

JULY 2017

SPECIAL ADMINISTRATIVE REGION OF
OÉ-CUSSE AMBENO

AN ALTERNATIVE DEVELOPMENT MODEL FOR TIMOR-LESTE



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Special Administrative Region of Oe-cusse Ambeno:
An Alternative Development Model for Timor-Leste.
Dili, Timor-Leste. United Nations Development Programme.

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Full report can be downloaded from:
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MESSAGE FROM THE PRESIDENT OF THE SPECIAL ADMINISTRATIVE REGION OF OÉ-CUSSE

Since the beginning, the idea of establishing Special Zones of Social Market Economy (ZEESM) was to seek an alternative development model. Oé-Cusse is a unique geographic location with little to no state presence and because of that, we believe that here we can work to co-create, with the people and central level government, more accountable governance. One that takes into account governability and the diversity witnessed in Oé-Cusse's subsistence economy and in its diverse practices which have laid the foundation for the high levels of social cohesion and sense of place.

We are aware of how often states have a myopic view of development. That they tend see things from the perspective of conforming citizens' behaviors, practices, and plots of land, to better administer and tax/profit from them. Governing goes beyond administering. I hope to build a model that focuses on economic empowerment of people living under extreme poverty and engaging in subsistence economy, a model that takes the best that there is in such an economy to build the foundations of a more, call it moral economy. For me, looking back at my personal journey from administering to governing and my involvement in state-building, Social Market Economy means rethinking the role of the state in the provision of services and of the necessary safety nets to lower the risk and create the enabling conditions to aid the transition (if so desired) of peoples from a subsistence based economy to a more social economy where markets are tools to foster collaboration and specialization.

In Oé-Cusse we have embraced diversity and the various ways in which people engage with both subsistence level practices and the cash economy. Embracing such level of diversity requires changing the lens by which we understand Oé-Cusse and govern it.

This report is part of a series of independent reports commission by RAEOA ZEESM TL to international agencies all of which provide us with food for thought, thoughts that will eventually help us in deciding the future steps we take as a region. The state is not monolithic, and its representation in Oé-Cusse is aware of the need to engage and partner and listen to what our contributors have to say about RAEOA ZEESM-TL.

Oé-Cusse much like the rest of Timor-Leste is dynamic, and we are moving at a very fast pace. We need to consider the pace of development carefully not to fall into the extremes of the left-right spectrum and lose sight of why we are here, and who we are here to serve. Several of the recommendations herein have already been initiated. In the years to come RAEOA ZEESM-TL will initiate the process of making use of Human Development Funds being made available through State budget and, in a similar fashion by which it access funds through the Special Infrastructure Fund, we hope to continue to partner and most importantly remain all ears to the feedback, constructive criticism put forward in a non-judgmental way, for we all "see" things differently, and we ought to respect the diversity at play, and contribute to the vibrant discussions held by ZEESM TL which is still in its infant stages with much to learn from all, but far more to do and contribute for the people of Oé-Cusse and the peoples of Timor-Leste.



H.E. Dr. Mari Alkatiri

The President of the Authority of SAR of Oé-Cusse Ambeno and ZEESM TL



FOREWORD

Ending poverty and achieving the aspirations of the Sustainable Development Goals are the overriding development objectives of the 21st century. There is a remarkable development story to be told about the Asia-Pacific region; its share of global GDP has increased from about 10 percent in the 1950s to nearly 40 percent today. In just the past 15 years, the number of people living in poverty decreased from one billion to 300 million.

In the new development architecture, domestic resources have become the main source of development finance in the region; official development assistance accounts for less than 1 percent of financial flows.

Timor-Leste has achieved substantial progress on sustainable development since its 2002 independence. In its first decade of independence, the Government and people of Timor-Leste have successfully managed to transition from conflict to development and to lay a foundation of peace, stability and nation building.

Maintaining a sustainable peace has been a Timor-Leste success story. Good governance and the capacity of state institutions have been important elements. The country embarked on a process of economic, social and political development, as encapsulated in the National Strategic Development Plan 2011-2030, aiming to become an upper-middle-income nation by 2030. Through these efforts, Timor-Leste now ranks above average within its cohort on the Human Development Index, which classifies it as a lower-middle-income country, welcoming democratic elections, stability and peace.

Infrastructure initiatives have been undertaken; state institutions have been built in a remarkably short time and progress has been made in the social sector. However, a number of development challenges remain, including regional inequalities. Timor-Leste has one of the youngest populations in the world. Investments in human capital – particularly in education, training, health care and nutrition – can take upwards of 10 to 15 years to pay off. It is therefore important to consider that investments in these areas have impacts on long-term economic prospects.

In Oé-Cusse, as in the rest of the country, social recovery requires restoring and improving access to basic services. This includes rebuilding key social infrastructure on a basis such that the whole society can afford and access these services. This compels that the burdens of cost-recovery are not imposed directly onto the beneficiaries who need services the most, but can afford them the least. This usually entails structural reforms to address the underlying causes of poverty, exclusion and tension, such as land scarcity, lack of alternative livelihoods and inadequate opportunities for women.

This report attempts to provide a snapshot of progress made in the Special Zone of Social Market Economy (ZEESM) after only three years of operations. While this has been achieved to some extent, the challenge has been that the most up to date data available on socio-economic and human development indicators are from 2015 and previous years. While the institutional capacity for data collection, monitoring and evaluation is being strengthened, this report offers a glimpse into the meaning of a special economic zone for Timor-Leste, some facts and trends and potential opportunities for creating social value. Furthermore, the report addresses the vision of the Social Market Economy that ZEESM TL and RAEOA is advocated to implement, as an economic model.

Our intention with this report was to carry out basic research and a review of existing data and indicators. Much work on the subject is under way, and major development initiatives are still in the conceptual stage. Our approach has been to understand and assimilate the work already carried out by all parts of the Regional Authority and to integrate that thinking into the framework presented here.



While this report strives to provide a swift snapshot of a project still under construction, it represents a compilation of voices, gathering facts and ideas from both local, national and international organizations. This is vital for the success of any project, but most importantly for ambitious developmental interventions so that, people can be more engaged in the process of planning and investment. All voices affected by the change as well as those creating them can therefore, be understood and respected in the process of consultation.

The report has also attempted to highlight examples and good practices that show how the capabilities of the public sector can best be harnessed to accelerate development and poverty alleviation. Those approaches rely on social market, community based mechanisms and private sector incentives and thus lend themselves much more to replicability and scalability in the rest of Timor-Leste.

Finally, our ideas and conclusions are presented as directional in order to elicit reaction and constructive dialogue. The intent is to catalyse renewed partnerships with major stakeholders.



Claudio Providas
Country Director, UNDP Timor-Leste

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DISCLAIMER

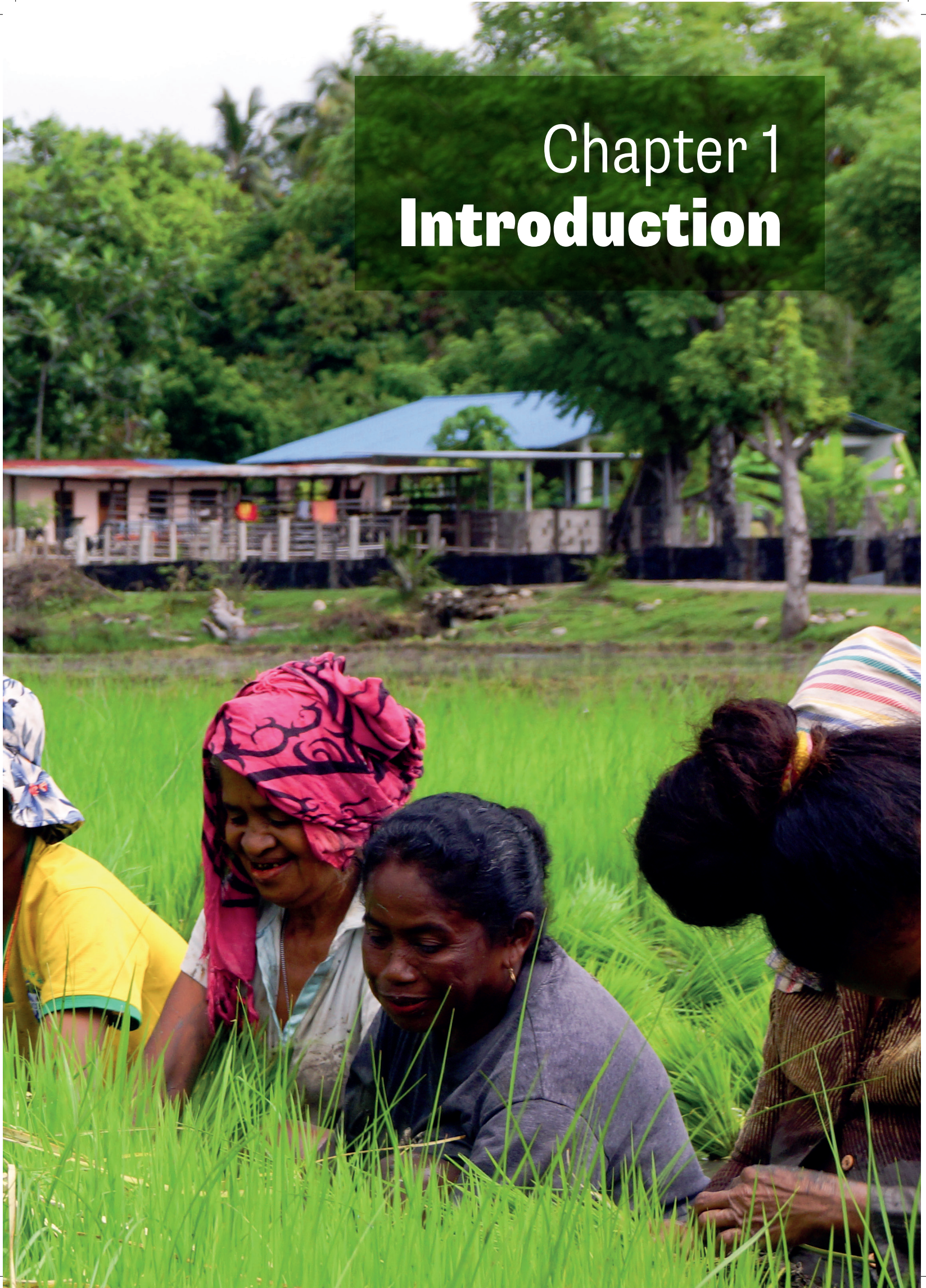
This report intends to provide a detailed account of the ZEESM and the vision and approach of a Social Market Economy. Some of the views and ideas expressed by individuals in this report, through quotes and interviews, may not necessarily be shared by the UNDP.





Chapter 1

Introduction





CHAPTER 1: INTRODUCTION

PURPOSE OF THE REPORT

Timor-Leste has achieved substantial progress on human development over the fifteen years since its 2002 independence. Prior to this, violent occupation and a traumatic struggle for independence had led to a period of conflict, instability and a significant erosion of development gains. Emerging out of this context, the government and people of Timor-Leste successfully laid a foundation of peace, stability and nation building in the first decade of independence. The country then embarked on a process of economic, social and political development encapsulated in the National Strategic Development Plan 2011-2030, aiming to develop into a “prosperous and strong” upper-middle-income nation by 2030.

Through these efforts, Timor-Leste ranked 133 out of 188 countries and territories on the 2015 Human Development Index, being classified as a lower-middle-income country.¹ Between 2000 and 2015, Timor-Leste’s life expectancy at birth increased by 20 years; between 1990 and 2015, gross national income per capita increased by about 138 percent.

Although considerable progress has been made in a short period of time, some human development advancements were quite limited in scope, and achievements showed great gender disparity among men and women. For example, the progress in adult literacy and mean years of schooling has stalled since 2010, and there is big disparity in schooling between men and women. In addition, despite substantial progress on many fronts, 42 percent of the total population still lives below the national poverty line.²³

Moreover, human development gains have been uneven across the country with rural areas often lagging behind. Development challenges are particularly difficult in Oé-Cusse, an enclave nested within Western Timor Province of Indonesia, where poverty has historically been higher than the national average.

Since independence, Oé-Cusse has had persistent difficulties in improving basic human development indicators; it often scored lowest in national rankings. Due to its geographical isolation and decades of neglect, many people in Oé-Cusse have been unable to reach their full potential in life because they suffer multiple deprivations in multiple dimensions of human development. Sixty three percent of the Oé-Cusse population lived below the national poverty line in 2014 (54 percent live below the international poverty line⁴).

In June 2014, with aspirations of bringing a transformative change to Oé-Cusse’s chronic underdevelopment and responding to the realities of its geographical isolation and an ever-evolving global market economy, the Government of Timor-Leste established a Special Zones of Social Market Economy (ZEESM TL) and created a Special Administrative Region in Oé-Cusse (RAEOA). The establishment of ZEESM TL and of the Special Administrative Region is a clear representation of the Government of Timor-Leste’s willingness and commitment to use a new policy instrument, the Special Social Market Economy Zone to reduce poverty in Oé-Cusse and improve overall social and economic well-being. In the context of implementation of special economic zones in Timor-Leste, the social market economy model in Oé-Cusse creates the connection between a strong state and free market economy with the objective of achieving competitive economy alongside private initiative and social progress. Hence the advantages of the market economy, such as economic freedom and technological progress are combined with social objectives such as equality and decent work for all.

Although ZEESM TL is in its early phase of implementation, this report intends to provide a detailed account of the historical context behind its establishment and legal framework and the vision and approach of a Social Market Economy. The report also aims to provide a clear picture of the state of demographic, socio-economic and human development indicators in Oé-Cusse, which could inform policymakers to track human development gains as the territory evolves as a mature SEZ. Finally, the report seeks to lay

1 UNDP, Human Development Report 2016, Human Development for Everyone, Timor-Leste Brief. Accessible at: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/es/TLS.pdf

2 In 2014, the national poverty line in Timor-Leste was \$46.36 a month (\$1.55 a day).

3 The World Bank, *Poverty in Timor-Leste 2014*, Washington, D.C. World Bank Group, 2016. Accessible at: <http://documents.worldbank.org/curated/en/577521475573958572/Poverty-in-Timor-Leste-2014>

4 *ibid*

out the building blocks of a development pathway in Oé-Cusse to accelerate the human development advancements through an inclusive and sustainable economic growth model.

The report is organized into 4 chapters. This chapter provides a conceptual framework for understanding human development concepts and how SEZs can contribute to human development gains. The following chapter gives a detailed account of the establishment of ZEESM TL, its legal framework, vision and approach along with early developments in the region and an account of public investment to date. The third chapter continues with presentation of the state of demographic and socio-economic indicators in Oé-Cusse and dwells more on the human development challenges. The fourth and final chapter provides pathways towards accelerated human development progress and identifies building blocks for the more inclusive and sustainable growth in Oé-Cusse.

PREPARATION PROCESSES

This report was commissioned by the ZEESM TL authority, marking two years of cooperation with UNDP. Although the report relied extensively on desk review for its analysis, a number of interviews were conducted with key informants during the preparation process.

APPROACHING HUMAN DEVELOPMENT IN THE CONTEXT OF SPECIAL ECONOMIC ZONES

What is a Human Development Approach?

The human development approach was born as a response to the rising concerns in the 1970s and 1980s that economic growth had emerged as both a leading objective and an indicator of national progress. The growing consensus at the time was that the world needed an alternative approach to measuring human progress and that this approach would need to go beyond economic measures such as a country's gross domestic product.

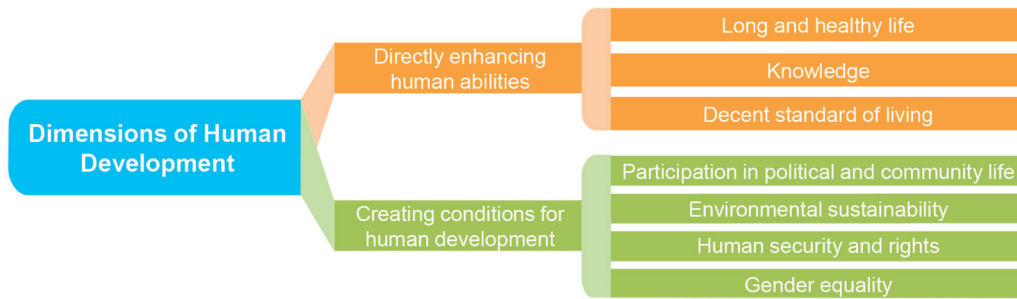
With the 1990 publication of the first Human Development Report, the United Nations Development Programme (UNDP) introduced the concept of the human development approach for advancing human well-being. The Report defined human development as expanding the richness of human life rather than simply the richness of the economy in which human beings live. Developed by economist Mahbub Ul Haq, the human development approach focuses on people themselves and creating fair opportunities and choices for all. The approach, anchored in Amartya Sen's work on human capabilities, is often framed in terms of whether people are able to "be" and "do" desirable things in life.

In principle, the human development approach promotes the people themselves, opportunities and choices. More specifically, its vision is set to:

- Improve the lives of **people** rather than assuming that economic growth will lead, automatically, to greater opportunities for all. In this respect income growth is only an important means to development, rather than an end in itself.
- Give more people the freedom and **opportunities** to live lives they value. This aspect is about developing people's abilities and giving them a chance to use them.
- Provide people with more **choices** and the freedom of choice to develop to their full potential and lead productive and creative lives that they value.

According to the human development approach, some aspects are fundamental (or foundational) for human development, as they directly enhance people's abilities. These include living a healthy and creative life, being knowledgeable and having access to resources needed for a decent standard of living. Other dimensions focus more on the context and the enabling conditions that help human development to flourish. These enabling conditions include participation in political and community life, environmental sustainability, human security and rights and gender equality.





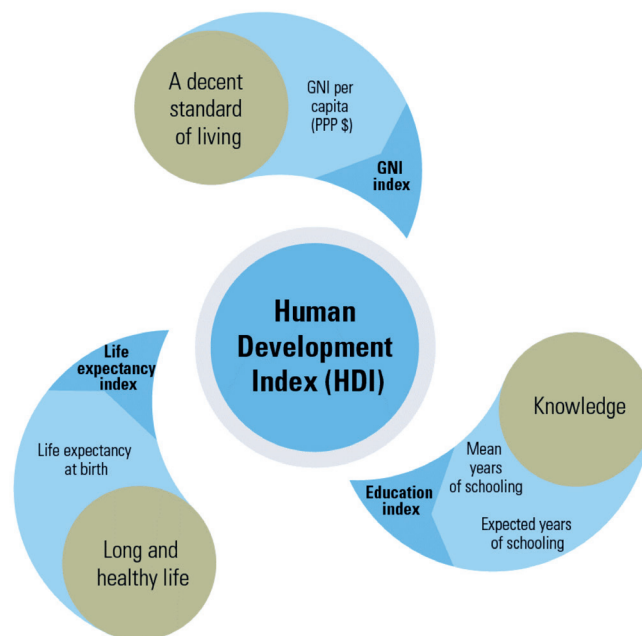
← **Figure 1**
Dimensions of Human Development

Concomitant with the human development approach, UNDP developed the Human Development Index in order to emphasize that people and their capabilities should be the ultimate criteria for assessing a country’s development, not its economic growth alone.

The Human Development Index deals with the fundamental dimensions of human development. It is a measure that summarizes achievements in having a long and healthy life, being knowledgeable and having a decent standard of living.

The Index assesses and aggregates several indicators of each of these dimensions, resulting in a composite index that uses the geometric mean to provide an outlook of the level of human development within a territory, country or region. For example, the health dimension is assessed by life expectancy at birth; the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school-entering age; and the standard of living dimension is measured by gross national income per capita. The Human Development Index uses the logarithm of income to reflect the diminishing importance of income with increasing gross national income.

“Economic growth without investment in human development is unsustainable and unethical” (Amartya Sen)



← **Figure 2**
Human Development Index (HDI)

It is important to note that the Human Development Index simplifies and captures only part of what human development entails. There are other measures that bring more light into the inequalities, sustainability and well-being aspects of human progress.

The 2030 Agenda for Sustainable Development states that there is a critical need for **a transformational change in development**, so that **no one is left behind**. This entails that the most disadvantaged benefit fully from the human development progress.



In light of the global agenda, the human development approach and its Human Development Index remain as a meaningful concept and a useful tool to articulate the objectives of development and to monitor progress. With greater data availability and technology use, there is an opportunity to work towards even more meaningful and broader measures of sustainable human development progress.

What are Special Economic Zones and their Objectives?

Special Economic Zones (SEZs) are broadly defined as “demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory.”⁵ Common SEZ features include a geographically defined area, streamlined procedures (such as for customs and special tax regulations), and governance by a single administrative authority.

The Special Zone of Social Market Economy in Oé-Cusse (ZEESM), presented in Chapter 2 in detail, is Timor-Leste’s own way of implementing a SEZ in Oé-Cusse. While Oé-Cusse conforms partially to this definition, full establishment of a SEZ in the region and enabling government mechanisms are still to be explored and realised. Further analysis is needed to understand the complementary nature of a Social Market Economy model and a SEZ and how these can interplay as the region matures in terms of achieving the social and economic outcomes. It is important to note that ZEESM is not purely a SEZ and its purpose goes beyond a SEZ. It is an administrative special zone (RAOEA) combined with a structure to promote social market economy which entails investments in health and education. While Chapter 2 provides further insights into the vision of the Social Market Economy that ZEESM TL and RAOEA is advocated to implement, as an economic model, this chapter aims to provide a conceptual framework on the relation between special economic zones and human development to help understand how human development gains can be accelerated in Oé-Cusse based on international experience.

Normally, a SEZ is established with the aim of achieving one or more of the following four policy objectives:⁶

1. Attracting foreign direct investment; virtually all zone programmes at least partly aim to attract foreign direct investment.
2. Serving as ‘pressure valves’ to alleviate large-scale unemployment.
3. Supporting wider economic reform strategies; an SEZ can be a simple tool that facilitates developing and diversifying exports.
4. Fomenting experimental laboratories for the application of new policies and approaches.

SEZs have a mixed record of success in achieving these objectives. However, empirical research shows that many SEZs have successfully generated exports and employment and come out marginally positive in cost-benefit assessments.⁷

Although many economists still view SEZs as a second- or even third-best solution to competitiveness, there are a number of examples that illustrate the catalytic role SEZs have played (and continue to play) in economic growth and adjustment processes.⁸

Even though the nature, scale and scope of the successes or limitations of SEZs will continue to be debated for decades to come, it is clear that policymakers find SEZs as an effective instrument of trade, investment, industrial and spatial policy. The evidence lies in that since the mid-1980s, the number of newly

5 Farole, T., *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experiences*, Washington, DC: World Bank, 2011.

6 Foreign Investment Advisory Service, *Special Economic Zones, Performance, Lessons Learned, and Implications for Zone Development*, Washington, DC: World Bank 2008.

7 Thomas Farole and Gokhan Akinci, *Special Economic Zones Progress, Emerging Challenges, and Future Directions*, Washington, DC: World Bank 2011.

8 Johansson and Nilsson, *Export Processing Zones as Catalysts*, *World Development*, Vol 25 Issue 12, pp 2115-28, 1997.



established zones has grown rapidly in almost all regions, with dramatic growth in developing countries.

For example, many countries in Asia are increasingly using SEZs in their economic development strategies. Many of the zones established in the 1970s and 1980s in East Asia's 'tiger economies' were critical in facilitating their industrial development and upgrading processes and have been at the heart of export-led development strategies.⁹ SEZs in Asian countries have attracted significant foreign direct investment, boosted exports, assisted in economic diversification and created millions of jobs – including many filled by women.¹⁰

While the growth of SEZs and their spill over effects on economic development vary across the region, Table 1 provides summarizes examples from some of the Association of Southeast Asian Nations (ASEAN) SEZ experiences.

Viet Nam	Indonesia	Philippines
As of 2015, there are 295 industrial parks, three technology parks and 15 economic zones in Viet Nam, which encompass over 50 percent of total foreign direct investment and 80 percent of manufacturing. A master plan, approved in 2015, provides for the creation of a total of 400 industrial parks and 18 economic zones by 2020. SEZs currently contribute to 40 percent of gross domestic product and 45 percent of export value. They employ approximately 2.5 percent of the workforce, which is rather high compared to the region (e.g. 1.25 percent in the Philippines and 1.1 percent in Thailand).	SEZs are well developed in Indonesia, and employ about 2.5 percent of the workforce. The Batam Free Trade Zone attracted over 150 major international maritime companies, contributing to a booming shipbuilding and shipyard industry, also facilitated by the advantageous position of the Riau Islands Province. Batam is also becoming an electronics manufacturing hub and benefits from the presence of global leaders such as Panasonic, Sanyo and Siemens. This is in part due to the quality of its infrastructure, which is higher than in the rest of Indonesia.	There are well over 300 economic zones administered by the 18 different investment promotion agencies in the Philippines. The SEZs have contributed significantly both to foreign direct investment inflows and to exports. The Philippines Economic Zone Authority alone owns three eco-zones, and administers the incentives for over 300 privately-managed zones. These include 21 agro-industrial economic zones, 216 IT parks and centres, 64 manufacturing economic zones, 19 tourism economic zones, and two medical tourism zones (as of May 2015). The Philippines Economic Zone Authority has a good reputation among investors for its one-stop, non-stop service.
Cambodia	Myanmar	Lao
Cambodia established the legal framework for SEZs in 2005. There are currently 34 approved SEZs, of which 14 were operational as of September 2015. These zones are nevertheless relatively small and account for a low share of total investment and employment: as of 2014, only 68,000, or less than 1 percent of total employment and 3.7 percent of total secondary industry employment. Most are located along the borders with Thailand and Viet Nam, particularly in Sihanoukville and Phnom Penh.	The first SEZ in Myanmar, the Thilawa SEZ, began operation in late 2015. The majority of the roughly 60 businesses to set up at Thilawa are Japanese, although investors from China, the United States, Thailand and other countries are also present. Sectors include manufacturing of garments and toys, steel products, radiators, aluminium cans, packaging and waste management.	In Lao PDR, although SEZs have been developed since the early 2000s, they remain a relatively new concept. Ten zones have been created, and two seem to be fully operational. Savan-Seno in Savan-nakhet, the first SEZ established in 2002, is particularly appealing to companies wishing to locate on the East-West economic corridor linking Viet Nam, Lao PDR and Thailand. The government is preparing a new SEZ law to ensure that zones have their own regulatory framework that reflects good international practices.

← **Table 1**
Examples of ASEAN
SEZ Experiences

Source: Asean Guidelines for Special Economic Zones Development and Collaboration, 2016

9 Thomas Farole and Gokhan Akinci, *Special Economic Zones Progress, Emerging Challenges, and Future Directions*, Washington, DC: World Bank 2011.

10 ASEAN Guidelines for Special Economic Zones Development and Collaboration, 2016. Accessible at: <http://asean.org/storage/2016/08/asean-guidelines-on-sez-development.pdf>



How do Special Economic Zones Contribute to Human Development?

Although the economic benefits of SEZs are rather explicit and studied by many, the literature on the human development impacts of SEZs is somewhat limited. A study, done on how SEZs in India affect human development offers a conceptual framework¹¹. According to the study, there are three channels through which direct and indirect gains for increased human development flow in the context of SEZs. These channels include:

1. Increased Employment;
2. Skills formation and human capital development; and
3. Technology and knowledge upgrade.

Increased employment

SEZs can contribute to human development by increasing job opportunities for the skilled and unskilled labour forces, including for women, and by providing opportunities to generate income and improve standards of living. A study based on a review of available literature concludes that consistent establishment of SEZs increased employment in all Asian countries¹². There is a large evidence base that SEZs contribute to local economies by creating work opportunities for local populations. Work can enhance human development by providing incomes and livelihoods, by reducing poverty and by ensuring equitable growth. It can also allow people to fully participate in society while affording them a sense of dignity and worth.

However, the links between work and human development is not automatic; it depends critically on factors such as the quality, conditions and societal value of work. Work also need to enhance environmental sustainability in order to strengthen the link with human development.

Skills formation and human capital development

SEZs require special skills and human capital to function fully with a productive and skilful labour force. To cater for its human capital needs, SEZs often trigger up-gradation of educational systems and provide skill-building and training opportunities. For example, in the Shenzhen SEZ (China) and Sri Lankan SEZs, institutes were established to improve technical and vocational skills of workers in the zones. In Taiwan, some cooperative training programmes between schools/colleges and the enterprises in the SEZs have been developed. In addition to SEZs setting up training institutes to create the relevant pool of skilled labour, firms or businesses in these zones often provide on- and off-the-job training. With skills training and on-the-job learning opportunities, the worker productivity increases, leading to more job opportunities and with increased income earning capacity. A recent study concludes that human capital development happens in Dubai's SEZs, although the level of human capital development depends on a number of things, including the employer's financial performance and level of clustering in the zone¹³.

SEZs attract foreign direct investment, which brings technology transfer, managerial and other market-driven skills and market knowledge that set important examples for local entrepreneurs. Through linkages, SEZs may enable local firms to master production, distribution and marketing skills and become more competitive nationally and internationally. Thus, SEZs can play a crucial role in upgrading domestic entrepreneurial skills.

Moreover, SEZs often lead to a macro environment with raised demand for (and wages of) skilled workers, which, in turn, positively incentivizes people to attain more education and skills. While increased education and increased knowledge can be an end to itself, its contribution to human development is well documented and universally accepted.

11 Aradhna Aggarwal, *Impact of Special Economic Zones on Employment, Poverty and Human Development*, Working Paper No. 194, Indian Council for Research on International Economic Relations, 2007.

12 Jayanthakumaran, K., *Benefit-Cost Appraisals of Export Processing Zones: A Survey of the Literature*, *Development Policy Review* 21 (1): 51-65, 2003.

13 Al Sakka, FAM 2014, *Human capital development in special economic zones the case of Dubai*, PhD thesis, University of Salford.



Technology and knowledge upgrade

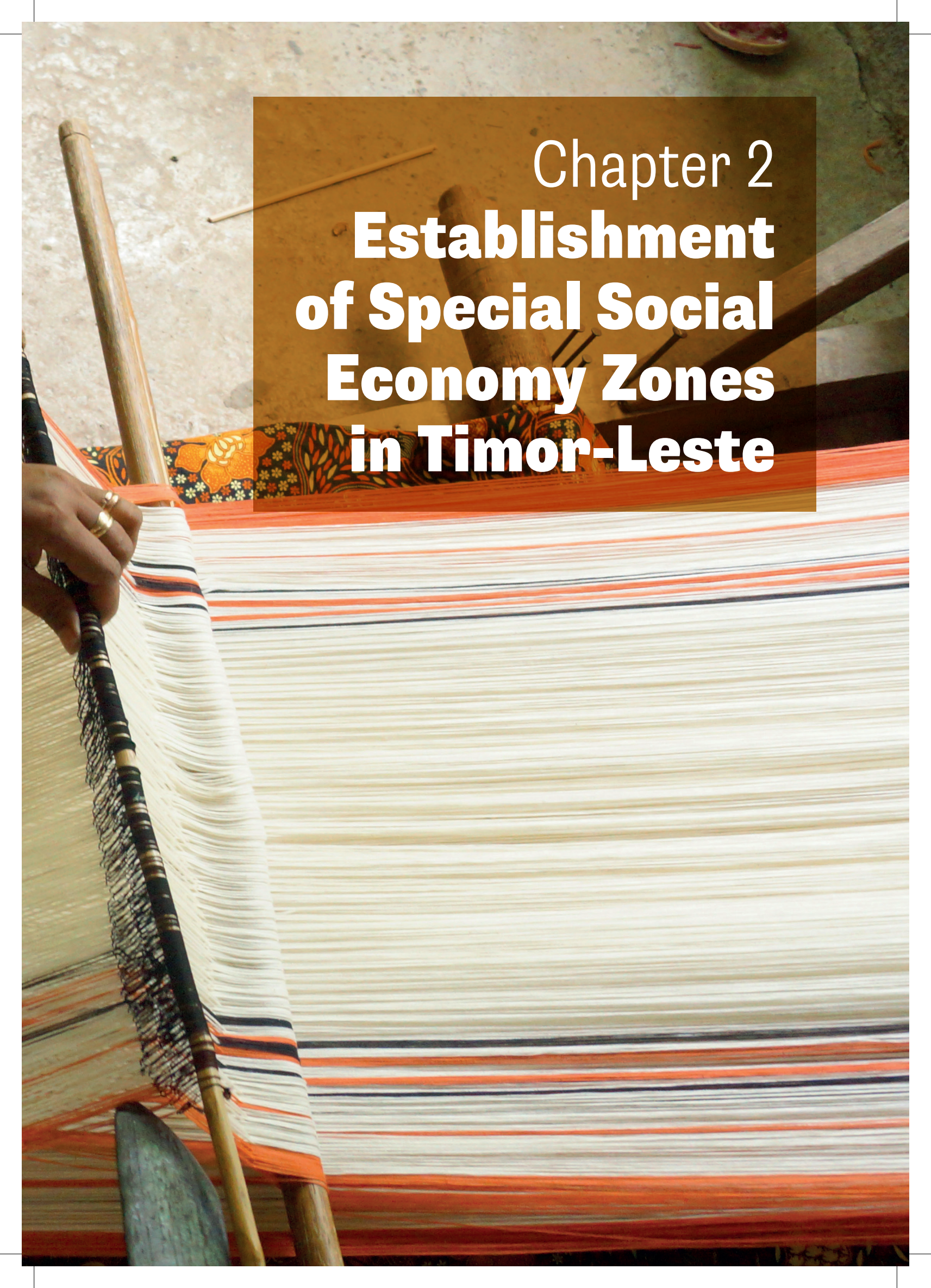
Through an enabling investment climate, SEZs often attract and promote collaboration with businesses that range from multinational corporations to small- and medium-size enterprises. These partnerships facilitate technology transfer into SEZs and create an environment where continuous learning, innovation and technological advancement becomes necessary, particularly in the context of a globally integrated value chain with global standards and low-cost competition. The aspects related to technological advancement, innovation and continuous learning transfer are all important for human development.

While such impacts are not automatic and are dependent on various elements, there are risks for failure when SEZs do not attain sustained innovation and competitiveness over time, provide little technological upgrading or create jobs that exploit people's lives rather than become the means for a better future.

Due to its scope, this Report does not explore the relationship between SEZs and human development in detail; it acknowledges, however that this field of study may benefit from further research. From empirical evidence available in literature, it is possible to conclude that unleashing the power of SEZs can offer significant direct gains for human development. It is important that the above channels are tapped into in order to unlock their potential to contribute to human development in a sustainable and equitable manner, where benefits are shared by the wider society of current and future generations. In this respect, the SEZ set up in Timor-Leste, which is further detailed in the following chapter, needs to be understood as an alternative development model with potentials beyond its boundaries.





A close-up photograph of a person's hands weaving a fabric on a traditional wooden loom. The fabric features horizontal stripes in white, orange, and dark blue. The loom is made of light-colored wood, and the background shows a concrete floor and some tools. The text is overlaid on a semi-transparent brown rectangle in the upper right portion of the image.

Chapter 2
**Establishment
of Special Social
Economy Zones
in Timor-Leste**



CHAPTER 2: ESTABLISHMENT OF SPECIAL SOCIAL ECONOMY ZONES IN TIMOR-LESTE

BACKGROUND TO TIMOR-LESTE'S SPECIAL ZONES OF SOCIAL MARKET ECONOMY

The Government of Timor-Leste, through the Council of Ministers of the Fifth Constitutional Government, passed a resolution on 16 June 2013 reinforcing the process towards preparation for and the implementation of the Special Zones of Social Market Economies (ZEESM TL) in Timor-Leste.

Dr. Alkatiri, the former Prime Minister of the First Constitutional Government of Timor-Leste, was nominated as the government-appointed leader to head the planning and investment in ZEESM TL programme and to implement this important part of Timor-Leste's Strategic Development Plan related to Special Economic Zones (SEZs), in coordination with the Office of Prime Minister and the Office of the Council of Ministers.

Timor-Leste's Strategic Development Plan 2001-2030 acknowledges SEZs as important instruments for attracting investment that would help accelerate economic development in the country. The Plan articulates the benefits of SEZs as "promoting industry and service sector development, particularly in targeted sectors; creating jobs and generating national income; growing export industries; creating international business opportunities; and improving national infrastructure."

Establishing the SEZ involved the enclave of Oé-Cusse, located on the north coast in the western part of the island of Timor and Atauro Island, which is a part of Dili Municipality and just north of the city. It was agreed that ZEESM TL would be initiated in Oé-Cusse, which meant that it was first of six National Strategic Zones mentioned in Timor-Leste's Strategic Development Plan to be piloted. It is important to recognise that ZEESM TL was set up as a pilot experience of an alternative development model beyond the boundaries of Oé-Cusse and Atauro. Oé-Cusse is an enclave isolated from the remainder of Timor-Leste and from many communities with which it has strong sociolinguistic and trade ties, but which are across the Indonesian border. Since Timor-Leste's independence, there has been a range of proposed solutions to Oé-Cusse's isolation, especially in relation to its economic development and security. A consistent theme has focused on the necessity for foreign investment and for special measures to stimulate economic activity in the region. In June 2000, the International District Administration made the first mention of a SEZ, which called for a soft border regime with Indonesia, reduced tax and tariffs rates and unique land and labour codes¹⁴.

On 18 June 2014, the government passed a law establishing ZEESM TL Special Zone of Social Market Economy (to be enjoyed by the enclave of Oé-Cusse and Atauro Island), and creating the Special Administrative Region of Oé-Cusse (RAEOA). On 25 July 2014, the President of the Republic of Timor-Leste formally swore in Dr. Alkatiri as the President of ZEESM TL.

With this law providing the legal context in accordance with Constitutional provisions, the territory of Oé-Cusse was elevated to a Special Administrative Region in relation to its administrative, financial and patrimonial autonomy, legal framework and governance bodies. The ZEESM TL law provides a high degree of independence for the Oé-Cusse Special Administrative Region to create its own rules and systems¹⁵. Although the Special Administrative Region shares responsibility with the Democratic Republic of Timor-Leste in diplomacy and foreign relations, personnel, civil service regime and pay scales, the Region enjoys the autonomy to propose and pilot its own policies, regulations and executive orders in selected areas in coordination with the central government and can enact these upon endorsement (see Box 1).

The regulations take the form of deliberations, which primarily focus on procedures and processes that enable the region to implement national-level policies. If there are no national-level policies to adapt and contextualize, regional policy approaches and plans are put forward. For example, Oé-Cusse designed and implemented its own spatial planning a year before the national-levels guidelines for spatial planning were launched. National-level approval will follow in order to ensure that regional spatial planning follows national-level guidelines.

¹⁴ Kym Holthouse and Damian Grenfell, *Social and Economic Development in Oé-Cusse, Timor-Leste, 2007*.

¹⁵ <https://www.laohamutuk.org/econ/Oecussi/LeiZeesm18Jun2014En.pdf>



PICTURE 2 →
STRONG TRADITIONS
AND COMMUNITY LINKS
IN THE REGION ARE SEEN
AS ONE OF THE BUILDING
BLOCKS FOR THE SEZ.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE



- Regulatory powers (Article 9);
- Budget (Articles 10, 16, 35-36);
- Planning (Articles 10 and 16);
- Finances and tax system (Articles 11, 28 and 29) -- all revenues collected there stay there and the region is exempt from national taxes (28.4);
- Managing state-owned property (Article 12);
- Transparency and reporting, if any (not mentioned in the ZEESM TL law);
- Land use and expropriation (Articles 26-27), in accordance with national laws;
- Making investments, including overseas (Article 28.2);
- Procurement (Article 30);
- Unrestricted financial market and trade (Articles 31 and 33);
- Customs duties (Articles 32 and 38.3) and ship registration (Article 34);
- Goods for economic and social development are exempt from customs duties; and
- No prior contract and legislation reviews by the Chamber of Auditors (Article 41)

← **BOX 1**
 AREAS WHERE THE
 RAEOA ZEESM TL
 HAS COMPETENCIES
 TO ENACT POLICIES,
 REGULATIONS AND
 EXECUTIVE ORDERS

Some literature suggests that Oé-Cusse's isolation (due to its geographical separation), has long fostered strong local leadership in customary and local political realms since 1999. This has led enclave residents to recognize the importance of taking control of the region in order to make it flourish and develop¹⁶.

RAEOA ZEESM TL'S APPROACH AND VISION

Article 38 of the Law No. 3/2014 defines 'social market economy' as an inclusive and participatory model consisting of socio-economically and environmentally sustainable development initiatives that diversify the economy in the respective geographic and adjacent areas. Both the Timor-Leste Strategic Development Plan 2011-2030 and the Programme of the Fifth Constitutional Government 2012-2017 emphasize the importance of special economic zones as a policy instrument to spur sustainable economic growth, to create jobs and to enable social development.

Conceptualised and developed under the guidance of Dr. Alkatiri, the model of social market economy focuses on social components in generating sustained economic growth, aiming to simultaneously invest and develop the education, health and economic sectors. It offers an inclusive model for growth that is people-centred and which calls for human and social development to be at the core of all plans and processes.

Some of the key features of ZEESM TL's approach that emphasize sustainability and inclusiveness elements of development include:

- All areas surrounding the zone will be developed based on a community and rural development policy;
- All companies accepted in ZEESM TL will embrace a social responsibility regime;
- Sustainability will be incorporated into all possible and reasonable aspects, including construction, architecture, means of communication, energy, and water supply;
- ZEESM TL will be strategically located near an airport and a seaport; and
- ZEESM TL will have easy access to health, education and energy infrastructure.

The ZEESM TL vision includes the longer-term goal of economic development in which Oé-Cusse emerges as a regional hub to become a catalyst for regional development, trade and investment, offering a platform for financial transactions and trade in goods and services.

16 Laura Meitzner Yoder, *The development Eraser in Oé-Cusse, Timor-Leste*, Journal of Political Ecology, Vol 22, 2015.



BOX 2 →
ZEESM TL SPECIAL
ZONE OF MARKET
ECONOMY LAW NO.
3/2014, ARTICLE 5,
SECTION 2

The law states that ZEESM TL will prioritize socio-economic activities that promote the quality of life and well-being of the community by:

- Devising a model of development based on a new type of social market economy that equitably and sustainably stimulates, promotes and accelerates regional growth;
- Encouraging, promoting and accelerating growth as an economically competitive sub-regional and regional development hub;
- Promoting the region as a choice destination for investment, employment and residence;
- Ensuring that sustainable social development is based on the principles and objectives of a social market economy;
- Promoting projects that encourage economic, industrial, commercial, social, and cultural development;
- Developing human resources by establishing vocational, technical and university courses in economics, engineering, medicine, mathematics and philosophy;
- Developing, studying and implementing territorial planning;
- Adopting a development plan that creates urban development zones and quality rural zones;
- Marketing access to member countries of ASEAN, G7+ and the Community of Portuguese Language Countries.

The Social Market Economy¹⁷ model is described as an integrated approach to sustainable and sustained growth, combining dynamism in trade sectors, industry and social components which could become a development laboratory for the nation. The zones themselves are aimed to function as incubators for governance policies that can be implemented as tools to drive the global and integrated development of Timor-Leste. Dr. Alkatiri refers to the model as a concept that challenges the paradigms and development models already sold out, even those more advanced ones.

“Two different models have previously divided the world. The Socialism/Marxism and liberalism. Both models have their positives and negatives. I have been dreaming of a new model of development. Our vision had enough courage to challenge the mainstream development paradigm. ... Oé-Cusse’s Social Market Economy is aimed at increasing the living standard of the poor people in tandem with economic growth.... No development around the world is without risk. We need to invest and take our own risk. ZEESM TL for us is not only a Special Economic Zone but it is a development laboratory. We aim to have the Social Market Economy model succeed so it can be applied all around the country.”

Dr. Alkatiri - from his speech at the Economic Diversification Side Event at the Sustainable Development Goal Conference for Fragile States, Dili Timor-Leste, 20 May 2017.

The ZEESM TL model aspires to compete in the global economy seeing the three drivers of development in Oé-Cusse as finance, agribusiness and tourism, referring to them as the “development triangle for foreign investment.” The model also aspires to serve as a strategic hub for trade collaboration and economic diplomacy, especially with Indonesia for agricultural products and value-added natural resource processing. It will do this by building a strong educational and infrastructural base.

In this respect, it is important to note that although efforts are underway to promote private sector development in Timor-Leste (see, for example, the recent launch of the Timor-Leste Investment Guide¹⁸), Timor-Leste currently ranks 175th out of 190 countries on the World Bank Ease of Doing Business. It takes on average almost 20 times the per capita income to start a business in Timor-Leste compared with East Asia and the Pacific countries.

¹⁷ The term ‘Social Market Economy’ originated with German economic approaches developed in late 1940s that prioritized free market capitalism towards the end of social development with minimal government oversight.

¹⁸ The ‘Timor-Leste Investment Guide’, produced as a tool to assist national and foreign investors to understand opportunities in the country was been launched on 21 May 2017. The Guide is produced by Ernst and Young in consultation with the government and Trade Invest Timor-Leste.





EARLY DEVELOPMENTS IN RAE OA ZEESM TL FROM 2014 TO 2017

Achievements in providing reliable, long-term and high-quality transportation and communication infrastructure

Transport and connectivity are some of the most important enablers for a country's human and economic development. Economic activities cannot occur without an infrastructure base particularly in the context of a global economy, where economic opportunities have been increasingly related to the mobility of people, goods and information. Efficient communication and transport systems provide economic and social opportunities for people and have a multiplier effect on better access to markets, employment and attracting additional investments. High density of transport infrastructure and highly connected networks are often associated with high levels of development.

Since 2014, the Government of the Republic of Timor-Leste has concentrated efforts to embrace Oé-Cusse as an integral part of its territory and bring its centuries-old isolation to an end. To break the isolation of Oé-Cusse, one of the early priorities of ZEESM TL have been ensuring transport infrastructure to enable mobility between local people and the rest of the country. The Government of Timor-Leste considers mobility and connectivity as an indispensable condition for effective citizenship and economic development¹⁹.

↑ **PICTURE 3**
A TIMORESE GRADUATE
CONDUCTES A ROAD
SURVEY IN OESILE,
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE

19 From President of Timor-Leste Mr. Lu-Olo's speech at the inauguration of the Noefefan bridge in Oé-Cusse on 10 June 2017



Oé-Cusse has a road network of 314km, divided into 'national roads' linking Oé-Cusse to international borders (91km), 'regional roads' linking sub-regions (73km), 'rural roads' linking sucos (110km) and 'urban roads' in Pante Macassar town (40km).

ZEESM TL achievements over the past three years in providing safe, consistent and high-quality transport solutions to Oé-Cusse include expanding roads, renovating the port, investing in a new ferry and building Noefefan bridge.

Through the expansion of improved roads, ZEESM TL aims to enable more people to participate in the economy, to connect producers with markets and to ensure more communities have better access to basic services. With these roads, Oé-Cusse is also able to visibly mark its borders with Indonesia. The 22 kilometres road from Sakato to Lifau has been improved with the journey time reduced from 45 minutes to under 15. This has greatly improved access to the ferry and airport. A total of 50 kilometres of roads have already been completed.

ZEESM TL has invested in ensuring there is an airport allowing people to visit Oé-Cusse. A new plane regularly flies between Oé-Cusse and Dili in less than an hour. The airport opens the possibility of attracting business and tourism travel to the region. An international airport, large enough to receive medium-sized aircraft is currently under construction.

Trade between Oé-Cusse and the rest of the country heavily relies on roads and ferries. The existing ferry between Oé-Cusse and Dili, operates only twice a week, takes 12 hours and is often fully booked.

The Noefefan Bridge in Tono, recently launched on 10 June 2017, is a 380-meter bridge along the coastal road. The largest bridge built in Timor-Leste to date, links Pante Macassar to Citrana and Passabe and then on towards the western border. The Tono River used to isolate populations; in the rainy season, it often cut off half of the region from the access road to Dili and Pante Macassar. It is estimated that 3,600 households who lived in isolation around the Tono River will be positively affected by this new permanent access. Approximately 3,000 rice farmers, who cultivate more than 1,000 hectares near the Tono River, now have better access to the Pante-Macassar and the Oé-Cusse port.

“The Noefefan Bridge is the result of a new philosophy. The Noefefan Bridge is an integral part of a new development model ... It is in this area that we have been focussing tremendous efforts for the construction of basic infrastructure, necessary to attract national and foreign investors, create jobs, and accelerate sustainable economic growth, while simultaneously ensuring social development.”

President Francisco Guterres - from his speech his at the inauguration of the Noefefan Bridge in Oé-Cusse, 11 June 2017



PICTURE 4 →
PRESIDENT FRANCISCO
GUTERRES AND
PRESIDENT ALKATIRI
ARE GREETED BY
TRADITIONAL LEADERS
AT THE OPENING OF A
BRIDGE.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE





← **PICTURE 5**
 A RICE PADDY IN
 THE TONO RIVER
 BASIN, AGRICULTURAL
 PRODUCTS NEED GOOD
 TRANSPORT TO ACCESS
 MARKETS.
 PHOTO: ANNE KENNEDY
 UNDP TIMOR-LESTE

There are also plans for improving people's connectivity through improved communications services. The Master Plan of ZEESM TL sets the target as 100 percent mobile connectivity and 70 percent Wi-Fi coverage (with 100 Mbps Internet Speed) among local households.

Achievements towards improved food security and nutrition

Agriculture is currently the primary income and work of the majority of women and men in Oé-Cusse. 74 percent of the population are involved in farming; 91 percent of the population were reported to own or lease land for farming (much higher than in the rest of Timor-Leste, at 16 percent)²⁰. Although agricultural activity is the backbone of the existing economy, it is more of a subsistence activity, prone to various vulnerabilities such as climate-induced disasters and unsustainable farming practices. Availability of water, competitiveness of production, and access capital and market are often cited as some of

²⁰ The World Bank, Democratic of Timor-Leste Oé-Cusse Economic and Trade Potential Volume I: Overview of Oé-Cusse Today & Long-Term Potential Volume II: Detailed Analysis and Background Documents, Report No: ACS18457, 2016.



the main constraints to improve agricultural production. During its early phase, ZEESM TL responded to food insecurity by improving irrigation, especially around the Tono river. Although Oé-Cusse is known for its abundant water, during the dry season rainfall can be as low as just one millimetre; farmers far from irrigation channels or rivers can have limited to water. Irrigation canals completed at Tono stretch along 23 kilometres and will provide reliable water for 3,000 hectares of agricultural land.

Access to reliable water supplies greatly increases the potential for reducing food insecurity. There are several ongoing initiatives ranging from technical assistance, access to funding, value chain development under the Regional Secretary of Agriculture to improve the sector. In addition, 23 horticultural centres have been supported to produce organic vegetables, increase diversity and build fish ponds.

According to the Master Plan for Territorial Planning in the Special Administrative Region of Oé-Cusse, the main areas identified for agricultural development include Tono river basin and the villages of Abani, Malelat and Usi-Taqueno and Bobocasse. These areas are chosen based on their topography and their relatively easier access to water resources. The villages Taiboco and Cunha on the other hand are planned to be returned to natural land because the area is prone to flooding and does not allow infrastructure development to allow accessibility to the rest of the territory²¹.

Achievements towards access to clean energy, improved water and sanitation

The construction of the Inur Sakato Power Plant is aimed at providing reliable and continuous electricity access for local populations and burgeoning economic activities in Oé-Cusse. Inaugurated on 17 June 2017, the power plant can produce 17.3MW and provide 24 hours of electricity per day, serving as a central support and complementary resource to the national power station in Hera.

Over 70 percent of households, both in urban and rural areas in Oé-Cusse, now have access to electricity. In some rural areas, this figure now stands at over 90 percent where households have already been connected. The remaining households are often the most isolated ones, over two kilometres away from the grid.

With the assistance from the Asian Development Bank, ZEESM TL is also trying to improve people's access to safe water, 45 kilometres of water grid have been installed.

The Master Plan for Territorial Planning in the Special Administrative Region of Oé-Cusse has the objective of creating the conditions of a green, sustainable and an inclusive territory that improves the living standards of local populations²². This plan articulates the residential typologies, support services for families and businesses, avenues for promoting tourism, leisure, culture and civic participation. It details the existing and future design of the territorial planning which will enable a mobility network linking housing, employment, proximity to public services and resources. In relation to improving the living standards and sustainability in Oé-Cusse, this Master Plan sets the following target parameters²³:

- 100 percent of families will have a direct connection to a continuous supply of water;
- 100 percent of supplied water will be treated for consumption;
- 100 percent coverage of road networks will have storm of drainage for the water network;
- 100 percent use of rainwater in urban areas;
- 90 percent of households will have a toilet and connect to waste water network;
- 100 percent coverage rate of urban areas by door-to-door collection system on a daily basis;
- 100 percent collection of urban solid waste;
- 100 percent recycling rate for solid wastes;
- 100 percent completed infrastructure to supply continuous electricity; and
- 100 percent of costs recovered by concessions.

²¹ GEOTPU (Research Group in Spatial and Urban Planning based at Nova University of Lisbon) and FUNDEC (Foundation for Continuing Training in Civil Engineering), the Master Plan for Territorial Planning in the Special Administrative Region of Oé-Cusse Ambeno, 2016

²² GEOTPU (Research Group in Spatial and Urban Planning based at Nova University of Lisbon) and FUNDEC (Foundation for Continuing Training in Civil Engineering), the Master Plan for Territorial Planning in the Special Administrative Region of Oé-Cusse Ambeno, 2016

²³ *ibid*





Agostinho Lafo's personal drive to become an engineer began before there was a power plant in Oé-Cusse. After graduating from the National University of Timor-Leste, he and his colleagues found it difficult to find work as professionals – until they found employment at the ZEEISM TL-built Inur power plant. They are just two of the eight Timorese nationals who work in the power plant.

The plant provides electricity to over 90 percent of households in Oesilo, Agostinho's rural home town. Currently using only a small portion of its capacity, the plant is designed to be able to meet the anticipated rise in demand as businesses expand and more households begin using electricity as their cooking and light source. Agostinho's work is vital not just for his professional development, but also in increasing electricity supply.

"This is my land, my city, that is why I want to keep working here."

Agostinho Lafo, Engineer at the Inur Power Plant, Oé-Cusse



↑ **PICTURE 6**
ZEEISM TL STAFF
DOCUMENT
CONTRACTORS DURING
A ROAD SURVEY
WATCHED BY ONE OF
THE FAMILIES SET TO
GAIN ELECTRICITY BY
THE WORK.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE

← **BOX 3**
SUCCESS STORIES:
POWERING TIMOR-LESTE

← **PICTURE 7**
AGOSTINHO LAFO
OVERLOOKS THE INUS
SAKATO POWER PLANT.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE

Achievements towards improved access to education

Between 2015 and 2017, the number of students attending school increased by 3,648 people, reaching 25,661 pupils (as of May 2017) in public and private schools in Oé-Cusse, from preschool to secondary school. This marked a 12 percent increase in the number of pupils enrolled in primary school and a 46 percent increase in secondary school enrolments since 2015.

These improvements may be attributed to early ZEESM TL efforts to improve schooling conditions and to encourage school feeding programmes. Since 2014, 26 schools have been rehabilitated and 81 schools (67 primary and 14 preschools) receive support to provide school feeding to 20,882 children. Local horticultural centres and the Education Secretariat's distribution system are coordinating to provide food to the schools. In addition, 22,758 students received educational materials.

The Master Plan states that the existing human and infrastructure resources are not adequate to meet the current needs required for establishing an educational network where schools can be placed at the centre of local and community development. The targets set within this plan include:

- Establishment of a school network where the maximum distance from a pupil's residence to a school will be reached within 30 minutes of walking.
- Professional training and adult qualification opportunities will be promoted in all sub-municipalities and offered in Passabe and Nitibe.
- Employment and professional qualifications policies will be improved.
- Higher education and training will be offered through Polytechnique in Pante Makassar providing training opportunities in nursing, teacher training, agriculture, fisheries, and hospitality and potentially in energy and environment sector.

Achievements towards improving health services

ZEESM TL has been investing in establishing a stronger health sector workforce and equipping the health service providers with adequate resources. In pursuing these, the strategy is to ensure that those working in Oé-Cusse train those already there.

The Master Plan for Territorial Planning in the Special Administrative Region of Oé-Cusse Ambeno refers to the following target parameters for improving local people's access to health services.

- Health service reach within 30 minutes upon an emergency;
- A local health centre for each 15,000 inhabitants;
- A home for elderly, children and maternity with 25-30 beds per 1000 inhabitants;
- An intermediate level hospital (general clinic and public health valences) with 80 beds for each 1000 people;
- One day-centre for elderly for each 50000 people; and
- One diagnosis centre for each 50,000 inhabitants.

Two doctors are going to complete training to become cardiologists. Wherever possible, ZEESM TL targets local employment, with a strong focus on women employees. In the hospital's emergency room there are eight doctors, most of them women. In the hospital's general doctor pool, all ten doctors are from Timor-Leste, with three from Oé-Cusse. All 26 nurses are Timorese, of both genders. All 13 midwives are from Timor-Leste.

There is ongoing work to address data challenges in health sector through community surveys and health service accounting. There are also plans for mobile clinics bringing health services closer to people.



On 8 May 2017 over a dozen Timorese doctors, including three women, gathered in the Oé-Cusse coastal town of Palaban to compete for two places for training to become cardiologists.

The winners will begin training in the hospital in Pante-Macassar and after this is completed the selected doctors will train at the Centro Hospitalar e Universitário de Coimbra, (CHUC) in Portugal.

There is free healthcare throughout Timor-Leste. But training local professionals helps convert this legal guarantee into a practical reality. By recruiting and investing in local Timorese doctors and health professionals ZEESM TL, is trying to ensure that skills remain in the areas most in need of them.

The training is part of a long-term partnership between CHUC in Portugal and ZEESM TL in Oé-Cusse. Two doctors from Portugal chose the winning candidates based on an examination which was supervised by the Infectious Disease Specialist Health Advisor, Danina Coelho.



← **BOX 4**
SUCCESS STORIES:
HEART ANDHEAD

← **PICTURE 8**
DOCTORS SIT FOR AN
EXAM TO DETERMINE
WHO WILL BE SELECTED
FOR TRAINING.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE

Achievements towards effective governance

ZEESM TL is a commitment to transform and improve the public administration and good governance. In the past year, concrete steps have been taken in partnership with UNDP towards improving the capacity of the Regional Authority leveraging a global network of institutions and experts. For example, UNDP and the Singapore Polytechnic Institute are supporting skills development, professionalization and Monitoring and Evaluation capacities.

“We are not alone, we work with the UN and UNDP to promote small business development, community tourism better agriculture and agro-business, improved governance. We also work with the private sector to have better infrastructure and with the community leaders to ensure their participation and empowerment.”

Dr. Alkatiri - from his speech at the Economic Diversification Side Event at the Sustainable Development Goal Conference for Fragile States, Dili Timor-Leste, 20 May 2017

The Regional Authority is implementing modern systems and procedures for public procurement. This was ensured through introduction of Standard Operation Procedures and practices into the procurement system, some of which include the following:

- Public advertisement and tendering process.
- Code of ethics.
- Information disclosure.
- Contract management.
- Special assistance is provided to small and local providers to improve their capacity to participate with the aim of encouraging local business development and job generation.



A key element of good governance is also having good access to timely and reliable data feeding into an information base for evidence-based planning and decision making. ZEESM TL has partnered with UNDP to support the monitoring and evaluation capacity, among other areas, such as agriculture, health and tourism.

Efforts towards supporting the tourism sector

ZEESM TL is committed to promoting and developing the tourism sector and to providing the enabling infrastructure for it to flourish. A hotel and Tourism and Cultural Information Centre are also in progress.

The Regional Secretary for Community Tourism is engaging with local communities to explore traditional arts and crafts, historical and adventure sites. At the same time, the private sector has been engaged to improve the quality of the existing services (accommodation, food and transportation). There is ongoing work to design packaged historical, cultural and adventure tours for tourists expected to come from Dili and abroad. The Secretary is focusing its efforts towards the development of community tourism, link it to the local community, the agriculture processes, and to the development of the rural areas.



PICTURE 9 →
WEAVERS DISPLAY
THE ROYAL TAI THEY
CREATED BY HAND.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE



Five pillars have been identified as foundations for sustainable tourism: Tourism Policy and Governance, Trade, Investment, Data and Competitiveness, Employment, Decent Work and Capacity Building, Poverty Reduction and Social Inclusion, and Sustainability of the Natural and Cultural Environment.

The road connecting Nipani and Bene-Ufe is considered essential to provide road accessibility to the potential tourism areas along with provision of efficient water and energy and sewage control. Some of the activities targeted in the Master Plan include:

- Training programs in hospitality to be offered to local people;
- Construction of a clinic and recruitment of medical staff to complement tourism sector with stronger health facilities;
- Training community tourism facilitators at the village level to support community based sustainable tourism;
- Promotion of commercial shops and hotels to supply local products;
- Treatment of solid waste.

PUBLIC INVESTMENT TO DATE AND EARLY PRIORITIES

According to the state budget reports, between 2014 and 2017 the Government of Timor-Leste allocated a total of \$554 million to the ZEESM TL authority (see Table 2 for a breakdown of the budget allocations in the initial phase of the project).

	Salary and Wages	Goods and Services	Minor Capital	Capital Development	Public Transfers	Special Development Fund	Contingency Fund	Total Funds Allocated
2014	0	0	0	500,000	20,500,000	0	0	21,000,000
2015	6,164,148	11,120,464	1,274,000	112,933,388	1,938,000	0	0	133,430,000
2016	6,664,148	14,188,649	1,157,700	169,754,387	3,174,000	20,000,000	3,000,000	217,938,884
2017	8,172,239	16,322,747	2,397,440	122,949,753	4,017,821	15,000,000	3,000,000	171,860,000

← **Table 2**
Government Budget
Approved for ZEESM TL
from 2014 to 2017 (US\$)

Source: Democratic Republic of Timor-Leste, State Budget 2017 Approved Book 3C, 2017

The ZEESM TL budget allocated as a percentage of the total government expenditure (including loans), increased from 1.6 percent in 2014 to 12.4 percent in 2017. It is important to note that petroleum fund revenues are the primary source of public revenue in Timor-Leste. In 2015, petroleum fund revenues accounted for 88 percent of all state revenues (excluding grants).

Budget Allocated for ZEESM as a percentage of the total government expenditure	
2014	1.6%
2015	10.0%
2016	11.2%
2017	12.4%

← **Table 3**
Budget Allocated for ZEESM
as a Percentage of Total
Government Expenditure

Source: Ministry of Finance of Timor-Leste, Timor-Leste National Accounts 2010-2015, December 2016 and Democratic Republic of Timor-Leste, State Budget 2017 Approved Book 3C, 2017



ZEESM TL investments initially focused in building basic infrastructure, such as constructing an international airport, an electrical power station and grid, coastal road widening²⁴ and bridge construction, hospital upgrades, building renovations and rehabilitation, hotel construction, and expanding the newly completed port to enable equipment and materials to enter. An irrigation system covering 3000 hectares was put in place, and efforts were made to improve education and health infrastructure²⁵.

Achieving the vision set out in the ZEESM TL development model entails establishing world-class infrastructure and providing services that meet international standards. This was a high priority in the 2015 to 2017 development phase. Over the past three years more than three quarters of overall ZEESM TL spending was on physical infrastructure projects including the health and education sectors.

“Infrastructure development in Oé-Cusse needs to have international standards. I will do my best to guarantee this standard and I invite everyone to go to Oé-Cusse and testify for the quality of infrastructure development happening there.”

Dr. Alkatiri, from his speech at the Economic Diversification Side Event at the Sustainable Development Goal Conference for Fragile States, Dili Timor-Leste, 20 May 2017.

The Regional Secretary for Education and Social Solidarity’s budget allocations diminished from 3.2 percent of the overall ZESM budget in 2015 to 1.8 percent in 2016 (due to challenges in planning and budget execution rates). Its 2017 proposed budget has a marked considerable increase of 5.4 percent. The allocation for the Regional Secretary for Health was reduced from 1.8 percent in 2015 to 1.2 percent in 2016 (similarly due to planning and budget execution rates). The proposed 2017 health allocation shows a slight increase to 3 percent (due to an increase in budget execution and planning). In 2015 and 2016, the budget allocation for the Regional Secretary for Agriculture and Rural Development appears negligible, with less than 0.5 percent, although there are plans to spend 2 percent on agriculture and rural development in 2017. While majority of the budget has been allocated towards infrastructure, this investment covers infrastructure development for agriculture, health, education, and tourism.

Table 4 →
Distribution of
ZEESM TL Budgets
from 2015 to 2017

	Infrastructure Development	Regional Secretary for Education and Social Solidarity	Regional Secretary for Health	Regional Secretary for Agriculture and Rural Development	Regional Secretary for Land Cadastral	Regional Secretary for Community Tourism	ZEESM Secretariat Salaries	Other
2015	84.60%	3.20%	1.80%	0.30%	0.10%	0.06%	1.00%	9.00%
2016	77.90%	1.80%	1.20%	0.20%	0.05%	0.04%	1.00%	17.80%
2017	71.50%	5.40%	3.00%	2.10%	0.50%	0.30%	0.50%	16.70%

Source: Democratic Republic of Timor-Leste, State Budget 2017 Approved Book 3C, 2017

Early efforts are concentrated on infrastructure and physical development as enabling elements for economic growth, human development and motivating elements for transformational change in the territory. Infrastructure provides the basic physical systems and structures essential to the operation of a society or enterprise. Literature suggests that it is an important vehicle for human development processes²⁶. For example, roads help improve people’s access to public services. Sustainable Development Goal (SDG) 9 addresses the importance of infrastructure, setting the agenda for industry, innovation and infrastructure.

A recent study assessed the impacts of several infrastructure variables (e.g. access to electricity, access to clean water sources and road density) on the Human Development Index and its three component

²⁴ The road construction/upgrades between the border towns in Oé-Cusse are considered important from socio-economic, political and administrative perspectives; such roadways are considered as effective tool to mark territory boundaries. This is particularly important in a context of Indonesian peoples moving into Timor-Leste.

²⁵ Public Investments in health and education are reported under infrastructure components.

²⁶ Rodrigue, Jean-Paul, Claude Comtois, and Brian Slack. The geography of transport systems. Taylor & Francis, 2016.



indexes (health, education and income)²⁷. Using panel data of 1995 to 2010 and covering 91 developing countries, the study found that infrastructure development has significant positive impacts on Human Development Index. The study finds that while access to electricity and water have positive and significant effects on education and health indexes only, road density is highly significant for increasing the living standard/income index.

Infrastructure development establishes the enabling factors for human development to flourish. However, it is important that this infrastructure benefits the most marginalized members of society; many scholars argue that infrastructure benefits mostly accrue to the wealthier or more capacitated groups of the community. It is therefore important that infrastructure development is accompanied with timely policies and investments that directly enhance access to adequate and nutritious food, quality health and education services. In this regard, ZEESM TL's initial phase priorities do not adequately address the necessary direct investments needed to increase human capital.

Increased human resources with a highly productive and skilled working-age population are preconditions for inclusive and sustainable development. These preconditions enable local populations to drive and absorb the development taking place in the region.

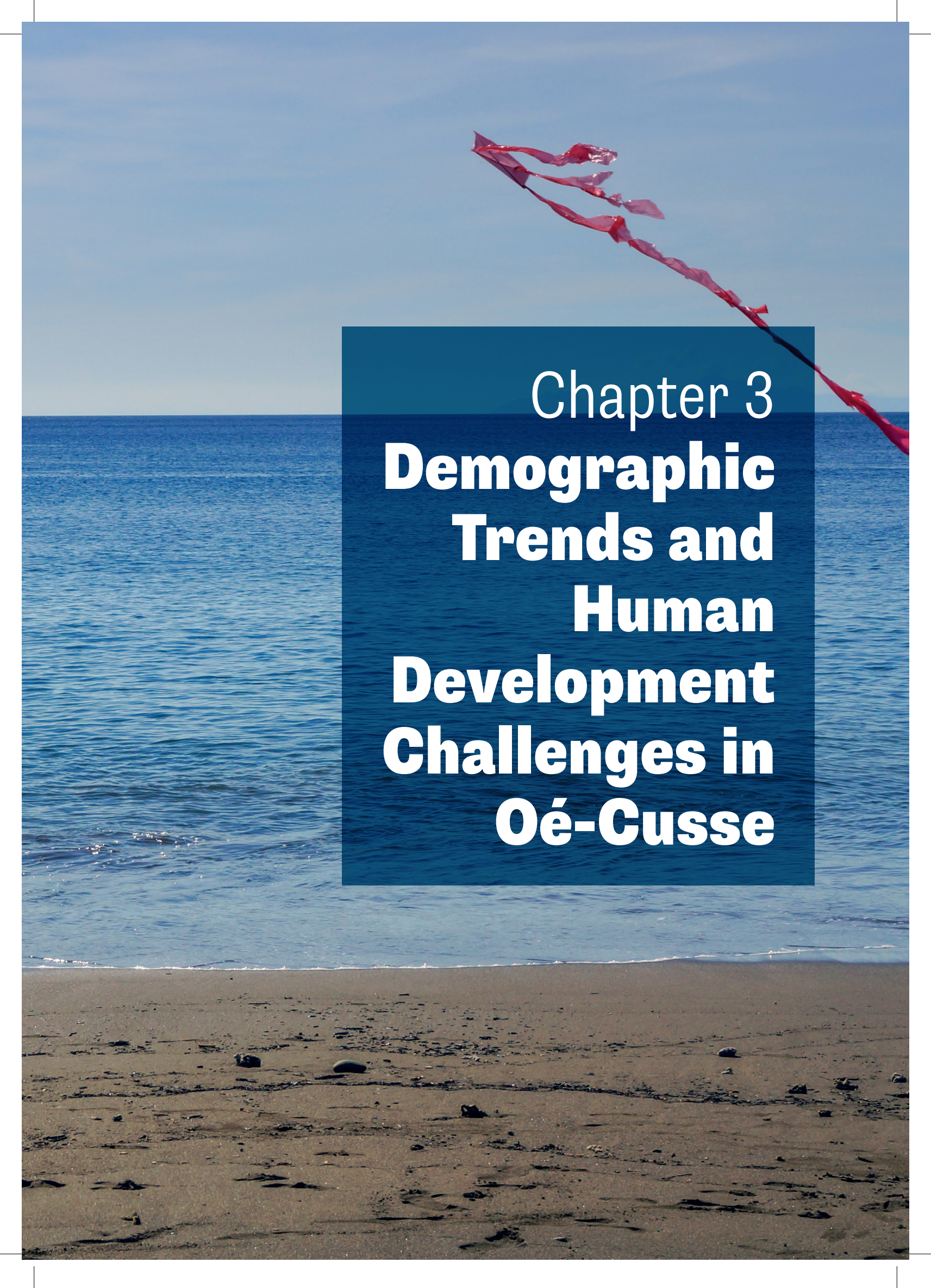
One of the major challenges pointed out by the ZEESM TL authority is the Regional Secretariat's poor institutional capacities and abilities for budget execution, leading to poor annual planning and under spending. Significant efforts are being devoted to human resources capacity development in partnership with development partners.

↑ **PICTURE 10**
 WOMEN USE TRANSPORT
 DIFFERENTLY THAN
 MEN AND ARE MORE
 ADVERSELY AFFECTED
 BY POOR TRANSPORT
 OPTIONS
 PHOTO: ANNE KENNEDY
 UNDP TIMOR-LESTE

27 Jeet Bahadur Sapkota, *Infrastructure Access and Human Development: Cross-Country Evidence and Post-2015 Development Strategies*, JICA-RI Working Paper/70, 2014-03.







Chapter 3
**Demographic
Trends and
Human
Development
Challenges in
Oé-Cusse**



CHAPTER 3: DEMOGRAPHIC TRENDS AND HUMAN DEVELOPMENT CHALLENGES IN OÉ-CUSSE

POPULATION

In 2015, the Population and Housing Census of Timor-Leste recorded the total population as 1,183,643.²⁸ This was an increase of 260,445 people since 2004, representing a 29 percent rise in the total population size in 11 years. This average growth of 2.6 percent per annum is remarkably high compared to other countries in the region.

	Annual Population Growth Rate (2015)
Singapore	1.2 %
Thailand	0.3 %
Indonesia	1.2 %
South Asia	1.3 %
Timor-Leste	2.6 %
Oé-Cusse	1.8 %

← **Table 5**
Annual Population Growth Rate of Countries in the Region

Source: Timor-Leste 2015 Census and World Bank Data, Derived from (1) United Nations Population Division. World Population Prospects, (2) United Nations Statistical Division. Population and Vital Statistics Report (various years), (3) Census reports.

The 2015 Census recorded Oé-Cusse's population as 68,913, a 20 percent population increase since 2004 (an average population growth rate of 2 percent per annum). Oé-Cusse's land mass of 817 square kilometres corresponds to 5.5 percent of Timor-Leste's total land area. In 2015, the population of Oé-Cusse made up 7.5 percent of the Timor-Leste population, a slight increase from 6 percent in 2010. With 14,345 households, Oé-Cusse has a population density of 84 people per square kilometre, which is 5 persons more than the average of 80 per square kilometre in Timor-as a whole.

	Timor-Leste's Total Population	Oé-Cusse's Total Population	Oé-Cusse's population as a percentage of the total
2004	923,198	57,616	6.2%
2010	1,066,582	64,025	6.0%
2015	1,183,643	68,913	7.6%

← **Table 6**
Population of Oé-Cusse in the National Context

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics

According to the 2015 Census, the male to female population ratio in Oé-Cusse was 101.5 (compared to 103.2 nationally), and the percentage of people with any type of disability (walking, seeing, hearing or mental condition) was 4.2 percent (compared to 3.2 percent nationally).

28 Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics.

Population Distribution

Oé-Cusse is composed of 4 sub-municipalities, 18 villages (sucos) and 62 sub-villages (aldeas). Pante Macassar sub-municipality takes up the largest land area (43 percent), hosting slightly more than half of Oé-Cusse's population (around 37,000 people).²⁹

Table 7 →
Sub-municipality
Population Distribution

Sub-Municipalities in Oé-Cusse	Percentage share of the total population of Oé-Cusse	Percentage share of the total Oé-Cusse land area	Percentage share of the total number of households in Oé-Cusse	Population density (persons per square kilometre)	Average household size (persons per household)
Nitibe	17.8%	36.9%	18.9%	40.7	4.5
Oé-silo	16.7%	11.9%	17.7%	117.9	4.5
Pante Makassar	54.1%	43.7%	50.8%	104.3	5.1
Passabe	11.4%	7.4%	12.7%	130	4.3
OÉ-CUSSE	100%	100%	100%	84.3	4.8

Source: General Directorate of Statistics of Timor-Leste, *Oé-Cusse in Figures, 3rd Edition, 2015*

Similar to the rest of the country, Oé-Cusse's population has been rising since 2002. International migration to Oé-Cusse is negligible. 3,929 people changed their residence internally, largely due to jobs, marriage and education.³⁰ Data on in-and-out migration from Oé-Cusse is currently unavailable. Dr. Alkatiri's aspiration is that the new Oé-Cusse city (included Master Plan – Territorial Planning document) situated in Pante Macassar will bring 30,000 people during the early phase (almost doubling its current population) and up to 150,000 people over the next two decades (a five-fold increase). This population growth scenario would greatly expand the market base, as necessary element of increasing the urban development rate.

Age Structure and Dependency Ratio

Timor-Leste has one of the Asia-Pacific region's youngest populations (sixth youngest country in the world), with a median age of 19.6. Approximately 74 percent of its population is below the age of 35. According to the 2015 census, 39 percent of Timor-Leste's total population is below the age of 15; only 6 percent of the population is over the age of 65.³¹

Table 8 →
Population Age
Distribution in
Timor-Leste and
Oé-Cusse 2015

	Percentage of population aged 0-14	Percentage of population aged 15-64	Percentage of population aged above 65
Oé-Cusse	42.0%	51.7%	6.8%
Timor-Leste	39.1%	55.1%	5.8%

Source: Democratic Republic of Timor-Leste, *Population and Housing Census 2015, General Directorate of Statistics*

A country's age distribution relates to the dependency ratio of a population, which shows the ratio of the population outside working ages (the number of children aged between 0 to 14 years old and older persons aged 65 years and over) to the population of working ages (between 15 and 64 years). The ratio reflects the pressure put on the potential productive population (workforce) in a given country. A high dependency ratio may cause serious problems for a country if a large proportion of the government expenditure is continuously spent for the youngest and the oldest people in a population, leaving the

²⁹ Democratic Republic of Timor-Leste, *Population and Housing Census 2015, General Directorate of Statistics.*

³⁰ General Directorate of Statistics of Timor-Leste, *Oé-Cusse in Figures, 3rd Edition, 2015*

³¹ Democratic Republic of Timor-Leste, *Population and Housing Census 2015, General Directorate of Statistics.*



← **PICTURE 11**
A GRANDMOTHER
SHOWS HER
GRANDDAUGHTER HOW
TO VOTE IN MARCH 2017.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE



productive sectors of the economy underinvested with the burden of high costs on health, education and social security costs. In contrast, a lower ratio with more productive people in the working age group means that there is more support for schools, health care facilities, pensions and more assistance for the youngest and the oldest members of the population.

According to the 2015 census, Timor-Leste has a very high total dependency ratio of 82 percent, which means that every 100 persons of working ages have to support almost 82 persons outside the working ages. This rate is extremely high compared to other countries in the region (see Table 9). Oé-cusse also has a higher dependency ratio than Timor-Leste.

Table 9 →
Dependency Ratios of
Select Countries and
Regions

	Total Dependency Ratio (2015)
Singapore	37%
Thailand	39%
Indonesia	49%
South Asia	55%
Timor-Leste	82%
Oé-Cusse	94%

Source: World Bank staff estimates based on age distributions of United Nations Population Division's World Population Prospects.

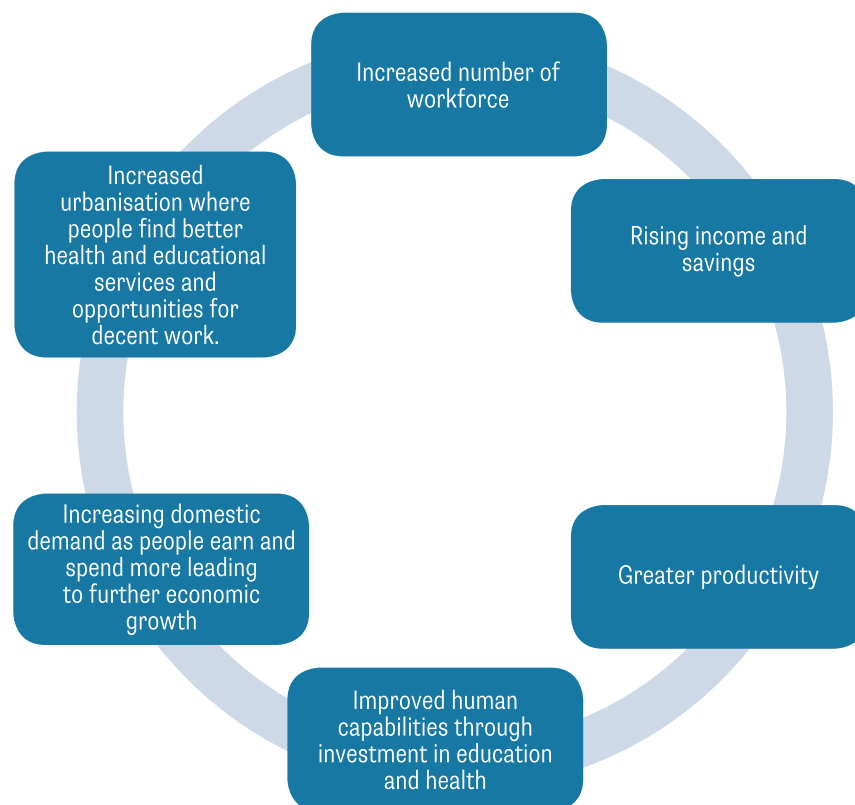
Oé-Cusse's population is younger than the rest of the country (42 percent is younger than 15 years of age), and Oé-Cusse has a smaller share of working age population. According to the 2015 census, approximately 71 percent of Oé-Cusse's population is below the age of 35. This population composition translates into a very high dependency ratio of 94 percent; every 100 persons in the working age group have to support almost 95 dependent people, the children and the elderly. This places tremendous pressure on the working age population and the regional authority in terms of resources required to sustain the younger age group (child dependency currently drives 81 percent of the total dependency ratio in Oé-Cusse).

Evidence suggests that demographic transition offers two roughly sequential potential dividends. The first occurs when the labour force grows more rapidly than the dependent population, leading to more economic output. This growth mainly occurs due to a decline in fertility. As fewer resources are required for supporting the proportionately fewer dependents, there is the potential to increase savings and investments for economic growth, creating opportunities for investments in education and health.

The second dividend unfolds when a larger number of workers is more productive. Productivity increases may occur due to less population pressure on the educational and health systems, facilitating qualitative and quantitative improvements in these sectors and leading to the accumulation of human capital and higher productivity.³²For example, investments in human capabilities can lead to a more skilled workforce, which increases earnings, savings and acquiring more assets such as homes, land and businesses (see Figure 1 on human development). The potential impacts that favourable changes in the demographic structure could have on human development are illustrated in Figure 3.

32 A. Mason, Capitalizing on the demographic dividend in *Population and Poverty, Population and Development Strategies*, Vol 8, New York, United Nations Population Fund, p39-49, 2003.





← **Figure 3**
Potential Impacts that
can be Led by Favourable
Demographic Changes

Source: UNDP, *Asia-Pacific Human Development Report, Shaping the Future: How Changing Demographics Can Power Human Development*, 2016

It is widely acknowledged that demographic changes, together with sound policies, have been a key stimulus for the economic success of many Asian and Latin American countries over the last two decades. For example, between 1970 and 2017, the Asia-Pacific region's demographic dividend is reported to account for about 42 percent of economic growth in developed countries (39 percent in developing countries).³³ In many cases, these gains have been accompanied by significant leaps forward in human development.

Converting demographic opportunities into a demographic dividend requires strategic policies and good governance. Patterns of public investment need to respond to demographic changes.

While demographic transition is likely to occur in every country or any specific region, accelerating its arrival and realizing the full scope of any potential dividend depend largely on policy choices that steer the process.

Many countries in the Asia-Pacific region are challenged by their ageing populations and the associated costs to take care of them. In contrast, Oé-Cusse and the rest of Timor-Leste have a rapidly growing working age population. If the dependency rate of children declines, then this potential can be tapped into rapid economic gains. This can only be achieved, however if sound policies are in place to prepare for a potential demographic dividend where investments are made for children and youth to be educated and highly skilled to participate meaningfully in the socio-economic life. The key trigger for the demographic dividend is when favourable changes in the age structure of a population are accompanied by judicious policies on education, training, health and infrastructure development and productive employment creation.

33 UNDP, *Asia-Pacific Human Development Report, Shaping the Future: How Changing Demographics Can Power Human Development*, 2016.

EDUCATION

Historically and culturally, Oé-Cusse is a special place for the Timorese because it was the site of Portugal's first landing, followed by the settlement in Lifau. It was also the first point of contact with Catholicism.³⁴ The territory continued to strongly identify with former Portuguese Timor during the Indonesian occupation. The Indonesian government tacitly recognized these ties when it maintained Oé-Cusse's administrative links to the eastern districts by making the territory part of the province of Timor-Timur. Previous research suggests the territory did not receive the same concentration of resources as the remainder of the province, which may explain why Oé-Cusse lagged behind in terms of development.³⁵ Since independence, the Oé-Cusse region has had persistent difficulties improving basic human development indicators, which continue to remain low in national rankings.

Education is a major means of reducing poverty and achieving successful development. It is a primary right of every individual, and is one of the most important foundations that paves a person's future road map. Education gives the ability to think with reason, pursue dreams and aspirations and live a respectable life in society. Education provides humanity with the capacity to control its own development.

Like most other countries, Timor-Leste has recognized the importance of education. The Timor-Leste Strategic Development Plan, 2011-2030 recognizes education and training as key to improving the life opportunities of Timorese and to achieving the country's economic development goals.

Oé-Cusse hosts public, private and religious schools. There are 13 public preschools, 58 primary schools, nine pre-secondary schools, three secondary schools, one post-secondary school specializing in technology and one post-secondary school specializing in agriculture. There is one private religious preschool, five private primary schools, one private pre-secondary school, and one private secondary school.

So far, 24 public schools have been rehabilitated; 56 schools, including a library, are currently undergoing rehabilitation. Food is sold to schools by local horticultural centres and the educational system's own distribution system.

Education sector performance has improved steadily since independence in 2002. Several key education indicators, such as primary enrolment and literacy rates, demonstrate progress towards the government's priority sector goals. Since 2011, the government has strengthened technical and vocational education and training by establishing a national qualification framework and adopting regulatory processes for vocational training providers.

However, progress has been slower than expected in many areas, such as in improving the quality of basic education and its learning outcomes; increasing enrolment in secondary education; reducing urban-rural disparities in access to education; improving the relevance of education to provide practical life skills and employment linkages; and strengthening the government capacity to plan, implement, and coordinate the sector's key policies.³⁶

To achieve the country's development goals, the most significant challenge lies in educating a large pool of young Timorese with practical knowledge and employable skills. The education sector is likely to face even greater challenges in the near future due to the rapidly increasing school-aged population.

Timor-Leste is challenged by complex language issues in relation to educational outcomes. In addition to Portuguese and Indonesian, Timor-Leste has 33 indigenous languages.³⁷ Although Tetum is the officially recognized native language (Tetum Prasa is the most widely spoken language in Timor-Leste; Tetum Terik is more common in rural areas), there are other widely spoken languages such as Baikenu, Bunak, Kemak and Mambai. In Oé-Cusse, usually Baikenu and Tetum are used in pre-primary schools, while Portuguese is added to the mix in primary school. In secondary Tetum, English and Portuguese are used, depending on the schools.

In Oé-Cusse, 98 percent of the local residents speak Baikenu. The literacy rate in Tetum has been consistently low in the region (estimated at 31 percent), even during the 24 years of Indonesian occupation. Fifteen years later, the Tetum literacy rate still remains considerably low.

³⁴ Kym Holthouse and Damian Grenfell, *Social and Economic Development in Oé-Cusse, Timor-Leste*, 2007.

³⁵ *Ibid.*

³⁶ ADB, *Country Partnership Strategy: Timor-Leste, 2016-2020*.

³⁷ Damien Kingsbury, *National identity in Timor-Leste: challenges and opportunities*, *South East Asia Research* Vol. 18, No., pp. 133-159, 2010.

*“Education is a human right with immense powers to transform. On its foundation rest the cornerstones of freedom, democracy and sustainable human development.”
(Kofi Annan)*



As of 2015, 42 percent of the people in Oé-Cusse aged above five years old were fully literate in Tetum (reading, speaking and writing), compared to 62 percent nationally. There is almost a gap of 6 percent between the Tetum literacy rate among men and women, 45 percent and 40 percent respectively.

Overall adult and youth illiteracy rates in Oé-Cusse are a lot higher than the rest of the country. For example, the adult illiteracy rate (40 percent) is almost five times the Timorese average (9 percent). Adult illiteracy among Oé-Cusse women (47 percent) is much higher than men's (33 percent). This rate among youth (16 percent), although a smaller percentage compared to the adult population, is still much larger than Timor-Leste's overall illiteracy rate (3 percent).

	Timor-Leste			Oé-Cusse		
	Total	Male	Female	Total	Male	Female
ILLITERACY (can't speak, read or write)						
Adult Illiteracy Rate	8.5%	6.8%	10.1%	40.0%	33.4%	46.5%
Youth Illiteracy Rate (aged 15-24)	3.0%	2.8%	3.1%	16.4%	14.5%	18.1%
LITERACY (can speak, read and write)						
Percent of people over five years of age who are fully literate	61.6%	65%	59.9%	42%	44.9%	39.1%
Percent of youth who are fully literate	83.2%	83.5%	82.9%	68.2%	59.3%	67.1%

← **Table 10**
Illiteracy Rates in
Timor-Leste and
Oé-Cusse

Source: Democratic Republic of Timor-Leste, *Population and Housing Census 2015*, General Directorate of Statistics

The large rates of illiteracy and distinct gender disparities in literacy attainment in Oé-Cusse are absolute concerns not only from a human development perspective, but also from economic development aspects.

If the current illiteracy rates continue without drastic strategies to address this challenge, lack of language, literacy, numeracy and financial skills would continue to hold back the majority of the local population from current and near-term employment opportunities. Therefore, an accelerated literacy campaign would help Oé-Cusse residents to better engage in the region's socio-economic and political development.

As of October 2008,³⁸ the government achieved the goal of providing free, basic, universal compulsory education for the first nine years of school. Formerly, the education system in Timor-Leste was organized along a 6-3-3 model (six years of free primary education, three years of pre-secondary education and three years of secondary education. This has changed to 'basic education', which is compulsory and encompasses the first nine years of schooling (four years of free first-cycle basic education, two years of free second-cycle of basic education, and three years of third cycle), followed by three years of secondary education.

In Oé-Cusse, 19,942 people are enrolled in primary school, 1,672 students are enrolled in secondary schools, 340 are enrolled in technical schools and there are 59 university-level students. There are currently 607 primary school teachers across 74 primary schools; 75 secondary school teachers across three high schools, 18 technical school teachers at the one existing vocational training institute and 21 lecturers across two universities. The ratio of one teacher for every 33 primary school students becomes more favourable in secondary and vocational education (22 and 19 respectively), due to smaller number of enrolments. At the university, there are six students per lecturer.³⁹ Overall, it appears that the overcrowding in classrooms is not a pressing issue. However, low enrolment rates reflect the limited access to and demand for formal education in Oé-Cusse.

The primary net enrolment ratio reflects the number of children of official primary school age that are enrolled in primary school. According to the 2015 census, this was 72 percent in Timor-Leste and 68

38 The education Law (Law no 14/2008), which requires nine years of compulsory and free basic education for all, was passed in October 2008.

39 Democratic Republic of Timor-Leste, *Population and Housing Census 2015*, General Directorate of Statistics.



percent in Oé-Cusse; nationally and regionally there is large room for improvement towards ensuring that all children complete compulsory education. The primary gross enrolment ratio reflects the share of children of any age that are enrolled in primary school. In countries where many children enter school late or repeat a grade, the primary gross enrolment ratio can exceed 100 percent. Not surprisingly, the gross enrolment ratios for both Timor-Leste and Oé-Cusse were 112 percent in 2015. Too many children are not progressing through grades at the right age and many children repeat grades, which as a result increases the gross enrolment ratio. This leads to a substantial amount of budgetary resources that are required to keep all children in school in order to achieve the successful completion of primary school.

The primary net and gross enrolment ratios for Oé-Cusse dramatically drop for pre-secondary and secondary education, and are much lower than the Timor-Leste averages (see Figure 13). For example, among the number of children that are of pre-secondary school age, only 22 percent are enrolled in their level. For secondary school, the net enrolment ratio is as small as 20 percent (33 percent for Timor-Leste).⁴⁰

Table 11 →
Enrolment Rates
in Oé-Cusse and
Timor-Leste, 2015

	Gross Enrolment Ratio Oé-Cusse	Gross Enrolment Ratio Timor-Leste	Net Enrolment Ratio Timor-Leste	Net Enrolment Ratio Oé-Cusse
Primary School	112%	112%	72%	68%
Pre-secondary	47%	65%	36%	22%
Secondary	58%	77%	33%	20%

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics

Economic factors play a crucial role in the low net enrolment rates for formal schooling in both Oé-Cusse and Timor-Leste. Widespread poverty means that many children come to school malnourished and are frequently sick. Moreover, long distances to schools and other factors such as unsafe classrooms restrict access to education. According to the 2015 Census, 41 percent of Oé-Cusse's population currently aged above three has never attended school. This rate is slightly higher for females (43 percent) than males (39 percent). These figures indicate that there is a clear need for concentrated efforts to increase access to education in Oé-Cusse. Exacerbating reduced demand for schooling due to the poor quality of education and the absence of educated and experienced teachers, the absence of formal job opportunities contributes to parents disregarding the potential benefits of formal education.

Table 12 →
Schooling Status for the
Population Aged above
Three, Timor-Leste and
Oé-Cusse, 2015

	At School	Left School	Never Attended	Not Started
Oé-Cusse Female	33%	21%	43%	3%
Oé-Cusse Male	36%	23%	39%	3%
Oé-Cusse Total	35%	22%	41%	3%
Timor-Leste	41%	29%	29%	1%

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics

Access to education differs among sub-municipalities. Among sub-municipalities, a larger percentage of people living in the mountain range of Oé-Cusse are left behind in terms of access to education. Passabe has the largest percentage of people who have never attended school (54 percent), followed by Nitibe (47 percent). These figures show the need to continue to work with parents to send their children to school. Moreover, this is also associated with occupation patterns of people in Passabe and parts of Oesilo who live away from roads, scattered and somewhat far away from existing schools.

40 NB. Figures for Oé-Cusse are included in calculations of national ratios. Therefore, it is likely that the net national ratio is actually slightly higher.



	Nitibe	Oesilo	Pante Makassar	Passabe	Oé-Cusse
At School	34%	33%	36%	31%	35%
Left School	18%	19%	26%	12%	22%
Never Attended	47%	42%	36%	54%	41%

← **Table 13**
Schooling Status for
the Population aged
Three and above for
Sub-municipalities of
Oé-Cusse

Source: Democratic Republic of Timor-Leste, *Population and Housing Census 2015*, General Directorate of Statistics

Lack of language, literacy, arithmetical and financial skills holds back the employment of people who have not attended or have left school.

HEALTH

Various factors determine the health status of a given population. The most important determinants of health include health care facilities, education, income, housing, food, water and sanitation. The Ministry of Health of Timor-Leste reflects its understanding of the wider definition of health through its vision statement in the National Health Sector Strategic Plan 2011-2030, “Healthy Timor-Leste people in a healthy Timor-Leste.”

Following independence, Timor-Leste faced a number of challenges in delivering health care to its people. Eighty percent of health centres had been badly damaged during the independence struggle. The health sector subsequently made steady and significant progress in re-establishing much essential infrastructure, expanding community-based health services such as the integrated community health services and rebuilding a system for delivering services, resulting in real improvements in coverage and people’s overall health. A considerable number of national medical graduates have joined the health workforce with assistance and cooperation from the Cuban Medical Brigade. The graduates are now serving at district and administrative post levels.

Timor-Leste is on track to reducing infant and under-five mortality. Under-five mortality declined from 83 per 1000 live births during the 1999-2003 to 54.6 per 1000 live births in 2013.⁴¹ Child immunization rates increased from only 18 percent in 2005 to above 60 percent in 2012. Life expectancies for both men and women increased about 10 years between 2000 and 2015. There has been a sharp decrease in the incidence of malaria, leprosy has been declared eliminated as a public health problem and maternal and neonatal tetanus has also been eliminated.

Difficulties remain in ensuring access to and demand for health services across municipalities. Access to health services poses a major concern, as almost 70 percent of the population lives in rural areas in small, dispersed villages isolated by mountainous terrain and poor road conditions.

The maternal mortality ratio in Timor-Leste is one of the highest in the world (557 per 100,000 live births).⁴² A 2010 study by the UN agencies revealed that among 180 countries analysed, the global maternal mortality ratio was estimated at 210 per 100,000.⁴³ In the Southeast Asia region, this rate was estimated at 150 (Sub-Saharan Africa had the highest average maternal mortality ratio of 500 maternal deaths per 100,000 live births).⁴⁴ Although results from the 2016-2017 Demographic and Health Survey have not yet been revealed, it is likely that Timor-Leste’s maternal mortality ratio remains among the highest in the world.

High fertility rates, short birth spacing and a low rate of attendance by skilled health personnel during childbirth contribute to high maternal mortality ratios. According to the 2015 Census, there have been drastic improvements in the number of births assisted by a trained health professional in Timor-Leste, although skilled birth attendance varies widely across municipalities.

41 WHO Country Cooperation Strategy Timor-Leste 2015-2019.

42 National Statistics Directorate, Timor-Leste, Ministry of Finance Timor-Leste, and ICF Macro, *Timor-Leste Demographic and Health Survey 2009-10*, 2010.

43 Trends in maternal mortality: 1990 to 2010: estimates by WHO, UNICEF, UNFPA, World Bank Group and the United Nations Population Division. Geneva: World Health Organization; 2010.

44 Ibid.



According to the 2015 Census, only 51 percent of the live births delivered in Oé-Cusse were attended by skilled health personnel. Thirty percent of live births attended by skilled personnel were delivered at home, mostly due to a lack of access to a health facility. Only 21 percent of births in Oé-Cusse delivered in a health facility or hospital (the Timor-Leste average is 48 percent).

Table 14 →
Birth Delivery Attended
by Skilled Health Personnel,
2013 through 2015

	Percent of live births delivered			
	at home	at a health facility	at hospital	with the attendance of skilled health personnel
Oé-Cusse	30.0%	11.0%	9.6%	50.6%
Timor-Leste	15.0%	34.2%	13.9%	63.1%

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics

Timor-Leste has one of the highest malnutrition rates in the world. Timorese children have the highest levels of stunting (50 percent) and wasting (11 percent) in the region.⁴⁵ Moreover, 38 percent of children under five years of age are underweight (note that this represents a decrease from approximately 46 percent in 2009). Malnutrition in Oé-Cusse is severe by national standards. In 2013, 53 percent of children in Oé-Cusse were stunted (a decrease from 68 percent in 2009), ranking the region third worst in the country.⁴⁶ Oé-Cusse ranks highest terms of underweight children (50 percent in 2013, down from 63 percent in 2009). Similarly, Oé-Cusse ranks highest in the region in terms of wasted children (20 percent in 2013, down from 27 percent in 2009). Though these figures have improved somewhat over the past five years, it is the relativity of these figures that is of the most concern for Oé-Cusse (see Table 15).

Table 15 →
Comparison of Percentage
Changes in Stunted,
Underweight and Wasted
Children

% of children	Timor-Leste			Oé-Cusse		
	2009	2013	Improvement	2009	2013	Improvement
Underweight	45%	38%	7%	63%	50%	13%
Stunted	58%	50%	8%	68%	58%	10%
Wasted	19%	11%	8%	27%	20%	7%

Source: UNICEF, 2013

There is an immediate need for a strong focus on human nutrition through increased production of nutritious foods. An important issue affecting nutrition quality in Oé-Cusse is the lack of dietary diversity. Due in part to the vast diffusion of rice and maize as main cultivated crops, residents' diets (especially children), is highly concentrated on grains, causing the lowest dietary diversity score among the country's municipalities. This lack of balance causes micronutrient deficiency-related diseases such as anaemia, which displays one of the highest incidents in Oé-Cusse.⁴⁷

The Integrated Nutrition Programme, run by UNICEF and WFP in collaboration with the Ministry of Health and the Alola Foundation in Oé-Cusse, aims to improve the nutrition of children under five years old through nutrition specific interventions. These include promoting infant and young child feeding practices, treating moderate and severe malnutrition with therapeutic feeding and supplementary food programmes, increasing the number of the women and children receiving high impact nutrition packages, supporting integrated nutrition programmes and working on nutrition education to promote behaviour change.

45 UNICEF, Timor-Leste Food and Nutrition survey 2013, Final Report, Published in 2015. Accessible at: <http://www.nutritioninnovationlab.org/publication/timor-leste-food-and-nutrition-survey-2013-final-report/>

46 Ibid and World Bank, 2016.

47 Jessica Fanzo, João Boavida, Gianna Bonis-Profumo, Rebecca McLaren, and Claire Davis, Timor Leste Strategic Review: Progress and Success in Achieving the Sustainable Development Goal 2, Centre of Studies for Peace and Development, Timor-Leste, 2017.

Achieving a primary health care system that is easily accessible, affordable and provides quality service delivery partly depends on the available human resources, physical infrastructure and the level of government spending on the health sector. Moreover, the government's effectiveness to provide adequate health and medical care depends on the state's capacity to deliver. These can all be reflected in robust health policies, strategies and plans accompanied by sustained health financing and improved technical and institutional capacities.



*“You cannot achieve human development without addressing the basic issues of health and nutrition.”
(Gro Harlem Bruntland)*

← **PICTURE 12**
MAIZE AND RICE ARE STAPLES BUT A LACK OF DIVERSITY IN FOOD CAN CONTRIBUTE TO MALNUTRITION IN CHILDREN.
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE



The Constitution of the Democratic Republic of Timor-Leste protects the rights to health, medical care and a healthy environment. Under Article 57, the State has the responsibility to provide free universal health care through a decentralized public health care system. In accordance with the Constitutional provision, public health care is delivered free of charge.

Primary health care is provided through the network of community health centres, health posts and the integrated community health services (*Servisu Integradu da Saúde Comunitária* or SISCa). There is one national, tertiary-level hospital, five regional referral hospitals and 67 community health centres at the sub-municipality level. At the village level, there are also 232 health posts. SISCa is being implemented in 474 locations across the country for populations residing in areas that lack access to health services.

In Oé-Cusse, there are 22 public health service providers, including one regional referral hospital, four community health centres at the sub-municipality level and seventeen health posts located in villages⁴⁸. The hospital located in Pante Makassar has emergency, surgery, ear and x-ray sections. There are also plans for operationalizing mobile clinics to operate as mini-hospitals, bringing health care closer to local people.

In terms of public health personnel, Oé-Cusse's population of nearly 69,000 people were served by 86 public health staff 17 doctors, 43 nurses and 26 midwives in 2015⁴⁹.

In Timor-Leste, issues of health care personnel distribution have been adversely affecting the quality and supply of health services. The ratio of inhabitants per public health personnel in Oé-Cusse has been particularly acute when compared to averages in Timor-Leste and other countries in the region. For example, there was only one doctor for every 50,000 people, and one nurse or midwife for every 14,300 people in 2015. In Timor-Leste, however, this rate is one doctor for every 3,000 people, and one nurse or midwife for every 833 people. ZEESM realizes the challenge ahead and already states targets in its Master Plan to ensure that there will be adequate number of health personnel in the territory.

Although the quantity of doctors in Timor-Leste increased substantially over the last two years (711 new placements), the spatial distribution of these doctors and the mix of the health care workforce at the municipality level remains a serious concern, particularly in terms of the doctor to nurse/midwife ratios at the primary level of care. Having the right balance of health care workers would be needed to ensure that local people can be treated based on their needs with utmost care.

Table 16 →
Health Care Personnel
per 1000 Inhabitants

	Physicians per 1000 inhabitants	Nurses and Midwives per 1000 inhabitants
Indonesia	0.2 (2012)	1.38 (2013)
Singapore	1.95 (2013)	5.76 (2013)
South Asia	0.67 (2012)	1.41 (2011)
Thailand	0.39 (2010)	2.08 (2010)
Timor-Leste	0.33 (2015)	1.2 (2015)
Oé-Cusse	0.02 (2015)	0.07 (2015)

Source: Timor-Leste Census and World Health Organization's Global Health Workforce Statistics, OECD, supplemented by country data.

It is important that the number of health sector personnel in Oé-Cusse increases in order to achieve ratios closer to the Timor-Leste average first and, in the longer term, to more developed countries in the region. It is also important to balance human resources in establishing adequate numbers of nurses, midwives and medical specialists. The parameters set out for health sector in the Master Plan for Territorial Planning in the Special Administrative Region of Oé-Cusse Ambeno is a good start.

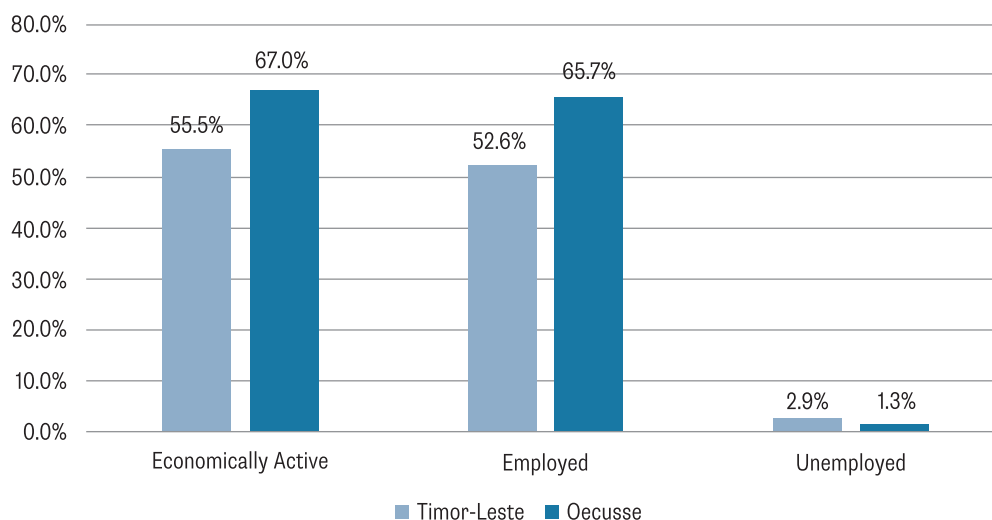
48 Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics.

49 *ibid*

ECONOMY

Economic participation and the role of agriculture in the local economy

Local people’s economic participation in Oé-Cusse is significantly higher than the rest of the country, as illustrated below in the percentages of people that are economically active and employed. Although the percentage of economically inactive people is much smaller in Oé-Cusse than in Timor-Leste (33 percent compared to 45 percent), one-third of the population remains as an untapped resource for local economic development in the region.



← **Figure 4**
Economically Active Populations, Timor-Leste and Oé-Cusse, 2015

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics.

Oé-Cusse is a strongly patriarchal society. Gender roles influence women’s participation in socio-economic and political life and the economic sphere. The percentage of employment among men in Oé-Cusse is around 73 percent and 59 percent for women. Forty percent of women aged between 15 and 64 are considered economically inactive in Oé-Cusse (neither employed nor looking for work opportunities), but this percent does not include unpaid care work or subsistence farming, often a heavy burden.

		% Employed	% Unemployed	% Economically Inactive
Timor-Leste	Total	52.6%	2.9%	44.5%
	Men	61.4%	3.6%	35.0%
	Women	43.7%	2.0%	54.4%
Oé-Cusse	Total	65.7%	1.3%	33.0%
	Men	72.9%	1.7%	25.4%
	Women	58.8%	0.8%	40.4%

← **Table 17**
Percent Employed, Unemployed and Economically Inactive among Working People Aged 15-64

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics





PICTURE 13 →
 WORK PERFORMED BY
 WOMEN IS FREQUENTLY
 NOT COLLECTED IN
 DATASETS, UNDERMINING
 THE REPRESENTATION
 OF THEIR ECONOMIC
 CONTRIBUTIONS.
 PHOTO: ANNE KENNEDY
 UNDP TIMOR-LESTE

Timor-Leste is an infant economy, characterized by a society dominated by small landholder subsistence farmers, limited infrastructure and a very small formal sector⁵⁰. Subsistence agriculture forms the backbone of the family economy; more than half of the employed population depends on agriculture as the source of their livelihood.

Agriculture in Oé-Cusse takes even a larger role than the rest of the country, where self-employed farmers make up 74 percent of the employed population. The opportunities for waged employment in Oé-Cusse have been extremely limited and more so for women than men.

Table 18 →
 Employment Sectors for
 People Aged above 10
 Years of Age, Timor-Leste
 and Oé-Cusse, 2015

	Self-employed farmer	Self-employed Non-farmer	Government	Other
Oé-Cusse Female	75%	16%	5%	4%
Oé-Cusse Male	73%	6%	11%	10%
Oé-Cusse Total	74%	11%	9%	6%
Timor-Leste	64%	11%	14%	11%

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics

50 B. Inder and K. Cornwall, *Private Sector-driven Development in an Infant Economy*, Research Paper series on Timor-Leste, pp-60, Clayton: Monash University, 2016.



Agriculture is the main occupation for 72 percent of males and 50 percent of females. However, it is mostly a subsistence activity. According to the 2015 census, less than 1 percent of the households were mainly focused on sales of agricultural goods, suggesting that the commercial agriculture sector in Oé-Cusse is almost non-existent.

The most common agricultural products include maize and rice, produced by more than 90 percent of households in Oé-Cusse. These goods are followed by cassava (produced by 81 percent of households) and vegetables (75 percent). Timber trees and coffee, which have high commercial value, were produced only by 50 percent and 30 percent of households respectively. Although agricultural crops such as maize, rice and cassava are widely produced, productivity levels, similarly to the rest of the country, are quite low.

Oé-Cusse has depleted most of its forest resources; very little is available for commercial purposes. Major impacts on forest resources include households; 95 percent use firewood for cooking. Forest management is constrained by land tenure problems, hampering progress in controlling deforestation and conducting reforestation programmes (both necessary in order to alleviate the effects of soil erosion and landslides).

96 percent of the Oé-Cusse population practices livestock rearing. Cattle production is particularly put forward as a market opportunity for ZEESM TL due to high demand from the Indonesian domestic market and the proximity to Indonesian West Timor.

In 2016, the government, in partnership with UNDP, prepared the Rural Development Strategy (2016–2020). The Strategy articulated a vision for rural development as: “rural communities have adequate food, either directly from agricultural production or through other employment and entrepreneurial activities. Rural communities use income-generating opportunities to attain a basic quality of life and advance their prospects for further improving livelihoods.”

The strategy is composed of three main pillars:

1. Farming and food production: sustainable increases in nutrition and food security and reduced poverty for farm households and rural communities;
2. Employment and income generation: increased employment and income from on- and off-farm enterprise development for rural communities; and
3. Private-sector investment: foster an enabling environment for private sector investment and local entrepreneurship.

The Strategy suggests improving the traditional system’s production of pigs and poultry by introducing improved breeding stock, better animal health care (vaccination and worming,) basic housing and feeding (using locally available by-products). Because current amounts of by-products and crop waste are insufficient to stimulate a domestic animal feed processing industry, the Strategy recommends using concentrated feed for non-ruminants. The domestic industry can be stimulated by increasing the area of crop cultivation or access to protein sources (e.g. fish waste).



Regio da Cruz Salu knows that locals know best; he is one himself. Now the Secretary of Agriculture and Rural Development for the Oé-Cusse region, he knows that local women and men who fish, farm and harvest trees are the ones who know how, when and where to invest.

As part of his work, he assists 23 saving groups spread across rural and urban Oé-Cusse. Each group has a committee of between ten and twenty people who informally exchange information as they work together. Strategic decisions are made at formal meetings as needed every few months. These groups draw on the strong community bonds of trust in the region to ensure money is available to those who need it, when they need it. In some villages, such as Nibin, the communal saving fund stands at over \$45,000. The groups are responsible for nearly half a million dollars being in circulation across the region.

The savings groups are part of a network of horticultural centres whose aim is to increase the nutritional output of farming in the region. His job is an important one; over 90 percent of women and men in Oé-Cusse own or lease land for farming. In his home village of Naimeco, the horticultural centre won a UNDP award for its work in 2016.

Proud of this achievement, Regio has no intention of slowing down; he continues to create opportunities for the people of Oé-Cusse, and the people continue to utilize them.

“Being local, these groups look outside narrow boundaries of what they aim for, for example, they sell vegetables to the school feeding programme in their areas. This ensures that money stays in the area and that good quality food is available for students.”

Secretary of Agriculture and Rural Development for the Oé-Cusse Region, Regio da Cruz Salu



BOX 5 →
SUCCESS STORIES:
INVESTING IN
THEMSELVES

PICTURE 14 →
SOCIAL COHESION IS
VERY STRONG IN RURAL
AREAS LEADING TO
HIGH PARTICIPATION IN
COMMUNITY GROUPS
PHOTO: ANNE KENNEDY
UNDP TIMOR-LESTE



Small Business and Enterprise Growth

There are 314 micro-enterprises registered in Oé-Cusse (up from 262 as of 2014); 292 of which are located in Pante Macassar. Rural development in Oé-Cusse is primarily based in the agricultural sector; there are minimal industrial or manufacturing opportunities. Agriculture's slow growth rates limit the pace of development of rural, non-farm activities. Therefore, it is important that entrepreneurial support begins with a focus on the agricultural sector.

Oé-Cusse has two commercial banks, Banco Nacional Ultramarino and Banco Nacional Comercial Timor Leste. High-interest loans are available to salaried persons or those with collateral. Small business start-up loans are limited to \$1,000. A lack of rural credit affects only a small percentage of farmers, those who are prepared to enter the agricultural sector. The majority of families are subsistence farmers whose primary objectives are adequate and reliable supplies of food.

Saving groups, which draw on the well-known community solidarity felt in Oé-Cusse villages, have started being a source of money for investment. An example is in Nibin, which not only has a communal saving fund of over US \$45,000 but also, in common with most of the groups, provides food to schools. These funds raise income levels and circulate money in rural areas-half a million dollars is currently in circulation in rural areas due to these groups- allowing basic family income to increase in a predictable way. However, there are now some construction opportunities available during the SEZ development. Further, a service sector may emerge while the SEZ is operational.

Poverty and Living Standards

The proportion of people living in poverty in Timor-Leste declined from 50 percent in 2007 to an estimated 42 percent in 2014.⁵¹ This rate was much higher in Oé-Cusse at 63 percent. Based on international poverty line, the poverty rate in Timor-Leste declined from 47 percent in 2007 to 30 percent in 2014 (54 percent for Oé-Cusse).

According to the multidimensional poverty index, 68 percent of the population in Timor-Leste was multi-dimensionally poor based on Timor-Leste's 2009/10 Demographic Health Survey (DHS).⁵² The alarmingly high multidimensional poverty rate in Oé-Cusse was 86 percent. This meant whichever alternative measurement was considered, poverty in Oé-Cusse affected the majority of the population and its impacts, severity and intensity was the worst in the nation. Much has changed in Oé-Cusse since 2014. Most up-to-date data from 2016/17 DHS will provide the opportunity to assess the progress made in terms of reducing poverty in the territory.

The multidimensional poverty index is an alternative poverty analysis introduced by the 2010 Human Development Report. The index identifies multiple overlapping deprivations suffered by households in three dimensions: education, health and living standards. The education and health dimensions are each based on two indicators, while the standard of living dimension is based on six indicators. All of the indicators needed to construct the multidimensional poverty index for a country are taken from the same household survey. The indicators are weighted to create a deprivation score, and the deprivation scores are computed for each household in the survey. A deprivation score of 33.3 percent (one-third of the weighted indicators) is used to distinguish between the poor and non-poor. If the household deprivation score is 33.3 percent or greater, the household (and everyone in it) is classified as multi-dimensionally poor.

← BOX 6 MULTI-DIMENSIONAL POVERTY INDEX

Table 19 presents an overview of the state of the living standard indicators as of 2015. While progress in some of these indicators within 2 years has already been highlighted elsewhere in this report, the figures can be treated as baseline to assess ZEESM TL's progress against these indicators as new data becomes available.

51 The World Bank, *Poverty in Timor-Leste 2014*, Washington, D.C. World Bank Group, 2016. Accessible at: <http://documents.worldbank.org/curated/en/577521475573958572/Poverty-in-Timor-Leste-2014>

52 Oxford Poverty and Human Development Initiative, *Timor-Leste Country Briefing, Multidimensional Poverty Index Data Bank*. OPHI, University of Oxford, 2016. The most recent survey data that were publicly available for Timor-Leste's multidimensional poverty index estimation originated in 2009/2010.




Table 19 →
*Percentage of Households
 that Have Access to Im-
 proved Living Standards
 in Oé-Cusse and
 Timor-Leste, 2015*

	2015					
	Percentage of households that have access to				Ownership of	
	Clean and safe drinking water	Adequate and improved sanitation	Clean energy for cooking	Clean energy for lighting	Refrigerator	Mobile Phone
Timor-Leste	75%	57%	13%	82%	16%	73%
Oé-Cusse	74%*	42%*	3%	55%*	6%	81%

Source: Democratic Republic of Timor-Leste, Population and Housing Census 2015, General Directorate of Statistics
*Note** The largest improvement achieved in Oé-Cusse between 2010 and 2015 was in access to clean energy for lighting (40 percentage point increase in coverage) followed by access to clean water and sanitation (around 25 percentage point increase). The indicators presented in the table have most likely changed since 2015. For example, it is reported that the electricity coverage in Oé-Cusse is now more than 70 percent.







Chapter 4
**Moving
Forward and
Next Steps
for Oé-Cusse**



CHAPTER 4: MOVING FORWARD AND NEXT STEPS FOR OÉ-CUSSE

ZEESM TL has made considerable progress since 2014, particularly on establishing an effective administrative and regulatory framework as a SEZ. This has fostered rapid and quality infrastructure development that nurtures the enabling environment for regional economic development and diversification. Some initiatives have directly improved people's lives, considerably increasing the number of people that have access to electricity, clean and safe drinking water, and improved sanitation. The recently approved land law should provide the basis for land tenure management and allow a continued focus on city planning and economic development with fewer constraints. Efforts are underway to train skilled health personnel and to devise a mobile clinic scheme to bring better quality health closer to local people. Roads and bridges are decreasing the travelling times between people and facilities such as schools and health clinics.

The state of socio-economic and human development indicators has been considerably low in Oé-Cusse, particularly when compared to the rest of the nation. Chronically high food insecurity, malnutrition and poverty have remained widespread in the region. This was partly due to the structural and geographical isolation and historically low investments into the territory. ZEESM TL is currently changing the destiny of Oé-Cusse, once the most impoverished region in Timor-Leste, by bringing its isolation to an end through investing in a port, airport and roads and improving the development status of the people by using an integral approach to service delivery focusing on key areas such as health, education, electricity, tourism and agriculture. Through this complementary approach, early investments of ZEESM TL have already started to demonstrate positive change in a short period of three years.

The future work of ZEESM TL in the coming years need to build on the achievements of the recent years and enable a greater development impact for Oé-Cusse and the rest of the country. The foundational elements for moving forward in Oé-Cusse include accelerated improvements in health and education, continuous capacity building of local institutions based on public sector best practices and good governance and evidence based policy and decision making for social value creation.

One of the challenges ahead of Oé-Cusse will be to promote the development of an internal private sector and attracting foreign direct investment to accelerate the development of non-oil economy and ensuring financial sustainability as in the rest of Timor-Leste. Efforts need to continue to promote the development of the national private sector in the region for sustainable economic development and social inclusiveness.

This section provides a roadmap of the next steps that would help ZEESM TL accelerate human development in the region. In order to accelerate the transition towards a more diversified economy and higher levels of human development, several principles that are already strongly embedded into ZEESM TL strategies need continuity. These principles and priorities include:

- **Focus on human resource development** that provides access to qualified human capital is equally important as tax incentives in attracting investment;
- **Plan for a demographic dividend** to accelerate economic and human development gains in the region;
- **Stimulate investment and territorial specialization**, through promotion of local companies and investing in key sectors that demonstrate greater competitiveness;
- **Increase production and competitiveness in key sectors**, including agriculture, agri-processing, tourism and manufacturing to foster economic development;
- **Encourage local entrepreneurship**, particularly among youth, to spur job creation at the municipal and village levels;
- **Enter into strategic partnerships with the private sector** to accelerate information and communication technology developments that will lead to innovative and rapid gains in human capital development;



*“You cannot predict the outcome of human development. All you can do is like a farmer, create the conditions under which it will begin to flourish”
(Ken Robinson)*

- **Strengthen local institutional capacities** for effective, responsive and specialized service delivery, accountability, evidence-based planning, budgeting and execution;
- **Ensure good governance and accountability principles through democratic, transparent and decentralized processes and institutions** that can directly contribute to the betterment of communities and the country at large;
- **Prioritize inclusion in and ownership of infrastructure investment** by ensuring that local communities benefit as both producers and consumers of infrastructure;
- **Establish a two-way information sharing platform** to ensure continuous and constructive dialogue that includes participation, awareness and engagement; and
- **Expand options for local e-governance** to improve transparency and empower local planning and priority-setting.

PATHWAYS FOR TRANSLATING PRIORITIES INTO NEXT STEPS

Preparing for a demographic dividend to accelerate economic and human development gains through human resource development and territorial specialization

The Strategic Development Plan Timor-Leste 2011-2030 recognizes that youth will become a greater part of Timor-Leste’s workforce and will respond to new opportunities with dynamism, creativity and enthusiasm, resulting in economic growth and development. Children and youth, which comprise 76 percent of the local population in Oé-Cusse, are at the forefront of local development and need to be prioritized for sustainable and inclusive growth.

It is essential to design a transformational human resources development strategy that integrates an outlook to realize demographic dividends which will foster fast economic growth based on priority economic sectors identified in Oé-Cusse. This would accompany formulation of multi-year, sector-specific development plans and budgets for health, education, agriculture, trade and tourism. It is fundamental to expand the focus on children and youth as they enter the productive years of their lives. This is in order to ensure that they have the knowledge and skills that can respond to market needs; are able to find productive employment and opportunities in existing industries; and can contribute to the economic, social and political life of the nation.

As the region moves toward a more diversified, knowledge and skills-based economy, transformational leaps towards provision of quality health and education services is required. School feeding programmes for primary school can encourage school attendance and improve school-age children’s nutrition. Extending this into secondary school could help retention rates. ZEESM TL is already investing in these initiatives and complementing efforts with opportunities for adult learning to improve access to education for all children and youth. Next steps would need to focus on the improved quality of education, improved opportunities for non-formal training for youth and private sector engagement to enhance opportunities for the local people for on-the-job learning and training.

As His Excellency Prime Minister Dr. Rui Maria de Araujo said in a speech at the National University of Timor-Leste on 10 August 2016: *“Education and good health leads to productive workforce, stronger institutions, and economic growth, which then reduces the risks of conflict and instability, creating the conditions for further improvement in human development, economic development, and so on...Ultimately, when we have a well-educated and healthy population, when we have strong economic foundations and growth, we will be more effective in our measures to protect our environment and arrest climate change trends.”*

To prepare for expected increases in the demand for skilled labour (which would be driven by the territory’s economic development), ZEESM TL will need to continue making significant investments in provision of quality education, training and health for its youthful population to build the foundations for reaping demographic dividends.



A detailed territorial economic specialization plan for Oé-Cusse can guide ZEESM TL to accelerate progress in developing key economic sectors. This plan would detail the public and private investment and human resources required for the aspired growth in agriculture, tourism and manufacturing sectors; articulate the strategies for promotion of local companies to increase production and competitiveness through public incentives; and encouragement of local entrepreneurship, particularly among youth, to spur job creation at the sub-municipal and village levels. This plan would also identify pathways for entering strategic partnerships with the private sector where accelerated economic development can be ensured alongside innovative advancements in information, communication and technologies leading to rapid human development gains.

Strengthening mechanisms to build effective institutions for good governance

ZEESM TL in the coming years would need to focus on strengthening local institutional capacities to ensure strong institutions. This is important not only for effective, responsive and specialized service delivery through evidence-based planning, budgeting and execution but also to attract foreign direct investment and private sector development. The 2030 Agenda emphasizes the importance of effective, inclusive, transparent and accountable institutions for poverty eradication and sustainable development. Capable and adequately-resourced public organizations are fundamental to the effective delivery of public services. Effective institutions form an essential part of the enabling environment for attracting investment and supporting private sector development.

Strong institutions are also the means for ensuring inclusive and equitable citizens participation in the development process. Local citizens engagement and awareness helps build people's trust in the government intuitions and create more responsive and equitable policies and public services that are better suited to diverse needs⁵³. Public services such as education, health care and employment assistance function better when designed and delivered in partnership with citizens in a way that harnesses their interest, local knowledge and aspirations. Potentially these services would be more effective and cost efficient since they are more responsive and tailored to the needs of different groups of people⁵⁴.

To achieve the ideals of leave no one behind and 'reach the furthest behind first', it is important to continue collecting disaggregated data, to track progress across the urban-rural and gender divide. Timor-Leste has recently endorsed the Sustainable Development Goals and has stepped up into an important role in championing their implementation. SDG localization and the leave no one behind pledge in Timor-Leste are built on a commitment to focus on service delivery in rural communities, urban slums and vulnerable populations, paying particular attention to women and girls, youth, the disabled and the elderly. Applying innovative methods to understand the aspirations and expectations of Oé-Cusse people, and the state of human development based on timely and reliable data would help develop an in-depth understanding of groups that lag behind. This type of evidence based policy and decision making would ensure that development interventions and investments benefit all sectors of society equally.

Concrete efforts need to continue towards ensuring the principles of good governance and providing equal access to resources, services and opportunities for every Oé-Cusse resident, irrespective of gender, geographic location or age. It is equally important to invest in local people's ability to monitor progress towards these goals so that local institutions can be held accountable for public spending based on the criteria that it demonstrates social and economic returns and for enabling everyone to have a chance to fulfil their potential and become contributing members of society.

Active consultations with non-governmental stakeholders such as the private sector, civil society and citizens in the development process would help ZEESM TL to ensure that the development impact best serve the needs of those benefit it. One of the most effective means of supporting citizen engagement is to provide formal channels for people to express their views on draft laws, policies and development planning. It is also important to support the capacity development of local civil society organizations, women and youth groups to enhance the quality of public participation and ensure their inclusiveness in the process.

*“Ensuring the access of all citizens to government information and to essential information for human development is a must for every democratic society”
(Koichiro Matsuura)*

53 OECD, All on Board: Making Inclusive Growth Happen, OECD, Paris, 2014

54 OECD, Focus on Citizens: Public Engagement for Better Policy and Services, OECD Studies on Public Engagement, OECD Publishing, Paris, 2009.



It is important for ZEESM TL to allow citizens better access to public sector information so that they can be more involved in the policy-making cycle. This is crucial as access to information promotes accountability for results and builds citizens' trust in government institutions. To accomplish more responsive, inclusive, transparent and accountable institutions, ZEESM TL can certainly exploit the power of new information and communication technologies (ICT). Establishment of a two-way information sharing platform can ensure continuous and constructive dialogue between the government and different stakeholders while the opportunity for a local e-governance system can improve transparency, local planning and priority-setting promoting local ownership of the development process.



All in all, the future holds many possibilities and opportunities for Oé-Cusse. The region has the potential to mature into an effective development model that delivers sustainable human development results to the Oé-Cusse population and the rest of the country. ZEESM TL indeed has the foundations to serve as a development model that successfully translates local aspirations into reality by eliminating poverty, reducing hunger and improving livelihoods. With the right mix of inclusive planning, grass-roots development and support for a vital private sector, the transition to a non-oil economy in Oé-Cusse signal bright days ahead for the region and nation.







Empowered lives.
Resilient nations.