

Self-determination after Independence: East Timor and the World Bank

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Abstract: This paper introduces the concept of self-determination in the East Timorese struggle for political independence, and then examines the question of economic self-determination, with special focus on the role of the World Bank in East Timor. The paper discusses the Bank's relationship with East Timor's Transitional Administration (under the United Nations' Transitional Authority—UNTAET), and then some new self-determination dilemmas for the politically independent Democratic Republic of East Timor (RDTL). Of particular concern are the new forms of World Bank influence, and the Bank's overt and covert support for privatization, export driven policy, private monopolies, and an aggravated dual economy. © 2003 Portuguese Studies Review. All rights reserved.

In the euphoria of the independence celebrations (20 May 2002), which in many ways represent the culmination of East Timor's long struggle for political independence, the question of that little island-state's economic self-determination also deserves some attention. East Timorese themselves see self-determination as a long and wide ongoing process, and this paper seeks to honor that tradition.

So to what extent can political independence satisfy the often-expressed East Timorese claim for self-determination? What role is the World Bank playing in this newly independent nation-state? What obstacles still stand in the way of full economic as well as political self-determination for the people of East Timor? And are there lessons here for other small, politically independent nation-states?

This paper introduces the concept of self-determination in the East Timorese struggle for political independence, and then examines the question of economic self-determination, with special focus on the role of the World Bank in East Timor. The paper discusses the Bank's relationship with East Timor's Transitional Administration (under the United Nations' Transitional Authority—UNTAET), and then some new self-determination dilemmas for the politically independent Democratic Republic of East Timor (RDTL). Of particular concern are the new forms of World Bank influence, and the Bank's overt and covert support for privatization, export driven policy, private monopolies, and an aggravated dual economy.

1. Self-determination in the East Timorese Struggle

The East Timorese independence movement has represented the struggle of the people of East Timor for self-determination, and this principle has been supported

by all major East Timorese political parties since Portuguese colonial rule. These parties formed in 1974, as Portugal underwent rapid political change and decided to leave its remaining colonies, including East Timor. However, this rapid withdrawal created a dangerous power vacuum, where East Timorese aspirations for self-determination clashed with Indonesian plans to annex its small neighbor.

The Timorese Social Democratic Association (ASDT—soon overshadowed by its larger offshoot, FRETILIN) was the initial main proponent of the right to independence, arguing for gradual independence and social democratic reform. The movement of the majority of ASDT members to a new political organization, FRETILIN, in September 1974, represented a shift to mass mobilization for political independence. FRETILIN mixed some old and new traditions, in East Timorese life. The five-hundred-year-old tradition of resistance, or *funu* in Tetum¹, combined with a strong promotion of the cooperative model of development (consumer, agricultural and finance cooperatives) and with a popular form of mass education, in the Tetum language, linked to the ideas of the Brazilian Paulo Freire².

In 1975 one of FRETILIN's leaders, José Ramos Horta, pointed to the link between the struggle for political independence and the broader aspiration for self-determination:

Independence is a fundamental right of every nation in the world ... Nobody should ask a slave if he wants to be free or not ... Independence is not to be negotiated between the people of East Timor and the dominating power, or other vested interests ... The people have already made [their own] self-determination throughout 500 years of colonial history—they always wanted independence.³

In other words, self-determination was seen as a long historical process. In fact, there is a special word in Tetum which approximates to this longer view of "self-determination." *Ukun rasik'an* represents the sustained self-governing capacity of a people.⁴

Self-determination, as a political notion in the mid 1970s, was argued in different ways. The more conservative Timorese Democratic Union (UDT) in 1974 argued for "Self determination for the Timorese people oriented towards a federation with Portugal, with an intermediate stage for the attainment of independence." It also

¹ Geoffrey C. Gunn, "The Five Hundred Year Timorese Funu," in Richard Tanter, Mark Selden and Stephen R. Shalom, eds., *Bitter Flowers, Sweet Flowers: East Timor, Indonesia and the World Community* (Sydney: Pluto Press, 2001), 3.

² John G. Taylor, *East Timor: The Price of Freedom* (Sydney: Pluto Press, 1999), 33-35.

³ Mark Aarons, "Independence or Death," in Mark Aarons and Robert Domm, eds., *East Timor: A Western Made Tragedy* (Sydney: Left Book Club, 1992), 11.

⁴ Demetrio Amaral de Carvalho, interview with this writer, Dili, November 2001 (Demetrio is Executive Director of the Haburas Foundation, an environmental NGO).

rejected "the integration of Timor into any potential foreign country [*i.e.* Indonesia]."⁵

Despite these differences, East Timorese claims for self-determination have been broadly consistent with the international principles developed in the decolonization and human rights regimes of the United Nations, since World War Two. While not incorporated in the Covenant of the League of Nations (1919) or the Universal Declaration of Human Rights (1948), the principle of self-determination first appears in the Charter of the United Nations (1945), as the right of a "people," strongly linked to existing nation-states. Article One of the Charter cites one purpose of the UN as "to develop friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples." Influenced by larger decolonized countries, such as India, the concept of self-determination as a human right then appears in the Declaration on the Granting of Independence to Colonial Countries and Peoples (1960) and the twin Covenants of the International Bill of Rights (which give effect to the Universal Declaration)—the International Covenant on Civil and Political Rights (1966) and the International Covenant on Economic Social and Cultural Rights (1966). These two treaties have identical provisions as Article One, which begin as follows: "All peoples have the right to self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development."

The existence of a collective right as the first principle of the International Bill of Rights sometimes puzzles liberal jurists in the western tradition, who tend to look on human rights as pertaining to individuals, and to view state power (against which human rights are most often asserted) being exercised in the name of a "people." Nevertheless, the fact that self-determination is the first principle of both the major Human Rights Covenants is seen as giving further recognition to the right to economic, as well as political, self-determination.⁶ International law has not yet fully resolved the question of whether groups within a nation-state (such as indigenous communities) can be regarded as a "people," having the right to political and economic self-determination, or whether the interests of such sub-national groups are best considered under the provisions of Article 27 of the International Covenant on Civil and Political Rights:

In those states in which ethnic, religious or linguistic minorities exist, persons belonging to such minorities shall not be denied the right, in community with the other members of their group, to enjoy their own culture, to profess and practice their own religion, or to use their own language.

⁵ Taylor, *East Timor*, 26.

⁶ Matthew Craven, *The International Covenant on Economic, Social and Cultural Rights: A Perspective on its Development* (Oxford: Clarendon Press, 1995), 25.

While existing nation-states have a strong interest in defending their "territorial integrity" against such secessionist claims,⁷ members of the UN's Working Group on Indigenous Populations (for example) continue to argue for a broader definition of "peoples."⁸ However in the case of East Timor it has always been clear in international law that the population of East Timor constitutes a "people," which attracts the right of full political and economic self-determination.

2. Political Independence and the World Bank

East Timor's vote for independence in 1999 was followed by a massive final blast of violence from the retreating Indonesian army (the TNI). Organizing and arming militias which burned buildings, slaughtered many people and forced large-scale evacuations into West Timor, the defeated army carried out a "scorched earth" operation in East Timor.⁹ Many hundreds were killed and most of the population was displaced. Schools, hospitals, communications infrastructure and most public buildings were destroyed or severely damaged. The UN's Special Representative of the Secretary General, Mr. Sergio Vieira de Mello, described the situation in East Timor in December 1999 as follows:

The day East Timor won its right to independence was a day of great jubilation that quickly turned to one of the last nightmares of the 20th century. In September one thousand or more people were killed in East Timor. Three quarters of the population were driven from their homes. Most have now returned to find their possessions stolen and their life's work transformed to ashes. This country cannot produce enough food for itself ... External trade has stopped ... The country has some of the highest rates of tuberculosis, malaria and diarrhoea in the region, but there is no longer any health system. There are only twenty Timorese doctors for a population estimated at about 800,000. About half of the population is illiterate. Some teachers continue to teach but receive no salaries. Most of the technicians who ran public utilities, those who ensured there was electricity and running water, have left. ... Law and order rely largely on the goodwill of the inhabitants. There is no civil registration, no banking system, no official currency, no revenue system, not even an official language. We are starting from scratch.¹⁰

⁷ Department of Justice Canada, "Reference to the Supreme Court of Canada: Summary of the Government of Canada's Position," 1997, canada.justice.gc.ca/en/news/nr/1997/factum/tdm.html.

⁸ Human Rights and Equal Opportunity Commission, "First Report 1993: Self-Determination and International Law," Australia, www.austlii.edu.au/au/special/rsjproject/rsjlibrary/hreoc/atsi.

⁹ Charles Scheiner, "Grassroots in the Field—Observing the East Timor Consultation," in Richard Tanter, Mark Selden and Stephen R. Shalom, eds., *Bitter Flowers, Sweet Flowers: East Timor, Indonesia and the World Community* (Sydney: Pluto Press, 2001), 118-120; and Taylor, *East Timor*, xxiv-xxxi.

¹⁰ Sergio Vieira de Mello, "Remarks of Sergio Vieira de Mello, Special Representative of the Secretary-General," Donors' Meeting for East Timor, Tokyo, 17 December 1999, The World Bank

After the security of the country had been stabilized by UN backed troops, and while debate over the extent of prosecution for serious crimes and crimes against humanity continued, a great deal of reconstruction took place, supported by bilateral donations of more than half a billion US dollars. The World Bank was entrusted to manage this aid money, until a fully independent East Timorese administration had been set up, and a UN Transitional Authority (UTAET) worked with a East Timorese Transitional Administration (ETTA) on policy and reconstruction.

Independence celebrations for the new nation of East Timor were then held on 20 May 2002, with an elected East Timorese Government led by Prime Minister Mari Alkatiri and an elected President, former guerilla leader Xanana Gusmão, taking over responsibility from UNTAET. Yet amongst the celebrations over political independence, there remained persistent concerns over the prospects of economic self-determination. As one community leader said:

'Ukun rasik'an' [means] not just self-determined but also self-governing ... 'Ukun rasik'an' for East Timor is, I think, a very long term perspective. It means not only fighting to liberate East Timor for one year or two years, but for our future generations. So it means political independence and economic independence in every aspect, every dimension, what do you say, multidimensional.¹¹

This comment reflects a wider concern amongst many East Timorese that they build their own independence, and not be seen as beggars on the world stage. Self-determination also implies dignity.

World Bank officials were not oblivious to this concern, when they recreated the Bank's operations in post-Indonesian East Timor. World Bank Regional Director Klaus Rohland, noting the devastation of September 1999 and the magnitude of the reconstruction task ahead, said

This country really needs to be invented from scratch, and it can only be invented by the East Timorese themselves. The huge responsibility of the donors is to help them *without imposing our design on them* (emphasis added).¹²

However the practice of the World Bank has often been less scrupulous than its language. For many years the World Bank morally and financially supported the Suharto regime's programs of forced population control and transmigration. At a time when the Indonesian military was forcing contraception on many young East Timorese women and girls, and when the military was slaughtering pro-

Group, 1.

¹¹ Amaral de Carvalho, interview, 2001.

¹² Peter Cole-Adams, "Devastated Timor Must Start from Scratch, Says World Bank," *Sydney Morning Herald*, 19 November 1999, 12.

independence East Timorese and organizing the “transmigration” import of many Indonesian people, the World Bank was behind them.

The World Bank had long financed birth control programs in developing countries, influenced by the old Malthusian view that poor people were poor because there were too many of them. So the Bank financed birth control programs in Indonesia. In 1990 President Suharto was even awarded the UN “Population Prize” for effective birth control programs. However “family planning” under Suharto was both coercive and, combined with transmigration, repression and slaughter, a tool of genocide in East Timor. The military was used in programs which included deceptive recruitment into sterilization (said to be “vaccinations”) and forcing injectable contraceptives (Depo Provera) on girls in high schools. Families were limited to three children. Recruitment into birth control programs was around 60 per cent in East Timor, compared to 20 per cent in the rest of Indonesia.¹³ Yet, of these population control measures, the Bank said “we believe that family planning projects are a suitable form of assistance in [East Timor] ... as they are capable of providing important economic and social benefits to all concerned.”¹⁴

Transmigration was a long standing practice intended to relieve Indonesian population pressures on land, mainly in Java. However in East Timor this was used as a tool of dispossession. It involved the import of large numbers of Javanese and Balinese migrants, many of whom were given the land of East Timorese farmers. Other skilled migrants filled senior posts in East Timorese schools, hospitals and the public service. By 1984 as many as 400 “guided villages” for transmigrants (superseding resettlement areas) had been set up in East Timor, in areas able to be easily supervised and patrolled by the military, as part of a strategy to resist the growth of FRETILIN support.¹⁵ By the mid 1990s the East Timorese population of 800,000 included about 150,000 Indonesian immigrants. But transmigration was hardly a great success elsewhere in Indonesia. In a mid-1990s evaluation the World Bank¹⁶ acknowledged that it had financed transmigration schemes in Indonesia through seven projects totaling \$560 million. The Bank’s evaluation found that while many of these projects had achieved their settlement goals, “Transmigration had a major negative and probably irreversible impact on indigenous people,” as well as causing major environmental damage, particularly through deforestation. But the aim and impact of transmigration in East Timor was even worse than this. The integration of birth control, transmigration and repression was a coordinated strategy, intended to destroy the East Timorese identity—and the World Bank knew it.

¹³ Sarah Storey, *Coercive Birth Control and Settler Infusion*, Melbourne University, 1995.

¹⁴ World Bank, Letter from Head of Indonesia Division Country Programme Department, East Asia and Pacific Regional Office, to Ms C. Budiarto, *Tapol Bulletin* (London), 12 September 1985.

¹⁵ Taylor, *East Timor*, 157-8.

¹⁶ World Bank, *Transmigration in Indonesia*, Operations Evaluation Dept., Precis No. 72, 1994.

Finally, World Bank moneys intended for development purposes were diverted to the TNI-backed militias, which murdered and burned before and after the independence referendum in 1999. According to an Australian SBS investigation,¹⁷ the militias received at least A\$ 12 million of World Bank moneys, as well as nine billion Rupiah of Indonesian Foreign Affairs money. Ben Fisher of the World Bank's Jakarta office is reported as saying that the Bank was aware of this diversion, but was unable to stop it "short of stopping overall support" for the Jakarta regime.

When there was an international outcry over the army-militia violence, in the final stages of the independence struggle, the World Bank briefly played a more positive role, joining with the US and other governments in pressuring Indonesia to leave the country. However much of the World Bank's past activities are still to be explained to the East Timorese people. Sahe Institute Director Aderito Soares¹⁸ says that the World Bank needs to provide some explanation for its past role. It is wrong, Mr Soares says, for the World Bank to simply appear in East Timor, after the 1999 referendum, "as an angel."

3. The World Bank and East Timor's Transitional Administration

By the year 2000 the UN's peacekeeping forces had restored much needed stability to East Timor, and the generous international donations and good relief work were initially appreciated by the East Timorese community. Here, however, I want to focus on the developmental tensions between the World Bank and the Transitional Administration. These tensions foreshadowed potential future problems for East Timor, in its relationship with the World Bank and, more generally, problems for small nation-states in dealing with multilateral banks. I will look at three conflicts in the transitional period: (i) the conflict over public utilities, (ii) differing agendas on agricultural policy, and (iii) the Asian Development Bank's Microfinance Development Project.

In 1999 the World Bank was invited into East Timor by the United Nations Transitional Authority (UNTAET) and was entrusted to manage a large sum of money donated (not loaned) by the international community. In doing this the Bank had to engage not just with the UN but with East Timorese Ministers, appointed by the UN yet also later elected to a Constituent Assembly, set up before independence. These Ministers thus had some legitimacy (even before independence) as representatives of the East Timorese people, within the UN Transitional Authority. A substantial UN budget for peacekeeping was administered by UNTAET for administrative and armed forces purposes, but management of the donor money (the Trust Fund for East Timor) was entrusted to the World Bank.

¹⁷ SBS, *Dateline: East Timor*, Special Broadcasting Service, Australian television broadcast, reporter Mark Davis, 16 February 2000.

¹⁸ Aderito Soares, interview with this writer, Dili, April 2001. (Aderito was Director of the Sahe Institute, until he became a FRETILIN MP).

Some of this responsibility was delegated the Bank's regional counterpart, the Asian Development Bank (ADB). From an early stage in this transitional period the two multilateral banks had to engage with East Timorese office bearers as well as East Timorese civil society. This was to be a test of Klaus Rohland's claim that the Bank intended to "help them without imposing our design on them."¹⁹

The preamble to each World Bank Update on the Trust Fund for East Timor (TFET) stated that the first principle of TFET's activities was "East Timorese leadership and participation—critical at all stages."²⁰ However World Bank teams often rejected East Timorese proposals for use of the donated funds, sometimes with deprecatory language. For example, the World Bank's Appraisal for an US\$ 18 million Agriculture Rehabilitation Project rejected East Timorese proposals for public sector involvement in "the provision of research, extension and input supply services" because, it was claimed, "such public sector involvement has not proved successful elsewhere; and the anticipated government fiscal resources would not be able to afford such a burden." For these reasons the World Bank team (led by Klaus Rohland) demanded that the Pilot Agricultural Service Centres, publicly funded by TFET, must be privatized.²¹ Privatization certainly fitted the World Bank's a priori assumption concerning development and private investment, but it was quite false for World Bank officials to suggest that public sector facilities have not worked elsewhere. For example, Australia's scientific and industrial research group, the C.S.I.R.O., has provided useful public sector research to agriculture and other sectors for many decades. Furthermore, government services organized on a cost recovery basis need not be a financial burden, and in general have no greater history of failure than private sector enterprises. More importantly, the decision making processes concerning important new institutions in East Timor were cut short by World Bank interventions. East Timorese groups and representatives were deprived of a say.

This was hardly an isolated incident. The Bank's Appraisal for the Agriculture Rehabilitation Project also rejected UNTAET and East Timorese proposals for a public abattoir and a public grain silo, noting that this rejection was "possibly controversial" and that "some members of UNTAET and East Timorese counterparts may not appreciate the lack of public sector command and control structures and activities and may not support the [Agriculture Rehabilitation] Project".²² The "command and control" phrase is an old expression, which was applied to economic planning in the Soviet Union. It was an inappropriate and

¹⁹ Cole-Adams, "Devastated Timor," 12.

²⁰ World Bank, Updates No. 1-8: Trust Fund for East Timor, (2000-2001)

²¹ World Bank, *Project Appraisal Document on a Proposed Trust Fund for East Timor Grant in the Amount of US\$6.8 Million Equivalent and a Second Grant of US\$11.4 Million to East Timor for an Agriculture Rehabilitation Project*, Rural Development and Natural Resources Sector Unit, Papua New Guinea/Pacific Islands Country Unit, East Asia and Pacific Region, Report No: 20439-TP, June 14 2000, 14.

²² World Bank, *Project Appraisal*, 2000, 21.

offensive term, aimed at UN and East Timorese representatives who wanted the unique opportunity of TFET funds to be used to develop some basic public facilities, in a country which had effectively been stripped of all public facilities. The Appraisal report was backed by a strategy document on agricultural policy (compiled for the IDA and World Bank, by World Bank and donor country officials), which suggested that "the principle [of agricultural development] should be public financing and private delivery of most of those services." And while it was claimed that projects should be "participatory in design, selection and implementation" the document, in almost the same breath, demanded that:

the government should not own revenue generating enterprises, such as meat slaughterhouses, warehouse facilities, grain storage facilities, tractor pools or rural service centres. Government participation in these and similar activities would be costly and would inhibit private entrepreneurship.²³

This is hardly a model of self-determination. Mr Mari Alkatiri, the then Economics Minister in the first Transitional Administration (and now the first Prime Minister of an independent East Timor), responding to this issue, asserted that he and his colleagues were "successfully resisting" the multilateral banks over budgetary and infrastructure matters.²⁴

Much of the World Bank willingness to engage in "free market" social engineering was justified by a notion that post-conflict East Timor was "ground zero," in development terms. This was seen by some in the World Bank as an advantage:

The great advantage possessed by East Timor is that it is starting life with a clean slate ... East Timor can learn from the successes and failures of other countries to put together a policy environment based on appropriate best practices from around the world.²⁵

Advocates of private foreign investment, in the World Bank and its associated donor countries, apparently saw themselves as best placed to decide what constituted "best practice." Yet even though their country had been devastated, the East Timorese people were hardly a "clean slate." They had a great deal of knowledge, and valuable traditions. As a UNDP report on East Timor observed:

There can be a tendency to start analytically from zero, particularly in a country like East Timor where the physical destruction of September

²³ IDA, "Agriculture in East Timor: A Strategy for Rehabilitation and Development," International Development Association /World Bank mission report, Dili, May 2000, 3-4.

²⁴ Mari Alkatiri, interview with this writer, Dili, April 2001.

²⁵ IDA, "Agriculture," 2000, 2.

1999 was so immense. However it is important to take into account the previous social and economic structures.²⁶

The East Timorese had developed modern forms of older traditions—of resistance, cooperation and popular education—and of *Ukun Rasik 'an*, or self-determination. No outside agency which claimed to support East Timorese “leadership and participation” could afford to ignore this. Yet World Bank paternalism towards UNTAET as well as the East Timorese complicated the situation, as at this same time UNTAET was also subject to criticism for not allowing sufficient East Timorese participation in its planning processes, and in particular the planning processes which involved the transition from relief assistance to development.²⁷

Neither the World Bank nor UNTAET attempted to resolve the disputes over land ownership and dispossession. These are complicated and involve claims (particularly from a few wealthy families) that stretch across the differing legal systems of Portuguese and Indonesian colonial administrations. Land title is largely a policy issue for the newly independent Government. However the World Bank made clear its views on food security and cash cropping, which are critically linked to questions of land tenure. In the wake of the Indonesian withdrawal and mass destruction, food insecurity became a major problem in East Timor. Starvation had been averted in 1999, because of social cooperation. But the UNDP recorded that, in April 2000, three of East Timor’s thirteen districts (western and highland areas) were rated as high to very high in terms of vulnerability to food security. Another three districts were moderately vulnerable.²⁸

This vulnerability led to calls for domestic self-sufficiency in grain production, as well as the calls for public grain silos, to deal with the current and any future crisis. While the UNDP²⁹ presented a range of agricultural policies which might be applied to deal with the problem food insecurity (including both domestic grain production and cash cropping for export), World Bank reports have focused on the potential competition between domestic food production and cash cropping, strongly arguing the case for cash cropping, at the expense of domestic grain and food production.

Although there has been discussion of a policy that would ensure self-sufficiency in cereals or food, other countries have found this approach to be expensive and difficult to maintain. A more recent approach has involved replacing physical stocks of food with a buffer fund with which to purchase rice (say) in times of shortage while ensuring greater food security by creating the conditions for a vibrant

²⁶ UNDP, *East Timor: Building Blocks for a Nation*, UNDP, Dili, 2000, 8.

²⁷ Christian Bugnion, et al., *External Review of the Humanitarian Response to the East Timor Crisis (Sept 1999-May 2000)*, UNTAET, Dili, 24 May 2000, 12-19.

²⁸ UNDP, “East Timor,” 142.

²⁹ UNDP, “East Timor,” 80-81.

and profitable overall economy ... National income, and growth in income, is generated most rapidly when actions in the private sector determine the quantity and combination of agricultural goods that will be produced. Food security, not food self-sufficiency, should be the orientation of the policy discussion.³⁰

While this position may be consistent with the goal of enhancing private investment in cash cropping, the statement is misleading, as well as ignoring the right of the East Timorese to determine their own developmental priorities.

Many other countries (including the European Union, the USA and Japan) regard domestic food production as central to their food security planning. The US Agriculture Department uses evidence of food insecurity in the US as the basis for supporting large scale food production subsidies in the US.³¹ Japan does not want to depend on rice imports from Pakistan or Australia, to feed its population. Many large developing countries feel the same way. India and Indonesia have long regarded domestic agricultural support schemes as an important part of their social security systems.³² Only countries that are significant exporters of food (e.g. Australia, Thailand, Argentina, Canada) feel no need for such strategies. Policies to support domestic food production are therefore central to the food security strategies of most countries. NO wealthy country actually plans to rely on food imports as part of a food security strategy—why should East Timor? Finally, it is irresponsible for World Bank officials to suggest that a very poor country should sustain a “buffer fund” for national food emergencies. Government cash reserves are the first thing to disappear, in a crisis.

Once again the central question is: will the East Timorese people be able to make a policy decision for themselves? The World Bank began to pressure East Timor into cash cropping, for example in coffee production. If the World Bank were administering loans in East Timor, it could enforce this preference. East Timor already exports coffee, yet the potential for expansion in this area is limited. International prices for coffee are weak, and there is enormous competition, from many other poor countries. Furthermore, the expansion of cash cropping has important implications for land management (including land disputes) and environmental degradation in East Timor. Significant policy support for highly productive cash cropping would most likely assist large landholders consolidate their holdings, at the expense of small subsistence farmers. World Bank consultation on this issue has been superficial. In 2001 a group of East Timorese economists, retained by the World Bank to analyze the state of the country's coffee industry, resigned *en masse* after their work was trivialized. They had been offered

³⁰ World Bank, “Project Appraisal,” 2000, 61; also IDA. “Agriculture,” 2000, 4.

³¹ ERS, “Food Security in the United States,” Briefing Room, Economic Research Service, US Department of Agriculture, 2001, www.ers.usda.gov/briefing/foodsecurity.

³² Aileen Kwa, “Will Food Security Get Trampled as the Elephants Fight over Agriculture?,” *Focus on the Global South*, 2000, www.focusweb.org/publications/.

a couple of weeks and ten dollars a day each to complete a large study.³³ This was typical. Many of the consultations organized by the World Bank were "cosmetic," according to Sahe Director, Mr Aderito Soares.³⁴

A final issue of concern in the transitional period was the Microfinance Development Project, put up by the Asian Development Bank (ADB). Under TFET, the World Bank delegated responsibility to the ADB for managing US\$ 7.7m of Trust Fund moneys intended to establish microcredit for poor rural people, especially women. This Project stalled in the transition period, because the ADB said it needed enabling legislation to establish the Microfinance Bank and to "deregulate" interest rates.³⁵ However the project was originally designed with (i) interest rates between 40 per cent and 80 per cent *per annum*, (ii) plans to privatize the scheme as a profit making venture, and (iii) US\$ 600,000 of initially available funds allocated to international consultants.³⁶

The microfinance scheme also included a US\$ 2.5 million credit line to East Timor's well-established but run-down non-profit credit unions.³⁷ But it is the high interest rates of the proposed Microfinance Bank which caused most concern. Unlike some other successful microfinance schemes (such as the Grameen Bank of Bangladesh), the ADB proposal set out to construct a profit making enterprise, destined for privatization, which will set its interest rates according to its clients' "willingness to pay." This is standard banking practice, but inappropriate for a scheme meant to help "the poorest of the poor." The ADB document makes clear that the scheme is based on willingness to pay, and not on cost recovery and simple financial sustainability.³⁸ Poor rural women, in particular, were to be charged between 40 per cent and 80 per cent *per annum* interest rates on Rupiah-based loans. On top of the high rates and profit orientation, the ADB project arranged a \$600,000 payment of Trust Fund moneys to four international consultants for 47 person-months work,³⁹ an equivalent pay rate of US\$ 150,000 *per annum*. This was an extravagant and inappropriate use of Trust Fund money.

After lying dormant throughout the whole transitional period, and with the TFET allocation cut back from \$7.7 million to \$4.5 million, after independence the microfinance project was revised to begin offering 25 per cent loans. However the Institution is now controlled by a foreign dominated Foundation (TFET donor countries, as well as the ADB, have separate representation on the board), and

³³ Dr. Lucas Da Costa, interview with this writer, Dili, April 2001.

³⁴ Soares, interview, 2001.

³⁵ ADB, *Microfinance Development Project East Timor*, a TFET-Funded Project of the East Timor Transitional Administration Managed by the Asian Development Bank, November 2000, 25.

³⁶ ADB, *Microfinance*, 16, 33 and 40.

³⁷ ADB, *Microfinance*, 41.

³⁸ ADB, *Microfinance*, 21.

³⁹ ADB, *Microfinance*, 40.

privatization (which would most likely raise interest rates) is still on the ADB's agenda.

When confronted with the apparent contradiction between the World Bank's vetoing of development proposals by the East Timorese Transitional Administration, and the Bank's professed commitment to human rights, including the right to self-determination, Director Klaus Rohland argued that the Bank had a separate mandate. The World Bank "generally" supported human rights, he said, but had difficulties with some aspects of human rights because the Bank's Articles prohibited it from engaging in "political" activities. Furthermore, "economic" processes were seen as separate, and within the Bank's sphere of responsibility (its "comparative advantage," according to Rohland) in the international system. Rohland argued for the "effectiveness" of the Bank's policies, ignoring the self-determination issue.⁴⁰ The World Bank claims to have engaged in extensive consultations with the East Timorese community, including a "Community Empowerment Program." However East Timorese community leaders have been unimpressed. Demetrio Amaral de Carvalho, Director of the Haburas Foundation, said that the World Bank appeared to have "its own perspective" on what projects would be funded. This seemed to be linked to profit making. Many community proposals had been ignored. The process was not "nation building," he said.⁴¹

4. Managing the International Financial Institutions

IMF involvement in East Timorese budgets has also become more than a transitory affair. In September 2001, one week after the constituent assembly elections, the then Chief Minister Mari Alkatiri announced a poverty reduction strategy, with broad goals:

The eradication of poverty needs to be the main priority of this country. This means we should not only improve agricultural production, but we should also improve the educational system, the health service, the housing stock and the supply of water and electricity. These can be achieved in several ways: Firstly, through the decentralisation of development, secondly, by solving the poverty problem, thirdly, by giving incentive to what I would call the urban exodus ...⁴²

⁴⁰ Klaus Rohland, Talk on Business and Human Rights, Hilton Hotel, Sydney, 9 May 2001. [Klaus Rohland was Regional Director of the World Bank based in Sydney and also the Country Director for East Timor].

⁴¹ Amaral de Carvalho, interview, 2001.

⁴² Mari Alkatiri, "Gov't Sets Anti-poverty Fight as Main Objective," Wildwood, Statement of Secretary General of FRETILIN Revolutionary Front for an Independent East Timor, <http://www.pcug.org.au/~wildwood/01seppoverty.htm>, Sep. 7, 2001.

However, three weeks after the election a similar statement by the Chief Minister had inserted a central role for "free enterprise and private sector led development," as proposed by the IMF and the World Bank:

to alleviate poverty ... we will be seeking the assistance of multilateral financial institutions, particularly the World Bank ... In our quest to promote economic development more rapidly, free enterprise and private sector led development shall form the essential tools of our macroeconomic strategy. In this regard, our government will, as a matter of urgency, initiate the creation of a conducive environment to encourage private enterprise ... Allow me to use this moment to express our gratitude to the IMF for their assistance ... We will continue counting on the IMF as well as the World Bank and UNDP to jointly engage in the task to end corrupt practices in management and to ensure the Administration is well respected.⁴³

These comments were probably meant to be reassuring to donor countries, in the lead up to the December 2001 Oslo Donors Meeting.

After the independence celebrations of May 2002, the Government faced a budget shortfall, at least until 2005, when substantial revenue was predicted to come in from the newly negotiated oil and gas treaties. (In 2001-2002 East Timor acquired Indonesia's former rights under the "Timor Gap" Treaty, with Australia). At the same time, the 2002 withdrawal of most UN staff and some of the international agencies popped the "bubble" economy centered around rich foreigners in the capital city, Dili. And the new nation is still trying to fill the gap left by the 1999 withdrawal of many Indonesian teachers, medical staff and other professionals. The World Bank recognized that there was a need for "external financing ... to bridge the lean years between independence and the realisation of more substantial Timor Sea hydrocarbon revenues in 2005/6."⁴⁴ Similarly, the US based East Timor Action Network noted that "East Timor expects a \$154-\$184 million shortfall in the government's recurrent and development budget over the first three years of independence."⁴⁵

Just before the independence celebrations of May 2002, budget support of US\$ 90 million for 2002-2005 was secured from several donor countries, with the World Bank attempting a management role over these donated funds. For example, an agreement attached to an initial instalment of US\$ 5 million set out World Bank

⁴³ Mari Alkatiri, Mari, "Alkatiri: Swearing-in Ceremony of Members of the Transitional Government," Wildwood, Statement of Head of Government, East Timor. <http://www.pcug.org.au/~wildwood/01sep/mari.htm>, Sep 20, 2001.

⁴⁴ Mats Karlsson, "World Bank Statement: the United Nations Transitional Administration in East Timor, Statement by Vice President, External Affairs & United Nations Affairs, The World Bank, to the UN Security Council, October 31, 2001. www.worldbank.org.

⁴⁵ ETAN, "'Put Your Money Where Your Mouth Is' Calls for a Debt-Free East Timor," East Timor Action Network, press release, <http://www.etan.org/news/2002a/03debt.htm>, 21 March 2002.

powers over the East Timorese budget.⁴⁶ Conditions attached to this "Transition Support Program" grant were less systematic than those attached to its "soft loan" facilities (such as the IDA), but they included provisions that: East Timor cannot spend any of this money on goods or services within East Timor (all funds must be spent on imports or foreign services); East Timor cannot use these funds to buy goods and services associated with other loans (*i.e.* loans that are not from the World Bank); a list of prohibited purchases (including tobacco and uranium) is attached to the agreement; East Timor cannot use the funds to buy goods or services from countries which are not members of the World Bank (*e.g.* Cuba); and East Timor must account to the World Bank, and if the Bank decides there is some corrupt activity in the Government, it will withhold the money. The World Bank attempted to organize 3-year contracts for the donor countries, to systematize the conditions of their grants (including an "acceptable macroeconomic policy"). However these conditions have been resisted by the East Timorese Government, and some shorter term budget support grants (*e.g.* from Portugal, Ireland and New Zealand) have been given without conditions.⁴⁷ But from the experience of other countries we know that, if East Timor were to access IDA funds (whether as loans or grants) and engage in a World Bank "Poverty Reduction Strategy" (previously called "Structural Adjustment Programs"), there would be systematic and compulsory privatization of national assets and services, removal of foreign investment controls (such as they are), and strong pressures to register and "collateralize" customary land holdings.

As it is, the newly formed Democratic Republic of East Timor still has some capacity to manage World Bank demands, and the parallel demands of its partner agency, the Asian Development Bank. In East Timor the World Bank has handed over to the ADB the responsibility for managing Microfinance and Infrastructure (roads, ports, aviation, power and water) since 1999. In none of these areas have there yet been privatizations; but they are coming.

For example the Foundation set up to manage the Microfinance Institution of East Timor (MFIET) is now controlled by the ADB and some of the large donors. This may be significant when the ADB eventually proposes turning the MFIET into a private profit making institution. The ADB's original proposal made it clear that this was part of its plan, and the ADB has since expressed the opinion (in its 2002 "Progress Report") that the donor countries do not like the notion of state owned banks.⁴⁸ However, with privatization, interest rates would likely rise (to satisfy shareholders), the borrowers' debts would be "on sold" to the new owners and the institution would lose its community character.

⁴⁶ World Bank, Transition Support Program agreement, July 2002.

⁴⁷ LH, personal communication with an anonymous East Timorese source about contracts between donor countries and the RDTL, 30 October 2002.

⁴⁸ ADB, "Fourth Progress Report on East Timor," Asian Development Bank, Dili, May 2002.

In the areas of power and water, the ADB already has a privatization agenda, including a schedule for these private sector "participations" and "partnerships," even though such moves are not part of East Timor's National Development Plan. These privatizations may breach some aspects of the country's new constitution, which seeks to maintain local ownership of land and "permanent sovereignty" over East Timor's wealth and natural resources (Sections 8 and 54). Yet the ADB's May 2002 "Progress Report" sets out clear plans for water privatization. The ADB's theme paper "Water in the 21st Century" also makes it clear, more generally, that the ADB is ideologically committed to moving water "from a public good to priced commodity." But what does this mean for poor people's access to water? And what political mandate does the ADB have to demand the privatization of East Timor's public assets and services?

In August 2002 the ADB received consultant reports on East Timor's power sector, recommending privatization of power management, the introduction of a billing system and dealing with the recurrent blackouts in East Timor's towns. But why does East Timor need privatization and expensive power infrastructure? Local management could be given a chance to work, and East Timor has enormous oil and gas resources which could be used for power. Yet ADB managed privatizations will be pushed in East Timor because they are good for big foreign investors, not because they are appropriate for East Timor. East Timor's insecurity about its poor basic facilities will make it vulnerable to privatization arguments. The ADB is arguing that East Timor does not have the capital or the expertise to provide basic power, water and sanitation; but these arguments are misleading.

There are hidden dangers in, and good alternatives to, privatization; and East Timorese people can still manage the pressures for privatization. The dangers of privatization include highly priced services (private monopolies nearly always raise prices), unequal access to power and water, a loss of public complaints mechanisms (under Sec. 27 of the Constitution the Ombudsman can only deal with acts by "public bodies"), and a loss of transparency and accountability. Despite ADB and World Bank claims to increased transparency, "commercial in confidence" claims always go hand in hand with privatizations. This means that important financial and other data is no longer available to the public.

To manage the pressures from these international banks, proposals for privatized basic services in East Timor could be subject to a formal inquiry process, set by the parliament, to consider issues such as these: (i) what will be the impact on consumers, and how can high prices be controlled? (ii) how can poor peoples' access to basic services (power and water) be maintained? (iii) how can access to information about these services be maintained? and (iv) how can public accountability of these services be best maintained? It might be the case, after such examination, that it is decided that ownership and management of essential services are best kept in public hands, or at least in the hands of a joint venture with a dominant public interest.

Experience elsewhere in the world shows that public facilities can be more efficient than private facilities. Researchers at the University of Greenwich⁴⁹ have demonstrated, for example, that Sweden's publicly-owned water providers are far more efficient and provide cheaper water than England's privatized water providers. In poor countries there have been similar experiences. In Bolivia, development of the cooperative water supplier in Santa Cruz (SAGUAPAC) compares very favorably to the disastrous privatization undertaken in Cochabamba (SEMAPA). In the latter case, huge price rises and protests led to a reversal of privatization. In 1994 Honduras chose to reject privatization of its national water supplier (SANAA), in favor of internal reorganization and efficiency measures. Billing, cost recovery and restructuring measures were pursued by SANAA, which the UN now considers a model public project. East Timor can learn from these experiences.

In the field of power, privatization is neither the only nor the best answer to the regular and frustrating blackouts in East Timor's cities and towns. Natural gas from the Bayu Undan field could fuel small to medium sized gas turbines for the cities, while other small geothermal, solar and wind plants could maintain cheap and sustainable power for the villages.

In the field of microfinance, a community based, cost-recovery service could be maintained, without recourse to privatization. The world's most successful microfinance operation, the Grameen Bank of Bangladesh, demonstrates this. Why not get expert advice on microfinance from Grameen, rather than the wholesale bankers at the ADB?

East Timorese people can manage the World Bank and other International Finance Institution's demands for privatisation of their public assets and basic services, if they draw attention to the problems, the alternatives and to their own indigenous initiatives. The new Constitution, the Parliament and the National Development Plan provide important tools for reasserting the long-standing claim of the East Timorese people to self-determination. East Timorese people can speak, and the international banks will have to listen.

⁴⁹ Emanuele Lobina and David Hall, "Public Sector Alternatives to Water Supply and Sewerage Privatisation: Case Studies." Public Services International Research Unit, August 1999.