Peace, Prosperity and Safety Nets in Timor-Leste: Competing Priorities or Complementary Investments?

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Abstract

Social protection cash transfers are a vital policy instrument in tackling poverty, and provide an affordable, broad-based foundation for inclusive growth and social stability. Yet, international experience has shown that many countries have too many programs, but with coverage gaps and fragmented benefits which leave significant proportions of the population without adequate poverty relief or improved economic security. Here, we examine the design and poverty impact of the primary cash transfer programs in the Democratic Republic of Timor-Leste using nationally representative survey data. We find that though Timor-Leste’s level of social protection expenditure is high by international standards, the overall poverty impact is incommensurate with spending levels. This is explained by the proportion of expenditure devoted to transfers to veterans, the large proportion of the poor population which is not reached by the current targeting mechanisms, and the small coverage and benefit level of the only program that explicitly targets poor households.

Key words: safety nets, Timor-Leste, poverty, social pensions, targeting

1. Introduction

In developing and high income economies alike, social protection policies play an integral role by providing income support for the poor, building resilience to economic shocks and promoting opportunities for families to break the intergenerational cycle of poverty through investments in health and education. Well-designed social protection programs can provide an affordable, broad-based foundation for inclusive growth and social stability. Yet, international experience has shown that many countries have uncoordinated programs with low coverage of the poor, insufficient benefits and fragmented or ineffective poverty targeting mechanisms, which leave significant proportions of the population without adequate poverty relief or improved economic security.

This article examines the poverty reduction effects of social protection spending in Timor-Leste, where one of the highest rates of public spending on social safety nets in the world has not led to a commensurate reduction in poverty. To examine the welfare effects of the main cash transfer programs, this article uses the Timor-Leste Social Protection Survey (TLSPS), a nationally representative survey undertaken in 2011 in combination with the Household Income and Expenditure Survey (National Statistics Institute 2011a). It provides evidence in support of three main explanations related to patterns of spending by type of program, rates of exclusion of the poor and the benefit structure.

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The Democratic Republic of Timor-Leste is a young, post-conflict nation endowed with significant oil revenues. Its economic position is heavily dependent upon strong oil reserves and prices; 2011 National Accounts data revealed that the oil sector accounted for 80.5 per cent of 2011 gross domestic product (GDP) (Democratic Republic of Timor-Leste, Ministry of Finance 2013) and petroleum revenue was estimated to account for nearly 97 per cent of total government revenue in this same year (International Monetary Fund (IMF) 2012). While per capita GDP of around US$ 4,048 in 2011 classifies the country as lower middle income, this figure does not reflect commensurate living standards. Non-oil GDP per capita of US$ 810 is more representative of the actual living standards, which places the country in the low income range but with a sovereign Petroleum Fund, which has the potential to promote Timor-Leste out of low income status. The poverty rate was last recorded officially in 2007, was 49.9 per cent (World Bank 2008), although a 2010 imputed poverty rate of 41 per cent is also accepted. More and more recent assessments of Timor-Leste’s level of human development ranked the country 134th out of 187 on the Human Development Index (United Nations Development Program (UNDP) 2011).

In 2006–2007, a political crisis in Timor-Leste caused outbreaks of violence that displaced approximately 150,000 people, and contributed to a sharp decline in GDP and an increase in poverty. In the immediate post-crisis period, citizens faced substantial economic hardship, exacerbated by disruptions in the delivery of basic social services. Nearly half of the population lived below the poverty line, with one-third experiencing extreme poverty (World Bank 2008). Among other factors for the crisis, observers blamed the failure to meet high post-independence expectations, particularly for veterans of the independence struggle, high rates of poverty and poor service delivery and frustration and perceived favouritism in the distribution of sought-after posts in the police, military and public service. In an effort to rapidly resettle the displaced, lower tensions and promote social cohesion, the government’s post-crisis National Recovery Strategy focused on five areas: transitional shelter and housing, social protection, security and stability, local socio-economic development and confidence-building/reconciliation activities. These efforts were met with different degrees of success, but social protection spending quickly grew in prominence and budgetary focus.

By early 2008, as the economy began to recover and the Petroleum Fund balance rose with high global fuel prices, social assistance expenditures expanded rapidly, resulting in a formal safety net and associated public expenditure that extend beyond those usually found in low income countries. Timor-Leste became a striking outlier, with social assistance spending ascending sharply to around 15 per cent of non-oil GDP in 2012, which is one of the highest budget outlays for social assistance in the world, surpassing the rate of spending among nations with significantly higher incomes, and with similar populations, poverty headcounts, and levels of mineral resource wealth.

The government also began to implement its first cash transfer programs targeted at vulnerable populations. The first of these programs were transfers for the elderly and people with disabilities, which were followed by the Bolsa da Mãe, or ‘Mother’s Purse’, program in 2008. Modelled after Brazil’s Bolsa Família, Bolsa da Mãe provided small cash grants to children in vulnerable households on a conditional basis, to assist with the cost of school-related expenses. Further, 2008...

1. There are few countries comparable with Timor-Leste with such high dependency on oil revenues (with the exception of Gulf States), therefore, our approach was to align the comparisons with other countries by focusing on the non-oil income GDP. The reasons for doing so are threefold: first the non-oil GDP is a better proxy of income of the average Timorese because there are almost no direct links from the petroleum sector to the rest of the economy. Second, the dominance of oil-sector GDP, which is subject to movements in the volume and price of oil produced, makes total GDP a volatile comparator. Finally, the way we see it is that comparisons of public spending with non-oil GDP provide a better measure of sustainable revenue base when revenues from oil fields currently under production run out. 2. Selection criteria, benefit levels, conditionalities and beneficiary numbers have changed almost annually since 2008. The research in this report is based on the program design as it applied in the 2011 survey year.

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saw the first distribution of cash payments to veterans of the independence movement and survivor families, who had been identified through a nationwide validation exercise. Although designed in part to ensure that those who engaged in the independence movement lived free from poverty, veterans’ transfer payments were intended less as social assistance than as recognition of past service and hardship. Few veterans received assistance in the program’s first years, as participants are required to undergo an evaluation process prior to receiving certification of eligibility. However, the number of veteran pension recipients increased from 2011 in 2008 to 37,704 in 2012 and is expected to continue to rise in the short term, as pending applications (currently over 100,000) are evaluated.

The government had notable success in developing its first generation of social assistance programs. However, the urgency with which they were launched contributed to a lack of poverty focus, and insufficient attention to operational process and guidelines to ensure effective targeting, program management and accountability. Social assistance efforts are abundant, but also fragmented: the Ministry of Social Solidarity plays the largest role in social assistance, implementing four major cash transfer programs reaching an estimated one-third of the population, but related programs are being implemented by at least five government agencies. Yet, poverty remains a key concern. Despite double-digit economic growth in post-conflict years, the imputed range for national poverty prevalence in 2009–2010 was between 39 and 43 per cent (World Bank 2010)—a substantial decline from the rate immediately after the crisis (49.9 per cent in 2007), but showing little change from the 40 per cent registered in the first poverty assessment for independent Timor-Leste in 2001. Other human development indicators paint a similarly bleak picture and in some cases, notably when focusing on nutrition, have even deteriorated in recent post-conflict years. Child growth stunting, a widely regarded composite proxy of lifetime income and productivity, was around 58 per cent in 2010 (National Statistics Institute 2010), one of the highest levels in the world. The Global Hunger Index, which measures national hunger as a per cent of the population, ranked Timor-Leste 75th lowest among 81 countries surveyed in 2011 (International Food Policy Research Institute (IFPRI) 2011).

Given such numbers, Timor-Leste finds itself at a crucial turning point and with the need to re-evaluate its approach to social assistance. In doing so, it needs to consider important questions—and potentially trade-offs—regarding the focus of social assistance spending in its second generation of independence. When, and how, will the country transition from a conflict-prevention mindset to an explicit poverty reduction focus? And how can it move towards a set of programs that can provide greater inclusion of the poorest groups? Although attribution is difficult, Timor-Leste’s social assistance spending has arguably contributed to facilitating the transition from conflict to recovery, evident by relative peace prevailing in the aftermath of the 2006 crisis. The key contribution of this article is to rigorously examine its record in reducing poverty, while recognising that with a few exceptions, its current suite of social assistance programs were not explicitly designed as poverty reduction tools. The following section provides an overview of the current public spending on social assistance in Timor-Leste, Section 3 presents the estimates of most recent record in averting poverty, the main drivers of poverty reduction3 are discussed in Section 4, finally in Section 5 we offer recommendations for a way forward.

2. What Makes Timor-Leste a Distinct Case Study of Social Assistance?

Public expenditures on social assistance have increased significantly since Timor-Leste embarked on this ambitious expansion of social assistance programs. Social assistance is accorded one of the highest fiscal priorities relative to other sectors, and in 2012 was accorded approximately 9 per cent of the national budget, more than that budgeted for

3. Conceptually the article uses an accounting framework that compares poverty with and without transfers, in other words additional poverty that would have been observed in the absence of the transfers.
health, education or any other sector except for infrastructure. Aided by its petroleum wealth, Timor-Leste was able to increase social assistance spending from US$ 109 million in 2008 to US$ 160 million in 2012. Although social assistance as a share of non-oil GDP has declined slightly from its 2010 peak of 17 per cent, it remains very high at around 15 per cent of non-oil GDP in 2012 (Democratic Republic of Timor-Leste, Ministry of Finance 2008a, 2008b, 2009a, 2009b, 2010a, 2010b, 2011a, 2011b, 2012; National Statistics Institute (Direcção Nacional de Estatística—DNE) Timor-Leste 2010, 2011a, 2011b). Figure 1 shows that this spending ranks Timor-Leste among the countries with the highest rates of social assistance spending in the East Asia and Pacific region. Comparing Timor-Leste’s rate internationally, it is found to surpass that of nations with similar population size, poverty headcount and level of resource wealth (World Bank 2013b). Timor-Leste’s spending on cash transfers in large part reflects the allocation for veteran benefits, but even excluding the veteran pension program, spending as a share of (non-oil) GDP equals more than five times the East Asia and Pacific regional average.

The focus of this article is on four key cash transfer programs: the pensions for veterans, elderly and people with disabilities and the conditional cash transfer program for poor families with children, which together consume a major share of the social assistance spending. In 2012, the single largest cash transfer program, veteran pensions, consumed half of the total social assistance budget (US $80 million), followed by elderly and disability pensions, which consumed 23 per cent (US $36 million) and trailed by 2 per cent spent on the Bolsa da Mãe conditional cash transfer program ($3 million). The remaining quarter of the total budget was spent on numerous programs that span multiple areas; including cash-for-work, humanitarian support for conflict displaced people and the food security fund ($40 million).

Because the focus of this review was on programs that are designed to be long term, targeted household or individual transfers, the authors elected not to include these other programs in the analysis. Also not included in the analysis are the substantial subsidies for goods and commodities such as electricity, water and rice, or a discussion of the impacts of high rates of public employment, low taxes and limited tax enforcement, and high minimum wages, which are arguably a form of (untargeted) social assistance.

3. Has Social Assistance Spending Reduced Poverty?

Widespread and severe poverty is a key concern in Timor-Leste and should be one of
the primary objectives of its social assistance system. This raises the important, yet previously unaddressed, question of how much the current social assistance programs shifted poverty headcount rates. The following analysis estimates poverty impact using data from the TLSPS, a nationally representative survey designed and implemented by the World Bank jointly with the Timor-Leste’s National Statistics Directorate in 2011. The TLSPS is merged with detailed household consumption data from the Household Income and Expenditure Survey (2011). This data is unique and identifies which households received social assistance as well as the received benefit levels. Poverty impact is estimated by calculating consumption distributions with and without the transfers, and comparing the difference with associated poverty rates. Because there is no current official poverty line, the poverty headcount rate in this analysis is based on a threshold that separates the poorest 40 per cent, which is close to the internationally used US$ 1.25 per day poverty line.

Estimates of poverty impact by program are reported in Figure 2, and show that the three main social assistance programs (Bolsa da Mãe, elderly and disability pensions) jointly reduced national poverty by 5.3 percentage points albeit with wide variation across programs. Most notably, the majority of this reduction is due to a single program, the elderly pensions, with negligible poverty reduction from the rest of the programs. The cash transfers to elderly are not means tested and cover everyone over the age of 60. Therefore, it is the largest program, affecting directly or indirectly almost 30 per cent of the population (see Figure 3). The size of the program should be taken into consideration when interpreting poverty reduction at the national level. The negligible national poverty impacts from the Bolsa da Mãe and disability pensions in large part follow from the fact that these programs cover few households relative to overall population (Figure 3). What these national poverty impact figures mask is whether these programs make a significant difference to those who receive the benefits. Figure 2 also presents poverty impacts for the sub-population of program beneficiaries.

Note: These calculations use a 40 per cent poverty threshold and show by how many percentage points poverty would increase were these programs to be discontinued.

Source: Authors’ calculations using Timor-Leste Social Protection Survey 2011 and HIES 2011.

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demonstrating that there is a sizeable impact from the elderly pensions and disability pensions, but not for Bolsa da Mãe, which is examined in greater detail below. While we do not provide precise estimates of poverty impact of veteran pensions due to data constraints, a case can be made that despite a disproportionately large budget, the veteran’s pensions are unlikely to have a sizeable impact on poverty on a national scale because the beneficiary group is small relative to total population. Although, the benefit level exceeds the poverty line multiple times—therefore ex post transfer anyone receiving the benefit is not poor—the program is targeted to approximately 1 per cent of the population with certified veteran status.

Timor-Leste’s 5.3 percentage point reduction in poverty attributed to social assistance compares well with that of social assistance spending in other countries in the region (e.g., 3 percentage points in the Philippines, 0.9 percentage points in Malaysia or 0.1 percentage points in Cambodia (World Bank 2013a). However, Timor-Leste extensively outspends these countries relative to national income and that poverty reduction was achieved at a disproportionately higher cost. In 2012, Timor-Leste spent an average of US$ 489 to bring a person above the US$ 384 per capita poverty line. To bring this into perspective, Timor-Leste’s poverty gap in 2012, using the 40 per cent poverty threshold, was US$ 43 million. In comparison, Timor-Leste’s 2012 budget for the main social transfer programs (including veteran pensions) was US$ 160 million. Arguably, this evidence sums up to relatively weak anti-poverty performance of the country’s main cash transfer programs when judged against the backdrop of public spending accorded to them.

4. Why is Poverty Impact Incommensurate with Public-Spending Levels?

Three main explanations can be drawn for lack of commensurate improvement in poverty from expansive public spending on cash transfer programs. First, although the veteran pensions consumed half of the total budget, it was targeted to 1 per cent of Timor-Leste’s population as of the 2011 survey year. These are high value benefits that are received by too few beneficiaries to allow for any sizeable national impact on poverty. In 2011, the official annual veteran benefit ranged from US$ 2,760 to US$ 9,000, and was on average around US$ 3,187 per beneficiary. In contrast, elderly pension beneficiaries received US$ 360 per year, and Bolsa da Mãe recipients received US$ 80 per year. In order to examine the size of these benefits relative to actual total household consumption, we constructed a measure of generosity of transfers as the ratio of benefit amounts to total household budget, which is presented for each program in Figure 4. While the Bolsa da Mãe benefits make up 3.5 per cent

6. Poverty gap is a useful theoretical construct that can be also interpreted as the minimum spending necessary to eradicate poverty under perfect targeting.
7. We provide an estimate of poverty avoided using an accounting framework and not an explicit economic model that internalises behavioural changes arising from transfer receipt. For example, household may have worked more in the absence of transfers thus moderating the potential for poverty reduction. Therefore, ceteris paribus, our estimates represent the upper bound of poverty reduction.
8. According to Ministry of Social Solidarity administrative data there were 10,911 veteran benefit recipients in 2011.
of the annualised average household budget of the poorest quintile—a relatively low generosity compared with other conditional cash transfer programs around the world (Grosh et al. 2008)—the veteran pensions are exceptionally high, representing 137 per cent of total household budget. It follows that the maximum poverty headcount impact, even if one were to assume all veterans were poor pre-transfer, will be small despite consuming the largest share of the budget. The pace of spending on veteran pensions surpasses all other programs and is expected to continue to increase as more benefit claims are received and because benefits are paid out to dependents without a clear sunset clause. At the same time, there are efforts to contain national spending, and going forward there is a danger of veteran pensions crowding out spending on other, more pro-poor cash transfer programs.

Second, a large proportion of the poor is not reached at all by the current categorical targeting mechanisms. Table 1 presents benefit incidence analysis as proportion of beneficiaries by program within each quintile of total household expenditure. Although the categorical targeting aimed at veterans, elderly, disabled and families with children overlaps with some of the poorest groups, the results clearly show that a high proportion of the poor are not covered by any of these programs. Table 1 shows that about 60 per cent of the poorest two quintiles are left outside current safety nets.9

The final explanation lies within the structure of the benefits. As the only program explicitly targeted at poor families with young children, Bolsa da Mãe has an important anti-poverty role to play. However, not only is the program too small in the sense of insufficient coverage, but also the benefit levels are also too low to bring household above the poverty line. Bolsa da Mãe is significantly less generous than other programs. Poverty impact analysis shows that Bolsa da Mãe not only has no effect on national poverty rates, which could be due to small coverage, but also has a negligible impact on the poverty rate of its beneficiaries, clearly indicating that benefit levels are too low to bring the household above the poverty line (see Figure 2).

9. Coverage defined to include any member of household living with a beneficiary. Therefore implies both direct and indirect beneficiaries. Direct beneficiaries are the recipients of the transfers, indirect beneficiaries include other members of a household in which at least one member received the transfer.
5. Recommendations

As the government and international donors confront the possibility of a shrinking budget, critically low levels of human capital and high rates of poverty in Timor-Leste, important choices will need to be made about the structure of social assistance in Timor-Leste and the government will need to prioritise among different national objectives.

First, to both deter further conflict and truly invest in poverty relief, Timor-Leste must address the large exclusion of the poorest from its social assistance programs. Doing so requires a hard look into the current mix of social assistance programs to identify gaps, reform or consolidate existing programs, and effectively prioritise between competing social assistance policy agendas. A rethink of social assistance could be done as part of the development of an overarching national social assistance policy framework, with appropriate and well-defined targets, which would help the government to move towards a more effective social assistance system. Such a policy framework would represent a national vision and provide guiding principles on how to address specific vulnerabilities, and respond to shocks and extreme poverty.

Second, to improve administrative efficiency and decrease duplication, Timor-Leste should create at least one integrated anti-poverty program that ensures a minimum safety net to the poorest households. Current social assistance programs were designed to respond to urgent needs—including stability and conflict prevention—and sought to reduce poverty without sufficient information on the characteristics associated with poverty at the household level, with resultant inefficiencies in targeting. However, in Bolsa da Mãe, the government has a logical candidate for an integrated anti-poverty program. It is important to note that among other things, redesign of Bolsa da Mãe requires development of targeting tools such as a cost-effective assessment of household poverty and design of an appropriate household-level structure of benefits. Once this is proven to function cost-effectively with admissible degree of inclusion and exclusion errors, a scale up of Bolsa da Mãe will require a budgetary commitment to cover a significant proportion of the poor. A major advantage of building on the Bolsa da Mãe program is that it is also the only program aimed at breaking the intergenerational poverty cycle by aiming to build human capital through promotion of school attendance. If designed appropriately, the same subsystems currently used by the program can be harnessed to expand its role to promote better health, nutrition and skills development.

Finally, to ensure fiscal sustainability in the long term, prevent crowding out of other social assistance spending and release funds for other development priorities, Timor-Leste could introduce cost-control measures for its veteran pension program. This is by no means an easy

|                      | Poorest quintile | Second quintile | Third quintile | Fourth quintile | Highest quintile |
|----------------------|-----------------|----------------|---------------|----------------|-----------------|
| Bolsa da Mãe         | 3.2             | 3.2            | 3.1           | 0.8            | 0.9             |
| Elderly pension      | 39.3            | 33.5           | 26.4          | 25.0           | 21.0            |
| Disability pension   | 3.6             | 3.1            | 0.9           | 2.2            | 1.7             |
| Veteran pension      | 2.3             | 1.0            | 2.2           | 1.5            | 1.9             |
| All social assistance (excluding veteran pensions) | 43.9 | 38.8 | 30.3 | 29.1 | 23.0 |

Note: The quintiles are based on the total per capita expenditure (or total household expenditure) estimated from the most recent HIES (2011). Total expenditure was constructed by aggregating household reported food expenditures, self-produced food valued at market prices, non-food items, services and housing expenses, but excluding durable goods. It is adjusted for differences in regional prices and seasonality effects and inclusive of transfers.

Source: Authors’ calculations using Timor-Leste Social Protection Survey 2011.
sell; decisions regarding veteran pensions (including beneficiary selection and benefit levels) are politically charged, and the benefits are designed to respond to incentives other than poverty reduction, including deferred compensation for efforts during the independence struggle and provision of a peace dividend. Adjustments to the veteran pension—particularly adjustments that result in a reduced or capped benefit—will require strong political will and public consultations. These hard discussions are necessary and time sensitive, although, as the current levels of government spending on transfers to veterans raise questions about long-term fiscal sustainability. The budget for these benefits increased from US$ 15 million to US$ 80 million in a span of 4 years, resulting in a planned annual expenditure of 10 per cent of non-oil GDP in 2012 and is expected to increase further. Cumulatively to date, over US$ 185 million has been disbursed in direct cash transfers to veterans. The fiscal burden is growing rapidly from extremely high levels of per capita benefit payments as well as a very large outstanding list of applications. Currently, 11,000 veterans are receiving benefits, and in a country of 1 million people, there are approximately 100,000 outstanding applications. Even if a fraction of this pool is accepted, it would result in a large additional fiscal burden as budget would have to be allocated to cover backdated payments. The scheme requires a review and a fiscal sustainability analysis to guide its design. As a general rule, any entitlement program is resistant to sudden cut-backs, but changes are needed soon so they can be incremental and politically acceptable. At the very minimum, the program requires reviewing the approach to survivors’ benefits, and in future, any ad hoc increases in benefit levels should be avoided by legislatively fixing the benefit levels for an extended period of time.

The rapid introduction and expansion of first generation social assistance programs has arguably contributed to a transition from conflict to recovery. With the right strategy and reform, second generation social assistance programs will be able to contribute to the reduction of remaining high poverty rates and poor human development indicators.

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