





CHAPTER 6

PUBLIC INVESTMENT IN YOUTH



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Primary school students attend class in Taiboco,
a sub-district of Oecussi.

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Public Investment in Youth

Introduction

This chapter examines key issues revolving around public investment in youth education and training linked to the development of a solidarity economy and social enterprises in Timor-Leste. It also focuses on appropriate ways government financing might be used to support incubators for social enterprises among youth. Important considerations that are analysed include the following: (1) the distinction between human capability and human capital, which helps illustrate the advantages of youth education understood more broadly than simply collapsing investment in youth into skill training for particular projects; (2) the generally recognized value of concentrating on greater literacy as a foundation for structural change and new ways of working; (3) the need to address gender inequality in education and training in Timor-Leste and to recognize the major social consequences of gender inequality; (4) the desirability of enterprise building through the development of clusters, such as in rural livelihoods and food security or in health care, community development and ecotourism, that draw on the country's strengths, while not ignoring the country's fragility in human development; (5) the benefits of offering greater responsibility to marginalized youth and, where possible, of including their organizations in skill and livelihood initiatives; and (6) the relevance of proportionality in public investment, especially by prioritizing human development over physical infrastructure.

“Human capability . . . focuses on the ability of human beings to lead lives they have reason to value and to enhance the substantive choices they have”.

Human development concepts for skills and social enterprises

What are the Sen capability approach and the Say-Schumpeter tradition of social enterprise? How might they be applied to transform the large share of youth in the overall population in Timor-Leste, the youth population bulge,

into a youth dividend? What other concepts and methods might help achieve an understanding of the relevant public policy and investment priorities?

The economist Mahbub ul Haq and his colleague Amartya Sen are prominent among the pioneers of the project of human development of the United Nations Development Programme (UNDP). They believed that the entire liberal notion of economic development was in crisis (Haq 1973). Alarmed by the widening non-income inequalities in society (welfare equality and inequality had not yet appeared among conventional economic indicators), Haq took a practical approach to raising the profile of a new concept of human development.

Meanwhile, Sen was working on conceptualizing human development by using the notion of capabilities as a rival to the older economic concept of utility. He asserted that economic development necessarily involved the expansion of people's capabilities. Increases in income and the related concept of economic growth were only indirect and, often, ineffective measures of human development. Recognizing the links to rights, Sen posited that there is a close connection between entitlements and capabilities.

“Focusing on entitlements—what commodity bundles a person can command—provides a helpful format for characterizing economic development”, Sen (1983, p. 760) argued. (As his thoughts on capabilities evolved, Sen dropped this reference to commodity bundles.)

Sen often quoted the British moral philosopher Adam Smith (see Sen 1985). However, he departed from Smith's focus on exchange and production because, as he put it, “human beings are not merely means of production . . . but also the end of the exercise” (Sen 1997, p. 1960). Human development could not be understood simply as a means towards enhanced production. That was too narrow a view. He distinguished human capabilities from human capital, writing that “human capability . . . focuses on the ability of human beings to lead

lives they have reason to value and to enhance the substantive choices they have” (Sen 1997, p. 1959). Human capital, meanwhile, focused on “the agency of human beings—through skill and knowledge as well as effort—in augmenting production possibilities” (Sen 1997, p. 1959). Sen urged us, in building human capabilities, to go beyond the notion of human capital, after acknowledging its relevance and reach. The broadening that is needed is additional and cumulative, rather than being an alternative to the “human capital” perspective. (Sen 1997, p. 1960)

Thus, an instrumental view of education and training is bound to miss important social and individual value in capability-building. One might take this point one step further, pointing out that the social return on training young people for particular types of work may be less useful, but also less humanly valuable than educating them more broadly to be able to rethink and adapt those same types of work, as well as any work they may encounter.

Sen’s (1999) focus on individual choice and a general expansion of human freedoms led to a criticism of his “methodological individualism”, that is, his view involved accounting for “social phenomena . . . in terms of what individuals think, choose and do” (Stewart and Deneulin 2002, p. 66). One must also look elsewhere for the agencies involved in bringing about desired social change, such as how to build the human capabilities of young people and help young people find meaningful employment.

The late J. Gregory Dees popularized the link between entrepreneurship and social enterprise. He drew on a theorist of entrepreneurship of the 19th Century, Jean-Baptiste Say (1834), who defined an entrepreneur as someone who shifts economic resources out of an area of lower productivity into an area of higher productivity and greater yield. Others have discussed the wider view of entrepreneurship of the early 20th Century political economist, Joseph Schumpeter (1947, 1950, 1961), in the context of creative destruction, a theory of economic innovation in the business cycle. However, Dees combined this and Say’s theories to describe more clearly the microeconomic role of those rare agents who combine a social mission with business ventures (Dees 1998; McNeill 2012). Dees promoted a concept of social entrepreneurship with several key characteristics. First was the mission to

create social value. Second were a recognition and pursuit of new opportunities to serve that mission. Third was the process of innovation, adaptation and learning. Fourth was bold action with few resources. Fifth was a heightened sense of accountability towards those served. This sort of entrepreneurial activity arose among a rare breed of individual, not a class of people (Dees 1998). The concept involves employment creation, as well as advancing wider social objectives and transforming productive systems.

This idealized vision has not been translated into a model or an agreed definition of a social enterprise. It encompasses businesses with social objectives, but the extent to which these differ from other businesses or rely on other forms of accounting, such as the double bottom-line, is widely debated. One writer claims that attempts at definition “find a field which is more defined by its diversity than its consensus” (Hackett 2010, p. 212). Nonetheless, a study of social enterprises in East Asia concludes that “the most important single factor explaining the spreading of the social enterprise phenomenon . . . lies in the public policies that were implemented in the framework of the transitional welfare regimes and globalization process” (Defourny and Kim 2011, p. 90). The public policies included employment creation schemes and welfare-to-work programmes—for example, in Hong Kong SAR, China and in Korea—such as those suggested in the case of Timor-Leste. The same authors stress the role of the power of the state as a key factor driving and regulating social enterprises, which must also survive local market forces (Defourny and Kim 2011).

The link to the state and public policy leaves open the possibility that innovation may arise independently, especially in well-educated communities, and might then attract public support. Researchers have suggested that private social innovation might be seen as “complementary and sometimes as corrective to” public policy and practice (Groot and Dankbaar 2014, p. 17). The reference to complementarity may recall the work of the United Nations Conference on Trade and Development (UNCTAD 1998, p. 1) some years earlier, when “clustering and networking” were said to be “among the best options to support the growth of SMEs [small and medium enterprises]”, an acknowledged key engine of local employment creation. Drawing

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on institutionalist ideas of circular and cumulative causation, local cluster development can build synergies, cross-links and economies of scale to build collective efficiency in industrial development (Argyrous 1996). Cluster development around SMEs is now well recognized as a superior developmental strategy for employment and industry (Ceglie and Dini 1999; Pietrobelli and Rabellotti 2010; Tambunan 2007).

The United Nations Conference on Trade and Development (UNCTAD 1998) points to superior cluster development in Bangalore, India, where there were high levels of technological development, skills, innovation and trust. This was the result of a public investment in technical colleges and defence industries, alongside the contributions of private engineering and IT industries. One may also imagine a more modest, specialized cluster wherein investment in health care personnel is supplemented by cooperation among various linked initiatives involving health care facilities, local medical professional development, health education and health tourism. This may be relevant to Timor-Leste.

A focus on social enterprises in certain cluster areas selected through public policy need not preclude a more open seeding of innovation in other areas, but it may be a good launching point. Furthermore, identification of a nation's strengths and weaknesses might form useful reference points for public policy. This chapter therefore draws on the concepts of human capability and social enterprise development and uses the most recent data on the key strengths and fragilities of Timor-Leste to propose coherent, evidence-based options for relevant public investment strategies.

Investments in capabilities, education and training

A word of caution about any initiative that seeks to identify improvements in human and youth capabilities with training for specific work programmes. The human development concept has not been conceived as an instrument. According to Sen (2003), one must reach beyond investment in human capital or in training for a particular purpose. Human capability-building in communities and nations must have sufficient breadth and depth to involve nourishing development programmes, aiming at wider social benefits and unleashing the creative energies implied in the solidarity economy and in social enterprise development.

Timor-Leste has achieved advances in education and other areas of human development since independence, but some of these advances seem only limited. Life expectancy at birth has risen substantially since the 1990s, as have the adult literacy rate and the mean years of schooling. However, the latter two appear to have stalled (table 6.1). According to UNDP, the mean years of schooling increased in the first years after independence, but has remained static, at 4.4 years, since 2010. This compares poorly with the average mean of 6.8 years in developing countries. Furthermore, there is a large disparity between the mean years of schooling among Timorese men (5.3 years) and women (3.6 years) (table 6.2). Many countries that are poorer than Timor-Leste exhibit higher average educational attainment (UNDP 2016).

Combined school enrolment rates rose from 59 percent in 1999 to 66 percent in 2004 (UNDP 2006). Lack of capacity and resources constrained educational development.

TABLE 6.1

Selected Human Development Indicators, Timor-Leste, 1996–2015

Indicator	1996/97	1999	2001	2004	2007	2010	2014	2015
Life expectancy at birth, years	54.4	56	56.7	55.5	60.7	67.3	68.2	68.5
Adult literacy, ages 15+, %	40.6	40.4	43	50.1	50.6	58.3	64.1	67.5
Underweight children under age 5, %	51	45	45	43	46	45	38	
Mean years of schooling			2.8	3.3		4.4	4.4	4.4

Sources: UIS 2015; UNDP 2006, 2007, 2009, 2015, 2016; UNICEF 2015.



Nonetheless, a valuable school feeding programme was introduced in some districts. The first draft of the food security policy included reference to this programme, backed by the World Food Programme, which would both “encourage school attendance and improve nutrition of school-age children” (MAFF 2005a). This reference was dropped from the final food security policy, but the school feeding programme seems to have been maintained, at least in primary schools (MAFF 2005b). Extension into secondary schools would help retention rates.

A significant initiative in health education was launched in 2003, when the country’s leadership took on a health care cooperation programme with Cuba. This programme rapidly became the backbone of the country’s primary health care and medical training, dwarfing all other health aid programmes in the country and in the region. By late 2005, 1,000 medical scholarships were being offered to young Timorese, and hundreds of Cuban health workers had come to work in the country. A literacy programme, based on the Cuban *Yo, sí puedo* (Yes, I Can) method, was introduced in 2005. It was first undertaken in Portuguese, but was soon transformed into the Tetum programme *Los Hau Bele!* (Anderson 2008). As a result of the programme, more than 70,000 people gained basic literacy. A follow-up Cuban literacy programme, *Yo, sí puedo seguir* (Yes, I Can Continue), is being run in various countries, for example, Colombia.⁵⁵ However, in Timor-Leste, there was no systematic second-stage programme, leading one researcher to declare that “it is of serious concern that there are no post-literacy activities or classes being organized in any coordinated way for graduates either by governmental or by civil society organizations, although some post-literacy classes are now being piloted in some districts” (Boughton 2010, pp. 69, 71). It is not clear whether the UNDP adult literacy data for 2008–2013 or literacy data of the United Nations Educational, Scientific and Cultural Organization (UNESCO) take the *Los Hau Bele!* Programme fully into account (UIS 2015; UNDP 2015). Yet, recent data show that Timor-Leste’s adult literacy rate, 64.1 percent, is well below the developing country average of 79.9 percent (see table 6.2).

In its *Skills Outlook 2013*, the Organisation for Economic Co-operation and Development (OECD) reinforces the human development concept that basic education and

TABLE 6.2

Human Development Fragilities, Timor-Leste and Developing Countries

Indicator	Timor-Leste	Developing countries
Mean years of schooling, 2015	4.4	6.8
Men	5.3	7.3
Women	3.6	5.4
Inequality in education, 2015, %	47.6	32.3
Child malnutrition, stunting under age 5, 2008–2015	50.2	31
Public health expenditure, 2015, % of GDP	1.3	5.6
Public education expenditure, 2005–2014, % of GDP^a	9.4	4.7
Adult literacy, 2005–2015	67.5	79.9
Labour force participation rate, ages 15+, 2015, %	55.5	64.3

Sources: DGE, 2015; UIS 2015; UNDP 2016; UNICEF 2015.

Note: GDP = gross domestic product.

a: The UNDP data for Timorese investment in education are anomalous; compare with table 6.6.

narrow vocational training are not substitutes for broader, more intensive education. Literacy is not simply a basic skill, but a continuum that is critical for workers in workplaces that are being transformed. The OECD relies on five levels of skill proficiency, in which level 1 refers to basic functional skills, such as the ability to “read relatively short texts to locate a single piece of information that is identical to the information given . . . , understand basic vocabulary, determine the meaning of sentences and read continuous texts with some degree of fluency” (OECD 2013, p. 8). However, the OECD focuses attention on the higher levels of skill proficiency necessary for adaptation and change. At levels 4 and 5, the differences between, for example, Finland and Italy, are quite dramatic (table 6.3). These differences have major consequences in enterprise and industrial development.

TABLE 6.3

Adult Skill Proficiency Rate, by Level, Selected OECD Countries (percent)

Country	Below level 1	Level 1	Levels 2 and 3	Level 4	Level 5
Australia	3.1	9.4	68.6	15.7	1.3
Finland	2.7	8.0	67.2	20.0	2.2
Italy	5.5	22.2	68.4	3.3	0.1
Japan	0.6	4.3	71.4	21.4	1.2
Spain	7.2	20.3	66.9	4.6	0.1
United States	3.9	13.6	66.8	10.9	0.6
United Kingdom	3.3	13.1	69.1	12.4	0.8

Source: OECD 2013.

Based on the observation that 34 percent of workers reported structural changes in the workplace and 42 percent reported new ways of working, the OECD report suggests that countries at greater levels of development in higher levels of skill proficiency will be able to adapt more effectively to structural change. Levels 4 and 5 in proficiency supposes university educational attainment and the ability to “perform multistep operations to integrate, interpret or synthesize information from complex texts that involve conditional and/or competing information . . . [and to] make complex inferences and appropriately apply background knowledge as well as interpret or evaluate subtle truth claims” (OECD 2013, p. 8). This research reinforces the results of many surveys on the skills employers generally seek in employees. They typically value soft skills—such as the ability to work on a team, leadership, communication skills, problem-solving skills and a strong work ethic—rather than practical workplace skills, which can be taught on the job (Andrews 2015; NACE 2015).

Keeping children in school longer is one of the best remedies for youth unemployment. Because of high youth unemployment rates in the 1980s, Australia undertook to keep young people in school. The retention rates to year 12 rose from less than 50 percent in the early 1980s to almost 80 percent in the early 1990s. Girls caught up to and passed boys in school completion rates (ABS 2011). Subsequently, the principal findings of a study on the factors affecting youth unemployment included that “low school achievement in literacy and numeracy was consistently associated with youth unemployment . . . year 12 completion reduced the incidence of unemployment [after controlling for other factors, and] . . . post-school qualifications were of little benefit, after controlling for the effects of school achievement” (Marks and Fleming 1998, p. v). Thus, higher school completion rates to year 12 were the major factor in reducing Australian youth unemployment through the 1980s and early 1990s.

Another consideration in favour of foundational investments in education is the tremendous social value associated with the education of girls and women. The low schooling rates in Timor-Leste are characterized by a large gender gap, a weakness that has wide social costs in health, family planning and labour productivity. A study of 115 countries over 1960–1990 carried out for

the World Bank showed that, while higher incomes were associated with improvements in mortality rates, the education of women was a much more powerful influence (Wang et al. 1999). Thus, education among adult women was more than twice as effective in reducing child and women’s mortality rates and more than four times more effective in reducing fertility rates (Wang et al. 1999). The Brookings Institution has published an impressive compilation of evidence to support each of the following 10 assertions about the education of girls and women: (1) it increases economic growth and agricultural productivity; (2) improves women’s wages and jobs; (3) saves the lives of children and mothers; (4) leads to smaller, more sustainable families; (5) results in healthier, more well educated children; (6) reduces the incidence of HIV/AIDS and malaria; (7) reduces child marriage rates; (8) empowers women; (9) increases women’s political leadership; and (10) reduces the harm to families from natural disasters and climate change (Sperling and Winthrop 2016). This should represent an urgent reminder of the need to invest in broader, more intensive education, including among girls and women and through targeted training programmes, to create a sound basis for social development. The late Katarina Tomaševski, the United Nations special rapporteur on the right to education, made clear a decade ago that the best way to address gender inequality in education was to remove all forms of school fees, including the costs of school uniforms, books and transport, because “the key to a changed global design of education is an affirmation that education is a public responsibility” (Tomaševski 2006, p. 250). Fee-free education, combined with school feeding programmes, to year 12 is the most effective way to address gender inequality and the schooling deficit. A healthy and safe school environment is also critical. A clean water supply and sanitation facilities in schools help control diarrhoea, which can aggravate malnutrition, while making schools generally more welcoming places, particularly for young girls (Nazer 2015).

Clusters around Timor-Leste’s strengths and fragilities

Without discounting the possibility of supporting other youth initiatives, there seems a powerful logic in the focus of the limited

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resources of Timor-Leste on specific areas in which there is potential for cross-fertilization and complementary development. The nation should build on its existing strengths. Building on strengths and effective organizations is consistent with UNDP's Youth Strategy 2014–2017, which stresses the “capacity development of young people and youth organizations”, alongside Timor-Leste's 2016 National Youth Policy and related strategies and action plans to support and empower young men and women (UNDP 2014, p. 4; SSYS 2016). Cluster development is a well-established method of growing comparative advantage and nurturing employment through SMEs. Such clusters might be launched by building on the country's strengths to address the country's fragilities.

The strengths and untapped potential are evident in the cultural history that makes Timor-Leste stand out among small nations. The remarkable, free, and well-staffed universal health care system is another area of strength, although, despite this strength, the health sector suffers from a lack of public investment (see table 6.2). Other fragilities can be seen in a critical reading of *Human Development Report 2016* (UNDP 2016). Relative to the developing country average, overall schooling rates are weak, and the disadvantage of women in education appears to account for much of the overall inequality in education. The amount of public expenditure on education might seem reasonable, but it is reflected in outcomes because average schooling rates are low and have been stagnating (see table 6.2). The incidence of child malnutrition is high, which is aggravated by poor sanitation and diarrhoea, while rural livelihoods are not being enhanced, and there is a steady stream of rural youth from the countryside to the capital. Food security is a critical issue because of poor production and the lack of proper education. Delinquency is a problem and often appears to be a function of unemployment among urban youth. (The issues associated with delinquency and the concerns about perceived safety among youth are detailed in chapter 2.) Each of these areas deserves public policy attention, and each also should become a serious focus of cluster development supported by social enterprise and employment initiatives.

The fragilities in educational development and gender equality in education should be addressed through a fully funded programme

of fee-free education up to year 12, as urged by Tomaševski (2006) and as reinforced in the National Strategic Development Plan 2011–2030 (Planning Commission 2011). Beyond the poor schooling rates and despite the significant number of prominent, well-educated Timorese women, including the 38.5 percent representation of women among the members of Parliament, as required by a gender quota (UNDP 2015), capability development opportunities among Timorese girls and women are shallow. Initiatives focused on girls and women in each of the new training and employment schemes should be a priority. This should focus on promoting key roles for women in priority cluster development, such as (1) rural livelihoods and food security and (2) health care, community development and ecotourism. Each of these clusters targets a combination of national strengths and fragilities to achieve a knowledge-based society and a flourishing solidarity economy.

Rural livelihoods and food security

A focus on rural livelihoods and food security would highlight strengths of Timor-Leste, where 50 percent of workers are active in agriculture and where there is a widespread system of customary family land tenure, alongside chronic problems of malnutrition and of dependence on food imports (UNDP 2015). Meanwhile, the rural health care infrastructure accounts for many rural services. If supplemented by new schools and roads, this could help retain young people in viable rural livelihoods and slow the flow of rural migration to the cities, where it contributes to urban unemployment.

Progress has been achieved in reducing the infant mortality rate, which fell from 88 per 1,000 live births in 2002 to 45 in 2009. This appears to be linked to an increase in the provision of care through skilled birth attendants. There also seems to have been some advances in child nutrition. Yet, a national nutrition survey in 2013 found that half of all Timorese babies were stunted (MOH 2015). This was down from 58 percent in 2010, but higher than the 49.4 percent in 2002 (Grieve 2013). Stunting in children may be accompanied by permanent organ damage, including brain damage. Breastfeeding has been encouraged, and the rate is quite high, but anaemia among mothers and babies is also high (MOH 2015). The Ministry of Health, in the 2014 National

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Nutrition Strategy, recognized that “the nutrition situation of the country overall remains poor, with 50.2 percent stunting, 11 percent wasting and 37.7 percent underweight children under five years of age” (MOH 2014, p. 6). The greatest nutritional problem identified was child stunting, but some micronutrient deficiencies were also detected, particularly maternal anaemia (23 percent) and vitamin A deficiency among children (MOH 2014).

Grieve (2013) points out the need for food education in the face of heavily advertised junk food. The 2014 National Nutrition Strategy included programmes to enhance nutrition and health care among mothers and girls, improve general food security, promote better hygiene, and increase education in optimal nutrition practice (MOH 2014). The associated recommendations could be reinforced through rural social enterprise projects. Programmes in support of rural livelihoods based on small farming should become a key pillar of national food security. Seeding social enterprise initiatives among rural livelihoods and food security projects could help build wider community capacity. This might involve, for example, management training in the use of household land and projects in critical local infrastructure, combined with reinforced rural services.

Relevant experiences elsewhere are informative. With a population of around 90 million, Vietnam managed to transition from a food importer to a food exporter after the Doi Moi market reforms of the 1980s. A major feature of the reforms was the focus on a network of small farmers. The reforms led to a dramatic rise in rice output and incomes, improved productivity, and better returns on rice production between 1985 and 2006 (Kompas et al. 2012). Even the World Bank (2016), which is committed to promoting private foreign investment and usually supports large corporate projects, acknowledges that the impressive output of Vietnamese agriculture has been based on smallholder farming. Small farms in Vietnam diversified from rice production into a wider variety of products. The biggest rice exporter in the world, Thailand, also draws on a base of small farming (OBG 2016). Much can thus be achieved by retaining and building on a base of small farming, rather than pursuing large agro-industry projects. This necessarily means the preservation of the household-based land tenure system and avoiding the alienation of customary land

to large corporate projects. The logic of small farm development has buttressed since the global food price rises of 2008 and the wider recognition of the multifunctionality and productivity of small farms (Rosset 1999).

Agricultural researchers have found that small farming output in the Pacific islands has been greatly underestimated and that average local produce sales by customary landowners in Papua New Guinea are much higher than wages derived from rural formal employment (Anderson 2015; Bourke et al. 2006). In India, smallholdings in agriculture still exhibit higher productivity than large holdings (Chand, Lakshmi Prasanna, and Singh 2011). Rosset (1999, p. 1) has developed the concept of the multifunctionality of small farms, that is, they are

More productive, more efficient, and contribute more to economic development than large farms. [They] can also make better stewards of natural resources, conserving biodiversity and safeguarding the future sustainability of agricultural production.

The Food and Agriculture Organization of the United Nations (FAO) has likewise recognized the important role of family farming and smallholders in food production (FAO 2014).

In the 2014 Youth Strategy, UNDP (2014, p. 28) reported on African youth programmes that “guarantee linkages between job creation, food security, peace and inclusive development.” Such programmes, often centred on farm business management, can be particularly valuable because they draw on the strong links agriculture can build with other parts of the economy, such as construction, local infrastructure, tool-making, transport and retail. This has led de Janvry and Sadoulet (2010, p. 1) to conclude that “GDP [gross domestic product] growth originating in agriculture induces income growth among the 40 percent poorest, which is on the order of three times larger than growth originating in the rest of the economy.” Sustainable rural livelihoods can therefore be a tremendous sink for rural unemployment, while slowing internal migration to the cities. They can also reinforce national food sovereignty, a necessary process of protecting local food supplies, reducing import dependence and avoiding the shocks of international price fluctuations or wholesale market manipulations (Rosset 2009). For

these reasons, the linking of social enterprise and other public policy initiatives to a cluster of rural livelihoods and food security deserves consideration.

Health care, community development and ecotourism

A second cluster—ecotourism, community development and health care—could bring together the country's strengths in international recognition, community cohesion and the most rapidly growing health care sector in the region to address the ongoing challenges of weak tourist development and serious underinvestment in health care. Weak development in one of the two areas, ecotourism or health care, can undermine the other area, while a strengthening of both could produce useful synergies. This is a characteristic of the dynamics of clustered, cross-link development.

Timorese leadership has always cherished the ambition to develop tourism. The National Strategic Development Plan highlights the serious aspirations for growth in tourism, but also the limited tourism infrastructure and facilities (Planning Commission 2011). The districts are concerned to remain involved, to own tourism operations and maintain social and environmental controls. Tourist attractions include adventure and historical tourism, the indigenous culture, trekking, marine tourism and scuba diving, and unspoiled locations, such as hot springs, caves and islands (Jebson 2014). But how might the vicious cycle of underdevelopment in the sector be transformed into a virtuous cycle?

Tourist development requires sturdy infrastructure, including national roads, but also a sound public health care environment. Tourists are reluctant to travel to areas associated with crime and violence or serious public health risks. The country has achieved important advances in public health. It possesses a large cohort of doctors who have been trained in preventive care and the promotion of the benefits of regular medical care and who have helped expand treatment, vector control and education so that some areas, such as Lautém District, have been declared free of malaria (Anderson 2010, 2014). However, the risks of dengue, tuberculosis and other diseases haunt the population and dampen the interest of potential tourists. Advances in public health care would represent a win-win development

because they will help the people of Timor-Leste, while enhancing the attractions of local tourism.

Yet, investment in the national health care network is limited. Health spending in 2004 accounted for more than 12 percent of the national budget, but this had fallen to 4 percent by 2016 (see below). As with educational development, to make a real difference, investment in health care must be substantial and sustained and include substantial expenditure on human capability. Timor-Leste received a one-off windfall benefit through the exceptional doctor training programme with Cuba. The generosity of the Cuban Government and the diligence of the Timorese students paid off. The number of doctors in the country rose from 60 or 70 to more than a thousand in only a few years. However, if there is no major follow-up in public investment, many of the gains will erode.

Cuba's external economy offers a good example of the potential of extensive and sustained investment in health. The Cuban tourist sector draws in almost \$4 billion a year, and Cuba's service exports, mainly health care, earned more than \$10 billion in 2014 (ONEI 2015). This is the fruit of Cuba's long-term investment in people. Health care tourism is a huge specialist industry these days. India, Indonesia, Thailand and other countries are reaping great benefits.

Such development requires deep and sustained investment in people. More vigorous investment in additional training, health care education, science and health technology, the development of local medicine, and health care facilities would enable a more profoundly cross-linked health sector to emerge that could become a leading feature of the economy of Timor-Leste. Social enterprise programmes could be used as a supplementary approach in health care education, ecotourism, or related areas such as disease vector control and environmental management.

Other areas

A focus on priority areas for the development of social enterprise programmes, or other, similar programmes should not impede support for additional initiatives. Environmental protection programmes could be linked to health care and ecotourism programmes. Environmental projects are valuable because they help develop the

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social conscience of young people, encouraging them to become responsible leaders who can set an example. They are also popular. In a survey of social enterprises in the Netherlands, key activities among respondents were social cohesion, transport and energy efficiency (Groot and Dankbaar 2014). Many of these activities were linked to environmental protection. Most were for-profit operations; some involved co-operatives and not-for-profit entities. Almost 95 percent of Timorese youth consider the environment important to livelihoods, but also in culture, history and spiritual matters (chapter 2). Nearly 86 percent of youth also feel responsible for protecting the environment. These are clear indicators of the awareness of ecological stewardship among youth. However, less than half of youth, around 40 percent, have participated in an environmental protection activity. There is thus room to encourage youth to take entrepreneurial action to protect the environment. Enterprise development around waste management, reforestation and improving access to clean energy would be relevant in addressing Timor-Leste's fragilities in environmental action.

The results of the 2016 Youth Well-Being Survey reveal that an average 60 percent to 70 percent of Timorese youth justify, in certain cases, killing, stealing, lying, creating violent conflict, using drugs, smoking, having unprotected sex before marriage, gambling, cock-fighting, excessive use of alcohol or getting drunk, or sexual misconduct and abuse. There is often widespread concern about delinquency and community safety. Many youth draw a link between unemployment and crime, stating that, if young people have nothing to do, if, for instance, they are not in education, employment, or training (NEET), they may become tempted to carry out socially undesirable activities, such as using drugs or creating conflict.

Cuba developed a programme in the late 1990s that engaged unemployed youth, including youth involved in crime and delinquency. Special social workers were trained through short courses to manage social projects under the supervision of professionals. Youth were trained to take part in project brigades to eliminate corruption at government-owned petrol stations, implement the energy savings programmes that emerged from Cuba's 2006 energy revolution, and

carry out similar projects in other countries in the region (EcuRed 2017). The collective mission was to help work for "a society of equal opportunities, spiritual development, inclusion and social responsibility for all citizens . . . , highlighting human sensitivity and a sense of justice" (EcuRed 2017). More than 30,000 young people were trained and deployed through the programme (Mayoral 2004). Similar supervised and responsible projects among participants in youth groups, including groups in the martial arts, a focus of concern in recent years, might be run in Timor-Leste (ETLJB 2013).

The selection, supervision and review of such projects are important. The benefits of providing marginalized youth with employment, but also with opportunities to shoulder social responsibility resonate across the relevant literature. UNDP's Youth Strategy reflects the aim of engaging youth in social research, policy formation, youth leadership, the exchange of skills, civic engagement, and supplying an arena for the voice of historically marginalized youth (UNDP 2014). To the extent that social responsibility can be successfully delegated, one might expect the youth dividend to be expanded more by such an approach than by simple employment schemes.

A social enterprise scheme to support youth in Timor-Leste might be developed in the following way. The Government could offer a tender for small subsidies, say, \$5,000 to \$10,000, or more in exceptional cases, to realize proposals for youth enterprises selected after an evaluation process. The process would require that the proposals cover mandatory elements, such as accountability, defined group organization, clear social objectives, a plan, a component focused on capability-building, and so on. The priorities of the enterprises might include training in farm management, meeting a critical local need, food security, local market development, ecotourism development, health care promotion, environmental protection, the mobilization of voluntary labour initiatives, or the mobilization of local resources. An evaluation and monitoring committee would be required. One-off annual grants might be repeated, pending a positive evaluation, but independent commercial viability could also be required. Programmes that fail to achieve established goals would receive no further support.



Several small social enterprises are already active in Timor-Leste, in coffee production and marketing and in training; some enterprise projects are linked to foreign non-governmental organizations (NGOs). They might be evaluated to determine the support they might provide to youth initiatives before they are allowed to gain access to government funding. A key criterion might be that the enterprises should embody national priorities, support national institutions, foster capacity-building, and define an exit strategy for any non-nationals involved once the enterprises become sustainable. These are also general principles of aid programmes (Anderson 2012).

Government investment priorities and key directions for the future

Public investment decisions are taken after weighing various factors and setting priorities in what is necessarily a deeply political process. This section examines how the Petroleum Fund of Timor-Leste could be used to establish a social investment fund to finance an incubator for the solidarity economy and social enterprise activities. The goal would be to apply the concepts of capability development through social enterprises to enhance the youth dividend, that is, the positive development and welfare outcomes that may be drawn from the large share of young people in the population. Should this goal

be achieved, the implications would be sufficiently broad to require wider guidelines on public investment.

The analysis does not address the issue of government draw-downs on the Petroleum Fund beyond fund sustainability. The practice and the risks of excessive draw-down are a wider political matter. The Government has also been using these funds for a variety of purposes, as it sees fit, for some years now. However, recent patterns in budget allocation place great weight on investment in physical infrastructure, but less weight on investment in human capabilities through education and health care and also less weight on rural livelihoods.

In the first years after the restoration of independence in 2002, the investment shares of education and health care in the combined state and donor budget declined. The 2010 state budget allocated 10.2 percent to education, down from 15.0 percent five years earlier (table 6.4). More recently, the share has ranged between 6.4 percent and 11.4 percent (table 6.5). Budgets rose steadily with oil and gas revenue, and, while the absolute amounts often increased in the more highly neglected sectors of education, health care and agriculture, the shares remained low. According to UNDP, a lower budget share represents a smaller commitment. A more dynamic human development approach, with a focus on building human capability or human capacity, including human capital, would have involved much greater investment in education and health care.

TABLE 6.4

Public Budget in Key Sectors, Timor-Leste, 2004–2010

Budget	2004–2005	2005–2006	2006–2007	2008	2010
Combined sources, \$, millions	203.6	291.6	598.6	502.5	858.9
Education, %	14.9	13.4	10.7	11.7	11.3
Health care, %	12.2	11.3	9.2	8.2	6.9
Agriculture, %	8.8	4.6	5.8	5.9	3.7
Infrastructure, %	—	—	8.8	13.2	26.6
State budget, \$, millions	107.8	120.4	315.9	347.7	660.0
Education, state budget, %	15.3	15.1	11.1	13.0	10.2
Health care, state budget, %	9.0	11.9	8.1	6.9	5.4
Agriculture, state budget, %	1.5	3.7	4.4	4.8	2.5
Infrastructure, state budget, %	—	—	15.8	12.8	28.5

Sources: MOF 2004, 2005, 2006, 2007, 2009.

Note: Prior to 2005, the state budget was divided into two accounts, the Consolidated Fund for East Timor and the Trust Fund for East Timor. Autonomous agencies are included among the combined sources of the total budget, but not in the state budget. — = not available.

TABLE 6.5

Public Budget in Key Sectors, Timor-Leste, 2011–2016

Budget	2011	2012	2013	2014	2015	2016
State budget, \$, millions	1,307	1,674	1,798	1,500	1,570	1,562
Health, % (\$, millions)	3.2 (42)	3.2 (54)	3.8 (69)	5.1 (76)	4.7 (74)	4.2 (66)
Education, % (\$, millions)	6.4 (84)	7.2 (120)	7.9 (142)	11.4 (171)	9.2 (144)	8.6 (135)
Agriculture, % (\$, millions)	1.1 (15)	1.6 (26)	2.0 (36)	2.3 (34)	2.3 (36)	1.9 (30)
Infrastructure, % (\$, millions)	52.0 (682)	53.0 (894)	49.0 (882)	40.0 (598)	36.0 (570)	—

Source: Data of 2011–2016 in La'o Hamutuk (database), Timor-Leste Institute for Development Monitoring and Analysis, Dili, Timor-Leste, <http://www.laohamutuk.org/>. Note: The data are taken from summaries of the proposed budgets and not rectified actual spending. The 2004–2010 series shown in table 6.4 is derived directly from government budget documents. The format of the state budget documents has been changed. — = not available.

The National Strategic Development Plan 2011–2030 expressed the admirable goal of school construction and teacher training to ensure universal secondary school completion through grade 12 by the year 2020 (Planning Commission 2011). However, while the gross amount of investment in education rose, the share did not. Instead, the priority investment was infrastructure, as the prime minister announced in 2009:

The 2010 budget prioritizes investment in infrastructure. The future of our country depends upon the building of basic infrastructure. We need infrastructure to develop a modern and prosperous Timor-Leste.

(Gusmão 2009, p. 15)

There was a strong commitment to investment in infrastructure. Planned expenditures rose from \$44.5 million in 2008 to \$229.0 million in 2010, representing a jump from 15.8 percent to 28.5 percent of the state budget. Infrastructure

TABLE 6.6

Government Expenditures on Education, Selected Economies, 2013 (% of government budget)

Budget share, %	Economies, number
Less than 7.3	2: Azerbaijan and Monaco
7.3	Timor-Leste
7.4–14.9	56
15.0–20.0	38
20.0–24.9	11: Aruba; Belize; Benin; Côte d'Ivoire; Costa Rica; Guatemala; Hong Kong, China (SAR); Iran; Jamaica; Malawi; Puerto Rico
25+	3: Ethiopia, Senegal, Zimbabwe

Source: UIS 2017.

spending rose to a peak of around 53 percent of the state budget in 2011–2012, after which it began a steady decline. Nonetheless, in 2015, at 36 percent of the budget, investment in infrastructure was still more than double the combined allocation to education, health care and agriculture (see tables 6.4 and 6.5). Some of the budget expenditure on schools and roads may be of lasting benefit. However, the potential for waste and corruption was reinforced by the view that a stimulus package for private business was as much a legitimate policy aim as investment in infrastructure (Gusmão 2009). There were a number of project failures and allegations of corruption. A more focused state commitment to national infrastructure might be accompanied by state support for locally identified small infrastructure initiatives managed within districts by supervised local youth groups.

A case must be made for greater investment in people. Skill strategies must draw on the wider human capability developed through the education system and reinforced by the public health care system. Timor-Leste has realized important and promising achievements in both areas, but investment in education and health care is still seriously inadequate.

In 2012, the country's expenditure on education compared poorly with the corresponding expenditures in Malaysia, Morocco and Thailand, which had put around 25 percent of their budgets into education.⁵⁶ The lack of commitment in Timor-Leste to education and health care is real. UNESCO data for 2013, which differ from some of the data above, show that, of 111 economies, only two had a lower proportion of investment in education than Timor-Leste (table 6.6). Fourteen countries had allocated more than 20 percent of their budgets to education,



and three countries more than 25 percent. In Timor-Leste, the Government's commitment to education and health care was quite inconsistent with the goal of the National Strategic Development Plan to ensure that all children complete 12 years of schooling (Planning Commission 2011). Timor-Leste has a high birth rate, which persists at a high rate partly because of the low educational attainment of Timorese girls. The Government would thus have to raise the investment in education more than twofold to even begin to approach the goal of the development plan. Best practice would be to commit more than 25 percent of the state budget to education and training. This would include investment in mass teacher training and the employment of many more teachers, along with the construction of appropriate facilities.

To be world class in any area and to advance the possibilities of young people, the country must boost its investment in education and health care. Adequate investments in education, accompanied by investments in family planning, can lead to the desired policy scenario, that is, the one that yields the largest human development gains and realizes the demographic dividend (chapter 2). Hence, investments in family planning services must be raised to ensure that young people have expanded access to these services.

Timor-Leste must also help improve the rural livelihoods on which a large majority of the population still rely. These rural livelihoods cannot be disconnected from urban youth unemployment because, if neglected, rural areas will remain a reservoir that feeds the latter. In 2014, over 70 percent of Timorese were still living in rural areas, and most of them were working in agriculture; indeed, they depended on that work for food security. Yet, as an agriculture and fisheries official stated, "the MAFF [Ministry of Agriculture, Forestry and Fisheries] budget remains a small percentage of the overall Timor-Leste government budget and is not in proportion to the number of persons employed in rural activities nor the number of people living with food insecurity in the rural areas" (da Cruz 2016, pp. 31, 34). The tiny commitment of less than 2 percent of the 2016 budget to agriculture demonstrates a lack of will to strengthen rural livelihoods.

Food security must be built on a foundation of stable rural livelihoods. Yet, the effect of the oil economy is fairly plain in rural

Timor-Leste. It has become cheaper to buy rice than to grow it, and this has undermined local production. By 2011, almost all rice farmers said they were buying rice, and two thirds of them were doing so every month (Spyckerelle et al. 2016). There have been advances in maize production and in the acquisition and use of better seeds, but rice production has been in decline since 2012. In 2015, about 20,000 hectares were under rice cultivation; around half the 40,000 hectares under rice in 2006, 2008 and 2012 (Spyckerelle et al. 2016). Measures to strengthen local markets to improve food security have been suggested, and this has contributed to the calls to realize the wider concept of food sovereignty, whereby communities more directly control their own food supplies (Islam et al. 2016; Truman 2007). More intensive investment in rural livelihoods could thus usefully become the focus of education and social enterprise initiatives.

Summary conclusions and recommendations

The following recommendations are based on the analysis, research and other considerations supporting this chapter.

- 1) The building human capabilities and youth capabilities should not be instrumentally linked to a particular training or work programme, without consideration of capability-building. This necessarily means investment in broader human and youth capabilities, particularly education, health care and rural livelihoods. Because of the deficits in educational outcomes in Timor-Leste, this means that investment in skills and in the development of social enterprises and other relevant programmes should be linked to much more comprehensive investment in education. Experience elsewhere shows that raising school completion rates up to grade 12 can become a major factor in reducing youth unemployment.
- 2) Before it could achieve a primary goal of the National Strategic Development Plan, to ensure universal secondary school completion through grade 12 by 2030 or even by 2020, the Government would have to more than double public

- investment in education, including substantial investment in teacher training, high-quality education facilities and appropriate teacher employment and, in accordance with the 2006 report of the United Nations rapporteur on the right to education, the elimination of all direct or indirect school fees (Planning Commission 2011; Tomaševski 2006).
- 3) The ongoing educational deficit and other disadvantages of girls and women in Timor-Leste are damaging children and women's health, obstructing family planning, hindering infectious disease control and disempowering girls and women. The deficit should be confronted through a comprehensive approach aimed at eliminating all school related fees, training and creating employment for a sufficient number of teachers and extending the coverage of school feeding programmes into secondary schools through grade 12. Through inclusive education policies and practices, a nurturing schooling environment that responds to the diversity of student needs must also be ensured to create a learning environment that makes youth feel safe and motivated. The value of education should be continuously communicated to parents and communities to improve student retention, particularly among young girls reaching puberty.
 - 4) In the development of youth training and jobs programmes, the Government should consider seeking to reach the the fourth or fifth level of skills proficiency of the OECD among the population (OECD 2013). This would help workers adapt to structural transformation and changes in the workplace. Basic literacy is insufficient for a country with ambitions at human development and innovation through social enterprises.
 - 5) To address deficits in youth and adult literacy, the Government should consider adoption of *Yo, sí puedo seguir*, the second stage of the Cuban literacy programme, after reviewing the successful completion of *Yo, sí puedo* (Los Hau Bele!), the first stage. Ongoing adult or second chance education remains important.
 - 6) In developing a social enterprise programme, as in other training and employment programmes, the Government should consider establishing strategic clusters as focal points for investment. Cluster development is a widely recognized strategy for job creation through SMEs as links among industries are built. The clusters might usefully be designed to address the country's strengths and human development weaknesses. The opportunity to build on existing strengths should not be missed.
 - 7) One focus of cluster development should be rural livelihoods and food security, drawing on the country's relative strength in customary land tenure, small farming and the majority of the workforce that is in agriculture, while confronting malnutrition and food insecurity, which are chronic problems. Rural livelihoods, farm management training, local market and infrastructure development and food security can be the useful focal points of skills development, social enterprises and employment programmes.
 - 8) Another focus of cluster development should be health care, community development and ecotourism. This cluster would draw on the country's relative strengths in a well-staffed, but under-invested national health care system, community resilience and immense tourist potential, while eliminating the deficiencies in public health, community development and weak tourist marketing and development. Health care, environmental education and remediation, community organization and critical local infrastructure could be the focus of skills development, social enterprises and employment programmes.
 - 9) Concentration on a cluster development strategy does not mean that other worthwhile initiatives should not be pursued. Thus, efforts might usefully focus on providing marginalized youth and, where appropriate, their organizations, under proper supervision, with substantial responsibilities in social enterprises. This would have the advantage of building on employment provision to foster youth social conscience and leadership.

- 10) The Government should seek to develop a social enterprise support scheme among youth. A tender could be offered for small subsidies of \$5,000–\$10,000 or more (in exceptional cases) for youth enterprise proposals. The proposals would be subject to an evaluation process that would require mandatory elements in the enterprises, for example, accountability, group organization, clear social objectives, a plan and a key capability-building component, as well as other, preferred or priority elements. These might include farm management training, meeting critical local needs, a food security project, local market development, ecotourism development, health care promotion, environmental protection, the mobilization of volunteer labour and the mobilization of local resources. An evaluation and monitoring committee would be required. One-off annual grants might be repeated, pending a positive evaluation, but independent commercial viability could also be a criterion for more grants.
- 11) Before any social enterprise support is provided for projects linked to foreign NGOs, the Government should consider the following: (a) whether the projects are consistent with national priorities and do not compete with or undermine national institutions, (b) whether they include genuine capacity-building elements, and (c) whether there is a plausible exit strategy for any non-nationals.
- 12) A much higher priority should be assigned to investment in people, particularly young people. To achieve world class human development and a substantial youth dividend, drawing on international best practice, the Government should consider allocating 25 percent of the budget to education and training, returning health care spending to at least 12 percent and quadrupling investment in agriculture to at least 8 percent. This would help build meaningful human capability.

