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## MASTER THESIS

# A Critical Analysis of the Impact of Foreign Aid in Timor-Leste

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Cultural Organization



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## **Dedication**

To the Timorese people

## **Acknowledgements**

This thesis is one of the most important endeavours of my life. It has been an opportunity to go deep into one of the main issues facing the world today: the impact of foreign aid and the strategies to make it more effective. The knowledge and skills I gained through doing this research is beneficial to me both as a scholar, and for my future career as an academic.

During the writing process I almost gave up as there were many obstacles in obtaining primary data. Due to lack of funds I could not conduct field research. This affected my interview results, which were gained only from online contacts or word-of-mouth, rather than going to Timor-Leste and accessing a broad and unbiased spectrum of interview subjects.

Despite this, I was lucky that there were so many people who constantly encouraged and motivated me to finish the thesis on schedule. I would like to take this opportunity to thank them.

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I am grateful to my family and friends for contributing not only to my life but also to this research.

Finally, I thank the interviewees who were willing to spend time to share their experience and ideas on foreign aid.

## **Epigraph**

“Unless the lessons of history are learnt and absorbed, we will be responsible for sustaining a development profession where aid does not make enough difference to the lives of those it is meant to help” (Riddell, 2007: xvii).

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## List of Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
APODETI	<i>Associação Popular Democrática de Timor</i> (Timorese Popular Democratic Association)
AsDB	Asian Development Bank
ASDT	<i>Associação Social-Democrata de Timor</i> (Timorese Social Democratic Association)
AusAID	Australian Agency for International Development
BPS	<i>Badan Pusat Statistik</i> (Central Agency on Statistics)
CAP	Consolidated Inter-Agency Appeal
CAVR	<i>Comissão de Acolhimento, Verdade e Reconciliação de Timor-Leste</i> (Commission for Reception, Truth and Reconciliation for Timor-Leste)
CFET	Consolidated Fund for East Timor
DAC	Development Assistance Committee
DPR	<i>Dewan Perwakilan Rakyat</i> (People's Representative Council)
ECA	Economic Cooperation Administration
ERP	European Recovery Program
ETPA	East Timor Public Administration
ETTA	East Timor Transitional Administration
EU	European Union
FALANTIL	<i>Forças Armadas da Libertação Nacional de Timor-Leste</i> (Armed Forces for the National Liberation of East Timor)
FRETILIN	<i>Frente Revolucionária de Timor-Leste Independente</i> (Revolutionary Front for an Independent East Timor)
GAVI	Global Alliance for Vaccines and Immunizations
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GRDP	Gross Regional Domestic Product
GRP	Gross Regional Product
HDI	Human Development Index
IBRD	International Bank of Reconstruction and Development
ICJ	International Court of Justice

ICRC	International Committee of the Red Cross
IDB	Islamic Development Bank
IDP	Internally Displaced Person
IMF	International Monetary Fund
INTERFET	International Force for East Timor
IOM	International Organization for Migration
JICA	Japan International Cooperation Agency (JICA)
KOTA	<i>Klibur Oan Timor Asuwain</i> (Association of Timorese Heroes)
MDGs	Millennium Development Goals
MFA	<i>Movimento das Forças Armadas</i> (Armed Forces Movement)
MPR	<i>Majelis Permusyawaratan Rakyat</i> (People's Consultative Council)
NCC	National Consultative Council
NGO	Non-Governmental Organization
OA	Official Aid
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PARENTIL	<i>Partido Republika Nacional Timor Leste</i> (East Timor National Republic Party)
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PD	<i>Partido Democratico</i> (Democratic Party)
PDC	<i>Partido Democrata Cristao</i> (Christian Democratic Party)
PDM	<i>Partai Demokratik Maubere</i> (Maubere Democratic Party)
PL	<i>Partai Liberal</i> (Liberal Party)
PNT	<i>Partido Nasionalista Timorese</i> (Timorese Nationalist Party)
PPT	<i>Partido Povo de Timor</i> (People's Party of Timor)
PSD	<i>Partido Social Democrata</i> (Social Democratic Party)
PST	<i>Partido Socialista de Timor</i> (Socialist Party of Timor)
PTT	<i>Partido Trabalhista Timorese</i> (Labour Party of East Timor)
TFET	Trust Fund for East Timor
UDT	<i>Uniao Democratica Timorese</i> (Timorese Democratic Union)
UN	United Nations
UNAMET	United Nations Mission in East Timor
UNCLOS	United Nations Convention on the Law of the Sea
UNDP	United Nations Development Program



UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNMISSET	United Nations Mission of Support in East Timor
UNMIT	United Nations Integrated Mission in Timor-Leste
UNNRA	United Nations Relief and Rehabilitation Administration
UNOTIL	United Nations Office in Timor-Leste
UNTAET	United Nations Transitional Administration in East Timor
US	United States
USAID	United States Agency for International Development
WFP	World Food Program
WHO	World Health Organization
ZOC	Zone of Cooperation

## **Abstract**

The aims of this research are to analyze the impact of foreign aid in reducing socio-economic problems in post-conflict Timor-Leste and to give recommendations on how to make aid more effective in the future. This research uses both primary and secondary data.

Since Timor-Leste became independent it has received a large amount of aid for funding socio-economic projects. However, after more than a decade, foreign aid has not changed very much the condition of the Timorese. Unemployment, poverty, hunger, infant mortality and illiteracy rates remain major concerns. Aid has even contributed to the increase of corruption. This is because the aid was largely spent on international salaries, foreign soldiers, overseas procurement, imported supplies, consultants, overseas administration, etc. Foreign aid also created income gaps and subordinated the Timorese. Oil and gas, which could have been a strategic solution to reducing socio-economic problems by providing both employment and income to the country, can no longer be expected. Timor-Leste is trapped in feelings of debt and gratitude and has let Australia take the majority of the oil and gas revenues and dominate the workforce.

This research argues that there are some strategies that could be implemented to make aid more effective. Among them are: use local labour; involve local people in aid projects; let the local Government set the priorities; internal reform and accountability; make full use of natural resources; focus on human resources; apply different strategies for emergency and long-term aid; coordination among donors; judicious use of foreign aid; and evaluation.

**Key Words:** foreign aid, Timor-Leste, post-conflict, socio-economic

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## GENERAL INTRODUCTION

### A. Background of the Study

The conflict and violence that occurred during the Portuguese and Indonesian occupations will never be forgotten by the Timorese people. The first lasted over 445 years, the second for twenty-five years. Especially during the Indonesian occupation, hundreds of thousands of Timorese were beaten, tortured, traumatized, acquired mental disorders, became physically disabled or were killed. Homes and public facilities were destroyed. As a result, economic activity and development halted during the conflict.

However in the end, after years of struggle and sacrifice, the Timorese people achieved their goal of freeing themselves from all forms of colonialism. International pressure and the fall of Suharto's regime created the possibility of a popular consultation, which was conducted on August 30th, 1999. One month later on September 30th, the referendum results were announced by UN Secretary General Kofi Annan. The results showed that almost eighty percent of the population voted for independence, while the remaining twenty percent chose the special autonomy offered by the Government of Indonesia.

Now Timor-Leste is an independent country with the official name of the Democratic Republic of Timor-Leste. As a newly established country, there is a lot of work that needs to be done. First, to demand that the Indonesian Government pay compensation and reparation to the victims and their families. Second, to demand that the Indonesian Government punish the perpetrators. Third, to focus on nation building, including improving the infrastructure, economy and the political, cultural and social environment. Improving the socio-economic condition is particularly important as it has

become a big problem during colonization and after independence, and affects the future of Timor-Leste as an independent country.

The challenges facing Timor-Leste are that it lacks capital and is inexperienced in managing post-conflict situations. The concern of the international community after the conflict in Timor-Leste manifested in foreign aid. According to La'o Hamutuk (2009), from 1999 to 2009 the international community has channelled US\$ 5.207 billion to support post-conflict recovery in Timor-Leste. This is one of the largest amounts of international aid given in history. Foreign aid comes in the form of grants, projects or operations of foreign institutions involving the UN and bilateral and multilateral actors and donors.

In the beginning foreign aid brought great hope for the Timorese. Large and small projects were started, small businesses increased significantly and NGO activity spread throughout the country. Even at the time of this research shopping centres, car showrooms and other luxury buildings that were constructed during this hopeful time remain. In short, the Timorese people floated in the euphoria of independence and believed in a bright future.

Whether the aid improved socio-economic conditions, however, is debatable. A book published by the World Bank, *Budget Support as More Effective Aid: Recent Experiences and Emerging Lessons* (Koeberle, 2006), included Timor-Leste as a successful example of a country that benefited from foreign aid. However, there are many reports from local NGOs in Timor-Leste stating the opposite –aid has had only a small impact on Timor-Leste and the socio-economic condition has not changed much. These reports are strengthened by testimonials from Timorese protesting the role international actors and donors have played in their country. Therefore this thesis will



examine what truly happened in Timor-Leste and why, and furthermore serve as an evaluative tool for the future dispensation and management of foreign aid.

## **B. Rationale for the Choice of Topic**

Poverty, unemployment and poor quality health and education services are major socio-economic problems in Timor-Leste, as in other developing countries. Governments and organizations, either in their own interests or for humanitarian reasons such as building a stable and secure world, donate money to help suffering countries. Nevertheless, the problems persist. Because of the importance of these issues, and because the large amount of money spent of foreign aid should not go to waste when it can make such valuable difference, this research is undertaken.

The topic of foreign aid has been widely written about. However, publications tend to be about foreign aid to Africa, Latin America and Eastern Europe; there are very few publications about foreign aid in Southeast Asia. Two notable exceptions are the research conducted by Sopheada Phy (2009) and Serpong Peou (2000) about foreign aid in Cambodia. Even less work has been done about the impact of foreign aid in Timor-Leste, even though it has received a large amount of aid yet remains a poor country. Thus the author believes it necessary to research this topic, and additionally hopes that this research will enrich the collective discourse both about the way forward for Timor-Leste and about the effectiveness of foreign aid throughout the world.

Beyond curiosity of why the large amount of foreign aid has not really improved the socio-economic condition of the country, the author also has a personal connection to this topic. Timor-Leste neighbours Indonesia, the native country of the author, and furthermore used to be a province within it. Hence the author feels close to the people there and wishes them to enjoy sovereignty, a greater quality of life and a

bright future, especially after the suffering they experienced during occupation and in their struggle for independence. Moreover, the author is interested in the relations between countries, of which foreign aid forms an important part. His interest led to him complete his bachelor degree in International Relations, and the knowledge gained therein contributed to this research.

### **C. Thesis Question, Objectives and Hypothesis**

The main question of this thesis is: what is the impact of foreign aid in Timor-Leste? To answer this main question, the author has four objectives:

1. To understand the concept, practices and discussions concerning foreign aid in order to have a deeper understanding of the topic of research.
2. To compare the socio-economic condition of Timor-Leste before and after the presence of foreign aid in order to assess the effect it has had.
3. To analyse the factors that make aid have more or less impact in reducing socio-economic problems in Timor-Leste.
4. To use this analysis to come up with general recommendations of how to make foreign aid more effective.

As Timor-Leste is still poor, the author hypothesizes that foreign aid has had little impact.

### **D. Methodology and Sources**

This research uses both qualitative and quantitative methods. Quantitative data was especially crucial in answering whether foreign aid has been effective in ameliorating socio-economic conditions in Timor-Leste. This question is debatable, with some organizations and scholars (such as Koeberle, 2006 and Manor, 2003)

arguing that it has, and others (such as NGO La'o Hamutuk) arguing that it has not. Thus the author found it necessary to look at and compare quantitative data, such as the amount of money given in foreign aid, what it was spent on and quality of life measures such as poverty level, literacy, access to education and medical care, GDP, etc. The value of quantitative data here is that it is objective, thus the author can see for himself whether foreign aid was effective or ineffective, rather than relying on the opinions of others who may or may not have their own agenda in answering this question.

However, the scope of this thesis goes beyond merely assessing if foreign aid was effective in post-conflict Timor-Leste, it analyzes why and how it could be made more effective in the future. For this the author deemed it necessary to use qualitative data as well because, in the words of Miles and Huberman (1994), “the strength of qualitative data is that it is rich and holistic with strong potential for revealing complexity nested in a real context”. Flick also states that there are “strength[s] of qualitative research in the exploration of the phenomenon under study” including “discovery of relevant problems for research, providing hints of phenomena that cannot be directly observed, constructing descriptive systems, preliminary classifications and systematic typologies” (Flick, 2007: 95).

This thesis follows the method outlined by Miles and others (2013: 12) of data collection, condensation, display and conclusion drawing/verification. Data condensation involves “selecting, confirming, shortening, focusing, discarding and organizing data to make meaning and sense out of the large amount of information available” (Miles and others, 2013: 12). Data display involves presenting the data in tables, charts, drawings/ schematics, etc., so that the information can be easily seen and understood by the reader. Conclusion drawing/verification is the process of drawing conclusions from the reduced and displayed data. These four steps are inter-related and

loop back on each other: while in the process of conclusion drawing, for example, the researcher may realize he/ she needs more information, and go back to the process of data collection (see Figure 1: Interactive analysis model). The process continues until the researcher answers his/ her question, verifies or disproves his/ her hypothesis, and accomplishes his/her objectives.

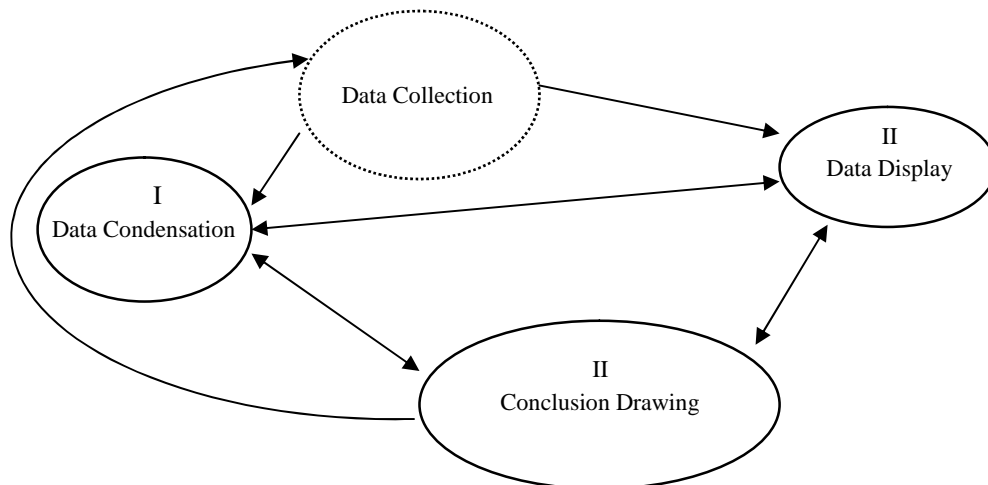


Figure 1: Interactive analysis model

Source: Miles and Huberman, 1994

Concerning the process of data collection mentioned above, the author of this thesis collected both primary and secondary data. Primary data was obtained by interviewing academics, professionals and journalists who have experience with foreign aid in Timor-Leste. Respondents were selected using the snowball sampling method, in which each interviewee is asked for the contacts of other experts who could be of help. Due to lack of funds, interviews did not occur in person but rather over phone or Skype. The questions asked were about the positive and negative impacts of foreign aid in Timor-Leste and strategies to maximize the impact of aid. A questionnaire was also handed out to Timorese students studying in Yogyakarta, Indonesia.

Secondary sources data include books, journal articles, reports and other media. While the primary data obtained in the interviews was qualitative, secondary data was both qualitative and quantitative. Secondary sources were verified using the triangulation method in which at least three sources are used to confirm the data. The sources were also balanced by including Timorese (for example Budi, 2000 and the Commission for Reception, Truth and Reconciliation, 2005), Indonesian (for example Vicente, 2005 and Wahyono, 2009) and Australian (for example Pronk and others, 2004 and Rei, 2007) publications and media. Many publications of the United Nations are utilized as the organization has played an integral role before and after Timor-Leste's independence. La'o Hamutuk is also a resource that is used extensively as this organization is dedicated to detailed monitoring of conditions in Timor-Leste and has very insightful analysis on issues relevant to this thesis. The limitation of this source, however, is that the organization has many foreigners rather than native Timorese people, thus the points of view may be biased. When possible, the most recent and comprehensive sources available are used.

Another method used is Critical Discourse Analysis, as formulated by Wodak and Meyer (2001). This method looks at the context in which language is used in discourse and text, in order to gain a deeper understanding of meaning. It is especially useful for analyzing power, dominance and social and political inequality. This method is used mainly in the discussion of foreign aid from different theoretical frameworks in Chapter 2 and when discussing Timor-Leste's path to independence in Chapter 3 (looking at who supported Timor-Leste's independence, what their status was and why they supported it). Using this method allowed the author to better discern the true meaning of discourse and text sources.

## **E. Scope and Limitations**

The scope of this thesis is foreign aid given to Timor-Leste (although four case studies are given in Chapter 5 to make some wider comparisons of foreign aid in post-conflict areas) from 1999 to the present (although background information preceding this date is provided in Chapter 3 to provide context and to allow comparisons to be made between the socio-economic conditions of Timor-Leste before and after receiving foreign aid). When looking at the impact of foreign aid the measures assessed are mainly education, health, imports and exports, gender-based violence and income, as these were the measures for which reliable data was available.

There were several limitations faced by the author during the course of this research. The first has to do with the collection of primary data and is financial. The scholarship the author received to study at Universitat Jaume I does not cover field research. The author believes that primary data such as that which can be obtained through field research is very important, as it allows one to do original research and thereby bypass some of the biases, mistaken ideas or errors inherent in academia. Despite not being able to travel to Timor-Leste and conduct field research, however, the author was able to collect primary data through interviews. By combining this with secondary sources, the author was able to obtain comprehensive data.

However, even with secondary data there were limitations. The most important of these is language. The Government of Timor-Leste and local NGOs use Tetum and Portuguese to publish their official reports and research. This certainly limits the sources. To counteract this limitation the author had key documents translated by a friend or an official translation agency.

Outside of language, secondary data was sometimes incomplete or missing. This was especially true when researching socio-economic conditions in Timor-Leste

during Portuguese and Indonesian colonisation. Because it happened many years ago, sources are not easy to find. Of great help for statistics during the Indonesian occupation was *Badan Pusat Statistik* (BPS), an institution established in 1960 and responsible for monitoring and reporting the socio-economic condition of people in the provinces of Indonesia, including Timor-Leste. However, there was no such agency operating during Portuguese occupation.

Another limitation is that the author purposely limited the topic of his thesis to the impact of foreign aid in Timor-Leste, in order to gain a deep understanding and be able to answer his thesis question. However, he wanted to turn this research beyond description that is useful only on an academic level, to guidelines for the implementation of foreign aid in post-conflict countries, something that is useful on a practical level. To best accomplish this second task he would have needed to look at the implementation and effectiveness of foreign aid in more countries than just Timor-Leste. He does look at four countries as case studies in Chapter 5, but only briefly due to limitations of time and space.

## **F. Structure**

The General Introduction of the thesis has seven sections. Section A gives the general context of the research. Section B explains the significance of the topic and the author's personal motivation. Section C give the thesis question, objectives and hypothesis, thereby narrowing the topic and provide a focus for the research. Section D "Methodology and Sources" explains how the research was undertaken, while Section E states the scope of the research and shows that the author is aware of some of the limitations of his work. Taken together, the General Introduction lays the foundation for the rest of the thesis by explaining the "why" and the "how" of the research.

Chapter 1 introduces foreign aid, and is divided into six sections. Section 1.1 looks at the origin of the modern interpretation of foreign aid. More specifically, it looks at the impact of World War II on socio-economic conditions in Europe, the proposition and implementation of the Marshall Plan, the debate within the United States over this plan and finally its success.

Section 1.2 defines foreign aid from various academic and institutional perspectives. This section comes after the historical overview provided in the first section, because the historical context of foreign aid has shaped its definition.

Section 1.3 elaborates on the purposes of foreign aid from several scholars' perspectives, including Morgenthau, Sumner and Mallet, and Lancaster. The author of this thesis chose these scholars because he believes that, taken together, they provide the most clear and comprehensive information about the purposes of aid.

Section 1.4 "Donors and Recipients" explains the difference between bilateral and multilateral aid and describes how much is spent in each category. The top international donors and recipients are given. Lastly, the section explains what sectors international aid goes to at the time of this research.

Section 1.5 examines foreign aid through the lenses of the following theoretical frameworks: Idealism, Realism, Postcolonial Theory, Dependency Theory and Development Theory. These theories present different and important viewpoints on foreign aid and how it affects both donors and recipients. Looking through these frameworks allows the reader to have a better understanding of foreign aid and appreciate some of the finer points in the debate of its efficacy.

Chapter 2 presents the historical background of Timor-Leste and discusses socio-economic conditions under the Portuguese and Indonesian occupations. Knowing the conditions before aid was received is important in order to establish a base line for



comparison. The historical background is also relevant for understanding the importance of Timor-Leste politically, geographically and in terms of its resources. All of these factors have influenced and continue to influence its relations with other countries.

Section 2.2 “The Portuguese Presence” describes Portuguese occupation, including motives. It includes an explanation of how the geographical location and resources of Timor-Leste have brought the country into long wars and periods of violence. The section transitions into the political and economic situation in Portugal that led to revolution and decolonisation of its colonies. This set in motion the emergence of political parties in Timor-Leste to campaign their views. The section ends by discussing the socio-economic heritage of the colonizer.

The second section describes the socio-economic condition of Timorese people during Indonesian occupation. It starts by looking at Indonesia’s invasion and integration of Timor-Leste - the actors behind this decision, what their interests were and the tragic consequences. This section also touches on the economic crisis in Asia and change of Indonesian leadership from Suharto to Habibie. It examines points of Habibie’s leadership and the internal and international pressure for Timor-Leste’s referendum. The section ends by explaining the overall socio-economic situation in Timor-Leste during Indonesian occupation, specifically looking at education, health and regional income.

Chapter 3 is the heart of the thesis and looks at the impact of foreign aid on socio-economic conditions in Timor-Leste.

The first section provides overall information about the foreign aid that has been given to Timor-Leste since its independence. The main points discussed are bilateral and multilateral donors and the projects that they conducted in the country.

Section 3.3 explains the complexity of aid management in Timor-Leste, which results from the fact that it is not only channelled through both bilateral and multilateral actors, but also involves many institutions.

Section 3.4 explains how aid has or has not reduced socio-economic problems in Timor-Leste. This section utilizes a lot of quantitative data such the amount of money spent, by whom, how it was distributed, what it was spent on, and what effect it had on quality of life measures such as poverty, education, etc. Within the explanation is a critical overview of why the large amount of aid and the many years of projects did not really reduce the socio-economic problems of Timorese people.

The next section gives additional information about oil and gas exploration in the Timor Gap, the profits of which go mainly to Australia rather than to Timor-Leste. The UNDP reports, however, tried to cover up this fact.

Section 3.6 explains the reasons behind the failure of foreign aid to reduce the socio-economic problems of Timor-Leste, even though the country was allocated a large amount of aid. The author looks at the facts surrounding the implementation of the projects in order to explain the real situation of channelled aid. Especially considered is the role Australia played before, during and after independence, and how this influences conditions in Timor-Leste at the time of this research.

Chapter 4 is about the practical application of the research. The first section briefly looks at the effect foreign aid has had in four geographically diverse, post conflict areas: Ethiopia, Bangladesh, Cambodia and Afghanistan. This is to provide more breadth to the author's analysis of foreign aid and thereby complement the in-depth analysis of Timor-Leste carried out in Chapter 3. The second and third sections scrutinize the success and failures of aid. Because aid has been effective, partially effective or ineffective in different situations, this debate is likely to continue. What is

more important than continuing this debate, however, is looking at ways to optimize foreign aid. This is done in the fourth section of this chapter, wherein which the author outlines concrete steps to increase the efficiency of foreign aid implementation.

The Conclusion summarizes the author's findings, explains the importance of this research and considers what implications it may have. Recommendations for future research are also given.

## **CHAPTER 1: Foreign Aid**

In order to look at the impact of foreign aid in Timor-Leste, it is important to have a good understanding of what foreign aid itself is. This chapter looks at the origin of the modern concept of foreign aid, definitions, purposes, donors and recipients, and foreign aid from the perspective of several theoretical frameworks.

### **1.1 The Origin of Modern Foreign Aid**

Foreign aid, in its simplest meaning as the transfer of money, goods or services from one nation to another, has existed almost as long as there have been nations. Some examples are the Roman Empire giving aid in order to elicit certain course of action from recipient countries, Prussia helping its allies in the 18<sup>th</sup> century, or the many NGOs that were working in Europe in the interwar years. The concept of foreign aid as it is understood in modern times, however, developed after World War II through the Marshall Plan.

First, some background information. World War II began on September 1, 1939 when Germany invaded Poland. France and the United Kingdom, Poland's allies, then declared war on Germany. Germany was powerful; it easily invaded and occupied Belgium, Denmark, the Netherlands, Luxembourg and France. When Germany invaded the Soviet Union in 1941, it switched from the side of the Axis to the Allies. On December 7, 1941, Japan attacked Pearl Harbour, a US naval base in Hawaii, which brought the United States into the war. This is how some of the main players became involved, but World War II was truly a global war, affecting the majority of the world's nations. The main battles took place in Europe and East and Southeast Asia but there were also important battles in Africa and the Middle East.

World War II was different from previous wars. It used modern weapons such as ballistic missiles, long-range bombers and nuclear weapons. The resulting damage was massive. Factories and other industrial facilities were demolished; houses, bridges, roads and railroad tracks were destroyed. This was especially the case in the cities that were bombed, such as Hiroshima, Nagasaki and Tokyo in Japan; Hamburg, Dresden and Berlin in Germany; Minsk and Kiev in the Soviet Union; Le Havre in France; Warsaw in Poland and London in Britain. Both the Axis and the Allies used the bombing of cities as a war tactic. This is one of the reasons that the total death toll of World War II is estimated to be between 50 to 70 million, over half of which were civilians, with 13 million more displaced (Prentzas, 2001: 10).

The war resulted in tremendous socio-economic loss. Millions of acres of farmland were affected by bombs or contained landmines and could no longer be used. Jobs, food and products were scarce. Little by little, prices increased until people could not afford to buy necessities. Ultimately, about 100 million Europeans were malnourished, of which 20 million faced starvation (Prentzas, 2001: 10-12). Diseases spread throughout Europe. People struggled during the winter due to lack of coal to heat their houses, and had to resort to burning scrap wood and furniture. Europe was indeed in a critical situation.

In December 1941, US President Roosevelt coined the term “United Nations” to describe the Allies. On January 1, 1942, in the “Declaration by United Nations”, 26 countries pledged to continue fighting the Axis and to the Atlantic Charter, a previous agreement between the United States and the United Kingdom which contained several goals similar to the later UN Charter, such as peace, security and international cooperation. The formation of the official United Nations really got underway on April 25, 1945, when diplomats from 50 countries met in San Francisco, California to write the Charter. It was signed on June 26 and ratified on October 24 of the same year. The delegates committed to the following:

We the peoples of the United Nations determined to save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind, and to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small, and to establish conditions under which justice and respect for the obligations arising from treaties and other sources of international law can be maintained, and to promote social progress and better standards of life in larger freedom [...] (Charter of the United Nations, undated).

The United Nations Relief and Rehabilitation Administration (UNRRA) was created on November 9, 1943 to assist refugees and aid in the relief and rehabilitation of the countries affected by the war. The program was largely successful, providing food, clothing and medical care in Europe and Asia and taking care of millions of refugees. Three-quarters of the refugees were repatriated. Those who did not wish to return (mostly people from Poland, the Soviet Union and the Baltic states: countries that were now Communist) were put in refugee camps, the majority of which were in Germany.

The UNRRA was popular internationally, but not in the United States. The public felt that they were bearing too much of the burden for assisting post-war Europe (the United States contributed \$2.7 billion out of \$3.7 billion, or 73%, of the funds of the UNRRA), while politicians felt that they had too little control and that the aid was helping their new enemy, the Soviet Union (Reinisch, 2007, Mills, 2008:7). As a result, the United States let the mandate of the UNRRA expire on schedule in 1947. Its programs were taken over by the newly formed United Nations.

The legacy of the UNRRA was lasting. Czech diplomat Jan Masaryk stated that the UNRRA was “the first great agency of the United Nations” and would have “great repercussions on the new forms of international organisation which will follow rapidly as we approach [...] the beginning of the great era of reconstruction” (Masaryk cited in Reinisch, 2007). It provided many lessons for its successor, the Marshall Plan. The United States took more political control of the Marshall Plan than it had been able to with the UNRRA. Already

in 1947 Undersecretary of State Dean Acheson told the Senate Foreign Relations Committee “We took a very strong position that the future relief, our future relief, should be granted in accordance with our judgement and supervised with American personnel” (Mills, 2008: 7). For both this reason, and because Marshall aid was not accepted by the Soviet Union and Eastern European countries, as UNRRA aid had been, it was more politically polarizing than its predecessor (Reinisch, 2007).

While the UNRRA was successful in taking care of refugees, its temporary and limited nature meant it had a much smaller effect on socio-economic conditions. These remained a big concern, especially shortages of food and other goods. Thus on June 5, 1947 George Marshall, the US Secretary of State, gave a speech at Harvard University wherein which he presented a new initiative to aid post-war Europe. He said that without this help Europe would face “economic, social, and political deterioration of a very grave character” (OECD, undated). In order to prevent this situation, the United States could give aid to Europe to recover (Marshall, 1947). This idea became known as the Marshall Plan. Soon after his speech, there were comments from European leaders. Some (for example British Foreign Secretary Ernest Bevin and French Foreign Minister Georges Bidault) believed that American aid would have a positive effect on European recovery, while others (for example Soviet Foreign Minister Vyacheslav Molotov) worried that aid was just an American strategy for meeting their own long-term interests in Europe. This worry was not unfounded as many policymakers in the United States supported the idea of foreign aid because they thought it could benefit the long-term interests of the country. These interests included providing an open market for American goods, increasing American productivity, driving Europe to be part of the liberal capitalist economy system, encouraging political stability and preventing the spread of communism (Northrup, 2003: 177). However, European leaders realized that at that moment they did not have any other options, otherwise their economies would collapse.

After Marshall's idea was proposed, the US government began to draft legislation for funding the plan. However, the plan was criticized by the American public. For them, America had already spent a huge amount of money and resources during the war, and this spending had affected the national economy. The public thought it was better to spend the money on national development.

In April 1948, the Foreign Assistance Act was signed and the House of Representatives agreed to spend US\$ 6.2 billion that year on a foreign aid package as part of the Marshall Plan foreign aid package, officially known as the European Recovery Program (ERP) (Prentzas, 2001: 45). In order to control the programs of the Marshall Plan, the Foreign Act also created a federal agency, the Economic Cooperation Administration (ECA). This agency was responsible for managing US\$ 17 billion in five-year aid programs (Prentzas, 2001: 45; O'Leary, 2009: 7). This was two percent of the annual US government budget.

At the beginning of the program, the United States prioritized shipping agricultural commodities such as bread grains, coarse grains, rice, cotton and tobacco. On April 17th, 1948, the first aid shipment left from Galveston, Texas (see Figure 2). It carried more than 20 million pounds of grain (Prentzas, 2001: 49). It was followed by shipments of tractors, machine tools, engines, turbines and oil. The aid was destined for countries such as Austria, France, Greece, Italy, the Netherlands and the United Kingdom.





Figure 2: The first shipment bringing aid under the Marshall Plan

*Source: (Prentzas, 2001: 48)*

In order to reduce national debt, countries created counterpart funds. The ECA used the Marshall Plan money to buy goods and services from American companies and ship them to Europe. Local consumers were then able to buy the goods and services with their own currency. For example, as requested by the Italian Government, the ECA used the Marshall Plan funds to buy fertilizer and ship it to Italy. Italian farmers then bought the fertilizer from local businesses using the Lira (Italian currency). Afterwards, businesses would deposit that money in the Italian government's central bank. This deposit would then be used by the ECA to buy more fertilizer from American companies. This was an effective way to repay the loans.

On January 20<sup>th</sup>, 1949, US President Harry Truman stated his continued support for the program in his inaugural address:

First, we will continue to give unfaltering support to the United Nations and related agencies, and we will continue to search for ways to strengthen their authority and increase their effectiveness [...]

Second, we will continue our programs for world economic recovery.

This means, first of all, that we must keep our full weight behind the European recovery program. We are confident of the success of this major venture in world recovery [...]

Third, we will strengthen freedom-loving nations against the dangers of aggression [...]

If we can make it sufficiently clear, in advance, that any armed attack affecting our national security would be met with overwhelming force, the armed attack might never occur [...]

In addition, we will provide military advice and equipment to free nations which will cooperate with us in the maintenance of peace and security.

Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas.

More than half of the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas.

For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people.

The United States is pre-eminent among nations in the development of industrial and scientific techniques. The material resources which we can afford to use for the assistance of other people are limited. But our imponderable resources in technical knowledge are constantly growing and are inexhaustible [...]

Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens (General Services Administration, 1949: 114-115).

Both the UNRRA and the Marshall Plan were supplemented by the International Bank of Reconstruction and Development (IBRD, later known as the World Bank) and the International Monetary Fund (IMF). These two institutions were created in 1944 when the United States and forty-five nations met at Bretton Woods, New Hampshire, United States. At this meeting, they agreed to secure world peace and prosperity through international economic cooperation, including providing financial and technical assistance, low-interest loans, interest-free credit and grants to Europe. It was to achieve these goals that the IRBD and IMF were created.

The IBRD and IMF are multilateral organizations owned and governed by national governments. Their clients are governments too. The United States plays a dominant role in the two multinational organizations since it gives the largest amount for supporting the organizations' activities. In the first five years of their operation, the two Bretton Woods institutions gave loans of US\$ 851 million to Europe (Kenen, 1994: 15). However because the Marshall Plan aid was more than enough to fully meet the requirements of European countries, Europe did not use much money from the World Bank and IMF. The total amount of loans was later reduced to US\$ 753 million (Kenen, 1994: 15).

When the Marshall Plan ended in 1958, the European economy was growing rapidly: investments flourished, infrastructure developments proceeded, houses were built and lands reproduced. These conditions had a positive effect on the socio-economic conditions of Europeasn. Following this success the Marshall plan came to serve as a model of foreign aid, which came to have a constant presence in international relations.

## **1.2 Definitions of Foreign Aid**

There are several definitions of foreign aid. Lancaster, in her book *Aid to Africa: So Much To Do, So Little Done* (1999: 36), defined foreign aid as a transfer of resources from one government to another government, an international aid agency or a non-governmental organization (NGO). This definition is similar to Yanuar Ikbar's in his book *Ekonomi Politik Internasional 2* (2003: 188-189). He stated that foreign aid is everything related to the transfer of material resources and services from one country to another that requires it, in the form of a grant, loan or foreign investment. A more specific definition of foreign aid was stated by Lancaster in her book *Foreign Aid: Diplomacy, Development, Domestic Politics* (2007: 9): the voluntary transfer of public resources from one independent government to another independent government, a NGO, or to an international organization (such as World

Bank or the UN), aimed at achieving better human conditions in the country receiving the aid.

According to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), foreign aid is called Official Development Assistance (ODA). ODA is the flow of aid from donors to countries listed as developing by the DAC (available on [www.oecd.org](http://www.oecd.org)) and to multilateral agencies. The main objective of ODA is to promote economic development and welfare for the recipient countries. It comes through and is managed by the state or its official agencies. ODA also includes grants for technical cooperation like capacity development, policy advice and police training. Official Aid (OA) is another form of foreign aid. It has a similar definition and purpose to ODA, but the recipient countries are in transition, particularly from Eastern Europe and the former Soviet Union. There is also a third category of voluntary aid, which is given by non-governmental organizations, religious groups, charities, foundations and private companies (Michael, undated).

The definitions of foreign aid above complement each other and agree on two points: there is a transfer of resources and it involves many actors. Resources here can be of several types. They can be in the form of a grant; debt forgiveness or debt relief; or loans, including concessional loans. A grant is defined as money provided but without any expectation of return; it can be counted as domestic revenue (Clements and others, 2004: 46). Another type of aid is debt forgiveness. Kharas defined this as “a flow directly from one branch of government in rich countries to another agency in rich countries - typically from the Treasury to Official Export Credit Agencies” (2007: 4). A loan is money that carries the burden of future repayment (Clements and other, 2004: 46). This was the type of aid used in the Marshall Plan. A concessional loan is defined by the World Bank as a loan that takes no

interest and offers a long period of repayment (Phy, 2009: 19). This type of aid is easy to give and provides more benefit than any other type of financing (Phy, 2009: 19).

The destination of the resources is of course to poor countries. According to DAC, foreign aid should follow three conditions (Tarp, undated; Lancaster, 2000: 9). First, it must be undertaken by the official sector of the donor country. Second, the promotion of economic development and welfare in recipient countries should be the main objectives (more about the purposes of aid will be given in the next section). And third, aid in the form of a loan requires a grant element of at least 25 percent.

Though there are many definitions of foreign aid, to be able to have a common understanding this research uses the definition that foreign aid is all resources technical and financial - particularly grants, debt forgiveness or debt relief, loans and concessional loans - channelled bilaterally and multilaterally through actors such as states and international institutions to recipient countries to alleviate socio-economic conditions.

### **1.3 The Purposes of Aid**

Each year, more than eight million people in the world are unable to fulfill their basic needs of food, water, shelter, clothing, sanitation, healthcare and education. Of the world population of almost seven billion people at the time of this research, about one billion survive on less than a dollar a day (Sachs, 2005: 20). Poverty can be self-perpetuating, endangering future generations of facing the same problems. This is particularly the case for people living in post-conflict areas.

Conflict causes socio-economic problems, not only through deaths, disablement and displacement, but also through the decline of basic services such as health and education. These problems result in illiteracy, low life expectancy, increase in infant mortality rates and higher levels of stunting. A farther-reaching consequence is a generation that has, in some

cases, known nothing except violence (Luckham and others, 2001: 42). These effects of conflict can be anticipated and mitigated by those who are able to help. People who recently experienced conflict like the Timorese need foreign aid to reduce the socio-economic problems caused by the conflict. Many believe that it is a moral obligation for donor countries to help them.

Several authors have agreed with this moral obligation. Riddell states “those who can should help those who are in extreme need. What could be simpler? This is the principle that underpins and drives support of foreign aid” (2007: 1). Patterson says:

It is time we looked upon the world as our world. Problems affecting the well being of people wherever they may live can no longer be ignored. [...] It is imperative that we become more concerned with the management of the world; we need to view the world as we view our country (2000: 149).

Similarly, De Waal says “international responsibility for the alleviation of suffering is one of the most noble of all human goals.” (1997: 65).

The rights outlined in Article 25 of the Universal Declaration of Human Rights helps to focus the parameters of the moral obligation of richer countries:

- (1) Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control.
- (2) Motherhood and childhood are entitled to special care and assistance. All children, whether born in or out of wedlock, shall enjoy the same social protection (<http://www.un.org/en/documents/udhr/>).

Meeting these rights in post-war Europe was presented as the motivation of the Marshall Plan. Parallel with this spirit of wanting to give aid, grew the spirit of wanting to receive aid. People with socio-economic problems want the chance to create a better future, especially for their children. Aid, for them, provides that chance.

In addition to the idea of moral obligation to help poorer countries, different authors have their own categorization as to the purposes of aid. Singer believes that aid is not a matter of charity, but rather of sharing surplus wealth with the poor (2009: 19-20). Lal believes that the purpose of foreign aid is not only to reduce socio-economic problems, but also to empower marginalized people (2011: 4). According to Radelet:

Most foreign aid is designed to meet one or more of four broad economic and development objectives: (1) to stimulate economic growth through building infrastructure, supporting productive sectors such as agriculture, or bringing new ideas and technologies, (2) to strengthen education, health, environmental, or political systems, (3) to support subsistence consumption of food and other commodities, especially during relief operations or humanitarian crises, or (4) to help stabilize an economy following economic shocks (2006: 7).

Morgenthau (1962: 31) divides foreign aid into six types: humanitarian, subsistence, military, bribery, prestige and for the purpose of economic development. The purpose of humanitarian aid and subsistence aid is to help victims of natural disasters (such as floods, famines, epidemics, etc.) and prevent breakdown in the society of the recipient countries. The purpose of military foreign aid is to support the recipient countries in terms of security. An example of this is the United Kingdom, Australia and Poland giving military foreign aid to the US in their invasion of Iraq in 2003. Bribery is used as part of diplomacy when foreign aid is given with the purpose of gaining political advantage. Usually this is done by giving pensions to foreign ministers or ambassadors:

Bribes proffered by one government to another for political advantage were until the beginning of the nineteenth century an integral part of the armoury of diplomacy. No statesman hesitated to acknowledge the general practice of giving and accepting bribes, however anxious he might be to hide a particular transaction. Thus it was proper and common for a government to pay the foreign minister or ambassador of another country a pension, that is, a bribe [...]

Much of what goes by the name of foreign aid today is in the nature of bribes. The transfer of money and services from one government to another performs here the function of a price paid for political services rendered or to be rendered. These bribes differ from the traditional ones exemplified above in two respects: they are

justified primarily in terms of foreign aid for economic development, and money and services are transferred through elaborate machinery fashioned for genuine economic aid. (Morgenthau, 1962: 302-303).

Prestige aid is similar to military aid. The purpose is to give the prestige of modern military weapons to recipient countries both domestically and internationally. The last one is economic development foreign aid. The purpose of this aid is to support economic growth.

The ideas of Morgenthau, described above, were developed by him looking at both history and the international situation at the time he wrote his book. If adapting it to contemporary international politics, however, the classification of foreign aid can be shortened into two categories: humanitarian and development aid.

Concerning economic development, according to Morrissey (2001) there are mechanisms by which aid can contribute to economic growth: it increases investment in the form of physical and human capital, it increases the import of capital goods and technology and it is associated with technology transfer which increases capital productivity.

When Sumner and Mallet (2012: 22) describe the purposes of foreign aid, the points they mention are very similar to Morgenthau's, but even more complete. They divide foreign aid into two categories, as shown in Table 1. First, aid is seen from the demand side. In this category the purpose of aid is as follows: support the MDGs, build good governance, incentivize pro-poor policy, promote and assist democracy, support poverty reduction programs, facilitate trade, improve quality of life and social development, reward political will, support programs that are pro-poor and use needs-based targeting, mediate the structural imbalances in the domestic and international political economy, catalyse internal paths of development, support knowledge management and transfer, support technology transfer and provide public services.



Table 1: Definition of aid looking at demand and supply categories

	<b>What is aid for?</b>	<b>Aid is required to address and promote...</b>	<b>References in recent literature</b>
<b>Demand side</b>	Savings gap and forex gap	Structural imbalances, trade facilitation	Fischer, 2009; Hansen & Tarp, 2000; Hoekman & Nicita, 2010
	Poverty gap	Pro-poor economic growth, social development	Barder, 2009b; Kosack, 2003
	Capacity gap	Knowledge transfer, technology transfer, public service provision	Benarroch & Gaisford, 2004; Pessoa, 2008; Samoff & Stromquist, 2001
	Political gap	Democratic processes	Grindle, 2004, 2007; Hermes & Lensink, 2001; Santiso, 2001
<b>Supply side</b>	Compassion	To reduce human suffering	Berthelemy, 2006a; Younas, 2008
	Compensation	As compensation for colonialism, unfair trade and investment patterns, climate change	Brown & Stewart, 2006; Edgren, 2002
	Mutuality in income growth/welfare	Improve welfare of both donor and recipients	Sayanak & Lahiri, 2009
	Supply of raw materials, agricultural products and other capital goods	To support commercial interests of the donors	Baulch, 2006; Berthelemy, 2006a; Younas, 2008
	International security	Ensure ‘spillovers’ from conflicts and fragility don’t create international problems, to support the geopolitical interests of donors	Berthelemy, 2006a; Hattori, 2001; Patrick & Brown, 2006; Riddell, 2007; Sachs, 2005a

*Source: (Sumner and Mallet, 2012: 23)*

Second, aid seen from the supply side. Here the purposes of aid are explained as: to achieve political and strategic interests, to control the domestic situation of the donor and the type of government, to gain commercial interest, to show the donor’s commitment to democratic governance and human rights, to achieve global security imperatives, to achieve moral imperatives, compassion and to give compensation.

Morgenthau, Sumner and Mallet present important points regarding the purposes of foreign aid. However, for greater understanding their ideas should be combined with those of

Lancaster (1999). In her book *Aid to Africa: So Much To Do, So Little Done* (1999), Lancaster stated that there is a new trend of foreign aid affected by globalization, the spread of democracy, the number of civil conflicts in poor countries and the world's economic problems. As a result of these events, the purposes of foreign aid have changed to: promoting economic and political transitions, addressing global problems, furthering democracy and managing conflict (Lancaster, 2007: 48). The key activities of aid given to promote economic and political transitions include assisting in drafting new constitutions and laws, creating a new judiciary system, reforming the regulatory and financial systems, training for political parties and the independent media and strengthening civil society organizations (Lancaster 2007: 48).

Aid given to address global problems first emphasized environmental issues such as coral reef preservation; the reduction of ozone destroying gases; the reduction of air, water and soil pollution; the collection and preservation of endangered plants and community wildlife management programs (Lancaster 2007: 48). Now it has shifted and more emphasis is given to the issue of international transmission of infectious diseases, particularly HIV/AIDS (Lancaster 2007: 48).

Aid for promoting democracy goes to financing first elections including financing voter registration, creating procedures and capabilities for campaigning, voting and vote counting (Lancaster, 2007: 48). This is particularly the case in sub-Saharan African, throughout which are spread demands of multiparty elections and democratic reforms (Lancaster, 2007: 48).

Post-conflict aid is provided for assisting a country who has just experienced a conflict. This kind of aid is particularly aimed at addressing humanitarian emergencies; providing shelter for displaced people; ensuring that people's basic needs are met; repairing and rebuilding destroyed infrastructure such as roads, waterways and energy and

communication networks and restoring basic public services that were neglected during the conflict, including security, law enforcement and public health.

### 1.4 Donors and Recipients

In the last five decades, US\$ 2.3 trillion has been spent in foreign aid (Easterly, 2006: 4). This large amount has mostly gone to fund socio-economic projects in Asia and Sub-Saharan Africa. The actors involved in foreign aid are states, international organizations and NGOs (see Figure 3). Aid is channelled bilaterally or multilaterally. The state plays an important role here. In addition to being an actor, it also provides the funds. The case of NGOs is unique. NGOs receive funds from individuals, states, international organizations and even from other NGOs. The funds are used to finance programs implemented by the recipients. Therefore NGOs are also actors in foreign aid. However, as far as this research found, there is a debate on whether the aid of NGOs is multilateral or bilateral. The OECD lists NGOs as a multilateral donor.

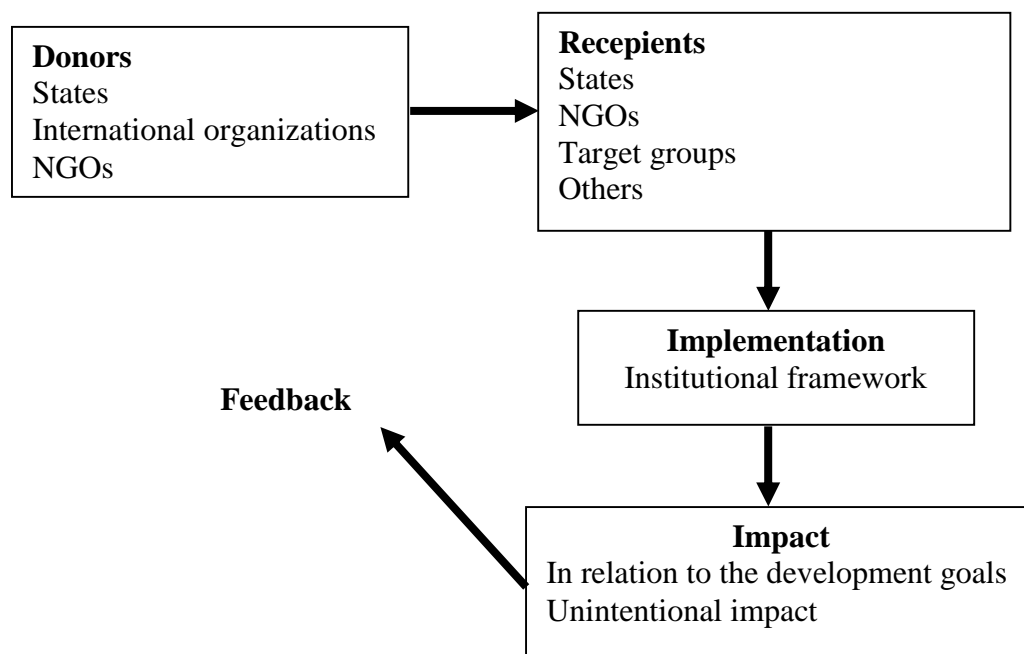


Figure 3: The flow process of foreign aid

Source: (Martinussen and Pedersen, 2003: 2)

Figure 3 explains how aid flows from donors to recipients. Aid is provided by states, international organizations and NGOs and goes to states, NGOs, target groups and others within a country. The purpose of aid is to support the institutional agenda of the recipient. In other cases, the agenda that is being implemented by the recipient is similar to the agenda of the donor. In the end, it is hoped that aid has a positive impact for both the donor and the recipient. If not, evaluation is conducted to perfect the impact.

### 1.4.1 Bilateral Aid Donors

Bilateral aid is given directly by the donor to the recipient country (government to government). Donor countries also occasionally provide aid through non-governmental agencies working on behalf of the donor countries, such as the Australian Agency for International Development (AusAID) and the United States Agency for International Development (USAID).

Table 2: Bilateral aid donors (US\$ millions)

No.	Country	2009	2010	2011	3-year average	Percent out of donor countries
1	United States	25.174	26.586	27.227	26.329	29
2	United Kingdom	7.391	8.017	8.474	7.961	9
3	Germany	7.097	8.036	8.736	7.956	9
4	France	7.187	7.787	8.495	7.823	9
5	Japan	6.176	7.337	6.591	6.702	7
6	Netherlands	4.798	4.841	4.336	4.659	5
7	Canada	3.141	3.926	4.110	3.726	4
8	Spain	4.473	3.999	2.282	3.585	4
9	Norway	3.164	3.561	3.740	3.488	4
10	Australia	2.312	4.241	4.309	3.287	4
	Other donor countries	12.763	13.625	15.768	14.052	16
	<b>Total donors</b>	<b>83.675</b>	<b>90.957</b>	<b>94.068</b>	<b>89.567</b>	<b>100</b>

*Source: (OECD, 2013: 6)*

It is interesting to look at the increase of the amount of aid that has been spent in the years preceding this research. As one can see in Table 2, the top 10 aid donors from 2009 to 2011 were the United States, the United Kingdom, Germany, France, Japan, Netherlands, Canada, Spain, Norway and Australia. The United States was the biggest donor of bilateral aid and contributed 29 percent of the total aid in the three years looked at. The United States increased its bilateral aid each year. In 2009 it spent US\$ 25,174 million, and within two years the amount of aid increased to US\$ 27,227 million. This significant increase is similar to that of the United Kingdom, Germany, France, Canada, Norway and Australia. Japan increased bilateral aid by US\$ 1,161 million from 2009 to 2010, and decreased it in 2011. This also happened in the Netherlands. Spain is having a crisis at the moment, therefore the bilateral aid it donates was reduced dramatically.

#### 1.4.2 Multilateral Aid Donors

Multilateral aid is managed by international organizations, such as the African Development Bank, Asian Development Bank, European Commission, International Monetary Fund, World Bank, United Nations agencies such as the United Nations Development Program (UNDP), etc.

Table 3: Multilateral aid donors (US\$ million)

No.		2009	2010	2011	3-year average	percent of donor countries
1	European Union	13.021	12.428	12.305	12.585	35
2	World Bank	9.006	7.779	6.995	7.927	22
3	Global Fund	2.333	3.003	2.612	2.649	7
4	African Development Bank	2.750	1.918	2.272	2.313	7
5	Asian Development Bank	1.943	1.023	863	1.276	4
6	IMF	1.825	1.230	772	1.276	4
7	UNICEF	1.086	1.046	1.089	1.074	3
8	Islamic Development Bank	380	501	1.504	795	2
9	GAVI	469	771	819	687	2

10	GEF	711	530	734	658	2
	Other multilaterals	4.197	4.412	4.420	4.343	12
	<b>Total donor</b>	<b>37.722</b>	<b>34.642</b>	<b>34.386</b>	<b>35.583</b>	<b>100</b>

*Source: (OECD, 2013:6)*

The total amount of multilateral aid was less than half of bilateral aid and reduced in each year. According to Mavrotas and Villager, this explains the pattern of donor countries, which are more likely to consider the political and economical impacts of aid in achieving their foreign policy goals (2006: 3-4). Therefore, giving aid bilaterally seems to be the more rational option compared to multilaterally. France, the United Kingdom and Japan prefer giving aid to their former colonies. Together with the United States and Germany, these countries also allocate more aid for recipients that vote in unison with them in the UN. Therefore, aid can be used for buying political support and encouraging UN votes (Mavrotas and Villager, 2006: 6). This, in the end, influences the amount of aid provided by multilateral institutions.

As we can see in Table 3, the largest amount of multilateral aid comes from the European Union (EU), World Bank, Global Fund, African Development Bank (AfDB), Asian Development Bank (AsDB), IMF, United Nations Children's Fund (UNICEF), Islamic Development Bank (IDB), GAVI and GEF. The last two are international NGOs. The EU and the World Bank were the largest multilateral donors from 2009 to 2011. Together they contributed 57 percent of the three years' aid average. Even so, the amount of aid that has been given by the two international organizations has decreased in each year. They were followed by the AsDB and IMF. Meanwhile, the amount of aid given by the Global Fund, AfDB, UNICEF and GEF fluctuate. Unlike for the others, there has been a significant increase in multilateral aid contributions within three years for the IDB and GAVI.

### 1.4.3 Recipients

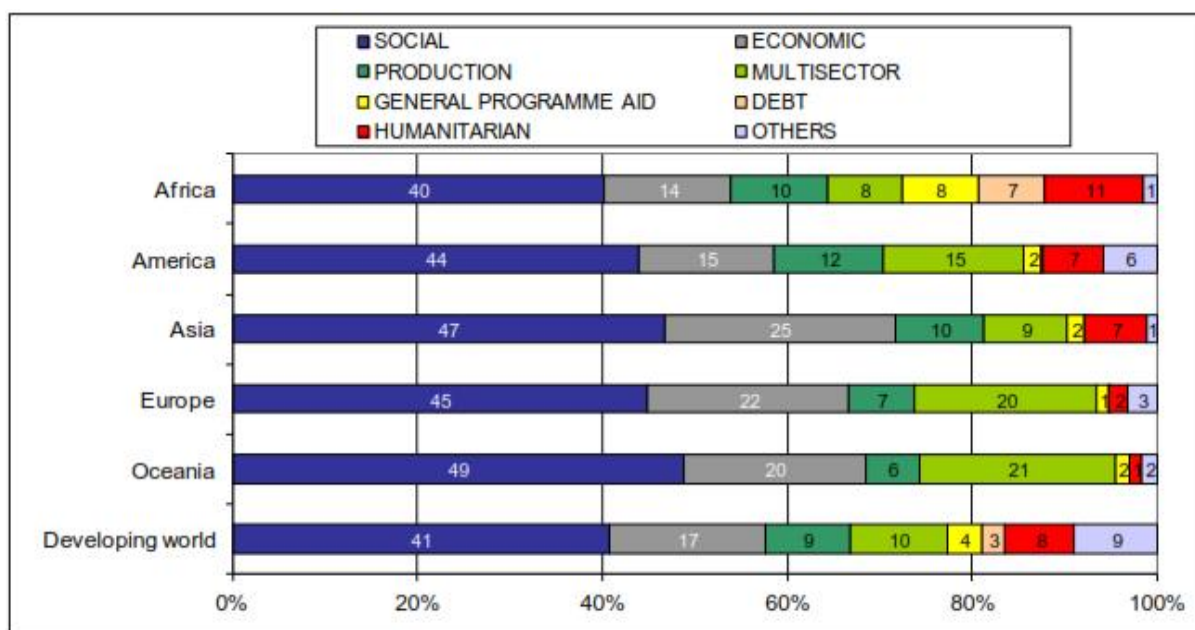
Table 4: Recipients from all donors (US\$, million per year)

No		2009	2010	2011	3-year average	percent of donor countries
1	Afghanistan	6, 235	6, 426	6, 711	6, 458	5
2	Congo	2, 375	3, 543	5, 522	3, 807	3
3	Ethiopia	3, 819	3, 525	3, 563	3, 636	3
4	Vietnam	3, 732	2, 940	3, 514	3, 395	3
5	Pakistan	2, 769	3, 013	3, 509	3, 097	2
6	India	2, 500	2, 806	3, 220	2, 842	2
7	Tanzania	2, 933	2, 958	2, 445	2, 779	2
8	West Bank & Gaza Strip	2, 817	2, 519	2, 444	2, 593	2
9	Iraq	2, 791	2, 192	1, 904	2, 296	2
10	Mozambique	2, 012	1, 952	2, 047	2, 003	2
	Other recipients	95, 012	99, 234	101, 560	98, 602	75
	<b>Total donors</b>	<b>126, 977</b>	<b>131, 108</b>	<b>136, 473</b>	<b>131, 508</b>	<b>100</b>

*Source: (OECD, 2013:6)*

Based on the report of the OECD, the top 10 recipients of aid from bilateral and multilateral donors were Afghanistan, Congo, Ethiopia, Vietnam, Pakistan, India, Tanzania, West Bank & Gaza Strip, Iraq and Mozambique. Even though Afghanistan received the largest portion of the aid, in fact the amount was not too different from the others. For example, Afghanistan received on average 5 percent of total foreign aid, while Congo, Ethiopia and Vietnam received 3 percent each. The next six countries: Pakistan, India, Tanzania, Iraq and Mozambique, received similar portion with 2 percent each. West Bank & Gaza Strip, two regions occupied by Israel, also received 2 percent of the aid.

Table 5: Aid by region and sector in 2011



Source: (OECD, 2013:10)

Table 5 shows aid flow according to region and sector. Most countries received and used aid in several different sectors. From these sectors, the social sector received the largest part, followed by the economic sector. This shows that social and economic sectors are the main priorities of aid. Aid also flowed to other important sectors such as production, multisector, humanitarian, debt and others.

### 1.5 Foreign Aid According to Different Theoretical Frameworks

Foreign aid can be viewed from different theoretical perspectives. Each perspective has its own point of view in analyzing the central questions of the link between aid and political power, looking at the motivations behind giving aid and evaluating the positive and negative effects on recipients (Pronk and others, 2004: 65). Some theories are optimistic and believe aid is important and has a positive impact on the donor and recipients. Others are more pessimistic and argue that the large amount of aid that has flowed from developed to developing countries has been wasted. They contend that aid has been of greater benefit to



the donors and has only a small impact on reducing problems in recipient countries. In the end, this issue remains a great debate.

To be able to understand the discussion, it is important to know the theories and the points that they emphasize. Below the concept of foreign aid is presented according to several theories.

### **1.5.1 Idealism**

In its most general definition, idealism is the theory that human beings are inherently good. When it comes to foreign aid, idealist theory posits that donors such as governments give aid for humanitarian concerns, such as to share wealth, address human rights and alleviate poverty. Idealist scholars believe that foreign aid is effective, and are optimistic that it can solve socio-economic problems in developing countries. In his book *Moral Vision in International Politics: The Foreign Aid Regime, 1949-1989*, Lumsdaine says that in terms of motivation, “humanitarian concern in the donor countries forms the main basis of support for aid [...]. Support for aid was a response to world poverty which arose mainly from ethical and humane concern and, secondarily, from the belief that long-term peace and prosperity was possible only in a generous and just international order where all could prosper” (1993: 3).

### **1.5.2 Realism**

Realist theory contrasts sharply with idealist theory. It points that human beings are inherently selfish and desirous of power. Realists believe that aid donors are motivated by self-interest. Furthermore, countries that act out of other motivations will become relatively weak, eventually becoming victims of those who did act in their self-interest and therefore became powerful. As Lumsdaine sums up: “Many scholars assume nations act only to secure

national self-interest, because of human selfishness and because only self-seeking states will thrive and continue to have influence” (1993: 4).

According to Realism, because donors are acting in their own interests, they will give aid to countries that they can benefit from in some way, for example through a political, economic or military alliance. Thus the poorest countries, the ones in most need of aid, are often overlooked. This view is supported by scholars such as R.D. McKinlay and Steven Hook. McKinaly, for example, conducted research which showed that some of the biggest donors (e.g. the United States and France) base their donations on national interest rather than humanitarian concerns (Fuller, 2002: 79).

Realists also believe that aid is largely ineffective and does not give very much benefit to recipient countries. Some question whether socio-economic conditions can be improved at all, for example Realist scholar Carr, in his book *The Twenty Years' Crisis* (1981), argues that it is impossible to achieve peace in a world of nations acting in their own self-interest.

In his book *Filosofía para hacer las paces*, Vincent Martinez Guzman argues that the divide between idealists and realists is not really relevant because they are fighting over different conceptions of human nature, but humans are, in general, not good or bad, selfish or generous, peaceful or violent; they have the capacity to be both. Once humans understand that they have this capacity, they are free to decide. This means that humans are responsible for their decisions, and cannot blame human nature.

Nels has a similar point of view, saying:

The first is to point out that human nature is not uni-dimensional and that acts of compassion often coincide or alternate with acts of selfishness. Human are able to do good to one another, and bad: why focus on only one side of the story when we have so many examples of altruistic behaviour (Nel, 2009: 100).

Lumsdaine agrees that human nature and motivations are mixed when it comes to foreign aid, saying “Of course aid is not completely pure. Any program involving half a trillion dollars, a score of donor countries, many international agencies, and 120 recipient countries over half a century will involve mixed influences” (1993: 4).

Concerning foreign aid, Guzman says that it is merely a palliative measure: it may alleviate problems, but it does not solve them. This is because the root cause of human problems, in his opinion, is structural violence<sup>1</sup>. Foreign aid, therefore, would not be necessary if structural violence was addressed. Thus he proposes that foreign aid should not be to only to alleviate living conditions. Naturally, it is important that people eat, but one needs to go beyond that.

### **1.5.3 Postcolonial Theory**

Postcolonialism is an academic discipline that analyzes the social and economic legacies of colonialism and imperialism. Postcolonialists contend that the West views the East as inferior and incapable without their help (Young, 2003: 2). The theories produced by the West are neither neutral nor objective; rather, they are deliberately designed through socio-cultural engineering. Influenced by the ideas of Derrida, Foucault and Gramsci, Edward Said tried to counter the narcissistic and epistemological violence of the West against the East by showing the bias, interest and power that are contained in the various theories put forward by colonialists and Orientalists.

For Said, Orientalism is the West’s way of dominating, rearranging and controlling the Orient. Said states that from 1815 to 1914, Europe controlled 85 percent of the earth. This

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<sup>1</sup>Structural violence is a term coined by Galtung in 1969 in his article *Violence, Peace, and Peace Research*. It term describes how various institutions and organizations may cause harm to others as a normal consequence of the way they are structured and operate. Structural violence can be as deadly and disruptive as direct or indirect violence (assault, war, etc.).

Western colonization for a hundred years has had implications all over the world, both for the colonizers and for the colonized. The West has used its knowledge and power to construct, administer and subjugate the Orient. Therefore it can be said that the modern project of the West is reflecting the history and practice of colonialism, where European colonialism has become a tool in propagating its ideals. In other words, the West uses the idea of foreign aid as an instrument to achieve its hidden agenda and spread its hegemony (Omar, 2012: 45).

Foucault, a French philosopher and social theorist, also criticized aid (Foucault, 1984: 32-50). For him, foreign aid is a modern term where universal happiness is measured by the culture of Europeans on the assumption that it is good for everyone. In fact it is just an idea of the Europeans, who are a minority in the world population. He adds that aid involves the imposition of European Enlightenment values and ideals such as autonomy, freedom, human rights, etc., which make up an “appropriate identity” for modern people.

#### **1.5.4 Dependency Theory**

The diverse components of the underdeveloped do indeed share one characteristic. This is not poverty, stagnation, brotherhood, or skin color; it is the receipt of foreign aid. The concept of the underdeveloped and the policy of official aid are inseparable. Without foreign aid there is no underdeveloped. Official aid provides the only bond joining together its diverse and often antagonistic constituents (Thompson, 1983: 11).

Dependency theory explains foreign aid as an instrument of developed countries and international organizations to exploit developing countries politically, economically and culturally, as well as trap them into colonialism and the global capitalist system. As a result, the conditions of development and underdevelopment occur. At the same time, it creates dependency of developing countries upon the major powers. Sadly, the problem of exploitation is rarely discussed and is replaced by the issue of lack of resources, technical expertise, modern institutions or cultural development. Evidence exists, particularly on the

great economic inequality. This was clearly stated by Dos Santos (1970): “the spatial form of dependence, in which some countries (the dominant) achieved self-sustaining economic growth while others (the dominated and dependent) grew only a reflection of changes in the dominant countries” (Peet and Hardwick, 2009: 166).

[Dependency is] . . . an historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economies . . . a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected (Dos Santos 1970: 226, cited in Peet and Hardwick, 2009: 166-167)

The theory also states other negative impacts of aid on developing countries such as “weakening accountability, encouraging rent seeking, facilitating corruption, fomenting conflict over control and distribution of funding, siphoning off scarce resources from civil services and alleviating pressures to reform from the government” (Buss and Gardner, 2008: 98). These facts have become important issues in the contemporary debate on foreign aid.

### **1.5.5 Development Theory**

Development is an effort to give people better life conditions. This is the main argument of development theory. In order to develop successfully, a country has two main capitals: human and natural resources. However, sometimes a country does not have enough sources for development. Development theory suggests this can be solved by external sources financing development, in other words foreign aid.

Foreign aid indeed has an important role in development. In his book *Peace by Peaceful Means: Peace and Conflict, Development and Civilization* (1996: 134), Galtung explains that foreign aid via development projects is an important activity in which donor and recipient offer and accept projects of pre-investment, infrastructure, transaction costs, community development, participation, import substitution and export substitution. Aid is

also important for achieving the Millennium Development Goals (MDGs), a new global partnership to reduce extreme poverty, which has eight objectives: to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability and develop a global partnership for development (<http://www.un.org/millenniumgoals/>). It is hoped that these goals will be achieved by the year 2015. Their achievement requires a lot of cooperation between donor and recipient countries.

## **1.6 Conclusion**

This chapter gave some historical background to the modern concept of foreign aid and showed the success of the Marshall Plan in assisting post-war Europe in its socio-economic recovery. The Marshall Plan is remembered as one of the most massive aid programs in history. An important point is the main role played by the United States.

The very basic explanation of foreign aid looked at its definition and purposes, and was an important section in this chapter as it gave greater understanding about foreign aid, as well as the main actors and recipients of aid and the trends of the sectors aid is given to. However, aid implementation raises a debate. The perspectives of many theories are presented.

The main question comes, what was the impact of foreign aid in Timor-Leste? As we know, before gaining independence Timor-Leste was occupied by Portugal, and then Indonesia for 24 years. The long length of the occupations damaged infrastructure and the socio-economic condition of the Timorese people. When the attention of the international community was called to this situation, they began to give aid through the UN missions. However, before this research discusses foreign aid in Timor-Leste, it is important to know

the socio-economic condition of the Timorese people during the Portuguese and Indonesian occupations. The next chapter discusses this.

## **CHAPTER 2: The Socio-Economic Condition of Timor-Leste before Foreign Aid**

The socio-economic condition of Timor-Leste before foreign aid was given, that is, during Portuguese and Indonesian, is discussed in this section to provide a point of comparison with the socio-economic condition after aid is given, discussed in Chapter 3.

### **2.1 Background of Timor-Leste**

Whether it is in Tibet, Poland, the Baltic states, the South Pacific, Africa or the Caribbean, it has been shown that force and repression can never totally suffocate the reasons underlying the existence of a people: pride in its own identity, capacity to preserve, without restriction, everything that identifies it as such, freedom to pass all this on to future generations, in brief, the right to manage its own destiny.

- Xanana Gusmão, the former commander of FRETILIN (Pinto, 1997: x)

Timor-Leste, or *Timor Lorosae* in the local language, is a country that borders Indonesia to the west and Australia to the south, though separated by the Timor Sea. “Timor” means “east” in Malay. People named the island “Timor” because it is located on the eastern end of the Sunda islands. The country is half of Timor Island, the Oecusse enclave in the north of Indonesian West Timor, and the islands of Atauro and Jaco (see Figure 3). The size of the country is 14,874 km<sup>2</sup> and the population today is about 800,000, of which 78 percent is Timorese, 20 percent Indonesian, and 2 percent Chinese (Nation Online Projects, 2011). The topography of the area is mountainous, with beautiful limestone hills covered by broad fields and a variety of plants such as sandalwood and wax.



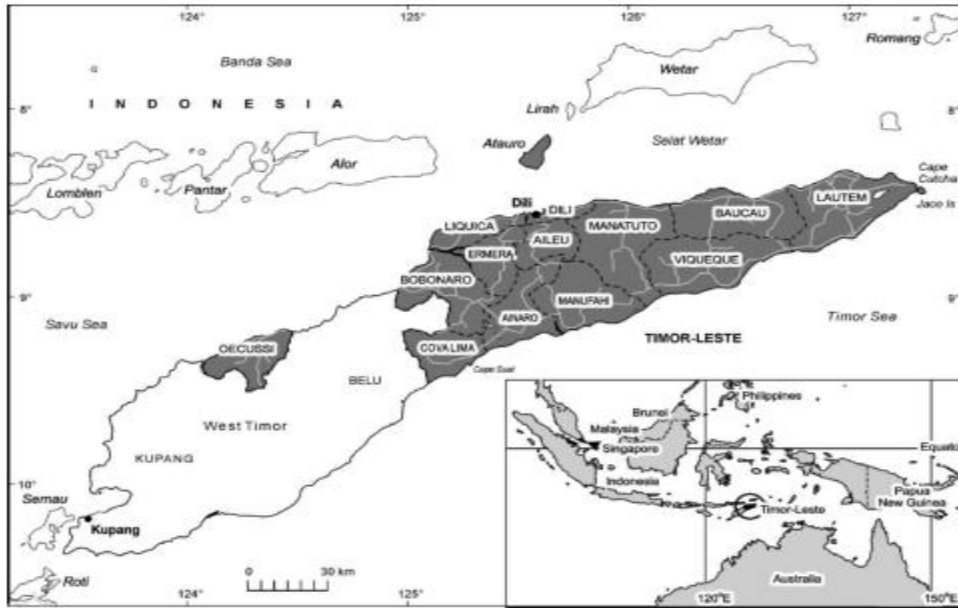


Figure 4: Map of Timor-Leste

(Source: McGregor, 2007)

The richness of cultures and languages reflect that the ancestors of Timor-Leste came from different parts of the world. According to historians, the people who came to Timor are divided into three waves (UNDP, 2002: 70; Magalhaes, 1994; Dardjowidjojo, 1987: 1): the first wave of people came to Timor Island around 40,000 to 20,000 BC and were Vedo-Australoide (similar to the Vedas of Sri Lanka and India). Some of their characteristics include a very dark complexion and straight, dark hair. The second wave was around 3000 BC and consisted of Melanesians, the type now living in Papua New Guinea and the Pacific Islands. The third wave was Proto-Malays, coming from Yunan Province, South China and Indochina (Laos, Cambodia and Vietnam) around 2500 BC. One of the results of this acculturation is that in addition to Portuguese and Tetum as its official languages, Timor-Leste has local languages such as Macassae, Bunac, Kemak, Galoli and many others.

Although containing many different cultures and languages, Timorese people had been living in peace for thousands of years. This was indicated by the success of their socio-

economic activities. For example in trade, Timorese people were known for their woven fabric and pottery. Traditional ceremonies were periodically performed to honour ancestors.

Even though the land is dry, the Timorese people rely on agriculture, particularly on plants that can grow without much water, such as corn, taro and yam. These are planted on the mountain slopes and use the alternate method. Sometimes the Timorese grow rice and oranges. Timor-Leste is also famous as a producer of forest honey. Forest honey historically helped the Timorese people meet their daily food needs.

Timor-Leste has abundant mining resources including limestone, clay, sand and marble. Of great potential is the oil in the Timor Gap and Suai district. In addition, Timor-Leste has natural gas in Manatuto, manganese in Vemasse, and gold in Laklo and Elena. These resources have led people to call Timor-Leste a heaven on earth.

However, the geographical position and richness of Timor-Leste have led to thousands of stories of violence and war. These start from Portuguese occupation, which lasted 445 years; civil war caused by the competition of political parties in the country; Timor-Leste's involvement in World War II; and Indonesian occupation that lasted for 24 years (1975-1999). Although this sequence of events has created a deep impact on socio-economic life, in the end the Timorese people achieved independence.

## **2.2 Under Portuguese Occupation**

### **2.2.1 The Portuguese Presence**

On August 15th, 1511, the Portuguese conquered Melaka. This became a turning point in the presence of Portugal in South-East Asia. After Portugal realized that Indonesia is rich in spices, particularly Timor, it began to be present and trade on the islands. Yet there is no exact year that marks the beginning of Portugal's presence in Timor.

Timor island was first mentioned on January 6th, 1514 by Rui de Brito, the captain-major of the Portuguese armed forces at that time, in a letter to the King of Portugal. He explained to the King that he had found an island rich in sandalwood, honey and wax. *Fernão de Magalhães* (the English version of his name is Magellan) led an expedition to the eastern part of Indonesia and reported on January 26th 1522 that he had arrived on an island rich in sandalwood. This is proven by his statement: “All the sandalwood which is traded by the people of Java and Malacca comes from this place, where we found a junk of Lozzon which had come to trade for sandalwood” (Fox and others, 2003: 6).

His statement was also strengthened by comments from the local people, who said that the sandalwood from Timor was the best quality in the world. In his report Magalhães also mentioned that the island had various farm animals and agricultural products such as rice, oranges, etc. Magalhães’ report shows that Timor island was discovered by Portugal between 1511 and 1522.

It is interesting to note that Portugal’s presence was not motivated only by trade, but also by the desire to propagate their religion. After the discovery, Portugal became the only major power on the island. They named the territory Portuguese Timor and built their administrative centre in Lifau, Oecusse. This was followed by the establishment of the first church on the island. The church served not only religious purposes but also acted as the administrative arm of the Portuguese. Consequently, the Portuguese played a dual role of both priest and military commander. Seeing the enthusiasm of the Timorese people in accepting the presence of the church, Bishop Jorge de Santa Luzia decided to send more priests to Portuguese Timor. By 1780 the Portuguese had built fifty churches in Portuguese Timor and baptized 5000 Timorese (Lyon, 2011: 6). This had both a positive and a negative impact. On the positive side, the presence of the Church in Timor facilitated communication

between the colonizer and the local people, and even inter-marriage. The Timorese people also learned how to increase agricultural production. However, on the negative side the Church involved the Timorese people in Portugal's war against the Javanese and Makassar people, which are Muslim.

In the beginning of the 16th century, the Dutch started to be present on Timor island. Their presence was motivated mainly by the profitable sandalwood trade. This disturbed Portugal's position as the major power in the region. The two colonial powers competed for the spice trade. This competition made their relationship acrimonious and at times even led to war between them. In 17th century, the strength of the Dutch became parallel to that of the Portuguese. This made the Portuguese move their base to Dili and focus their occupation on the eastern half of the island. In 19th century, as sandalwood became extinct, Portugal introduced cash crops (especially coffee, rubber and copra), forced labour (especially on road construction), and taxes, including a head tax on all males between the ages of 18 and 60 (CAVR, 2005: 7). Those who were uncooperative were punished. The cruel situation of the time is clearly explained by Gunn, professor of International Relations in the Faculty of Economics, Nagasaki University, Japan (2005):

When the Timorese performed forced labor, they worked under the supervision of guards. If they did not perform their duties well, they were beaten with bamboo until they bled. The Timorese were also required to pay taxes and grow the plants that they were recommended; those who did not do so were put in jail.

This situation led to a series of revolts, one of which was led by Dom Boaventura from 1900 to 1912. But after twelve years of resistance and fighting, he was defeated by Portugal.

Later, the competition between the two major powers escalated. This time it was related to the division of the island. The Netherlands wanted an equal division but Portugal rejected this. Consequently the War of Penfui broke out in 1749 (Hägerdal, 2006). Conflict between the Netherlands and Portugal continued until 1913, when the division of the island

was decided by the International Court in The Hague, Holland. This decision was known as the *Sentença Arbitral*, and it gave Portugal the right to control the eastern part of the island and Oecusse, while the Dutch were to control the western part of the island. (CAVR, 2005: 8). This division can be seen in Figure 5.

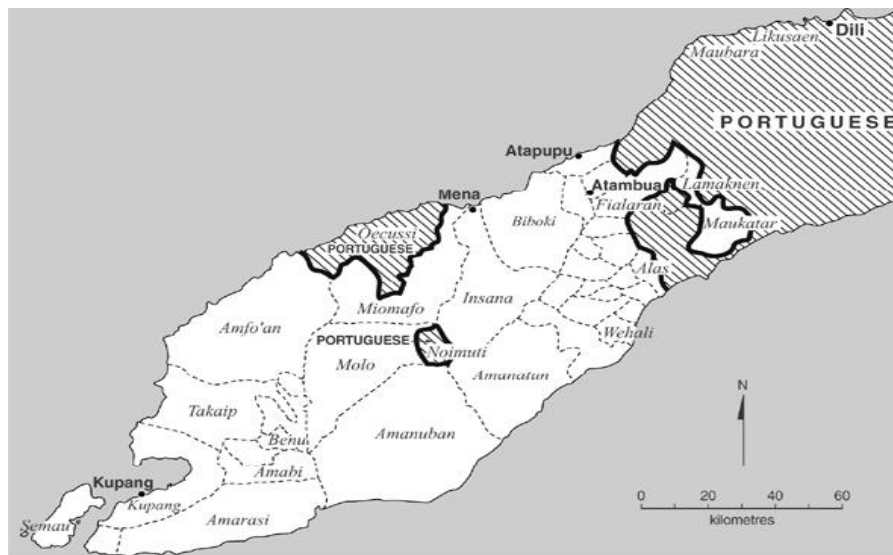


Figure 5: Dutch and Portuguese Boundaries on Timor Island in 1911

(Source: Fox and others, 2003: 16)

Long before World War II, the Japanese empire considered Timor-Leste a strategic territory. This was for three reasons: first, Timor's geographic and political location was ideal for Japan to expand south as it split the British colonies in Southeast Asia and Australia (Freitas, 2002: 68). Second, Portugal was one of the weakest colonial powers and thus was easy prey; furthermore it had declared its neutrality between the Axis and the Allies and therefore might not evoke a response from other powers (Freitas, 2002: 68). Third, oil and gas reserves from the Timor Sea would be useful to fuelling Japan (Freitas, 2002: 68).

Some brief information about oil and gas reserves in the Timor Sea: in 1861, Alfred Russel Wallace, an expert in the history of natural science from England, reported his journey to Timor island. He found that Timor was rich not only in natural resources above the ground

but also deep underground. In his book *The Malay Archipelago, the Land of the Orang-utan and the Bird of Paradise; a Narrative of Travel, with Studies of Man and Nature*, he stated that the Timor sea has oil and gas reserves that would not be finished for a hundred years (1962: 149). Thirty years later, a similar report was published by Dr. Selhorst, who conducted a geological expedition to Timor-Leste.

During World War II Portuguese Timor was occupied by Australia and its allies, who thought its position strategic as a buffer against Japanese domination in the Pacific. This situation dragged the Timorese people into the Pacific War. Even after the Allies were defeated here by the Japanese in 1943, the Timorese people felt that they had made lasting bonds with Australia and therefore continued fighting the Japanese. This was at a serious cost to themselves; around 40,000 to 70,000 Timorese people lost their lives (UNDP, 2002: 70; Nevins, 2008: 33-34).

### **2.2.2 Portuguese Decolonisation**

In the 1960s, Portugal's colonies in Africa rose up in independence movements, started by the *Movimento de Libertação de Angola* (Angola) and followed by the *Partido Africano da Independência da Guiné e Cabo Verde* (Guinea Bissau) and the *Frente de Libertação de Moçambique* (Mozambique). Portugal was not able to handle the three wars at once, as they burdened Portugal financially and militarily. At the same time, after joining the European Free Trade Association in 1961, Portugal became increasingly bound with Europe economically; consequently Portugal had to abandon its colonies in Africa.

Portugal's military hoped Marcelo Caetano, the President of Portugal, could resolve the situation in Africa. They demanded that the government give independence to the colonies. However, Caetano was a dictator and as such did not really care about their point of

view. Therefore Portugal's military desperately formed a movement called *Movimento das Forças Armadas* (MFA), which aimed to convince the government to address various issues in the country, particularly concerning the colonies.

Consequently, the Flower Revolution (*Revolução dos Cravos*) occurred in Portugal on April 25th, 1974. It caused the fall of president Caetano and opened a new era for Portugal's colonies, including Timor-Leste. Portugal validated laws on government transition and encouraged Timor-Leste to establish their own political parties. This led to the emergence of UDT (*Unio Demoractica de Timor*) (May 11), FRETILIN (*Frente Revolucionária do Timor-Leste Independente*) (May 20), and APODETI (*Associação Popular Democratica de Timor*) (May 27) (Departemen Penerangan Publik PBB, 2000: 4). These parties allowed the Timorese people to campaign their political views and prepared them for elections deciding the future of Timor-Leste (Coelho, 2012: 3). In line with this, the UN gave three options: full independence, integration with the closest neighbour (Indonesia), or continued integration with Portugal (Coelho, 2012: 3).

The different parties held opposing views. FRETILIN was pro-independence, and declared the independence of Timor-Leste on November 28th, 1975. UDT and APODETI were pro-Indonesia, and declared the integration of Timor-Leste into Indonesia on November 30th, 1975. These opposing views led to hostility and civil war. However, this war was not balanced. FRETILIN was more dominant because it had inherited a range of arms from Portugal. According to the UN (Makarim and others, 2003: 23), FRETILIN killed the lives of as many as 60,000 people. Most of them were women and children, who were faultless except for the fact that their husband or parents were pro-integration with Indonesia.

FRETILIN's dominance over Timor-Leste created concerns among Western countries. FRETILIN was communist and the West feared that Southeast Asia would fall to

the communists, as had been seen in Indochina where the fall of Vietnam and Cambodia into the hands of the communists was followed by its neighbour, Laos (April 1975). The West hoped Indonesia could be a fortress in preventing the spread of communism in Asia Pacific.

### **2.2.3 The Socio-Economic Heritage of the Colonizer**

It is important to know the impact of Portugal's colonisation on the socio-economic condition of Timor-Leste. However, due to limited information available (because it is a long time ago), this section only explains the situation of Timor-Leste during the occupation in three sectors: education, health and agriculture. Although infrastructure is also important, quantitative data for this sector has not been found by the author. Despite the limited availability of information due to the amount of time that has passed, there is enough to depict a fair picture of the socio-economic conditions during and after Portuguese occupation.

#### **2.2.3.1 Education**

It is commonly known that a colonizer exploits a colony. This is what happened in Timor-Leste. In 445 years of Portuguese colonisation, not much changed. Education, an important factor in development, was ignored. For the Portuguese, educating the Timorese people would have had two implications. First, education means opening schools, which requires a lot of money. Second, educating the Timorese meant the possibility of rebellion and demands for independence, as they would then know that the Portuguese had taken their rights. For the Portuguese, these risks were prevented by limiting the education of the Timorese people. However, later on, the Church played a significant role in educating Timorese people. It established schools in villages to help spread the word of the gospel.



Table 6 shows the development of education in Timor-Leste from 1946-1972. When compared, elementary schools progressed more than secondary schools. The number of students in elementary schools increased significantly in each year. Meanwhile in secondary schools, the number of students increased slowly. This is because the Church prioritized primary school rather than secondary school. It is also related to Portugal's policy of limiting higher levels of education for the Timorese. The fewer smart people in Timor-Leste, the better for Portugal. This is related to the risk of rebellion, as mentioned before.

Table 6: The development of Timor-Leste's education during Portuguese colonisation

Year	Students	
	<i>Ensino Primario</i> (Primary school)	<i>Ensino Secundario/ Liceal</i> (Secondary school)
1946	1,953	-
1948	2,810	-
1950	3,429	47
1952	3,915	55
1953	6,292	107
1959	4,898	175
1960	6,976	183
1961	8,995	211
1962	12,994	262
1963	14,228	387
1964	18,403	607
1965	18,448	833
1966	20,813	588
1967	23,059	376
1968	27,299	454
1969	30,203	931
1970	32,397	485
1971	36,500	1,478
1972	57,579	854

(Source: Felges, 1953; Timor Pequena Monografia; Anuario Estatistico, 1973; Aldeia, 1973 in Saldanha, 1994: 59)

One important factor in education is teacher availability. If the number of teachers is adequate and the level of education fulfils the requirements, it will have a good impact on educational quality. However, if the opposite happens, the quality of education will be very low. This is what happened in Timor-Leste during colonisation. According to Saldanha in his book *The Political Economy of East Timor Development*, the development of education in Timor-Leste during that time was very basic and it was difficult to get teachers (1994: 58). The Portuguese was not willing to import teachers from Portugal since that cost money. Even if they had been willing to spend the money, few outsiders were willing to come since Timor-Leste was famous as an uncomfortable place to live (Teofilo Duarte, 1930 in Saldanha, 1994: 58-59). Consequently, teachers for elementary and secondary schools were recruited from previous graduates. *Escolares* (teaching colleges) opened in 1963. More information on the ratio between teachers and students can be seen in Table 6.

Table 7: Ratio of students to teachers at Elementary and Secondary Schools

School year	Elementary schools			Secondary schools		
	Students	Teachers	Ratio	Students	Teachers	Ratio
1959/60	4, 898	139	35	175	15	12
60/61	6, 976	239	25	183	16	11
61/62	8, 995	229	39	211	13	16
62/63	12, 994	391	33	262	28	9
63/64	14, 228	411	35	387	33	12
64/65	18, 403	386	48	607	48	13
65/66	18, 488	450	41	833	36	23
66/67	20, 813	467	45	588	n/a	n/a
67/68	23, 059	490	47	376	n/a	n/a
68/69	27, 299	513	53	454	19	24
70/71	32, 397	662	50	485	15	32
71/72	57, 579	1, 001	57	1,275	45	28

(Source: *Pequena Monografia*, 1970; *Aldeia*, 1973 in Saldanha, 1994: 60)

Table 8: Population of Timor-Leste from 1927 to 1973

<b>Year</b>	<b>Population</b>
1927	451, 604
1936	436, 996
1948	420, 430
1960	517, 079
1970	609, 477
1973	626, 546

*(Source: Metzner, 1997; Soesastro, 1989; East Timor Bureau of Statistics in Saldanha, 1994: 257)*

There were developments in education. However, when compared to the population at that time, it can be seen that only a small percentage of Timorese people could enjoy it. For example from 1970 to 1971, the total number of students in elementary and secondary schools was 32, 882. Meanwhile the total population during the same years was 609,477. This means that only 5.3 percent of Timorese went to school. When the Portuguese left the country, about 95 percent of the Timorese were illiterate.

### **2.2.3.2 Health**

During Portuguese colonisation, the health sector also had many problems, such as lack of doctors, medicine and health facilities. The population was high and the majority lived in villages spread throughout the mountains. As a result, the mortality rate in Timor-Leste was high. People died primary because of malaria, influenza, tuberculosis and malnutrition.

Table 9: Infant mortality rate during Portuguese colonisation

<b>Year</b>	<b>Births</b>	<b>Deaths</b>	<b>Mortality (percent)</b>
1927	9, 239	7, 658	83.88
1946	6, 598	4, 598	69.79
1947	7, 571	6, 741	89.04
1948	7, 442	7, 207	97.10
1953	10, 654	5, 818	54.61

(Source: Felgas, 1953 in Saldanha, 1994: 62)

A tragic report on health can also be seen in Table 9. The table shows the infant mortality rate in Timor-Leste during Portuguese colonisation. From 1927 to 1953, the average infant mortality rate was 78.88 percent. In 1948, 97.1 percent of babies died after birth. This shows that the Portuguese left a heritage of poor health before leaving Timor-Leste in 1975.

### 2.2.3.3 Exports as economic income

The previous section explained that sandalwood was the main motive for the Portuguese presence in Timor-Leste. Due to the high price of sandalwood in the international market, the Portuguese exported it continuously; in other words, they conducted large-scale exploitation of the commodity. They did not think about regeneration or replanting. Because of this, the reserves of sandalwood were exhausted in less than 20 years, as seen in Table 10.

Table 10: Sandalwood exports

<b>Year</b>	<b>Quantity (Kg)</b>
1910	898, 006
1911	875, 010
1912	210, 585
1913	907, 820
1914	139, 718
1915	57, 550

1916	353,042
1917	273,408
1918	251,286
1919	129,678
1920	121,286
1921	115,480
1922	80,000
1923	20,000
1924	40,000
1925	20,000
1926	-

(Source: Duarte, 1930 in Saldanha, 1994: 64)

When sandalwood could no longer be exported, the Portuguese chose coffee as the next export commodity. Sandalwood is different from coffee – the sandalwood product is taken from the trunk of the tree while coffee is taken from the seed. This difference results in coffee having more long-term business value than sandalwood. Therefore, the export value of coffee was always above 70 percent except in 1949, 1951 and 1975, when it was 60.4 percent, 39.4 percent and 66.5 percent, respectively. Table 11 gives more complete information on this matter.

Table 11: Coffee exports

Year	Quantity (Kg)	Relative Position (percent)
1925	1,672	80.4
1927	2,165	90.1
1931	2,438	95.0
1934	991	88.7
1936	1,580	74.5
1939	878	80.0
1947	898	81.7
1948	847	72.8
1949	993	60.4
1950	1,390	77.8
1951	798	39.4

1952	1, 372	66.5
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(Source: Felges, 1953 in Saldanha, 1994: 65)

Table 12 shows the export of the three major commodities in Timor-Leste: coffee, rubber and copra. As can be seen, the total income of the exports was very high. It was always above 19,500 *contos* – *contos* was the currency that was used during the Portuguese colonisation. However, very little of the income was spent on Timorese people. The majority was sent to Portugal.

Table 12: Exports of choice commercial commodities

Year	Coffee		Rubber		Copra	
	Tons	Contos	Tons	Contos	Tons	Contos
1958	1, 698	41, 275	262	3, 046	1, 751	5, 026
1959	1, 929	34, 203	311	3, 790	1, 618	5, 778
1960	1, 246	19, 678	305	4, 221	1, 282	4, 496
1961	1, 498	19, 713	337	4, 393	1, 716	4, 562
1962	1, 856	26, 350	295	3, 137	1, 401	3, 997
1963	2, 444	35, 313	257	2, 734	1, 586	4, 752
1964	2, 390	43, 626	237	4, 925	1, 627	4, 925
1965	2, 570	46, 861	355	2, 257	1, 387	4, 387
1966	1, 496	27, 828	204	1, 833	1, 209	3, 566
1967	3, 531	60, 483	150	1, 033	1, 526	7, 294
1968	2, 919	48, 079	140	833	1, 008	3, 655

(Source: Timor, *III Plano de Fomento*, 1968; Timor, *Pequena Monografia*, 1970 in Saldanha, 1994: 66)

### 2.3 Under Indonesian Occupation

Western countries and their allies in Asia had the view that Timor-Leste should be integrated with Indonesia. The thought was conveyed clearly by Sir Archibald Ford, a British ambassador: "Even without Soviet or Chinese intervention, the territory could become the 'problem child' [of the region] [...] Britain's interest is that Indonesia integrates that territory [...] if there is a crisis and a debate in the UN we shall all keep our heads down and avoid taking a position against Indonesia" (Walsh, 1980: 192-193 in CAVR, 2005: 18-19). In fact,

during a visit to Jakarta on December 6th, 1975, US President Gerald Ford and Foreign Minister Kissinger tried to convince President Suharto that taking over Timor-Leste was the only solution to the situation.

### **2.3.1 Indonesian Invasion and Illegal Integration**

Timor-Leste was truly a Western-made tragedy in the 1970s and 1980s... [The study] reveals the sorry history of Australian and American duplicity, deceit and hypocrisy on the question [of Timor-Leste], and shows how these advanced countries have been accomplices to one of the greatest tragedies in international affairs since World War II. The evidence is more than enough to place Canberra and Washington in the dock alongside Jakarta (Aarons and Domm, 1992:1).

Indonesia invaded Timor-Leste on December 7th, 1975 (see Figure). This was a major military offensive involving the use of sea and air troops. Indonesia was dominant as the United States supported it by supplying weapons and air force. Another report mentioned that some US military advisers were directly involved in providing guidance and weapons for the battle (Setia, 2007: 70; Kuntari, 2008: 44-45; Tanter and others, 2001: 163). Meanwhile, the UN unanimously passed Resolution 384 on December 22, condemning the invasion, demanding immediate withdrawal of Indonesian troops, and reaffirming the right of the Timorese people to self-determination (Departemen Penerangan Publik PBB, 2000; 4). However, Indonesia ignored it. On July 17th, 1976, President Suharto signed legislation that formalized actions to integrate Timor-Leste into Indonesia and declared it as Indonesia's 27<sup>th</sup> province (Departemen Penerangan Publik PBB, 2000; 4). This integration was never recognized by the UN.

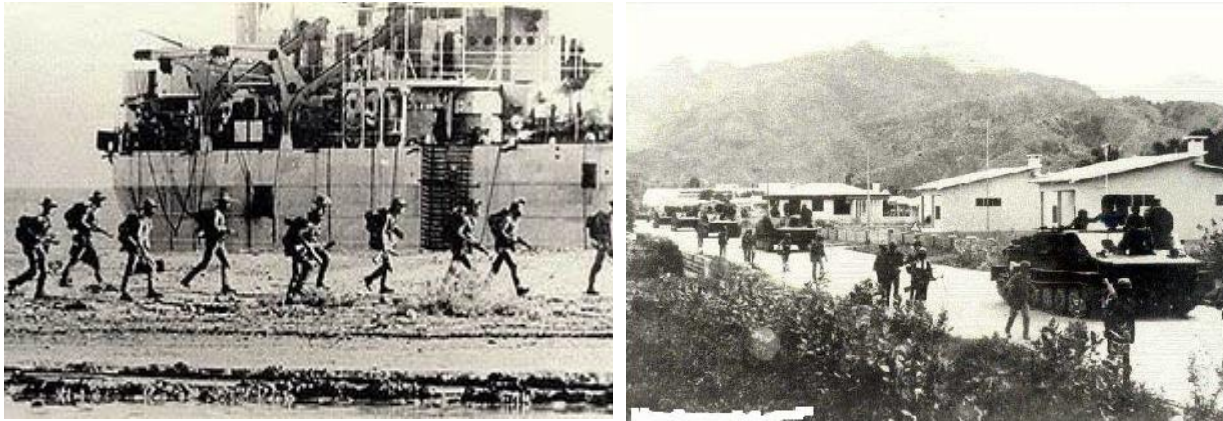


Figure 6: Indonesian invasion of Timor-Leste, December 7th, 1975

(Source: Isdinawan, 2011)

The future of Timor-Leste continued to be discussed in sessions organized by the UN until 1982. However the negotiations were complex since they involved many countries who had interests in Timor-Leste and Indonesia. According to Saldanha, Western countries such as Australia, France, the United Kingdom and the United States supported Indonesia in the negotiations. They were motivated not only by tackling the spread of communism in Southeast Asia but also by sending a friendly image which would lead to economic cooperation with Indonesia, leading to a market for products, cheap labour and resource exploration (1994: 286-287). This the West was able to hit two birds with one stone and achieve their interests in Indonesia and Timor-Leste.

Table 13: Voting in the UN General Assembly on the Question of Timor, 1975-1982

<b>Year</b>	<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Absent</b>
1975	72	10	43	19
1976	58	20	49	9
1977	67	26	47	9
1978	59	31	44	16
1979	62	31	45	13
1980	58	35	46	14



1981	54	42	46	14
1982	50	46	46	19

*(Source: calculated from the UN Resolution on the Question of Timor, 1975-1982)*

The table above explains the complexity of the negotiations. In the beginning there were only ten countries that supported integration. However soon the number increased. This is because the West lobbied other UN member countries. In accordance with this, the UN General Assembly finally gave full settlement to triangle talks between Indonesia, Portugal and the UN Secretary General (Makarim and others, 2003: 25; Ali, 2006: 67-68). Indonesia was in a disadvantaged position because the human rights violations committed by the Indonesian military since the invasion in 1975 had given the country a bad image. Just from 1975 to 1980 it was estimated that 100,000 civilians were killed by the Indonesian military. Their bad image was compounded by the massacre of unarmed protesters at the Santa Cruz cemetery in Dili on November 12<sup>th</sup>, 1991, which killed 200 to 600 people (Departemen Penerangan Publik PBB, 2000: 6; Inbaraj, 1995: 88; Nevins, 2005: 31-32; Pinto, 1997: 201).

### **2.3.2 Economic Crisis in Asia and Change in President**

The economic crisis in Asia began in July 1997 in Thailand and spread to several countries in Asia, including the Philippines, Korea, Malaysia and Indonesia. The crisis was caused by an imbalance of fiscal conditions, which tend to be unstable, and resulted in devaluation of the currency. The Indonesian rupiah went from a value of approximately Rp 2,600 per U.S. dollar to Rp 17,000 per U.S. dollar. As a result, the prices of basic commodities rose dramatically and many companies had huge layoffs.

The economic crisis also resulted in distrust of Suharto, primarily by students and intellectuals. They considered the crisis to be a result of the corruption, collusion and

nepotism of Suharto's regime. It was believed that Suharto only cared about the interests of political elites, conglomerates and businessmen, while the rest of society had to suffer the consequences of his practices.

The economic crisis caused great suffering, which was responded to by demonstrations, especially by students and intellectuals. The demonstrators demanded that the government address the economic crisis, reform all fields and conduct a special session of the People's Consultative Council (*Majelis Permusyawaratan Rakyat/ MPR*). Furthermore, they asked the President to be accountable for his actions. The army responded to the peaceful demonstrators with violence, which in turn led to demands for President Suharto to resign.

The fall of Suharto was quick and dramatic. In April and May of 1998, the political climate heated up. Despite rioting and looting in Medan on May 4th, 1998, Suharto did not change his decision to travel to Cairo for the G-15 Summit on May 9th, 1998. However, in the end, the visit was shortened because of unrest in Indonesia that resulted in several fatalities. Six students died from the gunfire of security forces in front of Trisakti University on May 12th, 1998.

Upon returning to Indonesia, Suharto immediately arranged a meeting with Vice President Habibie and a number of ministers. He conveyed that he would not back down even if he could not win over the public. On May 17th, 1998, while speaking with officials from the University of Indonesia, Suharto said that becoming president had not been his desire but rather resulted from an MPR decision. He said he was ready to resign if it were done constitutionally. At the urging of the public, Harmoko, the chairman of the People's Representative Council (*Dewan Perwakilan Rakyat, DPR*) and the MPR, asked for Suharto's resignation on May 18th, 1998. Two days later the Golkar Party, which was the main party

supporting Suharto, also urged the same thing. Increasingly desperate, Suharto did not have much choice except to resign.

On May 21st, 1998, President Suharto read his resignation speech (The New York Times, 1998):

During these recent times, I have been following carefully the development of our national situation, especially the aspirations of the people for reforms in all sectors in the life of our nation and state.

Based on my deep understanding of these aspirations and prompted by the conviction that these reforms need to be implemented in an orderly, peaceful and constitutional manner for the sake of maintaining the unity and cohesion of the nation, and the continuity of the national development, I declared a plan to form the committee for reform and to change the composition of the Seventh Development cabinet.

But, the reality to date has shown that the said committee for reform cannot be materialized because there was no adequate response to the plan to form that committee.

In the wish of implementing these reforms in the best manner possible, I deem that faced with the impossibility of forming the committee, changes in the composition of the Seventh Development Cabinet are no longer necessary.

Considering the above development, I am of the opinion that it would be very difficult for me to implement in a good manner, duties in governing the state and in development.

Therefore, in line with article 8 of the 1945 Constitution and after earnestly taking into consideration the views of the leadership of People's Representatives Council (parliament) and the leadership of the factions in it, I have decided to declare that I have ceased to be the president of the Republic of Indonesia as of the time I read this on this day, Thursday, May 21, 1998.

I have conveyed this statement, about me stepping down from the post of president of the Republic of Indonesia, to you, leaders of the People's Representatives Council who are also the leaders of the People's Consultative Assembly, during the opportunity for a meeting.

In line with article 8 of the 1945 constitution, the vice president of the Republic of Indonesia, professor, doctor, engineer B.J. Habibie is the one who will conclude the remainder of the presidential term, holder of the mandate of the MPR, for 1998-2003.

For the assistance and support of the people while I led the nation and state of Indonesia, I express my thanks and I seek forgiveness if there were any mistakes and shortcomings.

May the Indonesian nation remain victorious with Pancasila and the 1945 constitution.

As of this day too, the Seventh Development Cabinet is outgoing and to the ministers I express my thanks.

Because conditions do not allow the taking of oath in front of the People's Representative Council, to prevent a vacuum of leadership in implementing the governing of the state, the vice president should now take his oath before the Supreme Court of the Republic of Indonesia.

In accordance with the mandate of Suharto, after executing the oath of office, Habibie became the third president of the Republic of Indonesia.

Habibie faced difficult challenges and obstacles during his leadership. The state economy was doing poorly: inflation was predicted to have reached 80 percent in one year, Indonesia experienced a harvest shortage due to the El Niño storm, large companies such as Sempati Air and PT Astra International Air ceased operations, the rupiah exchange rate against the dollar weakened, and as many as 113 million Indonesians, or 56 percent of the total population, lived below the poverty line.

At the international level, Habibie faced international pressure on the Timor-Leste issue. One of the countries pressuring him was Australia. One interesting point to note: since the leadership of former Prime Minister Gough Whitlam (1972-75), Australia supported Indonesia in integrating Timor-Leste. This was continued up to and including the leadership of Bob Hawke (1983-1991) and Paul Keating (1991-96). During their terms the relationship between Indonesia and Australia was strengthened. This is shown by the joint exploration negotiations concerning the Timor Gap, which were conducted in 1984-1985 (Usman, 1986: 994; Iqbal, 2001: 8-9). The negotiations stated that the management and utilization of natural resources in the Timor Gap would be shared between companies from Australia and Indonesia. The result of negotiations was the signing of the cooperation agreement.

However, the stance of Australia changed after former Prime Minister John Howard took power. Howard pushed Indonesia to give Timor-Leste independence. This attitude can be seen when in mid-1998 Howard sent a letter to President Habibie that requested him to resolve immediately the problem of Timor-Leste by holding a referendum. Although in the beginning he was hesitant, in the end Habibie agreed to allow a referendum for the Timorese people.

There were public debates on Habibie's decision. Some people believe it was pressure from the international community that caused Habibie to give the option of a referendum. Other believe Habibie decided to hold a referendum because he wanted to be remembered nationally and internationally as the president who dared to make this historical decision. This appears in the words quoted by one of his attendants, published in the Jakarta Post on February 16, 1999: "I will prove to the world that I can make a major contribution to world peace as mandated by our constitution" (Wise, 2006: 33). For Habibie, Indonesia's policy to integrate Timor-Leste was a "charitable act" which aimed to help Timor-Leste out of its misery, since it did not have anything to offer to Indonesia except rocks (Bhakti, 1999: 27). In other words, Habibie thought that during integration Timor-Leste did not give any benefit to Indonesia. Habibie also looked up to the former Australian Prime Minister John Howard, who had implied that a referendum was the best way of solving the conflict in Timor-Leste.

### **2.3.3 UNAMET and UNTAET Missions**

The UN, under Resolution 1246, soon established its first peacekeeping mission in the area, the United Nations Mission in East Timor (UNAMET), on June 11th, 1999. The mandate of this mission was to organize and conduct a popular consultation to ascertain

whether the people of Timor-Leste would accept special autonomy within Indonesia or reject the proposal, which would lead to Timor-Leste's separation from Indonesia (UN, 2006; 426).

At that time, the estimated population of Timor-Leste was over 800,000 of which 451,792 eligible voters were registered by UNAMET on August 5, 1999 (UN, 2006; 426). On August 30th, 1999, voting was conducted and the results were announced on September 4th. The results indicated that 94,388 (21.5 percent) voted in favour of integrating with Indonesia with special autonomy while 344,580 (78.5 percent) voted against the special autonomy proposal (endorsing full independence) (UN, 2006: 426; Kuntari, 2008: 170-171).

After the results were announced to the public, pro-integration militias felt unsatisfied and indicated their feeling by carrying out violence and destruction, resulting in the forced displacement of around 250,000 people; some estimates claim up to 500,000 people (Departemen Penerangan Publik PBB, 2000: 61). Murders of UNAMET staff also occurred in some places. The UN responds by issued Resolution 1264 on September 15th, 1999, which established the International Force for East Timor (INTERFET). INTERFET was headed by Peter Cosgrove of Australia (Chesterman, 2007: 196; Syahnakri, 2013: 230-231). It had three mandates: to restore peace and security in Timor-Leste, to protect and support UNAMET in carrying out its tasks and, within the capabilities of its force, to facilitate foreign aid cooperation ([www.un.org/UNMISSET](http://www.un.org/UNMISSET)). Although it sometimes encountered armed groups, INTERFET was able to control the situation and acted quickly in support of its operations.

On October 25th, 1999 the UN Security Council, by Resolution 1272 (1999), established its new mission for Timor-Leste. The name of this mission was UNTAET (United Nations Transitional Administration in East Timor). Resolution 1272 mandated UNTAET to provide security and maintain law and order throughout the territory of Timor-Leste, to

establish an effective administration, to assist in the development of civil and social services, to ensure the coordination and delivery of aid, to support capacity-building for self-government, and to assist in the establishment of conditions for sustainable development ([www.un.org/UNTAET](http://www.un.org/UNTAET)).

UNTAET consisted of a governance and public administration component, a civilian police component of up to 1,640 civilian police and an armed UN peacekeeping force (with soldiers from over forty nations) ([www.un.org/UNTAET](http://www.un.org/UNTAET)). The Transitional Administration established the National Consultative Council (NCC), a political body consisting of eleven Timorese and four UNTAET members, to oversee the decision-making process during the transition period leading to independence ([www.un.org/UNTAET](http://www.un.org/UNTAET)). The NCC was consulted on and consented to a series of urgent regulations required to establish effective administration. These included setting up a legal system, re-establishing a judiciary, setting an official currency, creating border controls, taxation and creating the first consolidated budget for Timor-Leste. Regarding financing the transitional activities of the Transitional Administration, a donors' meeting for Timor-Leste convened in Tokyo in December 1999 ([www.un.org/UNTAET](http://www.un.org/UNTAET)).

On August 30th, 2001, more than 91 percent of Timor-Leste's eligible voters went to the polls again; this time to elect 88 members of the Constituent Assembly, which was tasked with writing and adopting a new constitution and establishing the framework for future elections and a transition to full independence. Shortly thereafter, 24 members of the new Timorese Council of Ministers of the Second Transitional Government were sworn into office. Afterwards Timor-Leste's Constituent Assembly signed into effect the territory's first constitution on March 22nd, 2002. Presidential elections followed on April 14th and involved sixteen parties: *Associação Popular Democrática Timorense* (APODETI), *Associação Social*

*Democrática Timorese (ASDT), Frente Revolucionária do Timor-Leste Independente (FRETILIN), Klibur Oan Timor Asuwain (KOTA), Partai Demokratik Maubere (PDM), Partai Liberal (PL), Partido Democrata Cristão (PDC), Partido Democrático (PD), Partido Democrata Cristão de Timor (PDC), Partido Nacionalista Timorese (PNT), Partido Povo de Timor (PPT), Partido Republika Nacional Timor Leste (PARENTIL) Partido Social Democrata (PSD), Partido Socialista de Timor (PST), Partido Trabalhista Timorese (PTT) and União Democrática Timorese (UDT) (UNTAET, 2001: 4-8).*

April 20th, 2002 was a historical day for the Timorese people. For the first time since the region was announced as a free area and rejected the proposed special autonomy within Indonesia, the results of the first presidential elections were announced. The result: Xanana Gusmão, a figure of Timorese independence, won 83 percent of the votes and became the president of Timor-Leste. Mari Alkatiri became the prime minister. This led to Timor-Leste becoming a fully independent country with the official name of the Democratic Republic of Timor-Leste.

Meanwhile, UN missions in Timor-Leste continued, for example the United Nations Mission of Support in East Timor (UNMISET) (May 2002 - May 2005), United Nations Office in Timor-Leste (UNOTIL) (May 2005 - August 2006), and United Nations Integrated Mission in Timor-Leste (UNMIT) (August 2006 to present). These contributed to providing security, maintaining law and order throughout the territory of Timor-Leste, establishing an effective administration, assisting in the development of civil and social services , supporting capacity-building for self-government and assisting in the establishment of conditions for sustainable development ([www.un.org](http://www.un.org)). These were important in order to support the new government of Timor-Leste in post-conflict recovery.



### **2.3.4 The Heritage of Indonesian Occupation**

Unlike Portugal, Indonesia gave serious attention to the socio-economic development of Timor-Leste. This was shown by the large amount of funds provided by the central government to the provincial government of Timor-Leste from 1975 to 1999. For example, the development budget per capita in 1980/ 1981 for Timor-Leste was US\$ 79.4 million. This amount was far beyond the development budget for other areas in Indonesia. Central Java had a development budget of US\$ 2.0 million, East Nusa Tenggara US\$ 9.6 million, South Kalimantan US\$ 13.6 million and North Sumatra 16.2 million (Labelauw, 2000: 86). The amount allotted to Timor-Leste was particularly aimed at building up infrastructure after integration.

Improving the infrastructure was expected to advance socio-economic development in Timor-Leste. Road construction is an example. This sector was worked on since the beginning of Timor-Leste's integration into Indonesia. It was important for opening up access from cities to the socio-economic activities of remote villages and vice versa. In 1986 the length of roads totalled 1, 691 km (668 km in state roads and 1, 023 km in provincial roads) (Sugito, 2007: 30). However, many of the roads were in poor condition. Approximately 221 km (31.6 percent) of state roads and 72 km (55.9 percent) of provincial roads were in disrepair (Sugito, 2007: 30). Also in 1986, the port and airport were constructed. These two infrastructures were very important to supporting trade and transportation by sea and air. Other infrastructures that were built included schools at all levels (from kindergartens to universities), hospitals, clinics, rice field irrigation, offices, etc. The effect of building up infrastructure was rapid economic growth. From 1983 to 1997, "the real per capita Gross Regional Product (GRP) of Timor-Leste increased by 5.6 percent per annum, marginally faster than the Indonesian figure of 5.1 percent" (Hill and Saldanha, 2001: 7).

However, building infrastructure and economic growth did not have a great effect on the socio-economic condition of the Timorese people. The next section will explain why. This research was trying to find sources from Badan Pusat Statistik (BPS). However, since Timor-Leste's independence, information about Timor-Leste during Indonesian occupation is no longer provided. UNDP and the World Bank have the report but it only talks about Indonesia as a whole, not specific provinces. Therefore, due to data limitations, the explanation will not include the overall socio-economic situation of Timor-Leste from 1975 to 1999; rather, it will be limited to education, health and regional income. These sectors, however, are enough to get a fair idea.

#### **2.3.4.1 Education**

Increasing the number of schools in Timor-Leste developed education. This can be seen from the increasing number of students per year at all levels, as shown in Table 14. Kindergartens began to exist in 1979. At first, the number of students was only 22 but this increased in six years to 1,566. By 1997 the number had increased to 4,502. Like the other categories, the number of students in elementary schools increased dramatically each year. In the beginning elementary schools had 13, 501 students and in six years the number increased to 77,630 students. In 1997, the recorded number of students in elementary schools was 155,516. Meanwhile, from 1979-1981 the number of students in junior high school increased from 315 to 4,292. Like kindergarten, senior high school only began to exist in 1979. The number of students attending them also increased significantly: in the beginning senior high schools had 64 students and this increased to 2,770 by 1984. One aspect that cannot be shown here is the number of university students. Based on the report of the Indonesian statistical office, there were universities in Timor-Leste. However the report only reported the number

of students in 1990 (1,383), 1991 (2,037) and 1992 (2,199) (BPS, 1997: 88). It did not report the number of teachers and schools.

Progress in education reduced the number of illiterate people from 65.9 percent in 1985 to 52.59 percent in 1990, and managed to raise the percentage of children aged 7-12 years attending school from 80.1 to 93.5 percent within the same period (Sugito, 2007: 30; Saldanha, 2004: 275). However, when compared to the total population, only a small percentage of Timorese people could savour education. For example in 1987 the population was 656,796 people (Metzner, 1997; Soesastro, 1989 in Saldanha, 2004: 257). This means only 25.7 percent of Timorese people were educated. The number was even reduced in 1990 to 21 percent, at which time the population was 747,557 (Metzner, 1997; Soesastro, 1989 in Saldanha, 2004: 257).

Another quite alarming problem was unemployment. Graduate students, the number of which increased every year, needed jobs. However, the number of jobs in Timor-Leste was not sufficient to absorb these graduates. As a result, the unemployment rate continued to rise. For example, in 1983 the number of unemployed amounted to 21.8 percent and increased to 62.4 percent in 1985 (BPS, 1985).

The high rate of unemployment led to an increase of poverty in Timor-Leste. In 1993 more than 60 percent of Timorese people were reported to be living in poor conditions (Sugito, 2007: 31). According to Sugito, Timorese people worked predominantly as farm labourers, manual labourers and other menial jobs, therefore it was difficult for them to escape the trap of poverty (Sugito, 2007: 31). Meanwhile, people from outside of Timor-Leste occupied the strategic positions in the economy and politics. This was because the Timorese were not trusted to work properly. Moreover, their quality of education was behind that of other provinces.

Table 14: Development of Kindergarten, Elementary, Junior and Senior High Schools, Timor-Leste, School Years 1976-1997

Year	Kindergarten			Elementary School			Junior High School			Senior High School		
	Schools	Students	Teachers	Schools	Students	Teachers	Schools	Students	Teachers	Schools	Students	Teachers
1976	-	-	-	47	13,501	499	2	315	10	-	-	-
1977	-	-	-	107	23,401	614	9	926	17	-	-	-
1978	-	-	-	202	41,453	935	14	1,041	15	-	-	-
1979	1	22	n/a	208	59,072	1,610	15	1,248	41	2	64	18
1980	3	113	n/a	298	68,709	1,515	19	2,474	48	4	225	35
1981	3	426	35	339	77,630	1,821	24	4,292	80	4	454	42
1982	3	574	18	376	90,437	2,226	29	5,479	135	5	977	108
1983	5	955	30	400	99,430	2,446	36	8,273	156	5	1,541	162
1984	11	1,566	33	410	100,637	2,614	43	9,836	250	6	2,770	238
1985	19	1,619	46	497	111,228	2,910	57	11,735	319	17	5,353	395
1986	19	1,661	76	540	126,740	3,359	71	22,905	664	28	7,709	565
1987	23	1,713	70	559	129,629	3,729	81	26,787	745	30	11,062	686
1988	27	1,758	75	565	105,058	4,894	90	28,432	1,173	35	12,437	786
1989	30	1,755	109	574	100,443	4,739	90	28,964	1,382	44	14,751	865
1990	34	1,755	134	559	95,850	4,574	94	31,482	1,245	47	19,665	967
1991	37	2,118	146	590	104,399	4,653	97	24,261	1,238	60	22,481	1,123
1992	37	2,066	155	654	110,602	5,260	101	21,972	1,281	65	23,433	1,281
1993	49	4,556	209	652	127,989	6,656	103	21,779	1,373	70	23,663	1,463
1994	n/a	3,270	207	677	126,549	6,092	107	22,651	1,497	n/a	n/a	1,381
1995	n/a	4,088	274	608	132,656	6,511	114	24,504	1,547	n/a	n/a	1,452
1996	n/a	4,084	274	736	143,956	6,515	112	26,445	1,640	71	24,387	1,502
1997	n/a	4,502	330	766	155,516	6,392	n/a	n/a	n/a	n/a	n/a	1,566

(Source: Saldanha, 1994: 249; BPS, 1993: 73-79; BPS, 1996: 77-92; BPS, 1997: 66-88)

### 2.3.4.2 Health

Since its integration into Indonesia, the number of medical facilities such as clinics in Timor-Leste increased rapidly every year. Clinics played an important role in health monitoring and treatment, especially in remote villages. The number of hospitals also increased, though slowly. Hospitals played and continue to play an important role in health monitoring and treatment in cities. The number of paramedic staff such as doctors, nurses and midwives also increased. This progress in the health sector was not seen during Portuguese colonisation. One thing that should be noted, the development in health partially changed the traditional culture of Timorese people. Before, they believed more in magic doctors and used traditional medicine to heal. The change in culture is evidenced by the high number of hospital visits over the years. The Indonesian Government responded positively by constantly improving the quality of health service.

Table 15: Development of medical facilities and paramedic staff in Timor-Leste

<b>Year</b>	<b>Hospitals</b>	<b>Clinics</b>	<b>Doctors</b>	<b>Nurses</b>	<b>Midwives</b>	<b>Population</b>
1981	5	15	31	79	8	574,939
1982	5	28	57	157	14	592,279
1983	5	129	75	129	30	610,147
1984	5	146	91	220	21	628,545
1985	5	145	88	245	21	647,507
1986	5	164	114	288	25	667,043
1987	5	171	88	271	23	687,166
1988	10	201	96	406	71	707,902
1989	10	197	114	443	106	729,264
1990	10	230	144	490	107	751,271

(Source: Saldanha, 1994: 251 )

However, when compared to the number of medical facilities, the ratio of paramedic staff to population was too low. For example in 1985, there were 5 hospitals, 145 clinics, 88 doctors, 245 nurses and 21 midwives. This means a hospital could provide services for 129,501 Timorese, a clinic for 4,466 Timorese, a doctor for 7,358 Timorese, a nurse for 2,643 Timorese and a midwife for 30,834 Timorese. In fact, hospitals and clinic were not designed to provide services for that large a number of people. Doctors, nurses and midwives were overburdened due to the large patient load. This was exacerbated by the unavailability of adequate medicine for patients. As result, health services could not be fully conducted and it is estimated that 84,200 Timorese died due to illness from 1974 to 1999 (Rei, 2007: 327). Between 1985 and 1995, the infant mortality rate in Timor-Leste was 58.8 per 1000 live births. This was the highest compared to other provinces in Indonesia.

#### **2.3.4.3 Gender-Based Violence and Serious Trauma**

Gender-based violence is considered part of the impact of occupation. The data obtained by The Timor-Leste Commission for Reception, Truth and Reconciliation, well-known as CAVR (*Comissão de Acolhimento, Verdade e Reconciliação de Timor-Leste*) shows that gender-based violence occurred during the Indonesian occupation (1975-1999). Rape was most common, followed by sexual violence intended to intimidate, insult, humiliate, discriminate, punish or control the victim. These were also strategies to instil, indirectly, fear in others who witnessed or heard victims being tortured.

The Indonesian military tortured, abused and sexually humiliated male and female prisoners. Sexual violence was used as a way to obtain information from prisoners and force them to do the will of the interrogators. The methods included undressing detainees during interrogation, burning and electrocuting breasts and genitals, forcing prisoners to perform

sexual acts with each other, and taking photos of prisoners in humiliating and sometimes nude poses.

Sexual slavery followed three patterns (CAVR, 2005: 53-54). First, women detained in military bases. Women on bases were either owned and raped by an individual, or by a group. Second, women who were not physically detained on military bases, but were called when required for sexual purposes. These women were also considered to belong to the military units. Third, sexual slavery in which a member of the military owned a woman in a domestic situation, usually in her house. The perpetrators often delivered death threats against the woman or her family if she did not have sex with them, as well as do other domestic chores.

There were 853 reports of sexual abuse compiled by the commission. Of these, rape made up 46.1% (393), followed by sexual harassment and sexual violence: 27.1% (231) and sexual slavery: 26.8% (229) (CAVR, 2005: 3). Of all of the violations recorded, 93.3% (796) of the perpetrators were from the Indonesian military and pro-autonomy militia, 2.5% (21) from FRETILIN, 1.2% (10) from FALINTIL, 0.6 % (5) from UDT, 0.1% (1) from APODETI, and 0.9% (8) other (CAVR, 2005: 3). Of the total number of reports of sexual violence, 16.7% (142) occurred during the popular consultation in 1999.

There were three reasons women became victims of violence. First, those who were directly involved in the resistance against the Indonesian occupation, either as combatants or as providers of logistics such as food, medicine, etc. (Marin, 2008: 362). Second, those who had relationships with the men involved in the fight, or who came from communities suspected of collaborating with the opposition (Marin, 2008: 362). Women and girls from both of these groups were often detained, tortured and sexually abused. Third, those who had

no clear relation to the resistance, either directly or indirectly, but become victims of military violence that targeted civilians (Marin, 2008: 362-363).

Violence also occurred in the West Timor refugee camps. Instead of rape, sexual violence and sex slavery, the lack of food and medicine were used by the Indonesian military as an opportunity for profit. Women were forced to marry their daughters to military men in exchange for food and medicine. Other types of violence occurred such as forcing women to prepare food, dance to entertain members of the military or perform night guard duty. This was done in order to intimidate and threaten the refugees to not return to Timor-Leste.

As a result of these experiences, many women and girls are experiencing prolonged trauma. A woman from Bobonaro said that whenever she blinks, the sad tragedy recurs behind her eyelids. Some women succumbed to the severe stress and now have mental disorders.

#### **2.3.4.4 Economic income by sectors**

As explained earlier, the economic growth of Timor-Leste during Portuguese colonisation was minimal. Growth occurred during Indonesian colonisation and was recorded in 1987, 1988, 1990 with Gross Regional Domestic Product (GRDP) values of \$10,613; \$12,029; \$12,902 and \$14,403 million, respectively (Saldanha, 2004: 181-182). As can be seen, the amount increased progressively each year. This is also shown by BPS in its report on the development of GRDP in Timor-Leste in the years 1993 to 1997 (Table 16). The rapid growth proves that attempts to optimize economic sectors such as agriculture; mining/quarrying; manufacturing industry; electricity, gas and water supplies; construction; trade, hotels and restaurants; transportation and communication; financial intermediaries and services were successful.



One thing to note, agriculture had an important role in supporting economic growth as nearly 90 percent of Timorese people work as farmers. This is shown in Table 16, where agriculture accounts for 46.8 percent of the total GRDP in Timor-Leste in 1993. That value of the agricultural sector doubled in 1997.

Table 16: GRDP in Timor-Leste by industry, 1993-1997 (US\$ millions)

Sectors	1993	1994	1995	1996	1997
Agriculture	15,802	18,003	21,466	26,922	34,498
Mining	526	609	713	841	1,060
Manufacturing industry	1,462	1,838	2,132	2,301	2,571
Electricity, gas and water supplies	333	353	417	564	591
Construction	11,111	12,719	14,781	15,635	15,958
Trade, hotels and restaurants	3,782	4,892	5,090	7,577	7,612
Transportation and communication	4,583	5,093	6,382	7,258	7,591
Financial intermediaries	2,208	2,259	2,508	3,154	2,942
Services	12,041	13,155	14,962	16,664	17,163
<b>Total GRDP</b>	<b>33,725</b>	<b>58,921</b>	<b>68,451</b>	<b>80,896</b>	<b>89,536</b>

(Source: BPS, 1997: 285)

The mainstay of the agricultural sector during Indonesian occupation was coffee, as it was in the Portuguese colonial era. Coffee was 80 percent of the total income from agricultural exports (Saldanha, 2004: 189). In 1980, 1981 and 1982, the value of coffee exports was recorded at \$12.5 million, \$7.4 million and \$6.7 million, respectively (Saldanha, 1994: 189). The income from coffee was indeed very high, however the Indonesian government took most of the profits and shared only a small amount with Timor-Leste. Thus, continuing to work as farmers, the fate of the Timorese people did not change much.

The mining sector tells a similar story. Potential oil and gas reserves in the Timor Sea have been known about since the late 18th century and attracted Indonesia and Australia

to conduct joint explorations. The reserves are mainly located in four locations: Eagle-Cockatoo, Bayu-Undan, Laminaire-Coralina, and the Greater Sunrise (Vicente, 2005: 52-54). Researchers estimate 5 billion barrels of oil within these four locations, making them, combined, among the 23 largest oil deposits in the world (Izzati, 2010). The gas reserves are estimated to be around 50,000 billion cubic feet (Usman, 1986: 990). In addition, there are smaller oil reserves in Timor-Leste: the Jahal Kuda Tasi is estimated to contain 25.5 million barrels and the Buffalo Fields are estimated to have reserves of 32 million barrels (Vicente, 2005: 57). However the Timorese people have not enjoyed the results of the explorations of the Timor Gap. The profits went to Indonesia and Australia. In fact these two countries had much hope of increasing their wellbeing through these oil and gas reserves.

## **2.4 Conclusion**

Timor-Leste is a country with a strategic location and rich in natural resources. This has attracted other countries. Portugal, motivated by sandalwood, occupied the territory for more than 445 years. Indonesia, driven by pressure from the West to stop the spread of communism in Southeast Asia, invaded and occupied the territory for 24 years. Habibie, until now, is blaming the West for the integration and says that it did not benefit Indonesia. However the facts show differently: agriculture and mining in Timor-Leste were two of the main sources of income for Indonesia.

One thing should be noted: the long-lasting occupations of the two colonial powers had little impact on the socio-economic condition of the Timorese people. During Portuguese colonisation, education and health were not big concerns. Portugal was more focused on profiting from the agricultural sector. The Portuguese did not want to spend a lot of money or

open up the possibility of revolt if the Timorese people were educated. Nevertheless the Church played an important role in providing education and health facilities.

The situation was similar during Indonesian occupation. Compared to Portugal, Indonesia indeed increased facilities for education and health, and this proved to be successful in reducing illiteracy, increasing the number of children attending school and increasing frequency of hospital visits. However, when compared to the population during the period, only a small percent of Timorese people could enjoy the advances in the health and education sectors. Throughout the Indonesian occupation, Timor-Leste was dependent; economically it fully relied on Indonesia, while politically and in terms of mass media it was dependent on foreigners.

Afterwards a glimmer of hope emerged. Due to the pressure of the international community, Indonesia finally let the Timorese people decide their own future through a referendum. The majority chose separation from Indonesia and an independent state was set up. The UN's role was significant before, during and after independence. The Timorese were confident they could have better socio-economic conditions. Moreover, the necessary capital was available: a large amount of bilateral and multilateral foreign aid was given by the international community. The next chapter is going to talk more about the bilateral and multilateral foreign aid that was channelled to Timor-Leste, and its impact on the socio-economic condition of the Timorese people.

## **CHAPTER 3: The Impact of Foreign Aid in Timor-Leste**

Chapter 3 looks at why foreign aid was needed by Timor-Leste, the actors involved in providing bilateral and multilateral aid, the agencies that the money is shared with and the positive and negative impacts. Oil and gas revenues is looked at in a separate section as it is such a significant part of the Timorese economy.

### **3.1 The Need for Foreign Aid**

According to Australian Senator Birmingham, aid generally falls into three categories: governance, humanitarian and economic or capacity building. The fact that Timor-Leste had a significant need for all types of aid indicates a very low level of development and likelihood of prolonged need for assistance (interview conducted on July 11, 2013).

The violence and conflict of political transitions created a need for humanitarian aid. For example more than 70 percent of the country's private homes and public buildings were damaged. The negative impacts of the Portuguese and Indonesian occupations were explained in the previous two chapters, and are the main reasons that Timor-Leste needed aid in governance, economics and capacity building. Timor-Leste had never had a chance to develop and benefit from its own resources and was "starting from zero" (De Almeida, interview conducted on June 13, 2013). Thus after independence on May 20, 2002, Timor-Leste was very poor. The country experienced high rates of inflation. Socio-economic problems arose, such as a fall in life expectancy, a rise in infant mortality, a weakening of medical services, a decrease in school enrolment rates, a fall in food entitlements and widespread malnutrition. In short, Timorese people faced hardships on top of suffering and needed help from the international community.

Another factor, according to an interview with journalist Rien Kuntari, is that Timor-Leste's independence was not well prepared. Ramos Horta had initially requested the referendum to happen in stages. In fact he wanted gradual autonomy from Indonesia over a period of five to ten years. Horta thought this way was more fair to both sides. However, this is not what happened. The decision of President Habibie to hold a referendum was abrupt, the public was not socialized and the decision did not even receive the blessing of the DPR. Thus Timor-Leste was "forced to swallow the decision quite suddenly", even though it was ill-prepared and not yet ready for the independence it had fought so hard for since even the Portuguese era (Kuntari, interview conducted on May 30, 2013). This state of affairs contributed to the need for aid.

In response to this, in 2000 an international donors meeting was held in Lisbon, Portugal, at which it was agreed to help Timor-Leste through foreign aid. The aid was channelled through bilateral and multilateral actors and its purpose was to reduce the socio-economic problems in the country. After this, many projects emerged and spread throughout Timor-Leste.

### **3.2 Bilateral and Multilateral Aid in Timor-Leste**

Since independence in 2002, it has been calculated that more than US\$ 3.7 billion in foreign aid have been allocated to Timor-Leste (Neves, 2006: 3). Furthermore, "None of this money [is] loans which have to be repaid; it's all grants, projects, or operations of foreign institutions" (Neves, 2006: 3). The amount includes the UN missions in Timor-Leste, on which were spent US\$ 1.7 billion (Neves, 2006: 3).

In 1999, immediately after the conflict, aid was used for emergencies. In the first few years after Indonesian withdrawal, basic administration, financing and the provision of basic services was all conducted by the United Nations. It was essentially a protectorate of

the UN, and survived on foreign aid alone for the first few years (Mitchell, interview conducted on July 4, 2013). Over the next few years foreign aid still played a vital role in the provision of basic public services, but also branched out into reconstruction and infrastructure development. At the time of this research, money donated by bilateral and multilateral donors is spent mainly on long-term socio-economic projects.

According to the Ministry of Finance, in the Democratic Republic of Timor-Leste bilateral aid contributes more than 74.5 percent of the total aid that flows into the country (Development Partnership Management Unit, 2013). The five biggest bilateral donors are Portugal, Australia, the United states, Japan and the European Commission (Neves, 2006: 4).

Bilateral donors channel aid to Timor-Leste in two ways, direct (government to government) and indirect (through official institutions). Austria, China, France, Finland, Italy, Monaco, Portugal, Russia, Thailand and the Netherlands are examples of countries that channel their aid directly. Examples of indirect aid include Australia, which channels its aid through AusAID and the Department of Immigration and Citizenship. Japan channels its aid through the Japan International Cooperation Agency (JICA) and the Embassy of Japan in Timor-Leste. The United States channels its aid through the United States Agency for International Development (USAID) and the Embassy of the United States in Timor-Leste.

The money from bilateral aid funds 512 projects in Timor-Leste, as described in Table 17. Of the 512 projects, some have finished and some are ongoing. The longest projects are planned to end in 2015. This is why Table 17 shows that not all of the amounts committed have been fully disbursed. Even so, according to the table, China is the only country who has given a larger amount of aid than it committed.

Table 17: Sources of bilateral aid

Donor	Number of Projects	Funds (US\$)	
		Commitment	Actual Disbursement
Australia	62	610,604,392	315,118,938
Austria	1	29,926	7,194
Belgium	1	2,174	2,174
Brazil	11	10,759,823	3,865,169
Canada	2	1,441,789	707,349
China	12	38,814,339	62,189,306
Finland	34	5,275,448	3,190,746
France	4	58,000	27,000
Germany	18	82,294,522	40,025,801
Ireland	33	27,860,538	24,382,928
Italy	1	331,352	269,222
Japan	123	185,606,384	94,032,536
Korea	50	16,265,593	8,745,478
Monaco	6	678,823	499,435
New Zealand	21	39,856,508	25,299,387
Norway	22	40,568,663	28,799,323
Portugal	9	5,043,270	4,940,365
Russia	1	1,182,096	246,788
Spain	32	31,576,208	17,104,639
Sweden	8	20,457,410	19,125,185
Thailand	3	356,143	391,308
Netherlands	4	1,734,913	1,529,748
United Kingdom	2	962,835	508,323
United States	49	172,255,559	127,792,613
<b>Total</b>	<b>512</b>	<b>1,294,016,708</b>	<b>778,800,955</b>

(Source: Development Partnership Management Unit, 2013)

Each country sets its own focus for the projects they fund. For example, Australian aid has focused on poverty reduction, especially in rural areas. Japanese aid has focused on infrastructure rehabilitation (particularly roads and water supply), human resource development and community development. Portuguese aid has focused on education, including Portuguese language training, primary school teacher training and tertiary scholarships. Aid from the United States has focused on generating employment through community works, private sector development and agricultural production (Australian Agency for International Development, 2003: 46). These foci were chosen to meet the immediate needs of Timorese people and to manage the aid in an optimal way.

Aid to Timor-Leste also involves multilateral actors and donors such as the European Commission, ADB, United Nations, World Bank and international NGOs. The largest contributor of multilateral aid is the European Commission, which gave US\$ 139,054,988 to fund 68 projects. The second largest donor is the ADB, which gave US\$ 126,359,591. When the number of projects funded by multilateral donors is compared, ADB has the fewest with 17 projects. The third largest contributor of aid is the United Nations with US\$ 80,764,645, which funds 96 projects. In terms of the number of projects, as can be seen in Table 18, the UN has the highest number with 96 projects. In total, the five international institutions have allocated more than US\$ 443 million in aid for Timor-Leste. This amount is 25.5 percent of the total aid that comes into the country, and funds 231 projects.



Table 18: Sources of multilateral aid

Donors	Number of Projects	Funds (US\$)	
		Commitment	Actual Disbursement
European Commission	68	139,054,988	84,843,467
ADB	17	126,359,591	22,703,606
United Nations	96	80,764,645	66,536,398
World Bank	28	53,683,695	27,669,323
International NGOs	22	44,007,081	29,270,284
<b>Total</b>	<b>231</b>	<b>443,870,099</b>	<b>231,023,078</b>

(Source: Development Partnership Management Unit, 2013)

Complementary to Tables 17 and 18, Figure 7 shows the foci of foreign aid organizations in Timor-Leste during 2012. The figure shows that organizations prioritize infrastructure, agriculture, education and health. These sectors are considered the main pillars to improving the socio-economic condition in Timor-Leste.

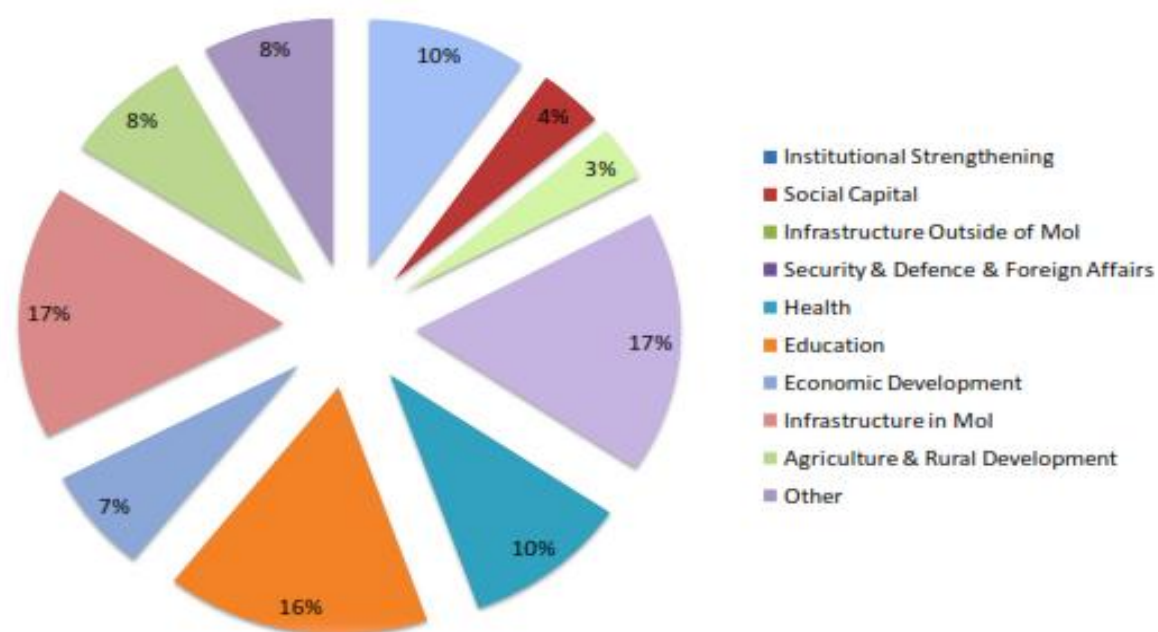


Figure 7: Donor projects spending by sector

(Source: Ministry of Finance, 2012: 8)

Not all of the projects in Timor-Leste are national projects. Some are district projects. Timor-Leste has thirteen districts: Lautém, Baucau, Viqueque, Manatuto, Dili, Aileu, Manufahi, Liquiçá, Ermera, Ainaro, Bobonaro, Cova Lima and Oecussi. Each district has its own issues and needs, and requires different project priorities. Therefore in order to optimize the impact, projects based on district were created. Figure 8 compares national aid disbursement with that of Dili, Oecussi, Cova Lima and Baucau.

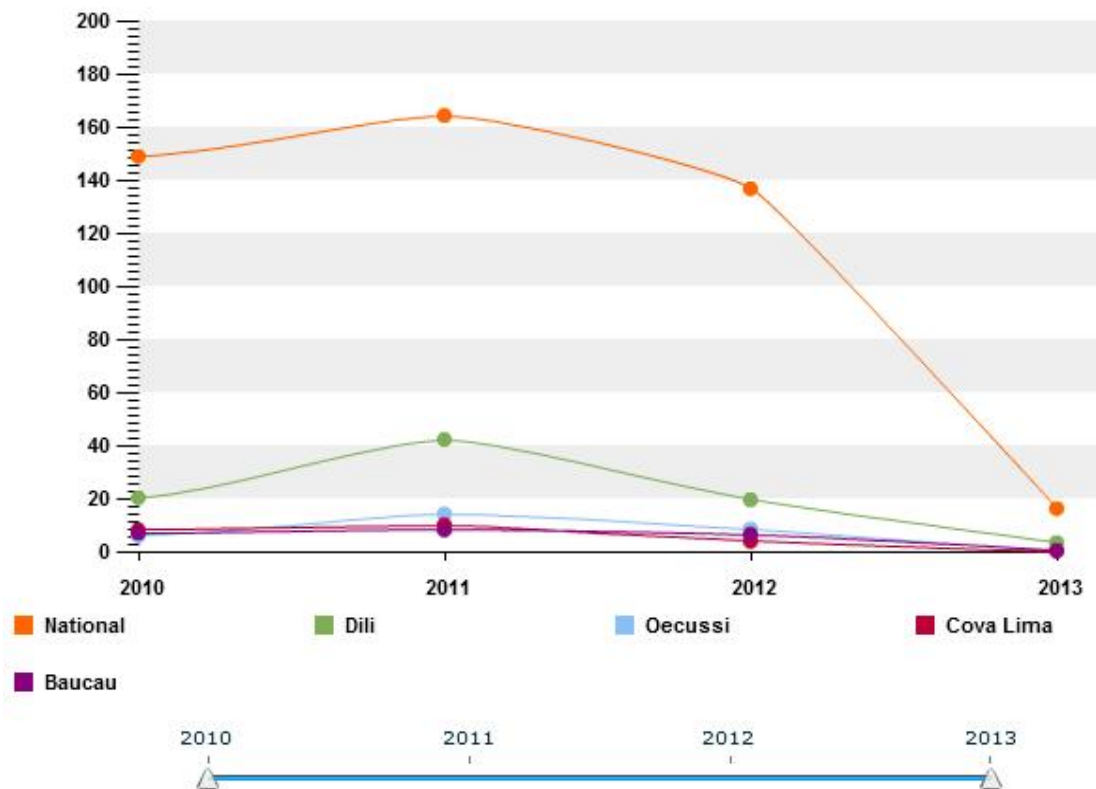


Figure 8: Project disbursement by district (US\$ million)

(Source: Ministry of Finance, 2012: 8)

### 3.3 The Complexity of Managing Aid

Foreign aid management in Timor-Leste is complex and sometimes difficult to understand. This is due to the involvement of many donors and actors, who each come with their own goals, priorities and interests (see Figure 9). Another factor that makes foreign aid

more complicated is that the money from bilateral and multilateral donors is shared with four local institutions in Timor-Leste if their projects overlap. La’o Hamutuk calls these institutions “money pots”. The next sections describe these four institutions.

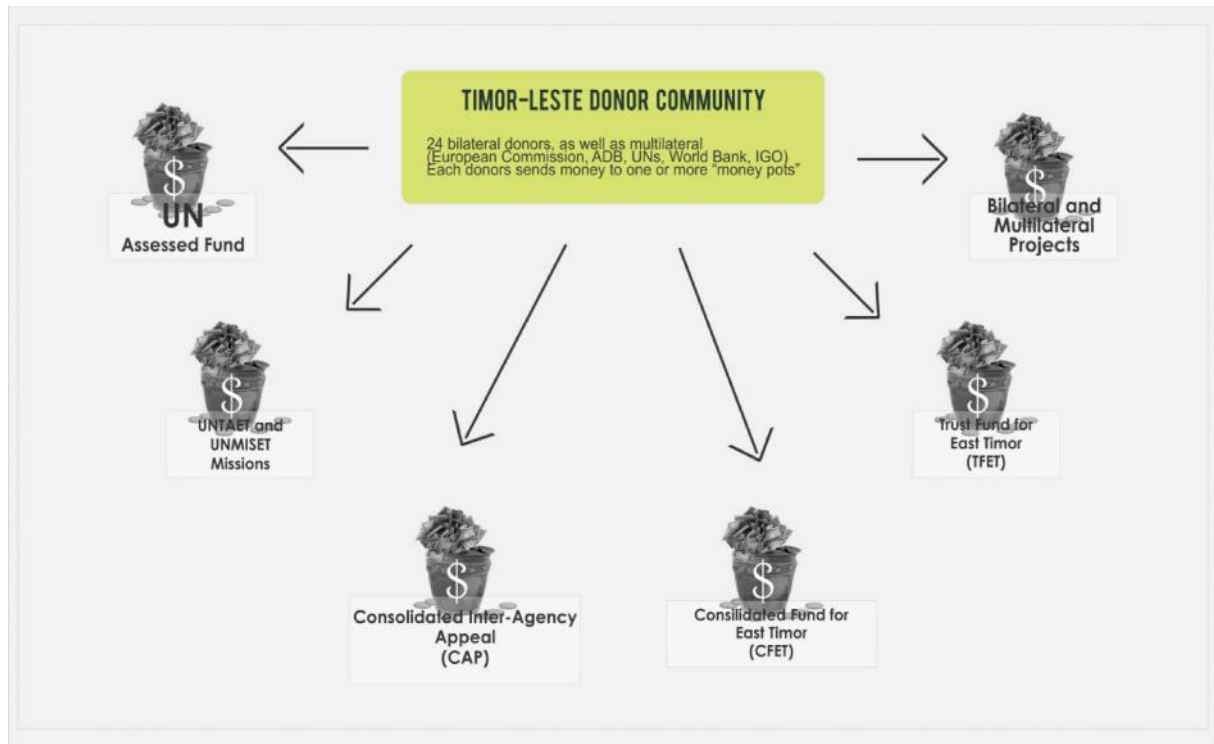


Figure 9: Diagram of aid management in Timor-Leste

(Source: La’o Hamutuk, 2001: 2)

### 3.3.1 Trust Fund for East Timor (TFET)

TFET is a “money pot” which was created and is managed by the World Bank, ADB and IMF. The aid channelled through this institution funds projects, especially in the sectors of roads, ports, water utilities, telecommunications, power and microfinance, health, education and agriculture. For this, donors provide TFET an overall budget US\$ 167.4 million (La’o Hamutuk, 2001: 4). It also receives additional money from unallocated pledges that are estimated to average \$60 million per year (La’o Hamutuk, 2011: 4). The World Bank is the trustee of TFET while the ADB and IMF are the administrators.

### **3.3.2 Consolidated Fund for East Timor (CFET)**

CFET is another “money pot” which was created and is managed by the World Bank. This institution channels aid from donors and uses it for the operational costs of national institutions formed by the UN, such as the East Timor Public Administration (ETPA) and the East Timor Transitional Administration (ETTA). The operational costs include “the building of basic institutions, the provision of public services, the repair of government buildings, and civil servants’ salaries” (La’o Hamutuk, 2001: 3). Donors allocated an overall budget of US\$ 41 million for the works of CFET (La’o Hamutuk, 2001: 4).

### **3.3.3 UN Assessed Fund**

The UN Assessed Fund provides the core of salary payments, especially for UN personnel who work directly on long-term socio-economic projects in Timor-Leste. The personnel plan, implement and monitor the projects. The UN also contributes funds but these are limited to paying the personnel’s administrative costs.

The UN also uses money from this fund for projects that are conducted by its agencies. This includes children’s programs implemented by UNICEF and state institution-building, capacity-building and rural development programs implemented by the UNDP. However, up until the time of this research, there is no information explaining what criteria are followed by the UN to conduct a specific program in Timor-Leste and how much of the money pledged by donors goes to this fund.

### **3.3.4 Consolidated Inter-Agency Appeal (CAP)**

The consolidated inter-agency appeal was put forth by the UN Office for the Coordination of Humanitarian Affairs (OCHA). OCHA is a UN agency whose mission is to coordinate the international response to immediate humanitarian emergencies. In order to

support OCHA's mission, donors provided funds of US\$ 156 million (La'o Hamutuk, 2001: 3). Foreign government representatives agreed to this amount at the Tokyo Donors Conference in December 1999. The majority of the aid was apportioned for refugees. It included the provision of water, health services and shelter kits (La'o Hamutuk, 2001: 3).

The activities of CAP involve many UN agencies such as UNICEF, UNDP, UNHCR, WFP and WHO. Numerous international NGOs such as the International Organization for Migration (IOM) and the International Committee of the Red Cross (ICRC) also participate in CAP.

In addition to providing funds to the four institutions outlined above, donors also provided regular funds to UNTAET and UNMISSET. These funds were used to maintain the UN missions. According to La'o Hamutuk, at the end of 2005 UNTAET and UNMISSET had received US\$ 1.732 billion (2011: 5). This is the largest amount donated to Timor-Leste.

### **3.4 Positive Impact of Foreign Aid to Timor-Leste**

The socio-economic condition of Timorese people is rather broad and involves many facets. Therefore for a general picture, the author found it useful to utilize the interviews for this section. All of the journalists, academics, professionals and local Timorese people interviewed considered foreign aid to have been necessary, to have aided development and to have had at least some positive impact.

Atul Khare, head of the UN mission in Timor-Leste, states: "In the last 10 years, with our own efforts, in partnership, assisted by the international community, this country largely - yes - has been a success" (Aljazeera, 2009). Journalist Kuntari said that "foreign aid cannot be separated from the life of Timor-Leste [...] It has allowed the pulse of Timor-Leste to keep going" and "to this day, the economic wheel is turned under the encouragement of foreign aid" (interview conducted on May 30, 2013). Richard Curtain, who has worked in

Timor-Leste and published *Helping Timor-Leste Implement a Regional Employment Strategy* (2011), stated that “there is no doubt that Timor-Leste has made considerable progress in a range of areas since independence, and foreign aid has been a part of that. [...] poverty has fallen” (interview conducted on July 5, 2013). Mitchell, an advisor with the National Directorate for Aid Effectiveness, believes “foreign aid has done an incredible amount of good” (interview conducted on July 4, 2013).

Amer Yaqub, Senior Vice President of Foreign Policy, asserted that the country’s leadership has:

Worked hard to learn from the lessons of other countries, to explain to donors which kinds of programs are the most likely to succeed both in the short and long term and that are truly reflective of their specific situation as a country recovering from genocide, and has funnelled money into programs with the highest return on investment with clear accountability and metrics. In a little over ten years, Timor-Leste has shown remarkable resiliency and is creating -and I would argue succeeding- with a strategic plan to not fall into the “resource curse” (interview conducted on July 8, 2013).

Some of the specific ways in which foreign aid helped is by providing money, materials and goods (De Almeida, interview conducted on June 13, 2013). It has helped Timor-Leste deal with immediate post-conflict concerns such as IDPs and refugees coming back over from West Timor, immediate priorities such as the provision of water and food and large scale agricultural development (Mitchell, interview conducted on July 4, 2013). Senator Birmingham lists health, education, sanitary conditions, building schools, increased crop yields and the provision of micro-finance loans.

Once specific and concrete positive outcome is an increase in Timor-Leste’s Human Development Index (HDI), as reported by the UNDP. The HDI is a tool developed by the UNDP to measure the level of social and economic prosperity in a country. Amartya Sen, an economist from Pakistan, first introduced the tool in 1990. There are four criteria for measuring the HDI: life expectancy at birth, mean years of schooling, expected years of

schooling and gross national income per capita. According to the UNDP, since 2005 Timor-Leste's HDI value has increased from 0.428 to 0.502 (UNDP, undated). The increase is 17 percent, or an average annual increase of 3.2 percent. This is due to improved life expectancy, increased years of schooling and expected years of schooling and increased GNI per capita.

John Ruggerio, a humanitarian aid worker in Timor-Leste, asserts that in addition to providing needed infrastructure, education and resources, one of the greatest benefits of foreign aid has been that it has provided an example for the Timorese to take fuller ownership of their country. He states "It is difficult to govern or lead well when the only example you have seen is that of foreign occupiers for the last 450 years. Foreign aid is how the people of Timor have an opportunity to learn from a positive example" (interview conducted on July 8, 2013).

Mathew Winters, an Assistant Professor at University of Illinois who studies foreign aid effectiveness especially in Southeast Asia, differentiates between local successes and national successes. He says:

Foreign aid is a paradox. We have good evidence of local level successes of foreign aid projects, for example health projects, education projects and irrigation projects, that have had good outcomes. But it's been much harder for the scientific community to find evidence that foreign aid flows at the macro-level, overall, have led to economic growth in particular, or have contributed, again at the macro-level, to poverty reduction and other human development outcomes. So I would say that the positive impacts are these local level outcomes associated with individual projects that we have: schools that have teachers in them, clinics that have nurses in them, clinics that have the right medicines, hospitals that get built, etc., because of foreign aid funding (interview conducted on July 9, 2013).

Timorese students surveyed stated aid was effective politically in the formation of the transitional government, police, judiciary and prosecution after the conflict; state-building; democratization (through the establishment of the Constitutional Council, whose 25

members were directly elected); and the creation of social and fiscal policies that have been expansively implemented since 2000 (survey conducted on July 17, 2013).

In terms of social conditions, the students said foreign aid was effective in the areas of health, nutrition and minimizing the impact of diseases; education, including providing scholarships for Timorese people; helping those living in remote and rural areas; and peace building. One student stated that “foreign aid brings happiness to the Timorese people because it is a form of solidarity between human beings” (survey conducted on July 17, 2013).

Lastly in terms of economics, Timorese students stated that foreign aid has encouraged infrastructure development (including the construction of power plants, water, roads, ports and airports); helped in the management in the oil and gas sector; the private sector; provided tax revenues and capital; and that in general that the acceleration of economic growth has been at the forefront of the aid provided. One student said that foreign aid has improved Timor-Leste’s prosperity by 10 to 20% (survey conducted on July 17, 2013).

### **3.5 Negative Impact of Foreign Aid to Timor-Leste**

Foreign aid, both bilateral and multilateral, was significant, especially considering Timor-Leste’s small population and the fact that the money was given within a short period of time. However, many argue that it had a negative rather than positive impact on Timor-Leste. This section argues this position and analyzes why.

#### **3.5.1 Foreign Aid Did Not Improve the Socio-Economic Condition**

The simplest criticism of aid to Timor-Leste is that it simply did not work. According to Jose Ramos Horta, former president of Timor-Leste, if the aid money had been



spent wisely, East Timor would have been lifted out of poverty (Aljazeera, 2009). However, this is not what happened. Despite having initially given hope to the Timorese, many argue the high amount of aid has not improved the socio-economic condition.

In the words of Curtain, “hardship remains acute”. According to World Bank statistics, Timor-Leste has the highest incidence of malnutrition in the world” (interview conducted on July 5, 2013). Yamin states that poverty levels have remained high – more than 50 percent of Timorese are under the poverty line (interview conducted on July 9, 2013). Aljazeera, one of the biggest television networks, explained the situation that exists in Timor-Leste after a decade of foreign aid: “Between 2001 and 2007, poverty increased by 14 percent [...] 60 percent of children under 5 are malnourished, and 40 percent of young people between 15 and 27 are unemployed” (Aljazeera, 2009). Wahyono, an observer of foreign aid in Timor-Leste, announced in 2009 that more than half of the Timorese population did not have access to clean water, 60 out of 100 babies born only survived a maximum of one year, more than 40 percent of the population lived on less than US\$ 0.55 per day and illiteracy was 57 percent (Wahyono, 2009: 214). Each year unemployment increased. The three quarters of the population who rely on agriculture experienced drought and declined productivity. In villages, more than 30 percent of children aged 7 to 12 were uneducated (Wahyono, 2009: 214). As the result, there are many under aged children working in markets, as housekeepers or begging, though they should have the right to attend school. Foreign aid has also failed to develop the countryside (Neves, 2011). Eighty percent of Timorese people live in villages.

One of the specific and concrete positive outcomes mentioned above was an increase in the Human Development Index (HDI). However, even this fact can be contested. Yet La’o Hamutuk suspects that the UNDP deliberately tried to cover up the real situation in Timor-Leste by changing the HDI methodology from 2009 to 2011. This was done in order to be

able to give positive reports on the impact of foreign aid in Timor-Leste. The evidence can be seen in Figure 10 (below).

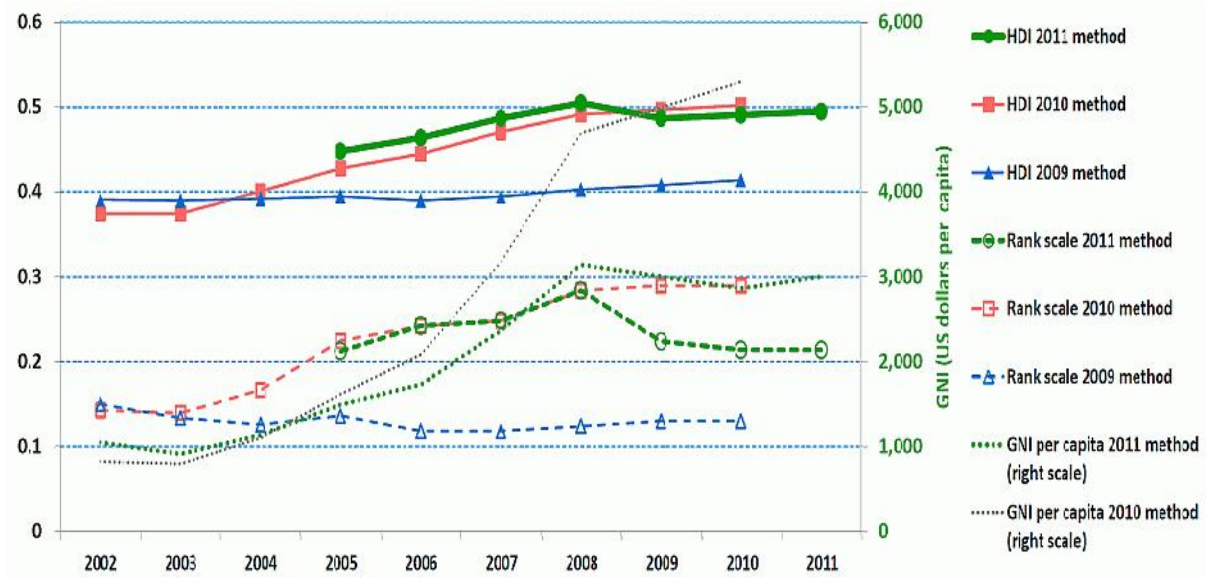


Figure 10: Timor-Leste's Human Development Index over time

(Source: *La'o Hamutuk*, 2011)

The green lines follow the methodology used in the 2011 Human Development Report. The results show that there was a slight increase in the HDI during the last two years. The red lines follow the methodology used a year before. These results also show an improvement in the HDI of Timor-Leste. Based on the two results, it can be said that foreign aid is indeed improving socio-economic conditions in Timor-Leste.

However, the results showed by the blue lines contradict the others. They show that there was not much improvement in the HDI of Timor-Leste. This is the real situation of the country, if using the HDI methodology of 2009. The difference between this report and the others is that it did not use oil and gas revenues as one of the indicators. Based on this report, it can be said that there was not much improvement in the social-economic condition of the Timorese people since the presence of foreign aid.

For a personal perspective, Aljazeera interviewed a local Timorese woman who said:

I feel sad in the last ten years. I will only feel happiness if I have a decent life. I make a living by selling vegetables. I am not happy selling vegetables. I've always sold vegetables. There is no change – Ricardina Godinho, Dili resident (Aljazeera, 2009).

Human and natural resources were not managed well, and the country is in the category of Least Developed Countries (LDC) (Kuntari, interview conducted on May 30, 2013). To sum up, Timorese people are still trapped in poverty and socio-economic problems.



Figure 11: Poverty in Timor-Leste  
(Source: Aditjondro, 2001: 30)

### 3.5.2 Aid was Only Helpful During the Crisis

Several interviewees clarified that while they thought foreign aid was helpful and even necessary, it was only so for the first few years, during the crisis. Local Timorese Nene De Almeida argues that after this point it was no longer needed (interview conducted on June 13, 2013). In an interview conducted on July 4, 2013, Mitchell said that “*for the first few years, foreign aid allowed the country to essentially sustain itself*” and “*foreign aid in the*

*country's infancy* allowed it to establish itself” (emphasis added by the author). Mitchell’s words speak to the positive impact of foreign aid, but only during the first few years.

### **3.5.3 Much of the Aid Money Went to the Aid Organizations**

One of the most common criticisms of foreign aid in Timor-Leste is that a large proportion of the money ended up going to aid organizations, rather than to the people of Timor-Leste. La’o Hamutuk says that most of the money was spent on “international salaries, foreign soldiers, overseas procurement, imported supplies, consultants, overseas administration, etc.” (La’o Hamutuk, 2009). Local Timorese man Nene De Almeida gives his opinion:

Maybe you heard about the huge amount of foreign aid has been allocated to Timor-Leste. For sure that is true, but who does this money go to? For example if you come to Timor-Leste right now, you will see international organization offices such as USAID, AusAid, etc. They come to Timor-Leste bringing their own advisors, supervisors and staff. And the money that has been allocated is spent especially for paying these people. The money is also used for maintaining the offices, buying cars and other goods and paying their operational costs in the country. Even though the amount of money that has been allocated in Timor-Leste is large, at the end of the day little of it goes to Timorese people. This implies that the money has largely gone back to the donor. It is not giving benefit to the host country of Timor-Leste. Therefore, as a Timorese, I can say that foreign aid has not been helping us.

I will give you an example. According to the report Portugal is one of the biggest aid donors to Timor. The Portuguese are so proud because they are helping Timorese. However, in fact, where was the money largely spent? It was spent dominantly for housing and offices and for paying the teachers from Portugal. As Timor-Leste is a former Portuguese colony, Portuguese is one of the official languages. Portugal supports the Timorese government in including Portuguese as one of the main subject in the education curriculum. For this, Portugal imported a number of teachers from their country to teach Portuguese in Timor-Leste. In the end, even though Portugal spent a lot of money on Timorese people, we are still trapped in poverty. It makes sense as the money is going back to Portugal (interview conducted on June 13, 2013).

Neves echoes that aid actors bring their own “international staff and consultants, foreign businessmen, and equipment imported from overseas” (Neves, 2006: 3). Businesspersons

opened hotels, restaurants, bars and coffee houses. They even brought in foreign floating hotel ships to house the foreign workers (see Figure 11). These businesses are very profitable, especially after independence, as many international staff and foreign diplomats use their services.



Figure 12: Floating hotel where international staff and foreign diplomats stay

*(Source: Wahyono, 2009: 355)*

Outside of the fact that money that goes to the aid organizations and their needs does not go to the Timorese, there is also the negative impact of the creation of a false economy.

Mitchell states:

Another challenge is the surge, the false economy that is created when you have a large United Nations mission in a country like East Timor. It pushes up housing prices, it pushes up the cost of basic goods and in some cases that spills out into the local economy rather than just the expatriate economy, which then forces prices up for locals. The large amount of aid money creates financial bubbles in things like the housing markets and some of the social sectors, which then collapse once the UN mission leaves. This happened in East Timor. It happened several times in East Timor actually, most significantly in 2005 and 2006 with the missions that withdrew at the end of the year (interview conducted on July 4, 2013).

However, Professor Damien Kingsbury, a professor at Deakin University who has written a number of books on development and post-conflict issues in Timor-Leste, argues that the fact that much of the money goes to aid agencies is natural:

The question of aid spending is simplistic. The cost of infrastructure redevelopment has been very high, as is the cost of thousands of expatriate Westerners who have been obliged to work in Timor-Leste. Quite simply, most of what Timor-Leste has needed could not be sourced locally, so the money has not been spent locally and has thus contributed little to economic development. But that was not its purpose - economic development is supposed to come from domestic economic policy, which it increasingly has (interview conducted on May 21, 2013).

Mitchell adds to this debate:

The overall volume of aid that Timor has received over the last decade is anywhere between 8 and 13 billion dollars. This sounds like a lot, and people will demand of the government and from donors to show the impact that this development assistance has had. But oftentimes it is very difficult to demonstrate any significant impact. The reason for this is that the money spent on Timor wasn't actually spent in Timor; it didn't actually make it into the Timorese economy. Every time a country like Portugal wants to give aid to Timor-Leste, the money comes from the capital to the Portuguese development agency and there are some transaction costs that are absorbed in the capital. Then the Portuguese development agency sends that money to its office in Timor-Leste and there are transaction costs there. The Portuguese might implement a program through an international NGO; more transaction costs. That international NGO might partner with a local NGO; more transaction costs. And so by the time the money that was initially promised by Portugal is spent in Timor-Leste it is significantly less than the original sum. Everyone takes a little bit along the way (interview conducted on July 4, 2013).

Thus while Mitchell and Kingsbury agree that much of the money went to aid organizations rather than to Timorese, they consider this a natural consequence of the international aid structure, rather than something surprising or mal-intentioned. At the crux of this debate is transparency. If aid actors are unclear about how much money is being spent on the international organizations themselves, their intentions in this regard are much more questioned than if they are transparent. Multilateral actors in Timor-Leste, such as the ADB, IMF, UN and World Bank, have been criticized for their lack of transparency. Furthermore

even if the large amount of out-of-donor-country spending is a natural consequence of the aid apparatus at the time of this research, this can still be criticized and the international aid apparatus may need to be improved.

#### **3.5.4 Mixed Interests**

Related to the issue of how much of the aid money goes to aid organizations and how much to the Timorese people, is the question of in whose interest the foreign aid is given. De Almeida believes:

[...] the presence of international actors in the name of foreign aid is not motivated by the call of humanity. As we know, there is no “free lunch” in this world. I believe the presence of many countries in Timor-Leste is just away to benefit from the situation. Therefore when we had crisis in 2006, many countries gave help, like the USA, UK, etc. On the surface it looks like they really want to help. But behind it, every support comes with a hidden agenda. (interview conducted on June 13, 2013).

Businesspersons were present and benefiting from the crisis in Timor-Leste even before the referendum in August 1999. Terry Farmer, Executive Director of the National One NT Pty Ltd, said that his company was commissioned to provide 3 million sheets of paper to serve as the ballots (Budi, 2000). His company also supplied the paper and provided computer services for Australian and Italian security forces during their missions in Timor-Leste. Other companies who benefited from the crisis include The Northern Territory, a company that provides camping equipment, army disposables and travel accessories. It sold billycans, sleeping bags and mosquito nets worth AUD\$ 95,000. In one day, the BBC World Service purchased AUD\$ 50,000 worth of goods for their 23-member team (Barker, 1999 in Aditjondro, 2001: 32). The director of Integrated Technical Services Pty Ltd, a company that specializes in the design, manufacture, supply, installation and maintenance of solar energy, electronic and telecommunication systems in remote, urban and offshore areas, has said that Timor-Leste gave extraordinary income to his business. The sales of the company to Timor-

Leste reached AUD\$ 300,000 in 1999 - 2000 (Barker, 1999 in Aditjondro, 2001: 32). Car rentals and sales was also a profitable business: “The UN purchased 70 four-wheel drives from Darwin dealers at a cost of more than AUD\$ 2 million” (Aditjondro, 2001: 33). These facts explain how foreign aid in Timor-Leste has given more benefit to international companies than to the Timorese.

According to the survey conducted on Timorese students, many agree with De Almeida that aid actors act in the interests of their own countries, rather than for the Timorese people. Therefore for the Timorese, they have a black mark on their record.

### **3.5.5 Personal or Unclear Priorities**

Whether foreign aid actors are acting in their own self-interest or not, they often are not following the priorities set out by the Timorese government. Projects sometimes “bypassed the national government and local legitimacy” (Neves, 2011). Mitchell gives a specific example of this:

In the 2006 crisis about 150,000 people or 10% of the population, were displaced within the country, spread throughout 63 IDP camps. In late 2007 the fourth constitutional government came into power. The immediate needs of the IDP camps were being addressed by donors but the government felt they needed to repatriate these IDPs back to home villages as soon as possible. This was because the IDP camps were located in strategic location, For example one of the largest IDP camps, in Matinaro, was on the main route between Bacau and Dili, the two largest cities.

The government had little money to do so because this was coming at the end of the year, so they went to the development partners and told them that they need some aid money to close down the IDP camps and get people back to their villages. The donors, however, refused because they said simply repatriating IDPs with aid money was not going to address the drivers of the conflict, and that many things needed to be addressed before the IDPs were repatriated. I believe the UN told the government unofficially that it would take perhaps ten years to repatriate the IDPs. The government decided that it didn't have that much time so instead of using aid money to repatriate the IDPs. the government used its own oil and gas resources to do it. Using this money the government solved the problem over the next twelve



months. This is an example of where foreign aid could have done a lot of good but in fact was a hindrance to government plans to do something good like repatriate IDPs (interview conducted on July 4, 2013).

The example given by Mitchell above shows that donors often follow their own priorities, rather than letting the Timorese government determine them. Ruggiero also gives two examples: Protestant NGOs trying to convert Catholics, or health NGOs pushing for contraception which violates Catholic moral teaching in a 96% Catholic country (interview conducted on July 8, 2013).

In addition to the issue of sovereignty, the basic right of a government to determine the projects that are implemented on its own soil, a further reason that the priorities of the government are important is that they often consider long-term implications and aim for sustainability and the withdrawal of donor involvement. Most projects, however, are designed and managed according to the short-term goals of the donors.

In addition to not following the priorities set by the government, aid actors are sometimes unclear or inconsistent about their own priorities. Curtain provides details: “AusAID operated its large aid program in Timor-Leste for almost a decade without a country strategy in place” (interview conducted on July 5, 2013). He adds, however, that with time this situation was remedied and the aid program is now subject to both the Australia-Timor-Leste Country Strategy 2009-2014 and the Strategic Planning Agreement for Development 2011 (Curtain, interview conducted on July 5, 2013).

Even when priorities are clear to the aid organizations themselves, they are often not made clear to locals. The Timorese believe that sometimes this is an oversight, but sometimes it stems from the intention of discouraging local participation in foreign aid programs, as the locals are believed to be not as experienced or knowledgeable as foreigners.

### 3.5.6 Corruption

The lack of transparency mentioned above, in relation to how much aid money is spent on the Timorese and how much on the international organizations themselves, is related to a wider problem of corruption. Aid in Timor-Leste has sometimes led to an increase in corruption. Most of the projects were carried out without public participation as a control. They were not transparent and there were no clear accountability mechanisms in their management. In the end, they provided an opportunity for the ruling elite to abuse their position. One Timorese student mentioned that aid has not been effective in the education sector because of fraud. According to Transparency International, on a scale of 0 to 100 (where 0 means the country is highly corrupt and 100 means it is not corrupt at all), Timor-Leste scores 33. This explains why Timor-Leste is perceived as the one of the most corrupt countries in the world, alongside Albania, Ethiopia, Guatemala and Niger (La'o Hamutuk, 2011; Wright, 2012).

Timor-Leste has taken a step in the right direction with its online Aid Transparency Portal. This internet tool, accessible to the public, reports the flow of aid on an annual basis, and is part of the government's transparency initiatives. The portal includes procurements, which make up 79 percent of the country's expenditures. However, looking at the reports one sees "inconsistencies and odd-looking patterns which might indicate maladministration and corruption" (La'o Hamutuk, 2013: 2). One of the examples of this is seen in the Table 19. The table shows that certain vendors have a monopoly on the procurement process. Further investigation is needed to know the reason behind these inconsistencies.

Table 19: Indications of maladministration and corruption

Financing institution	Tender	Amount	Vendor ID	Vendor name	Date awarded
Min. Defesa e Segurança	<a href="#">Vehicle for FDTL (Contract no: RDTL-10001325)</a>	\$ 877,426	VA0190	<a href="#">AUTO DILI</a>	8-Oct-10
Parlamento Nac.	<a href="#">PN - Supply of Vehicles for National parliament Office of Timor-Leste</a>	\$ 389,010	VA0028	<a href="#">AUTO TIMOR LESTE</a>	15-Dec-12
Min. Justiça	<a href="#">Open-standing arrangement for supply of light motor vehicles for the RDTL government fleet (RDTL-95602, 95892, 95753, 95891, Arrangement-10000307)</a>	\$ 365,200	VA0028	<a href="#">AUTO TIMOR LESTE</a>	29-Aug-09
Min. Defesa e Segurança	<a href="#">Vehicles for FDTL seven (7) Toyota Hiace Commuter Manual Diesel LH 202 R Remde. (Contract no: RDTL-10003239)</a>	\$ 293,480	VA0028	<a href="#">AUTO TIMOR LESTE</a>	8-Oct-10
Min. Defesa e Segurança	<a href="#">Vehicle for FDTL (Contract no: RDTL-10004327)</a>	\$ 258,855	VA0190	<a href="#">AUTO DILI</a>	8-Oct-10
Comissão Anti Corrupção	<a href="#">Nine (9) Vehicles for Anti-Corruption Commission - four (4) Toyota Hilux 4x4, one (1) Toyota RAV 4. (Contract No. RDT-11003720)</a>	\$ 251,300	VA0028	<a href="#">AUTO TIMOR LESTE</a>	29-Aug-11
Min. Defesa e Segurança	<a href="#">Supply of vehicles for F-FDTL - two (2) Toyota Land Cruisers, two (2) Toyota Rush. (Contract No. RDTL-11002025)</a>	\$ 245,418	VA0190	<a href="#">AUTO DILI</a>	9-Jun-11
Min. Defesa e Segurança	<a href="#">Supply of vehicle for F-FDTL - four (4) Toyota Rush. (Contract No. RDT-11004924 &amp; 11004910).</a>	\$ 211,560	VA0190	<a href="#">AUTO DILI</a>	24-Sep-11
Min. Defesa e Segurança	<a href="#">Vehicles for FDTL (Contract no: RDTL-10003187)</a>	\$ 169,626	VA0190	<a href="#">AUTO DILI</a>	4-Aug-10
Provedoria Direitos	<a href="#">Supply of Vehicles (Toyota Hilux and Land Cruiser Prado, 4 units in total) (Contract No. RDTL-11004193).</a>	\$ 169,500	VT0008	<a href="#">TOYOTA AUTO TIMOR LESTE</a>	21-Sep-11
Min. Finanças	<a href="#">Supply of five (5) Vehicles Hilux Double Cab Diesel Manual 2500 CC 4x4 for MoE (Contract no: RDTL-10003525)</a>	\$ 166,500	VA0190	<a href="#">AUTO DILI</a>	24-Aug-10
Min. Saúde	<a href="#">Purchase of vehicles for DNALA - four (4) Toyota RAV4 Petrol, Manual transmission, 5 door)</a>	\$ 153,108	VA0028	<a href="#">AUTO TIMOR LESTE</a>	24-Feb-10
Min. Negócios Estrangeiros	<a href="#">Purchase of Vehicles: Toyota RAV4, Toyota Rush (Contract No.: RDTL-1000307)</a>	\$ 150,777	VA0190	<a href="#">AUTO DILI</a>	30-Dec-10
Tribunais	<a href="#">Open standing arrangement for supply of light motor vehicles for the RDTL government fleet. (Contract No.: 10000307)</a>	\$ 149,492	VA0028	<a href="#">AUTO TIMOR LESTE</a>	31-Mar-10
Sec. Estado Juventude e Parlamento Nac.	<a href="#">Supply of vehicles for Secretary of State for Youth and Sport - three (3) Toyota Hilux Double Cab, one (1) Toyota RAV 4. (Contract No.: RDTL-10005078)</a>	\$ 141,148	VA0028	<a href="#">AUTO TIMOR LESTE</a>	23-Nov-10
	<a href="#">NP-Supply of Vehicles for the National Parliament</a>	\$ 3,500,000	VA0028	<a href="#">AUTO TIMOR LESTE</a>	1-Jan-13

(Source: <http://www.laohamutuk.org/econ/portal/ProcurementPortal16Nov2012.pdf>)

Curtain emphasizes that aid, though important, is not on its own enough. Of great importance is internal change in order to prevent and combat corruption. He cites a study by Acemoglu and Robinson which shows how self-serving elites do all they can to avoid disruptive change that could undermine their power. Curtain adds:

The persistent failure of the government in Timor-Leste to reform its education system could be viewed this way. Better education would lead to be a new generation that is better educated than those in power and with access to resources to mount a political challenge. To sum up, foreign aid can only be effective with the government's cooperation.

### 3.5.7 Transaction Costs

Another criticism of foreign aid is the transaction cost for the government of dealing with aid actors:

There are 43 different development partners working in East Timor at the moment. That is one of the largest number of donors working per capita anywhere in the world. Every single time a new donor or project comes up, they demand time from

the government to meet with them. There's a huge amount of paperwork the government needs to do, often for very small amounts of money. They need to enter into extended negotiations, particularly around loans. This all takes a huge amount of time, and as I said before now that the government has access to huge amounts of money through oil and gas exports, the time that is spent dealing with development partners is, in many respects, not really worth it for the government (Mitchell, interview conducted on July 4, 2013).

### **3.5.8 Dependency**

Another of the most common criticisms of foreign aid in Timor-Leste is that it creates dependency. One student stated that “the Timorese economy has become underdeveloped because it is too dependent on aid” (survey conducted on July 17, 2013). Ruggerio says aid has created a culture of entitlement where some are just expecting handouts and become lazy. More specifically, Kafil Yamin, former journalist of ANTARA who has published a number of reports on foreign aid in Timor-Leste, states that:

The Timor-Leste government increasingly assumes loans and foreign aid as a source of income; currently 35 percent of its budget is derived from foreign loans. The majority of the foreign loans in the budget do not go towards activities that could reduce dependency (interview conducted on July 9, 2013).

Kuntari, however, argues that “it is a biased understanding to believe that Timor-Leste is dependent on foreign aid politically and economically, [as] the country is only 11 years old” (interview conducted on May 30, 2013). Curtin believes that while dependency *was* a problem, in Timor-Leste, it has by now worked itself out:

[...] dependency has worked itself out. Up until 2004 Timor-Leste was one of the most aid dependent nations in the world. It now sits well below the average for low-income economies of 10% aid to gross national income ratio. This decline in aid dependence is in large part due to the exploitation of Timor-Leste's offshore oil reserves, shifting Timor-Leste from one of the most aid dependent nations in the world to one almost entirely dependent on oil and gas revenue, with 90 per cent of its GDP being generated from this sector.

More about the oil and gas sector will be discussed later in the chapter. Kuntar adds that Timor-Leste is in a delicate situation, and if not handled correctly foreign aid may threaten the country's future independence (Kuntari, interview conducted on May 30, 2013).

### **3.5.9 Social Inequality and Underutilizing Local Capacity**

Foreign aid has created a gap between locals and international staff. Alongside foreign aid, hundreds of foreign businesspersons, tradesmen, carpenters, bricklayers and others easily entered the country. In a day they could earn US\$ 409 to 511 (Aditjondro, 2001: 32). This is a big amount of money compared to the average income of Timorese people.

Timorese people are rarely hired to work on aid projects. When they are, it is usually as cleaners and security guards, from which they earn little. Even for doing the same job, the salary received by international staff is ten times more than that of local staff. This is because international staff are assumed to be more able and experienced. Education is also an important determinant of salary. Local staff graduated from universities in Timor-Leste and Indonesia, which have far lower standards than international universities. Therefore international staff receive a greater salary than local staff.

Because many of the Timorese were not involved in the projects, they do not know how to manage them in the future. That is, there is an absence of capacity transfer. Thus in the end, the projects created dependency.

A social gap has also been created between local and foreign entrepreneurs and businesses, as the former are unable to compete with the latter. Foreign aid can be instrumental in creating job opportunities, particularly in productive economic sectors. However, this did not happen in Timor-Leste. One reason for this is lack of investment (Neves, 2011). Another reason, given by Yamin, is that the nature of aid inhibits development of the private sector, entrepreneurship and activities productive to society

because it is “by design” – design and allocation are already determined in negotiations between the Government of Timor-Leste and donors (interview conducted on July 9, 2013). As a result, until now Timor-Leste must import everything from bottled water (due to contamination by bacteria such as *E. Coli* of local water sources) to computer hardware.

In fact, the entrance of foreign aid workers was followed by the unrestricted importation of goods such as vegetables, meat and alcohol. International staff prefer to buy imported rather than local goods. They also prefer to eat in restaurants owned by foreign businesspersons. Meanwhile, Timorese people who try to survive by selling their agriculture products or running a simple restaurant cannot compete.

The arguments made above are debatable. However according to Mitchell, “most of what Timor-Leste needed could not be sourced locally” (interview conducted on May 21, 2013). Local Timorese did lack knowledge and experience in aid work, and that is the main reason experts were used. Even using experts, some people think the aid was mismanaged or not used optimally. If the aid work had been run by inexperienced locals rather than experts, how many more would make this argument? If the local water is contaminated and there are no water bottling factories in Timor-Leste, what can foreigners do but import bottled water?

However, these are stop-gap measures that should be used only in the beginning. Long-term aid is most effective when it builds local capacity, both human and physical (e.g. water bottling factory). Efforts are being made in this direction but of course it takes time. What is important is to prioritize these aims (creating independence and self-sufficiency).

Even if locals have less knowledge or experience about aid work, they have more knowledge and experience about their local contexts. Some of the aid projects had structural weaknesses that stemmed from the fact that the “experts” did not have enough knowledge about the rural context of Timor-Leste. According to Curtain, “international foreign aid agencies such as the World Bank failed badly to incorporate an appreciation of the

vulnerabilities the population has been experiencing” (interview conducted on July 5, 2013). Because the projects denied local wisdom, many of them were designed under the wrong assumptions about the socio-economic problems faced by the Timorese. Therefore it only makes sense that in the end the projects failed to solve the problems, in fact they sometimes created conflict for the Timorese.

Mitchell has a different take on this issue. He says that aid actors do hire local Timorese, the problem is that they hire all of the best ones. In his words:

The human capacity in East Timor is very limited. There are a limited number of top tier graduates that have English language and critical thinking skills because the larger donors (such as the UN) take the best quality staff and give them better jobs working for the development agencies. Thus the best minds in Timor end up working for the donors rather than the government, even though it is the government that needs them, not the development partners. In other words, a “brain drain” occurs (interview conducted on July 4, 2013).

### **3.5.10 Other**

Several Timorese students surveyed said that foreign aid has led to a loss of traditional culture due to modernization and loss of national morale. They have also stated that foreign aid has led to government debt. In addition to literal debt is debt of gratitude. A student elaborates:

In this world nothing is for free. Foreign aid is provided for free at this time, however one day Timorese people will have to pay for what they received. This is an important point to remember considering Timor-Leste already has debts of gratitude to several countries (survey conducted on July 17, 2013).

One student criticized the Timorese government for not taking more control, leaving a vacuum for donors and organizations to act in their own interests. Overall students said that foreign aid, while valuable, needs to be restricted, reviewed every year, and made more efficient.

### **3.6 Oil and Gas Sector**

As explained in the previous chapter, Timor-Leste is a country rich in oil and gas, which is located in the Timor Sea. As a newly independent nation, these sources of capital are important for funding post-conflict socio-economic projects. However, does the oil and gas revenue go to the Timorese? This important question needs to be answered.

First some historical background. As soon as oil and gas deposit were found in the Timor Sea in 1983, they began to be explored. The first exploration was conducted on the beach of Laclubar, Manatuto by the Portuguese, but the oil and gas found there was extracted and exported only on a small scale (Wahyono, 2009: 187). Production stopped after Portugal declared East Timor a Non-Self-Governing Territory in the 1970s.

From 1970 to 1989 Indonesia and Australia conducted talks about a seabed boundary following basic continental principles. This led to the Timor Gap Treaty, signed by foreign ministers Garth Evans and Ali Alatas on December 11th, 1989. The Timor Gap Treaty produced the Zone of Cooperation (ZOC) (see Figure 13). Australia and Indonesia would share the wealth contained in the middle of the ZOC, while Australia would reserve the right to dominate east and west of it. In effect, 10% of the oil and gas revenues went to Indonesia and 90% to Australia (La'o Hamutuk, 2003: 2; De Almeida, interview conducted on June 14, 2013). Indonesia agreed to give most of the wealth to Australia because it was supporting the integration of Timor-Leste within Indonesia. According to the principles of the United Nations Convention on the Law of the Sea (UNCLOS), however, the whole region belongs to Timor-Leste.



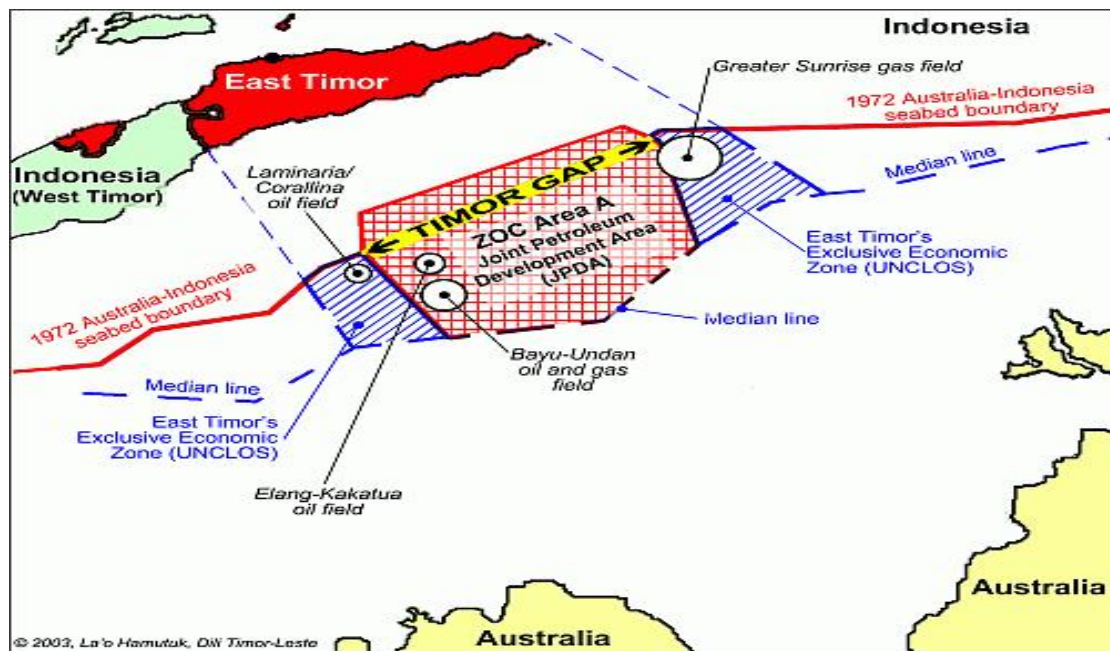


Figure 13: Map of the Timor Gap

(Source: La'o Hamutuk, 2007; La'o Hamutuk, 2003)

Although both parties were in agreement, some problems arose later. Portugal stated that the integration of Timor-Leste within Indonesia was illegal and therefore the treaty was invalid. It was even reported to the International Court of Justice, which has the role of settling, in accordance with international law, legal disputes submitted to it by UN states ([www.icj-cij.org](http://www.icj-cij.org)). In the end, the ICJ declared it could not cancel the treaty because Indonesia did not accept its jurisdiction (La'o Hamutuk, 2003: 2).

When Suharto tried to revise the Timor Gap Treaty, Australia supported Timor-Leste to become independent. After the referendum in which the majority of the Timorese people voted for independence, talks over the ZOC were conducted bilaterally between Australia and Timor-Leste. On February 10th, 2000, Australia and Timor-Leste agreed to share the revenue from the ZOC (now re-named the Joint Petroleum Development Area) with 10% going to Timor-Leste and 90% to Australia (De Almeida, interview conducted on June 14, 2013).

Australia was able to receive 90% of the revenue, from an area that should, according to UNCLOS, belong to Timor-Leste, because it had carefully calculated and matured the political and economic conditions in Timor-Leste in a way that favoured its own interests. It helped Timor-Leste become independent but only to trap it into feelings of debt and gratitude.

The role Australia played in Timor-Leste's independence has already been mentioned, but to sum up, first, Australia was involved in the mission UNAMET; in fact UNAMET staff were predominantly Australian. This was favourable for Timor-Leste in terms of forming the world's opinion about the violence perpetrated by the Indonesian military and pro-Indonesian militias. Second, Australia greatly contributed to the international force in the INTERFET mission. INTERFET troops totalled 11,000 personnel from various countries, of which Australia contributed 5,000, establishing itself as a major power and the determinant of the provisional government administration formed by the UN. Australia also made Darwin a major base of the INTERFET peacekeeping force and it became the entry point for international assistance (Chesterman, 2007: 196).

Third, Australia led the transitional administration mission of Timor-Leste under the umbrella of UNTAET. Australia, supported by New Zealand, France, Argentina, Brazil, Japan, Malaysia, Russia, Singapore, South Korea, Thailand, Philippines, Portugal, the United States and Great Britain, among others, deliberately used UNTAET as a "ride" in supporting the independence of Timor-Leste (Setyawan, 2009). Fourth, through AusAID Australia contributed to socio-economic projects that were needed by Timor-Leste. Fifth, the former Prime Minister of Australia John Howard openly supported the independence of Timor-Leste through his letter to the former President of Indonesia, B. J. Habibie, which requested him to immediately resolve the problem by holding a referendum (Howard, 1998). For all of these reasons, Timor-Leste felt indebted to Australia, and thus agreed to joint exploration. The

result is that Australians dominate the workforce and receive more of the oil and gas revenues.

Today there are many international companies investing in the Timor Sea. Among them are Royal Dutch Shell (England/Netherlands), Conoco Phillips (United States), Inpex (Japan), Kerr-Mcgee Corp. (US), Agip (Italy), Osaka Gas (Japan), Petroz (Australia), Woodside Australian Energy (Australia) and Santos (Australia) (Head, 2002). Woodside Australian Energy and Santos are the largest oil companies in Australia and have the highest private support from their government (U.S. Energy Information Administration, 2011: 2).

Thus despite Timor-Leste being rich in oil and gas, before independence the revenue went to Indonesia and Australia, and even after independence and re-negotiation of the ZOC, profits continue to be shared. According to De Almeida, Timor-Leste is one of the richest countries in natural resources, especially oil and gas, and wouldn't even need foreign anymore if it was able to capitalize on them (interview conducted on June 14, 2013). Timor-Leste is not getting the full benefit of its resources, which could provide both employment and revenue, despite desperately needing these benefits to recover from a history of conflict, cut off dependence on aid, and become an economically independent country.

Until now, many activists are protesting Australia's domination of the Timor Gap. These activists come not only from Timor-Leste but also from countries around the world, and from more than 100 organizations. These organizations are predominantly from Australia and the United States. The aims of the movement are "to pressure and shame Australia into respecting Timor-Leste's nationhood so that it could treat Timor-Leste fairly and as a sovereign nation, with the same rights as Australia" (La'o Hamutuk, 2004). Figure 14 shows two Thai activists protesting in front of Australian Embassy in Bangkok. This was on Australia's 216th anniversary, celebrated on January 26th, 2004.



Figure 14: Thai activists protest against Australia's domination of the Timor Gap

(Source: La'o Hamutuk, 2003)

Starting in 2004/2005, Timor-Leste started receiving a lot of money from oil and gas resources (Mitchell, interview conducted on July 4, 2013). Mitchell adds:

In about 2004/2005 the money raised from oil and gas exports started to come into the country and over a period of about 4 years you saw this incredible shift from a reliance on foreign aid to a reliance on oil. So it's quite interesting, in the very first few years of Timor's independence the country 95% or more reliant on foreign aid and less than 10 years later the country is 95% reliant on oil and gas for its revenue. So in that sense the foreign aid allowed the country to establish its very basic foundations but then very quickly afterwards foreign aid became not largely irrelevant but it became significantly decreased in its overall relevance and its ability to inform government policy and decision making once the oil came into play (Mitchell, interview conducted on July 4, 2013).

To conclude this section, the oil and gas sector is very important for Timor-Leste, as it now contributes 95% of the country's revenue. For a long time it was dominated by Indonesia and Australia. It took time, even after independence, for Timor-Leste to negotiate getting the full benefit of its own resources.

### **3.7 Conclusion**

In the words of Senator Birmingham, “Timor-Leste has had a turbulent history and its people have suffered through the upheavals, violence and uncertainty. The new Government of Timor-Leste was essentially starting from scratch in building its institutions, capabilities and infrastructure” (interview conducted on July 11, 2013). The large amount of aid that was allocated by donors since independence gave great hope to the Timorese people. With this aid, bilateral and multilateral actors created and implemented many socio-economic projects. These projects convinced the Timorese that they would have a better future.

However, this hope did not come to fruition. It is debatable how much the situation really changed. Problems such as unemployment, poverty and hunger became major concerns. Aid even contributed to the increase of corruption. In the end, Timor-Leste came to be ranked low on the Human Development Index and has high infant mortality and illiteracy rates.

The amount of foreign aid was significant. However, only a small portion was spent on Timor-Leste. The rest was largely spent on international salaries, foreign soldiers, overseas procurement, imported supplies, consultants, overseas administration, etc. Therefore, the aid did not really fix socio-economic problems in Timor-Leste. Foreign aid also created gaps between international and local staff and subordinated the Timorese in their own country. Timorese can only watch the projects, not be involved in them. This has created a situation of dependency.

Oil and gas exploration in the Timor Gap was considered a solution to reducing socio-economic problems. It could provide both employment and income to the country. However, Timor-Leste is trapped in feelings of debt of gratitude to Australia, which played

an important role in helping it towards independence. Therefore, Australia takes the majority of the oil and gas revenues and dominates the workforce.

In the opinion of Rien Kuntari, former journalist of Kompas who has worked for Timor-Leste during and after the conflict, Timor-Leste needs aid now and will continue to do so for the next few decades (interview conducted on May 30, 2013). Since despite aid's negative aspects it cannot simply be done away with, it would be wise turn the debate of the effectiveness of foreign aid in Timor-Leste over to a practical and constructive discussion of ways to make aid as effective as possible. This is what the next chapter is about.

## **CHAPTER 4: Making Aid Work**

The first chapter of this thesis looked at foreign aid on a more theoretical level. The next two chapters described the specific case of Timor-Leste. The objective of this thesis, however, was not to merely describe what took place there, but rather to use Timor-Leste as an in-depth case study in order to analyze the successes and failures of aid and, most importantly, to propose some ways that foreign aid can be made more effective. This is what this chapter is about.

### **4.1 Case Studies of Selected Countries**

An analysis of any concept requires both depth and breadth. The impact of aid in Timor-Leste was looked at intensively in Chapter 3, and this covered the depth component of this research. Now to provide some breadth as well, the author has selected case studies of four countries: Ethiopia, Bangladesh, Cambodia and Afghanistan. The author selected these countries because they represent different geographical areas but share, along with Timor-Leste, the context of foreign aid coming after a conflict.

#### **4.1.1 Ethiopia**

Ethiopia started receiving aid after World War II, mostly from the United Kingdom, the United States, the Soviet Union and the World Bank. Aid was discontinued when the military took power after the Ethiopian Revolution in 1974, except during the famine in the mid 1980s, and resumed when the military regime ended in 1991. Since then, the amount of aid given to Ethiopia has continued to rise. Between 1990 and 1999 the average amount of aid received by the country was US\$

1,287 million per year, while between 2000 and 2011 it increased to US\$ 2,502 million per year (OECD, 2013: 8). In 2011 Ethiopia was the third largest recipient of 148 aid-receiving developing countries. Most of the aid money has gone into socio-economic sectors (OECD, 2013: 14).

The Ethiopian government uses the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) as its development strategy and focuses on access to and quality of services in the sectors of education, health and water. For achieving these goals, the Ethiopian government has planned development programs with the expectation of aid. However, issues of aid predictability and volatility made it difficult for the government to implement its programs (Alemu, 2009: 20). For example, if donors promise aid for three to five years, in the end most donors could only provide two years and often the aid was only useful in the first year of implementation. This means aid cannot be planned for or depended upon.

Donor fragmentation is also a big issue for the Ethiopian government. According to Getnet Alemu, the Associate Dean for Graduate Programs in the College of Development Studies at Addis Ababa University, Ethiopia, “The main feature of aid fragmentation in Ethiopia is an increasing numbers of donors each with a small share of the total aid envelop yet numerous aid projects” (Alemu, 2009: 15). This hampers the government’s programs and makes the aid less effective. In the end, the goals of the socio-economic programs in Ethiopia cannot easily be achieved.

#### **4.1.2 Bangladesh**

After gaining independence in 1971, “economic activities almost came to a halt, and Bangladesh lacked experienced administrators, managers, entrepreneurs, engineers and technicians to get the economy and government moving again”



(Chowdhury, 2004: 51). There were also acute shortages of food grains and other staples; meanwhile the population increased at a high rate. The economic situation was critical and needed significant improvement. The solution to meeting people's basic needs seemed to be foreign aid.

In response to the problem, Russia, the United States, the World Bank, and 26 other countries and international organizations decided to give aid to Bangladesh; they later became known as the Bangladesh Aid Group. In three decades (1971-1999) it is calculated that the country received a total of US\$ 34.76 billion in aid (Chowdhury, 2004: 52). Part of this aid (52 percent) was a loan and part (48 percent) was a grant (Chowdhury, 2004: 52). In the beginning, the aid package was more grant than loan, but later on the amount of grant gradually decreased and the amount of loan increased. For example in 1972 the amount of loans was 10 percent of the aid package and by 1998 it had increased to 55 percent (Chowdhury, 2004: 52). Aid also brought the presence of 1300 NGOs. These had a significant impact on the economy of Bangladesh and ran 1000 projects concerning health, education, micro-credit and agri-businesses.

However, after many years the foreign aid had only slightly improved the country's economic condition. This is because the aid that flowed through the government did not go to its intended purposes; rather, 75 percent of it went to government officials and their friends. So aid that was intended to help the poor was taken instead by a few people who used it to accumulate their own wealth. The problem became even more complicated as debt rose and burdened the government.

#### **4.1.3 Cambodia**

From 1975 to 1979 Cambodia was ruled by the Khmer Rouge, a communist party. Its policies of agricultural reform, self-sufficiency even in the supply of medicine,

and social engineering led to famine, deaths from treatable diseases, torture and executions. Overall, approximately 2 million people died, about half from executions and half from starvation and disease. This was a quarter of the total population of Cambodia at that time. The damage to infrastructure has not been calculated. Since that time, Cambodia has received aid from international communities, channelled through UN agencies working for post-war socio-economic recovery.

However, the presence of the UN in Cambodia has created aid dependency. The large amount of aid the country received covered fifty percent or more of its expenditures. The total amount of aid given to the country between 1979 and 1981 was US\$ 644 million (Mysliwicz, 1988). Most of this was spent supplying food to refugees and displaced persons who were affected by the long war. “Just from 1992 to 1993 alone, budgetary and balance-of payments support to Cambodia shot up from US\$ 1.4 to US\$ 78 million a year” (Phy, 2009: 29). Peou and Yamada (2000: 73) calculated that between 1992 and 1997, US\$ 3.264 billion was spent on Cambodia. The UN alone spent US\$ 2 billion for sponsoring a ceasefire between the parties involved in the conflict, withdrawing foreign forces, supporting the election and socio-economic recovery (Phy, 2009: 28). The total amount given is comparatively much more than many other countries with similar problems had received.

Aid was also affected by corruption. This can be seen from these two case studies: in 2003, according to research conducted by the World Bank, the Cambodian government stole US\$ 2.8 million of the total US\$ 6.9 million project budget (Phy, 2009, 32-33). In 2004, “more than US\$ 2 million of rice aid has been misdirected from the Food-for-Work scheme” (Phy, 2009, 32).

#### **4.1.4 Afghanistan**

The attack on the twin towers on September 11th, 2001 started the so-called “War on Terror”. The United States, as a country affected, went to war against Al-Qaeda, the organization thought to be responsible for the attack. The United States quickly invaded Afghanistan, where it was thought Al-Qaeda militia were hiding. The invasion claimed many victims. The number of civilian casualties in 2001 was 3,767, greater than the number of people who died in the attack on the twin towers (Widada, 2007: 108; BBC News, 2002). Since then, civilians have continued to die from the longer-term effects of the war. In fact, just from January 1 to June 6 of 2013, there have been 3,092 civilian casualties, mostly children, according to United Nations Special Representative and head of the UN Assistance Mission in Afghanistan (Sieff, 2013: 1). On the other hand, as of June 2013 2,174 US soldiers have died since the invasion (Jean-Louis and others, 2013).

In order to support Afghanistan in socio-economic post-war recovery, the international community gave US\$ 10.7 billion (International Development Committee, 2008: 22). The largest contributor was the United States, which provided US\$ 1.34 billion (International Development Committee, 2008: 22). The second largest donor was the European Commission, which provided US\$ 256 million; the United Kingdom provided US\$ 220 million (International Development Committee, 2008: 22).

However, aid to Afghanistan has faced many problems. One of them was "the proliferation of projects, funding channels and mal-coordinated bilateral initiatives" (International Development Committee, 2008: 23). There was no coordination between donors and the government. For example, in July 2007 the United Kingdom provided funds to build a maternity teaching unit at the local hospital. However, there were problems in the delivery and funding of the training. Therefore the building was never

used. As a result, aid has had little impact in reducing the maternal and infant mortality rates of the Afghan people.

#### **4.2 The Successes of Aid**

The case studies above show that foreign aid can have mixed results. In fact, the effectiveness of aid is a highly debated topic. In this section, the successes of aid are presented.

In his book *Aid That Works: Successful Development in Fragile States* (2003), Manor presents Afghanistan, Cambodia, Mozambique, Sierra Leone, Timor-Leste, and Uganda as case studies of countries that have successfully been assisted by socio-economic projects funded by foreign aid. Sachs adds to this “the green revolution, the global eradication of small-pox and the spread of literacy” as further examples of the successes of foreign aid (Shimko, 2013: 187)). Shah gives specific ways foreign aid can have a positive impact: increasing employment opportunities, establishing basic heavy industries, stimulating technological progress and providing cheaper funds (Shah and others, 2005: 16-18). In the specific case of Timor-Leste, aid was especially valuable in helping the country deal with IDPs, refugees, the provision of water and nutrition, and large-scale agricultural development.

Radelet wrote a paper on the effectiveness of foreign aid. His research concluded that:

On average and controlling for other factors, higher aid flows have led to more rapid growth [...] other variables, such as geography, political conflict, policies, and institutions explain much of the variance in growth rates among aid recipients [...] after controlling for these variables [...] a positive relationship between aid and growth emerges (Radelet, 2006: 10).

His data is shown in Figure 15:

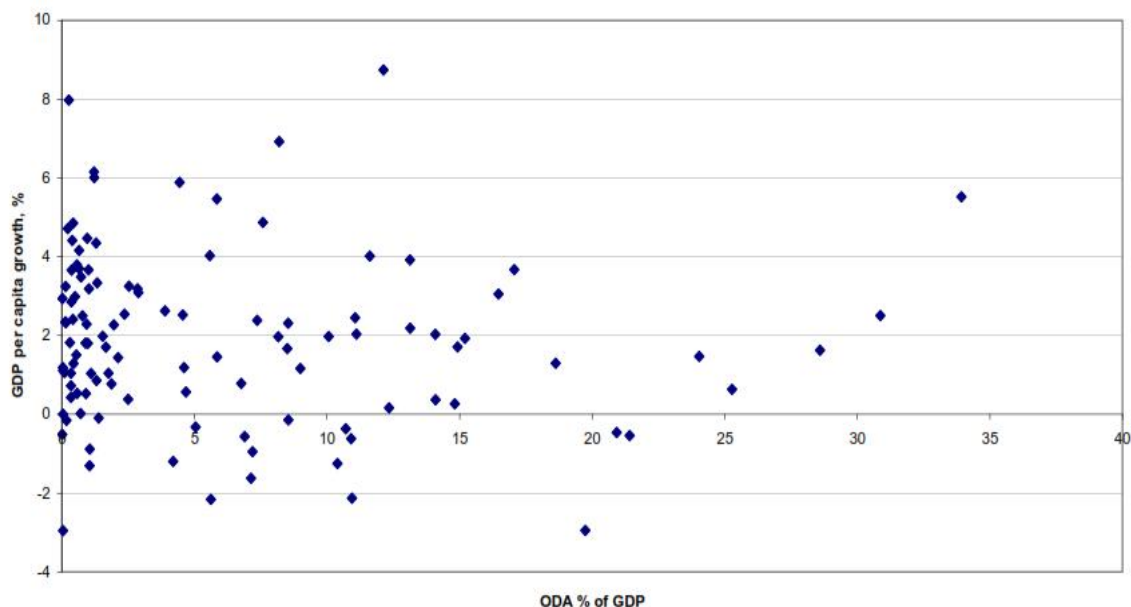


Figure 15: Foreign aid and growth 1994 - 2004

(Source: Radelet, 2006: 23)

From such research as this, Sachs concludes:

Though sceptics seem bent on convincing donor nations that the developing world abuses foreign aid, the truth is that health and economic assistance are improving the lives of people in the poor countries. Providing food, healthcare, technology and infrastructure improvements has benefited many communities in the poorest parts of Africa, for example, leading locals to build upon those successes. It is the duty of the developed world to ignore the naysayers and lend a helping hand that can save lives and eliminate the direst forms of poverty around the globe (Sachs, 2006 in Haugen, David and Susan Musser, 2013: 11).

Charles Abugre, regional director of the UN Millennium Campaign, agrees, saying that aid “can save lives and ameliorate suffering, not just in the short term but in the long term” (Abugre, 2010). Thus according to Manor, Sachs, Shah, Radelet and Abugre, among many others, foreign aid can and has benefited millions of poor people and had a positive effect on the socio-economic conditions of poor countries.

The effect of foreign aid can appear contradictory. Anderson and others say: “The story [of foreign aid] is often cheerful in the short term, but becomes more

challenging over the long run as aid project after aid project comes and goes. (Anderson and others, 2012: 17). Categorizing aid into local vs. macro-level aid, or emergency vs. long-term development aid, provides further clarity on this issue. According to Winters,

Foreign aid is a paradox. We have good evidence of local level successes of foreign aid projects, for example health projects, education projects and irrigation projects, that have had good outcomes. But it's been much harder for the scientific community to find evidence that foreign aid flows at the macro-level, overall, have led to economic growth or have contributed, again at the macro-level, to poverty reduction and other human development outcomes.

In terms of the second categorization mentioned above, emergency vs. long-term development relief, successes have been found in the former but much less so in the later. In terms of disaster relief, Steven states that in Botswana, Indonesia, Mozambique and Tanzania aid "has helped improve health by supplying essential medicines and is an important vehicle in providing emergency relief following natural disasters" (Steven, 2006: 8). Valentina Otmacic, a person who has been working in humanitarian aid for over 18 years, also found that foreign aid is very effective in emergencies such as natural disasters. She cites her work in Burundi, where UNHCR (the organization she was working with) received 5000 refugees in one day yet managed to ensure that the basic needs of all were met.

Health is a frequently cited example of the positive impact of foreign aid. According to Winters,

Foreign aid has contributed to disease eradication. There is a very good book on that, done by the Center for Global Development, that looks at health successes in foreign aid. So I think of things like the eradication of polio, the battle against river blindness, the battle against yaws, etc. In terms of addressing diseases throughout the world, foreign aid has done a lot (interview conducted on July 9, 2013).

Peter Boone, an author of *Politics and the Effectiveness of Foreign Aid* (1995), also agrees that aid has contributed disease eradication, simple interventions such as vaccines and primary care in regions where nothing would have been done (interview conducted on July 18).

Beyond the measurable effects of meeting basic needs, there are also more intangible benefits of foreign aid. Otmacic brought up an often-neglected point, that foreign aid “ensures inter-cultural communication between people from ‘different worlds’” (interview conducted on July 21, 2013). She adds:

It might seem secondary to some people, but for me this learning from each other is one of the main benefits. I felt it in each and every place where I worked (Tanzania, Burundi, Lebanon, Colombia, DR Congo). It makes us feel the interdependence, overcome stereotypes and prejudice, etc. (Otmacic, interview conducted on July 21, 2013).

Ruggerio also discussed the intangible benefit of foreign aid workers providing a positive example for local people of good governance, leadership and how to take fuller ownership of one’s own country, an especially valuable lesson for countries that were occupied by foreign powers for hundreds of years, such as Timor-Leste.

In addition to the authors, academics, and aid workers mentioned above, foreign aid has also been praised by its beneficiaries:

With all the international aid that came, we are really thankful because even though we are here, far from them, we appreciate that they think of us. If we were to personally see them, we would hug them out of happiness (Local health worker, Philippines).

People in my village are very grateful for the road because now with trucks coming into our village, the women can take their vegetables to the market. Before, the tomatoes just rotted in the gardens. Tomatoes go bad quickly, and despite our attempts in the past to take them to the market to sell, we always lost (Woman, Solomon Islands).

It saved our lives. I simply don’t know where to start, to whom to say thank you (A person in Kosovo) (Anderson and others, 2012: 20).

Though there is a strong argument to be made for the positive impact of aid, all would agree that it is of varying levels of effectiveness. This is a very important matter, for as Riddell says: “It is self-evident that the moral case for providing aid also critically depends upon the ability of the aid provided to contribute effectively to the alleviation of human suffering and the reduction of poverty” (Riddell, 2007: 128). A government official in Kosovo puts it succinctly when he said: “Without aid, we could not survive, and there would be no life in Kosovo. It is not fair to say that no difference was made, but what was possible was not exactly what was done” (Anderson and others, 2012: 20). Curtain, discussing Timor-Leste, echoes these views, saying “although aid has had a positive impact, it has not been as effective as it could or should have been” (interview conducted on July 5, 2013).

The question remains, however, of how the effectiveness of aid can be assessed. In their book “The Market for Aid” Klein and Harford (2005) measure and rank the quality and quantity of aid that was given by donors. Their results can be seen in Table 19 below.

Table 20: Ranking of donors on aid effort and quality

Donor Country	Aid Effort	Aid Quality Indexes	
		Poverty Elasticity	Policy Elasticity
Denmark	1	1	1
United Kingdom	3	3	2
Norway	2	2	3
France	4	5	6
United States	6	4	5
Japan	5	6	4

(Source: Klein and Harford, 2005: 39)



An explanation of some of the concepts used in the table above: here aid effort means the percent of a country's GNI that it devotes to foreign aid. Poverty elasticity measures the percentage change in poverty caused by a 1% change in per capita income. Policy elasticity measures the impact of a government policy change in taxes, transfers, and publicly provided goods on the welfare of the population. Combining all these measures, the United Kingdom has the most effective implementation of its foreign aid, while Norway, the United States and Japan have the least effective implementation.

Klein and Harford's research focused on which countries provided the most effective aid, and how to measure the effectiveness of aid, but not on the factors that contribute to effectiveness themselves. This Chapter will discuss this in a further section.

### **4.3 The Failures of Aid**

On the other side of the debate about the effectiveness of aid, are scholars who say it is largely or wholly ineffective. For example Yaqub says that "Foreign aid as a model is broken and many billions of dollars have ended up not helping the very citizens the programs were designed to serve" (interview conducted on July 8, 2013).

Another academic, Hancock, states:

Aid is not bad, however, because it is sometimes misused, corrupt or crass; rather, is inherently bad, bad to the bone, and utterly beyond reform. As a welfare dole to buy the repulsive loyalty of whining, idle and malevolent governments, or as a hidden, inefficient and inadequately regulated subsidy for Western business, it is possibly the most formidable obstacle to the productive endeavours of the poor. It is also a denial of their potential, and a patronising insult to their unique, unrecognised abilities (Hancock, 1994: 183).

Though not many scholars share these extreme views, many do agree that aid has not successfully achieved its purposes. Many countries receive a large amount of aid

yet experience only a small impact. Often, the ones who benefit the most are the donors and workers involved in the projects.

#### **4.3.1 Aid Benefits Donors rather than Recipients**

A quotation from Anderson and other's work, given by the Manager of a state-owned enterprise in Mali, is as follows:

Aid very often does not reach the targeted population. And when it does arrive, it's just crumbs. Most of the assistance is blocked in the offices of the central administration and evaporates into thin air. The question I ask is: why do the donors continue to pour money [into the government] in this context? Do they really want to contribute to the improvement in the standard of living of vulnerable populations in Mali? (2012: 84).

Organizations often work in their own interest. As Nene De Almeida put it, there is no "free lunch" (interview conducted on June 13, 2013). This view was echoed by many of the interviewees and academics researched. Boone, for example, states that donors often spend a substantial proportion of aid money on their own staff and consultants, or the money goes to general fiscal policies and so does not reach the people who need it (interview conducted on July 18, 2013).

#### **4.3.2 Unclear Purposes**

Even if the aid reaches the population, it comes with unclear purposes. Therefore the result is less effective than is expected. This is argued by Michael Joseph, CEO of Safaricom, a mobile phone company based in Kenya, when he was interviewed about his experience in foreign aid:

If you look just at the northern part of Kenya where it's very arid, much of the aid is given to people just to attend meetings. Communities are paid just to attend meetings so they're quite happy for this aid because they go to this meeting, they get a sitting allowance, they get lunch and then that's the end of

it. I think [aid] can be good in some cases. But mostly it's just not sustainable and as soon as the aid stops people go back to square one (allAfrica, 2009).

#### **4.3.3 Poor Decision-Making**

The question arises, why does foreign aid fail? According to Riddell, the majority of problems result from poor decision-making. He adds:

Some problems with aid are specific to particular projects and programmes, and arise from the wrong decisions made by individuals and agencies as to the type of aid that should be provided to particular recipients, often as a result of insufficient understand of what is needed, and how aid may help (Riddell, 2007).

The other problems Riddell (2007) elaborates on are “over-optimistic assumptions about the capacity of organizations receiving aid to use it effectively”, failure to assess risk, and making wrong assumptions about the external environment. These problems undermine the effectiveness of aid.

#### **4.3.4 Aid Volatility and Fragmentation**

Aid volatility and fragmentation is another problem. A telling example is the region of Aceh in Indonesia: “Most of the 463 agencies came with their own support services, such as human resources, information technology, procurement and contract management. The costs of these duplicate activities are extremely high” (Fengler and Kharas, 2010: 51). They add that there was no coordination among the projects that were being implemented and some donors did not give the amount of aid they promised.

The issue of aid fragmentation is also described in the case study of Afghanistan (section 4.1.4) above.

#### **4.3.5 Transaction Costs**

As discussed in section 3.5.7, the transaction costs for the government of dealing with a multitude of aid actors can be high. Winters lists Tanzania as the textbook example of this, where “cabinet ministers spend all of their time meeting with foreign aid officials. That takes them away from their other duties or it means that they are more responsive to foreigners than they are to local citizens or to the parliament” (interview conducted on July 9, 2013).

#### **4.3.6 Unfulfilled Promises**

Anderson and others elaborate on the negative effect unfulfilled promises have. They say that aid actors often come, ask many questions and make promises. Then they disappear and the local people never hear from them again. This makes the people confused, frustrated and disappointed. A Listening Project Reporter in Cambodia reports:

Villagers consistently expressed disappointment with outsiders for taking their time to ask questions and even make promises, only to never return or provide the promised aid. This contributed to speculations that aid somehow misused or redirected, or that outsiders were not responsible and trustworthy (Anderson and others, 2012: 26).

#### **4.3.7 Not Involving Local People**

Even if the project does start, aid actors often do not communicate with the local people while planning, implementing or running the projects. They recruit workers without giving them any background information. They often act superior and do not consider that the local people may already have thought of a solution to the problem, or at least have some ideas to contribute. The result is that the recipients have a negative

experience of aid. A local NGO leader on the Thai-Burma border shares this point of view:

Before, everything was in our hands, but not now... now they are not sharing information with us; this makes us feel like they are keeping us like workers only. We feel we are not respected, and it hurts our self-esteem. Before we made decisions together; now they dictate from outside. This was not our plan. We are like puppets. Before we have ownership and make decisions; we know the situation ourselves. We wrote our own report before, not now. The international NGOs come in and take over; we feel like we are nothing. I feel that this happens a lot – that the donors/ NGOs take over ownership (Anderson and others, 2012: 31).

#### **4.3.8 Corruption**

One of the greatest failures of aid is its contribution to corruption. In her interview on August 18, 2013, Erika Lal, an author of *A Hurting Land: Why Foreign Aid Does Not Work* (2011), said most governments that receive aid are corrupt and pocket aid money before any towns or villages see it. In his paper *Aiding and Abetting: Foreign aid failures and the 0.7% deception*, Foreman lists says aid promotes “the enrichment of corrupt tyrants, the subsidising of warlords and the subversion of good government” (2012: 10-11). He argues that donors support this because it is in their best interest to do so:

The real beneficiaries of overseas aid have not been the world’s poorest people but Third World tyrants and ruling elites, Swiss bankers, European and American agribusiness, Paris couturiers, and the aid industry itself [...] the presumption underlying budget support that developing country governments genuinely care about the welfare of their citizens is never questioned. This refusal is so complete and so adamant that it is hard not to see in it a significant degree of self-interest (Foreman, 2012: 27).

In the opinion of Otmacic aid increases corruption, because in most cases there is no good monitoring over the spending of the money, especially in bilateral

agreements directly with governments (interview conducted on July 21, 2013). So instead of eradicating corruption as one of the main causes of poverty, foreign aid increases the problem. Another of her criticisms is that when governments are inefficient and corrupt, foreign aid will provide as many services as possible directly to the population, often through international NGOs. While this substitution of government duties benefits the population in the short-term, it is not helpful in the long-term.

There are many specific examples of corruption. Section 3.5.6 in Chapter 3 described how foreign aid contributed to corruption in Timor-Leste. The case study of Cambodia above described how the Cambodian government stole US\$ 2.8 million of the total US\$ 6.9 million project budget and “more than US\$ 2 million of rice aid [was] misdirected from the Food-for-Work scheme” (Phy, 2009, 32). In Bangladesh 75% of the aid went to government officials and their friends (see section 4.1.2). Winters gives the example of Zaire (today the Congo), where Mbutu was in power in the 1970s and 1980s and took a large amount of the foreign aid money for himself, thus foreign aid resulted in a dictator staying in power and not responding to the citizens in any way (interview conducted on July 9, 2013). Otmacic elaborates on Winters’ example:

In Democratic Republic of Congo, one of the richest countries of Africa, billions of dollars are poured into making people survive. The country has all the resources to ensure a good living standard for the citizens, but it is not in the interest either of the “local elites” or of the big foreign players who are making use of the chaotic situation in the country, to make the state really function. As long as the situation continues this way, foreign aid only serves to keep the status quo and ensures injustice continues (interview conducted on July 21, 2013).

These are only some of the many examples of corruption that can be found in the world of foreign aid.

#### **4.3.9 Biased Media Reporting**

However, he says these negative outcomes are rarely reported because the Western media depends on the UN, NGOs and aid agencies for information, stories, transportation, accommodation and other key services, especially in conflict areas. Because of this, the media is unlikely to report anything unfavourable to those they depend upon (Foreman, 2012: 11-19).

#### **4.3.10 Dependency**

The issue of dependency was mentioned by several interviewees (including Kuntari, Ruggerio, Yaqub, Lal, etc.). It was also discussed in the case study of Cambodia. For Lal, dependency is a result of aid goes through a NGO:

The other type of development aid works directly with communities through a non-governmental organization. This is where you will find the root of the aid dependency issue. Projects like organizations building wells in Africa to provide clean water for villages may seem helpful in theory, however it is lacking an important piece. These efforts are not sustainable since no one in the local communities is trained on how the well functions or how to maintain it properly. Now, you see 50,000 wells that are broken throughout Africa and rendered useless to those communities... Many times you see organizations return to areas they had previously served, only to find the community back in its state of poverty. When aid workers ask what happened, the village members respond with "We were waiting for you". Developmental aid does not instil a sense of ownership in communities. They become used to aid workers solving their problems for them, so there is no need for them to find their own solutions.

#### **4.4 Strategies to Make Aid More Effective**

While the problems of foreign aid are many, as discussed above, there can be and has been improvement. Yaqub, for example, asserts that in the case of Timor-Leste the country's leadership has worked hard to learn from the lessons of other countries

and has been largely successful in this. Below are described some of these “lessons learned”.

#### **4.4.1 Use Local Labour**

As Boone stated in his interview on July 18, 2013, donors often spend a substantial part of the money on their own staff and consultants. This is a widespread criticism of foreign aid. In Timor-Leste, for example, La’o Hamutuk estimates that 90% of aid was spent on international salaries, foreign soldiers, overseas procurement, imported supplies, consultants, overseas administration, etc. (La’o Hamutuk, 2010).

Academics such as Professor Kingsbury and aid practitioners such as Mitchell, however, see this as natural, arguing that what countries such as Timor-Leste need can often not be sourced locally and therefore the money is not spent locally and contributes little to the local economy (interview conducted on May 21, 2013). There is, however, debate about this point, as Curtain says the local labour force is often underutilized and their skills underestimated (in other words, the local labour force often has sufficient skills but just is not used).

In the view of the author, this state of affairs is acceptable when it comes to emergency aid (when meeting basic human needs takes precedence over contributing to the local economy), but in the case of long-term development local involvement should really be prioritized.

#### **4.4.2 Involve Local People in Aid Projects**

This section is related to the one above, but deals with more diverse forms of local involvement than only labour. Lal describes this strategy:



We must always listen to people and allow them to highlight their needs, then we must dialogue solutions with them that seem achievable, and we must train them to be successful at discovering and maintaining solutions towards development themselves. When we become too involved and take too much control, we miss out on the beauty of people learning for themselves how to reach a state of well-being and seeing the results come to fruition in their lives (interview conducted on August 18, 2013).

Anderson and others agree that aid recipients “want to offer their ideas, feel that they are listened to and know that their analyses are weighed in programmatic strategies and decisions” (2012: 114).

Curtain elaborates on the above in terms that are more concrete:

A UNDP project entitled ‘Local Development Programme: Decentralisation and poverty reduction’ has piloted mechanisms for dispersing funds at district level based on priorities set by elected representatives. Block grants have disbursed in the two pilot districts through a ‘Local Development Fund’. In Bobonaro District initially and more recently in Lautem District, the Government has set up District and sub district assemblies to oversee a process for deciding on how to disburse funds for local development. The funds are allocated ‘according to development plans that have been elaborated by those districts through a participative and inclusive planning process’. The funding amounts available are made known to district and sub-district assemblies at the beginning of their yearly planning cycle. So the assemblies are aware of the resource limitations so that they can prioritise development needs accordingly. The District Assembly is the budget owner. Each village (sucos) is asked to identify its needs and these are prioritised at the subdistrict level and then passed to the district assembly. This project can and should serve as a model for others (interview conducted on July 5, 2013).

According to Lal, coming into a village and tell the locals what they think needs to change is the most common mistake foreigners make. Otmacic adds a layer of depth to this perspective by arguing that the problem often lies in Western logic, which is “only one of the possible logics, and probably not the best one” (interview conducted on July 21, 2013). She says that though the West’s prejudice towards their own logic is hard to overcome, until it does “[aid actors] will keep on doing project that don’t ‘fit’

other ways of thinking, and sometimes do more harm than good” (interview conducted on July 21, 2013).

Lal provides two entertaining anecdotes about what happens when this strategy is not followed. She describes:

I once heard a story of a woman who went to Romania to distribute shoes to children. The children were ecstatic and ran around overjoyed with their new shoes. Two weeks later, she noticed the children were all barefoot again. The parents had sold the shoes in exchange for food money and school fees.

Another story that my Anthropology professor told me was when he was working with the Peace Corps in the Dominican Republic. Their assigned project was to build a pipeline from the top of a steep hill nearby down into the center of the village so that members did not have to hike it each day to get clean, fresh water. When my professor was meeting with the city leaders to finalize the project, he discovered that the community didn't mind the hike and would have rather seen the money used towards building a school for their children (interview conducted on August 18, 2013).

There are many advantages to involving local people to a greater degree in aid projects. One of them is accuracy: local people often have context-specific knowledge and foreign aid workers do not. Another advantage is that local involvement leads to more sustainable projects: the knowledge and experience gained by local people while cooperating with foreign aid workers on projects will allow them to continue the project once the foreigners leave. In the words of Lal, “If a community feels empowered to lift themselves out of poverty, they are much more likely to maintain that level of effort towards developing and bettering themselves, their families and their communities” (interview conducted on August 18, 2013). This is, in the opinion of the author, the greatest antidote the issue of dependency described in section 4.3.9 above.

This paradigm shift, however, needs to take place not only for the donors, but also for the aid recipients. People receiving aid need to be involved in their own future.

This strategy was not followed in Timor-Leste. Local people, when involved in aid projects at all, were involved mostly as lowly workers. Curtain stated “international foreign aid agencies such as the World Bank failed badly to incorporate an appreciation of the vulnerabilities the population has been experiencing” (interview conducted on July 5, 2013). The lack of local involvement is one of the main reasons why aid in Timor-Leste was less effective than it could have been.

There is great progress being made with this strategy on a global level. According to Lal, the Peace Corps has shifted their model to incorporate more research in communities prior to assigning projects, and they now use local community members to help facilitate the projects. Many other organizations are adopting similar training models that allow members within the community to lead the development, while the aid workers humble themselves into roles that merely support them

#### **4.4.3 Let the Local Government Set the Priorities**

In line with the theme of localization (see sections 4.4.1 and 4.4.2 above), this strategy focuses on encouraging local governments to set aid priorities. Foreign aid creates many projects that are not in line with the local government’s plan. Donors not only fail to cooperate effectively with the government, but even go around them (Winters, interview conducted on July 9, 2013). This happened, for example, in Timor-Leste. Often this strategy is difficult to implement because donors and governments have not only different priorities, but also different time frames. Despite this difficulty, however, foreign aid is much more effective (or, according to Curtain, *only* effective) when it is undertaken with the government’s cooperation (Winters, interview conducted on July 9, 2013; Curtain, interview conducted on July 5, 2013).

This strategy is emphasized by Mitchell, who states “development partners can make their aid more effective by better aligning their aid with the strategic priorities set forth by the government” and “donors should listen to the priorities set forth by the leadership of [the country] and then do everything they can to align their funding to these priorities”.

In Yaqub’s point of view, this strategy was effectively implemented in Timor-Leste:

Timor-Leste's leaders have worked hard to explain to donors which kinds of programs are the most likely to succeed both in the short and long term and that are truly reflective of their specific situation as a country recovering from genocide. In a little over ten years, Timor-Leste has shown remarkable resiliency and is creating -and I would argue succeeding- with a strategic plan to not fall into the "resource curse" (interview conducted on July 8, 2013).

#### **4.4.4 Internal Reform and Accountability**

A problem with the above strategy, however, is that the governments of many countries are corrupt (see section 4.3.8 above). Therefore it is necessary to also work to reform local governments and hold them accountable in order to guard against corruption. Curtin states: “aid, though important, is not on its own enough. Of great importance is internal change” (interview conducted on July 5, 2013).

Curtin discusses some of the barriers to this strategy:

Acemoglu and Robinson show how self-serving elites do all they can to avoid disruptive change which could undermine their power. The persistent failure of the government in Timor-Leste to reform its education system could be viewed this way. Better education would lead to be a new generation that is better educated than those in power and with access to resources to mount a political challenge (interview conducted on July 5, 2013).

There is the gross corruption described in section 4.3.8 above, but another issue with recipient governments is general accountability and responsiveness to their own populations. Winters describes how when foreign aid actors provide social services and ideas about what a country needs, it breaks down the governing process. The government becomes less accountable, because citizens do not know who to ask to get things done. The government ends up being more responsive to foreign aid donors than to its own citizens (Winters, interview conducted on July 9, 2013). Thus projects need to be planned and implemented in such a way that encourages a government to be responsive to its citizens and for the citizens to know how to ask the government for things and know that they should ask their own government for things (Winters, interview conducted on July 9, 2013).

#### **4.4.5 Make Full Use of Natural Resources**

In order for a country to recover from a difficult ordeal such as the conflict that occurred in Timor-Leste, or even to develop in general, it needs money. This money could often come from the country's own natural resources. Often, however, foreign actors benefit from a poor country's resources, and then give foreign aid (with its host of problems as described in section 4.3 above).

Kuntari stated that there was no other way for Timor-Leste to become more independent than to optimize their natural resources (interview conducted on May 30, 2013). According to Mitchell, it has successfully done this, as it transition, over a period of ten years, from being 95% or more reliant on foreign aid to being 95% reliant on oil and gas for its revenue. Curtin also agrees, saying:

A negative impact of foreign aid, aid dependency, has worked itself out. Up until 2004 Timor-Leste was one of the most aid dependent nations in the world. It now sits well below the average low-income economies 10 per cent aid to

gross national income ratio. This decline in aid dependence is in large part due to the exploitation of Timor-Leste's offshore oil reserves, shifting Timor-Leste from one of the most aid dependent nations in the world to one almost entirely dependent on oil and gas revenue, with 90 per cent of its GDP being generated from this sector (interview conducted on July 5, 2013).

Yamin, however, warns caution in this situation, and states that Timor-Leste's dependence on the oil and gas sector makes it vulnerable to economic turmoil (interview conducted on July 9, 2013). However, foreign aid is no less reliable or immune from economic turmoil, so it would still seem in a country's best interest to focus on making full use of their natural resources and thereby decrease their dependence on aid. Foreign actors can help make aid more effective by helping local governments to do this, even though it will go against their self-interests as, at the time of this research, donor governments often make large profits from resources in the recipient country (e.g. Australia's role in the oil and gas industry in Timor-Leste).

#### **4.4.6 Focus on Human Resources**

Another strategy to make aid more effective is to focus on developing local human resources. De Almeida said that it is advice and mentoring, not money or goods, which are needed by Timor-Leste (interview conducted on June 13, 2013). Anderson also lists skill training as a more effective and sustainable aid strategy than giving good, citing the evidence of a Cambodian woman selling goods at a roadside stand. She said: "skill training is better than receiving goods. We increase our income, it helps us become more creative, we have more choices for our livelihood, and we can use the profits to buy other things we need such as rice, food and medicine" (Anderson and others, 2012: 18).

Kuntari elaborates on this by saying that human resources need to both be improved (e.g. through training and education) and better utilized (Kuntari, interview conducted on May 30, 2013). This relates to the discussion of involving local labour (section 4.4.1).

#### **4.4.7 Apply Different Strategies for Emergency and Long-Term Aid**

The author, in his research, concluded that emergency aid should be treated differently than long-term development aid. When it comes to emergency situations, the priority is just getting people's basic needs met. Many of the above strategies do not apply then, for example using local labour or providing infrastructure rather than products (because products, such as food, may be exactly what are needed). Lal elaborates:

When you look at emergency relief aid, the assistance positively impacts the community because there is a lack of resources at the time. However, this type of aid usually comes with many negatives since the emergency situation usually takes precedence over the careful planning and organizing that is needed with aid. You will often see organizations and groups finding quick solutions to the issue, that may not be the most sustainable for that community, or that they lose track of funding as people and governments take advantage of it (much like with Haiti after Hurricane Katrina) (interview conducted on August 18, 2013).

The author of this thesis, rather than seeing the above points as negative (as Lal did), finds them natural and even necessary given the situation. However, these practices should not be continued in long-term development aid.

#### **4.4.8 Coordination Among Donors**

Aid volatility and fragmentation, and transaction costs (which increase proportionally to the amount of donors and the less coordinated they are) are described

in sections 4.3.4 and 4.3.5 above, as well as the Ethiopian case study. The strategy of donor coordination was articulated by Birmingham, Winters, Ruggerio and Mitchell. Ruggerio suggest a centralized website where aid groups can register and give/receive help (i.e. the NGO that builds schools can pair up with the NGO that instructs teachers, etc.). Currently the only way to meet other NGO leaders in Timor-Leste is through social activity and networking.

A further advantage would be that more money would get to the targeted recipient country. Mitchell described in detail how in the current system, aid goes through several organizations (or sub-organizations), each of which have transaction costs that they pay from the aid money. The sum that finally gets to the target country after all these transaction costs is significantly less than the original. Please see section 3.5.2 for more details.

#### **4.4.9 Judicial Use of Foreign Aid**

An important aspect of foreign aid is knowing when to stop giving it. Lal elaborates on how aid actors do not know how to decide when a country struck by calamity has received enough aid to get back on its feet, and when to stop giving aid. She continues, however, by saying that because the stopping point is difficult to measure, many aid relief aid programs end up remaining in countries long after they are needed, thereby creating dependency. In the case of Timor-Leste, for example, De Almeida said that aid was no longer needed after the emergency, and the foreign aid actors that remained did so in their own interests to benefit from the situation.

Yamin believes that “If necessary, there should be times at which foreign aid is put ‘on hold’ in certain sectors in order to allow the government and the private sector in Timor-Leste to develop its own ability to cover its needs” (interview conducted on



July 9, 2013). Holding aid can prevent dependence, encourage entrepreneurship, build local capacity and encourage local officials to innovate and stimulate economic opportunities themselves.

This strategy was used in Ethiopia, when aid was discontinued during the ruling of the military regime. At the time of this research, there is a political debate of whether the United States should discontinue foreign aid to Egypt, which just experienced a military coup. Whatever the decision will be, the author believes that when it comes to foreign aid, “more is not always better”.

#### **4.4.10 Evaluation**

A vital aspect of any project is evaluation, and foreign aid projects are no exception. Foreign aid programs should be evaluated, so that they can be made more effective. Incorporating feedback from the recipients into the equation encourages accountability. Winters elaborates:

At the local level I think that what works is designing projects where the citizens can give the feedback on how the project is working. Where the people who are supposed to be benefitting from a project have a way of saying whether that project is working or not. And the more that you increase citizen involvement and mechanisms for citizens to give feedback, the more it leads to better local projects (interview conducted on July 9, 2013).

Several interviewees listed the effectiveness of the aid in reaching the poorest groups and areas as a necessary step of evaluation. Curtain stated that

Methods of recording the effectiveness of foreign programs in meeting the needs of the poorest groups in society need to be established. Assessments of the extent to which services in education, health and agriculture are reaching the poorest need to be made based on survey data (interview conducted on July 9, 2013).

Mitchell supplemented this view, saying:

To make aid more effective [aid actors] need to stop thinking so much in terms of aid spent in the capital and get out into rural areas more. I think donors are very quick to criticize governments for forgetting about rural areas but if you look at where the donors spend their aid money it is primarily in urban areas. Timor has an online transparency portal where you can actually see, it will show you a map showing you where aid is sent around the country. Dili receives significantly more aid than anywhere else in the country and so donors should be seeking to expand their aid programs out into the most rural areas and not just send it right to the capital (interview conducted on July 4, 2013).

Evaluation can be a tricky business. According to Boone, “everyone thinks their aid projects work, but that is often because they don't measure it well enough. We have embarked on projects which seem very successful only to find, when we finally measure outcomes, that they were not effective” (interview conducted on July 18, 2013). He suggests comparing projects to controls or a realistic history, ensuring that the evaluators are independent and determined leadership that makes sure that bad news is admitted (interview conducted on July 18, 2013).

Otmacic said that evaluations are often done in theory, but in practice they are often avoided because aid actors do not really want to know what they have achieved so far. Billions of dollars have been invested, for example, in improving the living conditions of Palestinian refugees in Lebanon, and conditions do not seem to have improved much, if at all. In her opinion, nobody knows why and even donors do not want to find out.

In the evaluative process, communication is vital for accountability. An aid agency will not be held accountable by the people they are trying to help, if the local people do not know what its goals were in the first place.

## **4.5 Strategic Frameworks**

In addition to his own 10 strategies (developed in collaboration with interviewees and academic sources), the author will list here six holistic (often with multiple steps), academic strategies.

### **4.5.1 Radelet's Five Strategies**

Radelet lists five ways of making aid more effective (Radelet, 2006: 14-15). First, donors should separate politically motivated aid from aid whose goal is socio-economic development. He lists aid given by the United States to Pakistan and Jordan in the last few years (to gain support for the so-called "War on Terror"), to Egypt and Israel since 1979 (to consolidate the Camp David Peace accords) and to the Philippines (to be allowed to keep a military base there) as examples of aid where political aspirations were mixed with aspirations for socio-economic development.

Radelet's second point is that less aid should be given to middle-income countries that, despite advantages such as higher savings rates, tax revenues and access to private capital markets, have historically received more than one-third of all aid. An example of this is Pakistan. Rather, Radelet believe aid should be given to the poorest countries, the ones that really need it (Milanovic and others, 2006).

Third, aid should be directed towards countries with clear socio-economic development policies, rather than to countries with unclear policies. Anderson elaborates that these policies should be targeted, specific, measurable, accountable and scalable (Sachs 2006 in Haugen, David and Susan Musser, 2013: 14).

The fourth point Radelet argues is that more attention should be paid to the specific context into which the aid is being given, rather than a one-size-fits-all approach. For example, in well-governed democratic country it makes sense for more

aid to go towards the government, while in a corrupt country or one run by a dictator, more should be directed to NGOs and other aid agencies.

The fifth way to make aid more effective is for it to come with clear targets and measureable results, with both donors and recipients held accountable for achieving the specified goals, and with independent monitors measuring the results, not the aid agencies themselves (Milanovic and others, 2006). This point is especially important in the case of Timor-Leste, where a lack of clear targets resulted in most of the aid money being spent on international salaries, foreign consultants, overseas procurement, imported supplies and overseas administration, rather than improving the lives of the East Timorese. The situation is similar in other countries that receive aid. Radelet believes that though there are many changes that can make aid more effective, these are the most important.

#### **4.5.2 World Bank's Budget Support Approach**

A World Bank publication entitled "Budget Support as More Effective Aid?" offers a new approach to make aid more effective. Budget support is defined as finance assistance given to a recipient country for budgeting on a regular basis. The difference, however, lies in that it uses the country's own financial management systems and budget procedures. The characteristics of this approach are (Koeberle and others (ed.), 2006: 5-7):

- (i) Channelling of donor funds to a partner country using its own allocation, procurement, and accounting systems;
- (ii) Support for a recipient country's own development programs, typically focusing on growth, poverty reduction, fiscal adjustment, and strengthening of institutions, in particular budgetary processes;

- (iii) The policy content and performance assessment and accountability framework of budget support is focused on policy measures and benchmarks related to overall budget and policy priorities, as set out in the country's strategy (PRSP) [Poverty Reduction Strategy Paper] and medium-term expenditure framework (MTEF);
- iv) Donor funding is provided at regular intervals, ideally in alignment with the country's annual budget cycle
- v) With agreement on the general budget priorities and expenditures, in principle there is no need for earmarking of funds for specific budget expenditures.

It is hoped that this approach will make aid more effective by (Koeberle and others, 2006: 9):

- (i) Better prospects for strengthening country ownership
- (ii) Reducing transaction costs
- (iii) Ensuring sustainability of reforms
- (iv) Increased predictability of funding
- (v) Addressing government-wide issues that cannot be tackled with stand-alone and sector projects
- (vi) Promoting accountability
- (vii) Improving the efficiency of budget spending
- (viii) Encouraging greater results orientation
- (ix) Focusing on national priorities rather than on operational issues or activities with limited scope and effect

#### **4.5.3 Anderson and Others' Collaborative Paradigm**

Many of the points in the collaborative paradigm developed by Anderson and others are repeated in the strategies above (e.g. sections 4.4.2 Involving Local People in

Aid Projects, 4.4.6 Focusing on Human Resources, and 4.4.11 Evaluation) but are presented here as a holistic whole.

Anderson and others (2012) say that foreign aid needs to shift from an externally driven aid delivery system to a collaborative aid paradigm. Table 21 describes these two categories:

Table 21: Comparison of two paradigms

	<b>Externally Driven Aid Delivery System</b>	<b>Collaborative Aid</b>
Local people	Beneficiaries and aid recipients	Colleagues and drivers of their own development
Focus on	Identifying needs	Supporting/ reinforcing capacities and identifying local priorities
	Spending on pre-determined schedule	Fit money and timing to strategy and realities on the ground
	Focus on growth	Planned drawdown and mutually agreed exit/end of assistance strategy
Program planning	Re-planned/ pre-determined	Context relevant, developed jointly by recipient communities and aid providers
Decision making	Provider-driven	Collaborative
Staff evaluation & rewards	Managing projects on time and on budget	Quality of relationships and results that recipients say make lasting positive changes in their lives
Monitoring, evaluation, & follow-up	By providers on project spending and delivery of planned assistance	by providers and recipients on the results and long-term effects of assistance

*(Source: Anderson and others, 2012: 138)*

From the table above, one can see that the externally driven aid delivery system is the paradigm most commonly used at the time of this research. It starts from “the fact that donors are there to provide things” (Anderson and others, 2012: 137). On the other hand, the paradigm of collaborative aid “starts from the premise of what people have,

not what they need. It identifies what they already know and do well, not the gaps in their knowledge and skill” (Anderson and others, 2012: 137).

One of the most important aspects of the collaborative paradigm is communication. Anderson and others elaborate:

The Listening Teams heard a lot about communication – not just participation in decisions, but simple respect. For example, answering communications; informing people about what was going on and what was expected to happen; assuring that a broad spectrum of people were informed, not just leaders; speaking to people as social equals; listening as well as speaking; and so forth – Listening Project Report, Bolivia (Anderson and others, 2012: 114)

The actors that create projects should provide more information to the recipients, such as the reason behind the program, priorities and strategies. This will increase the long-term sustainability of the projects (allAfrica, 2009). In the decision-making process, recipients “want to offer their ideas, feel that they are listened to and know that their analyses are weighed in programmatic strategies and decisions” (Anderson and others, 2012: 114). In the evaluative process, communication is vital for accountability. An aid agency will not be held accountable by the people they are trying to help, if the local people do not know what its goals were in the first place.

This paradigm shift, however, needs to take place not only for the donors, but also for the aid recipients. People receiving aid need to be involved in their own future. In the long term, this is a useful strategy for avoiding the trap of aid dependency.

#### **4.5.4 Tandon’s Seven-Step Approach to Avoiding Aid Dependency**

A paradigm shift (like the one described above) is actually the first step of Tandon’s seven-step approach to avoiding aid dependency. The other steps are: budgeting for the poor and not for the donors, focusing on employment and decent wages, creating a domestic market and owning domestic resources, plugging the

resource gap, creating institutions for investing national savings, and limiting aid to national democratic priorities (Tandon, 2008: 77-102).

#### 4.5.5 Korten’s People-Centred Development Approach

Within the collaborative paradigm is a focus on people rather than growth. David Korten, American economist and former Professor of the Harvard Business School, proposed his own solution, which he calls people-centred development. Table 24 compares his solution with the growth-centred development that is predominant at the time of this research.

Table 22: Korten’s two visions of development

<b>Growth-Centred Development</b>	<b>People-Centred Development</b>
Material consumption	Human well-being
Wants of the non-poor	Needs of the poor
Corporation or business	Household
Competition	Community
Export markets	Local markets
Absentee ownership	Local ownership
Borrowing and debt	Conserving and sharing
Specialization	Diversification
Interdependence	Self-reliance
Environmental costs externalized	Environmental costs internalized
Free flow of capital and services	Free flow of information

*(Source: Myers, 1999: 96)*

For Korten, aid that promotes people-centred development is more effective at reducing socio-economic problems. He believes that strategies that fit into this framework are “increasing government accountability and transparency, strengthening public institutions, expanding local markets, increasing foreign direct investments,



allowing remittances to take place at an affordable price, implementing microfinance programs, and participating in government bonds” (Lal, 2011: 26).

#### **4.5 Conclusion**

This chapter looked at the effectiveness of aid. It began by examining in brief the implementation of aid in four post-conflict countries. These case studies supplemented Chapters 2 and 3 about Timor-Leste by providing a reference point to the debate of whether foreign aid has generally been successful or unsuccessful in achieving its aims. Arguments were made for the success as well as the failure of aid. However it is hard to ignore the facts presented in the previous two chapters, which show that the large amount of foreign aid given to Timor-Leste has had little impact on the country due to ineffective aid implementation. This state of affairs is tragic considering the fact that the European Commission, ADB, United Nations and many other aid actors have many years of experience in aid implementation. This problem needs to be addressed immediately. The author of this thesis thinks that the truth lies somewhere in the middle: aid has sometimes, in some places, been effective.

What is important, however, is looking at ways to make aid more effective. Many strategies were discussed in this chapter about how to do just that. Though the aid given to Timor-Leste has been largely misappropriated and squandered, it is hoped that the author’s analysis might contribute to the debate of how foreign aid should be implemented more effectively to help those who need it. In the words of Kuntari, “We have a long way to go, but if we do not start now, it will be too late” (interview conducted on May 30, 2013).

## GENERAL CONCLUSION

The success of the Marshall Plan in helping Europe recover socio-economically after World War II was the embryo of the modern concept of foreign aid. Foreign aid has the potential to alleviate poverty and suffering, allow rich countries to share their wealth with poorer countries, address global problems (such as human rights, environmental and health issues), promote democracy and help to create a more peaceful world.

Today foreign aid is a global practice with a complex network of national governments, the United Nations, the IMF, the World Bank, NGOs, and many other bilateral and multilateral aid donors have emerged. However from the start foreign aid was a debated topic. Many US citizens did not favour the Marshall Plan as they thought their country had helped Europe enough and the government should focus on national problems, while some countries (e.g. Russia) opted out of the plan because they believed that it was only a tool for the United States to serve their own interests. Many of these issues, especially the one concerning a donor's self-interest, continue to plague donors and recipients alike.

Insights into the debate over foreign aid are gained by looking at it from different theoretical frameworks. Idealist theory, for example, posits that donors give aid for altruistic and humanitarian purposes, and that aid is effective in alleviating global poverty. Realism, on the other hand, presupposes that human beings are inherently selfish, countries act only in their own interests and that aid is, on the whole, ineffective.

Some scholars, such as Vincent Martinez Guzman, have brought these two philosophies together by arguing that human beings have the capacity to be both good and bad, selfish and generous, peaceful and violent. What is important, therefore, is not arguing about the positive or negative impact foreign aid has, but rather working to make it the best it can be.

Postcolonial theory argues that aid is just another way for the West to dominate other countries. Foucault, for example, says aid is rife with Western assumptions about what it means to be happy, to be free, how people should develop, etc. Dependency theory elaborates on Postcolonial theory by looking at the negative effects aid can have on recipient countries. Development theory looks at the ways that a country develops.

From all of these theories (Idealism, Realism, Postcolonial, Dependency and Development) I learned how to look more critically at aid implementation. By studying these theories first, he had a greater understanding of the important questions to ask when researching of a specific case study (in this case Timor-Leste). These questions include why the aid was given (which may differ from why the donor says he/she is giving the aid), who benefits from the aid (again, one must look beyond the surface to get the true answer), under what assumptions (e.g. Western ideas) is the aid being given and implemented, how is “development” in the recipient country measured. These questions guided the subsequent research and helped me know what to look for.

Timor-Leste is a country that has suffered greatly under hundreds of years of occupation and war. As presented in Chapter 3, Timor-Leste had to face many socio-economic problems, and the country struggled to meet people’s basic needs, repair and rebuild destroyed infrastructure, restore public services such as education and health and security, and lift itself out of poverty. The situation evoked the sympathy of the international community, which generously allocated foreign aid to Timor-Leste.

Aid brought great hope to the Timorese, but these hopes were not fulfilled. At the time of this research, the country is still poor as it has low GDP and many socio-economic problems remain unresolved. My main motivation in writing this thesis was to find out why this is the case.

My first objective was to look at the socio-economic condition of Timor-Leste before foreign aid was implemented, as a point of comparison. In researching this section I found out that I had to go a long way back into history, as conditions from hundreds of years ago (i.e. Portuguese occupation) affected how the country developed (for example in the areas of exports and education) and thus continue to have an impact on socio-economic conditions today. It was hard for me to study some of the more bloody periods in Timor-Leste's history, however it was important in order to know what the country is dealing with and recovering from today.

Once the baseline of socio-economic conditions before aid was given was understood, I turned to the implementation of foreign aid itself. As is common in recipient countries, Timor-Leste had many aid actors and projects (sometimes overlapping, sometimes fragmented). Only after studying many sources (including books, journals, newspapers, interviews, etc.) could an overview of the positive and negative impacts of foreign aid in Timor-Leste be made. Even then, I question the validity of the data as it came mostly from foreign sources, with few (mainly interview and survey responses) coming from local Timorese. One of the main sources used in this thesis, was NGO La'o Hamutuk, however most of the people working there are foreigners that may be acting in their own interests (such as getting more funding, receiving salaries from forums, conferences and presentations, etc.). This was especially disheartening for me as the goal was not only to analyze the effect of foreign aid in Timor-Leste, but also to strategize about how to make aid more effective (and generalize these strategies such that they could be informative for other countries in similar situations as well). If one is basing one's research on biased information, however, one could propose the wrong solutions, an especially important consideration when it comes to strategies that affect people's futures.

The same question of bias plagued the research that went into Chapter 4, which broadened the analysis from the specific case study of Timor-Leste, to issues faces by other countries receiving foreign aid. Ethiopia, Bangladesh, Cambodia and Afghanistan were particularly looked at, as they share (with Timor-Leste) the condition of being a country receiving aid post-conflict, but a geographically diverse to provide a more expanded perspective. My motivation in broadening the work in this area was to allow greater relevance and applicability to the strategies recommended in the next section.

Concerning the success of aid (in both Timor-Leste and generally), many academics and aid practitioners have argued for the effectiveness of aid, including Mason, Sachs, Shah, Radelet, and UN director Charles Abugre. In Radelet's statistical analysis, which controls for other variables such as geography, political conflict, policies and institutions, is particularly convincing. Health is an oft-cited example of the effectiveness of aid (e.g. the eradication of polio and small pox), as is emergency (disaster) aid. This research also presents the positive testimonies of several beneficiaries of aid.

Scholars and interviewees arguing the failures of aid also have convincing arguments. Not many share Yaqub's extreme view that foreign aid as a model is broken or that Hancock's theory or model of aid is inherently bad and utterly beyond reform. Almost any scholar, however, has a long list of problems with aid. A non-exhaustive list includes that aid benefits donors more than recipients, most of the money goes to the aid organizations themselves rather than to poor people, aid projects have unclear purposes, donors are uncoordinated (aid volatility and fragmentation), transaction costs borne by the government of dealing with a multitude of donors and aid actors. Underutilizing local capacity, facilitating corruption, biased media reporting, loss of traditional culture, contributing to social inequality, and creating dependency. These issues are common both in Timor-Leste and other aid recipients.

After studying and analyzing all of the case studies and information, and in collaboration with interviewees (academics, aid professionals, and beneficiaries of aid), I have come up with 10 main strategies that I believe are most valuable for increasing the effectiveness of aid. They are: using local labour, involving local people in aid projects, letting the local government set the priorities, safeguarding against government corruption and encouraging internal reform (when necessary), and accountability, allowing the country to fully benefit from its own natural resources. focusing on developing human resources, applying different strategies for emergency vs. long term aid, coordinating among donors, supplying foreign aid judiciously (that is, withholding it at times if that would better serve the country, for example to give a chance for local government officials, businessmen and entrepreneurs to solve the country's problems, and lastly evaluating the aid.

In terms of future research, I concluded that perhaps the topic had been too broad. Talking about the effect of foreign aid on socio-economic conditions in Timor-Leste meant talking about many actors and projects and many measures of the result (e.g. life expectancy, literacy, GDP, etc.). Considering what I have learnt during this research, I believe further research might do better to focus on one specific actor and project, and analyze its impact. For example, the impact of Australian aid on Timorese education, the role of USAID in promoting gender equality in Timor-Leste. This would allow a more clear and detailed analysis as well as shed light on the core problems that have been described in this work.

Foreign aid, when implemented effectively, has the potential to be extremely positive and to change people's lives. Timor-Leste is a country that has fought very hard and for a very long time for independence. The Timorese have suffered greatly, and they deserve to have quality lives and to be happy. Let's work towards making foreign aid effective so that both of these hopes can come to fruition, a better Timor-Leste!

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## APPENDICES

### Appendix A: Interview Request Letter

(distributed in both English and Indonesian)

Dear \_\_\_\_\_,

My name is Arie Paksi, and I am writing my thesis on "A Critical Analysis of the Impact of Foreign Aid in Timor-Leste" as part of my Masters in Peace, Conflict and Development Studies at Universitat Jaume I in Spain. I am very interested in why, after receiving such a large amount of aid, Timor-Leste is still a poor country.

I came across your work online and found it informative and insightful. I was wondering if I may ask you a couple of questions. Even though these questions were partially answered in your work, I want to use interviews as a source of primary data for my thesis, so please put it in your own words again. The two questions are:

- 1) In your opinion, what were the positive and negative impacts of foreign aid in Timor-Leste?
- 2) What are some strategies for making aid more effective in Timor-Leste?

If you would be so kind, you can answer these questions by email, or we can talk over the phone or Skype, or phone, whatever is most convenient for you.

Also, if you know anyone else who is knowledgeable about this issue and might be willing to help, please forward this email.

Thank you so much and I look forward to your response,

Arie Paksi

### Appendix B: Organizational Sheet for Interviewees and Contacts

*	Name	Position	Nationality	Contact Information	Date Contacted **	Status *** **
A	Arvind Subramanian	Senior fellow at Peterson Institute for International Economics and Center for Global Development, Senior research professor at Johns Hopkins University Work: "Aid and Growth: What Does the Cross-Section Evidence Really Show?"		asubramanian@petersoninstitute.org	7/18	NR
A	Alberto Alesina	Professor of Political Economy at Harvard University Work: "Do Corrupt Governments Receive Less Foreign Aid?"	Italian	aalesina@harvard.edu	7/18	NR
A	Raghura M. G. Rajan	Professor at the University of Chicago, Chief Economic Advisor to the Government of India Work: "What Undermines Aid's Impact on Growth?"	Indian	raghuram.rajan@chicagobooth.edu	7/18	NR
A	Mica Barreto-Soares	Work: "Foreign aid for State-Building: A Comparative Study of Australian and Chinese Aid Programs in Timor-Leste" (2011)		barreto_mica@hotmail.com	7/9	NR
A	<b>Prof. Damien Kingsbury</b>	<b>Director at the Center for Citizenship, Development and Human Rights. Professor at Deakin University</b>	<b>Australian</b>	damien.kingsbury@deakin.edu.au	<b>5/21</b>	<b>I 5/21</b>
A	Andrew McGregor	Professor at Victoria University of Wellington and Macquarie University Work: "Development, Foreign Aid and Post-Development in Timor-Leste" (2007)	New Zealander	arm@geography.otago.nc.nz	7/06	P
A	Ben Dolven	Specialist in Asian Affairs		bdolven@crs.l	7/01	NR

		Work: “Timor-Leste: Political Dynamics, Development, and International Involvement” (2012)		oc.gov		
A	Bruce Vaughn	Specialist in Asian Affairs Work: “Timor-Leste: Political Dynamics, Development, and International Involvement” (2012)		bvaughn@crs.loc.gov	7/01	NR
A	David Chick	Lecturer at Duke University Work: “How to use Australian Aid to Promote Peace in Timor-Leste” (2007),	Australian	david.chick@duke.edu	7/01	NR
A	Prof. Gordon Peake	Lecturer at Australia National University Work: "An Increased Spotlight: Australia in Timor-Leste" (2012),		Gordon.Peake@anu.edu.au	7/01	P
A	Rhoda Margesson	Specialist in International Humanitarian Policy Work: “Timor-Leste: Political Dynamics, Development, and International Involvement” (2012)		rmargesson@crs.loc.gov	7/01	NR
A	Sigrid Gruener	Center for International Conflict Resolution at Columbia University Work: “Timor-Leste Conflict Assessment” (2004),	Swedish	sug2001@columbia.edu	7/01	NR
A	any	Coady International Institute	Canadian	coady@stfx.ca rperry@stfx.ca gcunning@stfx.ca accamero@stfx.ca mcoyle@stfx.ca	7/05	Gord Cunningham replied and said no one in Coady has experience with Timor-Leste but to email Dee Brooks. Mary Coyle replied and forwarded the email to Dr. John Gaventa, Director of the Coady Institute



A	Dr. Jacqueline Aquino Siapno	Lecturer at University of Dili, Former professor in Universitat Jaume I	Timorese	jacqueline_siapno@yahoo.com.au	7/05	NR
A	<b>Dr. Mathew Winters</b>	<b>Assistant Professor of Political Science, University of Illinois</b>	<b>American</b>	<b>mwinters@illinois.edu</b>	<b>7/05</b>	<b>I 7/9</b>
A	Nadia Molenaers	Researches the political economy of aid, particularly the way in which donors use their aid to lever for change.	Belgian	nadia.molenaers@ua.ac.be	7/05	NR
A	Prof. Geoffrey C. Gunn	Author of “East Timor and the UN: The Case of Intervention (1997)		http://geoffreygunn.com/contact.php	7/05	NR
A	Susan Eaton	Adult educator at the Coady Institute	Canadian	susan.eaton@nssympatico.ca	7/05	NR
A	Anuj Jain	Senior Fellow Microfinance and Development at the Coady Institute, former Regional Manager of CARE Int. UK	Indian	ajain@stfx.ca	7/06	Said to contact Jill Umbach: jill.umbach@gmail.com
A	Helen Mary Hill	Educator at the Coady Institute	Canadian	(Facebook)	7/06	NR
A	Charles Abugre	Deputy Director of the UN Millennium Campaign, Africa Work “Foreign Aid is Wasted on Africa” (2013)	Ghanaian	Cabugre2000@yahoo.com	7/07	D
A	Di Wang	Work: “A case of Timor-Leste: From Independence to Instability or Prosperity?” (2012)	Chinese	wangdiqz0727@yahoo.com	7/07	NR
A	Dong Wang	Researcher at the Crawford School of Public Policy, Australian National University Work: “A case of Timor-Leste: From Independence to Instability or Prosperity?” (2012)	Chinese	wangdong.anu@gmail.com	7/07	Referred me to his colleague: Mrs. Di Wang

A	Lisa Palmer	Researcher at the University of Melbourne Work: “Enlivening Development: Water Management in Post-Conflict Baucau City, Timor-Leste” (2010)	Australian	lralpalmer@uni melb.edu.au)	7/07	NR
A	Prof. Kelley Cristiane da Silva	Professor at the University of Brazil Work: “Aid as Gift: An Initial Approach” (2008)	Brazilian	kellysa@uol.c om.br	7/07	P
A	Prof. Stephen Shalom	Author and professor of Political Science at William Paterson University Work “East Timor Questions & Answers” (1999)	American	shaloms@wpu nj.edu	7/07	Said he was not an expert, recommended some sources
A	Ruth Wedgwood	Professor of International Law and Diplomacy at John Hopkins University Work: “Trouble in Timor” (2000)	American	RWedgwood @jhu.edu	7/08	NR
A	<b>Erika Lal</b>	<b>Work: “A Hurting Land: Why Foreign Aid Does Not Work” (2011)</b>		<b>(Facebook)</b> <b><u>ErikaLal89@ gmail.com</u></b>	<b>7/11</b>	<b>I 8/17</b>
A	Prof. Andrei Shleifer	Professor of Economics at Harvard University Work: “Foreign Aid Has Been a Failure”	American	<u>ashleifer@harv ard.edu</u>	7/11	NR
A	Dee Brooks	Facilitator of the ABCD Asia Pacific Network, professor at Newcastle University in Australia	Australian	Dee.Brooks@n ewcastle.edu.a u	7/12	Said hasn’t worked in Timor-Leste, forwarded email to Peter Kenyon and Chris Dureau
A	Any	East Timor Study group	Timorese	easttimorstudie s@anu.edu.au	7/14	NR
A	<b>Peter Boone</b>	<b>Senior fellow at the Peterson Institute, visiting senior fellow at the London School of Economics ,</b>		<b>pb@effint.org</b>	<b>7/18</b>	<b>I 7/18</b>

		<b>principal at Salute Capital Management and chairman and cofounder of Effective Intervention. Work: “Politics and the Effectiveness of Foreign Aid” (1995)</b>				
A/P	Yash Tandon	Executive Director, South Centre, Geneva Author of “Ending Aid Development” (2008)	Ugandan	<a href="http://yashtandon.com/contact/">http://yashtandon.com/contact/</a> , <a href="mailto:tandon@southcentre.org">tandon@southcentre.org</a>	7/07	NR
A/P	Jeffrey D. Sachs	Director of the Earth Institute, Columbia University and Senior UN Advisor Work: “Foreign Aid Helps Recipient Nations”	American	<a href="mailto:klee@ei.columbia.edu">klee@ei.columbia.edu</a>	7/11	NR
A	Prof. William Easterly	Professor of Economics, New York University/ Co-Director of Development Research Institute Author of “The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good” (2006)	American	<a href="mailto:William.Easterly@NYU.edu">William.Easterly@NYU.edu</a>	7/11	NR
J	John Pilger	Journalist	Australian	<a href="http://Johnpilger.com/contact">Johnpilger.com/contact</a>	5/22	NR
J	Judith Navarro	Former journalist of Media News	Indonesian	<a href="mailto:Judith@dipodiputro.com">Judith@dipodiputro.com</a>	5/22	P
J	Pepih Nugraha	Journalist at the Kompas	Indonesian	<a href="mailto:pepih.nugraha@kompas.com">pepih.nugraha@kompas.com</a>	5/22	NR
J	<b>Rien Kuntari</b>	<b>Former journalist of Kompas</b>	<b>Indonesian</b>	<b><a href="mailto:rienkuntari@yahoo.com">rienkuntari@yahoo.com</a></b>	<b>5/22</b>	<b>I 5/30</b>
J	<b>Kafil Yamin</b>	<b>Former journalist of ANTARA</b>	<b>Indonesian</b>	<b>(Facebook)</b>	<b>6/29</b>	<b>I 7/9</b>
J	<b>Amer Yaqub</b>	<b>Senior Vice President, International at Foreign</b>		<b><a href="mailto:amer.yaqub@">amer.yaqub@</a></b>	<b>7/01</b>	<b>I</b>

		<b>Policy</b>		<b>foreignpolicy.com</b>		<b>7/8</b>
J	Guteriano Neves	Journalist for Foreign Policy in Focus, currently working as researcher at La'o Hamutuk, Work: "Timor's Oil: Blessing or Curse?" (2011)		info@laohamutuk.org	7/01	NR
J	Hamish McDonald	Work: "It's Tiny, Poor, and Very Possibly Not Going to Take it Anymore" Globe and Mail (2013)		(Facebook)	7/01	NR
J	Simon Roughneen	Journalist working with La'o Hamutuk Work: "Aid and Independence in East Timor" (2011)	Irish	simon@simonroughneen.com	7/01	Said to look at La'o Hamutuk website
J	Andrew Zammit	Work: "Independence and then what? East Timor ten years on" (2010)	Australian	andrew.zammit@monash.edu	7/06	D (said outside of his specialization)
J	Bikila Merga	Country director for Timor Today	Timorese	bmerga@gmail.com   bmerga@icfj.tl	7/06	NR
J	Marcelino Pereira	Freelance independent journalist for Timor Today	Timorese	peelfali@yahoo.com.au	7/06	NR
J	Matt Crook	Works for Plan International. Freelance journalist whose work has been run by AFP, IRIN, Guardian, Reader's Digest and many more. Work: "Fragile States Speak Up on Aid Spending" (2011)		matt.crook@plan-international.Org	7/08	Said to email Charles Scheiner cscheiner@igc.org or peacefulsystems@gmail.com
J	Justin Frewen	Work: " 'Trade, Not Aid' Strategy has Not Helped Developing Nations"		(Facebook)	7/16	NR
P		Timor-Leste Ministry of Finance		arm@mof.gov.tl	5/20	NR
P	Dr. Julio Tomas Pinto	Secretary of State for Defense in Timor-Leste	Timorese	Juliotomaspinto.com	5/20	NR

P	any	International Center for Transitional Justice		info@ictj.org	7/01	NR
P	any	Aid Transparency Portal, Timor-Leste Ministry of Finance website	Timorese	amp@mof.gov.tl	7/01	NR
P	Danielle Kuyltjes	Volunteered in Timor-Leste	Canadian	(CS network)	7/01	NR
P	Hirohiko Takata	Chief Representative of the Japan International Cooperation Agency in Timor-Leste	Japanese	Takata.Hirohiko@jica.go.jp	7/01	NR
P	<b>Leigh Mitchell</b>	<b>Advisor with the National Directorate for Aid Effectiveness. Saw his interview on by Ryan McKee on "Millennial Man"</b>	<b>Australian</b>	<b>leigh.h.mitchell@gmail.com</b>	<b>7/01</b>	<b>I 7/4</b>
P	Mauricio Facanha Pinhero	Working as teacher and trainer of teachers in Timor-Leste	Brazilian	(CS network)	7/01	NR
P	<b>Richard Curtain</b>	<b>Public policy consultant working with USAID, UNICEF and AUSAID. Work: "Helping Timor-Leste Implement a Regional Employment Strategy" (2013)</b>	<b>Australian</b>	<b>richard@curtain-consulting.net.au</b>	<b>7/01</b>	<b>I 7/5</b>
P	<b>Senator Simon Birmingham</b>	<b>Work: "Our History in Timor is Proud - Don't Stop Now" (2012)</b>	<b>Australian</b>	<b>http://www.senatorbirmingham.com.au/</b>	<b>7/01</b>	<b>I 7/11</b>
P	Silas Everett	Former Country Representative in Timor-Leste for the Asia Foundation		severett@asiafoundation.org	7/01	NR
P	Forum Tau Matan	Non-profit, non-governmental organization committed to the abolition of human rights violations.	Timorese	ftm121203@yahoo.com	7/02	NR
P	Maya Bruck	Works with Timor Aid, the largest NGO in Timor-Leste.		m_bruck@hotmail.com	7/02	NR
P	Natalia Warat	Program Officer for the Asia Foundation	Indonesian		7/02	P

P	any	World Bank in East Asia and Pacific		eastasiapacific@worldbank.com	7/03	NR
P	any	East Timor and Indonesia Action Network		etan@etan.org	7/03	NR
P	Aquino	Ministry of Tourism of Timor-Leste	Timorese	Aqino2004@yahoo.co	7/03	NR
P	any	United Nations in Timor-Leste		timor-leste@un.int	7/04	NR
<b>P</b>	<b>John Ruggerio</b>	<b>Has been working in humanitarian aid in Timor-Leste for 7 months</b>	<b>American</b>	<b>(CS network)</b>	<b>7/04</b>	<b>I 7/8</b>
P	Joao Mariano De Sausa Saldanha	Director, Timor Institute of Development Studies. Member of Concelho Estado RDTL. Senior Adviser, Policy Analysis and Research, Ministry of Finance. President of Partidu Republikanu (PR). President of Xanana Gusmao Foundation	Timorese	(Facebook)	7/05	NR
P	Afonso Alves de Jesus Candido	Technical Assistant for Local Government, Ministry of State Administration and Territorial Management, Timor-Leste Specialization: Local Governance and Development		afonca75@yahoo.com	7/06	NR
P	Jan Kamenek	Researcher and activist concern to Timor's issues		jan_kmanek@yahoo.com	7/06	NR
P	Monica Rosario Da Costa	Production Assistant for Care International Timor-Leste Specialization: Local Governance and Development		molemoreira@hotmail.com	7/06	NR
P	any	USAID Timor-Leste	American	http://timor-leste.usaid.gov/contact	7/07	NR
P	Mary B.	Executive Director, CDA Collaborative Learning		webmail	7/9	NR

	Anderson	Projects Work: "Time To Listen: Hearing People on the Receiving End of International Aid" (2012)				
P	any	Cato Institute		Webmail	7/9	NR
P	Steven Radelet	Former Senior Fellow at Center for Global Development Work: "A Primer on Foreign Aid" (2006)		sradelet@cgdev.org	7/9	Failure notice
P	Derek Fee	Managing Partner of DevAid Partners Work: "How to Manage an Aid Exit Strategy: The Future of Development Aid" (2012)	Irish	derek@derekfee.com	7/11	NR
P	Stefan G. Koeberle	World Bank Country Director for Indonesia Work: "Budget Support as More Effective Aid? Recent Experiences and Emerging Lessons" (2006)	German	skoeberle@worldbank.org.	7/11	NR
<b>P</b>	<b>Valentina Otmacic</b>	<b>(Recommended by thesis supervisor) Advocacy and Policy Ccoordinator at Amnesty International in Croatia</b>	<b>Croatian</b>	<b>tinaotmacic@hotmail.com</b>	<b>7/11</b>	<b>I 7/21</b>
P	Wolfgang Fengler	World Bank's Lead Economist in Nairobi Work: "Delivering aid differently: Lessons from the Field" (2010)	German	wfengler@worldbank.org	7/11	NR
P	Guspiabri Sumowigeno	Researcher at Center for Indonesian National Policy Studies (CINAPS) Jakarta	Indonesian	guspiabri_sumowigeno@yahoo.com	7/12	NR
P	Wilson	Researcher of Timor-Leste		081510778891	7/15	NR
P	Jill Umbach	Country Director in Timor-Leste for CARE International		jill.umbach@gmail.com	7/16	NR
P	Mark Weber	PovertyCure		mweber@povertycure.org	7/18	NR
P	Dambisa	International economist		office@dambisa	7/18	NR

	Moyo	Work: “Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa”		amoyo.com		
T	Horacio Dos Santos Bareto		Timorese	(Facebook)	6/11	NR
<b>T</b>	<b>Nene De Almeida</b>	<b>Husband of Nur Amirush</b>	<b>Timorese</b>	<b>(Facebook)</b>	<b>6/11</b>	<b>I 6/13</b>
T	Nur Amirush	Wife of Nene De Almeida	Indonesian	(Facebook)	6/11	Said to contact Nene and Horacio
T	Alipio Simoes		Timorese	(CS network)	7/01	P
T	Florentino Ferreira		Timorese	(CS network)	7/01	NR
T	Jo Pereira	Civil Engineer working in Dili	Timorese	(CS network)	7/01	NR
T	Mariani Vicente		Timorese	(CS network)	7/01	P
T	Ronaldo do Rosario		Timorese	(CS network)	7/01	NR
T	Jesus Armindo	Volunteer webmaster for MONUSCO/ UN mission in DR Congo	Timorese	armindo.jesus@gmail.com.	7/02	NR
T	any	Timor-Leste Management Society, Transparency Timor, Fair Trade Network Timor-Leste, The Unofficial East Timor Blog, CAC – Timor Leste, Working Womens Center Timor-Leste, Timor-Leste Studies Association, Timor Today, ETWA – Supporting Women in Timor-Leste	Timorese	(Facebook)	7/06	NR
T	Jason Andand zenaZena	Unofficialeasttimor.com	Timorese	jasonandzena@unofficialeasttimor.com	7/08	Recommended East Timor studies archives:http://mail



						man.anu.edu.au/pipe rmail/easttimorstudies/ East Timor studies group:http://mailman .anu.edu.au/mailman /listinfo/easttimorstudies
T	Jose Pereira Da Conceicao		Timorese	jepec2002@yahoo.com	7/08	NR
T	Jose Dereira		Timorese	Jeloe_2002@yahoo.com	7/08	Failure notice
T	Hugo Almeida		Timorese	hugoalmeida@yahoo.com	7/08	Failure notice
T	Esmeria Lopez Fernandez		Timorese	tchayfaulelly@yahoo.co.id	7/9	Failure notice
T	Martinho Doronha Dos Santos		Timorese	noronhatinbo@yahoo.com	7/9	Failure notice
T	Dulcia Fernandez		Timorese	duleegusmao@yahoo.co.id	7/9	Failure notice
T	Albino Da Silva		Timorese	allbysilva@yahoo.com	7/09	NR
T	Aurelia Husmao Belo		Timorese	aurelia.husmao@yahoo.co.id	7/09	Failure notice

T	Rafael A. De Deus		Timorese	rafael_dedeus@ymail.com	7/09	NR
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\* A = academic, J = journalist, P = professional and T = local Timorese

\*\* all dates are in the format “month/ date” and are in the year 2013

\*\*\* I = interviewed, P = promised, D = declined and NR = no response

**Totals:** 3/33 academics interviewed

3/14 journalists interviewed

5/36 professionals interviewed

1/20 Timorese interviewed

0/2 academics/professionals interviewed

**13 interviews out of 105 requests**

## **Appendix C: Interview Transcripts**

Interviewees:

1. Prof. Damien Kingsbury (May 21)
2. Rien Kuntari (May 30)
3. Nene De Almeida (June 13)
4. Leigh Mitchell (July 4)
5. Richard Curtain (July 5)
6. Amer Yaqub (July 8)
7. John Ruggiero (July 8)
8. Kafil Yamin (July 9)
9. Mathew S. Winters (July 9)
10. Simon Birmingham (July 11)
11. Peter Boone (July 18)
12. Valentina Otmacic (July 21)
13. Erika Lal (August 18)

**Interview 1: Professor Damien Kingsbury**, Director of the Centre for Citizenship, Development and Human Rights. Faculty of Arts and Education, Deakin University, Melbourne

Date: May 21st, 2013

Dear Arie,

The question of aid spending is simplistic. The cost of infrastructure redevelopment has been very high, as is the cost of thousands of expatriate Westerners who have been obliged to work in Timor-Leste. Quite simply, most of what Timor-Leste has needed could not be sourced locally, so the money has not been spent locally and has thus contributed little to economic development. But that was not its purpose - economic development is supposed to come from domestic economic policy, which it increasingly has. The statistics are available from the usual sources such as UNDP etc.

Best wishes,

Damien

**Interview 2: Rien Kuntari**, former journalist of Kompas  
(translated from Indonesian by the thesis author)

Date: May 30th, 2013

*1. What is the positive and negative impact of foreign aid in Timor-Leste?*

Foreign aid in the end cannot be separated from the life of Timor-Leste, the youngest country in the world, for three reasons:

1. Timor-Leste's independence was not well prepared. In a sense, the decision of President B. J. Habibie was quite abrupt, even it was not socialized and did not receive the blessing of the DPR. Thus Timor-Leste was "forced" to swallow the decision quite suddenly. This is in contrast to Ramos Horta's initial request of having the referendum in stages, by way of: accepting a very expanded autonomy from Indonesia over a period of five to ten years, after which a referendum or poll would be held with the options of autonomy within Indonesia or independence. Horta thought this way as more fair to both sides. However, this way was obviously rejected by the Indonesia.
2. In reality Timor-Leste is not yet ready for true independence, despite the fact that they have fought for it since even the Portuguese era. The concept of independence as a nation-state is mostly held by Timorese living abroad, and is certainly not more than 20 percent of the population at home. To the majority of the Timorese, independence just means the absence of other forces and pressure, especially military pressure.
3. Like or dislike it should be recognized that along 24 years Timor-Leste became a province within the NKRI (Negara Kesatuan Republic Indonesia/Unitary State of the Republic of Indonesia), Indonesia was not able to make the region to be independent. Someway, political system which was applied by Indonesia to its 27th province (Timor-Leste) has made Timor-Leste becomes a region which is dependent to another parties. Politically, Timor-Leste which was during that time called Timor Timur, is very dependent upon foreigners, especially the mass media. Meanwhile in economy, Timor-Leste fully relies on Indonesia.

Therefore on the positive side, foreign aid has allowed the pulse of Timor-Leste to keep going. The country is only 11 years old, it is a biased understanding to believe that Timor-Leste is dependent on foreign aid politically and economically. Because until independence on May 20, 2002, Timor-Leste has not been able to use its own resources towards economic self-sufficiency. The economic wheel which has running since 2002 to this day is the form of encouragement of foreign aid. For this time to the next few decades, Timor Leste will still need foreign aid, consider the resources and the natural resources has not been managed well by the fact that until now the country is in the category of Least Developed Country (LDC) UN.

On the negative side, the aids could slow the Timor-Leste's path to independence. This condition would be very dangerous to the future of the country itself. Especially considering all the help given by depend on one's figure or figure named Xanana Gusmao. Like it or not, it must be admitted the foreigners enterust the entirety aid to this figure. This condition is very different than in the era of Prime Minister Mari Alkatiri and President Ramos Horta. Therefore, it is very difficult to imagine what would happen if one day Xanana was no longer there. Would Timor-Leste still be exist? It is a simple question but difficult to answer.

*2. What are some strategies for maximizing the impact of foreign aid in Timor-Leste?*

For the second question, I am not so sure what kind of impact you mean. However, there is no other way for Timor-Leste to seek more independence and optimize their natural resources. But this must also be balanced with efforts to improve its human resources. We have a long way to go, but if we do not start now, it will be too late.

### **Interview 3: Nene De Almeida, a Timorese person**

Date: June 13th, 2013

- 1. What is the positive and negative impact of foreign aid in Timor-Leste?*
- 2. What are some strategies for maximizing the impact of foreign aid in Timor-Leste?*

My opinion? If you want to get my opinion its fine, but I can speak only for me. Because I think other actors, for example the government, are the ones who benefit from the aid. Maybe for the Timorese government, foreign aid has been important for reducing the socio-economic problems after independence. So it depends on which angle you look at it from.

Timor-Leste is a new country. After independence in 2002 lot of foreign aid came. It helped Timor-Leste recover from its crisis. After 2002 Timor-Leste was starting from zero, so of course, like it or not, we needed international intervention. Foreign aid provides materials and also money. For me foreign aid is very helpful during a crisis. For example a disaster. But after some years, after the election, Timor-Leste is trying to recover itself. But foreign aid is still there. So the question is, are foreign aid actors here for the Timorese, or for their own interests?

As a local Timorese, I say we don't need foreign aid from other countries or international organizations. What we do need is advice or mentoring, but not money or goods. Because Timor-Leste is one of the richest countries natural resources, particularly in oil and gas. However, until now we are having problems managing our resources. We lack human resources. So in this area, we still need help. We need advice in how to manage our resources.

Maybe you heard about the huge amount of foreign aid has been allocated to Timor-Leste. For sure that is true, but who does this money go to? For example if you come to Timor-Leste right now, you will see international organization offices such as USAID, AusAid, etc. They are coming to Timor-Leste bringing their own advisors, supervisors and staff. And the money that has been allocated is spent especially for paying these people. The money is also used for maintaining the offices, buying cars and other goods and paying their operational costs in the country. Even though the amount of money that has been allocated in Timor-Leste is large, at the end of the day little of it goes to Timorese people. This implies that the money has largely gone back to the donor. It is not giving benefit to the host country of Timor-Leste. Therefore, as a Timorese, I can say that foreign aid has not been helping us.

I will give you an example. According to the report Portugal is one of the biggest aid donors to Timor. The Portuguese are so proud because they are helping Timorese. However, in fact, where was the money largely spent? It was spent dominantly for housing and offices and for paying the teachers from Portugal. As Timor-Leste is a former Portuguese colony, Portuguese is one of the official languages. Portugal supports the Timorese government in including Portuguese as one of the main subject in the education curriculum. For this, Portugal imported a number of teachers from their country to teach Portuguese in Timor-Leste. In the end, even though Portugal spent a lot of money on Timorese people, we are still trapped in poverty. It makes sense as the money is going back to Portugal.

For me the presence of international actors in the name of foreign aid is not motivated by the call of humanity. As we know, there is no “free lunch” in this world. Every support comes with a hidden agenda. An example is the oil and gas in Timor Sea. Back in the 70s, Australia made an agreement with Indonesia over the revenues, with 10% going to Indonesia and 90% to Australia. However, when Suharto was trying to revise this agreement in the 80s, Australia supported Timor-Leste to become independent. Once Timor-Leste was independent Australia wanted to control the Timor Sea. So now, the agreement is that Timor-Leste gets 90% and Australia gets 10% of the oil and gas revenues.

I believe the presence of many countries in Timor-Leste is just away to benefit from the situation. Therefore when we had crisis in 2006, many countries gave help, like the USA, UK, etc. On the surface it looks like they really want to help. But behind it they are actually running their agenda.



#### **Interview 4: Leigh Mitchell**, Advisor with the National Directorate for Aid Effectiveness

Date: July 4<sup>th</sup>, 2013

##### *1. What are the positive and negative impacts of foreign aid in Timor-Leste?*

The positive and negative impacts of foreign aid in East Timor. Well I think let's start with the positives. The positive impact of foreign aid in Timor, at least for the first few years, is that it allowed the country to essentially sustain itself. In the first few years after Timor's independence, well the first few years after the Indonesian withdrawal, Timor was essentially a protectorate of the United Nations and so the basic administration of the country was conducted by the UN, the financing, the provision of basic social services was provided by the UN everything was implemented by the UN, so in that sense the country essentially survived on foreign aid for its first few years. Foreign aid in the country's infancy allowed it to establish itself.

Over the next few years foreign aid played a vital role, still in the provision of basic public services but then also in the provision of very basic infrastructure development because at that point in time oil money hadn't come online just yet so this is before 2004/2005 where aid money provided the largest source of income for the country. In about 2004/2005 the money raised from oil and gas exports started to come into the country again and over a period of about 4 years you saw this incredible shift from a reliance on foreign aid to a reliance on oil. So it's quite interesting, in the very first few years of Timor's independence the country 95% or more reliant on foreign aid and less than 10 years later the country is 95% reliant on oil and gas for its revenue. So in that sense the foreign aid allowed the country to establish its very basic foundations but then very quickly afterwards foreign aid became not largely irrelevant but it became significantly decreased in its overall relevance and its ability to inform government policy and decision making once the oil came into play.

So in that sense aid played a very positive role because it allowed the country to address some of its immediate post-conflict concerns such as dealing with IDPs and dealing with refugees coming back over from West Timor. It allowed the country to tackle some immediate priorities such as the provision of water and of nutrition, large scale agricultural development in initial years was all funded largely through aid.

I think a really interesting point where aid and its positive and negative impacts can be seen in the response to the 2006 crisis where you had some 10% of the population was displaced something like 150 000 people were displaced within the country and you had about 63 IDP camps dotted around the country and at that point, this would have been in late 2007, the fourth constitutional government had just come into power and they had these IDP camps and the immediate human needs were being addressed by donors but the government felt they needed to repatriate these IDPs back to home villages as soon as possible because the IDP camps were located in strategic locations and also in a place called Metinaro was one of the largest IDP camps and that was on the main route between the two largest cities Bacau and Dili so IDP camps populated the country in very strategic areas and the government said we need to repatriate these IDPs as quickly as possible.

The government had little money to do so because this was coming at the end of the year so they went to the development partners and they said “development partners you have aid, we’d like to use this aid to close down the IDP camps and get people back to their villages” and the donors said “no, we can’t give you aid because simply repatriating IDPs with aid money is not going to address the drivers of this conflict. There are many many things that you need to address before you can start repatriating IDPs” I believe the UN told the government unofficially that it would take perhaps ten years to repatriate the IDPs and the government said “well no we don’t have that much time” so instead of using aid money to repatriate the IDPs the government used its own oil and gas resources to do that and the government solved that problem over the next twelve months so there’s an example of where foreign aid could have done a lot of good but in fact was a hindrance to government plans to do something good like repatriate IDPs. The donors said simply that they would not provide aid money for that purpose so that’s a long winded way of saying aid has done a lot of good but as oil money came online it became less and less relevant.

*Is there a negative impact of foreign aid?*

Foreign aid has done an incredible amount of good. The negative impact of foreign aid is essentially increasing transaction costs for governments. I think there are 43 different development partners working in East Timor at the moment. I think that’s one of the largest number of donors working per capita anywhere in the world. Every single time a new donor comes, every time there are missions they demand time from the government to meet with them. There’s a huge amount of paperwork the government needs to do often for very small amounts of money. They need to enter into extended negotiations particularly around loans. This all takes a huge amount of time and as I said before now that the government has access to huge amounts of money through oil and gas exports the time that is spent dealing with development partners in many respects is really not worth it for the government.

Perhaps another negative effect... I mean there are any number of negative effects. The human capacity in East Timor is very limited. There are a limited number of top tier graduates that have English language skills, that have critical thinking skills because some of the larger donors - used to be the UN and the UN mission but now its other agencies – they take the best quality staff and give them better jobs working for the development agencies. These are the exact people that the government needs to be working with them. The government needs the best minds in the country, not the development partners. So they call that the “brain drain” where the best minds in Timor end up working for donors rather than for government. That’s a challenge.

Another challenge there is the overall volume of aid that Timor has received over the last decade which is anywhere between 8 and 13 billion dollars; that sound like a large amount and people will then ask the government and they will demand from donors well where, can you show me the impact that this development assistance has had. And oftentimes its very difficult to demonstrate any significant impact from this development assistance for a number of reasons: 1) the 8-13 billion dollars that was spent on Timor wasn’t actually spent in Timor. So every time a country like Portugal wants to give money to East Timor through aid, well the money comes from the capital to the Portuguese development agency and there

are some transaction costs which are absorbed in the capital. Then that Portuguese development agency sends that money to its office in East Timor and there are transaction costs there. The Portuguese agency might implement a program through an international NGO so there are transaction costs there so you lose some more money there. That international NGO might partner with a local NGO so then you lose some money there. And so by the time the money that was initially promised by Portugal is spent in Timor it is significantly less than the original sum. Everyone takes a little bit along the way. So it sounds like a lot of money, 13 billion, but again, that money was spent on Timor but it didn't actually make it into the Timorese economy. There's another challenge.

And another challenge is simply the surge, the false economy that is created when you have a large United Nations mission in a country like East Timor. It pushes up housing prices, it pushes up the cost of basic goods and in some cases that spills out into the local economy rather than just the expatriate economy which then forces prices up for locals. But the bubbles that it creates in things like the housing markets and some of the social sectors, they then collapse once the UN mission leaves. This happened in East Timor. It happened several times in East Timor actually, most significantly in 2005 and 2006 with the mission that withdrew at the end of the year. But yes, there are certain financial bubbles that are created when a lot of aid money is spent on a country. There are some negative impacts.

## *2. What are some strategies that you think would make aid more effective in the future?*

I think the one thing that development partners could do to make their aid more effective is to better align their aid with the strategic priorities set forth by the government. Now it's take a very very long time for that to happen in Timor and that's been for a number of reasons. The challenge was initially, the previous government, the second or the third constitutional government had put together a very long-term strategic plan. This was the FRETELIN government. And it had any number, I think it was 22 different sectors that the development plan was focused on, each one had a sector strategy, and it was very very complex and convoluted. A huge amount of money and a huge amount of time was spent developing this plan. Then when the 2006 crisis happened the plan just fell away, it just became irrelevant, because there were so many immediate priorities, immediate needs that needed to be met after the 2006 crisis that no one was thinking long-term anymore, everyone was thinking "how can we keep this country together year on year". So what the government did was develop the National Priorities Process and that allowed the country to identify immediate priorities year on year within seven different pillars and then rally the development partners and the various parts of government around these priorities. They essentially said "everything you do must be addressing at least one of these priorities". And year on year, if they were able to focus the activities of everybody on these priorities then peace and security could be resustained and they could start thinking long term. Of course development partners don't think in year-on-year terms, they think in terms of their country partner strategies which typically last between three and five years. One notable exception there is the World Bank and the IMF which have interim strategic note for contexts like Timor where they have a perhaps one and a half year strategic plan that allows them to re-evaluate after that time and to decide whether or not to expand into a full country assistance

strategy. So donors are thinking in 5-year segments and government is thinking in 1-year segments, so its very difficult for the donors to align their 5-year programs around the priorities of government which might change year-on year. But of course Timor at that time was very fragile so they could only think year-on-year. Because there was no point in planning three years down the track if one month to the other things might change significantly. So there was a mismatch there with priorities. The development partners found it hard to align because the government was only thinking short term. But the government had to think short term. But as the National Priorities Process expanded and continued over a period of three years, peace was then resecured and the government could start thinking about developing a long term strategic plan. That took longer than was expected, it took about two years to pull together the strategic development plan in 2011 to 2013. But that provided the longer-term framework for development partners to align their programs around. That is still happening very slowly now. But I think if aid was to be more effective in Timor the one thing that donors do is listen to the priorities set forth by the leadership of Timor and then do everything they can to align their funding to these priorities.

There is any number of other things that they could do. One of them is the broader use of multi-donor trust funds, sector-wide approaches. Pooled funding. For a country that has more than 3 donors the trust funds there are embarrassingly small. It seems that even the smallest of donors have their own bilateral programs which is inefficient and takes a huge amount of time away from the government to do government business. To make aid more effective they need to stop thinking so much in terms of aid spent in the capital and get out into rural areas more. I think donors are very quick to criticize governments for forgetting about rural areas but if you look at where the donors spend their aid money it is primarily in urban areas. Timor has an online transparency portal where you can actually see, it will show you a map showing you where aid is sent around the country. Dili receives significantly more aid than anywhere else in the country and so donors should be seeking to expand their aid programs out into the most rural areas and not just send it right to the capital.

**Interview 5: Richard Curtain**, Public policy consultant working with USAID, UNICEF and AUSAID

Date: July 5<sup>th</sup>, 2013

*Question 1: In your opinion, what are the positive and negative impacts of foreign aid in Timor-Leste?*

There is no doubt that Timor-Leste has made considerable progress in a range of areas since independence, and foreign aid has been a part of that. However, although poverty has fallen in Timor-Leste, hardship remains acute. According to World Bank statistics, Timor-Leste has the highest incidence of malnutrition in the world.

In general, I think that international foreign aid agencies such as the World Bank failed badly to incorporate an appreciation of the vulnerabilities the population has been experiencing. Little attention was paid to social protection policies, for example, to ensure that people had enough to live on in the poorest country in Asia.

Some of the negative impacts of foreign aid are being remedied with time. AusAID operated its large aid program in Timor-Leste for almost a decade without a country strategy in place. However, this situation has at last been remedied and the aid program is now subject to both the Australia-Timor-Leste Country Strategy 2009–2014 and Strategic Planning Agreement for Development 2011.

Another negative impact of foreign aid, aid dependency, has worked itself out. Up until 2004 Timor-Leste was one of the most aid dependent nations in the world. It now sits well below the average low-income economies 10 per cent aid to gross national income ratio. This decline in aid dependence is in large part due to the exploitation of Timor-Leste's offshore oil reserves, shifting Timor-Leste from one of the most aid dependent nations in the world to one almost entirely dependent on oil and gas revenue, with 90 per cent of its GDP being generated from this sector.

So although aid has had a positive impact, it has not been as effective as it could or should have been, and a lot of changes need to take place.

An important point to add, however, is that aid, though important, is not on its own enough. Of great importance is internal change. Acemoglu and Robinson show how self-serving elites do all they can to avoid disruptive change which could undermine their power. The persistent failure of the government in Timor-Leste to reform its education system could be viewed this way. Better education would lead to be a new generation that is better educated than those in power and with access to resources to mount a political challenge. To sum up, foreign aid can only be effective with the government's cooperation.

*2. What strategies can make aid more effective?*

There are no easy solutions to the challenges facing Timor-Leste, but based on my work in the country I can think of some strategies that could make aid more effective.

One of the strategies is a greater focus on youth. Emphasizing youth initiatives within foreign aid agencies is crucial to Timor-Leste's future because one in three people in the

adult population are aged 15 to 24 years. This high share of the adult population points to a classic “youth bulge.” Youth unemployment, especially when concentrated in urban areas, is a recipe for social conflict. International comparative research shows that the risk of political violence increases markedly with a large youth bulge in a country’s population, together with unemployment, a slow growing economy and weak government. This was one of the main causes of the violence the country experienced in 2006. The demographic pressure of a youth bulge also contributes to many of the political upheavals countries around the world are currently experiencing.

Another strategy is to give priority to giving skills and jobs to the local labour force (which is often underutilized and their skills underestimated) and to increase local capacity. One example of this is within road construction. It is acknowledged that the capacity of contractors to provide labour-intensive projects in Timor-Leste is low. There are numerous reports of Indonesians taking construction jobs due to a scarcity of suitably trained or experienced Timorese workers. A survey of all construction firms in Timor-Leste at the end of 2008 showed that 7% of their permanent work force was foreign skilled construction workers.

To address this, will require prior training in the use of labour intensive forms of road construction and added in as an additional cost in the program’s budget. However, the capacity of local contractors may be underestimated. Timorese contractors have built hundreds of government buildings (schools, clinics, hospitals, courthouses, etc) since 2002. The project management skills necessary to build a school are different to those required to maintain hundreds of kilometres of road drainage systems. However, these different skill sets need to be imparted to the private sector so that they can assume the role of managing public projects. In this way, they can build their capacity to undertake other work by generating profits and building up their assets to undertake more and/or bigger projects.

A third strategy is greater participation of the foreign aid recipients in determining their own needs, as well as in the implementation of projects. A UNDP project entitled ‘Local Development Programme: Decentralisation and poverty reduction’ has piloted mechanisms for dispersing funds at district level based on priorities set by elected representatives. Block grants have disbursed in the two pilot districts through a ‘Local Development Fund’. In Bobonaro District initially and more recently in Lautem District, the Government has set up District and sub district assemblies to oversee a process for deciding on how to disburse funds for local development. The funds are allocated ‘according to development plans that have been elaborated by those districts through a participative and inclusive planning process’. The funding amounts available are made known to district and sub-district assemblies at the beginning of their yearly planning cycle. So the assemblies are aware of the resource limitations so that they can prioritise development needs accordingly. The District Assembly is the budget owner. Each village (suco) is asked to identify its needs and these are prioritised at the subdistrict level and then passed to the district assembly. This project can and should serve as a model for others.

Lastly, foreign aid programs should be evaluated, that they can be made more effective. Methods of recording the effectiveness of foreign programs in meeting the needs of the poorest groups in society need to be established. Assessments of the extent to which services

in education, health and agriculture are reaching the poorest need to be made based on survey data.

**Interview 5: Amer Yaqub, Senior Vice President, International at Foreign Policy**

Date: July 8<sup>th</sup>, 2013

*1) In your opinion, what are the positive and negative impacts of foreign aid in Timor-Leste?*

Foreign aid as a model is broken and many billions of dollars have ended up not helping the very citizens the programs were designed to serve. In the case of Timor-Leste, the country's leadership has worked hard to learn from the lessons of other countries and funnelled money into programs with the highest return on investment with clear accountability and metrics. The negative aspect of any aid is that there remains the potential that the aid is creating a dependency culture instead of fostering true growth and innovation. And global economic challenges have made donor countries more anxious to justify their spending in light of domestic pressures.

*2) What are some strategies for making aid more effective in Timor-Leste?*

Timor-Leste's leaders have worked hard to explain to donors which kinds of programs are the most likely to succeed both in the short and long term and that are truly reflective of their specific situation as a country recovering from genocide. In a little over ten years, Timor-Leste has shown remarkable resiliency and is creating -and I would argue succeeding- with a strategic plan to not fall into the "resource curse".



**Interview 7: John Ruggerio**, working in humanitarian aid in Timor for 7 months

Date: July 8th, 2013

*1) In your opinion, what were the positive and negative impacts of foreign aid in Timor-Leste?*

Positive: provides needed infrastructure, education, resources, and example for the people to take fuller ownership of their country. It is difficult to govern or lead well when the only example you have seen is that of foreign occupiers for the last 450 years. Foreign aid is how the people of Timor have an opportunity to learn from a positive example.

Negative: creates a culture of entitlement for some that are just expecting handouts and become lazy. Much foreign aid comes with an agenda that isn't necessarily in line with what the people are interested in (i.e. Protestant NGOs trying to convert Catholics, or health NGOs pushing for contraception which violates Catholic moral teaching in a 96% Catholic country).

*2) What are some strategies for making aid more effective in Timor-Leste?*

Communication and coordination. Centralized website for all Timorese aid groups that want to register and give/ receive help (i.e. the NGO that builds schools can pair up with the NGO that instructs teachers, etc.). Currently the only way to meet other NGO leaders is through social activity and networking.

Bringing the community into the picture early is also key. Make sure you bring the *succo* and *aldea* chief into the picture soon too so they can have the local population on your side.

**Interview 8: Kafil Yamin, former journalist of ANTARA**

(translated from Indonesian by the thesis author)

Date: July 9th, 2013

*1) In your opinion, what were the positive and negative impacts of foreign aid in Timor-Leste?*

Positive impact:

1. The Government of Timor-Leste implemented some basic infrastructure programs such as roads, electricity and water.
2. Foreign aid encourages economic growth.

Negative impact:

1. The Timor-Leste government increasingly assumes loans and foreign aid as a source of income; currently 35 percent of its budget is derived from foreign loans. The majority of the foreign loans in the budget do not go towards activities that could reduce dependency. Oil and gas production in Bayu-Udan has even decreased. Electricity subsidies reached US\$ 73 million. These subsidies will increase since the income of the Timorese is not as planned. This does not include “off-budget donor funding”: aid which is not included in the state budget.
2. The government and the Timorese people have not developed the private sector, entrepreneurship or activities productive to society because the nature of foreign aid is "by design" - design and allocation are already determined in negotiations between the Government of Timor-Leste and the donors. This results in levels of poverty remaining high - more than 50 percent of Timorese are under the poverty line.
3. Timor-Leste is vulnerable to economic turmoil due to a great degree of dependence on the oil and gas sector and foreign aid. Timor-Leste does not even have its own currency yet.
4. As a result of development “by donor design”, the alleviation of poverty is a major challenge. This is because people rely on subsistence agriculture, while donors’ economic development plans are more long-term.
5. The government and Timorese people are gradually losing their initiative to develop their own economic strategy. An exception to this is in 2007 when, against the advice of the World Bank, the Timor-Leste government increased its use of oil resources including cash transfers.

*2) What are some strategies for making aid more effective in Timor-Leste?*

1. There should be policies that measure the value of foreign aid and that ensure it is given gradually, rather than just “spilled out” as needed. There should also be policies that make sure foreign aid is working on the priorities, that what is most necessary takes precedence. If necessary, there should be times at which foreign aid is put “on hold” in certain sectors in order to allow the government and the private sector in Timor-Leste to develop its own ability to cover its needs.

2. Aid should be directed to developing infrastructure that encourages production, such as roads, electricity, bridges and transportation. Aid money should not be allocated to production activities, because this will actually weaken the local economy.
3. Prior to planning and allocating aid, a thorough survey should be taken. This survey should involve Timorese academics who work in Timor-Leste and understand well the situation of the country.

**Interview 9: Mathew S. Winters**, Assistant Professor of Political Science, University of Illinois

Date: July 9<sup>th</sup>, 2013

1. *In your opinion, what were the positive and negative impacts of foreign aid in Timor-Leste?*

Foreign aid is a paradox. We have good evidence of local level successes of foreign aid projects, for example health projects, education projects and irrigation projects, that have had good outcomes. But it's been much harder for the scientific community to find evidence that foreign aid flows at the macro-level, overall, have led to economic growth in particular, or have contributed, again at the macro-level, to poverty reduction and other human development outcomes. So I would say that the positive impacts are these local level outcomes associated with individual projects that we have: schools that have teachers in them, clinics that have nurses in them, clinics that have the right medicines, hospitals that get built, etc., because of foreign aid funding.

In terms of the negative impacts, I think that there are issues when it comes to the development of domestic governments in aid-receiving countries. That having foreign aid actors who are providing social services, who are providing the ideas about what a country needs, I think that that breaks down the governing process in certain ways, that it results in worse relationships of accountability, because citizens don't know who to ask to get things because the government just ends up being more responsive to foreign aid donors than to its own citizens. And so I think that is very problematic from a long-term development perspective. Because what you want is a government responsive to its citizens, citizens that know how to ask the government for things and know that they should ask their own government for things.

The most frequently cited area of positive impact is in health. Foreign aid has contributed to disease eradication. There is a very good book on that, done by the Center for Global Development, that looks at health successes in foreign aid. So I think of things like the eradication of polio, the battle against river blindness, the battle against yaws, etc. In terms of addressing diseases throughout the world, foreign aid has done a lot. You are from Indonesia? For Indonesia, and I know people have different opinions about this, but I think that the Kacamatan Development Project, which was the predecessor to Payem-Payem, and is a World Bank funded and designed project, I think that that has had a generally positive impact across Indonesia in terms of local community development. I don't think it's a perfect project, but I think it is a good example of a positive foreign aid outcome.

The obvious examples of negative impacts are places like places like Zaire, today the Congo, where you had Mbutu in power in the 1970s and 1980s and you had all these foreign aid dollars that he was taking for himself and foreign aid meant that this dictator was staying in power and that he was not responding to the citizens in any way. Another example that gets cited a lot is when aid becomes overwhelming. People talk about Tanzania for instance where the different cabinet ministers in Tanzania spend all of their time meeting with foreign aid officials. That takes them away from their other duties or it means that they are more

responsive to these foreigners than they are to local citizens or to the parliament. I think that is a problematic situation. I think that Tanzania in general has benefited from foreign aid and it is a country that is doing its best to develop but I think there are challenges. People talk about Tanzania because of how many donors are there and what the vocations are for the options of the national government.

## *2. What are some strategies for making aid more effective?*

There are two types of things that might make aid more effective. There are those things that happen at the local level and then those things that happen at the national level. At the local level I think that what works is designing projects where the citizens can give the feedback on how the project is working. Where people who are supposed to be benefitting from a project have a way of saying whether that project is working or not. And the more that you increase citizen involvement and mechanisms for citizens to give feedback, the more it leads to better local projects. At the national level foreign aid can be more effective with better coordination between donors. And also better use of government systems. Many donors do not cooperate enough with the government and instead try to go around the government, and that makes foreign aid less effective. So at the national level if donors can cooperate and run projects together, and make sure that they are getting money to all the parts of the country that need it, that they are not duplicating efforts, I think that makes aid more effective.

**Interview 10: Senator Simon Birmingham**, work: “Our History in Timor is Proud – Don’t Stop Now”

Date: July 11th, 2013

Dear Arie

Thank you for your email requesting my views on the effectiveness of aid in Timor-Leste. I hope my comments below will be of assistance.

Timor-Leste has had a turbulent history and its people have suffered through the upheavals, violence and uncertainty that has bedeviled it. Since achieving independence Australia has been a key partner in delivering aid.

The new Government of Timor-Leste was essentially starting from scratch in building its institutions, capabilities and infrastructure. This is no mean feat and obviously has been a challenging process. At the same time, this new government faced great humanitarian need and a scarcity of economic opportunity.

Aid generally falls into three categories – governance, humanitarian and economic or capacity building. For a country to have a significant need for all types of aid indicates very low development levels and the likelihood of a prolonged need for assistance.

Aid offers something many Australians take for granted—opportunity; opportunity to learn, to work and to start a business; and opportunity for a better future. I believe Australian aid is working in helping to improve health, education and sanitary conditions in Timor-Leste. We have also built schools, increased crop yields and provided micro-finance loans.

Aid can also create dependence and temper the need for local officials to innovate and stimulate economic opportunity themselves. We must be vigilant in ensuring that our aid is, as far as possible, a hand up, not a long term and repeated hand out.

In regards to making aid more effective there are a number of strategies that can be used. These include, but are by no means limited to, focusing programs on outcomes and tailoring funding commitments to ensure payment is provided on completion where possible, targeting local economic assistance to women, improving coordination between donor parties to avoid duplication and donor governments making greater use of specialist aid providers rather than building their own providers.

While this is indeed a topic that a thesis could be written on, I hope you understand that during an election campaign time constraints mean I must keep my comments brief.

I hope this is of assistance nonetheless.

Yours sincerely,

Simon Birmingham

**Interview 11: Peter Boone**, Senior fellow at the Peterson Institute, visiting senior fellow at the London School of Economics, principal at Salute Capital Management and chairman and cofounder of Effective Intervention.

Date: July 18<sup>th</sup>, 2013

*1) In your opinion, what were the positive and negative impacts of foreign aid? Please provide specific examples.*

Positive:

- Disease eradication, simple interventions such as vaccines, primary care, in regions where nothing would have been done.
- The IMF provides some good technical expertise on accounting, fiscal and monetary policy, etc.
- When it is well run and targeted, there are areas where it can be effective.

Negative:

- Often the donors spend a substantial part of the money on their own staff and consultants, etc.
- Or, the money goes to general fiscal purposes and so does not reach the people who need it.
- Aid has not lead to growth, so many countries now have large debt burdens which they default on.

*2) What are some strategies for making aid more effective? Please provide specific examples.*

- Target aid to areas where we have good evidence that we can be effective and give people the opportunity to pursue better lives (health and education in particular).
- Make sure aid goes to the most needy. This would mean it can be channelled through governments, or not, but the donor needs to make sure it is really given to those in the most need. The poorest/hardest regions in the world really get very little aid assistance. We work in Guinea-Bissau, as well as tribal regions in India, and while these are some of the poorest places in the world they get little aid.
- Measure the outcomes very carefully: Everyone thinks their aid projects work, but that is often because they don't measure it well enough. We have embarked on projects which seem very successful only to find, when we finally measure outcomes, that they were not effective. You really must try to compare projects to controls, or a realistic history, and ensure you have an independent measuring team, along with determined leadership who makes sure that bad news is admitted. This is very hard to introduce and maintain of course. There needs to be institutional change to get that.

**Interview 12: Valentina Otmacic**, Advocacy and Policy Coordinator at Amnesty International in Croatia

Date: July 21, 2013

1) *In your opinion, what were the positive and negative impacts of foreign aid in general? Please provide some specific examples.*

Positive impacts:

- It can provide efficient suffering alleviation in emergency situations, for example in natural and man-made disasters it can quickly provide for the basic needs of people. E.g. in Burundi I was working with UNHCR and we received 5000 refugees in one day, we managed to ensure basic needs are covered for all of them;
- Sometimes it helps grow really good local initiatives which couldn't survive otherwise.
- It ensures inter-cultural communication between people from "different worlds". It might seem secondary to some people, but for me this learning from each other is one of the main benefits. I felt it in each and every place where I worked (Tanzania, Burundi, Lebanon, Colombia, DR Congo), it makes us feel the interdependence, overcome stereotypes and prejudice...

Negative impacts:

- It often increases corruption, because in most cases there is no good monitoring over the spending of the money (especially in bilateral agreements directly with governments), so instead of eradicating corruption as one of the main causes of poverty, foreign aid is increasing the problem;
- It imposes the Western logic of thinking – short-term, project-based, producing results and not caring much about the processes...
- It often tends to substitute the government in its duties – as governments are often inefficient and corrupt, foreign aid will provide as many services as possible directly to the population (often through international NGOs). While benefiting the population in the short term, it is not helpful on a long-term basis.

2) *What are some strategies for making aid more effective? Please provide some specific examples.*

- First we would need to truly and critically evaluate its effectiveness so far. It is often done in theory, but in practice often we don't really want to know what we achieved so far. E.g. billions of dollars have been invested in the improvement of the living conditions of the Palestinian refugees in Lebanon, and the conditions don't seem to have improved much, if at all. Nobody knows why and it seems that even the donors don't want to know that.
- We would need to be able to recognize that Western logic of thinking is only one of the possible logics, and probably not the best one. That is a very strong prejudice of the Western world and difficult to overcome, but until we do that, we will keep on



doing project that don't "fit" other ways of thinking, and sometimes do more harm than good.

- Addressing the root causes of the problems and being aware of "hidden agendas" of big players. E.g. in Democratic Republic of Congo, one of the richest countries of Africa, billions of dollars are poured into making people survive. The country has all the resources to ensure a good living standard for the citizens, but it is not in the interest either of the "local elites" or of the big foreign players who are making use of the chaotic situation in the country, to make the state really function. As long as the situation continues this way, foreign aid only serves to keep the status quo and ensures injustice continues.

**Interview 13: Erika Lal**, author of *A Hurting Land: Why Foreign Aid Does Not Work* (2011)

Date: August 18, 2013

1) Before we can mention the positive and negative impacts of foreign aid, we must recognize that there are different types of aid that affects communities differently. When you look at emergency relief aid that is in response to some type of disaster, the assistance positively impacts the community because there is a lack of resources at the time. However, this type of aid usually comes with many negatives since the emergency situation usually takes precedence over the careful planning and organizing that is needed with aid. You will often see organizations and groups finding quick solutions to the issue, that may not be the most sustainable for that community, or that they lose track of funding as people and governments take advantage of it (much like with Haiti after Hurricane Katrina). Another common negative factor with emergency relief aid is determining at what point to stop the aid? How do we decide when a country struck by a natural disaster has received enough aid to get back on their feet? Since this is tough to measure, many relief aid programs end up remaining in countries long after the disaster, which at that point a dependency issue has arisen. Taking all of these negatives into consideration for emergency relief situations, do we then decide to refrain from providing aid to countries when they need it most? I do not think that is the solution. Emergency aid is just that, emergency aid. We must look at it only as a temporary solution in response to an emergency situation.

With foreign aid that is used for development, we can measure the impact more critically than in emergency aid situations. Typically with developmental aid you either have governments sending funding directly to other governments, or you have non-governmental organizations receiving funding from donors and working directly in communities. My research and experience has found both of these forms of aid to be damaging to communities in the long run. Governments receiving aid funding from other nations are often found corrupt, and often pocket the money before any towns or villages see it. If projects do receive the funding before government officials' hands get on it, the country is sometimes unable to accommodate the infrastructure needed to develop sustainably. For example, as you see many times in Africa, money is given to a developing country to build large infrastructures for development such as bridges or roads. The problem is that there are no foundational resources available such as heavy construction machinery, routes of transportation to get to the area of development, or trained workers in the area to develop the area properly. Instead you find poorly built and maintained bridges, roads, buildings, etc. It is a hands-off approach where money is given without any planning or monitoring to ensure the funding is used properly, successfully and sustainably. The other type of development aid works directly with communities through a non-governmental organization. This is where you will find the root of the aid dependency issue. Projects like organizations building wells in Africa to provide clean water for villages may seem helpful in theory, however it is lacking an important piece. These efforts are not sustainable since no one in the local communities are trained on how the well functions or how to maintain it properly. Now, you see 50,000 wells that are broken throughout Africa and rendered useless to those communities. Organizations like Give

Directly also attempt to combat the government corruption issue by giving funding directly to community members, but since they usually are unable to provide for everyone in the community, some families are left out and tensions in the villages rise. Many times you see organizations return to areas they had previously served, only to find the community back in its state of poverty. When aid workers ask what happened, the village members respond with "We were waiting for you". Developmental aid does not instill a sense of ownership in communities. They become used to aid workers solving their problems for them, so there is no need for them to find their own solutions.

2) In order to make aid more effective in developing nations, communities need to take ownership and feel empowered to lifting themselves out of poverty. This requires training specific members who have some type of authority or influence in their villages so that they in turn can train other members. The easiest mistake with foreign aid is to have a foreigner come into a village and tell them what they think needs to change. I once heard a story of a woman who went to Romania to distribute shoes to children. The children were ecstatic and ran around overjoyed with their new shoes. Two weeks later, she noticed the children were all barefoot again. The parents had sold the shoes in exchange for food money and school fees. Another story that my Anthropology professor told me was when he was working with the Peace Corps in the Dominican Republic. Their assigned project was to build a pipeline from the top of a steep hill nearby down into the center of the village so that members did not have to hike it each day to get clean, fresh water. When my professor was meeting with the city leaders to finalize the project, he discovered that the community didn't mind the hike and would have rather seen the money used towards building a school for their children. Since then, the Peace Corps has shifted their model to incorporate more research in communities prior to assigning projects, and they now use local community members to help facilitate the projects. Many other organizations are adopting similar training models that allow members within the community to lead the development, while the aid workers humble themselves into roles that merely support them. If a community feels empowered to lift themselves out of poverty, they are much more likely to maintain that level of effort towards developing and bettering themselves, their families and their communities. We must first listen to people and allow them to highlight their needs, then we must dialogue solutions with them that seem achievable, and we must train them to be successful at discovering and maintaining solutions towards development themselves. When we become too involved and take too much control, we miss out on the beauty of people learning for themselves how to reach a state of well-being and seeing the results come to fruition in their lives.

## Appendix D: Questionnaire Results

**Number of Respondents: 15 Timorese undergraduate students studying in Yogyakarta, Indonesia**

Date: July 17, 2013

- 1) *In your opinion, what are the positive and negative impacts of foreign aid in Timor-Leste?*
- 2) *What are some strategies for making aid more effective in Timor-Leste?*

### **Respondent 1**

1. Positive Impact: Foreign aid projects are helping Timor-Leste become a developed country.

Negative Impact: Foreign aid that comes to Timor-Leste is not fully enjoyed by the Timorese because it is manipulated by certain people.

2. The Timorese should give their full trust and support to foreign aid actors so that they can help the development of Timor-Leste to the fullest.

### **Respondent 2**

1. Positive Impact: Foreign aid helps development in Timor-Leste.

Negative impact: Foreign aid is not managed properly.

2. Each individual involved in foreign aid should have a sense of responsibility so that the aid can have a more positive impact.

### **Respondent 3**

1. Positive Impact: Foreign aid, particularly that which focuses on health issues, is very much helping the Timorese who live in remote areas to minimize the impact of diseases.

Negative Impact: Foreign aid that comes to Timor-Leste is not flowing to the fullest. Therefore it has a low impact and low achievement concerning health issues.

2. Having more cooperation between social and economic sectors. Also, negotiating with other countries so that they can give maximum aid to Timor-Leste.

### **Respondent 4**

1. Positive Impact: Foreign aid has encouraged development in education and health.

Negative Impact: Foreign aid has encouraged the presence of international businessmen, especially those from China. This hampered the growth and development of local entrepreneurs. The cause of this problem is that behind the aid there was a deal between the government of Timor-Leste and China which stated that China will provide free assistance in the form of infrastructure development and as a consequence the Government of Timor should open up opportunities for the presence of Chinese businessmen.

2. Continuously develop economic, education and health sectors.

### **Respondent 5**

1. Positive Impact: Foreign aid has helped the government of Timor-Leste address socio-economic problems, especially those experienced by Timorese living in remote towns / villages.

Negative Impact: Foreign aid causes dependence and thereby affects the performance of the government in addressing the socio-economic issues of the Timorese.

2. Creating bilateral relations with other countries and working together to address the socio-economic problems faced by the Timorese.

### **Respondent 6**

1. Positive Impact: Foreign aid has helped education in Timor-Leste.

Negative Impact: The sector of education did not receive aid money because fraud took place.

2. The Government of Timor-Leste should be accountable on the issue of aid management. This is important in order to encourage other nations - those that haven't given aid yet - to allocate foreign aid to support Timor-Leste in overcoming its socio-economic problems.

### **Respondent 7**

1. Positive Impact: Foreign aid has contributed to economic growth and prosperity in various fields (education, food, health, etc.). It has also encouraged the formation of the transitional government, UNTAET, the police, and the judiciary and prosecution after the conflict. Foreign aid has also led to the democratization process in Timor-Leste with the establishment of the Constitutional Council (consisting of 25 people) which were directly elected.

Negative Impact: Foreign aid created many projects that were not in line with the Government of Timor's plan, It also encouraged the presence of a new culture which destroyed the native culture.

2. Planning the long-term development of Timor-Leste and focusing on project management in the southern region (i.e. project management of oil).

### **Respondent 8**

1. Positive Impact: The economic problems that are faced by Timor-Leste are helped by foreign aid.

Negative Impact: Foreign aid has created a social gap and the Timorese economy has become underdeveloped because it is too dependent on aid.

2. Foreign aid should be in the interests of the public. Aid should be always be prioritized to improve education, health and economic, social and cultural sectors in Timor-Leste.

### **Respondent 9**

1. Positive Impact: Foreign aid has improved Timor-Leste's prosperity by 10 to 20%.

Negative Impact: Foreign aid has caused social inequality among Timorese people.

2. Foreign aid should be used to benefit the Timorese people. Aid should be free from political interests and guard against problems that could lead to inter-ethnic conflict.

### **Respondent 10**

1. Positive Impact: Foreign aid is the driving force behind the management success of the petroleum sector in Timor-Leste. It also encourages the creation of social and fiscal policies that have been expansively implemented since 2007. It is designed for peace building and state building, with the acceleration of economic growth in the forefront. Foreign aid also encourages infrastructure development such as the construction of power plants, water, roads, ports and airports. These are the main foundations for the growth of the private economy.

Negative Impact: The oil and gas industry cannot give huge benefit. There is no clarity on the progress of development in Timor-Leste as there are many interests in each organization involved on behalf of foreign aid.

2. The macroeconomic framework of Timor-Leste should be designed and validated in collaboration with the IMF and the World Bank.

### **Respondent 11**

1. Positive Impact: Foreign aid brings happiness to the Timorese because it is a form of solidarity between human beings.

Negative impact: The presence of foreign aid means the entry of foreign cultures into Timor-Leste. This will damage the morale and culture of indigenous people. In this world nothing is for free. Foreign aid is provided for free at this time, however one day Timorese people will have to pay for what they received. This is an important point to remember considering Timor-Leste already has debts of gratitude to several countries.

2. Increase cooperation with other countries, especially in social and economic sectors.

### **Respondent 12**

1. Positive Impact: Foreign aid encourages the development of communities, even in the most remote regions.

Negative impact: There is no clear socialization regarding the implementation of programs funded by foreign aid, so Timorese cannot take part in the development of Timor-Leste.

2. Foreign aid should encourage Timorese participation, especially since the Timorese are the target of the aid.

### **Respondent 13**

1. Positive Impact: Foreign aid greatly benefits communities in terms of development.

Negative Impact: The aid provided to Timor-Leste is not efficient because the goal is not so obvious: is it addressed to the public or to government officials?

2. Foreign aid should encourage small businesses, which is the area of the most significant potential in Timor-Leste. With this encouragement, Timor-Leste could become an independent nation.

### **Respondent 14**

1. Positive Impact: Tax revenues, scholarships for Timorese people so that they can be educated and capital for the development of Timor-Leste.

Negative Impact: The Government of Timor-Leste is not able to take advantage of foreign aid, even it is impressed just to be working for the sake and interests of another country.

2. Foreign aid needs to be reviewed every year. Aid should focus on the provision of infrastructure

### **Respondent 15**

1. Positive Impact: The presence of foreign aid encourages Timorese people to enter the modern era. This is important for the development of Timor-Leste.

Negative Impact: Modernization contributes to the loss of Timorese culture. Foreign aid also increases government debt. Lastly, the government of Timor-Leste doesn't have institutions that can compete with the outside world.

2. The Government of Timor-Leste needs to have a policy of restricting foreign aid.