. However, it is also important to strengthen collection and control measures in relation to compliance with tax payments.
- **Interministerial Coordination:** there should be coordination between the various Ministries that constitute the Government in order to avoid duplication of tasks / responsibilities, as well as to adequately direct existing resources, based on the scope of each Ministry.
- **Decentralization and deconcentration:** administrative decentralization (Local Government bodies and services, similar to Municipal / City Hall) has been assumed as an objective in Timor-Leste in recent years, without however having had significant practical results.

Administrative deconcentration and decentralisation are of particular importance in direct relation with the general public matters, since they allow the State to be closer to the population, to know better their challenges, characteristics and aspirations, in order to adjust responses. However, the Local Administration must be prepared, technically, administratively and financially, to assume this role: it must have minimally qualified human resources, a transparent accounting system, and ways of creating local revenues.

The Village (Suco) Chiefs have been providing an important support service to the Government, through a most direct relationship with citizens, notably regarding social matters.

Besides the Village (Suco) Chiefs, for the time being, this process of “approaching the citizen” has been developed through the establishment of some deconcentrated services from Central Administration bodies – like Centres/Ministries’ delegations established in Municipalities, but also the Municipal Administrations itself which, for the time being, operate only as deconcentrated services of the Central Administration, and not as an autonomous “Local Government” of Municipal Administrations.

We believe that the decentralization process – which should never replace the deconcentration of some services, in essential matters which should always remain in the scope of the Central Administration – should be carried out neatly, timely and gradually. Thus, we prefer and advise to start by creating “groupings” of Municipalities (“Regions”), attributing them (and not necessarily for the individual municipalities in order to gain economies of scale) some roles and responsibilities; but this process will always have to be conducted altogether with the Central Administration institutions, specifically in very sensitive areas which have more of “national” than of “local”, such as the control and actions on cultural heritage.

This decentralisation, particularly on the form we suggested, of creating “municipal groupings”, may be an important instrument for the placement of highly qualified technicians – namely those trained abroad.

It is recognised that, especially in more isolated regions, an immediate additional effort is needed to bring the services to people. We are talking here about essential services such as civil registry, medical assistance and basic medication, payment of social benefits, food support. One concrete proposal is to create “**citizen’s mobile vans**”, setting together different public services, and seeing communities regularly. This project could be initiated as a “pilot project” to analyse the potential and constraints of the measure.

Timor-Leste has made an effort in the use of digital technologies within productive processes and Civil Service, but much more needs to be done. Several delays in the documents processing of many companies, the slowness of services provided by the Civil Service and lack of access to internet services, both in the capital and inland, became evident through the COVID-19 crisis. On the other hand, the proper facilities enhancement could also be improved, thus giving better working conditions to staff and users.

For this reason, **the installation of fibre optic connecting the country to the world**, in a fastest and affordable way, is a structuring project for Timor-Leste’s future. It is a very important driving force for enhancing the territorial cohesion and integrating the inland into the national (and eventually global) economy, promoting digital platforms allowing for the flow of products, goods and services online, as well as for the universality of digitalised education. As the inland and remote areas of the country are connected to the fastest and affordable internet services, for instance, it will ignite young farmers’ motivation to settle in the inland and take part in a renewal of agriculture and productive systems, thus minimizing the congestion (at several levels) in the capital Dili; the penetration of fibre optics throughout the country is important to ensure this and other purposes.

Last but not least, we should start thinking about **renewable, sustainable and alternative energies** for the country, taking advantage of the natural resources that Timor-Leste has – sun, sea and wind. Such changes could mean a decrease in electricity consumption as we know it today and, as a result of a reduction in fuel costs, besides being an environmentally friendly source of energy.



Sector/Areas	Proposed Measures
<p><b>Agriculture</b>  (and small agri-food industry)</p>	<ul style="list-style-type: none"> <li>• Set a renewal policy of Timor-Leste's coffee plantation, with subsidies for growers who replace old plants with newer and more productive ones;</li> </ul> <ul style="list-style-type: none"> <li>• Develop forestry exploration, namely sandalwood and teak, supported by the law approved in 2017;</li> </ul> <ul style="list-style-type: none"> <li>• Encourage planting of trees for firewood to avoid indiscriminate logging; improving the quality of rural extension; introduction of livestock education;</li> </ul> <ul style="list-style-type: none"> <li>• Implementing, in the long term, a (partial) import substitution policy, particularly rice: <ul style="list-style-type: none"> <li>○ increase control of imports (increasing rates);</li> <li>○ encourage national production, through seeds supply and market/support to the production flow guarantee (a program of State purchase and production' distribution);</li> <li>○ Intensify the use of power tillers (but not tractors) in rice cultivation;</li> <li>○ Create “ productive seed banks” and make them available to farmers.</li> </ul> </li> </ul> <ul style="list-style-type: none"> <li>• Support the private sector in increasing meat production, with animal confinement and health control: <ul style="list-style-type: none"> <li>○ Organize massive animal vaccination campaigns;</li> <li>○ Provide cattle raising farmers with seeds of forage plants;</li> <li>○ Build water points for livestock in the villages, using public labour-intensive rural employment programs.</li> </ul> </li> </ul> <ul style="list-style-type: none"> <li>• Promote and support agricultural associations, namely through direct support to institutions that promote microcredit in rural communities;</li> </ul> <ul style="list-style-type: none"> <li>• Promote, along with Universities or other Institutions, training courses (at a higher level, of long duration; but also, technical-intensive of short duration) in specific areas such as tropical agriculture and livestock;</li> </ul> <ul style="list-style-type: none"> <li>• Strengthen support for projects such as “Quinta Portugal” or others of a similar nature, to increase technical assistance to producers of coffee and other agricultural products.</li> </ul>



Sector/Areas	Proposed Measures
<p><b>Tourism</b></p>	<ul style="list-style-type: none"> <li>• Create a state-owned company to boost the sector;</li> <li>• Improve vocational education/training in this area by upgrading a tourism school to a high, international level;</li> <li>• Promote the recovery of former administrators' residences and "military buildings" to preserve our heritage and support tourism, potentially with support from Development Partners and UNESCO;</li> <li>• Rehabilitate rural roads that appeal to tourist interest, using labour-intensive public employment programs;</li> <li>• Control (extinction) of crocodiles on the north coast to make beaches safe;</li> <li>• Build/create (Metinaro?) a theme park dedicated to the dissemination and preservation of Timorese culture and crafts;</li> <li>• Promote Ecotourism, combining accommodation with coffee or rice plantations, for example;</li> <li>• With the sector National Strategy approved as a background, define a concrete plan to develop tourism, in stages. Due to its characteristics, start now with the "eastern end", municipalities of Baucau, Viqueque, and Lautém, as the initial priority area for the development of tourism (which will be followed by other areas); within 5-6 years, rehabilitate the Baucau airport to receive charter flights;</li> <li>• Build the already planned National Library-Museum in Dili;</li> <li>• Develop advertising and marketing campaigns about Timor-Leste, to be disseminated abroad, highlighting the natural wealth of the country's seas and mountains.</li> </ul>
<p><b>Housing</b></p>	<ul style="list-style-type: none"> <li>• Build neighbourhoods with proper infrastructure in some cities (example: Dili, Baucau, Pante Macassar) for the implementation of low-income housing for social housing, with delivery to residents after 25 years of rent payment - the promotion, ownership, and management of this program should be of Social Security or a new institution to be created (National Housing Institute?), linked to Social Security;</li> <li>• Ensure basic sanitation, water supply at home and electrification, throughout the country, in stages;</li> <li>• Construction of a modern waste and wastewater treatment plant (Dili)</li> <li>• Construction of public fountains.</li> </ul>

Sector/Areas	Proposed Measures
<p><b>Education</b></p>	<ul style="list-style-type: none"> <li>• Increase the percentage of spending on education in the context of annual GSB until, at least, the end of the legislature, setting as a goal for 5 years the doubling of the weight of these expenses in the GSB;</li> <li>• Extend the number of CAFE — Centres for Learning and School Training up to, in a first phase (5-6 years), to 2-3 per municipality;</li> <li>• Extend the network of secondary education, pre-school and vocational training centres;</li> <li>• Promote maintenance / restoration works of school buildings (more and better schools with a reduction in the number of students per teacher), in cases involving small recoveries, they can be carried out within the framework of public labour-intensive employment programs;</li> <li>• Establish an agreement with Portugal and Brazil to enable support for the new CAFE to be created; use founding from development partners for the CAFE creation and the restoration works of school and vocational training buildings;</li> <li>• Improve teacher training programs for the various levels of education;</li> <li>• Produce and distribute school schoolbooks to students and teachers;</li> <li>• Recover the 13 Educational Planning Charters already drawn up, update them and use them as an important educational planning and strategy tool;</li> <li>• Introduce improvements in school meals (in the menu and in the implementation process);</li> <li>• Create a credit line, on concessional terms, for financial support to Accredited Private Higher Education Institutions, replacing current public subsidies;</li> <li>• Define retention programs for young graduates, in order to avoid “flight” abroad looking for job opportunities.</li> </ul>
<p><b>Health</b></p>	<ul style="list-style-type: none"> <li>• Increase current expenditure on health, in order to significantly improve the health services provided to patients, equipment, materials and training of human resources quality;</li> <li>• Strengthen financial and technical support for Family Health, School Health and Occupational Health Programs;</li> <li>• Carrying out conservation works for hospitals and health centres, in cases involving small recoveries, they can be carried out within the framework of intensive labour-intensive public employment programs;</li> <li>• Strengthen public investment in expanding hospital infrastructure and health care centres across the country, based on an appropriate plan;</li> </ul>

Sector/Areas	Proposed Measures
<p><b>Health</b> (cont.)</p>	<ul style="list-style-type: none"> <li>• Reinforce public investment in training and accreditation of human resources in the health area;</li> <li>• Develop agreements with private entities (including the third sector) for the concession of the management (potentially partial) of hospitals, clinics and health centres, with State subsidy, increase health services offer and quality, without creating barriers to access;</li> <li>• Promote the constant improvement of health personnel training (agreements with WHO and development partners), both at a scientific and technical level (for example for handling equipment) and at a pedagogical level;</li> <li>• Develop campaigns - directly or by supporting social solidarity institutions in this task - on the ground, on good hygiene practices (such as hand washing), use of medicines, and the use of health services, avoiding the use of traditional practices that are not scientifically proven.</li> </ul>
<p><b>Social Protection</b></p>	<ul style="list-style-type: none"> <li>• Approve the already prepared National Social Protection Strategy, and design annual implementation plans, which must be taken into account in the preparation of the annual State Plans and Budgets;</li> <li>• Create alternative mechanisms / instruments for social benefits payment, avoiding payment in cash and the associated risks, helping to “bank” the economy, and reducing the costs of implementing social benefit measures;</li> <li>• Operationalize the Disability Verification Service;</li> <li>• Approve the constitution and management model of the Social Security Reserve Fund;</li> <li>• Increase the coverage of the “Grants for the Mother” Program;</li> <li>• Create protection in case of death, in the non-contributory regime;</li> <li>• Create protection against illness and unemployment, in the contributory regime;</li> <li>• Implement active employment programs - public rural employment program, in labour-intensive areas, such as construction industry (rural roads, fountains, markets, small works to recover public facilities) or tourism;</li> <li>• Develop massive information campaigns for rural workers and the informal sector, in order to encourage their adherence to the social security regime — to support this adhesion, through the State's co-participation in the contributory rate;</li> <li>• Study the possibility of, in the longer term, creating a new social protection measure, aiming at guaranteeing a minimum income for all citizens with income shortages.</li> </ul>

Sector/Areas	Proposed Measures
<b>Institutional Aspects</b>	<ul style="list-style-type: none"> <li>• Approve and publish the “Land Law” and all other related legislation;</li> <li>• Prepare and approve the necessary regulatory framework for the operation of companies (such as bankruptcy, mergers, access to credit, etc.);</li> <li>• Improve the functioning of the Courts, giving them the ability to decide on civil cases, not just criminal ones;</li> <li>• Prepare and approve a new GSB Framework Law, including the entire Public Administrative Sector;</li> <li>• Prepare and approve a Chart of Accounts, for the private and public sectors;</li> <li>• Proceed with a reform in the Public Administration: create a fair system for evaluating the performance of employees; promote short training courses aimed at specific areas; strengthen the capacity and skills of the human resources services of the various public bodies, in order to make some procedures less bureaucratic; restructure the workforce, making the retirement process mandatory from the age of 60; Implement the effective issuance of the “identity card” (with unique and lifetime identity number) universally;</li> <li>• Change the current General Directorate of Statistics into a Public Institute, with autonomy - possibly under the Prime Minister or the Deputy Prime Minister and Minister for Planning and Planning political responsibility;</li> <li>• Reformulate the composition of the National Labour Council, so that Social Security integrates it, in order to promote an effective social dialogue, coordinated, in the areas of employment and social security;</li> <li>• A mandatory registration system for unemployed / jobseekers;</li> <li>• Improve Labour Inspection services, especially by providing them with more resources;</li> <li>• Create a timely communication mechanism between business registration services (SERVE), tax services (Ministry of Finance) and Social Security — making business registration more efficient, faster and less bureaucratic;</li> <li>• Tax reform: create redistributive, fair and that foresee for tax exemptions / benefits in certain situations tax codes (economic policy to encourage the private sector);</li> <li>• Establishment of a partnership with the banking sector, aiming to create financing conditions for companies and small businesses: negotiation of loan conditions (volume, interest rate, grace period). Banks must potentially be compensated by granting appropriate tax benefits;</li> </ul>

Sector/Areas	Proposed Measures
<b>Institutional Aspects</b> (cont.)	<ul style="list-style-type: none"> <li>• Interministerial Coordination: there should be coordination between the various Ministries that comprise the 8th Government, in order to avoid duplication of tasks / responsibilities, as well as to properly direct existing resources, based on the scope of each Ministry;</li> <li>• Effectively initiate the process of administrative decentralization, in a first phase - and in view of the necessary scale gains - through the creation of regions (4 or 5), endowed with autonomy;</li> <li>• Create a pilot project — 2 or 3 Municipalities— “mobile citizenship vans”, to bring some essential public services (civil registration and data update, medical assistance / general and medication consultation, payment of social benefits, delivery of goods and food support ) to the most isolated populations, in order to break down access barriers.</li> </ul>
<b>Optical Fiber Installation</b>	<ul style="list-style-type: none"> <li>• Accelerate the entire process of installing optical fiber through the submarine cable that will connect Timor-Leste with the rest of the world.</li> </ul>
<b>Renewable, Sustainable and Alternative Energies</b>	<ul style="list-style-type: none"> <li>• Use of the natural resources that Timor-Leste has available - sun, sea and wind - as a way to reduce fuel costs, in addition to being an environmentally friendly energy source.</li> </ul>



# CHAPTER III: FUNDING

This chapter focuses a little on the issue of funding the activity of the Timorese State in general and, particularly, the funding of the Economic Recovery Plan (ERP) for the 2021-2023 period. It should be noted that the logic of the PRE is to be a plan for a longer period (until at least 2030) than the rest period of the current legislature.

The potential sources of funding for Timor-Leste General State Budgets (excluding the Social Security Budget):

- Domestic revenues (taxes and duties);
- Transfers from the Petroleum Fund;
- Public debt (loans);
- Transfers from donors;
- Independent Bodie' s revenues.

## A - DOMESTIC REVENUES

Domestic revenues (taxes and duties) have been around USD 220-230 million/year. This figure is not stable and depends, inter alia, on:

- the economic outlook; and
- the level of tax rates – which depend on what is called “tax reform”.

In the coming years (2021 to 2023) the situation of the Timorese economy will be such that a sharp drop in tax revenues can be expected, due to the low economic outlook. What is the real impact of the economic outlook on tax revenues? It is not easy to predict, but a “conservative” hypothesis is that they will hardly exceed, on average, about USD 180 million/year by the end of the legislature.

As for taxes and their rates, the current economic situation does not suggest major changes. Any change (tax reform) should occur only in the 2024 GSB or even 2025, taking into account the foreseeable timing of its approval in the National Parliament (possibly during the parliamentary session of 2024, namely in the 2025 GSB).

In the meantime, and taking advantage of part of the work developed by the former Tax Reform Commission, the necessary studies should be made for the approval of Tax Reform.

The reform must follow some principles, one of which is set out right now: income tax must be levied in at least three levels, the first being tax-exempt and the other two providing for progressive rates.

One of the important points of the Tax Reform, that was not enacted, was the introduction of Value-Added Tax (VAT). The work on the reform to be implemented should also provide for the introduction of VAT and should be identified – and approved – as of now, all (or the main) measures technically necessary for its introduction, namely in the corporate accounting and its structures.

It will also be important to set an estimated target for the tax burden as a result of the Tax Reform. One hypothesis is the setting of a double target from the current one, but to be achieved progressively. For example, increase by 2 percentage points each year to reach about 15% of GDP.

The need to increase the share of domestic revenues to fund GSB should take into account the need to reduce the use of oil revenues as a percentage of total revenues, but not necessarily in absolute value.

## B - TRANSFERS FROM THE PETROLEUM FUND

Transfers from the Petroleum Fund to the Treasury account consist of two “parcels”: the Estimated Sustainable Income and the surplus to it.

The first parcel has been around USD 500-550 million. The second parcel has had a variable value over the years. The annual average over the period 2017-2019 was 565 million. Total transfers have been, on average (2017-2019), around 1.100 billion.

The size of the transfers is high, but must be compared with the capital of the Fund and with the accumulated revenues within each year – which depend on the income it receives as remuneration for the bonds (treasury and shares) it holds.

<b>TOTAL LIQUID STOCKS</b>	<b>17 600 576</b>
CAPITAL	
Opening balance in previous months	17 028 934
Capital Movement during the month	-126 192
Net result for this month	697 834
<b>TOTAL LIQUID CAPITAL</b>	<b>17 600 576</b>

Source: BCTL Petroleum Fund Monthly Bulletin, May 2020

In a “normal” economic situation, we would tend to say that these transfers are too high and that they must be reduced.

Given the current economic situation and the need to sustain it, and to focus, simultaneously, on the transformation of the national economy, we recognise that the value of transfers can hardly be reduced – at least until the end of the current crisis (2023?) – and may even have to be increased (to around 1200-1300 million/year?). The limit, both political and economic, will have to be decided by the government. In particular, it could be the one that pushes the value of the Petroleum Fund’s capital to around USD 12-15 billion (a figure that guarantees the necessary revenues in the future).

It should be taken into account that the revenues from *Greater Sunrise* should not enter Timor-Leste’s treasuries before a period that, being difficult to predict, because it depends on several national (government policy for the sector, apparently going through changes) and international (international oil and gas market) factors, is unlikely to be less than about 6-7 years.

## C - PUBLIC DEBT (LOANS)

Timor-Leste’s current debt is relatively small and relates to concessional loans from development partners for road infrastructure construction. In 2018, the value of the loans was about USD 60 million.





In our view, there is still there is plenty of room for increase the volume of these concessional loans. They are important, both financially and technically, because they are usually accompanied by technical supervision of the works carried out, which is very important in the context of Timor-Leste.

The country can also resort to commercial loans (to be avoided) and the issuance of public debt (Timorese Treasury Bonds) to be placed publicly, using the banking system as an intermediary – and as a privileged investor, given the existing enormous liquidity, that forces the banks to place an important part of its excess resources in foreign banks, usually its headquarters.

The increase in public debt has been avoided because it has been preferred to leaning on funding from the Petroleum Fund. The choice between this option or the public debt depends on how much is “paid” by one or the other. If the interest payable on public debt is lower than the loss of income from the use of PF money, use public debt is preferable. In practice, and given that the income from PF has been around 4.3% per year since the beginning of PF (see the BCTL report on PF of April/20), one should consider using public debt, if it has an interest rate of around 2-3%, which is very likely, considering the current interest rate in international markets.

## United States Interest Rate

<b>Last Release</b>	<b>Actual</b>	<b>Forecast</b>
<b>Jun 2020</b>	<b>0.25 %</b>	<b>0.25 %</b>
<b>Previous</b>	<b>Frequency</b>	<b>Units In</b>
<b>0.25 %</b>	<b>Daily</b>	<b>%</b>

<https://www.fxempire.com/macro/united-states/interest-rate>

International Equities	6 716 732	38,18%	10,60%	-12,70	-13,33	-4,91	4,80	4,98	8,18
Benchmark			10,92%	-11,89	-12,43	-4,00	4,99	4,92	7,81
Excess			-0,32	-0,81	-0,90	-0,91	-0,19	0,06	0,37
<b>PERFORMANCE SUMMARY</b>									
			Return (%)						
	Market Value	Weight	Monthly	QTR	FYTD	1 Year	3 Years	5 Years	Since Inception
Total Portfolio	17 600 578	100%	4,11	-1,32	-078	4,88	5,05	4,18	4,29
Benchmark			4,21	-1,60	-0,98	4,81	4,89	4,03	4,23
Excess			-0,10	0,28	0,20	0,07	0,15	0,13	0,08
International Fixed Interest	10 202 397	57,97%	0,51	3,07	4,48	8,18	3,85	2,73	2,93
Benchmark			0,60	3,31	4,72	8,18	3,97	2,77	2,94
Excess			-0,09	-0,24	-0,24	-0,48	-0,12	-0,04	-0,02
BCTL Cash Management (TLCM)	977 674	5,55%	0,00	0,17	0,30	1,70	n.a.	n.a.	1,57

## D - TRANSFER FROM DONORS

In the period 2017-2019, development partners spent an average of USD 170 million per year in Timor-Leste.

We believe that the pressure of the international crisis will be reflected in these figures – even because Timor-Leste will enter into “competition” with other countries possibly under worse conditions – and we would not be surprised if donors were to cut donations to the country to about 150 million.

Last year, the Government made an attempt to convince donors to pass on their donations through the GSB. We do not believe that such a policy will be unsuccessful – in fact, we doubt that it is in our country’s interest to insist on such a policy, even because some countries, such as the United States, have informed that they were legally prevented from doing so.

But the country can (and should) increase cooperation with donors, in order to reduce the share of donations that ends up being paid to non-nationals, and stays, through different mechanisms, in the country of origin through, for example, “tied aid” schemes.

## E - AUTONOMOUS BODIES REVENUES

The value of these revenues is relatively small in the context of the State Budget and it is not relevant to mention them here. However, such funding may be (it is, in some cases) relevant at the level of each individual public body.

### SUMMARY

From the above mentioned, it is deducted that in the coming years (2021-2023), the GSB could reach, on average, the following values:

Domestic Revenues:	180 million
Transfers from the PF:	1.200 billion
Public Debt:	120 million (60 from concessional debts)
Transfers from donors:	200 million
<b>TOTAL:</b>	<b>USD 1.700 billion over each of the next 3 years (2021-2023)</b>

There are, of course, **two sine qua non conditions**:

- 1) the projects to be funded are of quality, effectively producing positive effects on the national economy and society (particularly on national supply and demand and the improvement of its physical and human capital); and
- 2) the “escape” of resources to corruption schemes is minimal. The effective implementation of the recently approved, by the National Parliament, legislation on corruption, and the approval and implementation of new legislation on state procurement.

### CONCLUSION

The average value above is just that: an average value, that may have a differentiated annual distribution, considering that the initial year (2021) will be one of implementation but also of preparation of more complex projects. Therefore, we consider as normal a distribution of annual funds of the type 1,700 + 1,600 + 1,600 million USD for the years 2021 to 2023.

These figures appear to be important, but are what we consider to be the **minimum requirement necessary** to give the national economy the essential boost for revival.

At this stage, it will have to be the State, and its expenses – current, but principally social and of investment – to assume the main responsibility of it, since the private sector, traditionally fragile, currently suffers from an increased fragility that makes it impossible for the sector to lead the economic recovery process. Such State leadership should be seen as necessary beyond the end of the present legislature, but should prepare the private sector to increase its relative importance.

It should be noted that this “requirement” of giving a decisive role to the public sector, at this stage, is the norm in most countries affected by the present crisis.

Three final messages:

- As we have said, the budgetary figures mentioned are the **minimum requirement to have a real impact on the economy and society and to revive it**. It follows that, with the limit of the State budget execution capacity, let us not put aside the need for the annual State Budget figures to approach, namely those of the last two years of the legislature, the approximately USD 2.000 billion actually executed, in which case the above-mentioned funding figures will have to be reviewed – namely that of the Petroleum Fund transfer;
- These figures assume **budget execution rates very close to 95-100%**, well above of what has been usual (about 90% in many years of the recent past).

The **significant value of the Petroleum Fund’s appeal should be considered as normal in the current situation even if it implies some fall in value of its capital**. After all, this is what the Fund is there for: to finance budgets in “normal” years but also to serve as a value reserve for times of crisis like the present one.



# CHAPTER IV

## MONITORING AND IMPACT ANALYSIS

At the moment, given the data available and the limited time available to present the Economic Recovery Plan (ERP), we consider that it is not possible to build quality indicators to monitor the proposed measures, nor to study their impact.

On the other hand, it would make more sense for those indicators to be designed after the ERP is approved in the Council of Ministers, in order to be able to schedule and monitor its implementation.

But this is a fundamental task.

For that matter, we propose the approval of a technical team – eventually under the coordination of the Coordinating Minister of Economic Affairs (MCAE) – while working in partnership with UPMA/Prime Minister's Office and relevant public entities (including the economic and social areas), be responsible for the design of indicators to monitor and evaluate the implementation of the ERP. The micro-data should then be handed over to the General Directorate of Statistics (if approved, the new public Institute) for impact analysis/studies, at macro but also micro level, namely taking into account the main purposes: increase economic growth in productive areas; encourage investment; create decent and productive jobs; increase food security and improve nutrition; increase incomes and improve their distribution; improve all indicators in social sectors – education, health, housing, social protection.

There are always a number of factors and limitations in the process of implementing the proposed measures which, if not overcome, may jeopardize the quality of the Economic Recovery Plan. Two factors that may jeopardize the implementation of the Economic Recovery Plan have to do with the need for a rapid and effective response on the part of the Government and State bodies and good coordination between them.

We suggest some **principles** that could guide the implementation of the proposed measures, among others:

- **Simplicity:** The need to define simple processes, to involve fewer parties and to avoid wasting scarce resources in many areas.
- **Focused leadership and coordination:** There's need to entrust the coordination to a State body, with the general coordinator role, whose responsibility is to closely monitor *who does what, when and where*.
- **Responsibilities and outcomes:** The need to clearly define responsibilities and expectations, allocate adequate resources to them and achieve concrete and measurable results.
- **Adequate training:** The need for each team, responsible for the measure, to be trained and well informed.

# COORDINATION

*The Commission for the Preparation of the Economic Recovery Plan* got valuable contributions from individuals with excellence academic reputation and recognition, as well as the technical and administrative support provided by the Planning, Monitoring and Evaluation Unit (UPMA) of the Prime Minister's Office of the 8<sup>th</sup> Constitutional Government. Numerous consultations were held during the months of June and July this year. The list below is in alphabetical order.

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