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PUBLIC-PRIVATE PARTNERSHIPS  
IN DEVELOPMENT:  
THREE APPLICATIONS IN TIMOR LESTE

by

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Research programme on:  
Social Institutions and Dialogue

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## **RÉSUMÉ**

Le Timor oriental, première nation à avoir vu le jour au 21<sup>e</sup> siècle, est un pays jeune et confronté à la plupart des problèmes les plus délicats du sous-développement : l'illettrisme, la malnutrition, une faible base de compétences et un chômage élevé. Il risque également de tomber dans les pièges de sa position d'exportateur relativement important de pétrole et de gaz. Enfin indépendant après des siècles de colonisation et des décennies d'occupation, le pays manque de gestionnaires expérimentés et compétents, dans le secteur public comme dans le secteur privé. Ces graves difficultés sont encore exacerbées par la décision de réintroduire le portugais comme langue officielle, même si seule une fraction infime de la population (et pratiquement aucun citoyen de moins de 30 ans) maîtrise cette langue. Si l'on en croit la Banque mondiale (2002), le premier défi que doit relever le Timor oriental est d'arriver à gérer la coexistence d'une extrême pauvreté et de la pénurie de capacités de gestion avec de réelles perspectives de ressources, grâce aux abondantes dotations naturelles du pays.

## **SUMMARY**

Timor Leste, the first new nation of the twenty-first century, is a young country facing many of the most challenging problems of underdevelopment: illiteracy, malnutrition, low skills base and high unemployment. It also is on the threshold of facing the potential pitfalls of being a relatively large-scale exporter of oil and gas. Finally independent after centuries of colonialism and decades of occupation, the country's public and private managers lack experience and skills. These daunting problems are exacerbated by the nation's decision to re-introduce Portuguese as the official language, even though only a small percentage of the population (and virtually no under-30's) has any fluency in that language. According to the World Bank (2002), the main challenge facing Timor Leste is how to reconcile a simultaneous existence of acute poverty and severe shortage of human management skills with solid prospects of future flows from the country's natural resource wealth.

## I. BACKGROUND

Timor Leste, the first new nation of the twenty-first century, is a young country facing many of the most challenging problems of underdevelopment — illiteracy, malnutrition, low skills base and high unemployment. It also is on the threshold of facing the potential pitfalls of being a relatively large-scale exporter of oil and gas. Finally independent after centuries of colonialism and decades of occupation, the country's public and private managers lack experience and skills. These daunting problems are exacerbated by the nation's decision to re-introduce Portuguese as the official language, even though only a small percentage of the population (and virtually no under-30's) has any fluency in that language. According to the World Bank (2002), the main challenge facing Timor Leste is how to reconcile a simultaneous existence of acute poverty and severe shortage of human management skills with solid prospects of future flows from the country's natural resource wealth.

On the positive side, Timor Leste is a new nation only in a formal sense, as it already possesses a sense of national identity that goes back to centuries of territorial integrity and cultural identification, reinforced by decades of a common struggle for independence. This "strong spiritual identity" (Braga de Macedo, 2000) should facilitate dialogue and collaboration between different stakeholders in search of solutions to serious problems and insufficiencies facing the new nation. In terms of economic policy, it implies that the new nation can dispense with the manifestations of economic nationalism usually present in recently constituted nation-states, such as the temptation to create an autonomous currency, to nationalize significant economic sectors or to implement other protectionist measures. Another positive feature is the existence of charismatic political and religious leaders who can be decisive agents in promoting dialogue.

This paper looks at how public-private partnerships (PPPs) could be instrumental in helping to meet that challenge, focussing on three specific areas of application, namely employment creation through business development, managing the oil and gas reserves, and overcoming the barriers presented by multiple languages. In all three areas, there is enormous potential for conflict between different stakeholders and so also great advantages to be obtained from the application of principles and techniques of dialogue, local ownership of sources of relevant data and information sharing. In all three areas, friendly external sources of expertise and funding can play a crucial role in facilitating the process of developing human resources and trust between stakeholders.

The available literature already presents many examples of the application of PPPs in the area of economic relations between the private, business, sector and the government. The present paper is innovative in that it extends the principles of PPPs to the resolution of problems not normally considered to be in the sphere of public-private partnerships.

## II. THE ROLE OF PPPs

Evidence from other countries shows that considerable advantages can be gained from strengthening private participation in public decision-making or from developing PPPs.

- In Botswana, a gradual process of increased dialogue between business associations and the public sector has resulted in a remarkable (and unusual) growth of mutual trust and partnership, with benefits in policy coherence, transparency and accountability (see Land, 2002).
- In the newly independent states of the former Soviet Union (NIS), the potential benefits of greater private sector participation in water management projects has led to the creation of an Environmental Action Programme Task Force, to facilitate dialogue between NIS governments, the private sector, the general public and other stakeholders.
- In Mozambique, a pilot project on public-private partnership is advancing with the creation of activity indicators to provide both sectors with as much quantitative information as possible on entrepreneurial activities and the business climate, so that decisions in both sectors are based on the same, locally generated information (see Mantero, 2002).

The ultimate objective of PPPs is to promote greater trust among local stakeholders and other partners in the development process, thus facilitating good governance and the strengthening of local communities and of the local private sector. Greater trust among development partners will facilitate donor coordination and contribute to the achievement of the Millennium Development Goals. These goals were translated into national and global policy proposals in the Monterrey Declaration, adopted at the International Conference on Development Financing, promoted by the United Nations and held in Monterrey, Mexico, in March 2002.

The Monterrey Declaration recognizes PPPs as an important instrument in creating an environment favourable to the normal functioning of business and the attraction of investment, an essential element in generating employment and creating wealth. To the extent that they broaden the knowledge base for policy dialogue between business and the public sector (points 24 and 25 of the Monterrey Declaration), PPPs help to define the common good and the best ways to bring it about in each country. While the principles of PPPs apply to all countries, the specifics of their application will naturally differ, depending on the economic, social and political characteristics of each country and its stakeholders.

### **III. PPPs, COMMUNITY EMPOWERMENT, AND GOVERNANCE<sup>1</sup>**

In the immediate aftermath of the destruction of Timor Leste in 1999, one of the most pressing challenges facing the donor community was how to get effective assistance to the majority of the population in the countryside. All institutions of public administration or service provision had been destroyed and the UN transitional administration was not yet in place, so no conduit seemed to be available to channel resources to restart economic activity in the countryside.

One of the first responses was the Community Empowerment Project (CEP), which distributed lump-sum amounts to each village, on the basis of its size, to be used for whatever project the village decided was most urgent. Community councils were elected, with equal male and female representation, to coordinate the decision-making and the execution of the project. After the mass destruction that had taken place, most projects consisted of infrastructure rebuilding, namely water supply projects, but later projects also included loans to local cooperatives to produce cash crops and generate employment.

Given the almost total lack of institutional safeguards (no banks, postal services, police or judiciary were yet in place) there were remarkably few cases of monies misspent — in almost every local community, peer pressure ensured that the available resources were put to good use. The project also was instrumental in furthering gender equality, by ensuring that each community council had an equal number of men and women.

The CEP was a good example of PPP principles in practice. Even though no formal national public sector was yet in place, the CEP was indeed a partnership between public (donor, in this case) willingness and resources and private individuals, organised by community, working together with the objective of solving the most immediate local problems. Decision-making was on the basis of dialogue and majority vote, the process was transparent and the elected councillors were directly accountable to the community.

In recent years, many countries throughout the world have made significant advances in the direction of decentralization, particularly in education, health and roads, each a major expenditure item in national budgets. In general, the experience has been that major improvements can be expected where managers are made accountable to the clients and have the authority and resources to make key management decisions

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1. The ideas included in this section were first developed by the author in World Bank (2002).

(including who gets hired and how the central ministry's regulations are modified to suit local conditions or preferences).

Governance is improved by making the service-providing personnel, such as teachers and nurses, respond to their immediate employer, the local community council, for example, rather than to a distant ministry. The local community could decide how many teachers or nurses to employ and how much to pay them, with the central ministry providing quality control in the form of training and accreditation of personnel, the setting of core syllabus requirements and the provision of text-books, for example. Cost-efficiency is enhanced by local communities having a direct stake in getting as much value as possible out of their resource allocation, selecting cheaper inputs and complementing purchased inputs with their own materials or labour inputs.

The successful implementation of the CEP provides a strong case in favour of organising a PPP with the objective of decentralising public administration in Timor Leste, but that is a topic for another paper. The CEP experience also indicates that PPPs in areas with broad direct impact on the lives of almost all East Timorese, as the applications outlined below, have a good chance of receiving the interested broad participation that is essential for their success.

The following three sections of this study aim to identify the principal areas in which Timor Leste might benefit from improved dialogue and collaboration between public and private partners and to propose the partnerships best suited to achieve such collaboration. In each case, a short descriptive background to the problem is followed by a listing of the principal stakeholders involved, the main obstacles to be overcome, and the main topics and the resources, domestic and external, that might collaborate on finding a solution.



## **IV. PPPs IN PRACTICE – BUSINESS DEVELOPMENT IN TIMOR LESTE**

### **Background**

Timor Leste's history of colonialism and occupation has meant that expatriates normally filled practically all positions of responsibility, higher remuneration or economic opportunity. The new nation thus faces a very serious shortage of experienced middle and upper-level managers in both the public and the private sectors. The problem in the public sector, though significant, is being met in a more organised manner through the efforts of the UN transitional administrations and the secondment of technical staff by donor countries and multilateral agencies. The shortage of private sector management and especially entrepreneurial skills and experience is potentially a much more serious obstacle in Timor Leste's quest for economic independence.

By its nature, entrepreneurial activity is more dependent on personal initiative than on public action and the best the government can do is to provide an appropriate economic and legal environment, which takes much time to put in place and even longer to yield visible results. The country is young both politically and demographically and the heavy investment being directed to education will soon be generating large numbers of better-educated youths looking for jobs. The public sector will absorb only a small fraction of school-leavers and graduates, making it essential that the private sector grow rapidly to absorb the remainder. But the private sector is largely informal and poorly developed, with very few employers of significant dimension.

### **Principal Stakeholders**

The small number of existing entrepreneurs are organised in several associations, fragmenting the little collective power they might have. New entrepreneurs are limited by the virtual non-availability of credit facilities. The government formally recognises the importance of business activity in the market economy system it has opted for, but its policies are not clearly pro-business. Job seekers find little in terms of available opportunities and the population at large pays a heavy price in terms of relatively high cost and low quality and variety of goods and services. All stakeholders could benefit from greater volume and quality of domestic production, greater availability of jobs and a more stable workforce.

## **Main Obstacles**

The institutional environment for business is poorly developed — property rights are not well defined, making it almost impossible to use collateral in support of credit activities, and contract enforcement is complicated by the inexperience of the judiciary and the ambiguities of legislation in the nascent legal system. Services such as insurance, leasing, accounting and management consulting are virtually non-existent. The establishment of micro-finance institutions was delayed by legal and administrative problems and is only now initiating activity. The government's attitude to private business activity is generally one of suspicion, viewing businessmen more as potential taxpayers (or potential tax evaders) than as generators of employment and production. The choice of the US dollar as the official currency and the UN's establishment of relatively high wage levels has placed labour costs in Timor Leste at a level two or three times higher than regional comparators. Local businessmen generally have very limited experience and capital and foreign investment is hampered by the fact that only nationals may own land.

## **Possible Topics and Resources**

The potential benefits of PPPs are perhaps best recognised in the area of business development. Examples from Mozambique and Zambia (quoted in Mantero, 2002), show how useful the mechanism was in providing loan-guarantee schemes and micro-credit at below-market rates to farmers and small businessmen who normally would not have any access to credit. Those examples indicate the value of dialogue between stakeholders at an early stage of program development and also the indispensable role of an external donor agency in covering all or the major portion of the credit risk.

The example of Botswana (Land, 2002) shows the useful role of PPPs in a more mature economic environment, with established business associations and government overcoming initial suspicions and even hostility over a long period of growing dialogue and increasing mutual trust, to the benefit of the economy as a whole. In the case of Mozambique, a new instrument, the Composite Indicator of Economic Activity (ICAE), was developed locally and is expected to facilitate the economic policy dialogue between entrepreneurs, trade unions and the official sector. Being locally developed and updated, the ICAE has the advantages of national ownership and relevance; having benefited from technical assistance from donors, it is an example of the importance of focussed external support.

In the case of Timor Leste, there are numerous ways in which PPPs could be usefully applied. At the most basic level, foreign help with funding and organisation for micro finance could unleash the productive potential of large segments of the urban poor and the rural communities. There is a need to ensure that farmers and rural enterprises have access to credit, in conjunction with technical initiatives and training in responsible use of credit.

One of the most pressing economic and social problems facing Timor Leste is that of employment generation. The population is young and investment in education is high, producing relatively large numbers of school-leavers each year in an economy with few jobs — the public sector is relatively small and private sector opportunities are still very limited. The current lack of competitiveness resulting from high wage levels and a strong currency is likely to get worse as the oil sector develops and Dutch disease dynamics compound the problem. A PPP on economic policy might usefully focus on tax policy and its impact on employment. The imperative of job creation and the solid prospect of offshore revenues that, if well managed, can cover public spending into the medium term, suggest a tax regime that enhances competitiveness and is simple to administer. This could imply minimal or zero taxation of productive activity, at least for as long as the impediments to private investment remain as significant as they are at present.

PPPs also could serve to tackle some more general problems of the nascent economy. Reinforcing the national capabilities to produce relevant statistics in a timely and competent manner could be achieved with technical assistance from the multilateral financial institutions (MFIs) and bilateral donors. External assistance also would be useful in supporting the development of business skills and best practices, both for individual businessmen and for their associations. Once the associations have organised themselves more effectively, they can present their points of view more effectively in joint meetings with government officials in a Botswana-like dialogue process.

## **V. PPPS IN PRACTICE – NATURAL RESOURCE MANAGEMENT IN TIMOR LESTE**

### **Background**

The economic future of Timor Leste would be very bleak indeed without the prospect of revenues from oil and gas. Timor Leste is one of the poorest countries in the world, with some 40 per cent of the population below the poverty line, a proportion that is double that in neighbouring Indonesia. The country has relatively poor conditions for agricultural production, virtually no manufacturing and a labour force that is less educated and healthy than that of its neighbours.

It is not possible to quantify exactly how much revenue Timor Leste can expect from its oil and gas reserves, which lie offshore in an area of the sea that is claimed by both Timor Leste and Australia. Even the most conservative estimates, however, place the revenue flow at well over \$100 million for several years, more than enough to cover all projected capital and current public expenditure in those years. It has been estimated that expected revenues, even with conservative projections, could be enough to cover most public expenditure and permit savings into a fund that would assure a sizeable revenue flow on a permanent basis. In summary, it seems highly likely that Timor Leste will be able to rely on very significant resources to finance its development needs well into the future, if the resources are well managed.

### **Principal Stakeholders**

The main beneficiaries of good management of Timor Leste's mineral resources will be the population at large, present and future, whose welfare can increase more rapidly if those resources are invested in improving the quality and quantity of goods and services available — every citizen is a stakeholder. In more direct terms, the public entities and officials that deal with the oil and gas sector will no doubt see control of significant resources as a potential source of power and influence, at the very least. Foreign investors and their national authorities will see benefit in transparent and stable investment rules and social climate, even if some operators may be tempted by the lure of extra profit in less transparent deals. Local business and labour will benefit from downstream investment opportunities and employment creation.

## **Main Obstacles**

The very large investments involved in the energy sector and the magnitude of the revenue flows present an enormous potential danger in the form of temptations to use public resources for private gain. It is no coincidence that some of the richest nations in terms of resource endowment are also those with highest incidences of poverty, misery and with lack of economic and social development. The resources that at first glance would seem to be a blessing turn out to be a curse for the vast majority of the population.

A related potential problem in a new country is the lack of experience of the institutions that normally would have a role in counterbalancing the power (and potential for abuse thereof) of government officials most directly involved with managing the energy resources. In Timor Leste, the large parliamentary majority of the main party, the judiciary's lack of experience, the Ombudsman's lack of independence, and the very limited experience of the population with freedom of expression, are all factors that call for special attention to the potential problem of mismanagement of the energy resources.

## **Possible Topics and Resources**

On the positive side, Timor Leste has probably had more public discussion of the oil and gas issue than most countries at a similar level of development. Also, the overwhelming parliamentary majority of the principal party gives it less of a hegemony on public opinion than might at first appear. The presidency has taken an active interest in the matter, as have NGOs and other elements of civil society. A further positive factor is that the resource flow is expected to attain a large volume only a couple of years after independence, allowing some time for donor countries and MFIs to conduct activities aimed at encouraging informed discussion of the potential pitfalls and of methods successfully employed in some resource-rich countries to ensure good management of energy resources.

In Timor Leste, a PPP in the area of energy resource management might involve a dialogue between official entities (presidency, parliament, ministries) and civil society on ways to promote community participation and transparency in decision-making regarding the utilisation of revenues from oil and gas. Donor countries with relevant experience could explain how their system works and international agencies active in fighting corruption could provide their expertise. The objective would be to have an ample discussion focussed on ways to ensure good governance of a critical resource, with important decisions having to be taken by parliament and with transparency of decision-making and accountability.

This PPP could have a novel dimension — the inclusion of the Timor Leste's diaspora and network of friends abroad from the resistance period. The dispute with Australia regarding the sea boundary could be lengthy and unpleasant and is political rather than technical, now that Australia has removed itself from the jurisdiction of the relevant international court. The outcome is enormously important for Timor Leste, however — the best possible outcome implies revenues of five or ten times the minimalist outcome. A broad-based PPP on natural resource management should include friends abroad who could help in presenting Timor Leste's case abroad, as was effectively done during the resistance period, to help counter Australia's superior economic and political clout.

## **VI. PPPS IN PRACTICE – RECONCILING MULTIPLE LANGUAGES IN TIMOR LESTE**

### **Background**

When the colonial period came to an end in 1975, the language of education and administration in Timor Leste was Portuguese, even though the home language for the vast majority of the population was Tetum or another of the many local languages. (Tetum has incorporated many Portuguese words but someone fluent in Tetum is not automatically conversant in Portuguese). The subsequent Indonesian occupation changed the official language to Bahasa, a situation that prevailed for 24 years, while Portuguese continued to be the language of the local resistance movement and of the sizeable diaspora.

By the time of independence, almost all the people in Timor Leste with some formal education had been taught in Bahasa, with the proportion that speaks Portuguese estimated at about 5 per cent. The political elite, however, consisted mainly of resistance veterans and members of the diaspora, to whom the choice of Portuguese as an official language seemed quite natural — it had strong historical arguments and was a form of asserting the new nation's independence from its erstwhile occupier. The alternative of adopting English, favoured by the transitional administration and many international agencies even though less than 2 per cent of the population speaks English, was not politically acceptable as that was the language of the other large neighbour (and perceived threat), Australia.

### **Principal Stakeholders**

For many people in Timor Leste, language is not an issue. An estimated 85 per cent of the population is rural and local languages prevail in the rural areas. In 1997, almost half the population was recorded as having no schooling at all (World Bank, 2002). The younger segment of the population, however, bears the brunt of the decision to change the official language from Bahasa to Portuguese. All their learning thus far has been in Bahasa, amounting to an investment of 10 or more years of study for students at or close to school-leaving age. If knowledge of Portuguese is enforced as a prerequisite for public sector employment, most school-leavers of the past and of the next few years will feel themselves cut off from a public job. Changing the language of official business also places a heavy burden on public servants generally as well as on the population at large, especially in areas such as the court system.

The Church in Timor Leste has successfully changed the language of its services from Portuguese to Tetum but still retains some hymns in Portuguese — it will need to decide to what extent it wishes to revert to greater use of Portuguese rather than maintain Tetum, the other official language of Timor Leste, as its working language. Timor Leste faces a severe shortage of trained teachers, particularly at the secondary level, where only 5 per cent of teachers were Timorese prior to Independence. Primary school teachers must now learn to teach in Portuguese, as must secondary school teachers in a few years. Changing official languages is a process that affects virtually everyone other than those in subsistence rural activity.

### **Main Obstacles**

There are many obstacles to the language transition in Timor Leste. Most teachers, especially primary school teachers in the rural areas, are accustomed to a great degree of effective autonomy. There is no real incentive for them to put in the extra effort to learn a new language. Even where teacher dedication is unquestioned, access to learning materials is not always easy. Children learning the new language do not have the reinforcement of using the language at home, as in most cases their parents do not speak Portuguese. The education authorities face at least passive resistance from their counterparts in the international agencies, who try do discourage the adoption of Portuguese and teaching materials in that language are not as readily provided as materials in English or Bahasa.

### **Possible Topics and Resources**

Since the language issue affects virtually all participants in public debate, high levels of interested participation is assured at the outset. A PPP on this issue would involve a dialogue between public entities (law-makers, education ministry) and civil society (students, Church, NGOs) on issues relating to official and working languages for the new nation. An important segment of this dialogue would involve the education authorities and local communities and their primary school teachers, to decide on the pace at which the new language should be introduced. Once this has been decided, a methodical program of teacher training needs to be put in place, with incentives for the teachers to reach defined levels of proficiency within pre-established time periods and penalties for those that fail to do so.

Donor countries, namely Portugal and other lusophone nations, can provide materials and teachers to train the local teachers. Teaching materials should be developed specially for the local environment, using examples that are meaningful. The program to teach Portuguese in the Angolan hinterland in the early nineteen sixties was highly successful and provides many useful examples (see Castilho Soares, 2002).

There and then, as now in Timor Leste, the vast majority of the population spoke a variety of local languages and not Portuguese, which the ruling elite wished to establish as the *lingua franca* for public administration and business throughout the territory. Recognising the shortcomings of the established system of expatriate teachers and foreign teaching materials that catered mainly to the urban elite, the Angolan provincial

government implemented a radical education plan that focussed on intensive training of primary school teachers (*monitores*) and the involvement of local communities in providing school buildings and selecting their teachers. In 1962 and 1963, a total of 500 *monitores* were trained and placed in community schools; between 1961 and 1963, the number of children in primary school doubled. According to many commentators, Portuguese is now more widely spoken in Angola than in the other ex-Portuguese colonies precisely because of the path-breaking efforts of the early 1960s.

In Timor Leste, resolving the language issue requires firstly, a buying-in of the population in terms of the selection of the national language, whether Portuguese or Tetum or some other — that should be the first goal of the PPP. Once the language has been selected and is commonly accepted, the next phase involves establishing benchmarks for advancement towards the goal of national proficiency in that language and agreement on the actions that will be taken to implement the decision. In all these steps, acceptance of the decisions will be enhanced if the process gives all participants a feeling of ownership of the final outcome. This is an ideal sphere for the functioning of a PPP and the application of the tenets of community empowerment outlined in Section III, above.



## VII. CONCLUSIONS

The use of PPPs in promoting dialogue and reconciling seemingly divergent interests between the public sector and the private business sector is amply illustrated in the literature. The present paper proposes that the underlying principles of PPPs be applied also to other areas in which all parties can gain from a concerted approach in which the interests of various stakeholders are openly discussed and where a solution is sought that best satisfies most interested parties. Three applications of PPPs are proposed for Timor Leste, one traditional (a PPP to promote business development) and two less traditional — one in energy resource management and the other in dealing with the complex issue of reintroducing Portuguese as an official language. In all three cases, local stakeholders should be the prime players but external technical and financial assistance can play a crucial facilitating role.

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