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Breaking the Resource Curse? Timor-Leste's Resource Reliant Democracy

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With the September 1, 2017 [announcement](#) of a breakthrough in negotiations between Timor-Leste and Australia over maritime boundaries, prospects for development of the Greater Sunrise fields, and revenue sharing derived from oil and gas, hopes for a highly effective model of resource based development and poverty abatement have been renewed. For Timor-Leste, the agreement represents renewed economic security and the possibility of realizing self-determined development objectives including expanded education, health care, improved sanitation, and service delivery for a highly impoverished population. For the international community, one of the only emerging models of stable resource revenue management for a new democratic regime is at stake.

Timor-Leste demonstrates strong prospects for overcoming challenges associated with a resource reliant economy and maintaining political accountability. The July 2017 elections were characterized by multi-party competition, high levels of political participation (77% of eligible voters), and emerging civil society norms of consensus governance. Population demands for new anti-corruption legislation were reflected in campaign platforms, and transparency and accountability were large motivating factors for younger voters. As noted in a [recent report](#) of the formation of a minority government in Timor-Leste, the most important characteristic of the election is the successful transfer of power and demonstrated endurance and efficacy of institutions that transcend historical individual roles and divisions.

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It is easy to identify democratic imperfections and challenges in any new regime, however, as an enduring and functioning resource reliant democracy, Timor-Leste is a global success story. Natural resource endowments can guarantee immediate large cash infusions into economies. In many low income countries, these discoveries promise a rapid solution to economic and human development challenges that are otherwise unattainable. The failure of resource riches to manifest in economic growth and translate into improved human development is described by [Terry Lynn Karl](#) as “the paradox of plenty.” The consequences of resource reliance for the majority of government revenues form a predictable pattern that include a lack of political accountability, high levels of corruption, a lack of redistribution, and failure to utilize resource revenues for economic diversification. This pattern, more commonly called the resource curse, is so ubiquitous that [scholars](#) note an empirical relationship between government reliance on resources for more than 60% of their revenues and a lack of democracy. Petroleum endowments are [associated most strongly](#) with political consequences including authoritarian persistence, corruption, and political violence.

In part, these characteristics are attributed to resource rents insulating governments from the population, rendering elites fiscally independent from tax revenue and incentivizing patron-client networks. Over time, transparency and fiscal accountability can deteriorate to the extent that revenues and expenditures become difficult to track. In contrast, Timor-Leste has institutionalized a structure that functions to separate resource rents from government revenues through the [Petroleum Fund Law](#) designed to facilitate sustainable management of resource revenues. All oil and gas revenues are deposited in the Petroleum Fund which is invested in international financial assets. The law determines allocation of risks and assets, transfers to state budgets, and establishes mechanisms for accountability and transparency. Sustainability, including the ability to weather fluctuations in global commodity prices and production, is a clear objective of the fund. The essential elements

of the institutional efficacy of the fund include accountability, independence from ruling elites, and clear rules guiding decisions and risk.

Timor-Leste serves as an important example of institutional design supporting sustainable resource management and executive constraint in resource use. Petroleum Funds meet with [varying success](#) even in environments of strong and established institutions (e.g. Alaska, Canada, and Norway). However, lessons from these strong institutional environments are often non transferrable to contexts where institutions are incipient and economies are substantially less diverse. Information regarding the design and implementation of the law in Timor-Leste, however, is likely to be much more relevant for new states in the international system and states newly discovering resource riches.

It bears mention that some degree of political consensus and stability are prerequisites for effective institutional design, policy implementation, and effective enforcement, particularly of resource rents. New states and states with weak capacity are often challenged by overwhelming demand for the provision of services, political divisions, and internal challenges. It is in these areas that the experience of Timor-Leste may offer the most insight. The strength of the non-violent resistance effort in Timor-Leste for independence is a rarity. [Factors contributing](#) to the 2006 crisis, which required renewal of peacekeeping forces, included fragmentation in language, service delivery, difficulty in budget execution, unmet expectations of social provisions, and large numbers of unemployed youth. Similar divisions and challenges are likely in any new or weak state, particularly those importing institutional and administrative designs without a trained civil service that can support complex bureaucracy. Strategies designed to specifically address administrative capacity and societal fault lines can be critical in avoiding larger scale political violence.

The continuation and adherence to the Petroleum Fund Law during the first four years of independence is one of the unique elements of Timor-Leste’s experience that

in all likelihood contributed to democratic continuity. The 2010 creation of an independent [Anti-Corruption Council](#) that yielded subsequent convictions of high ranking public officials improved efforts at transparency and accountability. These efforts continue to support the legitimacy of the government and trust in institutions. Building on transparency initiatives, international accountability has also been increasing. [The Extractive Industries Transparency Initiative](#) reported in January 2017 that Timor-Leste had made meaningful progress in implementing EITI standards.

Markedly few examples of sustainable and effective resource rent management can be found in high poverty countries and new states. However, resource endowment remains one of the most frequently identified ways in which countries can galvanize their economic and human development. The 2014 launch of [the World Bank's Billion Dollar Map Project](#) for Africa, identifying likely mineral resources based on geological data aggregation, banks on resource extraction as a tool for economic development despite the empirical record of the resource curse. Lessons from resource rent management from Timor-Leste are particularly timely as petroleum and mineral resources become increasingly located at a greater rate in high poverty countries with weak institutions. The salience of the experience is already clear: in sharp contrast to the experience of Timor-Leste, the other most recent entrant into the international system as an independent country, South Sudan, has assumed a non-democratic trajectory with continued conflict over oil.

However, the fate of Timor-Leste until settlement of the dispute with Australia was uncertain. [Reports](#) warned that a failure of negotiations over the maritime boundary in the Timor Sea and expansion of the Greater Sunrise fields risked the creation of a failed Timor-Leste state, or at best, an aid dependent regime characterized by increasing poverty. The September agreement comes at a critical juncture for Timor-Leste, as estimates identify depletion of the Bayu-Undan oil field, Timor-Leste's only active field

in production, to occur between 2020 and 2022 resulting in exhaustion of the Petroleum Fund a few years later. With the agreement, the medium term economic circumstances are substantially improved for the country as additional extractive revenues are anticipated. The ability to improve distribution of revenues and channel existing resources into a diversified economy while providing for increased social protection and service delivery remain major future challenges for the country. As new countries create begin exploiting resource endowments, the world will continue to watch Timor-Leste's progress and democracy.



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