



Submission No 54

Inquiry into Australia's Relationship with Timor-Leste

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Helping Timor-Leste implement a regional employment strategy:

A submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into Australia's relationship with Timor-Leste

Richard Curtain, Robin Davies and Stephen Howes

1. Introduction

The Development Policy Centre is a think tank at The Australian National University's Crawford School of Public Policy. It undertakes research and promotes discussion into aid effectiveness, PNG and the Pacific (including Timor-Leste) and global development policy. Further detail on the Centre's activities can be found in our 2011 [annual report](#), and on our [website](#).

Dr Curtain has lived and worked in Timor-Leste for a total of two years between 2005 and 2009. He worked on a UNICEF assignment with the Government of Timor-Leste to help develop a national youth policy, led an AusAID-funded survey of enterprise skills needs and has undertaken assignments for USAID and the Government of Norway.

Robin Davies was appointed Associate Director of the Development Policy Centre in December 2012. For ten years before that, he was a member of the senior executive service of the Australian Agency for International Development (AusAID), both in Australia and overseas. Until late 2011, he headed AusAID's international programs and partnerships division. He had executive oversight of Australia's aid to Timor-Leste for approximately one year in 2003 and 2004. Earlier, while on posting in Europe from 1999 to 2002, he liaised closely with the Government of Portugal on post-conflict reconstruction in Timor-Leste.

Professor Howes has twenty-five years of experience working in and on aid and

development in the Asia-Pacific region. Formerly Lead Economist for India with the World Bank and Chief Economist with AusAID, he was a lead author of the Core Group Report on Aid Effectiveness (2006), the review of Australian aid to PNG (2010) and the Independent Review of Aid Effectiveness (2011). He currently serves on the Board of CARE Australia.

Jonathan Pryke, a Research Officer with the Centre, and Ms Breanna Gasson, an intern, also contributed to this submission.

The focus of our submission is on employment in Timor-Leste. Lack of employment opportunities is one of the most important issues facing Timor-Leste (Section 2). Its solution will require a regional approach (Section 3). Aid, while important, will not on its own be enough to help Timor-Leste create the jobs it needs, but Australia can play a useful role by deploying a variety of instruments (Section 4) to help Timor-Leste address its employment challenges and also build people-to-people links. Our treatment of the aid program, which follows our discussion of employment issues, is far from comprehensive (Section 5). It provides some background analysis and a few recommendations for change.

2. Timor-Leste's employment challenge

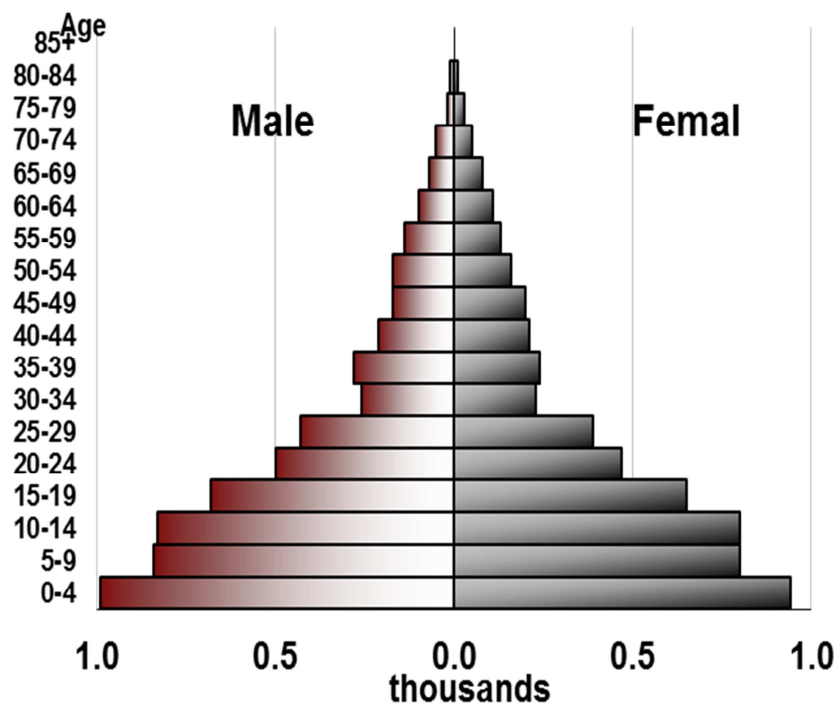
While there is no doubt that Timor-Leste has made considerable progress in a range of areas since Independence, the country still faces serious risks and challenges. Perhaps its biggest challenge is to create more employment for its people, especially its youth. This is widely recognised, by Government and development partners.

According to the latest (2010) Census, the unemployment rate among adults is 16.7% in urban areas. Unemployment is higher among young people, 37% of the 20-24 year labour force and 40% of the 15-19 year labour force is unemployed, though it should be noted that only a minority of the population in these age groups is actually in the labour force (the rest are at school): the size of the labour force in the 20-24 year age category is 37% and for the 15-19 category just 12%. In summary, youth unemployment rates are very high, and unemployment rates more generally are high, especially in urban

areas. Bear in mind that in Timor-Leste there is no social security safety net, so unemployment is an expensive proposition: many more likely face underemployment as the working poor.

Timor-Leste’s high unemployment rate has to be seen in the context of its relatively high population growth rate (2.4%). At that rate, the population would double in 30 years. Timor-Leste’s population is not only growing quickly. In addition, the country has a large youth bulge. The size of each five year age group is shown in the following age pyramid based on the 2010 population.

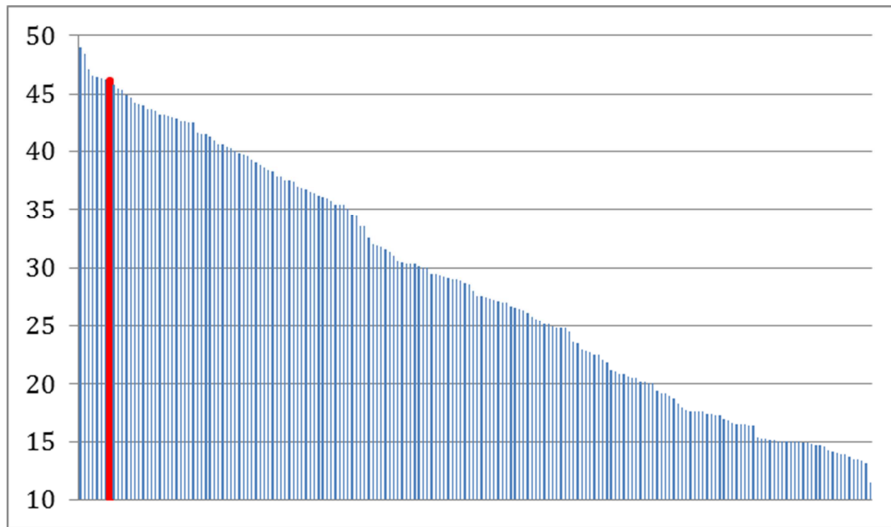
Figure 1 Population of Timor-Leste by age & sex, 2010



Source: UN Population Division World Population Prospects: 2010 Revision

In 2010, there were 132,000 young people aged 15 to 19 years. The 0 to 5 age group numbered 193,000. In fact, Timor-Leste has the ninth youngest population in the world (out of some 190 countries for which data are available), as Figure 2 below shows.

Figure 2 Percentage of population aged 0-14, 2010 (Timor-Leste in red)



Source: [World Bank DataBank](#)

Note: As many countries as for which data is available are shown in descending order of percentage of youth in the entire population.

The consequences of high unemployment in Timor-Leste are dire.

First, unemployment, especially when concentrated in urban areas and among young people, is a recipe for conflict. International comparative research shows that the risk of political violence increases markedly with a large youth bulge in a country's population, together with a slow growing economy and weak government.¹ Youth gangs in Dili were protagonists in the major political violence of 2006.² AusAID recognises the risks that continued high levels of unemployment give rise to, warning in its [2011 Timor-Leste Annual Performance Report](#) of the "key risk" of "a large population of disenfranchised and under-educated youth concentrated in Dili".³

Second, although poverty has fallen in Timor-Leste, hardship remains acute. According to World Bank statistics, Timor-Leste has the highest incidence of malnutrition in the world. Figure 3 below shows malnutrition, as measured by stunting (the proportion of the under-5 population who fall below international height for age standards), for the

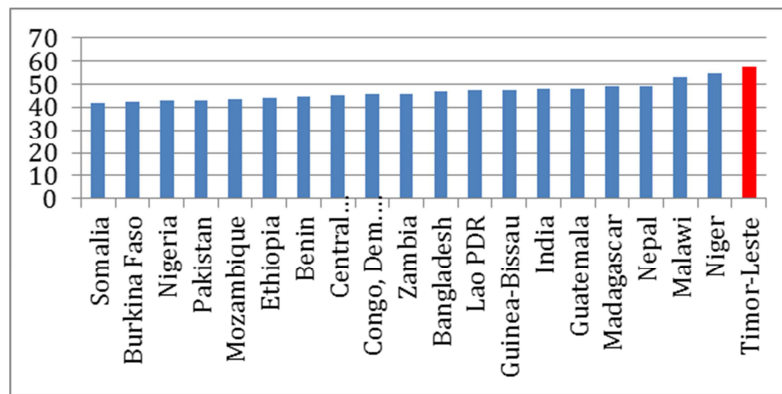
¹ Urdal, H, 2006, 'A clash of generations? Youth bulges and political violence', *International Studies Quarterly*, Vol 50 pp 607-629

² Scambary, J; 2006, 'Survey on Gangs and Youth Groups of Dili, Timor-Leste', Report to AusAID

³ AusAID, 2012, *Republica Democratica de Timor-Leste Annual Program Performance Report 2011*, June, p 2.

20 countries in the world which have the highest rates of malnutrition. Timor-Leste edges out Niger, Malawi, and Nepal as the country with the highest rate

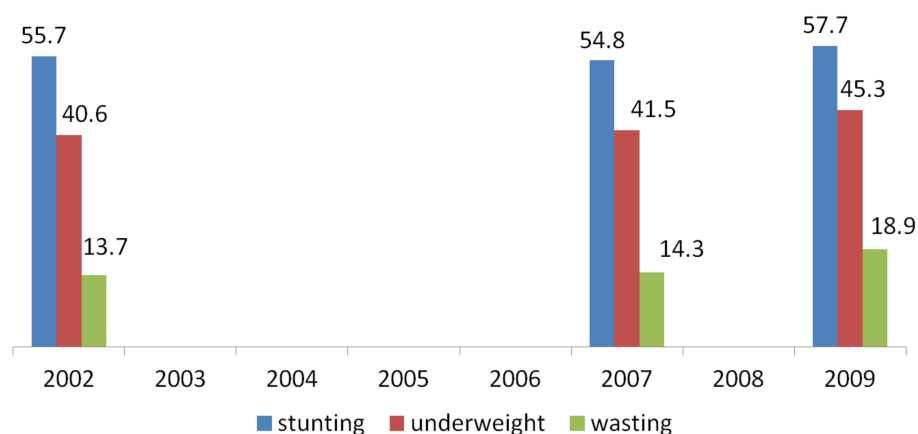
Figure 3 Percentage of under-5 population malnourished, as measured by a height for age index (stunting), most recent year, for the 20 countries with the highest index value (Timor-Leste in red)



Source: [World Bank DataBank](#). Year is the most recent for which data is available, from 2006 onwards.

As highlighted in a Development Policy Centre [seminar](#) last year by Professor Lawrence Haddad, Director of the UK's Institute of Development Studies and a leading scholar on nutrition, Timor-Leste malnutrition indicators unfortunately show no sign of improving. (see Figure 4).

Figure 4 Timor-Leste undernutrition rates of under-fives (%)



Source: Lawrence Haddad [presentation](#) at Development Policy Centre 2012

It would be a mistake to assume that the solution to malnutrition in Timor-Leste lies entirely in the agriculture sector. While agricultural productivity is low in Timor-Leste and needs to be increased, agriculture will not provide the employment which Timor-Leste needs. Indeed, increased agricultural productivity may reduce labour demand in agriculture. In any case, development inevitably involves urbanisation, and Timor-Leste is no exception to this trend. The solution to poverty and malnutrition depends in large part in increasing purchasing power, and the way to increase purchasing power is through expanding employment opportunities across the economy, not only in agriculture.

3. Job creation options for Timor-Leste: the importance of a regional employment strategy

There are no easy solutions to Timor-Leste's employment challenge. As a consequence of its young and growing population, a large number of young workers enter the Timor-Leste labour force every year. One estimate from Timor-Leste's [Strategic Development Plan](#) is that the labour force increased by 35% from 300,000 people in 2001 to 405,000 people in 2010.

The Government's approach is to use its oil revenue to improve infrastructure and skills in order to diversify the economy. While this approach has a lot to commend it, the difficulty in diversifying the Timorese economy should not be underestimated. Timor-Leste is a high cost economy. One reason for this is its resource boom itself (the Dutch Disease). Another reason is the lack of infrastructure, which the Government is trying to address. But Timor-Leste's small size and high transport costs due to its distance from major ports will mean that it will also struggle to compete in the world economy. The World Bank has recently stressed this point in relation to the Pacific island economies, but it applies equally to Timor-Leste:

Small size and long distances to major markets have a determining impact on economic development in the Pacific. Small economies face special disadvantages. With limited domestic markets, it is difficult for the private sector to achieve economies of scale and specialization, and firms lack access to new

knowledge and cheaper inputs available in larger markets. Typically, small economies have overcome obstacles of small size by trading extensively with larger economies, allowing access to larger markets, new ideas, and cheaper imports. Pacific Island Countries are small, but also distant to major markets. It is difficult for firms in Pacific Island Countries to overcome the costs of smallness by trading internationally, because the costs of accessing foreign markets (in terms of transport, communication, and compliance costs associated with operating across multiple jurisdictions) are high. Small economies also face disadvantages in the provision of public services and infrastructure, due to inability to realize economies of scale and the fixed costs of administration and service delivery having to be borne by a small number of taxpayers. Small countries, with small domestic labor markets, also tend to face more serious capacity constraints, further impeding the functioning of the public sector.⁴

Increasing employment is one of the four main objectives of Australia's aid program in Timor-Leste. AusAID has funded activities related to young people and jobs in a number of areas. AusAID funding has gone into the development of competency standards, the introduction of a national qualifications framework, the development of plans for vocational training and employment, and the accreditation of training providers. The ILO-implemented Youth Employment Promotion Program has funded job counselling and skills training to Timorese looking for work. It also provided work experience through short-term jobs in public works. However, the numbers of young people who have benefited from these initiatives are small compared to the size of the youth cohort in general and those young people with pre-secondary and secondary education. The number of young Timorese receiving accredited training in 2011 is 2,631. However, the 2010 census results show that 79,355 young people aged to 29 years have completed pre-secondary school (Year 9) and 87,587 up to age 29 years have completed Secondary School (Year 12).⁵

⁴ World Bank 2011 'Discussion Note: Pacific Futures,' *World Bank Discussion Note Series*. P. 3
http://devpolicy.anu.edu.au/pdf/2012/Discussion_Note_Pacific_Futures.pdf

⁵ Population and Housing Census of Timor-Leste, 2010 National Statistics Directorate, Government of Timor-Leste Volume 3, Table 6, p 132

AusAID has also funded another important ILO-implemented program, TIM-Works, which does road rehabilitation and maintenance with temporary labour, with youth as one of the target groups for employment. The above-mentioned Youth Employment Promotion Program also offers temporary work on rural roads maintenance. AusAID will be funding a large Roads for Development program, to follow on from TIM-Works.

Most, if not all, of the temporary job creation has taken place away from the urban areas where youth unemployment is concentrated and so does not address the risk that urban youth unemployment will lead to gang violence and possibly social upheaval.

Clearly, more needs to be done to improve skills, in particular to link skills training in Timor-Leste itself with employment outcomes. There are numerous reports of Indonesians taking construction jobs due to a scarcity of suitably trained or experienced Timorese workers. A survey of all construction firms in Timor-Leste at the end of 2008 showed that 7% of their permanent work force were foreign skilled construction workers.⁶

While skills training in Timor-Leste will be important, as will more general efforts to promote a conducive environment for private sector development and diversification, ultimately an employment strategy for Timor-Leste has to look beyond the country's shores. For the reasons provided above, it is not plausible to argue that even with the infrastructure developed by the productive investment of its oil wealth, Timor-Leste will be able to provide enough employment for its population in its domestic labour market. A regional employment strategy is needed.

The possibility of obtaining skilled, semi-skilled or unskilled work in Australia or other overseas countries would give many young Timorese the incentive to acquire basic and advanced skills, including English. Though only some Timorese would benefit directly relative to the size of the youth cohort, the overall effect would be much greater. The prospect of even some young people having a chance of work in Australia would lift

⁶ Curtain, R, 2009, 'Skills in Demand: Identifying the Skill Needs of Enterprises in Construction and Hospitality in Timor-Leste'. Funded by AusAID through the Timor-Leste Education, Employment & Skills Development Program. Table 11, p 31, Foreign managers, supervisors, engineers and architects have been excluded from this figure.

young people's demand for better basic skills in literacy and numeracy, better English language skills and the demand for high-quality education qualifications.

Evidence for a spillover effect on the wider youth population comes from Fiji. High rates of emigration by tertiary-educated Fiji Islanders not only raised investment in tertiary education in Fiji; they also raised the stock of tertiary-educated people in Fiji—net of departures.⁷

The other benefit of a regional employment strategy is of course remittances. Much larger countries than Timor-Leste, such as the Philippines, Bangladesh and Nepal, have succeeded in making overseas employment an integral part of their development. Remittances account for as much as one-third of the national income of some small states, including some in the Pacific, and are in many cases more significant than aid. Those Pacific countries that have overseas employment opportunities (Samoa, Tonga, Cook Islands) have done much better than those which have not (PNG, the Solomon Islands, Vanuatu). Evidence abounds that remittances benefit the poor.

As early as 2008, a [report](#) on Timor-Leste identified labour as its third largest export after oil and coffee. Though only valued as \$5 million, it shows the small size of other export industries in Timor-Leste and the importance of focusing on overseas labour opportunities.

The importance of overseas employment is not mentioned in the [Timor-Leste Strategic Development Plan](#). However, it was stated to be a priority of the Government of Timor-Leste by the Secretary of State for Employment and Training in a recent [Australia Network report](#).

The Timor-Leste Government has taken some positive steps to support overseas employment options. About 1,100 Timorese have temporarily relocated as part of a bilateral arrangement with South Korea to work in factories and fishing companies

⁷ Satish Chand and Michael Clemens, 2008, 'Skilled Emigration and Skill Creation: A quasi-experiment', Working Paper Number 152, September, Center for Global Development, Washington, DC <http://international.cgdev.org/publication/skilled-emigration-and-skill-creation-quasi-experiment-working-paper-152>

between 2009 and 2012.⁸ The Government of Timor-Leste plans to send 600 more workers in 2013. Work is available for up three years and pays between \$1,000 and \$1,500 per month. Prospective workers have to first study Korean for 6 to 12 months and have to pass a language proficiency test to be eligible for the work.

Timor-Leste has been included in Australia's [Seasonal Worker Program](#), which allows for seasonal work in horticulture as well as, on a pilot basis, in seasonal tourism and a few other sectors. The Government of Timor-Leste has appointed a Labour Attaché to its Australian embassy to promote its participation in this program . Since the program started in mid-2012 (Timor-Leste was not included in the initial pilot phase), a small number of Timorese workers has taken part (up to 30 workers are in Australia or are soon to arrive). The barriers to more Timorese participation in this scheme are discussed further below.

Australia has so far done little to promote overseas employment opportunities for Timor-Leste. As noted, the Seasonal Worker Program has remained a tiny scheme. Regional employment opportunities get no mention in the Australian aid strategy for Timor-Leste.

It is worth noting, however, that, though not explicitly as part of a regional employment strategy, AusAID has funded from mid-2011 a two-year program to strengthen the English teaching and language skills of Bachelor of Education students at the National University of Timor-Leste (UNTL) and to trial a model of in-service training for English teachers in secondary schools. While this sort of training would have wider benefits, it is also of direct benefit to the goal of promoting labour mobility.

In its previous country strategy for Timor-Leste, the World Bank identified the promotion of overseas employment opportunities as one strategy it would support. However, its just-released new strategy drops this objective, stating that the number of jobs created “fell far short of expectations” due to complex negotiations. This is unfortunate especially given the progress made, noted above, and the need for a long

⁸ Thomas Ora “Young people are heading to Korea for work: Changing Timor-Leste's fortunes from afar” Dili, Timor-Leste, 13 March, 2013, <http://www.ucanews.com/news/young-people-are-heading-to-korea-for-work/67706>

time-commitment. Other countries have made an overseas employment strategy work for them, and there is no reason why Timor-Leste couldn't as well. It can also be noted that a major and critical [evaluation](#) of the World Bank's country program over the decade to 2010 found that during the decade the Bank "failed to respond to critical social challenges arising from youth unemployment and rising poverty." This suggests that more needs to be done to support employment opportunities, both at home and abroad, not less.

Ultimately, if it wants to expand overseas employment, the Government of Timor-Leste will need to take the lead, and search out such opportunities not only or even primarily in Australia, but also in Asia and Europe. Nevertheless, there is much that Australia could do to assist Timor-Leste in this regard. This would be of benefit to our neighbour, and would also help Australia in a small way address its own labour shortages. Our overall recommendation therefore to the Government of Australia is that it should do much more to promote overseas employment opportunities for the people of Timor-Leste. In the sections that follow we explain how this could be done.

***Recommendation 1:** Given the pressing need to create more employment opportunities in Timor-Leste, and the difficulties of creating enough domestic employment, Australia should help Timor-Leste pursue a regional employment strategy both through the aid program, and through other policies and instruments.*

4. Assistance from Australia towards a regional employment strategy for Timor-Leste

In this section, we spell out eight steps which Australia could take to help Timor-Leste implement a regional employment strategy.

4.1. Provide access to relevant English language training

At the moment, as noted above, Australia's aid to Timor-Leste focuses only on English for trainee teachers. A much broader approach is needed. Instruction in functional English relevant to their skills training is essential to enable young Timorese to access higher level training and jobs in Australia and many other countries.

English language instruction could be provided by a specialist language centre based on the successful model of the [Indonesia Australia Language Foundation](#) (IALF) in Indonesia. AusAID originally funded the centre but it is now self-funding with 800 full-time students and 6,000 part-time students. In Timor-Leste, self-funding would be a more distant prospect.

One stream of English instruction needs to focus on basic functional literacy relevant to specific employment outcomes, such as those provided by the Seasonal Worker Program, or to training in Australia on occupational trainee placement visas.

Another stream is needed for Timorese to lift their standard of English to be eligible to undertake advanced skills training based on an assessment through International English Language Testing System (IELTS). Other possible streams with their own specific literacy requirements are students seeking access to higher education in Australia and other countries, Timorese officials working in international organisations, and diplomats.

Of course, promoting English can only become a more important element of the Australian program if the Government of Timor-Leste wishes it to be. This should be placed on the agenda for dialogue between the two governments. In addition, promoting English cannot only be the responsibility of the Australian Government. It is also an area where the Government of Timor-Leste should do more.

***Recommendation 2:** Through the aid program, Australia should seek to establish and subsidise, preferably with cost-sharing from the Government of Timor-Leste, an English language instruction centre focused at least in large part on preparing Timorese for international skills training, tertiary education and employment.*

4.2. Provide Timor-Leste access to the Australia-Pacific Technical College or to Australian technical training providers so that some of its citizens can obtain Australian-recognised technical qualifications at Certificate 3 & 4 levels.

The second step the Australian Government could take is to provide access for Timorese to Australian accredited training at Certificate 3 & 4 levels, with a view to providing some of its citizens with internationally-recognised qualifications. One way to do this

would be through the [Australia-Pacific Technical College](#) (APTC) set up in 2006, with campuses in Fiji, PNG, Samoa and Vanuatu. This training mainly provides Certificate 3-level skills in construction, hospitality and community services.

Since the APTC was set up, in response to pressure from the Pacific Islands Forum to expand labour mobility opportunities, Timor-Leste has never been given access. However, Timor-Leste faces job-creation challenges similar to those of many Pacific island countries and it is difficult to see why it should not be included among the countries eligible to send trainees to the college. Its non-membership of the Pacific Islands Forum is hardly a relevant consideration in this context.

[Research](#) by Robin Nair has suggested that, given its cost structure (including a heavy reliance on expatriates), there is little cost advantage sending students to APTC relative to Australian technical training providers. Scholarships could be provided for Timorese students to study in Australia to obtain recognised skills, or a lower-cost model of the APTC could be established in Timor-Leste.

It is important that the higher level skills training leads to an employment outcome which matches the skills acquired. One way to do this is to seek trainees who are sponsored by their employer. This may be attractive to international employers in the oil and gas industry and to Government of Timor-Leste agencies supplying electricity and water and sanitation.

More generally, cost sharing with the Timor-Leste Government would once again be an appropriate objective for any international training scheme.

While the objective of the Australian Pacific Technical College, as currently articulated, is to “improve employment opportunities for Pacific islanders nationally, regionally and internationally,” it is widely recognised that the APTC has not been successful in promoting international labour mobility opportunities. A number of changes are required to achieve this objective. These are outlined below.

Recommendation 3: *Through the aid program, Australia should provide, preferably with cost-sharing from the Timor-Leste Government and/or private sponsors, technical training opportunities leading to Australian qualifications.*

4.3. Provide access to work placements in high-performance workplaces in Australia and the Pacific

Experience shows that having Australian-recognised skills is not enough to have a good chance of obtaining skilled work in Australia. Virtually none of the APTC graduates have in fact migrated to Australia.⁹ Extended work placements will be needed to ensure that trainees know what is expected of them in high-performance workplaces. These may be in Australia or possibly in mining and oil and gas companies in Papua New Guinea. Access to these high-performance work placements is also possible in Timor-Leste. This can be done through, for example, large projects in construction, renewable energy generation and telecommunications. The tenders for these projects could include a requirement on enterprises to provide employment positions with training for apprentices, as [suggested recently](#) by one of the authors (Curtain) on the Development Policy Centre Blog.

While the occupational trainee placement (subclass 402) visa could be used for training opportunities in Australia, another option could be to make use of short-term employment (up to six months) opportunities under Australia's Seasonal Worker Program, for example under its tourism component.

Recommendation 4: *Australia should provide or seek to facilitate, preferably with cost-sharing from the Government of Timor-Leste or private sector sponsors, job placement opportunities leading to significant workplace experience.*

⁹ Australian National Audit Office, 2011, AusAID's Management of Tertiary Training Assistance. The Auditor-General Audit Report No. 44 2010-11 Performance Audit. P 90, para 4.28
<http://www.anao.gov.au/Publications/Audit-Reports/2010-2011/AusAIDs-Management-of-Tertiary-Training-Assistance>

4.4. Provide assistance to obtain skilled work in Australia through existing visa categories.

The fourth step is to help skilled Timorese find work matched to their skills in Australia. An important new trend in Australian skilled migration is a greater role for employer selection. According to Professor Lesleyanne Hawthorne: “Employers... have come to exert extraordinary influence on permanent as well as temporary entry flows”.¹⁰ In selecting migrants for temporary work, Australian employers are looking for people with high-level English language ability. They are also seeking people from comparable high-quality education systems, and want applicants who can fit into the workplace at speed.¹¹

As noted above, existing visa categories that could be utilised include both the temporary skilled migration program (459) and the Seasonal Worker Program. However, while the categories exist, employer-led skilled migrant selection may well result in a bias against people from countries which employers perceive to have poor English language skills, weak education systems and workplaces which are very different to Australian workplaces. Individual employers are also likely to favour large labour markets such as the UK rather than small ones such as Timor-Leste. Government intervention is therefore required. A matching service could be provided which would link employers to employees. The costs such an intervention could be shared by Australia and Timor-Leste.

Recommendation 5: *Australia’s aid program should fund, with the agreement of and cost-sharing from the Government of Timor-Leste, employment placement services to help Timorese access the Australian job market under existing visa categories.*

4.5. Reform the Seasonal Worker Program to improve uptake

The uptake of the Seasonal Workers Program (SWP) has been disappointing. According to the latest data, about 100 people per month obtain visas under the program, nearly

¹⁰ Hawthorne, L; 2011, *Competing for Skills: migration policies and trends in New Zealand and Australia*. Department of Labour, Wellington, New Zealand, p xv.

<http://www.dol.govt.nz/publications/research/competing-for-skills/at-a-glance/page-1.asp>

¹¹ *Ibid*, p 157

all of them from Tonga. Less than 30 have or are about to arrive from Timor-Leste. By comparison, the equivalent scheme in New Zealand attracts about 7,000 workers a year, from a range of Pacific countries, including some countries which, like Timor-Leste, have traditionally been starved of labour mobility opportunities in high income countries, such as Vanuatu.

In 2011, the Development Policy Centre conducted a [survey](#) of growers to find out why uptake has not been higher. This revealed the following reasons:

- Lack of awareness of the scheme.
- Ample supply of backpackers to meet horticultural needs in a flexible manner, even if not always to the quality desired.
- Widespread use of illegal labour and practices and the lower cost of employing working holiday visa holders make the heavily-regulated SWP more expensive by comparison. The cost of having to pay \$500 towards the international airfare for SWP worker (and up to \$100 for domestic travel if incurred on arrival) is also a significant barrier to engaging workers through the SWP.

The following reforms to the SWP should be considered:

- It should be up to employees, and not Australian employers, to pay in full for their return airfares. If desired, sending-country governments can set up loan arrangements and collect the loan repayments via remittances.
- Surveillance activity and prosecution of employers of illegal labour must increase. The large number of illegal workers in Australia, especially in the horticulture sector, is a key factor undermining the labour market for those engaged through the expensive and closely monitored Seasonal Worker Program.
- The SWP needs to be better promoted to employers by the Australian Government. The funding for the overly expensive annual showcase conference should be reallocated to more on-the-ground promotion of the program. Regional employer groups should be funded to promote the program. This promotion should be based on data collected for an independent evaluation

about levels of employer satisfaction, reasons for any difficulties employers have experienced and on SWP worker productivity compared with other workers.

- At the moment, the Australian Government gives a major incentive to working holiday visa holders to work longer in fruit picking by offering them a visa for a second year if they work for the first year on a farm for at least three months. This distorts the market and undermines the viability of the SWP. The Government should either decrease the maximum stay under the working holiday visas to one year, or make work in all sectors count equally towards the reward of a visa for a second year.
- It is to the Australian Government's credit that it has expanded the SWP beyond horticulture to include a number of other sectors, including seasonal tourism. A small number of Timorese have begun working in Broome. However, the extension to seasonal tourism is now only in a pilot phase, and is restricted to a few locations. These geographical restrictions make no sense in the light of widespread labour shortages in other regional locations, and should be lifted.

Recommendation 6: *The Government should reform the Seasonal Worker Program and related arrangements to improve the uptake of the former, and thereby enhance its benefits to our neighbours in the following ways: (i) make payment of the full air fare to Australia an employee responsibility, supported by loan arrangements managed by the government of the sending country; (ii) crack down on illegal labour; (iii) promote the scheme through employer groups; (iv) remove the current incentives for backpackers to work in horticulture; and (v) remove the geographical restrictions on seasonal tourism.*

4.6. Give Timor-Leste access to the Work and Holiday Visa Program.

Whatever reforms are made, it will always be difficult for the heavily regulated SWP to compete with the almost totally unregulated working holiday visa scheme. Why not then give Timor-Leste and other countries access to the working holiday visa scheme?

Australia in fact offers two working holiday visas. The great majority of backpackers come under the Working Holiday Visa (Visa 417), but a small number come under the

Work and Holiday Visa (Visa 462). In 2011-12, some 214,644 417-visas were granted, but only 8,348 462-visas. The main 417-visa sending countries are UK, Taiwan, Korea, Germany, France and Ireland (all above 10,000). The main 462 sending country is the US (about 3,000).

For citizens of the US, the 462-visa functions in the same way as the 417-visa which is available to most other OECD countries, as well as Taiwan. The other 462-visa countries are developing countries: Argentina, Chile, Bangladesh, Malaysia, Indonesia, Thailand, Turkey, Uruguay, and PNG. For residents of these countries, three additional restrictions have to be satisfied to obtain a 462 visa. First, the applicant has to be a tertiary student or graduate. Second, she or he has to have Government endorsement. Third, quotas are set: Chile can send 1,500 a year; Indonesia 1,000; Argentina and Thailand 500; Uruguay 200; Bangladesh, Malaysia, PNG and Turkey 100. From the available data, only Malaysia and Thailand come close to filling their quotas.¹²

Other 417 and 462 requirements are the same across the two visa categories. The visa lasts for 12 months (though 417-visas have the second year option discussed in the previous section). Applicants must be aged 18-30. The main purpose has to be a holiday. Applicants must have sufficient funds for a return airfare and for the first part of their trip (normally \$5,000).

As a first step, Timor-Leste should be given access to the 462-visa program. The requirement of government approval should be sufficient to deter overstaying, as the approval makes the sending government implicitly if not explicitly responsible for return. However, given the very low level of tertiary education in Timor-Leste, the tertiary education requirement should be dropped in favour of a basic English language proficiency requirement. The yearly quota for visa holders could be increased or decreased depending on overstay rates.

The 462 program is not entirely well-matched to Timor-Leste's needs. After all, what young Timorese need and want is not a holiday, but employment. That said, the 462

¹² IMMI 2012 'Working Holiday Maker visa program report,' *Department of Immigration and Citizenship*, <http://www.immi.gov.au/media/statistics/pdf/working-holiday-report-dec12.pdf>

program itself puts no restriction on the extent to which employment and study opportunities are taken advantage of. And the broader experience of being in Australia (the “holiday” aspect of it) will certainly be important and advantageous to the young Timorese.

How many Timorese are able to meet the up-front cash requirements of the 462 visa remains to be seen (return airfare and about \$5,000). An important option available is to tap Australian-based support groups. There are about 44 Australia Timor-Leste Friendship Groups listed on [Australia Timor-Leste Friendship Network](#). Many of these groups may be interested in supporting young Timorese to work in Australia. The forms of help they could provide include a loan for the air fare and upfront cash, low-cost accommodation or home stays, and advice on how to access low-cost options for food, clothing, transport, telecommunications, sending remittances and getting help from local communities in Australia.

The quota for Timorese 462 visa holders could be started low (say, 100) and be increased over time. Continued and increasing access to the quota could be made conditional on a low (ie close to zero) overstay rate.¹³

***Recommendation 7:** Provide Timor-Leste with access to the Work and Holiday Visa but do not restrict access to tertiary graduates. The quota could be started low (say, 100) and increased over time. Continued and increasing access to the quota could be made conditional on a low (ie close to zero) overstay rate.*

4.7. Introduce an Australian-equivalent to the New Zealand Pacific Access Quota: a regional window into Australia’s permanent migration program.

While temporary work visa categories hold potential, ultimately we should recognise, as New Zealand has done, that less cumbersome and bureaucratic methods of promoting labour mobility are needed. New Zealand provides migrant access to Pacific island countries with which it has a long historical association. This access can be either via a New Zealand passport (Cook Islands) or via a quota of permanent migration slots

¹³ The type of sanction has been suggested by Lant Pritchett, in *Let Their People Come: Breaking the Gridlock on Global Labor Mobility* and cited at <http://international.cgdev.org/article/migration-and-development-temporary-workers-are-key>.

(available for Samoa, Tonga, Kiribati and Tuvalu). Ultimately Australia will need to provide this sort of solution for countries which are economically and environmentally vulnerable, and with which we have a special relationship, such as Timor-Leste. As in Australia, restrictions can be placed around migration access requiring that successful applicants meet minimum English requirements, and have a job offer. For more detail on the New Zealand scheme, see the excellent analysis by Stahl & Appleyard¹⁴

Recommendation 8: *Introduce a Regional Access Quota which would provide, as New Zealand does, a limited number of permanent residency slots to citizens of Australia's vulnerable neighbours, such as Timor-Leste.*

4.8. Expand the Closer Economic Relationship between Australia and New Zealand to include countries such as Timor-Leste on a conditional, progressive basis.

Ultimately, more labour mobility between Australia and Timor-Leste should be viewed as a precursor of greater economic integration. We should set our objective high. Countries such as Timor-Leste should be encouraged to aspire to membership of the Closer Economic Relationship between Australia and New Zealand. Subject to good performance (maintenance of a democracy, continuation of decent economic performance), Timor-Leste should ultimately be allowed to enjoy the same freedom in the movement of labour that New Zealand and Australia currently share.

Precedents include the open access for work and residence that the USA gives to citizens of countries in the Pacific it has a special relationship with, notably the Federated States of Micronesia and the Republic of the Marshall Islands, and which New Zealand similarly gives to Cook Islands and Niue.

Recommendation 9: *Launch discussions with New Zealand on the prospect of expanding the Closer Economic Relationship between Australia and New Zealand to include, on a progressive and conditional basis, third countries such as Timor-Leste and other Pacific island countries.*

¹⁴ Stahl, C & Appleyard, A 2007 'Migration and Development in the Pacific Islands: Lessons from the New Zealand Experience'

<http://storage.globalcitizen.net/data/topic/knowledge/uploads/2011030913523533.pdf>

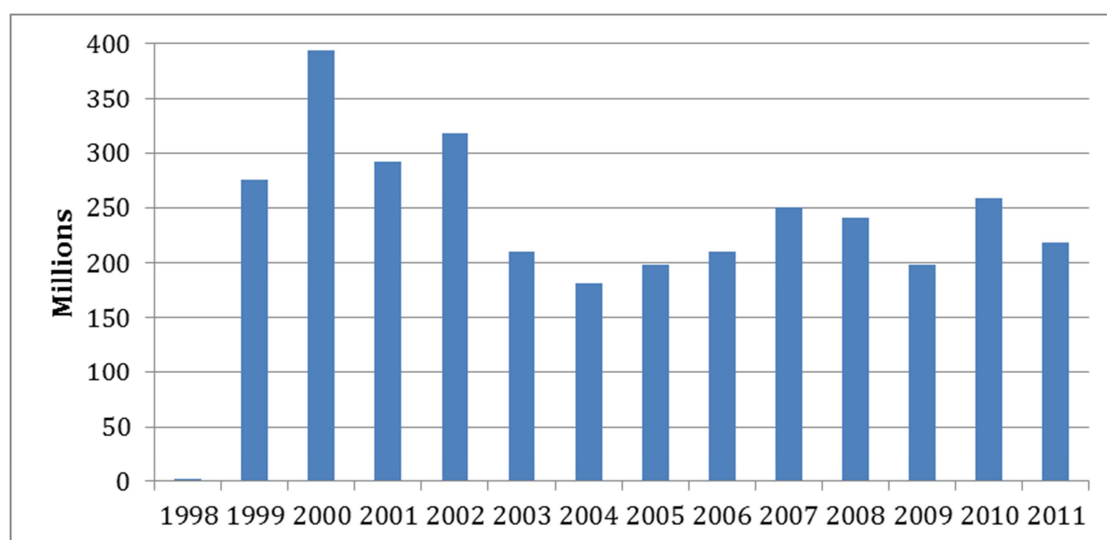
5. Aid to Timor-Leste: overview and recommendations

In this last part of our submission, we provide a brief overview of global and Australian aid to Timor-Leste, and make a few selective observations and recommendations.

5.1. Overview

As Figure 5 shows, total foreign aid to Timor-Leste peaked in 2000 and now fluctuates around US 200-250 million per annum (constant 2010 \$US).

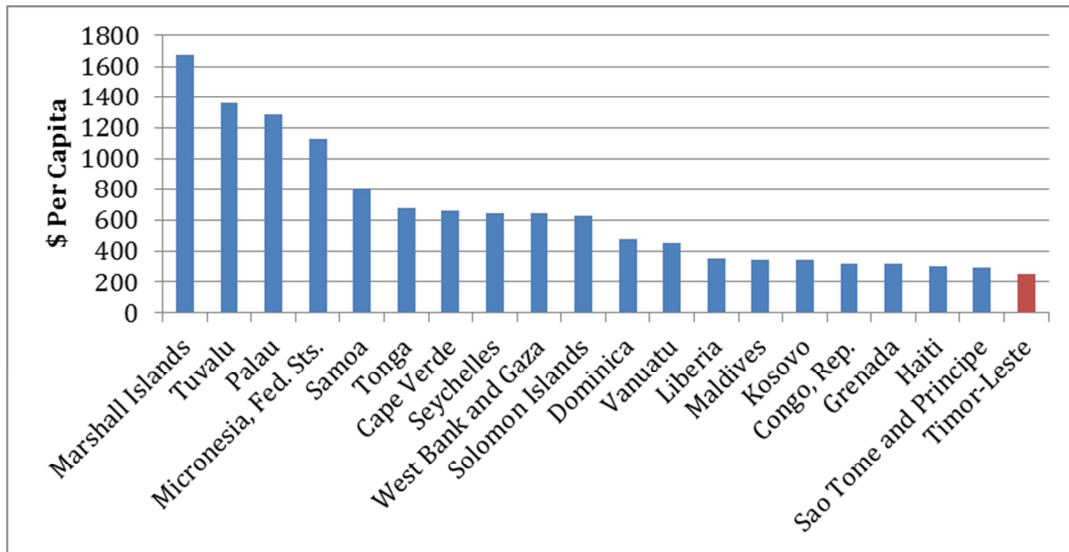
Figure 5 Official development assistance received by Timor-Leste (constant 2010 \$USm)



Source: OECD DAC QWIDS database

Timor-Leste, because it is such a small country, is not a major aid recipient. According to the OECD DAC, in 2011 Timor-Leste ranked 78th in terms of the volume of aid it receives (sitting in between Namibia and El Salvador). Looking at aid per capita, however, the picture substantially changes, with Timor-Leste ranking 20th in terms of per capita aid in 2010 (Figure 6).

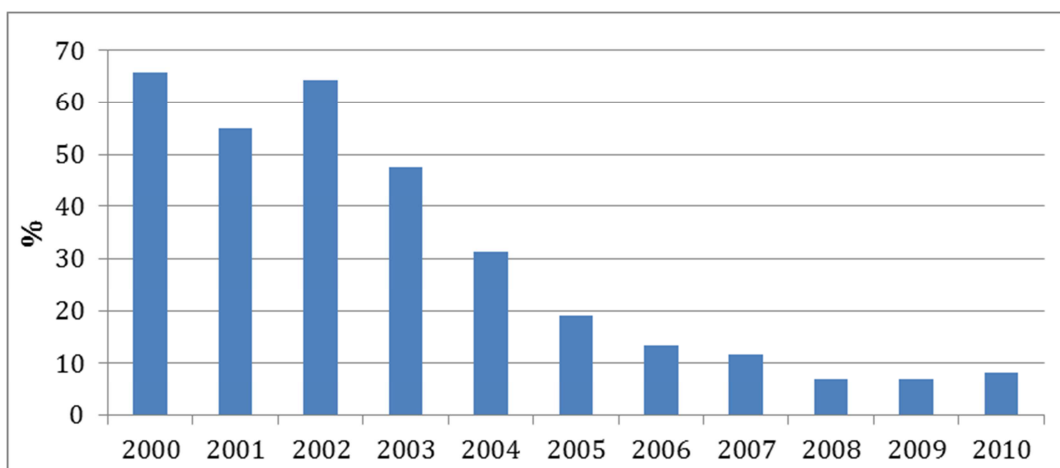
Figure 6 Top 20 largest per capita aid recipients 2010



Source: World Bank databank

As Timor-Leste has developed its domestic economy over the past decade and begun to exploit its own natural resources it has also become much less aid dependent, as figure 7 illustrates. Up until 2004 Timor-Leste was one of the most aid dependent nations in the world. It now sits well below the average low-income economies 10 per cent aid to gross national income ratio.

Figure 7 Aid as a percentage of gross national income (current US\$)

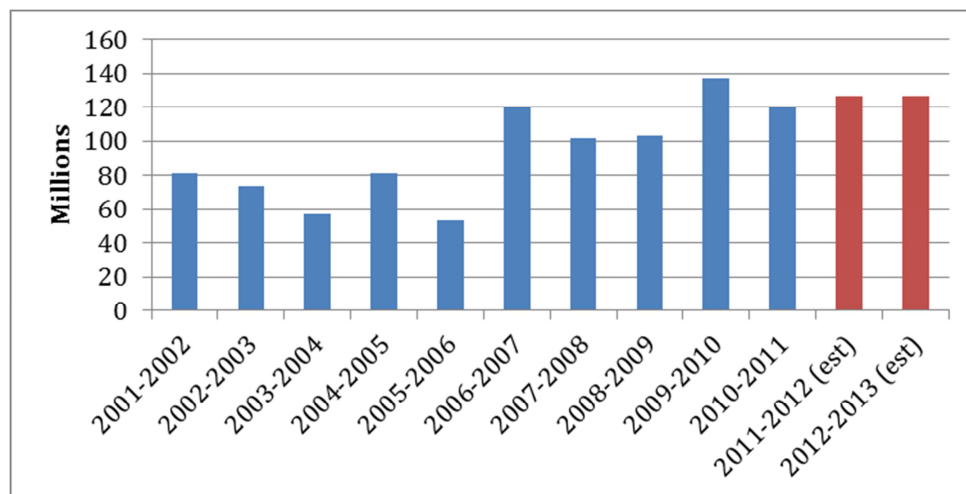


Sources: Aid-OECD DAC, GNI-World Bank DataBank

This decline in aid dependence is in large part due to the exploitation of Timor-Leste’s offshore oil reserves, shifting Timor-Leste from one of the most aid dependent nations in the world to one almost entirely dependent on oil and gas revenue, with 90 per cent of its GDP being generated from this sector. Most of the revenue from resource exploitation is locked in the Timor-Leste sovereign wealth fund (SWF), making aid still important for this small developing nation. The concept of “non-oil” GDP is often used to exclude the funds locked up in the SWF and is less than one-third of total GDP, meaning that aid to non-oil GDP is still at a very high 30%.

Australia has been the primary aid donor to Timor-Leste since independence, providing about \$1 billion in official development assistance since 1999. In 2012-13 Australia will deliver \$116.3 million to Timor-Leste (Figure 8).

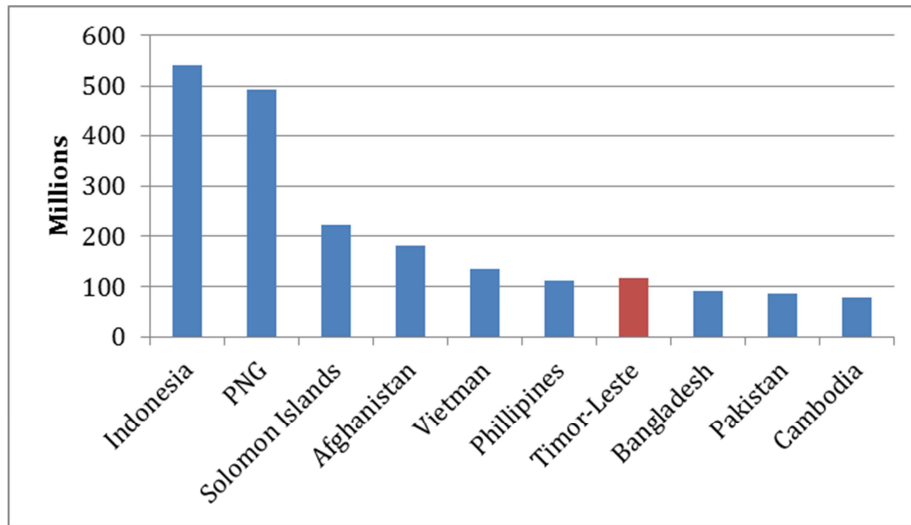
Figure 8 Australian aid to Timor-Leste 2001-2013 (\$A million)



Source: AusAID budget documents

As a share of the total Australian aid program, aid to Timor-Leste has actually declined from 3.4 per cent in 2001-02 to 2.5 per cent in 2012-13. Nevertheless, Timor-Leste has remained one of the most important bilateral aid programs for Australia and since independence has been one of the top 10 recipients of Australia’s aid. In 2012-13 Timor-Leste is Australia’s 7th largest aid recipient (Figure 9).

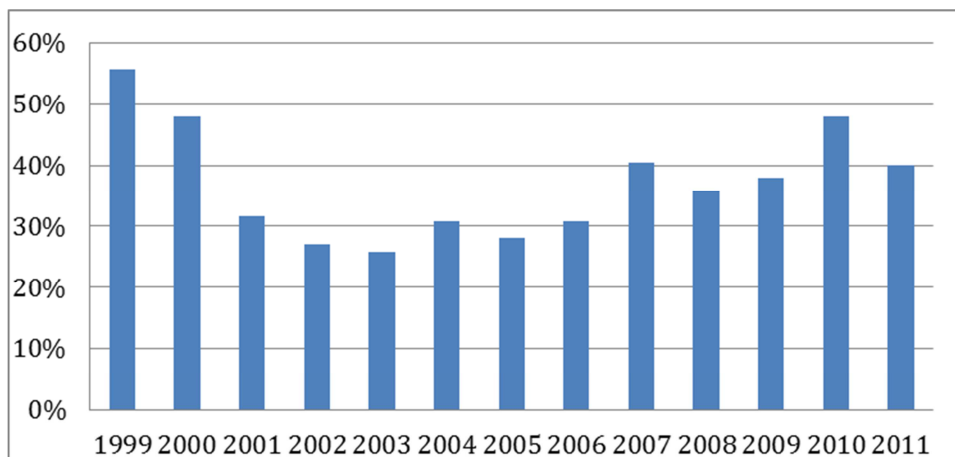
Figure 9 Top 20 recipients of Australian aid (\$A million)



Source: AusAID revised budget estimates 2013

Whereas global aid to Timor-Leste has fallen since 2000, and remained constant since 2003, Australian aid has continued to rise. This, combined with the appreciation of the Australian dollar, has made Australia the most important donor by an increasing margin (Figure 10). In 2011 Australia's bilateral aid program of \$US104 million represented 43 per cent of total bilateral aid to Timor-Leste. The United States ranked second with \$US37 million, or about 15 per cent of total bilateral aid to Timor-Leste.

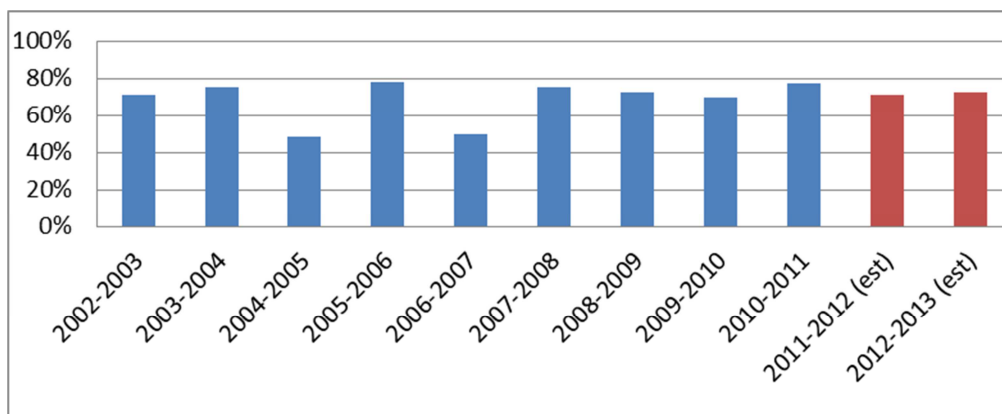
Figure 10 Australia's aid to Timor-Leste as a share of total aid to Timor-Leste, 2001-2010



Source: OECD DAC

Whole-of-government aid is also of great importance with regards to Australian aid delivery in Timor-Leste (see Figure 11). Despite the growing importance of AusAID, the whole-of-government dimensions are still more important for Australia in Timor-Leste than anywhere else in Australia’s aid program except for Afghanistan. For example, in 2012-2013, the share of AusAID aid to total bilateral aid (i.e. AusAID and aid from other government departments) is on average 90 per cent, much higher than the 72 per cent for Timor-Leste (Figure 11). After AusAID, the most important administrator of Australian aid to Timor-Leste is the Australian Federal Police.

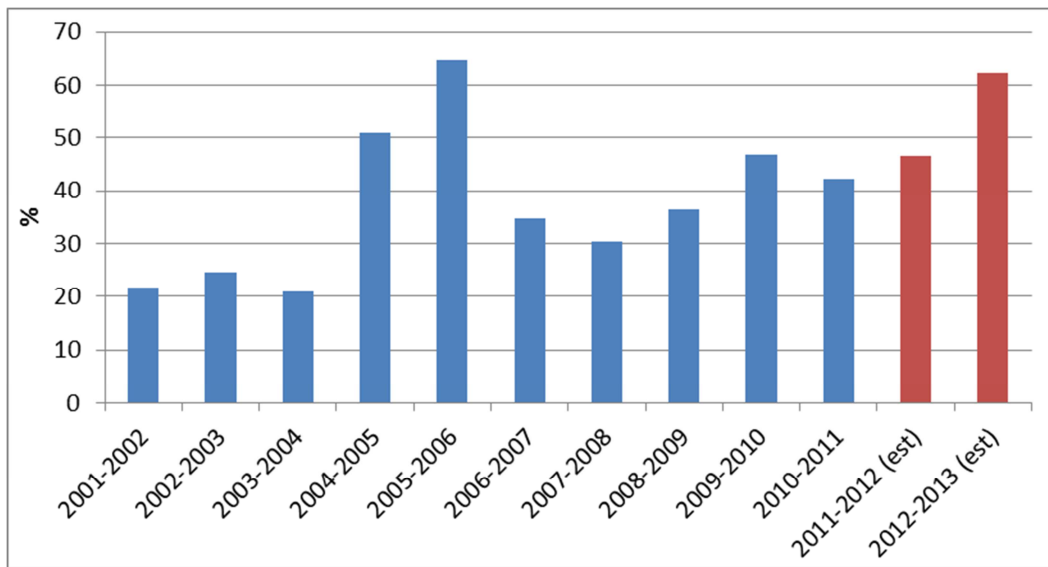
Figure 11 Proportion of aid delivered to Timor-Leste by AusAID 2002-2013



Source: AusAID budget documents

It should also be recognised that Australian aid to Timor-Leste has only been one part of Australia’s engagement in the country. Figure 12 illustrates this point, showing Australian aid spending as a proportion of combined aid and defence spending.

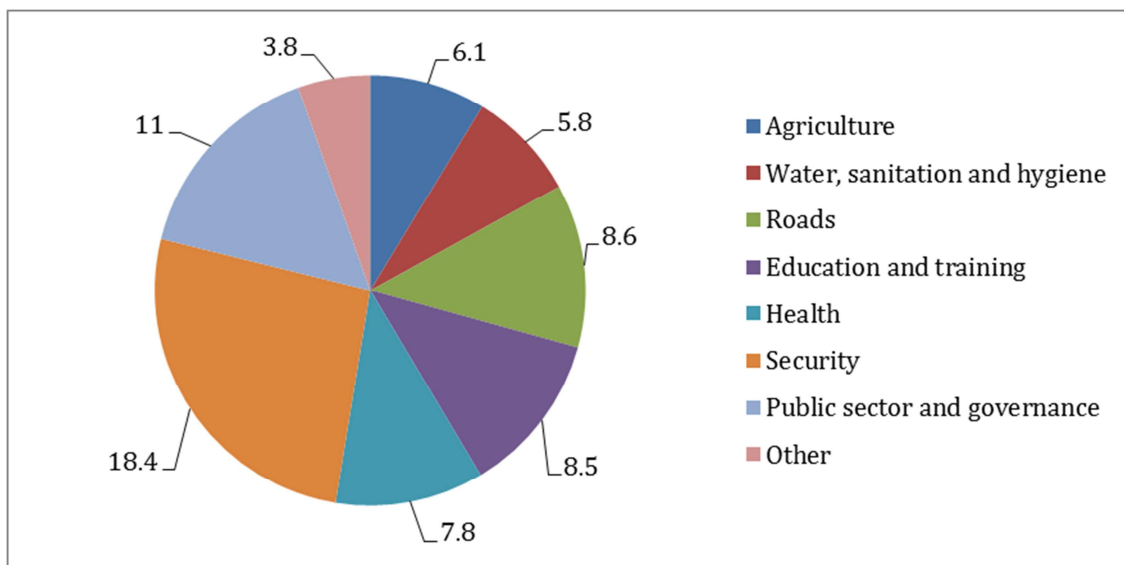
Figure 12 Australian aid spending as a proportion of combined aid and defence spending, 2001-2013



Source: AusAID budget documents, Australian Defence Budget documents

AusAID’s country program is spread across a number of sectors, with the highest concentration in security (Figure 13).

Figure 13. 2011-12 aid funding by sector (\$m)



Source: AusAID 2011

AusAID operated its large aid program in Timor-Leste for almost a decade without a

country strategy in place. However, this situation has at last been remedied and the aid program is now subject to both the [Australia-Timor-Leste Country Strategy 2009–2014](#) and [Strategic Planning Agreement for Development 2011](#).

The latest information on AusAID’s performance in Timor-Leste is provided in its [Annual Performance Report for 2011](#). The high-quality report is candid in its analysis of Australian aid performance, acknowledging mixed results. The report notes that the programs in education and health in particular have not produced satisfactory outcomes.

We are not in a position to provide anything like a comprehensive review of the aid program, and instead close with a small number of suggestions.

5.2. Poor multilateral performance

Just under a third of Australia’s aid program in Timor-Leste was delivered by multilateral organisations in 2011. AusAID’s program performance report notes the variable and often poor performance of those programs implemented by multilateral organisations. The World Bank managed multi-donor trust funds “performed poorly overall” and an ADB managed project is “amongst our worst performing initiatives.” UNICEF too gets a lukewarm assessment. The only notable exception to this pattern among the multilateral agencies funded by Australia in Timor-Leste is the International Labour Organisation.

Given the heavy reliance on the multilateral system for aid delivery in Timor-Leste, its poor performance is cause for concern, and requires further investigation and follow-up action on the part of Australia, as Timor-Leste’s largest bilateral donor and an increasingly large contributor to multilateral funds and programs. Is it a lack of competent staff in the region? Are multilateral agencies not effectively learning the lessons of past experience in operating in small and fragile states? AusAID should raise these issues in regular high-level dialogues with relevant multilateral organisations, as they do in relation to those organisations’ performance in the Pacific, and explicitly track progress toward greater improvement over time, including through the annual

program performance reports. In addition, persistent poor performance should be reflected in the global performance ratings assigned to multilateral organisations when updating the Australian Multilateral Assessment, with consequences for global funding levels.

5.3. South-south cooperation

South-south cooperation between developing countries, in many cases facilitated by traditional donors (in which case the term “triangular cooperation” is used), is an increasingly important aspect of international aid. Used carefully, it can be a productive and relatively cheap mode of aid delivery. In one example of triangular cooperation, Australia has funded Malaysia to provide instruction to Afghan teacher trainers. Australia is also providing some support to Indonesia’s program of South-South cooperation.

There is potential for Timor-Leste to become a beneficiary of this form of cooperation. Indonesia, in particular, could be drawn upon as a provider of technical assistance in a range of sectors, with facilitation for this provided by Australia, using aid delivery infrastructure already established under the large Australian aid program to Indonesia.

Moreover, successful aid programs implemented in Indonesia could in some cases be extended to Timor-Leste, using both Australian and Indonesian expertise. The English language training program mentioned earlier is one example. Others might include the nascent [Indonesia Knowledge Sector Initiative](#), which will promote evidence-based public policy, or sector-specific initiatives in areas such as maternal and child health or water supply and sanitation. There could also be opportunities for Australia to support, through regional scholarships, technical training in Indonesia, or in the Philippines, which has a number of colleges to prepare students for the international work force.

5.4. Security

Timor-Leste lapsed back into conflict in 2006. It is widely acknowledged that in the run up to the crisis in Timor-Leste in 2006, donors did too little to monitor and oversee the security sector. While there were other important contributing factors, including the

high levels of youth unemployment we have focused on in our submission, conflict between the army and the police was an important element of the crisis.¹⁵ .

Now, once again, after a renewed period of international supervision, the army and police are under Timorese control. While there is no doubt that the situation today is much more stable than that of 2006, the experience of countries such as Fiji teaches us that any small nation with both an army and a police force may face a volatile future. (Interestingly, Mauritius, a great small-island success story, has no army.) It is unclear what leverage Australia has in the security sector, but we would urge continued engagement, subject to periodic assessments of effectiveness, simply because of the huge risk this sector could pose to the future of the country.

The National Police of Timor-Leste (PNTL) in particular needs to show they are fostering and maintaining the peace and not undermining it. The legacy of police behaviour in the Indonesian occupation has to be actively countered by ensuring that the police are accountable to their local community. This can only happen if citizens are given the means to offer regular and anonymous feedback. One way to do this is through independent surveys of citizen levels of satisfaction with their local police and others in their community who are responsible for managing and resolving conflict.

More generally, regular citizen feedback mechanisms are needed to monitor how well the new state is functioning throughout the country. AusAID should be commended for its support to the Asia Foundation's efforts to obtain citizen feedback. The latter's [Suco Governance Performance Scale](#), for example, is a good example of feedback on how responsive village level governance is in Timor-Leste. Ultimately, the capacity of national NGOs should be built up to carry out this sort of research.

Recommendation 10: *The effectiveness of Australia's aid program would be enhanced by: (i) investigating and monitoring the poor performance of multilateral partners in the delivery of aid to Timor-Leste; (ii) promoting south-south cooperation, including in relation to the goal of advancing international labour mobility; and (iii) continued close*

¹⁵ Curtain, R; 2006, 'Crisis In Timor-Leste: Looking beyond the Surface Reality for Causes and Solutions' SSGM Working Papers 2006/1, The State, Society and Governance in Melanesia Project, Australian National University, Canberra

engagement with the security sector, and support for efforts to obtain community feedback on the government in general and the police in particular.