

The Banking and Payments Authority (BPA)

For definitions of the words in bold, see glossary, page 4.

Every country needs to administer public financial resources and make decisions about **monetary policy**, such as managing the **exchange rate**, setting **interest** rates and other decisions regarding a country's **currency**. In addition, all governments need financial services: to collect taxes, pay salaries and make payments for materials purchased on behalf of the public. Governments also need to regulate financial institutions like **banks** and **foreign exchange dealers** which do business in their countries. In East Timor these services are provided by the Banking and Payments Authority (BPA).

The BPA was formerly known as the Central Payments Office (CPO). The CPO was created early in 2000 by the International Monetary Fund (IMF) following the invitation by UN Secretary-General Kofi Annan to the IMF to participate in the Joint Assessment Mission in September 1999, and to take responsibility for the design and construction of East Timor's financial institutions. The IMF identified and employed people to create and operate the CPO and the Central Fiscal Authority (CFA) which became the BPA and the Ministry of Planning and Finance. The IMF also wrote the UNTAET regulations creating and defining the duties of the BPA. The BPA regulation in East Timor is the same as the regulation which the IMF wrote for the Banking and Payments Authority in Kosovo, which is not an independent country.

The BPA includes a banking and payments department, bank licensing and supervision department, and **statistics** and **economics** division. The accounting and budget division writes quarterly and annual reports for the governing board and external **auditors** as well as managing the BPA's budget. The BPA also has an administration department and an information technology (IT) division.



Financial services to the government

The BPA provides banking and financial services to the government. All government financial resources are managed by the BPA, which performs all the functions of a bank except that it cannot lend money to individuals or businesses except for commercial banks. It can only invest money in other national governments or central banks. The BPA regulation states that the government is not legally permitted to keep public money in any bank other than the BPA. This is to ensure public funds are managed by the public, not a private institution like a commercial bank.

As part of its banking services to the government, the BPA makes payments for the government, such as salaries to government employees or payments to foreign or domestic businesses which have provided good or services to the government. When the government needs to make payments it instructs the BPA to do so on its behalf.

Currently people can pay taxes and fees to the government through the Banco Nacional Ultramarino (BNU). This is because the BNU was operating in East Timor before the BPA came into existence, and agreed to receive tax payments in an informal agreement with UNTAET. The UNTAET regulation which created the BPA also stated it must be the only recipient of public funds, which made it illegal for the BNU to receive tax payments. Therefore the BPA opened a separate account with the BNU for each government tax. For example, a separate account was opened for income tax, excise tax and so on. Each day the BPA transfers the funds out of the BNU and into the BPA. The BPA has the same arrangement with Instituição de Microfinancas de Timor Leste (IMTL), and in the future people will also be able to pay tax at Bank Mandiri and the Australia New Zealand bank (ANZ).

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The International Monetary Fund (IMF)

East Timor became the IMF's 184th member in July 2002. Each IMF member country pays an annual subscription fee called a quota, based on its wealth. The size of a country's quota determines its level of participation in IMF decisions.

The IMF, like the World Bank and the Asian Development Bank, is not a democratic institution. Rich countries with large quotas dominate the decision making processes in the IMF. The five richest members of the IMF — U.S., Japan, Germany, Britain and France — together control nearly 40% of the total votes. In contrast, East Timor has 0.02% of the total vote and has virtually no say in the decision making process.

Not surprisingly, the IMF pursues the agenda of its most powerful members, which is promoting economic liberalization and globalization. This means no regulation of foreign investment, few government controls on international flows of capital, and limited government regulation on wages and prices. Countries are encouraged to link their economies with the global market, rather than controlling them to best serve their own citizens. For details see *La'o Hamutuk Bulletin Vol. 2, No. 3*.

In addition to the government's and banks' **accounts** the BPA keeps accounts for international finance institutions like the IMF, World Bank and Asian Development Bank. When East Timor joined each financial institution the BPA opened an account for them. These 'dormant' accounts are not used on a daily basis like the accounts of banks. They are used to pay the annual subscription fee East Timor has to pay as a member of each international finance institution.

Supervising banks

Each bank in East Timor — the ANZ, BNU and Bank Mandiri — is legally required to open two accounts with the BPA. One account is a general account for payments between banks. There is no minimum amount for this account and the **balance** is determined by the bank. Banks also have **collateral** accounts which are used to guarantee interbank transactions. The minimum balance is US\$50,000, and the BPA pays interest on these accounts, totaling \$260,000 in the last financial year (2002-2003).

All financial transactions (transfers of money) between banks in East Timor are processed through the BPA. As most transactions here are in cash, there are not many transfers.

The BPA is also responsible for supervising all banks and foreign exchange dealers operating in East Timor. It also supervises the IMTL but not microfinance projects run by international and national non-governmental organizations. All banks and foreign exchange dealers need to obtain a license from the BPA to operate in East Timor. The BPA's governing board decides whether or not the BPA should issue the license. Licensed financial institutions are then registered with the BPA.

All financial institutions have to submit to regular examinations by the BPA, including both on-site and off-site examinations, which are a monthly report from the institution to the BPA. The BPA analyses all reports and compiles monetary statistics which it publishes in the newspapers and its own bulletin every quarter.

Every quarter each bank has to submit a consolidated report on its overall financial status, since all of the banks operating in East Timor are from other countries. The on-site inspection is an annual **audit** carried out at the bank's premises by BPA inspectors who examine all the accounts and financial statements.

The BPA can check the financial condition of a bank but it cannot interfere with a bank's operations. For example, it cannot limit the \$2.00 per month some banks charge their depositors.

Management structure

The BPA has a management team which consists of the General Manager from Portugal, the Deputy General Manager for Payments from New Zealand, the Deputy General Manager for Supervision from East Timor and the Chief Accountant from Uganda.

The IMF recruited and pays the salaries jointly with the UNMISSET of the General Manager and Deputy General Manager for Payments. These managers do not have to meet all of UNMISSET's reporting and evaluating requirements, and are not likely to be terminated once UNMISSET's mandate ends in June 2004, as these positions are part of the BPA management structure. UNMISSET pays for the Chief Accountant and the Senior Economist.

The legislation governing the BPA gives the General Manager a lot of authority within the BPA and consequently with a lot of influence over East Timorese monetary matters. According to the current General Manager, East Timorese leaders asked the Bank of Portugal to recruit someone, and the Bank then asked the IMF to identify and recruit this position. The Bank of Portugal also pays the IMF half his salary. The General Manager is therefore evaluated by the Bank of Portugal, the IMF and the government of East Timor. The General Manager evaluates the other managerial staff on the basis of the work they do at the BPA. If an international adviser performs poorly, it is the General Manager (not the IMF) who decides whether he or she continues working at the BPA.

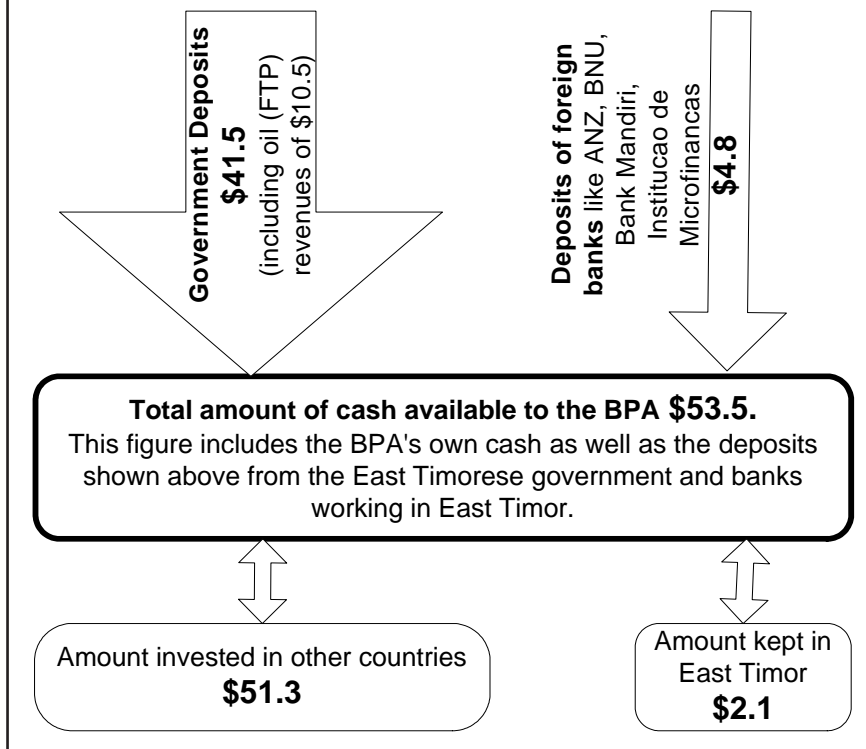
Banking on Oil Money

As oil and gas from Bayu-Undan and other fields in East Timor's territory is sold, the government receives a percentage off the top, called First Tranche Petroleum or FTP. Many experts, including the Norwegian government, World Bank and IMF, advocate that this money not be used for operating expenses, but that it be put aside into a reserve fund whose earnings can help finance government programs after all the oil and gas is used up.

East Timor's government has accepted this idea, and is putting aside FTP money (\$10.5 million to date) into a separate account with the BPA. However, no legal protections have been developed to ensure that money stays in reserve, and the government is already proposing to use it to help narrow the financing gap expected over the next three years. During 2004, the IMF and the Government will design a reserve fund structure for East Timor's oil money, and civil society should be involved to help protect the entitlement of future generations.

Where the BPA keeps money

(all figures in millions of U.S. dollars, June 2003)



The BPA has a governing board which is supposed to consist of three executive members (the General Manager of the BPA, the Deputy Manager for Payments, and the Deputy Manager for Supervision), and four non-executive members from civil society. The governing board is responsible for deciding policy and monitoring its implementation. It is also the oversight body of the BPA.

Currently the governing board consists only of the three executive members (two internationals and one East Timorese), although the BPA regulation, promulgated in November 2001, states at least four members of the governing board must be East Timorese. No civil society members have yet been appointed. Consequently there is no effective oversight body.

Who pays for the BPA?

The BPA has its own income. It earns money by charging fees for the banking services provided to the government and agencies which have accounts with the BPA. For instance, banks are charged 0.6% on each cash withdrawal from the BPA. The largest portion of its income last year (41%) came from fees paid by the government, amounting to \$562,401.

The BPA also earns interest on the funds it invests overseas (see diagram above). Most of the **capital** kept in the BPA is invested abroad. The BPA manages money on the principle of an acceptable level of risk. This means balancing the risks of investing money against the gains that can be made. Some investments have a low level of risk and the interest earned is also low, whereas other means of investments might provide higher returns but higher risks. East Timor's public funds are deposited in central banks in other countries to earn interest. The BPA would not tell *La'o Hamutuk* which central banks they invest in. The BPA is allowed to invest East Timor's money in countries that violate international law or abuse human rights.

The BPA earned \$1,371,710 from all its activities over the 2002-03 financial year (see pie chart below). Its expenses include staff salaries, administration, interest on funds it keeps in its accounts and costs incurred importing new US dollars. The total expenses amounted to \$910,935 over the same period. The BPA's income exceeded its expenses by \$460,775. This surplus is placed into reserve accounts which are used to cover potential losses in the future. If the BPA's net income in a given financial year exceeds five percent of the total amount in bank accounts held by the BPA, the excess can be transferred into the national government budget.

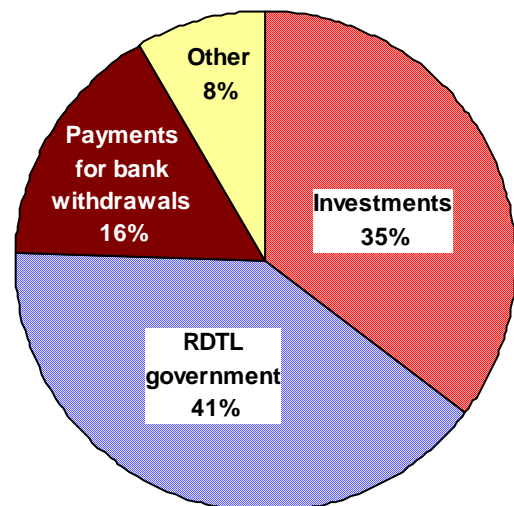
Monetary policy

As East Timor uses the U.S. dollar, the BPA cannot influence the exchange rates. The BPA has not set limits on interest rates. Interest on loans is currently very high (17% per year) because the lack of regulation concerning insurance and land registration increases the risk of loans and reduces the certainty of **collateral**. When insurance and property can be used to guarantee loans, banks will charge less interest for loans because they will be less risky. If

the BPA set limits on interest rates below the current level, the banks would not lend any money as they would consider this too risky.

The BPA is responsible for ensuring that there are enough notes (dollar bills) in East Timor to cover all cash transactions, but it cannot print currency. Therefore, it manages the importation and distribution of U.S. dollars. Many dollars leave East Timor as payments for **imports** from Australia and Indonesia. East Timor **imports** much more than it **exports**. Other dollars are withdrawn from circulation due to age or poor quality and sent back to the U.S. to be destroyed. The BPA has to import new dollars from the U.S. at considerable cost. This year 25% (\$230,000) of the BPA's expenses were transport costs for shipping dollar notes.

Sources of BPA income



Conclusion

The IMF created the BPA and is still involved through regular missions. The IMF continues to provide technical assistance if needed. The managerial staff together with the IMF are responsible for deciding if and when technical assistance is necessary. This has addressed the immediate needs of providing a system of making payments for the government and a means of licensing and regulating banks.

The BPA will become the independent, central bank of East Timor once the new banking law is passed by Parliament. As East Timor uses the US dollar, the BPA is more an

independent means of providing payment services and regulating banks rather than a means of formulating monetary policy, where it is limited to giving policy advice to the government based on the statistics it compiles.

For central banks in developed and developing countries with their own currencies, formulating monetary policy has proved very problematic. Currency speculators who trade in currencies have caused massive economic problems in particular. This is one result of the deregulated global economy promoted by the international finance institutions and the world's most powerful economies. ❖

Glossary of Banking Terms

Account. An arrangement between a depositor and a bank for the bank to hold money.

Assets. Property or money which is owned by a person or institution like a bank or business.

Audit. An examination of accounts by an independent person or company. An audit can also verify the efficiency of the institution keeping the accounts.

Balance. The amount of money kept in an account.

Bank. An institution which provides financial services to individuals, groups and businesses. These services can include storing money in accounts, transferring money overseas, making payments on behalf of the account holders, providing currency exchange services and lending money. Banks earn money by charging fees for their services, investing money and charging interest on their loans.

Capital. Property or wealth.

Collateral. Money or property used as a guarantee. Usually people need to give a bank collateral before the bank will lend them money. For example if a person wanted to borrow money to start a business they could use their house as collateral. If the business failed the bank would take and sell their house, returning any money above the amount borrowed to the person.

Creditor. A person or institution who is owed money by another person.

Currency. The cash notes and coins (example, U.S. dollars and Timor centavos) which can be exchanged for goods or services.

Devalue. Reduce the value of a currency relative to other currencies.

Economics. The study of how goods (food and clothing) and services (education, health care) are produced, distributed and used.

Exchange rate. The value of one currency in relation to another. The values of different currencies are constantly changing. The exchange rate is used to determine how much of one currency you can buy with another currency. For example, one U.S. dollar might buy 8,500 Indonesian rupiah.

Exports. Natural resources like oil, agricultural products like coffee and other goods and services which a country produces and sells in other countries. For example, East Timor exports coffee.

Foreign exchange dealer. Someone who buys and sells different currencies.

Imports. Goods and services produced in other countries which are brought into a country and sold. For example, some of East Timor's imports include diesel fuel and Gudam Garam cigarettes.

Inflation. An increase in prices of goods and services. This can happen when the supply of money increases or when the demand for a limited number of goods increases. In East Timor, inflation occurred when a large number of internationals were highly paid by UNTAET.

Interest. A charge or payment for using someone else's money. For example, a bank pays interest on money kept in an account because it can use the money for investments. If a bank lends money it charges a higher rate interest to the person, group or business which uses the money.

Interest rate. The percentage of the amount in an account or loan which is paid or charged in a given time period. The BPA can set interest rates, although it doesn't do so at the moment in East Timor. Interest rates have important impacts. If interest on loans are high, fewer people take out loans. If interest rates are lower, more people will borrow money. By setting interest rates a bank can influence people to spend more money than they have.

Monetary policy. A set of actions or decisions about the national currency. These decisions can be about the foreign exchange rate of the national currency, or setting limits on the interest rates banks can charge.

Statistics. Information regarding numbers. The BPA is concerned with the collecting information about the prices of goods and services in East Timor. The BPA uses the statistical information to make decisions regarding monetary policy.

Statement of the Asia-Pacific Civil Society Forum On Millennium Development Goals and the Eradication of Extreme Poverty and Hunger

In early October, the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) held the initial meeting of its Committee on Poverty Reduction. ESCAP asked Focus on the Global South to organize civil society input, and Focus invited Thomas Freitas from La'o Hamutuk and activists from other Asia-Pacific countries to Bangkok before the ESCAP meeting, where they wrote the following statement. The ESCAP meeting is part of a worldwide UN campaign to focus attention on the "Millennium Development Goals" (MDG) endorsed by the General Assembly in 2000 and promoted by UNDP (see La'o Hamutuk Bulletin Vol. 4, No. 2).

We the representatives of non-government and people's organizations, gathered here in Bangkok from 14 countries in the Asia Pacific region for the Asia Pacific Civil Society Forum, 6-8 October 2003, to give inputs into the inaugural meeting of the UN ESCAP Committee on Poverty Reduction.

We have the following concerns and recommendations to make:

- § The Millennium Development Goals (MDG) sidelines the more critical and important issue of human rights. Certain norms and standards are particularly pertinent in addressing the problem of poverty, such as effective non-discrimination, the recognition of vulnerable groups, the right to an adequate standard of living, the right to be free from hunger, the right to economic self-determination and the right to development. The Committee should affirm and operationalize rights based approaches to poverty eradication. Civil society organizations have already adopted this approach in their fight against poverty.
- § The MDG itself formulates the problem of poverty too narrowly in terms of vision, scope and direction. It is not simply just a numerical target to be achieved by a certain date and by technical fixes. Durable and sustainable solutions to poverty will require the active involvement of the poor and civil society, a more comprehensive understanding of the root causes of poverty and its multidimensional and diverse consequences and the right policies.
- § In this respect, the practice of measuring poverty in terms of income and consumption levels is inadequate. We urge the Committee to take into consideration political, social, cultural and human rights dimensions, determined by factors like class, gender, race, geography and ethnicity. This broader definition is necessary in designing more sensitive and responsive policies and programs on poverty. We have offered a preliminary conceptualization of this in our "working paper."
- § In order for participation to be meaningful and genuine, responsibilities and roles in the fight against poverty should not be defined for civil society and the poor. The current process of formulating and implementing poverty reduction policies has not been successfully tackling the roots of poverty. This is due to the fact that the poor themselves are excluded in the whole process. We recommend the following principle guidelines to be adopted by UN ESCAP and every individual government in the Asia-Pacific region.
 - ◆ At macro level, decision of poverty reduction policy and project must seek the consultation of the civil society and organization of the poor prior to the implementation. The consultation and selection of participation process must be transparent and accountable.

- ◆ At micro level, poverty reduction projects must seek the majority endorsement of the poor of the affected areas prior to approval.
- ◆ The indicators of these processes should be reflected in the annual assessments.
- § The MDG does not provide an in-depth analytical review of policy reform and institutional change. Hence, to link the MDGs with a particular set of policy prescriptions would be the wrong approach, no matter which policies are prescribed, precisely because there is no single "correct" policy for all societies and circumstances. In this respect, externally imposed one-size-fits-all policies such as the way the current Poverty Reduction Strategy Paper (PRSP) initiative of the World Bank and the IMF is being practiced are to be rejected. We demand that the Committee and UN ESCAP actively involve and recognize the poor as rightful participants in any formulation of poverty eradication strategies and policies.
- § Successful development efforts require appropriate policies at domestic, regional and international levels. However, the international economic structure is inequitable and currently antagonistic to the achievement of the MDGs themselves. The committee should urgently address the ramifications of globalization and to facilitate the formulation of the necessary reforms.
- § Attention and financial resources are diverted away from the priorities of directly addressing poverty and hunger and instead allocated to debt servicing and military spending. There is an urgent need to re-orient government expenditure. The Committee should identify clearly the resources needed for governments in implementing poverty eradication policies and programs. Moreover, given the multidimensional aspects of poverty, the Committee must also consider the implementation of conscientious poverty-budgeting in all aspects of government expenditure. Finally, sufficient resources should also be identified and channeled to facilitate the participation of civil society and the poor.

We challenge the Committee to adopt a more comprehensive understanding of poverty and hunger and intensify its work towards poverty eradication urgently.

Signed by:

La'o Hamutuk, Timor-Leste; Focus on the Global South, Regional; Asian Forum for Human Rights and Development (Forum Asia), Regional; ActionAid Bangladesh; LOKOJ, Bangladesh; The Womyn's Agenda for Change Project-Oxfam Hong Kong, Cambodia; Ecumenical Centre for Research, Education & Advocacy (ECREA), Fiji; Center for Organisation Research and Education (CORE), India; Solidaritas Perempuan, Indonesia; Institute of Global Justice, Indonesia; Federation of Indonesian Peasants Unions (FSPI), Indonesia; Third World Network, Malaysia; Rural Reconstruction Nepal/South Asia Poverty Eradication Network, Nepal; Partners With Melanesians Inc., Papua New Guinea; Tebtebba Foundation, Philippines; HomeNet Philippines; Movement for National Land and Agricultural Reform (MONLAR), Sri Lanka; Shan Women's Action Network (SWAN); Asia-Pacific Forum on Women, Law and Development (APWLD), Regional; CARE International, Vietnam; Assembly of the Poor, Thailand.

Dr. Andrew McNaughtan, 1954-2003

Supporters of justice and human rights all over the world lost a committed and valuable ally when Australian physician Andrew McNaughtan died unexpectedly at his Sydney home last December. For East Timor, the loss is especially painful, both because of the effective work Andrew did to advance the independence of East Timor, and for the equally effective work he would have done in the future to support human rights and economic independence for this new country.

Andrew was motivated by a sharp sense of justice, and followed his instincts with great skill and analysis. He spent a year in Nicaragua practicing medicine, and later continually helped Nigerians, Indonesians, Acehnese, Papuans, and even Americans struggling for justice. But his greatest commitment was to the East Timorese people. In the few weeks since he died, many of his friends and colleagues have shared memories. Each of us has learned much about Andrew, and all have been struck by the wide range of his work, and the many results it had. Indeed, it is hard to think of any non-Timorese person who contributed more to East Timor's independence than Andrew did.

Although Andrew was Australian, justifiably outraged by his government's support for Indonesia's occupation, he understood the importance of international campaigning and strategy.

Throughout the 1990s, he made repeated visits to East Timor, interviewing and filming people here and making his videos available to key journalists, campaigners and officials around world. Sometimes at great personal risk, he provided documentation which disproved Indonesia's lies. At a time when East Timorese were being arrested and worse for contacting global human rights groups, Andrew shrewdly used his "malai privilege" to do what they could not.

Andrew began adult life as a welder and a motorcycle racer, and after an accident he decided to go to medical school. But his real passion was to fight against injustice, and he found that he could work more effectively for East Timor as a campaigner than by providing health care. He began supporting East Timor in 1992, and became Information Officer for the East Timor International Support Center based in Darwin, and Convenor of the Australia-East Timor Association in Sydney.

Andrew's articulate, strategic and persistent advocacy of East Timor's case with Australian media and

politicians was critical to laying the groundwork for Canberra's belated 1999 conversion to support East Timor. Often using graphic photographs of East Timorese victims, Andrew's videos and publications were used by many activists and journalists and distributed widely, forcing many to acknowledge the crimes

being committed here, the afterimages remaining in their previously willfully blind eyes.

Andrew knew the strategic importance of global solidarity, and he was tremendously helpful to campaigners in the United States and elsewhere who had less access to information and audiovisuals than in Australia. Andrew also participated in the APCET (Asia-Pacific Coalition for East Timor) conferences, and his hand phone played a crucial role in maintaining media contact while the APCET II conference was arrested by Malaysian police in 1996.

Andrew compiled an exhibition of more than 100 photographs

to help people understand East Timor's history, and six sets of photographs were shown all over the world. When they were exhibited at Canberra's Parliament House in 1997, the government changed the title from *Your Friends Will Not Forget You* to *A History of East Timor in World War II*, and photos showing events after 1975 were censored, and could only be shown at a local church.

In October 1998, Indonesia was claiming to withdraw troops from East Timor, but people here knew the opposite was happening. From a clandestine resistance member in ABRI's personnel office, Andrew obtained more than 100 pages of Indonesian military documents proving that actual troop deployments were much higher than Jakarta claimed, and increasing. Andrew quietly obtained expert analysis of these documents, and coordinated simultaneous release of the information in London, Washington, Jakarta and Canberra to expose Jakarta's lies at a critical time, putting the global media spotlight on the post-Suharto military occupation.

Andrew was always very generous with his personal funds, and gave tens of thousands of dollars to Falintil and Xanana's work. Before and during the 1999 referendum, Andrew was again in East Timor, providing money and other assistance to enable people targeted by the TNI/militia to escape to safety, and compiling information about the militias to inform the UN, journalists, officials and activists worldwide. A few days before the referendum, he and two Australian colleagues were arrested by Indonesian police in Zumalai after being attacked by militias. Although they were deported



Photo by Vaughan Williams

a few days later, Andrew learned of the vote results while in custody. He observed that his Brimob captors were genuinely surprised that 79% voted for independence despite the Indonesian terror campaign — final evidence of how little Indonesia's occupiers understood the people of East Timor.

Andrew came back to East Timor in late September 1999, and returned several times. He helped InterFET understand the historical and political context, as well as current information, of the country they had just arrived to "save." He worked with Timor Aid, helped Timorese friends with personal problems, and educated himself and many others on new challenges facing East Timor — especially pursuing justice for Indonesian perpetrators of crimes against humanity here, and preventing Australia from stealing the majority of East Timor's oil and gas resources. Among other projects, he worked with journalist HT Lee to produce the video *Don't Rob Their Future: Give them a Fair Go* which is on the OilWeb CD-ROM published by *La'o Hamutuk*.

During 2003, several foreigners who contributed to East Timor lost their lives prematurely, including Dr. Andrew McNaughtan, Father Stefani Renato (a long-term Italian/Japanese supporter of East Timor, since 2000 parish priest in Atsabe, killed in an October automobile accident), Sergio Vieira de Mello, and four Korean PKF soldiers swept away by a river in Oecussi. Each of these deaths are tragic, but we believe those who chose to commit their lives to East Timor's people and nationhood — Andrew and Father Stefani — deserve special recognition.

Since 1999, many have come here to advance their careers, make money, follow orders, or share in East Timor's independence, and their help is welcome. But between 1975 to 1999, there was no material benefit in supporting East Timor. People like Andrew McNaughtan, who gave up their careers and spent much personal money to participate in East Timor's struggle against injustice, are rare treasures who cannot be replaced. Although thousands of East Timorese people suffered more and took greater risks than any solidarity activist ever could, the struggle for their country was, in a sense, forced upon them. Andrew took it on voluntarily, from his deep sense of shared humanity.

Andrew's colleagues were the people of East Timor and others struggling for justice. He was not liked by governments or diplomats — the truths he spoke were often uncomfortable for those in power. But East Timor's independence owes a lot to those truths and to the people who spoke them, more than it owes to institutions and governments who discovered East Timor after the struggle was won.

We hope that East Timor's new government remembers and honors its friends from those long, difficult years, and that it will prioritize celebrating these human relationships over flattering powerful institutions. But even if it doesn't, the people of East Timor — the many who were fortunate to know Dr. Andrew McNaughtan personally and the many more who owe their freedom partly to his work — will treasure him and continue his commitment to justice. ❖

East Timor-Nigeria Exchange on Petroleum Development

Seven East Timorese activists from six local NGOs are visiting Nigeria during the second half of January to study the oil and gas industry. *La'o Hamutuk* has organized this group, which includes (L-R) Jesuina Soares (*La'o Hamutuk*), Carlos A. B. Florindo (ETADEP), Julino Ximenes da Silva (Perkumpulan HAK), João da Silva Sarmiento (*La'o Hamutuk*) and Liliana E. A. C. Hei (Grupo Feto Enclave Oecusse) standing; Aurelio Freitas Ribeiro (KSI, and Justino da Silva (NGO Forum) in front.

Hosted by Oilwatch Africa and Environmental Rights Action, the East Timorese hope to learn from Nigeria's experience about the negative and positive impacts of forty years of petroleum development. The group will meet with communities in the Niger Delta, government officials, and local NGOs to see how oil and gas operations have affected their environment, politics, living standards, and quality of life, and to see what good and bad lessons East Timor can learn from Nigeria's experiences.

After they return to East Timor, members of the delegation will develop and communicate their understanding to civil society and responsible officials here.



Exchange Participants Return from Cuba

In October 2003 nine participants from eight East Timorese NGOs — *La' o Hamutuk*, Fokupers, HAK Association, Haburas Foundation, Feco-Uatocarabau, Naroman-Bukoli, the Men's Association against Violence and the Sa'he Institute for Liberation — participated in an exchange with the Martin Luther King Center in Cuba. The exchange was organized to learn more about Cuba's alternative political and economic systems as well as their systems of education, health and agriculture.

Victorious after the revolution against the Batista dictatorship in 1959, Cuba under the leadership of Fidel Castro underwent a major social transformation to replace old oppressive systems. The government nationalized all land and property including that of the church, although private landowners who stayed in Cuba were allowed to keep 64 hectares each. In Cuba, the public sector dominates the private sector, and the government rules to serve the people. This report will focus what exchange participants learned about Cuba's education, agricultural and health systems during their twenty day visit in the country.

Education

Cuba virtually eliminated illiteracy in one year, in a campaign involving 260,000 volunteers — farmers, workers, students and soldiers. At the beginning of 1961 illiteracy rates were 24%. Within a year the levels had dropped to 4%, and now only 0.2% of the population are illiterate.

In general, the state provides free education from nursery school through university level. School is compulsory for everyone until secondary or high school. If students don't want to continue to university level, they must find alternative courses so they can gain the experience and skills needed to live independently.

The school curriculum is centralized, meaning the same basic curriculum and materials are used for students in the city and in the most remote areas of the country. If there are students studying in mountainous areas the government sends teachers and books as well as equipment such as computers, videos, and televisions, and ensures that there is electricity. At the same time, the curriculum is flexible in order to reflect students' daily experiences. What students learn directly relates to their daily lives. For example, agricultural courses focus on the agricultural problems people confront every day, rather than topics unrelated to people's real experiences. After graduation, all university graduates must live in grassroots communities for two years, after which they are free to look for work wherever they choose.

The Cuban education system focuses on helping people to develop themselves based on the principles of solidarity

and humanity. It was difficult for us to find someone using their educational training only to serve themselves.

"Popular Universities" have been established for people who want to develop their intellectual capacity further, regardless of age or prior level of education. This kind of university helps a community organizer in a small village continue learning. Older men and women are also able to continue to learn what they choose.

Agriculture

Agrarian reform has been an important factor in Cuban agriculture. Most of the good land which formerly belonged to wealthy people was re-distributed by the government for common production. Most of the common production land is worked by cooperatives, through to distribution of the agricultural goods.

There are two kinds of cooperatives in Cuba: In an agricultural production cooperative, the government gives land to landless people to produce their own food and to develop the Cuban economy. In order to receive this land, people must agree with the government to produce food. The government continues to distribute food to people; the food comes from the people to the people. From the cooperative system food is also produced for hospitals and schools. In a credit service cooperative, people who already have land and equipment put these together for joint production.



East Timorese visitors plant a coconut tree together with organizers from a food conservation project in Lima en la Lisa.

The role of the government in developing agriculture is as follows:

- ✓ The government buys agricultural produce and distributes it among the Cuban people and exports it to other countries. The government buys 80% of the production from the cooperatives. The rest is used by the farmers or sold, depending on need.
- ✓ The government provides credit to the cooperatives depending on need.
- ✓ The government provides technical assistance in agricultural methods, such as government personnel trained to assist farmers with production, accounting and other subjects.
- ✓ The government controls the prices of all production, as Cuba doesn't work under a free market model. The price of goods is set by the government, rather than by those selling merchandise. This practice allows the government to prevent extreme increases or decreases in prices.

The economic blockade imposed by the United States has forced many people to leave villages and move to cities, but this doesn't mean people abandon agriculture. The govern-

ment has developed urban agriculture systems. People form cooperatives and farm vacant land in cities to provide themselves with food. People use all areas of unused land, even the small plots in front of their houses.

Health Care

In general, all health care is free of charge, from minor injuries to more serious operations. In Cuba, the infant mortality rate is less than six per 1000 (in East Timor, it is 85 per 1000 according to UNDP). Currently, 41,500 Cuban doctors are working in 85 countries all over the world.

Health care is divided into three basic kinds: primary or preventive health care, secondary or specialist health care, and hospital care. Primary or preventive health care is a family doctor responsible for 100-150 people. The family doctor works with rural communities. With this system Cuba manages to provide health care to 98% of the population.



Visiting a maternity health clinic in Havana. Standing, left-to-right: Alida de la Vega (M.L. King Center), Jose Monteiro, Alberto (M.L. King Center), Doctor, Maria Jose Guterres, Mericio Juvinal, Inês Martins, Pedro Hortensio, Mario Belo. Sitting: Gabriel da Silva, Nuno Rodrigues, Jose Luis Oliveira.

Everyone has access to a doctor, and clinics are open 24 hours a day. In the morning the family doctor sees patients at the clinic, and in the afternoon she or he may visit people's homes to attend newly sick or pregnant people. Once a week specialist doctors visit the family doctor clinics to learn what the current needs are. The objective of the family doctor is to prevent illness. Patients who the family doctors cannot treat are referred to specialist doctors. If needed, the patient is then sent to a hospital for diagnosis or treatment. Hospitals are

well equipped and have enough expert doctors to help if the specialist doctors have been unable to make a diagnosis.

The Cuban health care system is so advanced that currently many students from other nations, including East Timor and the United States, are studying in Cuba.

Contact *La'o Hamutuk* if you would like more information about Cuba or the intercambio. ❖

Who is La'o Hamutuk?

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Sixteen Days Against Violence

For sixteen days (25 November to Human Rights Day, 10 December 2003), the National Movement Against Violence (MNKV) organized a campaign against violence in four districts: Oecusse, Aileu, Bobonaro and Lautem, on the theme of *Love, Peace, Equality and Justice to End Violence in East Timor*.

Around 20 members of MNKV's working team (which has five people in every district) held trainings and education directed toward children, youth, and adults. The training was on Human Rights in general, including Children's Rights, Gender and Domestic Violence.

The campaign is working to improve community awareness of gender-based violence, and to coordinate well among MNKV's national and district level members, especially in these four districts.



Oil Money Requires Good Management

by Joseph E. Stiglitz*

It is sad but true that most natural resource-rich countries do not grow faster or perform in other ways better than those with fewer natural resources do. This observation would seem to contradict the basic laws of economics since more natural resources should provide more economic advantages and opportunities. Economists and other social scientists have worked hard to explain this anomaly and to figure out how these countries can maximize the benefits of their abundant natural resources.

Yet, the failures are legion and continuous. Oil-rich Nigeria has squandered a quarter trillion dollars of oil revenues and is deeply in debt. Two-thirds of the population of Venezuela still lives in poverty. Civil wars, fostered in varying degrees by struggles over control of oil, gas, and minerals, have devastated a host of resource-rich countries.

Part of this instability is explained with simple economics. Natural resource wealth can destabilize exchange rates. It can cause currency appreciation that weakens sectors of the economy not based on natural resources by making it difficult for manufacturers to export or to compete with imports. Meanwhile, the natural resource sector of the economy provides substantial revenues, but does not create employment throughout the economy. The resulting unemployment can give rise to political and social instability.

But the most fundamental problems that many resource-rich nations face are political. Control over natural resource wealth provides leaders with little incentive to share power, and gives leaders the means with which to buy legitimacy rather than earn it through elections. Leaders undertake costly investments to buy political support through job creation with contracts often awarded to well-connected insiders. Because rent seeking and state subsidies direct investment to unviable projects incapable of attracting private financing, many of these extravagant projects fail to lessen the country's dependence on natural resource development. The desire by government leaders to control wealth generated by natural resources often discourages the development of democracy and prompts violent conflict and resistance by those who have not benefited from the resource wealth and who feel shut out of centralized, undemocratic political systems.

To avoid these outcomes, political leaders and citizens need to regard their country's natural resources as the nation's endowment. These resources do not belong exclusively to the current government or generation, but to all citizens and generations. The current government and generation are simply trustees. To use these resources for one's own benefit, leaving future generations impoverished, is to steal their patrimony. Leaders inside and outside of government share a responsibility to promote this sense of stewardship in resource-rich countries.

Transparency of information about revenues received and fiscal accounting standards are key to increasing natural resource management and wealth. National accounting frameworks that do not appropriately take account of the depletion of resources are misleading; they prompt governments to think that the economy is becoming wealthier, when it may be becoming poorer. This false sense of wealth leads to bad decisions.

Even more important is information about what the government receives for oil or other natural resources, how this compares with what other countries are receiving, and how the government uses the funds it receives from the sale of natural resources. Governments should recognize that even in more developed countries major oil companies have tried to minimize their royalty payments by under-reporting the effective price of oil and over-reporting their costs. It was only through hard research that such evasion was detected, for instance, in the State of Alaska, and it was only through even harder prosecution that the oil companies finally agreed to pay the more than a billion dollars that they had avoided paying the state.

Companies have strong incentives to maximize profits and the opacity that surrounds oil contracts and payments can lead to abuse. A few oil companies, most notably BP, however, are setting the opposite example, by willingly publishing what they pay. Such disclosure allows citizens in resource-rich countries to become informed about how much the government receives for the nation's natural resources. It is regrettable that this commitment to good corporate citizenship has not been matched by most other oil companies.

Institutional arrangements like stabilization funds are essential to managing wealth derived from natural resources and ensuring that the money is used to replace the natural resource endowment that is being depleted. Stabilization funds in several countries have helped ensure that public funds are available for the rainy day when they are needed. This is especially important because international arrangements like the IMF, set up at the end of World War II to help finance counter-cyclical fiscal policy, have failed to perform the function for which they were created. The result has been that most developing countries are forced to engage in pro-cyclical fiscal policy, at great cost to the economy and society. Countries today recognize that borrowing is highly risky, and that they must rely on their own resources, especially for stabilization purposes.

There is no issue of greater importance than ensuring the long-run prosperity and stability of resource-rich countries by developing ways to use these resources and the wealth they generate well.

**Joseph E. Stiglitz, a winner of the Nobel Prize in Economics, was chief economist for the World Bank until 2000. He now teaches at Columbia University in the USA. This essay is reprinted with permission from Caspian Oil Windfalls: Who Will Benefit? (Caspian Revenue Watch, 2003)*

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Editorial: Justice after UNMISSET *(continued from back page)*

violations, and unwilling and/or unable to hold violators accountable. Without firm pressure from the governments of the world — most especially those with global or regional interests or close economic or security ties with Jakarta — this criminality will continue with impunity. Indonesia's political and military leaders were fortunate to commit their crimes in East Timor before the establishment of the International Criminal Court, but there is no legal obstacle to holding them accountable for crimes of universal jurisdiction defined in the Rome Statute.

2. Until an international tribunal is established, **extending and strengthening the current hybrid UNMISSET/RDTL Serious Crimes Unit and Special Panels** could secure more justice than has thus far been possible. We urge the UN, especially members of the Security Council, to strengthen the justice mandate for a post-UNMISSET mission, and to back that mandate with resources and political commitment to compel on Indonesia to cooperate. This commitment has been lacking until now, but Indonesia's continued defiance of international human rights law and civilized behavior, coupled with the ongoing calls for justice from victims of their crimes in East Timor and Indonesia, should re-awaken the governments of the world to this necessity. In this case, the Special Panels will also need to be expanded, as they do not have the capacity to try even a fraction of those who have been indicted.
3. If the UN and the governments of the world continue to be unwilling to support meaningful justice for crimes against humanity and East Timor, an unchanged **continuation of the current Serious Crimes Unit and Special Panels is unwarranted**. In reality, the UNMISSET/UN-TAET SCU and SP have accomplished three roles:
 - a) Investigating and developing evidence about serious crimes committed here, which sometimes leads to an indictment and press releases, occasionally to arrest warrants, and rarely to prosecution in court.

- b) Bringing low-level East Timorese perpetrators of these crimes to trial and conviction.
- c) Providing an excuse for East Timor's government and the international community to avoid meaningful action for justice.

We believe that, absent a stronger political commitment, the Special Panels should be terminated when they have completed all trials begun before the UNMISSET mission ends in May 2004. Task (b), which is all they have been able to do, can be performed by East Timorese judges. Serious Crimes Unit files on East Timorese defendants should be turned over to the General Prosecutor to pursue these cases in the Dili District Court (which needs strengthening and support, as does East Timor's entire justice system).

The Serious Crimes Unit should be extended for another year, to continue task (a). Although they may not be able to issue international indictments if there is no court to try them in, that same problem would exist if the Special Panels were extended, given the case backlog and the fact they will not be extended indefinitely, as it would take many years for all those already indicted to be brought to trial. The case files developed, and press releases about those who should be indicted, can help to provide momentum and evidence for establishment and prosecution in an international criminal court.

Task (c), whether intentional or not, is a cruel charade perpetrated by those for whom justice is a weapon of *realpolitik*, rather than a basic human right. It would be better to do nothing than to perpetuate the lie.

Thank you very much for your concern, and we hope you are successful in crafting a follow-on UN Mission which balances the needs of the East Timorese people and government with those of the United Nations. After 23 years of UN impotence in ending Indonesia's illegal occupation, followed by five years of intense activity, the UN has an obligation to finish what it started.

The people of East Timor continue to be patient, but we can not forget. ❖

Reflections on the Indonesian invasion, 7 December 1975

On 7th December 2003, the East Timor National Alliance for an International Tribunal and Women's Network (Rede Feto) urged East Timor and the international community not to forget the Indonesian invasion of East Timor, 28 years ago.

The National Alliance and the Women's Network held activities at different times on that anniversary. In the morning, the National Alliance held a discussion about Timorese experience during the military invasion on 7th December 1975, followed by reflection on the work of the Alliance.

In their statement *We Must Not Forget Invasion Day, 7th December 1975*, the Alliance related their demands: establishment of an international tribunal, stronger international pressure on Indonesia to cooperate with the Serious Crimes Unit and Special Panels of UNMISSET, continuing international financial support for development of East Timor, international support for human rights in Aceh and West Papua. The Alliance also asked Timorese leaders to understand and support the victims' demand for justice.

On the same afternoon, Rede Feto organized a long march around Dili, raising awareness against domestic violence, and for respect of children's and women's rights. Unfortunately, not many people realized that 7th December 28 years earlier was the beginning of systematic crimes by the Indonesian Government.



Domingos Siqueira Gusmão shares his memories of the invasion with the younger generation.

Editorial: Justice after UNMISSET

In January, a Technical Assessment Mission from United Nations headquarters in New York visited East Timor to evaluate UN involvement in East Timor after UNMISSET finishes this May. The East Timor National Alliance for an International Tribunal, which includes La'ó Hamutuk, presented the following statement to the mission.

The East Timor National Alliance for an International Tribunal appreciates the continuing interest of the United Nations in supporting peace, security, stability and government administration in Timor-Leste. We are, however, disillusioned by the half-hearted support for justice shown thus far, and offer some suggestions for post-UNMISSET involvement by the United Nations which can help end impunity for perpetrators of crimes against our people and against humanity, between 1975 and 1999.

We are a coalition of organizations representing local and international NGOs, churches, students and victims of these crimes. Although we have been disappointed by the lukewarm interest in justice shown by East Timor's government in recent months, we share their view that the primary responsibility lies with the international community. East Timor is a new, small and impoverished nation with a flawed judicial system. It would be unreasonable and unrealistic to expect our government alone to pursue justice.

Yet justice must be pursued, holding accountable the masterminds and commanders of atrocities committed against our people during the Suharto regime's brutal invasion and 24-year occupation of our country. The invasion was rightly declared illegal by the United Nations General Assembly and Security Council, and many of the crimes were of universal jurisdiction, violating both the Rome Statute and UNTAET Regulation 2000/15. These were crimes against the entire world (and after May 1999 in direct violation of an agreement Indonesia had signed with the UN Secretary-General), and the entire international community shares responsibility for seeing that those who committed them are brought to justice.

In January 2000, the International Commission of Inquiry on East Timor recommended to the Secretary-General that "*The United Nations should establish an international human rights tribunal ... to receive the complaints and to try and sentence those accused... of serious violations of fundamental human rights and international humanitarian law which took place in East Timor since January 1999 regardless of the nationality of the individual or where that person was when the violations were committed.*"

Unfortunately, ever since then, the international community has been running away from justice. It took more than half of UNTAET's time before the Serious Crimes Unit began to function effectively, and to date 76% of the people they have indicted, including all the Indonesians, are given sanctuary by Indonesia. The Special Panels have only adjudicated 30 cases (convicting 46 people), with eight trials currently in process.

When the SCU belatedly indicted high-level Indonesian commanders almost a year ago, both the UN and East Timor's government distanced themselves from the process; arrest warrants have yet to be issued or circulated to

Interpol for this and most other indictments.

For two years the international community stalled on effective action, using Jakarta's fraudulent *ad hoc* human rights court as an excuse. A few days ago, the latest travesty occurred with Indonesia's appellate court upholding the acquittal of General Timbul Silaen, enabling him inflict the same crimes against the people of West Papua as he did in East Timor in 1999.

This record of support for justice by the United Nations, including three UN missions in East Timor over five years, has been sharply disappointing. Nevertheless, the East Timor Alliance continues to believe that there are people and institutions within the UN system who agree with our call for accountability. We therefore suggest three options, in order of preference, for the UN to consider as you decide on the nature of the UN's involvement after UNMISSET.

1. **An international criminal tribunal** for East Timor, backed by the political will to compel Indonesia's cooperation, remains the mechanism most likely to secure justice. From 1974 until today, Indonesia has been at various times responsible or complicit in human rights

(Continued on page 11)

What is La'ó Hamutuk?

La'ó Hamutuk (Walking Together in English) is an East Timorese non-governmental 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'ó 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'ó Hamutuk* is an independent organization and works to facilitate effective East Timorese participation. In addition, *La'ó Hamutuk* works to improve communication between the international community and East Timorese society. *La'ó Hamutuk's* East Timorese and international staff have equal responsibilities, and receive equal pay. Finally, *La'ó 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'ó 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.