



**Permanent Mission of the
Democratic Republic of Timor-Leste to the United Nations**

Statement of H.E Maria Helena Pires
Ambassador, Permanent Representative

ON THE CONSIDERATION OF TIMOR-LESTE'S GRADUATION FROM
THE LEAST DEVELOPED COUNTRY STATUS

**at the Expert Group Meeting of the CDP, 2nd of February 2018
New York**

Mr Chairperson, distinguished members of the Committee

Timor-Leste is pleased to participate in this Expert Group Meeting of the CDP, on the preparation of the 2018 Triennial Review of the LDC category and share our views in this regard.

As a post conflict state with a young democracy that achieved full self-government only in 2002, fully engaged in state and nation building, the consolidation of our institutions of state and indeed our sovereignty, it is a privilege to be able to engage with the CDP in this very important exercise.

Unfortunately, budgetary constraints prevent Timor-Leste's delegation from including representatives from our relevant Ministries, but the Mission stands ready to engage with the EGM in this meeting and will endeavor to obtain any additional information if it is required.

My delegation would like to state at the outset that the Government of Timor-Leste does not believe that this is the right time for Timor-Leste to be considered for graduation from the Least Developed Country category.

We would like to underline 3 fundamental considerations in this respect.

Firstly, the data shows that Timor-Leste is only narrowly over the required thresholds for graduation with regards to the HAI and does not appear to meet the income only GNI threshold, and of particular concern to the government is Timor-Leste's continued economic vulnerability.

The Human Asset Index is 66.6 against a threshold of 66. Timor-Leste therefore only just meets the criteria, which is not a strong foundation for graduation. Although Timor-Leste has made considerable gains in the health and education sectors, there remains a crucial human capital challenge. About one-quarter of children face stunting (2014) and 40% of the population are without adequate sanitation (2014).¹ Maternal mortality remains too high, at 557 per 100,000 births from the Demographic and Health Survey (2010)

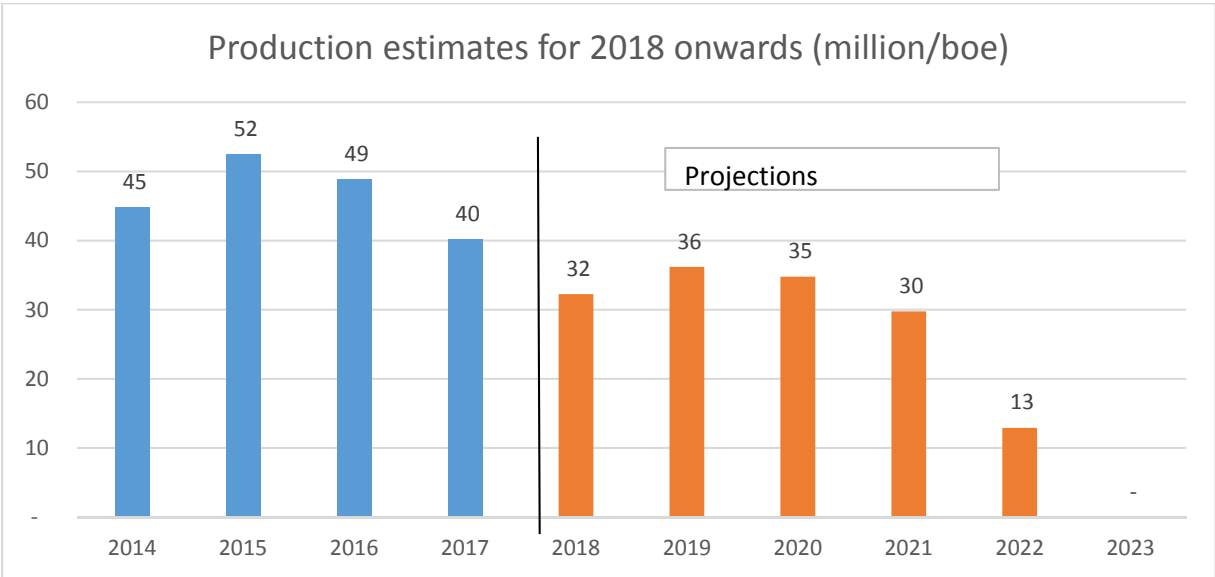
¹ Timor-Leste Survey of Living Standards (2016)

The Economic Vulnerability Index shows substantial economic vulnerabilities, with a score of 56.8. This is much higher than the LDC average of 41.7, let alone the threshold level of 32. Timor-Leste is very far from the economic vulnerability threshold, meaning there is high economic vulnerability. These contrasts sharply with the gains that have been achieved in the human assets category that takes Timor-Leste’s score only .6 above the Human Asset Index threshold.

The Government of Timor-Leste has calculated GNI per capita to be \$2,235, which places it below the \$2,460 income-only threshold for the 2018 Triennial review and differs from the UN calculated figure of \$2656. The government calculation uses similar UN methodology and data sources as stated on the reports.

Secondly, careful attention needs to be paid to Timor-Leste’s specific economic context.

Timor-Leste remains an undiversified economy, heavily dependent on the oil sector. As rightly stated in the Vulnerability Profile, 99% of exports are in the oil and gas sector (2016). The reserves of oil are dwindling, with around \$1.5bn considered remaining for economic extraction, up to 2023. Furthermore, the price of oil has not been stable and goes up and down, and therefore does not provide a solid foundation for continued GNI per capita at the level indicated in the report.



Production reached a high of 52 million barrels in 2015 and declined thereafter to 49 in 2016, 40 in 2017 and projections are for 32 in 2018, 36 in 2019, 35 in 2020, 30 in 2021, 13 in 2022 with production projected to cease in 2023.

In fact, and as is referred in the Vulnerability Profile, with the declining oil production, the GNI per capita has been falling in recent years and the government's indications are that it will continue to fall in the future. In 2015, the CDP Review found GNI per capita to be \$3,767, and this has dropped to \$2,235, by Timor-Leste government calculations².

Gross National Income	2012	2013	2014	2015	2016
GNI (\$m)	4,350	4,170	3,345	2,805	2,278
Oil sector	2,820	2,470	1,576	887	262
Non-oil sector	1,530	1,700	1,769	1,919	2,016
GNI per capita (\$)	3,760	3,521	2,758	2,261	1,796
Oil sector	2,438	2,086	1,299	714	207
Non-oil sector	1,322	1,435	1,459	1,546	1,589
Gross domestic product					
GDP (\$m)	6,671	5,650	4,045	3,104	2,521
Oil sector	5,477	4,234	2,591	1,496	820

² \$2,656 in the 2018 Review document

Non-oil sector	1,194	1,415	1,454	1,609	1,701
GDP per capita (\$)	5,767	4,770	3,336	2,502	1,988
Oil sector	4,735	3,575	2,136	1,205	646
Non-oil sector	1,032	1,195	1,199	1,296	1,342

Source: National account 2016 (http://www.statistics.gov.tl/wp-content/uploads/2018/01/01_TL-NA-2000-2016_Publication_171202_90.pdf)

As has been the trend in recent years, the oil component of GNI will continue to decline towards zero, as oil production stops in 2023. This highlights how measures of the economy which use oil are not sustainable and do not reflect reality.

The non-oil economy is also not diversified. Around 95% of non-oil exports is coffee (2016). The concentration of exports on few commodities because of our undiversified economy, contributes to significant economic vulnerabilities and high poverty levels. About 42% of the population lives below the national poverty line (2014).

The Government has adopted policies to diversify the non-oil economic sector, focused on agriculture production, fisheries, tourism and manufacturing. However, this is at the early stage of implementation.

Furthermore, and as also referenced in the Vulnerability Profile of Timor-Leste document, Timor-Leste is the 7th most disaster-prone country in the world. Timor-Leste has faced a number of natural disasters, such as floods, landslides and the effects of El Nino droughts, which has impacted on agriculture production and has resulted in grave food shortages. The majority of Timor-Leste’s populations are engaged in subsistence farming and the effects of natural disasters have made the country heavily dependent on food imports.

The country has suffered significant losses to its land infrastructure, which has disrupted transport connection, particularly in the rural areas. This has in turn impacted on the people's economic activities and has required government expenditure to repair the damaged roads, bridges and other infrastructure.

The government has adopted policies and strategies to build resilience to climate change and mitigate the effects of natural disasters, however this is an ongoing process.

Thirdly, the government wants, a sustainable graduation from the LDC category.

It is important that graduation from LDC is sustainable and as is referenced in the Vulnerability Profile report, graduation from LDC status should be “naturally synonymous with recognition of structural economic progress”. A “graduating country will necessarily be expected to have demonstrated, through a convincingly improved economic and social performance, enough structural progress to be able to pursue its development efforts with less external support.”

Graduation based on the temporary GNI from the oil sector is not sustainable as the oil will run out. This will push aggregate GNI figures down, at the same time as Timor-Leste may be graduating from LDC status.

Only a small proportion of government spending is financed from domestic revenue with a figure of 11% average between 2013 and 2017. Government spending is therefore not financed by the production of the Timor-Leste economy. There is the potential for shocks to have big impacts on government spending.

Currently, most spending is financed through petroleum revenues in the fund. But fiscal sustainability would require much lower levels of spending, which would have knock-on effects on other sectors of the economy. 25% of the economy is public sector, which supports other key sectors such as construction (another 17%) and supports poverty reducing social security.

It is also important that graduation is sustainable, in terms of public administration. There are many reforms going on at present. Managing the transition under LDC graduation, may stretch administrative capacity and put other goals at risk. Fiscal reforms such as the introduction of VAT will be important for the development of Timor-Leste's tax raising ability, but dealing

with different customs regimes may detract from the ability of the government to implement these good reforms.

Despite Timor-Leste was being admitted as an observer at WTO, Timor-Leste's accession to WTO will take time and there is no fixed timeframe for Timor-Leste's admission to ASEAN and therefore these will not immediately replace LDC status, causing a change in low tariff access to world markets, at a critical time in Timor-Leste's development.

To conclude, the government of Timor-Leste looks forward to graduating when it is better placed to withstand shocks to the economy.

Timor-Leste is a young country that has made substantial progress, and is committed to continue its development trajectory towards sustainable peace and prosperity. Graduating from LDC status is a government goal, to be achieved when it is the right time to do so. With further improvements to reducing its economic vulnerability and developing its human assets and a sustainable GNI, the government will be eager to use its still recent independence, to graduate from the Least Developed Country status, catching up with other middle income countries and achieving sustainable development. Therefore, Timor-Leste respectfully requests the CDP to defer recommending Timor-Leste's graduation from the LDC category at this time.