

## The Asian Development Bank in East Timor

**O**n 23 July 2002, East Timor became the newest member country of the Asian Development Bank (ADB), which was established in 1966. The ADB is the only multilateral lending agency to work exclusively on Asia and the Pacific. It tries to foster economic growth in the region and to contribute to the economic development of the Asian and Pacific developing countries.

Historically the ADB has focused on funding and implementing large-scale infrastructure projects such as the construction of highways in Thailand or large hydropower projects in the Mekong river region. However, in 1999, in response to pressure from donor countries, the ADB changed its focus to "poverty reduction." Currently all objectives and operations are "pursued in ways that contribute most effectively to poverty reduction." This consists of promoting local economic growth, social development and good governance.

The ADB, like the International Monetary Fund (IMF) and the World Bank, supports the liberalization and deregulation of economies and promotes the expansion of the private sector. All current ADB member countries are also members of the IMF and the World Bank. In East Timor the ADB has a Memorandum of Understanding with the World Bank and is joint administrator of the Trust Fund for East Timor (TFET). It has been involved in East Timor since 1999.

The ADB now has 61 members, 44 from Asia and 17 from Europe and North America. Some member countries receive the ADB's services and others do not. The recipients, Developing Member Countries (DMCs) are all from the Asia/Pacific region. (See graph, page 2.)

Each country makes a contribution based on an assessment of the country's wealth and becomes a shareholder. They are represented on the Board of Governors, which is the highest decision making body within the ADB. The Board of Governors elects the 12-member Board of Directors, of whom eight are regional and four non-regional.

The size of a country's contribution determines its share of the vote and its level of representation on the Board of

Directors (see graph). Powerful countries like Japan, China and the U.S. contribute enough money to designate their own Directors. Other countries form a constituency and share a representative on the board. Japan, like the US, owns 15.9% of the shares, which gives its Director 13.1% of the total number of votes. In contrast, East Timor's financial contribution is 0.01% and has just over 0.3% of the total vote. At present East Timor is not represented on the Board of Directors, although this will be negotiated with other member countries who have formed a constituency.

The number of staff from each member country is determined in the same manner as the voting rights. This means that people from Japan and the U.S. are more than one fourth of the ADB's professional staff, including key positions. Since its creation the President has always been Japanese and a former official of the Japanese Ministry of Finance. Other key positions held by Japan include Directors of Strategic Planning, Budget and Personnel and Program Departments. The U.S. also holds very senior positions and has traditionally occupied the office of the General Counsel. There are currently four East Timorese nationals working in the ADB's Special Office in East Timor.

The ADB provides loans and technical assistance to governments and private companies in Developing Member Countries. The ADB makes money available from five separate areas. The largest is the ADB's Ordinary Capital Resources (OCR). The others are the Asian Development Fund (ADF), the Technical Assistance Special Fund (TASF), the Japan Special Fund (JSF) and the Japan Fund for Poverty Reduction (JFPR).

The OCR consists of contributions from the member countries, reserves, and money borrowed from capital markets. Loans from the ADB's OCR comprise over 80% of all lend-

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ing and are made to countries of a higher level of development, who are therefore more able to repay the debt. These loans are non-concessional: significant interest rates are charged (over 5% per annum) and they are repaid over a 15-25 year term, but they are not subject to any ADB conditions.

The ADF comes from member country donations made every three years. The largest donors are Japan and the United States. Loans from the ADF are made to the poorest Developing Member Countries, which the ADB defines as having a "low debt repayment capacity." The loans are concessional; there is a minimal interest rate and a grace period of eight years included in an overall repayment term of 32 years. However the ADB is able to impose conditions. For example, a loan may be given in installments, each installment being dependent on policy changes, or on certain legislation being passed. Conditions can promote reform or privatization of sectors like energy production, transportation, communications and industry. For example, in 2000 in the Philippines, an ADB loan was conditioned on reform and privatization of the National Energy Corporation.

The TASF is made up of donations from member countries and surplus money from interest paid to the ADB's OCR. The TASF is used for grants to pay for Technical Assistance provided by the ADB to support its projects. Technical Assistance is also used to promote the policy and legal changes imposed by the ADB in a concessional loan. Technical Assistance payments very frequently go to teams of mostly foreign consultants, often from developed countries.

The JSF and JFPR are separate funds for technical assistance provided by Japan. All disbursements from the JSF are subject to approval from the Japanese government. In effect, it is an extension of Japanese bilateral aid.

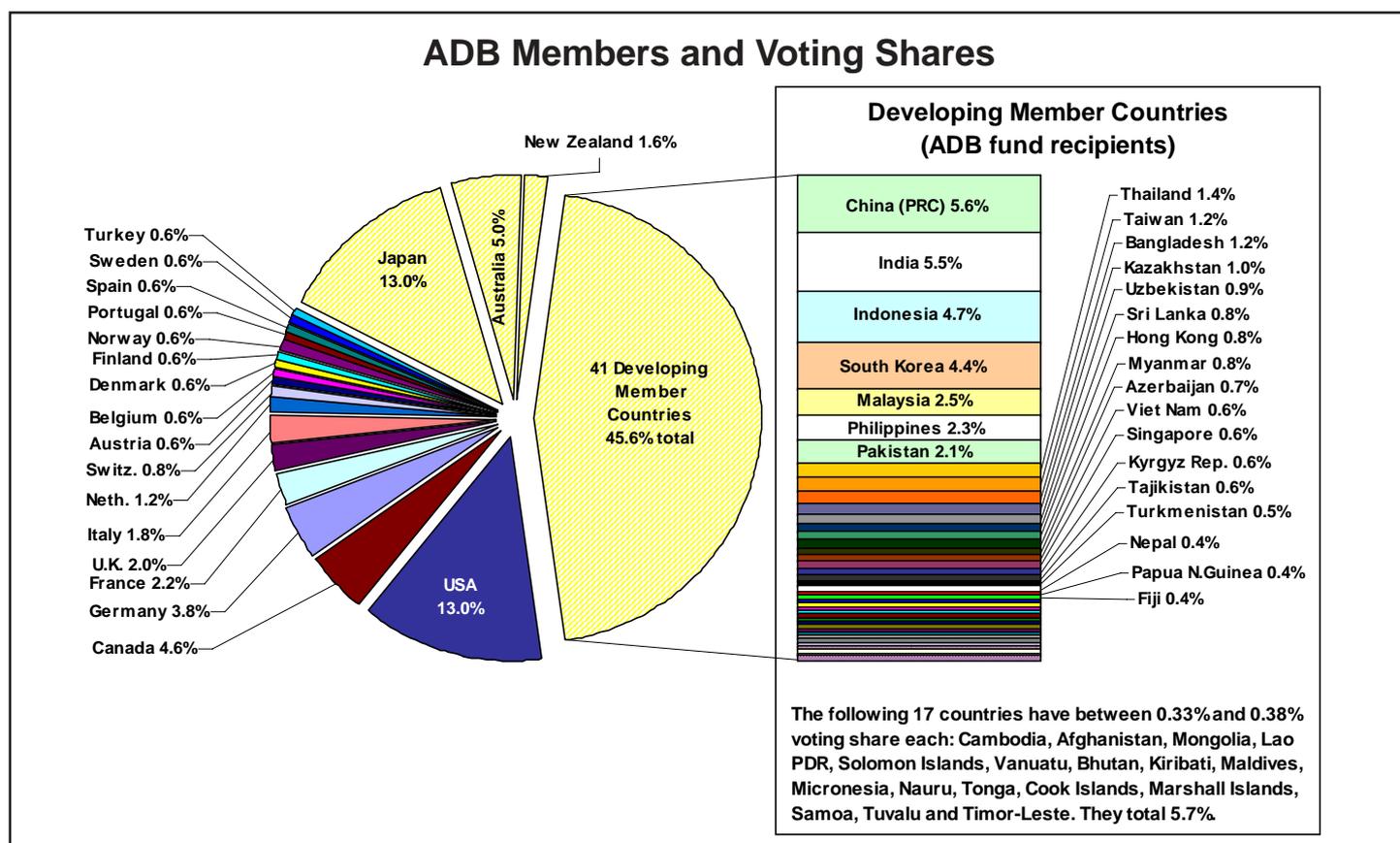
The ADB's promotion of large-scale infrastructure like roads, bridges, dams and power stations has had important

implications for Developing Member Countries and the people who use the services provided. Large-scale infrastructure projects cost huge amounts of money, more than can be mobilized by a Developing Member Country's government and international donors. The ADB has promoted programs called "Build Own Transfer" schemes whereby a Developing Member Country's government contracts with private companies to finance, build and operate a utility such as a power station for a set period of time, usually between 25 and 50 years. The companies, usually foreign, receive all the profits for the period and then transfer ownership of the utility to the Developing Member Country's government.

The recipient Developing Member Country has to contribute as well, by providing capital or providing rights to its natural resources. Normally, the ADB lends money for such projects through non-concessional loans and facilitates the arrangements with private sector, local and multinational companies agreeing to co-finance the project.

In order to encourage private participation in such projects the ADB has promoted conditions which minimize risks for private investors. For example, "take or pay" guarantees whereby the Developing Member Country's government agencies agree to purchase a certain amount of the output, such as water or electricity, for a fixed price. Private investors often insist on high prices for the output in order to make back their investment as quickly as possible.

This has had serious effects. In the early 1990s, the Philippines National Energy Corporation guaranteed payments in U.S. dollars to independent power producers in a Build Operate Transfer scheme. The 1997 financial crisis devalued the Philippine peso against the dollar, leaving the government owned National Energy Corporation having to pay the difference. In addition, much less electricity was needed due the slowdown in the economy, but the National Energy Corporation still had to purchase the agreed amount.



In 1997, the ADB promoted the construction of the Thu Duc Water Supply plant in Ho Chi Minh City, Vietnam, through a Build Own Transfer scheme. Investors required “take or pay” guarantees and fixed water prices in their 25-year contracts. This has raised the price of water for people in Ho Chi Minh City, and the government-owned water supplier has to find buyers for the water it contracted to purchase.

The ADB’s more recent “poverty reduction” strategies focus less on large scale infrastructure projects and more on improving social services (health, education and social welfare, environmental management) and agriculture/rural and urban development. However, these are new areas for the ADB, and its projects in these areas have had very low success rates. Moreover in 2000 a draft Asian Development Fund report to donors stated that “few projects have been designed specifically to address” the poverty reduction objective.

The ADB operates in Asia, but its membership makes it a global institution. It has offices in Frankfurt (Germany) and Washington. Its priorities reflect the interests of its largest shareholders rather than its developing member countries who have much smaller voting rights and are poorly represented on the staff.

### The ADB in East Timor

Shortly after the 1999 referendum, contributions from individual governments created the Trust Fund for East Timor (TFET), which has the World Bank as the overall trustee. The Trust Fund is jointly administered by the World Bank and the ADB: the ADB is in charge of infrastructure, water and sanitation and microfinance. The World Bank manages other TFET projects, in fields such as agriculture, private sector development, and community empowerment. The table on page 4 gives a brief overview of ADB-managed TFET projects, and the article on page 5 looks more closely at the microfinance project.

In addition to the TFET projects, the ADB has provided Technical Assistance (TA) grants over the last 3 years from its own funds, totaling about US\$8.6 million. TAs are often supplements to TFET projects, but some also cover broader planning and capacity building areas.

Much of the TFET funds, which donors give for the benefit of the East Timorese people, end up in the hands of expensive foreign companies and consultants. For example, as

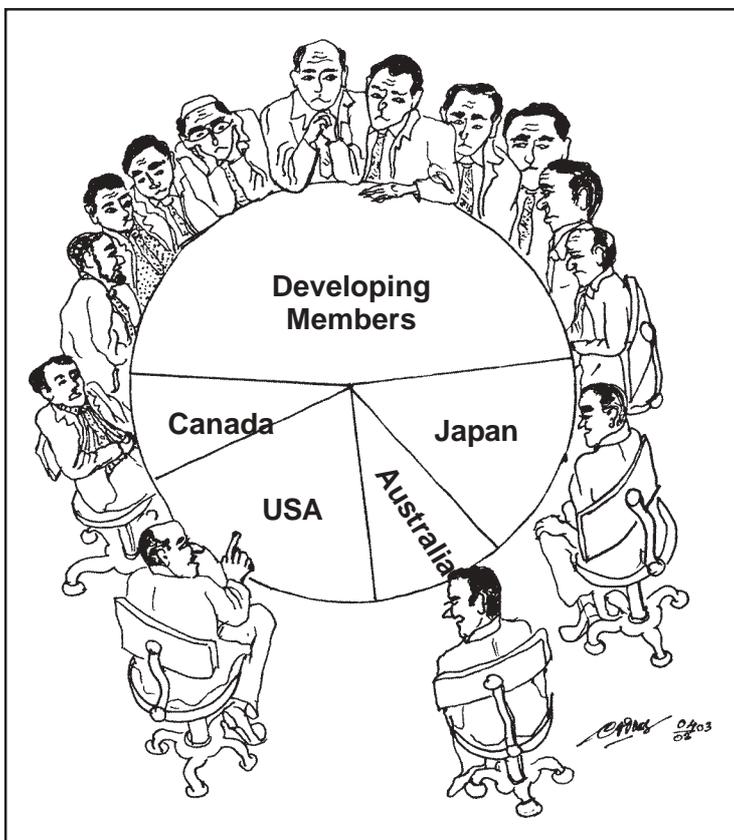
of January 2003 over 30% of the funds distributed under the ADB’s Emergency Infrastructure Rehabilitation Project 1 and over 40% of Water Supply and Sanitation Rehabilitation Project 2 (WSSRP 2) funds have gone to foreign consultants. In fact, over 80% of WSSRP 2 funds have been contracted out to foreign consultants, companies and international NGOs.

Clearly East Timorese companies do not have the capacity to undertake all the projects by themselves. Nevertheless, the ADB should expand the use of joint venture companies and other alternatives to keep more of the funds in the country.

Since TFET funds are intended for the East Timorese people, all efforts should be

made to ensure that the projects are done according to the will of the people, not according to foreign consultants. The projects should also remain under the control of the people, and not be left to the private sector under Build Own Transfer or other privatization-oriented schemes (*see page 9*).

Both the TFET funds and the TAs are grants which do not have to be repaid, but it is likely that the ADB will encourage loans in the future, as they do in other countries. To date, the government of East Timor has maintained a no-debt policy, not borrowing money from the ADB or elsewhere. The East Timorese government must be very careful with any future proposals that it enter into a loan arrangement. Such loans often carry onerous conditions. Furthermore, past evidence has shown that it is very hard to repay such loans from project profits, and that repayments have to be met from developmental budgets, often at the expense of the very poor. ❖



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## ADB projects under TFET

### Emergency Infrastructure Rehabilitation Project 1 (EIRP 1)

**Projected time frame:**  
April 2000-May 2002  
(extended to June 2003)  
**Amount allocated:** \$29.8m  
**Amount disbursed:** \$26.3m

The first EIRP dealt with emergency repairs on major roads throughout the country, rehabilitation of Dili port, and reinstating electric power. Given the urgent need to reestablish infrastructure after the 1999 destruction, projects were based on systems in use under the Indonesian occupation rather than taking the time to find more sustainable systems. Reinstating the power supply focuses on power stations in the districts but also includes some assistance for the Dili-Comoro power station and developing a power utility (EDTL) and financial management. This part is proceeding slower than the road and port rehabilitation, which were completed in mid-2002. There is general agreement that there are serious problems with the overall provision and management of electricity. Although other institutions involved in developing the electric sector also bear responsibility for these problems, in particular UNDP, UNOPS, and the Portuguese and Japanese governments (*see LH Bulletin Vol. 3 No. 6 and Vol. 3 No. 8*), the ADB has been the most involved with overall coordination. According to the ADB, they have had “mixed results” in the electricity sector, and “consulting services have been evaluated by ADB staff as unsatisfactory.”

### Emergency Infrastructure Rehabilitation Project 2 (EIRP 2)

**Projected time frame:**  
May 2002-December 2003  
**Amount allocated:** \$9.0m  
**Amount disbursed:** 0

A follow-up to the first EIRP, it aims to build sustainable roads that require less annual emergency rehabilitation and to establish a road maintenance regime. The project includes detailed engineering services, project management services and training.

### Water Supply and Sanitation Rehabilitation Project 1 (WSSRP 1)

**Projected time frame:**  
August 2000-December 2001  
**Amount allocated:** \$4.5m  
**Amount disbursed:** all

This project included a Quick Response Facility to support urgent repairs and rehabilitation to water supply and sanitation systems for Dili and the 13 districts. The project also focused on establishing Water Supply and Sanitation sector management and planning under ETTA. It included capacity building and institutional development to prepare policy, legislative and regulatory frameworks, and standards and guidelines for the department.

### Water Supply and Sanitation Rehabilitation Project 2 (WSSRP 2)

**Projected time frame:**  
August 2001-April 2003  
**Amount allocated:** \$4.5m  
**Amount disbursed:** \$1.7m

This project largely continues the activities of WSSRP 1, with added emphasis on upgrading technology and communications, urban sanitation and implementing a tariff system. The water supply system being developed is a system of government-operated urban services, and community-operated rural services, with NGOs often contracted to establish the rural systems. Although public funds from TFET are being used for ADB efforts to reestablish public infrastructure, such as water supply and electric power, the institution often advocates putting these public services under private control through privatization schemes (*see article, page 9*).

### Microfinance Development Project

**Projected time frame:**  
December 2000-Dec. 2003  
**Amount allocated:** \$4m  
**Amount disbursed:** \$2.8m

*See article on next page.*

## Hera Port Fisheries Facilities Rehabilitation Project

**Projected time frame:**

Nov 2001-March 2003

**Amount allocated:** \$1m**Amount disbursed:** \$0.6m

ADB involvement with Hera Port (just east of Dili) dates back to the Indonesian occupation, with a \$50 million loan to the Indonesian government in 1984 for the Indonesia-wide Fisheries Infrastructure Sector Project, completed in 1994. The ADB acknowledges that under this project Hera Port was poorly built, hence the current need to rebuild. A 1997 ADB report finds that the Fisheries Infrastructure Sector Project greatly overestimated the private sector growth that would result from improving such port facilities, which actually did little to generate employment or increase availability and quality of fish. The project was also shown to have significantly damaged coastal and marine environments.

The current Hera Port Fisheries Facilities Rehabilitation Project is similar, although on a much smaller scale. The project is actually a sub-component of a World Bank-administered TFET project, Agriculture Rehabilitation Project II, but since it deals with infrastructure the ADB is implementing it. Aimed at developing Hera Port for use by relatively large offshore fishing vessels, the project focuses on repairing and reinforcing port infrastructure such as breakwater structures and wharves. Although the ADB estimates only 24 boats of the type for which the port is being rehabilitated currently exist in the country, it expects that more will be provided by the private sector when improved facilities are available. Although the ADB acknowledges that the relatively poorer East Timorese in the fishing sector are only involved in onshore fishing, they assume that more offshore fishing by the relatively rich will take strain off inshore fishing, and provide more affordable fish to the general population. This assumption might be true only if the fish cannot be sold more profitably in a foreign market.

## The Microfinance Development Project

The Asian Development Bank is responsible for managing the Microfinance Development Project, which is funded by the Trust Fund for East Timor (TFET). The aim of the project is to provide credit and savings services in East Timor. There are two components to the project, the rehabilitation of credit unions and the creation of a microfinance bank.

Credit Unions are groups of people who pool their savings together in order to make loans. The ADB has provided training and financial support to rehabilitate individual credit unions and the Federation of Credit Unions. The ADB has provided training in financial management, auditing and savings management. It also provided administrative subsidies, which have been reduced as credit unions have been able to cover their own administrative costs. After the destruction in 1999 there were eight credit unions. Presently there are 16. Credit Union clients are predominantly males with some money to save.

Donors initially pledged US\$7.72 million for the Microfinance Development Project, but the project was delayed until UNTAET enacted legislation for banking activities in December 2001. Eventually only \$4 million was given for the project, \$2 million of which went to the Microfinance Institute of East Timor (MFIET), the minimum amount of capital required to register a bank in East Timor.

In order to register a bank with the Banking and Payments Authority the bank needs to have an owner. The ADB created the Foundation for Poverty Reduction in East Timor in order to receive the grant and be the temporary owner of MFIET. (See diagram, page 6.)

The ADB set up a Project Management Unit to manage the TFET grant on behalf of the ADB and the World Bank. The Project Management Unit did all the designing, developing, recruiting, training and managing tasks of MFIET.

Initially the Project Management Unit was comprised of five foreigners and five East Timorese, but now has been reduced to one foreign and two East Timorese consultants.

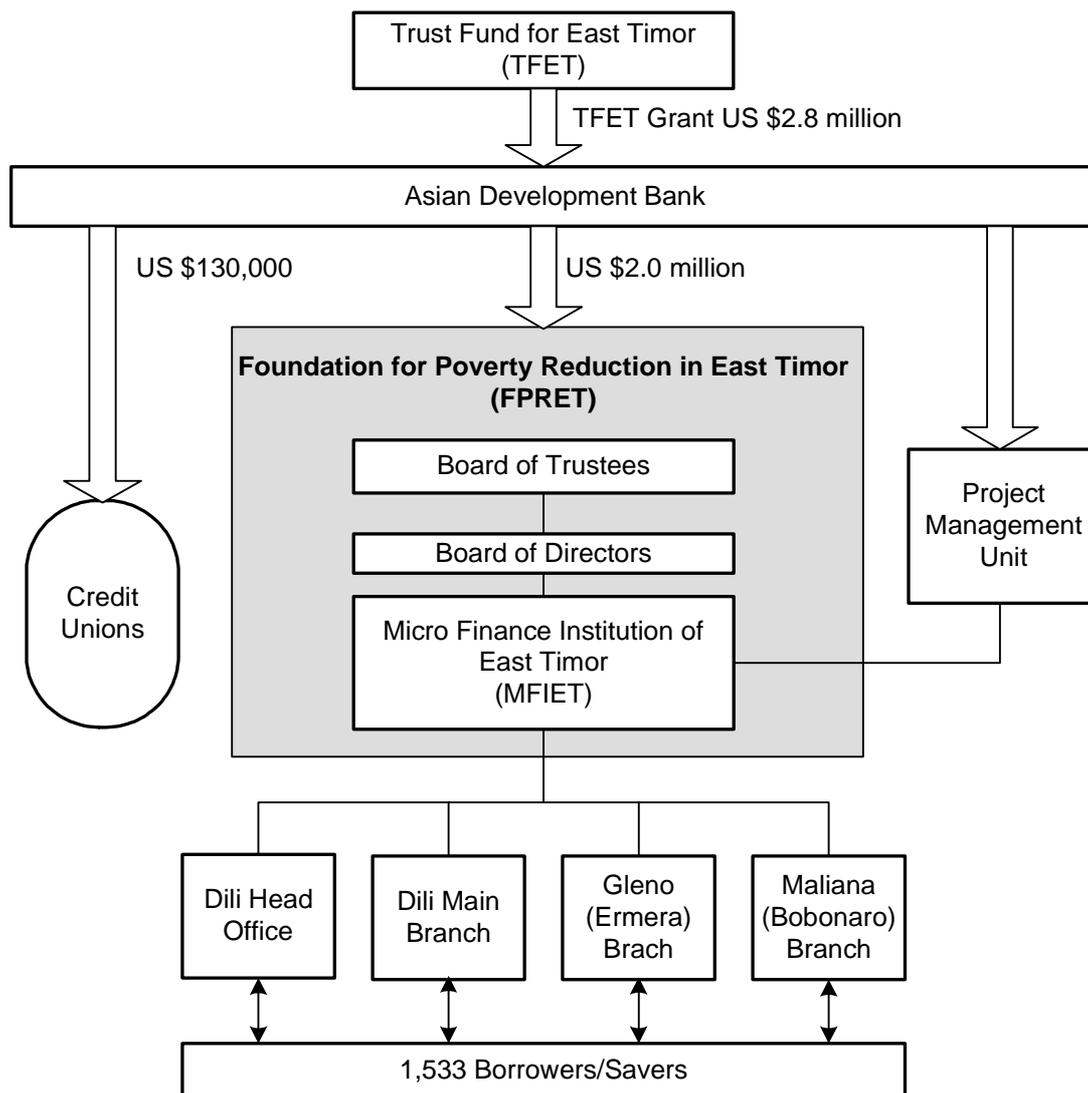
The Foundation for Poverty Reduction is governed by a Board of Trustees. The members are the ADB Representative in East Timor who is also the chairperson, Head of the ADB's Special Liaison Office (an ex-officio member), and representatives from AusAID and the Portuguese Development Support Agency. The ADB advocated donor, rather than local, control of the Board of Trustees to ensure the MFIET remains "faithful to its original objectives" and to "resist political pressures." Due to requests from East Timorese leaders, two East Timorese were added to the Board, but the majority are foreigners. There are two East Timorese members, a representative from the private sector in East Timor and a representative from the government.

The Board of Trustees appoints the Board of Directors, which officially governs MFIET. At the moment the Board of Directors is the same as the Board of Trustees with the addition of the Head of the Project Management Unit and the Administrative and Finance Officer of the ADB's office in East Timor. The Board of Directors does not function independently, and all tasks designated for the Board of Directors have been carried out by the Project Management Unit. See next page for a diagram of management structure.

By December 2003, the Foundation for Poverty Reduction and MFIET will be transferred to East Timorese hands, a process the ADB refers to as "divestment." The present Boards of Trustees and Directors will be replaced and the Project Management Unit will be disbanded. The new Board of Trustees will appoint a new distinct Board of Directors, which will assume all the management tasks of MFIET.

*(Continued on page 7)*

## MFIET Management Structure



### What is Microfinance?

- ✓ Microfinance is a process of providing loans and savings services to poorer segments of society who are unable to access such services from a normal bank. The theory is that with access to credit people can increase their household incomes and build businesses.
- ✓ Microfinance operators lend to groups and individuals. Individuals in a group are equally responsible for repaying the loan.
- ✓ Microfinance loans are relatively small and repaid over short periods of time. People borrow a small amount first and are able to borrow more once they have repaid the previous loan. For example, the first loan might be for a US\$100 repaid over four months, then \$150 and \$200 and so on.
- ✓ Microfinance operators try to make enough income to pay operating costs so they can be sustainable. To do this they charge administrative fees and interest on their loans. Most microfinance operators say they need to earn over 30 percent annual interest on the money they lend in order to be sustainable. This is much higher than a normal bank.
- ✓ Microfinance operators usually lose money for the first five to six years. This is because there are high start up-costs, such as establishing branches and training field staff. It takes time for borrowing groups to become established and initially loans are small so the profit is small.

How this process is to take place is yet to be decided. Neither the ADB Special Representative in East Timor nor the head of the Project Management Unit was able to give *La'o Hamutuk* any definite information about the future of MFIET. There have been concerns that it might be privatized. Ownership could be transferred to the government of East Timor, who would then perform the functions of the foundation and appoint the Board of Directors. However, the International Monetary Fund, the World Bank and the ADB are strongly opposed to the government owning a state bank. The divestment process is going to be subject to a study funded by an ADB technical assistance grant later this year.

On 4 December 2002, during the student protest which became violent, the MFIET building opposite Comoro market was ransacked but not burned down. It was attacked because it was believed to be associated with the Prime Minister. During the attack computer equipment and office furniture was brought of the building and burned on the street. MFIET did not lose banking transaction records as all the computers had been backed up during the day. MFIET moved briefly to a temporary office. It has had to replace all the furniture and computer equipment and has now moved to an office on Sebastiao Da Costa near the Tais market. MFIET hopes to be provided with an unused government building where it could relocate the Dili main branch and the head office.

Although the US\$2 million TFET grant was paid to MFIET on 18 January 2002, the MFIET head office and the Main Branch in Dili did not open until 13 May 2002. The two district branches in Gleno and Maliana opened in September and November. MFIET has 1,533 borrowers and has distributed \$236,800 of the \$2 million starting capital in loans.

### Loans and Services

MFIET provides loans and savings services. The focus is on providing loans: services in savings are not advertised due to the inability of MFIET to deal with an anticipated large number of clients wanting to make deposits. All borrowers have a service account, which comes with the loan. The service account is to monitor repayments. Passbook savings accounts are available to the general public, offering interest if over \$50 is deposited.

MFIET offers different types of loans to different groups, including urban or rural poor; microfinance NGOs, cooperatives and credit unions; market vendors; farmers; and micro-enterprises (small businesses). Typically a client or group takes out a small loan and once they have repaid it they can take out a larger loan. The smallest loans are \$80 and the largest are \$10,000, which are only available to other microfinance operators. MFIET takes a 5% service charge on each loan, in addition to the interest. (See table below.)

Different groups have different repayment schedules. For example, market vendors repay their loans on a daily basis whereas a group of rural/urban women taking out a loan repay them on weekly or bi-weekly bases. Farmers who take out a seasonal crop loan only pay the interest every month and make a lump sum payment when the term of the loan is finished.

Interest rates are around 0.35% weekly or 1.5% monthly. Interest is charged differently depending on the size and term of the loan. Salaried individuals and groups who can provide collateral can borrow \$500 or more. These loans are repaid in monthly installments and interest is charged on the remaining balance. This means that interest is only charged on the amount not paid back yet, so as the loan is repaid, the monthly payment decreases.

Smaller loans are paid back over a short period of time. The interest is always charged on the principal, the amount initially borrowed, no matter how much has already been paid back or if it is repaid early. This is to reduce confusion and administration so the clients repay the same amount every installment, but it also means MFIET charges more interest for smaller loans than larger loans.

For example, in a microfinance group loan for income generating projects such as a small kiosk, the loan is taken out by a group of five people who share responsibility for the repayments. Initially they can borrow \$100, repaid in 16 weeks at 0.35% weekly interest. Including the service charge, a group taking out such a loan repays a total of \$110.60 dollars. The combined interest and service charge on such a loan is roughly equivalent to 35% per year.

A market vendor loan can be taken out by an individual with a stall at one of the Dili markets. They repay the loan in 13 weeks with the same weekly interest and service charge. This equals 38% per year.

*(continued on next page)*

<b>Examples of different loans and repayment rates</b>						
<b>Type</b>	<b>Target Group</b>	<b>Amount</b>	<b>Schedule</b>	<b>Service Charge</b>	<b>Interest</b>	<b>Annual Interest</b>
Microfinance group loan	Rural and urban poor groups	\$80 to \$250	112 days/repaid weekly	5%	0.35% weekly on the principal	35%
Market vendor loan	Stall holders	\$200 to 500	91 days/repaid daily	5%	0.35% weekly on the principal	38%
Microenterprise loan	Small business	\$2,000	One year/repaid monthly	5%	1.5% monthly on remaining balance	14%
Payroll loan	Employed people. MFIET staff	\$1,000	One year/repaid monthly	5%	1.5% monthly on remaining balance	14%

## Interviews with clients

*La'o Hamutuk* interviewed MFIET clients in the Comoro and Taibesse markets as well as representatives from microfinance groups in Dato, Liquisa. Most borrowers said that the installments were difficult to repay and that the terms of the loans were too short.

Maria, a 28-year-old married woman with three children, said that the loan was enough for the operations of her small business to survive. She sells mainly coffee and sugar and was using the loan to invest in her stall. She had already received a second loan of \$250. She is able to make the daily repayment of \$2.20 if she has enough customers, although business is very competitive with many stalls selling coffee and sugar.

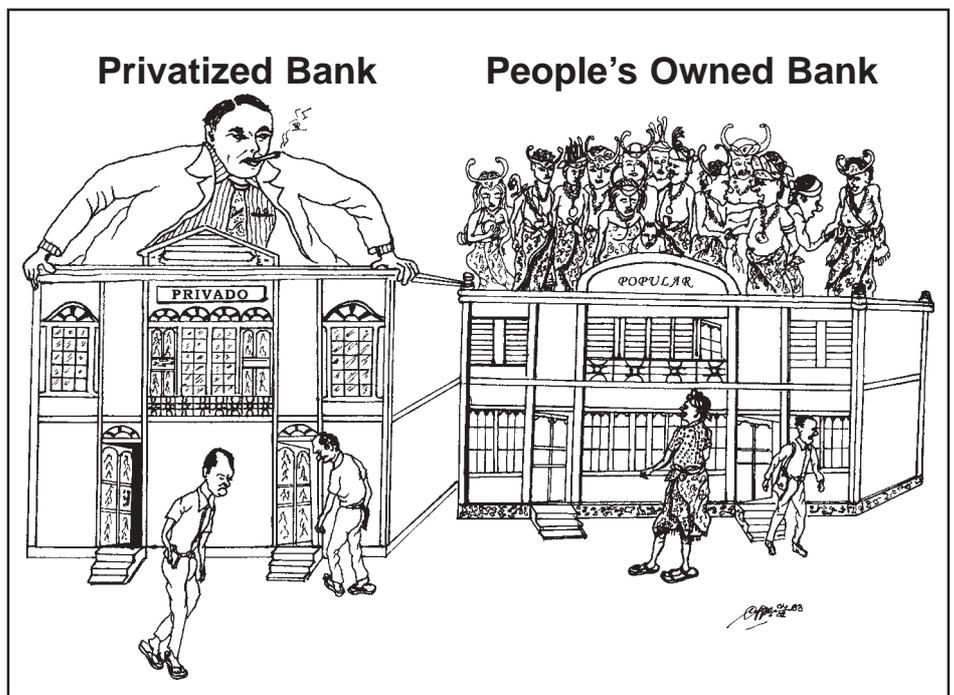
Bendita, a 40-year-old widow supporting seven children in school, has also taken out a market vendor loan. Before the loan she sold red beans and corn, and after borrowing she continued to sell the same products. She said she had to use the money to support the immediate needs of her children and was not able to invest the money in her small stall. According to her, MFIET sent people to look at her house, type of business and asked about her marital status. She was told that if she did not repay the loan she would be taken to court. According to an Institute official this is in the agreement with the client.

Domingos, 46, a former guerrilla fighter, was among the first people to borrow from MFIET and is now on his third loan from the institution. He first borrowed \$200, then \$350 and now \$400. He sells a wide variety of household goods, particularly toiletries. Although his business is successful, he complains that the daily repayments of \$4.60 are a difficult burden. Domingos said it must be an individual decision, but he would not recommend other people to take out loans from MFIET since sometimes it is difficult to sell enough to repay the daily installments.

Microfinance group loan borrowers Lucia, 41, and Ruben, 26, felt the loans given to them were too small and wanted to borrow more money. One member said that although each group should equal five members, MFIET would sometimes lend to smaller groups. He also said that members of the same family sometimes comprised one group, although the group loan should not be placed solely on one family. People said as a result of the loans there were too many small kiosks selling the same things, saturating the market. The members stated there were some groups incapable of making the weekly payments. They do not know if they will be brought to court.

In visits made to the borrowers, MFIET officials only asked questions relating to the type of business and financial capital. The officials sometimes went to see the house of the borrower but did not inquire beyond the family's economic condition. The Dato village chief felt he was inadequately consulted by MFIET, which sometimes gave loans to those whom he felt were the wrong people.

The majority of borrowers that *La'o Hamutuk* met with expressed a strong interest in business training and financial



management. When asked, none of the borrowers said they would recommend borrowing money from MFIET. They said it must be an individual decision, as it is a significant burden to repay the loan. Although clients said they did not like making the repayments and some found it difficult, many did appear to be benefiting from their loans. In Liquisa, people wanted savings services, with a nearby bank branch where they could make regular deposits and earn interest.

## Conclusion

There are several other microfinance operations in East Timor, although most projects are much smaller than MFIET. Most other microfinance operators are NGOs working to provide financial services to the rural poor. Although one of the Microfinance Development Project's main objectives is to increase rural incomes and employment, MFIET is largely focused in Dili and has only recently opened offices in Gleno and Maliana. In these areas they have very few clients compared with other microfinance operators. One microfinance operator operating in the same area as MFIET reported that the people perceived MFIET to be for "wealthier" people and that there was very little crossover between their clients and MFIET's.

Concerns have to be raised over the efficiency of MFIET. In May 2002 the ADB aimed to reach 10,000 households with the starting capital of \$2 million. At this time MFIET only has 1,533 borrowers, of whom 1,014 are in Dili. In order to become a sustainable institution it needs to lend more of its capital, which is otherwise being absorbed in operating costs.

The Head of the Project Management Unit stated that the long-term plan is for MFIET to grow into a bank offering a variety of lending and savings services complete with ATM machines. This would involve considerably more capital than the present TFET grant of \$2 million and it is unlikely that this will serve the rural poor. Where would this money come from? Will the ADB privatize MFIET to raise the capital? And will the ADB pass ownership of MFIET to the East Timorese people as a whole, or just a few privileged individuals? ❖

# The Asian Development Bank and Privatization in East Timor

by Tim Anderson\*

The Asian Development Bank (ADB) arrived in East Timor at the invitation of the UN and the Trust Fund (TFET) donor countries, and as the “little brother” of the World Bank. Both banks share the main goal of “poverty reduction,” as well as a range of other nice-sounding policies.

However, both banks share a single method of pursuing this “poverty reduction” - encouraging private foreign investment and lending, privileging exporters and facilitating privatizations (selling or giving publicly-owned facilities to private companies). Their real aim is to foster economic growth through private, profitable foreign investment. As part of this push, and in coordination with the World Bank, the ADB is set to promote large-scale privatizations in East Timor.

The two banks argue there must be a “happy marriage” of private profits and benefits for the poor - but unfortunately this “marriage” is not always so happy. The World Bank was heavily criticized in the past for pushing big infrastructure projects, but it now boasts that its priorities “have changed dramatically,” pointing to a rise in finance for education and health, and a fall in finance for infrastructure (power, roads and dams). What the Bank does not mention is that in many countries, including East Timor, it has handed over responsibility for these controversial infrastructure projects to the ADB.

Elite technocrats, who usually have little connection to the people affected by the projects, dominate these large infrastructure projects. The projects became unpopular because they involved giant foreign construction companies which carried out forced relocations of people, damaged the environment and often delivered expensive services and dubious benefits to communities. Such Bank-funded projects invariably required privatization of management to the foreign company, and sometimes also a debt burden on the government, for construction of the project. When there was anger and protest at these privatizations (e.g. in the Philippines, India and Bolivia), the World Bank usually blamed the foreign company, or the way in which governments carried out their privatizations.

## The ADB Plans Privatizations for East Timor

In East Timor the ADB has had responsibility for managing Microfinance and Infrastructure (roads, ports, aviation, electricity, water and sanitation) since 1999. In none of these areas have there yet been privatizations. But privatizations are coming. In some of these areas, despite political independence in May 2002, the ADB still has the major say.

For example the Foundation set up (with TFET donor money) to manage the Microfinance Institution of East Timor (MFIET) is now controlled by the ADB and some of the large donors. East Timorese only have a minority

say on this Foundation. This may be significant if the ADB proposes turning the MFIET into a private profit making institution. With privatization, interest rates are likely to rise (to satisfy shareholders), the borrowers debts will be “sold” to the new owners and the institution will lose its community character. But who should determine the future of this new bank?

In the areas of power and water, the ADB already has an agenda, including a schedule for privatizations (they are called “participations” and “partnerships”), even though such moves are not part of East Timor’s National Development Plan. Privatizations may also breach some aspects of the country’s new constitution, which seeks to maintain local ownership of land and “permanent sovereignty” over East Timor’s wealth and natural resources.

The ADB’s May 2002 *Progress Report on East Timor* sets out clear plans for water privatization. The ADB’s theme paper *Water in the 21st Century* also makes it clear that the ADB is committed Asia-wide to moving water “from a public good to priced commodity.” But what does this mean for poor people’s access to water? And what political mandate does the ADB have to demand the privatization of water in East Timor?

In August the ADB received consultant reports on East Timor’s power sector from Australia’s Hydro-Electric Corporation (a organization responsible for Australia’s notorious Franklin Dam project, which was stopped by protest and then legislation in 1983). Predictably, the HEC reports recommend privatization of power management, to introduce a billing system and deal with the recurrent blackouts in East Timor’s towns. But why does East Timor need privatization and expensive electricity infrastructure? Local management should be given a chance to work, and East Timor has enormous oil and gas resources, which could be used for power in the future.

ADB-managed privatizations will be pushed in East Timor because they are good for big foreign investors, not because they are appropriate for East Timor. Yet East Timor’s insecurity about its poor basic facilities will make it vulnerable to privatization arguments. The ADB is arguing that East Timor does not have the capital or the expertise to provide basic power, water and sanitation - but these arguments are misleading.

## Managing Privatization Pressures

It is important to know that there are hidden dangers in and good alternatives to privatization; and that East Timorese people can manage the pressures for privatization.

The dangers of privatization include highly priced services (private monopolies almost always raise prices), even more unequal access to power and water, a loss of public complaints mechanisms (under East Timor’s Constitution the Ombudsman can only deal with acts by “public bodies”), and a loss of transparency and accountability. Despite ADB and World Bank claims to increased transparency, “commercial in confidence” claims always go hand in hand with privatizations. This means that important financial and other data is no longer available to the public.

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Any proposals for privatized basic services in East Timor should therefore be subject to a formal inquiry process, set by the Parliament, to consider issues such as these:

1. What will be the impact on consumers, and how can high prices be controlled?
2. How can poor peoples' access to basic services (power and water) be provided?
3. How can access to information about these services be provided?
4. How can public accountability of these services be best provided?
5. Who will gain from the sale of public assets?

After such examination, it might be decided that ownership and management of essential services are best kept in public hands, or at least in the hands of a joint venture - where the Government keeps at least 50% control, but shares ownership with a private company.

Experience elsewhere in the world shows that public facilities can be more efficient than private facilities. Researchers at the UK's University of Greenwich have demonstrated, for example, that Sweden's publicly owned water providers are far more efficient and provide cheaper water than England's privatized water providers. In poor countries there have been similar experiences. In Bolivia, development of the cooperative water supplier in Santa Cruz compares very

favorably to the disastrous privatization undertaken in Cochabamba. In the latter case, huge price rises and protests led to a reversal of privatization. In 1994 Honduras chose to reject privatization of its national water supplier (SANAA), in favor of internal reorganization and efficiency measures. Billing, cost recovery and restructuring measures were pursued by SANAA, which the UN now considers a model public project. East Timor can learn from these experiences.

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

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

East Timorese people can manage the ADB's demands for privatization of these basic services if they draw attention to the problems, the alternatives and to indigenous initiatives. The new Constitution, the Parliament and the National Development Plan provide all the tools for this. East Timorese people can speak, and the ADB will have to listen. ❖

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## Report on the International Conference on Post-Conflict Reconstruction Hiroshima, Japan

The United Nations Institute for Training and Research (UNITAR) held a three-day international conference on post-conflict reconstruction on 11-13 November 2002 in Hiroshima, Japan. This conference was attended by delegations from the UN, governments and NGOs from conflict countries throughout Asia, including Akara Juvinal from *La'o Hamutuk*.

The conference was held to share experiences, exchange ideas and find alternative solutions for reconstruction of destroyed post-conflict countries (military, political, religion conflict, etc.).

To better understand the views of reconstruction from participants of the conference, UNITAR organized the presentations in several sessions. Hence, participants had the chance to evaluate UN missions and international institutions that were involved in post-conflict reconstruction.

The conference looked at Japan, South Korea, Vietnam, Cambodia and East Timor, and the different concepts and approaches to reconstruction in these countries. In many cases, historical accuracy and completeness was sacrificed to meet current-day diplomatic considerations or to protect the feelings of powerful governments or institutions.

### Japan

The Japanese delegate mainly discussed the reconstruction process after the United States destroyed Hiroshima in World War II in 1945. After both Hiroshima and Nagasaki were demolished by atomic bombs, killing at least 200,000 people, Japan mobilized national consciousness to recon-

struct. They came up with the slogan "No more Hiroshimas and no more Nagasakis," implemented through three development strategies: amnesia about the U.S. bombing, raising funds through private donations and peaceful reconstruction. With this peaceful reconstruction, Hiroshima succeeded in reconstruction and the world acknowledged and is proud of the success. Therefore, the international communities through UN tend to choose Hiroshima as model of success in post-conflict reconstruction. [The Japanese government presenter failed to mention that Japan was under U.S. military occupation during the first seven years of reconstruction. Japan's major post-war economic development growth resulted from its use as a military support base for the U.S. and the UN during the Korean War.]

### Korea

The Korean delegate spoke about assistance from U.S. and UN agencies in the national reconstruction process.

He said that South Korea handled difficulties in state reconstruction easily because many international agencies, especially U.S., assisted the country. U.S. provided as much as 95% of the assistance, and there was also multilateral assistance from UN agencies such as UNESCO, UNICEF and WHO. According to the South Korean delegation, the success of the reconstruction resulted from the direct intervention and monitoring by donors in implementing the reconstruction process and South Korean leadership reforming internal institutions. With the UN agencies and donors monitoring and controlling programs, some participants thought that the reconstruction model in South Korea

can be a model for UN and donor countries to apply in assisting other post-conflict countries. [The delegate failed to mention that South Korea was run by a series of repressive U.S.-backed military dictators from the end of the war in 1953 until 1988, and that tens of thousands of U.S. troops remain in South Korea to this day.]

### **Vietnam**

In the presentation, the Vietnamese delegate said that his country was reconstructed with the foreign assistance mainly from the Soviet Union, after the U.S. had backed the South and the Soviet Union the North during more than a decade of war that ended in 1975. After 1990, when Vietnam joined the global capitalist economy, they also received support from the U.S., UN agencies, ADB and international NGOs.

According to Dr. Nguyen Quang Thai, they applied three strategic concepts of development in implementing reconstruction in Vietnam: creating stability and peace, making international assistance partnership assistance, and directing this assistance towards the interests and needs of the people.

### **Cambodia**

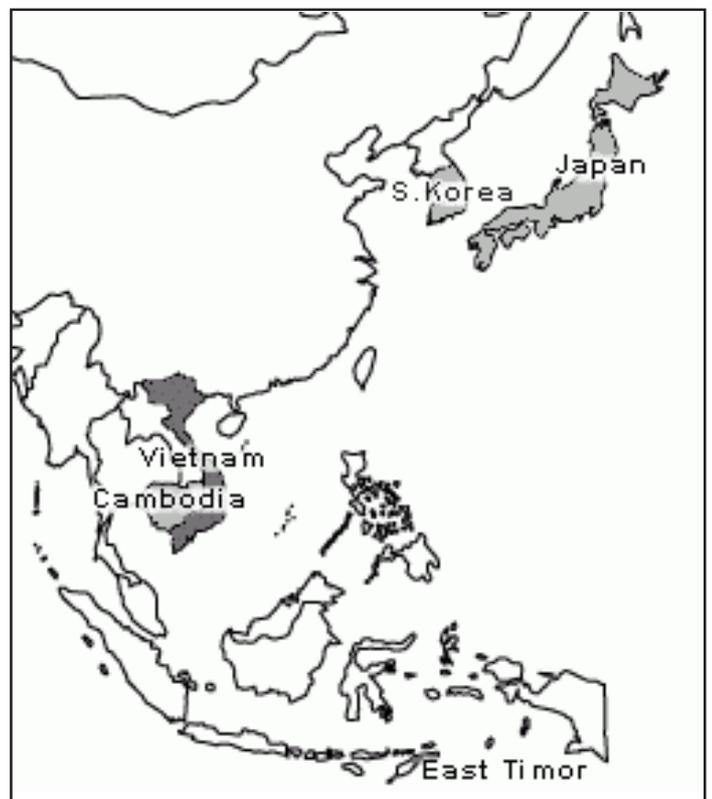
Three different views on the reconstruction process were presented by three representatives from Cambodia. Former UN Transitional Authority in Cambodia (UNTAC) coordinator Yasushi Akashi said that the UN had successfully implemented its mandate in reconstructing Cambodia in emergency infrastructure rehabilitation, bringing back refugees, conducting parliamentary elections and forming a new government.

The Cambodia Internal Minister, Mr. Prum Sokha, deemed that his government faced challenges when UNTAC left his country. To tackle these challenges, his government is implementing three development strategies: creating stability and peace and maintaining security in the country, supporting national unity and normalizing international relations, and intensifying social and economic development. Donor countries through the World Bank monitor these processes.

Ms. Chanthou Boua, representing Cambodian civil society, presented a different viewpoint. She accused UNTAC of failing to disarm military and civilian factions, and of failing to neutralize the powerful military in the government. UNTAC failed to establish democratic governmental institutions, resulting in dictatorial tendencies in the present government and a failure to involve civil society with the democratization process.

### **East Timor**

Three non-East Timorese presented views on the reconstruction process in East Timor: former UNTAET director of political affairs Peter Galbraith, Sachiko Takeda from the Hiroshima-based NGO AICAT, and Michele Brandt from the Asia Foundation. Galbraith claimed that UNTAET has been the most successful UN mission. According to Galbraith, there are five indicators of UNTAET's success: preparing for independence; gaining human and financial resources to conduct the UN mission; a creative, flexible and strict mission with a 'bottom up' structure; establishing a joint government with East Timor leadership and the international transitional administration; and conducting negotiations with Australia over oil and gas in Timor Gap. UNTAET had good and strong leadership under Sergio Vieira de Mello, who gained the trust of the East Timorese people.



Meanwhile, international NGOs represented by Sachiko Takeda and Michele Brandt presented different views. They stated that UNTAET failed to empower East Timorese. One example is forming a National Council where international staff drafted the regulations without involving the people of East Timor. UNTAET always experimented with laws from other UN missions, rather than forming a systematic legal framework and planning with the East Timorese leadership.

### **Conclusion**

It seems that Hiroshima conference was a good opportunity to learn about alternatives for post-conflict reconstruction. But, the time limitations meant some participants did not get a chance to discuss alternative models in detail. Based on the analysis, not all countries are successful because each country has different problems and different traditions. Because of that, it is important to consider the main problems, traditions, and needs of the people in the development process as well as participation of the people.

East Timor is an example where former UNTAET official Peter Galbraith praised the mission for successfully completing its mandate. But Galbraith left out that UNTAET did not account for traditions and values from the nation's struggle, and failed to empower and involve the East Timorese people in their mission. It should be acknowledged that during three years the UN mission in East Timor established peaceful stability and managed humanitarian problems. However, UNTAET leaves many challenges for East Timorese, and the "post-conflict reconstruction" of this country has hardly started. The challenges left by UNTAET include its "top down leadership" where executive, legislative and judicial powers were all vested in Sergio de Mello. This tradition has resulted in problems in the democratic and judicial processes, maintaining law and order, and strengthening civil administration in East Timor after UNTAET. ❖

# Higher Education in East Timor

As a new nation, East Timor is working to develop in several sectors, and the education sector has been identified as a top priority by the government of the Democratic Republic of East Timor.

According to article 59, section 3 of the RDTL Constitution, the government “recognizes and supervises private and cooperative education” allowing private investment in the entire sector from kindergarten to higher education. It enables private initiatives to participate in education, but it does not mean that people should be establishing private education institutions beyond the country’s needs and capabilities.

Many factors are required to establish a higher education institution. Funds and facilities are important, but we cannot forget that a good higher education institution must produce professional-quality graduates in each field, not just hand out printed degrees. Therefore, quality teachers and teaching are necessary to provide academic and professional skills to those sitting in the classroom.

## Higher Education Institutions in East Timor

*La’o Hamutuk* has identified 14 higher education institutions in East Timor. The information in the table on the next page is the best we could get (much of the information comes from the Department of Education), but things can change.

Of the 14 institutes listed, only Universitas Nasional Timor Lorosa’e (UNATIL) is a government university. UNATIL has been receiving 70% of its funding from the government; professors are paid by the government as civil servants. The institution has also received educational infrastructure and other material support to rehabilitate the campus, and for chairs, desks and library facilities from East Timor’s government, as well as from other countries including Portugal (Agriculture and Teacher Training), Australia (Economics and Social Sciences), the United States (building reconstruction) and Japan (Technology).

Many private higher education institutions have been opened here, in general with the same goals of enabling high school graduates to continue their education and developing East Timor’s human resources. The first goal is probably already met. During the UNTAET transitional period, East Timor already had two universities, UNATIL and UNDIL, but they did not have space for all the high school graduates seeking higher education and the students who had their studies interrupted in 1999. UNATIL evolved from Universitas Timor Timur (UNTIM), the public university under the Indonesian occupation. That university was destroyed in 1999 by the Indonesian military and militia violence, and most of the professors, who were Indonesian, left East Timor. Under UNTAET, it was rebuilt and renamed UNATIL, which has become a public university under the now-independent government.

The Higher Institute of Economics and Management (Instituto Superior de Economica e Gestão, ISEG), a private higher education institution focusing on economics, was formed in 1998. Under UNTAET this institute used existing facilities in Balide, Dili. After independence, ISEG evolved into a full university and became UNDIL.

However, *La’o Hamutuk*’s investigations showed that in most of the private higher education institutions the conditions are worrisome, with very minimal facilities. Half the professors only have a Bachelors degree, and others just a diploma (D3, a lower degree), with inadequate facilities and poorly educated teaching staff. But although with very inadequate and limited human and material resources, these institutions are established and engaged in the education process. Quality institutions should have full facilities at their disposal, such as laboratories, libraries, art and sport facilities, as well as information centers and quality teaching staff.

## Donor Support to Private Higher Institutions

Most of these institutions do not have adequate finances, professors and facilities. Those are the ones that receive aid from partners and international donors. This list includes some of the donations which helped various institutions get started; we have not been able to obtain a complete list of all aid to all institutions.

- √ UNDIL received adequate computer facilities from the University of Melbourne (Australia) and books from Indonesia.
- √ Universitas Malear receives \$3000 in financial support from a group of Chinese companies in Hong Kong, courses in information and tourism and teaching staff from a Bali business organization, and two computers, desks and office supplies from the Victoria-Melbourne and Australian Departments of Education.
- √ Dom Martinho University has received 17 computers from New Zealand.
- √ DIT works together with Victoria University, Australia, in particular in exchanges of professors and students, and received 40 computers from ANZ Bank and 40 from Victoria University.
- √ IOB has already received full support from several institutions for campus buildings, chairs, desks, computers, library, and laboratory. Salaries for the professors are paid by USAID and their NCBA coffee cooperative project.

We believe that donors who assist higher education institutions have the obligation to pay attention to and evaluate the needs and problems of these institutions from a broader perspective, not only to aid specific areas without considering the impact on the people and government of East Timor.

Why do donors give assistance to establish private universities?

Franqelino da Costa Freitas from Universitas Malear told *La’o Hamutuk* he does not know the underlying interests or reasons of the donors, but that there is a specific goal in making the name of their institution known, to improve their visibility and their opportunities to conduct business in East Timor.

If donors want to help continue the education of high school graduates, wouldn’t it be better to support the already existing universities, UNATIL and UNDIL, to expand the number of students they can take, and improve the quality of their institutions and their degrees?

(Continued on page 14)

# Higher Education Institutions in East Timor

Name	Location	Ownership	Rector	Students	Professors	Faculties	Tuition/semester	Comment
National University of Timor Lorosa'e (UNATIL)	Dili	RDTL government	Benjamin de Araújo Cortereal	6,000	126	5: Social and Political Sciences, Agriculture, Education, Economics, Technology	\$80? (up from \$30 in 2000-1, \$40 in 2001-2)	Recent tuition increase being disputed; may change.
Fundação Universidade Portugal (FUP)	Dili	RDTL government		160	20 (changing each semester)	5 parts: Information, Economics, Electronics, Agriculture, Portuguese language		Special education in the Portuguese language at UNATIL
Dili Univ. (UNDIL)	Dili	Dom Boaventura Foundation	Lucas da Costa	1,822	40	5: Econ. & Mgmt, Soc.Sci. & Public Relations, Health, Law & Tech. (ind. & arch.)	\$135	Founded by people from RENETIL (ET student resistance in Indonesia)
Maulear University	Dili	Maulear Foundation	Feliciano da Costa	305	18 (5 full time; 13 part-time)	3: Law, International Relations, Language and Art	\$80	Offers diploma (D3) and bachelors degrees. Supported by Rogerio Lobato.
Jupiter Univ. (Unter)	Dili	Saint Foundation	Francelino da Silva Correia	120	36 (one Ph.D., 35 bachelors)	4: Technology, Sea & Fisheries, Agriculture & Forestry, Biology & Math	\$120 (\$180 for 3-month prep. course)	Founded by Finantil High School (Dili)
Continental University (Unicon)	Dili	Continental Foundation	Florindo Pereira	404	30	6: Law, Political Science, Agriculture, Education, Technology, Economics	\$68	Associated with Col. Lere Anan Timor of FDTL
Dom Martinho Univ.(Unimar)	Dili	Dom Martinho Foundation	Baltazar Manekehi	100	15 (5 full-time; 10 part-time)	4: Economics, Society and Politics, Technology, Law	\$35	Planned, not yet started
Boa Ventura University	Manufahi		Egas Barros			Agriculture		
Matebian Community Univ. (UCM)	Baucau		Fransisco Parada	175	12	4: Law, Economics, Agriculture, Education		
Institute of Business (IOB)	Dili	Foundation Klibur Mata Dalam ba Koperativu no Fila Liman	Agusto da Conceição	78	24 (20 Bachelors, 3 Masters, 1 Ph.D.)	3 departments: Financial Management, General Management, Accounting	\$300	
Dili Inst. of Technology (DIT)	Dili and Oecusse	DIT Foundation	João Cancio Freitas	200(Dili) 168 (Oecusse)	28 (8 full-time; 20 part-time)	2 depts.: Business & management, Technology	\$90 (B&M) \$120 (Technology)	Associated with Association of Resistance Veterans (AVR) and Kirsty Sword Gusmão
Instituto de Ciências Religiosas	Dili (Lahane)	Catholic Church	Father Yulius Yasinto	60	10 (approx.)	Institute for catechist and priest assistants	\$60	Known as ICR.
IKIP Kristal, Teaching and Educational Science Inst.	Dili (Balide)	Kristal Foundation	Antonio Cabral			Train junior and senior high school teachers		
IKIP Kristal, Gleno	Gleno- Ermera	Kristal Foundation	Arnando Martins de Deus			Train junior and senior high school teachers		
Catholic Inst. for Teacher Training	Baucau	Baucau Diocese				Train teachers at the primary and secondary education level		Founded in 2000; run by Marist Brothers (Australia)

Universities

Other institutions

According to international donors, they want to help carry out the government's program and develop East Timorese people's higher education. USAID/NCBA, for example, says that the government and other countries already assist UNATIL and UNDIL, so that NCBA prefers to support smaller private institutions. Perhaps they feel they can be more effective in promoting their vision of an export-oriented, privatized economy?

It appears that the donors prefer to support institutions owned by private organizations, rather than UNATIL, which is owned by the people of East Timor. If donors focused their aid on UNATIL, it would greatly benefit East Timor's government and people to have a large, high-quality, public university, which could provide more students with a better education.

On the other hand, two donors that support private institutions told *La'õ Hamutuk* that because UNATIL is influenced by Portugal, international institutions from other countries are unwilling to assist it. UNATIL receives assistance from the Portuguese government (Institute Camões through the Fundação Universidade Portugal (FUP)). The FUP was founded to enable Portugal to work with UNATIL, with all the courses taught in Portuguese and half of the professors coming from Portugal.

### **Government regulations regarding UNATIL**

Currently the government is funding UNATIL. But its status as a government institution is not yet officially clear, because no regulations or legal foundations regulate or define the status.

Legislation to establish UNATIL as a public or government university (*Estatuto da Universidade Nacional Timor Lorosa'e*) has been drafted and given to the Minister of Education, later it will be studied by the Council of Ministers for approval.

### **Regulation of private institutions**

Article 59, section 3 of the RDTL Constitution also gives the government responsibility for higher education, with the duty to regulate and develop, as well as recognize, the private institutions. But in this period the government's education department has not yet issued a regulation or legal foundation to regulate higher education.

According to the department's Director of Higher Education, Dr. Justino Guterres, they have already drafted "Regulations for private and cooperative higher education institutions (*Estatuto do Ensino Superior e Cooperativo*)."

In July 2002, the Minister of Education and Culture asked the Director of Higher Education to prepare regulations regarding private and cooperative higher education, in order to regulate the establishment of these private institutions. Various departments began reviewing a draft regulation in January 2003, after which it will go to the Council of Ministers to consider and approve.

According to Dr. Justino Guterres, some of the fundamental regulations for cooperative and private institutions are already in place. In the near future the government will create a special team to supervise all the current higher education institutions, and then evaluate if their conditions meet the following draft criteria:

- √ Have a valid place and campus building with sufficient classrooms
- √ Have enough lecturers of sufficient quality
- √ Have enough funds and good financial practices
- √ Have a library
- √ Have laboratories
- √ Have an information center
- √ Have a research center

If there are private higher education institutes that do not meet these criteria, they will be forced to close. And those that pass will be given government accreditation, which will guarantee a level of quality for higher education, and help people to know that the institutions are up to a good standard.

### **Conclusions**

After studying the limitations of private higher education institutions, we believe that there has been too much of a rush to establish many private universities, often lacking adequate facilities and human resources, and not enough support for public ones. The existing public university, UNATIL, should be developed first. The quality of education is more important than creating institutions to make money for private businesses administrators or serve particular political constituencies.

The proliferation of institutions creates problems because of the lack of trained educators in East Timor. Many professors teach at several institutions (we know of at least one who has five part-time teaching positions), and cannot give adequate attention to their students, prepare their lessons and materials, correct assignments, or even attend classes.

Besides that, the government's education department does not yet have legal regulations for higher education. The government has yet to define curriculum requirements, and promulgate regulations about language in the teaching process. Up to now, institutions have been adopting education systems from Indonesia, Portugal and elsewhere.

Also specific countries are providing funds to private higher education institutions. These beginnings of liberalization and privatization in the education sector are already having an impact, and could impose certain attitudes or directions in the future. East Timor is a small nation with a relatively small population with as yet undeveloped economic possibilities.

From all of this, we hope that existing higher education institutions will exist not only in name, but can provide a quality academic and professional education to develop our nation's people. In addition, education is a fundamental right and we hope it won't be treated as a commodity, which can be sold and bought. Some institutions do not have a solid financial base, and could close for lack of money, which will cause even more problems for students and their parents.

If all of this isn't valued, then higher education will face further difficulties and the students could be stuck with heavy burdens because they will pay expensive tuition for a questionable-quality education. ❖

## In Brief...

The World Bank and the Government of East Timor held the **seventh Donors' Conference** on 9-10 December 2002 in Dili. In the "Timor-Leste and Development Partners Meeting," donors and the government discussed education, health, agriculture, and capacity building. They also evaluated development since the last donors' meeting.

Previous meetings were held in Tokyo (December 1999), Lisbon (June 2000), Brussels (December 2000), Canberra (June 2001), Oslo (December 2001), and Dili (May 2002).

The government reported to donors that the development process was on schedule and has involved civil society in all sectors. The government also reported that the programs of the government have reached all the districts in East Timor. Civil society representatives presented different views, urging the government to be more forthcoming with information and be more honest about the pace of development.

**On 1 January 2003, the United Nations High Commission for Refugees (UNHCR) and the Government of Indonesia revoked international refugee status for East Timorese living in West Timor and elsewhere in Indonesia.** The most noticeable immediate effect of UNHCR's decision was the end of transportation support from UNHCR and IOM for refugees returning to East Timor. Approximately 30,000 people are still living in camps, and 1,000 East Timorese children are separated from their parents and other relatives, many under the charge of pro-autonomy groups in Indonesia. The Government of Indonesia now considers the refugees to be Indonesian citizens, and with UNHCR is identifying permanent relocation sites, mainly in West Timor and neighboring islands, for the East Timorese remaining in the camps. According to preliminary results from NGOs operating in the area, many of the sites are isolated and offer inadequate farmland, and it is doubtful how willing the East Timorese will be to move to locations on other islands, and how willing their new neighbors will be to accept them. *(For more on the refugee situation, see LH Bulletin Vol. 2 Nos. 4 and 6-7, and Vol. 3 No. 4.)* ❖

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### Editorial: No War Against Iraq! *(continued from back page)*

ing effectively with the dangers of Iraq's possible weapons of mass destruction, and we urged all governments – especially Iraq and the United States – to cooperate with its multilateral process.

Although the invasion has begun, we continue to believe that negotiation and compromise is essential to restore peace. Every human life is irreplaceable, and every possible effort should be made to save each one.

During the past three years, the United States, Australia and the Great Britain have made valuable, peaceful contributions to East Timor's independence and development. Although this assistance cannot undo their decades of support for Indonesia's illegal occupation, it is nevertheless welcome. Similarly, peaceful support by those nations for democracy and reconstruction in Iraq would have been welcome – even though these same countries were happy to sell weapons to and buy oil from Saddam Hussein for many decades.

After Iraq invaded and occupied Kuwait in 1990, the U.S., Britain and others attacked Iraq, reversing the invasion and taking many Iraqi civilian lives. Although Indonesia was occupying East Timor at the same time, the U.S. and others felt no need to act here, notwithstanding that the Indonesian occupation had killed far more people than Iraq did in Kuwait, and that a strong, nonviolent action could have ended it.

As every East Timorese knows, the Indonesian invasion and occupation of this country resulted in massive civilian casualties. Yet, during 24 years of occupation, neither East Timor's resistance nor any foreign government advocated invading Indonesia or attacking Indonesian civilians. We understood that the Indonesian people, like us, were victims of Suharto, and should not be punished for his crimes. Likewise, the people of Iraq, living under Saddam's repression, are not his co-conspirators. The invasion of Iraq is killing Iraqi civilians, on top of hundreds of thousands who have already died from the decade-long embargo.

Suharto's dictatorship was eventually ousted by the Indonesian people, who accomplished "regime change" through largely peaceful means. The people of East Timor made our own "regime change" through the Popular Consultation. In both cases, international support was mostly nonviolent and always defensive, never targeting civilians. Similarly, the decision about who should govern Iraq is one for the people of Iraq to make, not foreign governments – although those governments could have provided nonmilitary help, if requested by the Iraqi population. But now that invasion has started, the atmosphere for peaceful international cooperation with democratic Iraqi elements, even after the fighting stops and Saddam Hussein is not in power, may have been poisoned irretrievably.

East Timor's newly-independent government is now a member of the international community, with consequent responsibilities to participate in global decisions. Last September, East Timor ratified the United Nations Charter, committing this nation to support peaceful means for resolving international disputes. East Timor's government should use its voice and vote to support continued UN inspection and disarmament efforts in Iraq, and to oppose military and economic actions which mainly punish innocent civilians.

We are dismayed by statements and articles by Foreign Minister José Ramos-Horta, in which he praises U.S. policy and gives support to the Bush administration's military campaign to overthrow the Iraqi government. Although the Nobel Peace Prize laureate may earn thanks from the current regime in Washington, he is tarnishing East Timor's claim to be a model for justice, peace and self-determination in the world.

Over the past three years, many, including the UN and the three nations leading the charge against Iraq, have taught East Timor about the rule of law, which protects the weak from those who might abuse their greater power. This applies to big nations as well as small ones. We continue to demand that all governments respect the decisions of the United Nations, and not take the law, or the war, into their own hands. ❖

# Editorial: No War Against Iraq!

The war between the United States (with a few supporters) and Iraq is a matter of global concern, and people everywhere in the world must make our voices heard. Although this does not directly affect East Timor, we believe that the East Timorese people, with our own recent and horrible experiences of war and repression, have a unique perspective. In addition, our close relationship with the United Nations for the past three years has taught us that this global institution has an essential role in attaining and preserving peace.



On 15 February, East Timorese and internationals organized a protest in Dili as part of worldwide anti-war demonstrations. We walked peacefully to the U.S., British and Australian embassies, and talked with the U.S. and British ambassadors to East Timor. Although we (and, indeed, the majority of the world's governments, including the United Nations) were not able to dissuade the United States and its allies from attacking Iraq, we continue to believe that the attack, in defiance of the UN Security Council, is unwarranted, immoral, and criminal.

The government of the United States (with support from Great Britain and Australia) is leading the war against Iraq. These three governments have helped East Timor become independent since 1999 – but from 1975 until 1999 they supported the brutal Indonesian military occupation of our country, supplying weapons and training to the Indonesian army to enable it to kill and torture our people. We can see no moral principle in their current effort to overthrow Saddam Hussein, with consequent massive casualties among Iraqi civilians and others, when they felt no compulsion to overthrow Suharto, who was at least as bloody and brutal as Hussein. Although we make no apologies for Saddam's dictatorship, we share the view of the majority of Americans, Britons and Australians that war is not the answer.

Since 1999, the United Nations has been a force for peace and nation-building in East Timor. Although *La'o Hamutuk* has often criticized its shortcomings here, we believe in the basic principles of the United Nations – that governments of the world should find peaceful ways to end conflict, injustice, and other threats to peace. The United Nations was deal-

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## What is La'o Hamutuk?

*La'o Hamutuk (Walking Together in English)* is a joint East Timorese-international organization that monitors, analyzes, and reports on the principal international institutions present in Timor Lorosa'e as they relate to the physical, economic, and social reconstruction and development of the country. *La'o Hamutuk* believes that the people of East Timor must be the ultimate decision-makers in this process and that this process should be democratic and transparent. *La'o Hamutuk* is an independent organization and works to facilitate effective East Timorese participation. In addition, *La'o Hamutuk* works to improve communication between the international community and East Timorese society. *La'o Hamutuk's* East Timorese and international staff have equal responsibilities, and receive equal pay and benefits. Finally, *La'o Hamutuk* is a resource center, providing literature on development models, experiences, and practices, as well as facilitating solidarity links between East Timorese groups and groups abroad with the aim of creating alternative development models.

*In the spirit of encouraging greater transparency, La'o Hamutuk would like you to contact us if you have documents and/or information that should be brought to the attention of the East Timorese people and the international community.*