

The background of the entire page is a photograph of the flag of Timor-Leste, which features a black triangle with a white star, a yellow triangle, and a red triangle. The flag is waving in the wind against a sunset sky. In the foreground, there are silhouettes of people standing on a beach, looking out at the ocean where a pier is visible in the distance.

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E-PAPER

Timor-Leste's Economic Diversification: Challenges and the Way Forward

By Guteriano Neves, Marta da Silva, Elizaria Febe Gomes, and Joao da Cruz Cardoso

November 2023

Timor-Leste is the youngest nation in Southeast Asia and the poorest country in the region. It has overcome tremendous challenges since independence but struggles with serious economic development problems. The focus of this paper series is economic diversification, which is one of the dominant policy issues in Timor-Leste, more than 20 years after independence from Indonesia. Given the multiple and delicate challenges that the country is facing, it is viewed as an alternative path toward sustainable and inclusive economic development, reducing dependence on petroleum and seeking new economic opportunities.

Authors: Guteriano Neves, Marta da Silva, Eliziaria Febe Gomes, and Joao da Cruz Cardoso

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Foreword

Timor-Leste is the youngest nation in Southeast Asia and the poorest country in the region. It has overcome tremendous challenges since independence but struggles with serious economic development problems.

The focus of this paper series is economic diversification, which is one of the dominant policy issues in Timor-Leste, more than 20 years after independence from Indonesia. Given the multiple and delicate challenges that the country is facing, it is viewed as an alternative path toward sustainable and inclusive economic development, reducing dependence on petroleum and seeking new economic opportunities. This paper series is the product of a collaboration of experts from Timor-Leste and is supported by Heinrich Böll Stiftung Southeast Asia Regional Office.

The first article tackles the context of economic diversification. It argues that existing political and economic settings sustained by petroleum revenues hinder the efforts toward economic diversification, since it creates a comfort zone for policymakers not to move away from dependency on fossil fuels.

The second article examines the potential of youth as a positive force for economic diversification. The majority of Timorese are below the age of thirty, and this group should not be overlooked but seen as a demographic with great potential. This article sheds light on the positive contributions made by youth, such as in the business sector. The authors outline policy choices that are needed in order to unlock the potential of young people. This includes investment in quality of schools and training, a friendly environment for business and entrepreneurship, infrastructure and, and more participation in decision-making processes.

The third article tackles one of the most important yet highly contested issue in Timor's development process: infrastructure. It has been the most important sector that defines Timor's front-loading fiscal policy. The article provides up-to-date data on public investment on infrastructure and financing mechanisms. The author argues that despite the high budget allocation towards infrastructure, it alone does not provide solutions for economic diversification. This needs government intervention in other sectors, such as human capital, good governance, and more investment in productive sectors.

The last part of the series advocates addressing institutional constraints to economic diversification. It argues that addressing institutional constraints is critical for economic diversification, and economic development in general. This includes a conducive environment for the private sector, improving efficiency of public finance, and a different way of doing politics.

We thank the authors Guteriano Neves, Eliziaria Febe Gomes, Marta da Silva, and Joao da Cruz Cardoso and hope this paper series contributes to fruitful discussions and provides valuable insights for future research and initiatives.

Guteriano Neves, Development Policy Analyst

Lea Goelnitz and Fransiskus Tarmedj,

Heinrich Böll Stiftung Southeast Asia Regional Office

Addressing Institutional Constraints toward Economic Diversification in Timor-Leste

Guteriano Neves

Economic diversification requires a change in policy approach and direction, and changing policy requires changes in institutional settings. This means changing the social and political context that sustains and reinforces existing policies – a delicate challenge that requires political leadership at the very top level.

Institutions matter for economic development

Institutional reform is imperative for economic diversification, boosting economic productivity in the non-oil sector, and restructuring the economy. These are expected to reduce Timor-Leste's dependence on petroleum. 'Institution' is defined as the [rules of the game](#) in a society that is devised by humans, that shapes human interaction. Some [examples of institutions](#) are contract enforcement, protection of property rights, rule of law, and efficient and effective bureaucracy. It [also involves](#) "habits and belief, norms, social cleavages, and traditions in education." The imperative role of institutions is widely recognized by economists like Douglass North and Daron Acemoglu, with Acemoglu and James Robinson convincingly arguing that institutions play determinant roles to define why certain countries are more prosperous over others. In terms of economic development, [institutions are central](#) since they define the economic incentives in society.

The challenges faced by oil-dependent countries are the fact that oil not only changes economic structures, but also the institutional foundation itself. [Many academics argue](#) that natural resources undermine the quality of institutions whereby elite groups try to capture economic rents from the exploitation of natural resources. This shapes the characteristics of political elites, the private sector, and the society in general.

In the context of Timor-Leste, the impact of petroleum goes beyond the state's finance structure and economic structure. It easily attracts attention from society in general – and the political elites. It shapes the vision of the society, the incentives in the market, and the functioning of democratic institutions. These institutions in itself are not merely

constraining economic diversification, but also maintaining the existing status quo and deepening the dependency on petroleum.

For these reasons, addressing institutional constraints is critical for economic diversification, and economic development in general. Changing economic structures to diversify the economy requires changing the policy direction, and that requires changing the institutional setting where the policy is taking place. This refers to [changing the rules](#) of the games that affects interactions between members of the society. In an economic sense, it refers to rules that governs laws, policies, and regulations that [defines the economic agents](#) in the society. In this respect, several policy directions are needed to change the institutional setting.

Building a conducive environment for the private sector

The role of the private sector is widely recognized, and it is an integral part of strategic development plans, economic diversification, and job creation. Over the years, the Timor-Leste government's approach has been on infrastructure. This is also the underlying argument for front-loading fiscal policy. Despite that, statistical data confirm that the private sector in Timor-Leste continues to be small, particularly the registered business sector. According to the National Account report, private sector investment has been stagnant. By 2022, the [total private sector investment](#) in the non-oil sector is only USD \$16 million, representing only 5% of total investment. Low private sector investment in the economy of Timor-Leste has also been contributing to high dependence on the public sector, low economic productivity, and lack of job opportunities.

Public discussion, and several reports identify several institutional issues that hinder private sector development. Business licenses continue to be one of the issues that is widely discussed. According to the [World Bank's report](#), the proliferation of business licenses incurs high regulatory costs for the private sector. Lack of access to land and uncertainty over land ownership are also other [constraints to attracting private sector investment](#), particularly foreign direct investment. Limited access to land also affects access to credit, as lack of collateral is the [main constraint for firms](#) to access loans from the private sector. Bureaucratic hurdles are also consistently mentioned as one of the impediments toward the private sector, where sometimes bribes are offered to public officials in order to get things done. Additionally, weak law enforcement is also frequently mentioned as one of the constraints toward private sector investment.

For these reasons, it is important that the government of Timor-Leste revise its strategy regarding the private sector. While rural roads, water and sanitation, fiber optic, irrigation, and airports are still important, the government needs to balance these with addressing the institutional impediments mentioned.

Improving the efficiency of public finance

Another important aspect to diversifying the economy is by addressing inefficiency and ineffectiveness of public spending. Since its independence in 2002, due to absence of monetary policy, fiscal policy is the only policy instrument available for Timor-Leste's government. More specifically, public spending has been the most important part of fiscal policy. Nonetheless, high public spending does not seem to be an effective instrument to generate economic growth, to drive economic structural change, nor to address other social and economic problems such as employment, malnutrition, and poverty.

Conversely, high public spending is widely criticized for lacking fiscal discipline, undermining fiscal sustainability over the long run. Without massive adjustment to its current spending level, and with uncertainty over the GreatParliaer Sunrise liquefied natural gas (LNG) development, Timor-Leste is heading toward a fiscal cliff and current account deficit. Specific to economic diversification, existing fiscal policy approaches have been increasingly ineffective tools to diversify the economy, as it displaces the incentives in

society, by incentivizing short-term consumption and promoting laziness in finding other solutions.



Photo: Government Members Discussed the proposal for the 2024 State's Budget.

There have been calls coming from the public for the government to improve the efficiency and effectiveness of public spending. One way of improving efficiency is by reducing the government's spending – particularly unnecessary spending. Some examples of these are overseas travel for public officials, salaries for public employees, and costs for maintaining public administration, among others. At the same time, there is demand to increase the budget allocation for critical sectors such as health, education, water and sanitation, rural infrastructure, agriculture, and tourism. This will reduce the government's withdrawal from the Petroleum Fund, which will improve budget sustainability and the credibility of government spending as a policy instrument.

Another approach is to impose certain fiscal discipline through fiscal rules. This is very critical for Timor-Leste, to limit the temptation posed by easy money, by [limiting numerical limits](#) on budget aggregates. On a broader scale, [budget rules can help](#) to correct distorted incentives and contain pressure on high spending. Although the provision of the Petroleum Fund on Estimated Sustainable Income (ESI) should have served this purpose, it has not been relevant since the government ignored this provision in the budget discussion.

A different way of doing politics

Changing institutions is not merely a technical exercise, but requires political buy-in from high-level political elites and political leadership. This is not only the tasks of government or the executive body, but requires collaboration with different state sovereign bodies such as the President of the Republic, Parliament, as well civil society in general.

Political certainty is critical for economic development in general, and particularly economic diversification. Timorese society in general have learned from its experiences that political uncertainty since 2017 incurred an extremely high cost for the country. As a [Business Enterprise survey](#) revealed, political uncertainty is seen as the biggest constraints for the business sector. Beyond that, political uncertainty coupled with COVID-19 have killed momentum for economic diversification.

The positive side however, is that the 2022 presidential elections, the 2023 parliamentary election, and the peaceful transition of power already set positive momentum for the country to return to normalcy. With the return of two figureheads in Timor's politics into key positions – Jose Ramos Horta as the President of the Republic and Xanana Gusmao as the Prime Minister – there is a feeling of returning to normalcy. The dynamic in Parliament has also changed. For example, when the government submitted its five-year programs for the Parliament to be approved, the opposition parties also voted in confidence for the government's program.

There is some trust for the current government and the future of Timor-Leste. One indication of that trust is the visits of high-level dignitaries to the country, namely Australia's Prime Minister and Foreign Minister respectively, the Prime Minister of Portugal, and Singapore's Foreign Minister, among others. In the meantime, the response from the private sector has also been positive so far.



Photo: Ministry for Foreign Affairs of Singapore, Dr. Vivian Balakrishnan met with President of Timor-Leste, Jose Ramos Horta during his recent visit to Timor-Leste. He is one among many dignitaries that visited Dili during this year.

Thirdly, long-term political certainty and economic diversification requires some level of mutual understanding among major political forces in the country on the sectorial priorities, and that should reflect on the budget allocation. Although all political parties agree on the importance of economic diversification and all the political parties sell these to the voters during the campaign, such political rhetoric has not been supported in terms of budget allocation when they govern. The same applies to critical issues such as fiscal sustainability, efficiency in public spending, job creation, poverty, improving the quality of education, and more. These issues cannot be addressed within one government's mandate, but it is a national cause that requires a long-term approach.

The challenge that Timor-Leste is facing, like other democratic countries, is that the government changes according to the electoral cycles. As a result, the new government comes up with new priorities and new approaches, and even reverses the trend. This makes it difficult to address complex challenges that require a long-term approach. The political leadership can reduce this through building constructive dialogues and communication among political parties and having some mutual understanding on major issues. This would provide certainty over the long run on the policy direction and improve the effectiveness of the policy instruments to address some of the major development issues facing the country. The roles of Parliamentary members are very critical in this process.

Finally, part of the changing political setting is by recognizing the contextual changes, either domestically or globally. At the domestic level, Timor-Leste's demographic structure is changing, and this brings development challenges. With the growing number of youth, many young people have been able to overcome the odds and establish themselves and become a role model in society. They are taking the benefits of technology, including social media, to [play positive roles in society](#), such as being social influencers, social media motivators, social entrepreneurs, trainers and educators, writers, and advocates.

Ongoing innovation challenges for Timor-Leste

At the international level, the COVID-19 pandemic, ongoing war in Europe, and climate change already imposed various dimensions of vulnerability and incurred high cost for Timor-Leste. This sequence of events should remind Timorese society in general about the challenges in governing society in the current context. On the one side, having a windfall from petroleum is important but it alone cannot be sufficient to address delicate and multifaceted societal problems. It requires the government to be adaptive to a rapidly changing environment and being innovative to address these challenges.

Economic diversification is an urgent policy issue in Timor-Leste. Although it has been part of policy discussions over the past decade, existing institutional settings do not support economic diversification to take place. Henceforth, changing the institutional setting is a critical issue to diversify Timor-Leste's economy, and drive economic structural change. This will require leadership at the political level.

* * *

Infrastructure and Economic Diversification in Timor-Leste

Joao da Cruz Cardoso

Timor-Leste's Infrastructure Fund was created to assist in the process of diversifying the economy, with strong investments so far in transport and power. But to facilitate further economic activities, shifts in government spending and investment into the productive sectors such as agriculture and tourism will lay the path to greater diversification.

Over the last decade, development in Timor-Leste has been guided by the [Strategic Development Plan \(SDP\) 2011–2030](#), which aims to make Timor-Leste an upper middle-income country by 2030. SDP covers three key areas: social capital, infrastructure development, and economic development as the pillars to drive the country forward. To achieve development envisioned in the SDP, Timor-Leste has thus far relied on the money generated from its oil resources, particularly through the investment of the Petroleum Fund. The government's [Budget Book 1 report](#) shows that a total revenue of USD \$508.5 million was generated in 2020, of which 80% came from the oil revenues. This means that Timor-Leste generates little domestic revenues from the non-oil sectors, revealing its underdeveloped productive sectors and weak private actors, among others.

Based on the data derived from the government's [Transparency Portal](#), Timor-Leste has spent around USD \$12.4 billion in the state budget from 2011 to 2020, spending that is made possible by oil money. Considering the USD \$1.2 billion average annual state budget expenditure over the ten-year period (2011–2020), which is more than the returns of the Petroleum Fund investment and non-oil domestic revenues combined, Timor-Leste faces challenges of over-reliance on the oil money, excess withdrawal of the Petroleum Fund that threatens its sustainability, and the risk of economic shock post-oil due to underdeveloped key non-oil sectors.

Table 1: State Annual Budget Allocation and Execution, 2011–2020

Year	State Budget (USD \$ million)	
	Allocation	Execution
2011	1.306.017,54	1.097.160,4
2012	1.806.449,83	1.197.610,1
2013	1.647.519,20	1.080.233,3
2014	1.500.000,25	1.339.249,7
2015	1.570.001,76	1.340.197,5
2016	1.952.558,67	1.629.934,8
2017	1.386.825,74	1.183.705,3
2018	1.277.371,99	1.158.159,1
2019	1.481.990,80	1.233.297,2
2020	1.497.042,62	1.135.573,8
Total	15.425.778,39	12.395.121,1

The expenditure trend displayed in Table 1 reflects the size and absorptive capacity of Timor-Leste's economy. This trend, however, puts Timor-Leste at a unique situation given that the economic activities are driven by the government's expenditure. It is understood that an economy driven by oil money is not sustainable, and therefore the government emphasizes the priority to [boost the productive sectors](#), particularly agriculture and tourism, to diversify the economy. To achieve a diversified economy, the government recognizes the need to invest in the key infrastructure to provide conditions for economic diversification activities to take place. This paper explores infrastructure investment in Timor-Leste and how it corresponds to the priority to diversify the economy through investment in the productive sectors.

Infrastructure investment in Timor-Leste: rationale and financing mechanism

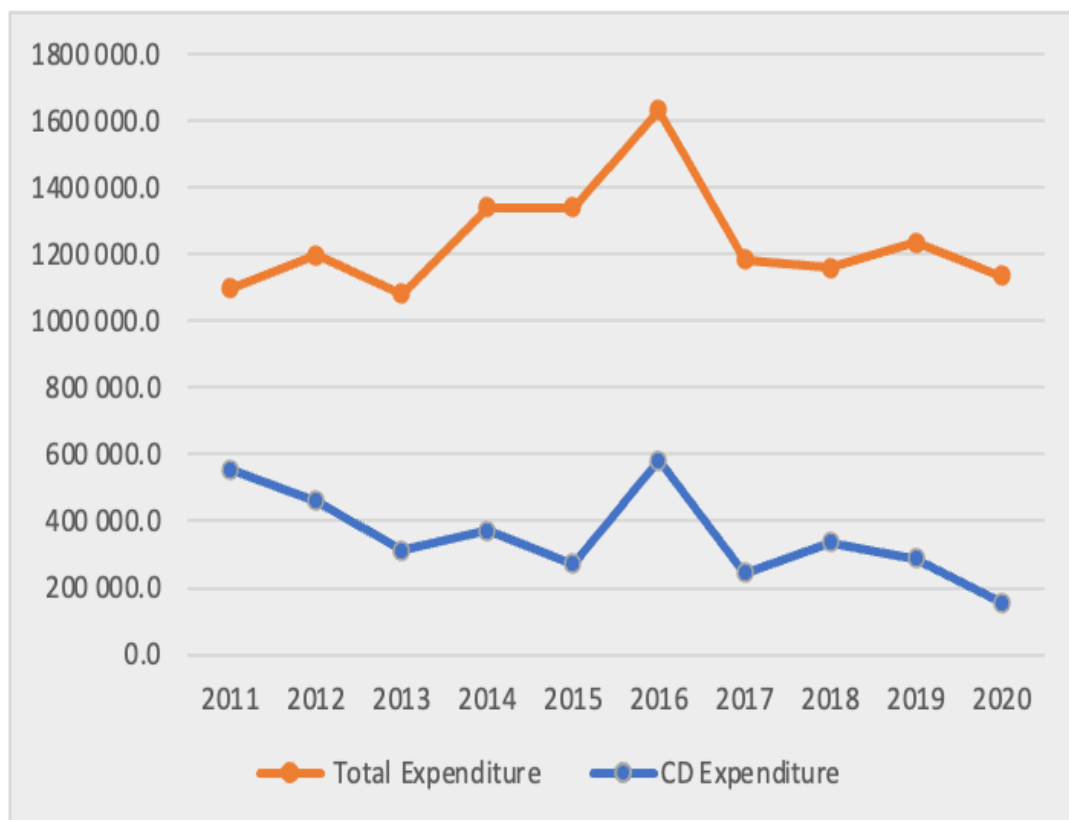
In recent years, government policy has been one of [front-loading expenditure](#), running high government budgets in the short run to finance capital spending for key infrastructure, which aim to encourage development of the private sector, increase diversification, and grow the

overall economy. The spending for infrastructure falls under the capital development category of the state budget, and the data shows significant spending given that out of USD \$12.4 billion total government expenditure from 2011–2020, USD \$3.6 billion or 29% has been attributed for capital development (see Table 2).

Table 2: Total Budget vs Capital Development Budget Expenditure, 2011–2020

Year	Annual State Budget (USD \$ million)	
	Total Expenditure	Capital Development Expenditure
2011	1.097.160,4	554.975,87
2012	1.197.610,1	461.770,35
2013	1.080.233,3	311.592,40
2014	1.339.249,7	371.359,37
2015	1.340.197,5	272.773,14
2016	1.629.934,8	581.384,59
2017	1.183.705,3	245.745,72
2018	1.158.159,1	336.097,95
2019	1.233.297,2	286.835,78
2020	1.135.573,8	154.894,72
	12.395.121,1	3.577.429,9

Figure 1: Trend of Total Expenditure & Capital Development Expenditure, 2011–2020



The expenditure trend shows a parallel pattern (see Figure 1) between total government spending with the spending on capital development, indicating the significance of the capital development expenditure on the government's budget execution performance. This also means that the capital development expenditure plays an important role in stimulating economic activities in the country since infrastructure projects contribute to the creation of jobs and the flow of goods and services.

The government of Timor-Leste, guided by the SDP, established the [Infrastructure Fund](#) in 2011 as a special fund to finance large infrastructure projects. The establishment of this fund is in line with the government's policy to provide strategic infrastructure to support and accelerate economic activities. The fund confirms the government's intention to focus and intensify the investment in infrastructure, which is expected to become the catalyst for the process of diversifying the economy. With this fund, the government has a reliable financing tool to finance strategic infrastructure projects in the key sectors defined in the SDP.

Since its establishment, the Infrastructure Fund has become the main financing source for the mega projects, and it takes up the biggest share of the budget for capital development.

Out of the USD \$3.6 billion expenditure for capital development between 2011–2020, USD \$3.1 billion (88%) is accounted to the Infrastructure Fund (see Table 3).

Table 3: Share of the Infrastructure Fund Budget, 2011–2020

Year	Capital Development Budget (USD \$ million)		Infrastructure Fund Budget (USD \$ million)	
	Allocation	Execution	Allocation	Execution
2011	690.129,08	554.975,87	598.530,00	474.430,00
2012	998.042,95	461.770,35	875.130,00	376.090,00
2013	757.994,42	311.592,40	604.380,00	210.960,00
2014	456.367,61	371.359,37	368.550,00	310.700,00
2015	395.712,10	272.773,14	317.300,00	239.810,00
2016	833.068,00	581.384,59	784.470,00	549.640,00
2017	349.374,15	245.745,72	325.620,00	231.950,00
2018	393.953,44	336.097,95	368.010,00	331.230,00
2019	400.946,59	286.835,78	367.540,00	276.900,00
2020	210.781,31	154.894,72	184.930,00	138.740,00
	5.486.369,6	3.577.429,9	4.794.460,0	3.140.450,0

Many large projects constructed in recent years have been financed through the Infrastructure Fund, including the airport in Suai, the Tibar Bay Port (co-financing with the private investment), electricity projects (including power plants and grids), and construction of national roads along the north coast (co-financing with loans).

While Timor-Leste's government continues to allocate budgets for infrastructure projects, it also pursues other financing modalities including external borrowing (loans) and public-private partnerships (PPPs). Since 2012, the government has opted for loans financing to improve the quality of infrastructure projects by taking advantage of the know-how and technical capacity of international companies and technical assistance from lending agencies. Analysis conducted on [infrastructure development](#) reveals that Timor-Leste has borrowed up to USD \$400 million to finance infrastructure projects in 2017, but this has [since increased](#) to USD \$708 million by 2021. However, with the signing of a [USD \\$127 million loan](#) from the Asian Development Bank (ADB) and USD [\\$121 million from the World Bank](#) in 2022 for water infrastructure, the loan figure is now close to USD \$1 billion. Furthermore, Timor-Leste has completed its first PPP project, the Tibar Bay Port, where

the government contributed about [USD \\$129 million](#) for its construction and continues to pursue this modality in other sectors including [tourism](#) and [housing](#).

Infrastructure investment and economic diversification

In general, infrastructure contributes to the diversification of the economy in the following ways:

- a. Good infrastructure such as roads, bridges, ports, and telecommunications can lower the cost of doing business because it allows the transportation of goods and services in an easy and cheaper manner. This leads to lower prices for consumers and increased profits for businesses, which make it more attractive for businesses to invest in a country.
- b. Good infrastructure can attract foreign investment because foreign investors are more likely to invest in a country where they are able to operate efficiently. New investment can lead to the creation of new jobs and the development of new industries.
- c. Good infrastructure facilitates trade between countries. This leads to increased exports and imports activities and exposes a country to new markets and new products.
- d. Infrastructure creates jobs both directly and indirectly from the construction and maintenance of infrastructure projects. This can help reduce unemployment and poverty, contributing to a more stable environment for economic diversification.

Timor-Leste, so far, has made big infrastructure investment in the transportation sector (roads, airports and ports), and power sector. However, with the recent signing of USD \$248 million in loans from ADB and the World Bank, meaningful infrastructure investment has been extended to the water sector. By adopting the front-loading approach, the government of Timor-Leste spends early on to build key infrastructure to prepare conditions necessary to promote economic activities, which can contribute to the diversification of economy. At the same time, Timor-Leste also diversifies its financing scheme for the key infrastructure to ensure value for the investment. Information presented in Table 4 shows the major infrastructure investment in different sectors in Timor-Leste.

Table 4: List of Large Projects Awarded to International Companies as of 2017

Project	Company	Country	Cost (US\$ million)	Status	Notes
Power Plant and Power Grid	China Nuclear Industry Co. Ltd	China	360	Completed	Power Sector
Tibar-Liquica Road	San Jose SA	Spain	020		
Tibar-Gleno Road	PT pp (Persero) TBK	Indonesia	029		
Tasi Tolu-Tibar (4 lanes) Road	China Wu Yi Co. Ltd.	China	012	Ongoing	Projects Funded Through Loans
Manatuto-Laclubar Junction Road	RDI Interior Construction/Hebei Road & Bridge Group Co. Ltd		028		
Laclubar-Natarbora Road	China Nuclear Industry 22		034		
Dili-Manatuto Road	Sinohydro Corporation Ltd		048		
Manatuto-Baucau Road	Shanghai Construction Group Co. Ltd/PT. Brantas Abipriya (Persero)		059		
Baucau-Lautem Road	CBMI Construction Co. Ltd/Chingqing Road Engineering		029		
Maubara-Karimbala Atabac Mota ain Road			021		
Aileu-Ainaro Lot 3 Road	Chongqing International Construction Corporation (CICC)		029		
Aileu-Ainaro Lot 4 Road			028		
Aileu-Ainaro Lot 5 Road			027		
Dili Drainage	China Shandong International (CSI)		050		
Highway Road Section 1 (Suai-Zumalai)	China Overseas Engineering Group Co. Ltd (COVEC)		290		
Suai Supply Base (SSB)	Hyundai	South Korea	700	On Hold	Projects Under South Cost Development Program
Suai Airport	PT Waskita Karya (Persero) TBK	Indonesia	067	Completed	
Tibar Port	Bolore	France	130	Ongoing	Project Financed Through PPP Modality
Total Costs			1,961	Including SSB and Dili Drainage	
			1,211	Excluding SSB and Dili Drainage	

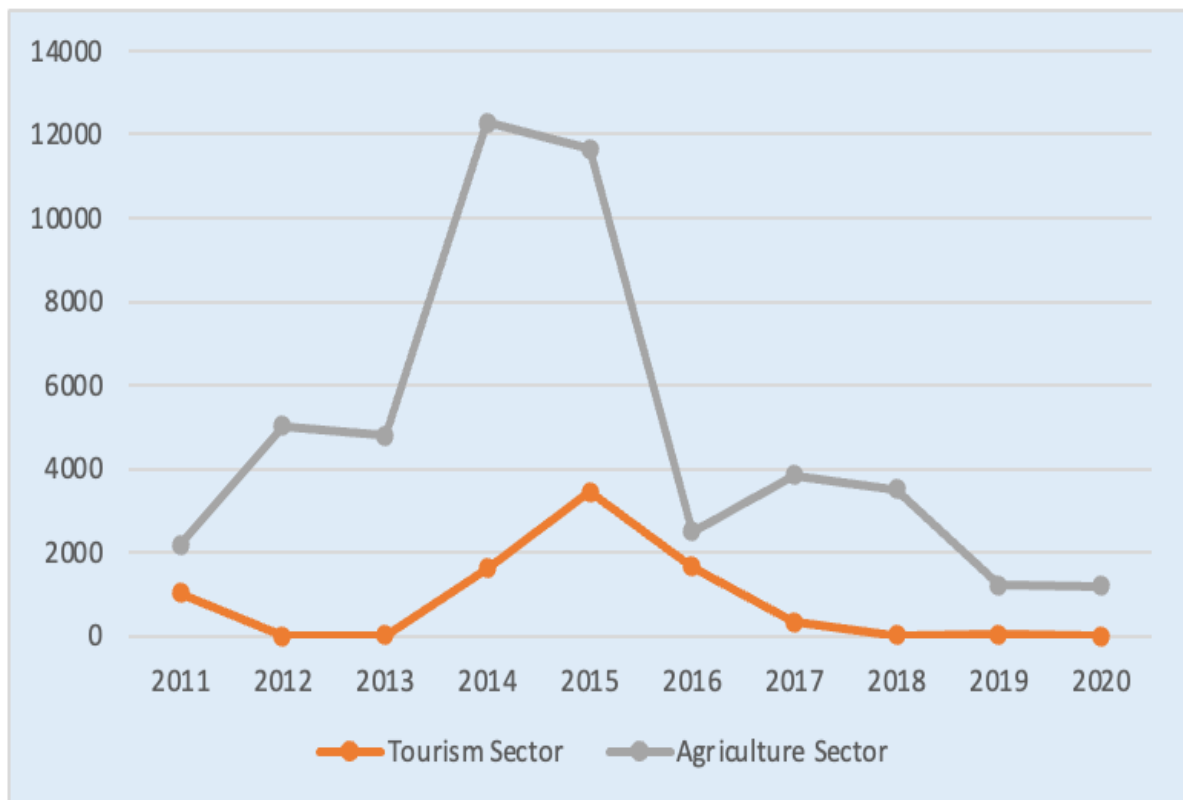
Source: da Cruz Cardoso, J (2019). Timor-Leste and China relations in the context of infrastructure development. In Leandro et. al., [Challenges, Development and Promise of Timor-Leste](#) (Table 2, p. 169).

Over the years, the government of Timor-Leste has discussed how the agriculture and tourism sectors are key for diversifying the economy and alternative options for moving away from the dependency on oil resources. However, out of the USD \$3.6 billion expenditure in capital development within the ten-year period (2011–2020), only USD \$8.2 million or 0.2% has been spent on the tourism sector and USD \$48.2 million or 1.3% has been invested in the agriculture sector (see Table 5).

Table 5: Expenditure Trend for the Tourism and Agriculture Sectors, 2011–2020

Year	Capital Development Expenditure (US\$ million)		
	Total	Tourism Sector	Agriculture Sector
2011	554.975,9	1.029,5	2.183,5
2012	461.770,3	-	5.027
2013	311.592,4	15,1	4.797,7
2014	371.359,4	1.631,2	12.274,1
2015	272.773,1	3.460,1	11.641,9
2016	581.384,6	1.659,2	2.496,3
2017	245.745,7	347,3	3.850,7
2018	336.098,0	14,1	3.510,6
2019	286.835,8	53,0	1.216,3
2020	154.894,7	-	1.198,8
Total	3.577.429,9	8.209,5	48.196,7

Figure 2: Trend of expenditure in the tourism & agriculture sectors, 2011–2020



This spending trend exposes the insignificant infrastructure investment in the tourism and agriculture sectors, which contradicts the discourse of the prioritization of the sectors by the government. Meanwhile, investment for these sectors peaked between 2014 and 2015, and has since experienced a declining pattern – showing lack of financing commitment to invest and promote the sectors.

Moving forward on the diversification path

In many countries, results have shown that better infrastructure has contributed to economic diversification and growth because it helps connect countries with new markets and new opportunities in terms of the development of industries in the non-oil sectors, particularly the agriculture, tourism, and manufacturing sectors. For example, in CAREC ([Central Asia Regional Economic Cooperation](#)) countries, better infrastructure has improved connectivity, promoted regional trade, facilitated foreign direct investment (FDI) and fosters innovation and productivity. In China, [massive development of infrastructure](#) in the nineties has sustained high economic growth and increased competitiveness.

However, these countries also experience that infrastructure development has to go hand in hand with human capital development, good governance, access to financing and a strong private sector. For instance, while better infrastructure has been ensured, many CAREC countries face bottlenecks in economic diversification due to weak governance, limited financing options, and lack of a private sector-led enabling environment. Meanwhile, besides development of the physical infrastructure, economic policies enabling human capital formation and selection of right financing mechanisms has actually played a crucial part for growth to take place in China.

In terms of infrastructure, Timor-Leste is still on the right path because infrastructure investment has been mainly directed to the transportation and power sectors, leading to improved accessibility to electricity and connectivity (reduced travel time) within the country. Improved infrastructure in these sectors can really facilitate economic activities. However, considering the economy is driven by government expenditure, the country must expand its investment and significantly increase the proportion of the state budget to invest in the productive sectors while there is still enough money available in the Petroleum Fund and time to do so. Having fully-developed productive sectors will expand the non-oil revenue base and create jobs, contributing to a more resilient economy in the future.

Developing deeper infrastructure for a strong investment

Timor-Leste also must learn from the experience of other countries in the sense that development of the physical infrastructure must be supported by the development of human capital, good governance and strong private sectors. Similarly, Timor-Leste needs to look at the current policy debate on import substitution industrialization and export-led industrialization as strategies for economic diversification. These strategies have different objectives, where the first seeks to promote domestic industries to replace foreign-made goods for domestic goods, while the latter intends to speed up the industrialization process by opening domestic markets for foreign competition. Understanding these policies is vital for Timor-Leste to make an investment decision based on its strength.

There is no magic formula or quick fix for diversifying the economy of a country. However, Timor-Leste can really take a big step forward if it can make infrastructure investment decisions based on their overall contribution to the improvement of people's well-being. While infrastructure investment in the productive sectors is important, there is also the need

to improve non-infrastructure conditions to fully improve the sectors and maximize its contribution to the economy. For now, the government must allow a bigger share of the investment in the productive sectors, and it must continue to invest in education because it is the knowledge that transforms a tiny country into a giant economy.

* * *

The Stagnant Policy Context of Economic Diversification in Timor-Leste

Guteriano Neves

Economic diversification has been the most important public policy issue in Timor-Leste over the past decade. It has been presented as the alternative path towards sustainable and inclusive economic development but results have not been encouraging. Timor-Leste continues to depend on petroleum, with key issues surrounding institutional settings that are sustained by its easy money. Petroleum provides an easy comfort zone for policymakers and therefore hinders any hard decisions and shifts away from the current status quo.

Economic diversification and potential in Timor-Leste

Economic diversification, according to [United Nations Climate Change \(UNCC\)](#) is “the process of shifting away from a single income source toward multiple source of income through growing range of sectors and markets.” It is a [key element to toward resilience](#) to external shock, equitable growth, job creation, poverty reduction. Empirical evidence suggests that [countries with more diversified economies](#) have higher GDP per capita, while lack of economic diversification is associated with poor development outcomes. Economic diversification is closely associated with economic structural transformation, where the latter refers to changes in the way industry or the market functions. Economic diversification becomes a common discourse for oil-dependent countries, as it is [presented as a way](#) of reducing commodity price volatility, job creation outside of the mineral sector, and preparing for resource depletion.

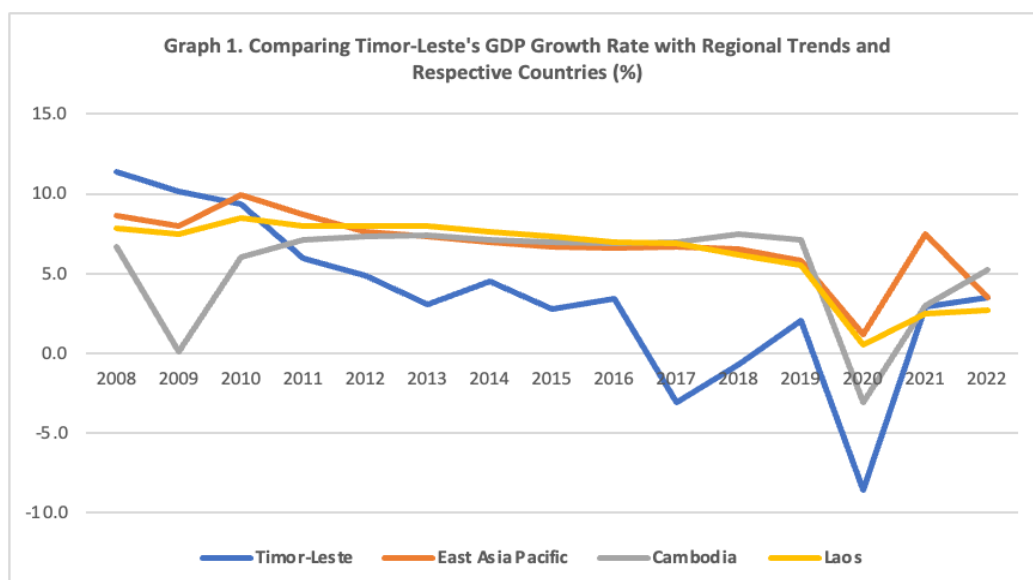
As one of the highest oil-dependent countries, economic diversification is a major policy issue in Timor-Leste. It primarily refers to efforts to reduce the state's dependence on petroleum revenues, and broadening the tax base. Beyond this, it is critical for the country's long-term development, job creation, and sustainable and inclusive growth. Economic diversification together with structural transformation are the keys to [achieving Timor's aspiration](#) to be an upper middle-income country with a healthy and educated population and no poverty in all forms of dimension by 2030.

[Four sectors identified](#) to be essential for economic diversification are agriculture, tourism, petroleum, and manufacturing. Agriculture is the key sector for Timor-Leste, given that currently, around 60% of households are engaged in this sector; and the growth of agriculture is a determinant to poverty reduction, food security, and rural development. [Tourism will facilitate](#) job creation and regional balance. The petroleum sector in particular has been the backbone for Timor-Leste's economy, as it is the only source of revenue for the state. The development of this extractive sector focuses on the South Coast Petroleum Corridor, consisting of a supply base, refinery and petrochemical industry and LNG (liquefied natural gas) plant. This is expected to drive the development of other sectors, primarily agriculture and services, to grow through backward linkage. Manufacturing, although small, [has the potential](#) to develop into a small-scale sector with a home-based industry.

Since 2008, restoring peace and stability has become the primary goals, reflected in the ['Buying Peace' strategy](#). Following that, the government's investment in physical infrastructure increased significantly, reaching up to 50% of non-oil GDP in 2011. Improving human capital is also an essential part and since 2015, the government launched the Economic Diversification Strategy, focusing on key reforms to address some of the bottlenecks for private sector investment. This includes legislative reforms, economic reforms, fiscal reforms, business environment reform, among others. In recent years, the government has also introduced soft loan schemes to support MSMEs (micro, small and medium-sized enterprises) in agriculture, tourism and a home-based manufacturing sector. In general, economic diversification has become a long-term policy goal that has guided Timor-Leste's policy development over the past decade.

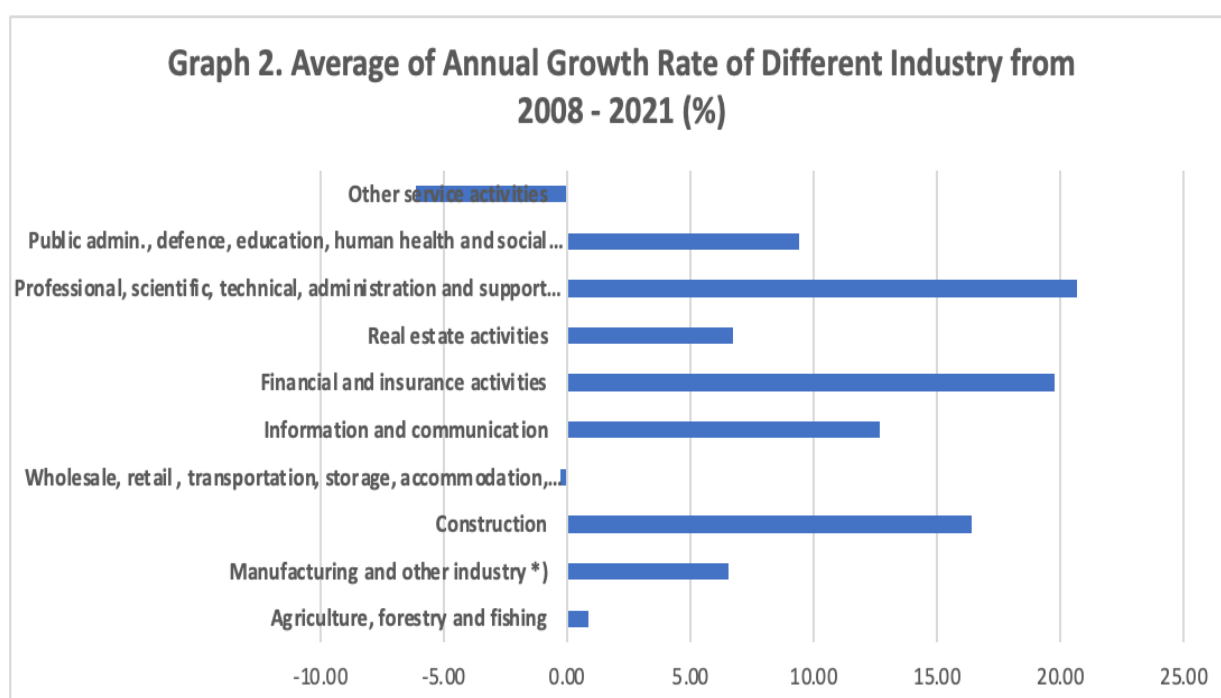
Assessing the results so far

Judging from statistical evidence, the results so far in Timor-Leste has not been encouraging. While front-loading fiscal policy worked at the initial stage (2008–2012) to restore peace and stability, and to generate economic growth, in the long-run it has not been sufficiently effective to generate economic growth, drive economic diversification, nor offer employment opportunities. Although Timor-Leste has the highest public spending among Southeast Asian countries in term of its proportionality relative to non-oil GDP, its non-oil GDP growth rate is the lowest in the region. Between 2008–2019 (before COVID-19), the average of annual growth rate of Timor-Leste is 4.5%, compared to 7.45% for the East Asia Pacific, 7.3% for Lao, and 6.4% for Cambodia. During the COVID-19 period, Timor-Leste had one of the biggest economic contractions in the world, where its economy declined by -8.3% in 2020 compared to -3.1% in Cambodia and -2.1% in Indonesia. Graph 1 compares Timor-Leste's GDP growth rate with regional trends and other respective countries.

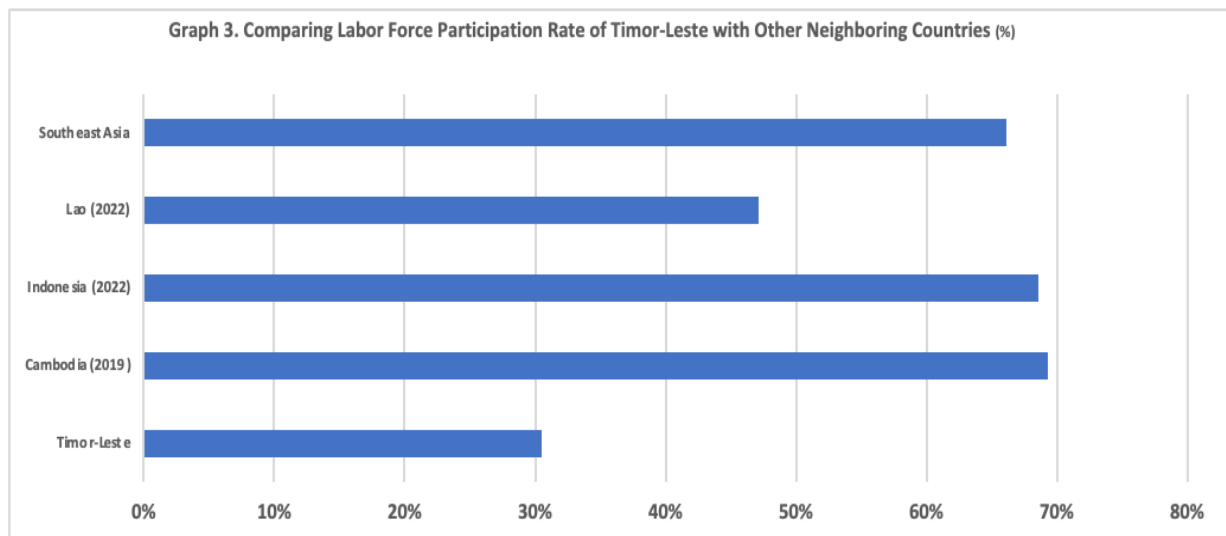


The key sectors to economic diversification underperformed. Although the agriculture sector is key for economic diversification and overall development strategy, according to the most

recent World Bank report, agriculture production has been declining substantially over the last decade and the value added of the agriculture sector [has been declining](#), and lower than other sectors. As indicated in Graph 2, between 2008–2022, the average annual growth rate of Timor-Leste's agriculture was around 1.5% , compared to 9.3% percent in public administration, 16.3% in construction, and 12.6% percent in information and telecommunication. The [share of agriculture](#) in overall GDP has been declining as well, from 25% in 2010 to 20% in 2021. Manufacturing, another important sector for economic diversification, has shown high growth rate in terms of value added (6.5%), but nonetheless, its contribution to GDP is very small; lower than 2%.



Alongside economic diversification, job creation is another pressing issue, particularly for the country with one of the highest young populations in the world. The results, however, have not been positive. Excluding agriculture, the public sector is the biggest source of employment. Formal employment in the private sector is very low, and has been stagnant, reflecting underdeveloped private sector investment in the economy. Compared to other countries in the region, Timor-Leste has the lowest labor force participation rate in the region, as seen in Graph 3.



On the state's finance side, lack of economic diversification deepens the state's dependence on the Petroleum Fund. By 2021, domestic revenues contributed less than 20% of the total state's spending. The majority of the state's annual spending are derived from the Petroleum Fund.

Lack of economic diversification contributes to other social and economic problems such as lack of employment opportunities, dependency on imported goods and services, the gap between rural and urban regions, and social vulnerability to external shocks, among others. Timor-Leste's economy is also highly vulnerable to external shocks; as experienced over the last five to six years. Political impasse since 2017 and COVID-19 caused three years of negative growth – negative growth by 3.9% in 2017 and 0.8% in 2018 and 8.6% in 2020 – with high inflation due to war in Europe. At present, Timor-Leste is facing long-term uncertainty as the Petroleum Fund is drying up. Ongoing fiscal policy faces the alarming risk of a fiscal cliff.

The growth trends, and other social problems that the country is facing, in some ways is a historical legacy and are also symptoms of a '[Resource Curse](#),' a "failure of many resource-rich countries to benefit fully from their natural wealth, and for the government in these countries to respond effectively to the public welfare needs." Economists identified [hinderance toward economic diversification](#) for oil-dependent countries, namely: Dutch disease, economic volatility, limited labor with skilled labor spillover to other sectors, and lack of investment in non-oil sectors due to its low profitability.

Policy failure and Timor-Leste's high spending

The Resource Curse is not merely due to the presence of commodities; but also due to the policy options pursued by policymakers. To great extent, policy failures or misguided policies not only fails to address the structural problems that Timor-Leste is facing, but perpetuates them. Timor-Leste's fiscal policy is one of them. Regardless of the political party's affiliation, successive governments since 2008 have adopted the same fiscal policy approach, which is high government spending and running non-oil high fiscal deficits. During 2008 and 2012, Timor-Leste was only [behind Zimbabwe](#) in term in terms of budget growth.

According to the World Bank, adjusting for inflation, between 2008–2016, the [total expenditure grew](#) by 12% every year – twice that of non-oil GDP growth.

Timor-Leste's government defends high public spending based on the necessity for better infrastructure. Nevertheless, as the state's bureaucracy continues to expand, the cost of maintaining it also rapidly increases. This includes payments to the high number of public employees, and the operational costs to maintain the functioning of public administration. A large proportion of the state's spending is also to finance subsidies, notably veteran payments, payments to the elderly, the Bolsa da Mae program supporting mothers and children's access to school, and Bolsa da Mae Jerasaun Foun for children nutrition, social housing programs, and so on. Consequently, the proportion of public investment in overall state expenditure is declining. Simultaneously, the budget allocation for the key sectors for economic diversification such as agriculture, tourism, and human capital is very small by regional and international standards.

Economically, high public spending drives the public sector to grow, and crowds out the private sector. The large size of public spending relative to the domestic economy – between 80–120% – keeps domestic economic activities revolving around petroleum money, which recycles through the state's annual spending. Public administration and the construction sectors are directly linked with public spending, and therefore have experienced significant growth in the last few years. The service sector is also growing, largely concentrated in Dili, to satisfy rising domestic demand in Dili. Private sector activities concentrate in Dili; and a large proportion of the private sector activities are involved in construction and retail. This is a typical characteristic of the private sector to be found in a rentier state. Rising domestic demands, from public or private, has been satisfied with the influx of imported goods from Indonesia, China, Vietnam, and even Brazil or Cyprus. Inflation, driven by high spending, coupled with poor infrastructure, low labor skills, high regulatory costs, and a dollarized economy (with currency substitute in US dollars), makes the cost of producing goods and services expensive. Domestically produced goods, including agriculture products, are hardly competitive in the domestic market.

While agriculture's share is declining overall, non-oil GDP can be viewed as a normal process as the economy is moving towards becoming more modern and urbanized; the policy failure is responsible for its low productivity. [It is the result](#) of rising urban wages, particularly in the public sector wage, the rural-urban divide, low budget allocations, and availability of alternative income from government subsidies.

The policy setting of a rentier state

Heavy reliance on Timor-Leste's Petroleum Fund is not only unsustainable, but also ineffective to tackle some of the social and economic problems and diversify the economy. The call to revisit government's overall development strategy, rationalizing its spending, increase efficiency in terms of resource allocation, more attention toward productive sectors, and more investment in human capital are echoed by everyone, including inside the government. The World Bank's [Public Expenditure Review](#) called for "changing course" in Timor-Leste's government's spending. The Ministry of Finance already noted that if the current budget growth trend continues, the government will have to [cut its spending](#) by 80% in 2034. Nevertheless, successive governments opt for the same policy approach, regardless of political affiliation or composition.

The persistence of certain policy choices in Timor-Leste, therefore, needs to be comprehended beyond merely economic rationales. It is critical at this point to understand the institutional setting and the political economy which is sustained by petroleum rent. By its very definition, Timor-Leste is a [type of rentier state](#), where the [basic feature of a rentier state](#) is that the state survives upon external rent, and not from taxing its citizens. Around 80% of the state's revenues are derived from selling its natural resources to external markets, and the return of investment of its Petroleum Fund in the international market. It is argued that [high dependence on rents](#) tend to have "dysfunction state behaviors" and produce bad budgetary policies. It produces a "[distinctive type of institutional setting](#), which encourages the political distribution of rents." While petroleum makes it easier to finance development programs, it also [limits the policy choices](#) to be centered around money. This limits the framework of thinking and undermines the efforts to explore other policy choices which are more sustainable, inclusive and less costly in terms of financing. It places pressures on the government to deliver as quickly as possible through public spending. Because of limited institutional capacity and weak check and balances, this drives misallocation of resources and [foments spending without thinking](#) behavior. These institutional settings sustain and even reinforce existing policy choices.

One example of this is giving handouts or subsidies. Over the years, the government's spending on cash transfer programs – either conditional or unconditional – have increased and consumes a significant portion of the state's budget. This is an example of how the government resorts to giving handouts and subsidy as the primary policy instruments to many structural issues, such as poverty, maintaining peace and stability, generating growth, job creation, incentivizing domestic economic activities, and even buying political loyalty. Aside from contestation about its effectiveness and efficiency issues, the prominence of subsidies as a prominent policy tool can be comprehended on how the presence of petroleum money makes this choice cheap. This choice would not be a viable choice if there is not enough revenue.

Regardless of the intention, spending oil money alone cannot provide solutions to such a complex challenge. It displaces the incentives from production to consumption, making locally produced goods less competitive, and incentivizes people to migrate to urban areas. [According to the World Bank](#), "public spending perpetuates vicious cycles of resource misallocation, which is fueling large fiscal and trade deficits, and weighing on economic growth, which is then offset with further unproductive spending." These are common features of Dutch disease.

Easy money from petroleum also shapes the interests and incentives of political elites, governance strategy, and political strategy. For them, winning the election and being part of government means having direct access to most of the economic resources in society, and the decisions on how to distribute the resources through whichever channels. Political parties increasingly resort to patronage as the way of facilitating resource distribution through awarding public contracts via political clientelism, creating positions in public offices to party members, making laws that benefit party members, and similar.

Resisting easy money and making harder policy choices

Oil money also provides a comfort zone to politicians and society in general. It discourages policymakers from taking tough choices, even when the country is facing the risk of a fiscal cliff and a large current account deficit. Instead of taking the difficult path by cutting

unnecessary spending, and finding different approaches to diversify the economy, the country is rushing to find more oil. Furthermore, given large revenues that oil promises, the oil industry attracts more attention from society, including the media. Despite rhetoric on economic diversification, the oil-related sectors receives significantly more resources than agriculture, tourism, and human capital.

Economic diversification requires policy changes, including making some difficult choices. Yet the presence of easy money displaces the necessity and the urgency of changing the policies – and perpetuates existing ones, which have proven to be ineffective to drive economic structural change and economic diversification.

* * *

The Power and Potential of Timor-Leste's Youth in Economic Diversification

Eliziaria Febe Gomes and Marta da Silva

Timor-Leste has a high youth unemployment rate and addressing this challenge requires creativity within a multi-faceted approach. Access to financing, education, and further investments such as infrastructure, economic diversification, and promoting small and medium-sized enterprises will improve the economic landscape and offer more opportunities to young Timorese to stay and help grow the nation.

Timor-Leste's Youth Demographic Crossroads

Timor-Leste is frequently referred to as a young nation; not only because it is a relatively new country but also because a large portion of its population is young. Amid the declining trend, Timor-Leste has had the highest annual population growth in Southeast Asia, with a growth rate of 1.8% between 2015 and 2022. One defining feature of Timor's demography is that its population is largely young, according to the [Population and Housing Census 2022](#), about 65% of its population is under 35, most of whom live in rural areas and due to the lack of opportunities to make a decent living and survive many have moved from rural to urban areas. Explicit knowledge of the country's youth and demographic structure is essential for understanding its societal, economic, and political dynamics.

Figure 3.2: Population, by sex, and by five-year age group (in thousands)^a

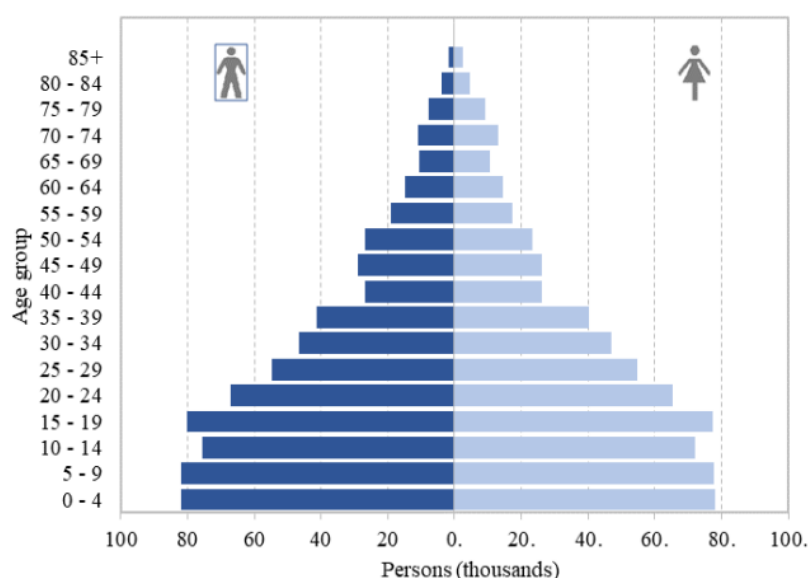


Figure 1. Timor-Leste population by sex and by five-year age group (in thousands)

Source: The Population and Housing Census 2022, INETL, I.P

The large youth population in Timor-

Leste also presents both opportunities and challenges. This could drive economic growth

and innovation by bringing new and innovative ideas to develop the economy. A young population can contribute to a dynamic and productive workforce, enabling the country to harness its demographic dividend. The challenges young Timorese face today are diverse and complex, spanning various aspects mainly in navigating the economic sector. This article outlines some of the challenges and highlights case studies and policy developments to boost employment participation and inclusivity.

Education system

Despite some progress, the country's education is a public concern, resulting from outdated curriculum and books, lack of library facilities, poor infrastructure, language of instruction, quality of teachers, unequal access, and low public investment. This means that the youth in Timor-Leste are not fully equipped with the necessary skills and knowledge to contribute and have the maximum ability of critical thinking and analysis, creativity and innovation so that they can compete in a globalized world.

Lack of economic opportunity

The biggest challenge facing the youth today is on the economic opportunities. This is because existing economic structures do not create sufficient economic opportunities for the population. As already widely discussed, Timor's economy highly depends on government spending to stimulate domestic economic activities. This does not generate much employment, nor formal employment in the economy. Most formal employment is concentrated in the public sector at about 80%, and less in the private sector, which has led to youth who have completed secondary school preferring to seek employment overseas.

The group that suffers significantly from a lack of economic opportunities is the youth. Although the unemployment rate is relatively low at 5.1%, the labour participation rate is very low. According to the [2021 Labor Force Participation Survey](#), Timor-Leste's labour force participation rate is merely 30.5%, compared to 66.1% in Southeast Asia. Youth specifically have even more challenges: the youth unemployment rate is nearly double the national unemployment rate, with the [youth labour force participation rate](#) at merely 9.2% – three times lower than the national rate. At the same time, 30% of youth between 15–24 are not in employment, education, or training (NEET). Based on the [Oxfam Timor-Leste research](#), it is estimated that only 30% of Timor-Leste's youth want to carry out activities in the agriculture sector (Oxfam Timor-Leste, 2022). All of these data confirm the magnitude of challenges the youth face due to a lack of economic opportunity.

Why is youth important for economic diversification?

The challenges that youth in Timor-Leste are facing are part of the challenges that the nation is facing, which is the unsustainable development path that the country has been following. The solution to youth unemployment and low labor force participation rate should involve restructuring and diversification of Timor's economy. At the same time, given the large size, the potential, and the energy, youth should be part of the solution to this economic problem. The [National Youth Policy](#), adopted in 2016 recognized the potentials offered by youth as "assets for socio-economic transformation of the society." Thus, youth is an excellent asset in economic diversification, especially in a developing country like Timor-Leste.

Despite challenges and a lack of coherent and integrated policy, youth in Timor-Leste are not passive agents. Listening to them, youth in Timor-Leste are well aware of the economic challenges that the country is facing, such as dependency on petroleum revenues, the impending fiscal cliff, high rates of poverty, and limited employment opportunities. At the same time, they also realized the potential that they have and their responsibility.

Some have shown their power and resiliency to be agents for economic transformation in society. Many creative young people started their own social and economic activities, but they have received minimum attention from the Government. Those who get jobs are often engaged in short-term, temporary employment and often remain in the informal economy where they work as own-account and casual wage laborers. Many young Timorese nowadays are using their curiosity and voluntarism motivation to learn through online content to be able to open businesses such as restaurants, coffee shops, barber shops, and more.

Some real examples of them are TILOFE (Timor-Leste Organic Fertilizer), Dilicious, Corner Store Network, and Ermera Aikulat Mutin Organiku (EAMO), to mention only a few. One clear exemplary case is the [TILOFE organization](#), which aims to improve the economy of vulnerable communities, especially farmers around Ermera. They produce organic fertilizer whose raw materials are collected from the farmers. The establishment of the organization was inspired by the conditions the youth faced, especially the lack of job opportunities, which drove many to migrate to other countries to survive. Therefore, this organization started its initiative to increase opportunities for youth and stimulate the function of local products, which also involve rural communities.

Since TILOFE was established in November 2018, it started its business with a capital of USD 250 with seven workers consisting of three women and four men. Now they can employ

15 people along with the surrounding communities who have joined them. In addition to the organization being able to employ 15 employees, although it is slow, they are making progress with gross revenue ranging from USD 500–1000 per month. Their customers now include the Government through the Ministry of Agriculture and some local consumers in Ermera and Maliana. They also distribute products through international organizations such as Peace Wind Japan and Parcic that deliver to other areas such as Maubisse. In the future, after covering their neighborhood and partners, they are also trying to expand their distribution to other municipalities in Timor-Leste.



Figure 1. Distribution process of TILOFE staff [Photo: TILOFE 2023]

Another example of success demonstrated by youth is Dilicious. This organization was formed to promote the traditional food of Timor-Leste. The inspiration for establishing the business was due to the imbalance of domestic and foreign cash flow, as well as domestic consumption dominated by imported products and changing to a healthier diet, especially avoiding white rice and noodles for consumption.

Since 2010, they started selling all traditional foods at around USD 4-5/meal, but there were many complaints about the high price and there were still few customers. However, when changing their way of marketing with a mobile kitchen, the number of customers doubled from 30 to 60. In addition, the menu of dishes that started with 5 increased to 30 variants of food dishes, and staff working increased from 5 people to 42 staff who also included farmers, consisting of 16 men and 26 women who were mostly university students and are now almost all graduates.

Along with the increasing demand from customers, Dilicious also added branches that are currently operating in 3 places, with total visits of around 150 people per weekday located in the UN compound, Sporting, and Hera areas. Despite the limitations in supply, Dilicious ensures that 80% of the products are domestic such as the supply of meat taken from its livestock and other products from various regions in the country.



Figure 2. Cesar was promoting local food in a competition [Photo: Dilicious, Timor-Leste]

The above examples have proven that there are opportunities to be realized in a varied economy generated by youth. However, it is undeniable that there is still much that needs to be improved holistically so that it is supported by other sectors, such as socio-economic, political, and environmental. In addition to the potential developed voluntarily by the youth, many other Asian countries have successfully boosted the potential of the youth, such as Japan and Thailand, which made a policy of one village, one product movement by involving youth to enhance various local products, as well as traditional crafts and other regional potential to be developed ([UNDP Timor-Leste, 2018](#)).

To support and unlock the potential of the youth, some international agencies and individuals have provided assistance to support youth initiatives. For example, the Knua Juventude Fila Liman or English Youth Entrepreneurship program ([UNDP Timor-Leste, 2017](#)). This program helps youth to become agents of change and to be more innovative in leadership skills, driving them to do business.

One of the most visible policies is the Soft Loan program, launched by the government of Timor-Leste. Over the last few years, they also launched Soft Loan Programs aiming to incentivize small and medium enterprises with access to credit with low-interest rates. Aside from bureaucratic issues, the program was designed to provide access to soft loans for small and medium-sized enterprises.

Some policy recommendations to unlock youth's potential

Despite the multifaceted challenges that young people in Timor-Leste are facing, they have shown their resiliency and are committed to being the agents of change. The governments have an essential role to play in unlocking the potential of the youth through a conducive policy environment.

To unlock the potential of the youth, several strategies and steps can help increase economic development. Addressing this challenge requires a multi-faceted approach, including economic diversification, investment in infrastructure, and promoting small and medium-sized enterprises. This includes improving education and vocational training, providing access to financing for young entrepreneurs, creating a conducive business environment, and ensuring that youth have the necessary skills and opportunities to contribute effectively to the diversification process.

(a) Skills, education, training

Investment in good quality education and vocational training at different levels can increase their capacities and make it more attractive for youth to live and work. It has also been proven in various countries in the world that when countries invest in education, it will provide more opportunities than obstacles to the development of the country ([Brett Inder, 2021](#)). Therefore, formal advanced skills are a critical investment in the future of Timor-Leste's youth and its economic growth. They provide individuals with the skills and knowledge they need to succeed and contribute to a more productive, innovative, and stable economy.

(b) A youth-friendly environment for business and entrepreneurship. To maximize the potential of the youth, one mechanism is to create a conducive environment to support youth entrepreneurship to grow. This includes reducing bureaucracy in terms of business registration, providing easy access to start-ups, rather than an experience that hinders or undermines the micro and small business to growth; facilitating the existing business sector to expand their market, access or facilitating access to inputs and raw materials, facilitating access to finance, and more.

(c) Improving infrastructure and connectivity

Infrastructure development, connectivity, and accessibility also play a significant role in enabling sustainable enterprises in urban and rural areas, by reducing the distance between young farmers and entrepreneurs and markets, thereby shortening the supply chain. Such investments also enhance productivity and competitiveness and bring down production costs to ultimately strengthen rural-urban linkages and attract further investment. Certainly, in the Timor-Leste context several viable development strategies are needed:

- **Investment in infrastructure and transportation networks:** Build and maintain well-developed rural roads, and ports as well as focus on improving infrastructure in developing regions where supply chain challenges are more significant. Properly maintained infrastructure and transportation networks ensure smooth movement of goods, reducing transit times and transportation costs. When things stabilize, youth interest and enthusiasm increase significantly, which encourages entrepreneurial ventures. In addition, it reduces barriers, allowing youth to attend schools, colleges, and training centers, enhancing their skills and knowledge.
- **Technology integration:** Implement advanced technologies such as GPS tracking, RFID (radio frequency identification), and IoT (Internet of Things) devices to monitor and track the movement of goods in real time. This improves visibility and enables better decision-making throughout the supply chain as well as reduces the number of workers needed. Thus, essential infrastructures like fiber optics are essential to reduce internet costs, which is very critical for innovation. Surely that integrates technology, fostering innovation. Youth can engage in tech-driven projects, enhancing their skills, encouraging creativity as well and expanding their horizons.
- **Warehousing and storage facilities:** Improve warehousing facilities with modern technology for efficient storage and retrieval of goods. Implement automation and

robotics to streamline warehouse operations, reducing errors and improving efficiency.

By focusing on these strategies, businesses and governments can work together to improve infrastructure and connectivity in the supply chain, leading to increased efficiency, reduced costs, and enhanced overall competitiveness in the global market.

(d) Giving youth a voice and a larger role in their communities

Young people should have access to opportunities for more meaningful participation in decision-making and policy formulation at different levels. Their involvement in and leadership of organizations should be promoted, including through support for establishing youth associations, and through their integration into producer organizations and cooperatives. They should also be encouraged to participate in employers' and workers' organizations to enhance their involvement in social dialogue processes. Timor-Leste can learn from other countries, such as Thailand, which has made remarkable progress in providing the positive value of social and economic development, moving from a low-income to an upper middle-income country for four decades and they also managed to significantly lower the poverty rate from 58% down to 6.8% in urban areas. Thailand is also quite resilient in facing various obstacles, including those that have recently occurred such as the global Covid-19 pandemic. The main factor they did was to provide opportunities for youth to voice their opinions through the formulation of Development policies.

Therefore, there is a need for policies in the decision-making process, for example, consulting youth to get empirical opinions related to what they think can help improve economic opportunities, and having resilience planning in Timor-Leste, such as discussions between government and youth, and online platforms provided for youth to and providing a space for the youth to amplify their voices in the decision-making process.

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Note:

This E-paper is a personal opinion and does not represent the opinion of any institutions that the authors are affiliated with.

The views expressed by the author are not necessarily those of Heinrich Böll Stiftung.

Authors' Profile



Guteriano Neves is an independent policy analyst Based in Dili, Timor-Leste. He has worked in different institutions, such as the President's Office, the Office of Prime Minister, Ministry of Foreign Affairs, La'o Hamutuk Institute. His areas of expertise are political economy, "resource curse" and petroleum dependency, and foreign aid. He is the recipient of multiple awards and fellowships such as Australian Awards Scholarship, The Asia Foundation Development Fellowship Awards, Summer Research Award Scholarship by the University of Hawaii to assess Timor-Leste's Petroleum Revenues Management, and United States – Timor-Leste (USTL) Scholarship Awards.

Guteriano earned a Master of Public Policy from the Crawford School of Public Policy at the Australian National University and a bachelor's degree in Political Science and History from the University of Hawai'i at Manoa in May 2011. | Contact: guteriano@gmail.com

Marta da Silva (Abata) is a Researcher at La'o Hamutuk, responsible for of good governance and human rights, the economy, and the state finance. She participated in various activities at regional and international levels such as the Open Budget Survey (OBS), Amnesty International, Public What You Pay (PWYP), Oil Watch, International Development Inclusive (IDI), and Asia Indigenous Peoples Pact (AIPP).



Marta has long career in Civil Society and UN, where previously she worked with, The Asia Foundation, Timor-Leste Ombudsman and Human Rights, OXFAM, HAFOTI Women's Organization, among others. She completed her Undergraduate Degree in Social and Political Science at the National University of Timor-Leste. | Contact: marta@laohamutuk.org



Eliziaria Febe Gomes is a Researcher at La'ó Hamutuk with 6 years of experience working in economy and petroleum issues. Since 2019 She has been assigned as a Researcher of the Open Budget Survey of IBP, Washington D.C. She regularly appears in the national and international media and representing Civil Society to discuss sustainable and inclusive development of Timor-Leste and calling for more prudent and more efficient public finance management. "Febe" popularly known, graduated from Surabaya Institute of Technology, East Java, Indonesia, in Urban and Regional Planning in Timor-Leste. | Contact: febegomes17@gmail.com

Joao da Cruz Cardoso is an independent analyst of development in Timor-Leste. He completed his undergraduate studies at the University of Hawai'i at Hilo, and graduate studies at the University of Illinois at Urbana-Champaign under the Fulbright Scholarship Program. Currently, he works at Timor-Leste Public Water Utility Company (BTL, EP) as the Director for Engineering and Investment. | Contact: cardoso.eljoao@gmail.com

