



# Committee for Development Policy 20<sup>th</sup> Plenary Session

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## \$%&nera' i&it ( Profi&e of )i#or-Leste



## Timor-Leste: graduation road map at a glance

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- 2.2 The income distribution status
  
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The graduation criteria and the graduation rule



Timor-Leste was added to the list of Least Developed Countries in 2003, a year after its accession to independence. In its 2011 review of the UN list of Least Developed Countries, the Commission on World Development observed that Timor-Leste was meeting the income per capita graduation rule given its score at 3031 of the relevant graduation threshold. The Commission accordingly found Timor-Leste pre-eligible for graduation from LDC status, a temporary situation that would normally evolve toward full eligibility if the country three years later meets the same income per capita rule or the normal graduation rule, i.e. two graduation thresholds.

The Commission in the 2011 review of the list observed Timor-Leste's potential graduation prospects as being determined by the performance described in Table 1.

This Profile was prepared in accordance with General Assembly resolution (9209 of 20 December 2006) which decided that after a country has met the criteria for graduation for the first time, the UNCTAD is mandated to prepare a vulnerability profile on the identified country to be taken into account by the Commission on World Development at its subsequent triennial review.<sup>2</sup> It is an input to the work of the Commission in answering the question of the graduation of Timor-Leste from LDC status, with a focus on the extent to which effective structural progress has been taking place in the country.

Sections 2-3 and 4 examine the situation of Timor-Leste under the three criteria for identifying LDCs, namely the per capita income criterion, the human assets criterion, and the economic vulnerability criterion, respectively. The examination undertaken under each criterion casts light on various factors and determinants of the country's overall performance under the criterion.

Graphs 1-2 and 3 illustrate the evolution of Timor-Leste since 2003, under the graduation thresholds relevant to the per capita income criterion, the human assets criterion, and the economic vulnerability criterion, respectively. The data indicate the country's distance to the graduation threshold, as well as the distance to the admission threshold (the level for admitting new countries into the list). The data through the eight triennial reviews of the list of LDCs after 1991 (1994-1997, 2000-2003, 2006-2009, 2012-2015) have been standardized in index form, with the graduation threshold standing out as the 100 basis. For example, a score of 3;1 observed in 2011 under the second criterion indicated that Timor-Leste stood at 3;1 of the relevant graduation threshold.

<sup>2</sup> General Assembly resolution 9209 (XV) of 20 December 2006, para. 3(b).

Timor-Leste's pre-eligibility for graduation from L / status  
in the 201 (re"ie\* of the list of L / s

<p>To pre-4ualif\$ for graduation in the 201 (re"ie* of the list- an L / had to meet at least t*o of the follo*ing three graduation thresholds A</p>	<p>A to ha"e a gross national income per capita of at least !2011-2013 three- \$ear a"erage#</p>	<p>A to ha"e a score B&lt;&lt; under the Cuman )ssets Inde+ !C ) l# e+treme "alues of *hich- among L / s- *ere ;.3 !lo*est human assets# and 3 ;.&lt; !highest human assets#</p>	<p>A to ha"e a score D32 under the 5conomic ,ulnerabilit\$ Inde+ !5 , l# e+treme "alues of *hich- among L / s- *ere ;1.( !highest "ulnerabilit\$# and 2&amp;.9 !lo*est "ulnerabilit\$#.</p>
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Co\*e"er- b\$ "irtue of the .income on\$.  
e+ception to the normal graduation rule- pre-eligibilit\$ for graduation \*ould be obser"ed A

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rocketing path through the 2009-2012 and 2013 recession of the list of LDCs. GNI per capita rose from \$310 in 2002 (the year of accession to independence) to \$1,000 in 2012- its historical peak.

TI% 6 ? -L5 'T5: distance from the graduation threshold under the per capita income criterion (based on GNI per capita)

NB: " ./, - \* ./,0 " 1 "

7N T) / - based on /P data up to 2010

## 2.1 Gross National Income per capita

Since a few years after its independence in 2002, Timor-Leste's economy is heavily dependent on oil and gas. Previously it was based on agriculture - with coffee as the main export. These hydrocarbons contributed about 30% of the country's GDP in 2012-2013 and about 99% of exports and other revenue<sup>3</sup>

The gross national income per capita (GNI per capita) has been growing rapidly from a

## 2.2 The income distribution status

The rapid\$ gro\*ing income at the national le"el does not seem so far to be accompanied





Several indicators show that Timor-Leste still needs to make substantial progress in terms of a# food provision to fight malnutrition- b# child health and c# education at secondary level. The previous three indicators are used by the Committee for Development Policy (CDP) to measure human capital level for graduation from- as well as inclusion to -L / category. Each of the three indicators will be analysed in detail in the following sections.

countries with the highest priority

There are even more pressing issues in terms of quality of future human capital when malnutrition concerns such categories of the population as pregnant women and children under (

## 3.2 hild !under fi"e# mortalit\$

% maternal mortality rate (modeled estimate) - per 100-000 live births

Timor-Leste	1030	<9&	(<;	&<<	3(0	2<;	21(
East Asia MPacific	1(9	113			;3	<;	(9
World	33(	3&1			2(&	232	21<

Source: World Bank - H / I - Jul 2013

### 3.2 Secondary school enrolment

The third indicator of the level of development of human capital is the rate of enrolment of children in secondary school (Gross enrolment ratio - GER). Various sources estimate Timor-Leste's GER to be about 31% in 2013 (Table 9). Cooperation - net enrolment ratio (NER) is usually much lower. It was estimated by UNESCO at 13% in 2013 but other sources in Timor-Leste have previously published a rate almost half such a figure. For example, in 2013, the figure for NER was 3.1% for UNESCO but only 2.1% for official sources in Timor-Leste<sup>16</sup>.

Timor-Leste secondary school enrolment ratio - 2003-2013 (%)



Data in the table also shows female pupils in Timor-Leste are recently doing better than the male pupils in terms of enrolment. Since 2012, all statistics show a clear trend where female pupils succeed more easily than the male with less repetition and less drop-out. The gender gap seems increasing at all levels of education in favour of female pupils. Some observers may establish a causal link between the higher malnutrition and stunting we discussed above which was found to affect more young boys than girls and the low performance in secondary school for at least half the same boys. But such causalities need further study to be confirmed.

Conversely, in general, the Government of Timor-Leste considers that the success of female pupils is a real achievement on the front of eliminating gender bias against girls in the education system and beyond. But reverse bias at the expense of male pupils is a problem that the authorities are hoping to fix.

### 3. ( ) Adult literacy

Adult literacy rate in Timor-Leste was estimated by UNICEF to be 48.1% in 2010 (Table 10). It had been increasing rapidly - almost doubling in 10 years - from a low level of 23.1% in 2001. Conversely, literacy is not evenly distributed among the population of Timor-Leste. As in many other countries, urban population is almost twice more literate (33.2% in 2010) than rural population (18.9%) the same year when the average for the total population was 24.8% (p) of total population.

The lagging situation under the economic vulnerability criterion (at only 31 of the graduation threshold in 2010 and a provisionally estimated 31 in 2013) should be interpreted with caution. Six of the eight indicators entering the 5 2 1 effect index portray Timor-Leste as a highly exposed economy - therefore as a potential vulnerable one: merchandise export concentration and instability of exports of goods and services. Both observations (a high degree of concentration, high export instability) are explained by a single economic factor: oil extraction. Whether this content can be considered a marker of economic vulnerability (despite the fluctuations in oil export receipts) is debatable given the health effect of oil exports -- a positive shock -- on the national economic landscape.

Timor-Leste's economic vulnerabilities include some shocks due to sudden and strong variations in external trade for its exports but also to the damages due to several types of natural disasters. Natural shocks include epidemics, excessive or lack of

Most of these people live in rural areas (0.31 million) while only 0.12 million live in urban areas. Four main zones have been identified by the Ministry of Social Affairs and Solidarity as low-risk zones: Teacau in the North, Uai Loro in the South, Tatuguede on the coast of the Western part of the capital Dili, and Tasi-Tolu zone near the three lakes below the hills near Dili.

Low-risk zones are therefore a manageable problem so far in the case of Timor-Leste. In fact Timor-Leste is mainly a mountainous country with mountain slopes rising 4000m after



Reliance on so few products is a serious situation for the economy of the country. Timor-Leste needs therefore to diversify its exports both for merchandise and services in order to reduce the vulnerability of heavy dependence on only a few products even though these are energy or strategic products. Even though this is a classic situation for many petroleum producing countries- the limited amount of reserves should encourage the country to speed up diversification in its exports.

### 3.3 Victims of natural disasters

Several natural disasters have hit Timor-Leste in recent years. These include epidemics due to parasitic and bacterial diseases (Table 13); storms- floods and landslides; drought- earth movements- etc. According to various sources- since 2003- there have been 9 natural disasters in the country- about 1 every two years on average. These resulted in a limited number of deaths (3 but a great number of people affected (22); 30% close to 20% of the whole population.

Another source<sup>10</sup> citing Government data indicates that between 2002 and 2013 (Table 10- column 3) 93 events took place. These included disasters not counted by other sources- such as strong wind and fire- which represented 21% of all events (39 out of 93). So- government sources seem to have identified more floods and storms than other sources (2% instead of 3% between 2002:2003 and 2013:2014).

In November 2011, the UN Mission in Timor-Leste reported that the country had suffered 10 disaster events over the previous ten years. It is at a medium exposure to hazards but with a lack of coping and adaptive strategies, making it the 13th most disaster-prone country in the world.

The Government is aware of these risks and has been implementing some strategies to minimize their impact on the population: vaccination campaigns to prevent diseases, weather forecasting, reforestation and irrigation to minimize the impact of storms, flooding and drought, etc. However, drought episodes are still affecting too many people (120,000) thus calling for more effective strategies to limit its impact.

#### Instability of agricultural production

Agricultural production in Timor-Leste has been growing well since 2003 (Table 1). From 2003 to 2011, the value added for the sector has been regularly growing, doubling in constant 2010 prices. The yield has more than doubled as well, from 1.6 t/ha to 2.92 t/ha. Annual percentage growth does not show much instability beyond the very high and welcome growth of 21.1% in 2012.

Evolution of agriculture and food production in Timor-Leste- 2003-2011

	2003	2004	2005	2006	2011
Food production index (2005=100)	100.9	103.1	132.9	133.0	120.92
Agriculture value added (constant 2010 prices, million USD)	1.3	1.3	1.9	2.0	1.9
Agriculture value added (annual % change)					

production has also some effect on exports and may be even more determinant in the future as some petroleum production wells drop while not enough new wells begin producing.

In order to mitigate the vulnerability of the economy due to instability of exports in goods and services- Timor-Leste needs as much diversification as possible- both in terms of products and services exported horizontally as well as in terms of their value addition vertically. One big project to diversify vertically along the gas and petroleum value chain is Tasi Mane Project which aims to build a petroleum refinery and petrochemical complex as well as a liquefaction plant for natural gas in the south of the country.

Crude petroleum price<sup>1</sup>: instability 2003-2011

	2003	2004	2005	2006	2007
Price index (2000=100)	102	223	219	332	130
Average annual price in current US\$	23.90	<23	<19	100	<9

Source: WTI / Data Jan. 2011

<sup>1</sup>: Average of Brent, Dubai and Terashe oil weighted by barrel.

(6 !)

## The graduation criteria and the graduation rule

The question of graduation from L/ status was conceptualized by the United Nations in 1991 when the first major revision of the criteria for identifying L/ status took place. The methodological elements of the graduation rule were also adopted in that year - a move that has paved the way for five cases of graduation from L/ status: Togo in 1998, Cabo Verde in 2002, Maldives in 2011, Samoa in 2012 and Equatorial Guinea in 2013.

In 1990 the second United Nations Conference on the Least Developed Countries in Paris had envisaged graduation from L/ status as a natural prospect for countries that would eventually demonstrate enough economic progress to be able to remain on the same development path with a lesser need for concessional treatment. In 2001 the Third United Nations Conference on the Least Developed Countries in Brussels contemplated graduation as a criterion on the basis of which the success of the Programme of Action for the Least Developed Countries for the decade 2001-2010 would be judged.<sup>13</sup> An unprecedented leap forward was made by UN member states ten years later at the fourth United Nations Conference on the Least Developed Countries in Istanbul in 2011 with a bold pronouncement on the matter - namely - the aim of enabling half the number of Least Developed Countries to meet the criteria for graduation by 2020.<sup>19</sup>

## The rationale for graduation

Graduation from L/ status is naturally synonymous with the recognition of structural economic progress. A graduating country will necessarily be expected to have demonstrated through a convincing improved economic and social performance - enough structural progress to be able to pursue its development efforts with less external support. If the decision to take a country out of the list of L/ is well founded - the graduating country - with enhanced institutional capacities - will be expected to remain undisturbed while development partners maintain its privileged access to a special treatment.

## The graduation rule

The graduation rule applies specific thresholds to the indicators relevant to the three criteria - gross national income per capita, human assets index and economic vulnerability index. For each of these indicators - there is a margin between the threshold for adding a country to the list and the threshold for graduating a country. The margin is considered a reasonable estimate of the additional socio-economic progress that ought to be observed if one assumes that the graduating country is effectively engaged on a path of improvement: not only is the graduating country expected to have risen to the threshold under which non-L/ countries would be admitted into

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<sup>13</sup> UN General Assembly - Third United Nations Conference on the Least Developed Countries - Brussels - Belgium - 1990 - para. 2001 - Programme of Action for the Least Developed Countries for the decade 2001-2010 - para. 21(e)

<sup>19</sup> United Nations - Programme of Action for the Least Developed Countries for the decade 2011-2020 - para. 2011 - para. 23.

the category - but it is additionally expected to exceed this threshold by a significant margin. This dispels the risk that graduation be dictated by temporary or insignificant economic circumstances.

Two other elements of the graduation rule also imply durable structural progress in the graduating country:

X at least two of the three graduation thresholds must normally

