

POLICY BRIEF

Managing the COVID-19 Outbreak in Timor-Leste



Timor-Leste contained the spread of COVID-19 through quick and decisive action, and it has adopted a plan for recovery from the socioeconomic impacts of the pandemic. Photo credit: Asian Development Bank.

The pandemic is an opportunity for the country to push for longer-term structural reforms.

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Introduction

Timor-Leste acted rapidly on the coronavirus disease (COVID-19) pandemic with a two-pronged approach. First, it put in place a system of health controls to keep the disease at bay, and second, it made good use of the fiscal space provided by its sovereign petroleum fund to mitigate the socioeconomic impacts of the crisis. The government then took the opportunity to look beyond short-term emergency measures and charted out an ambitious economic recovery plan with the aim of carrying out in-depth, structural reforms.

Timor-Leste's effective management of the crisis has paved the way to move forward to implement longer-term measures.

This policy brief is based on background analysis done for the Government of Timor-Leste's *Economic Recovery Plan*,

which aims to tackle the economic downturn caused by COVID-19.

Context

The first case of COVID-19 in Timor-Leste was confirmed on 21 March 2020. Seven months on, the country continues to report zero fatality, a total of 30 cases imported from overseas, and no community transmission.

The economic impact of the pandemic was mitigated by the fiscal buffer offered by the Petroleum Fund and to some extent by Timor-Leste's low level of integration into the international economy.

Public expenditure is the main driver of growth in the country. However, a political impasse since 2019 led to the rejection of the state budget in January 2020 and the subsequent formation of a new coalition government in June. The 2020 budget was finally approved by parliament in October after severely constrained spending during the first three quarters of the year.^[1]

The forecast for non-oil gross domestic product (GDP) ranges from -6% to -6.8% for 2020 compared with pre-COVID-19 forecasts of 5.4% and 4.9%.^[2] The level of public expenditure, even accounting for the COVID-19-related emergency spending, went down by 7% in the first half of the year. Goods imports at the end of the second quarter had declined by almost 15% (year-on-year), while goods exports dropped by 50%. Exports of coffee—the main exported commodity and a source of income for around 20% of households—fell by 90%. Service exports went down by 50%, mainly due to the decrease in travel services.

The country has relatively low levels of labor force participation, with 66% of households involved in agriculture and more than half of them, subsistence farming producers.^[3] The low use of purchased inputs for subsistence farming may have provided partial insulation, but the disruption in transport and marketing of local produce due to the state of emergency measures had crippling impact on the population, which included persons in the informal sector, such as street vendors and transport drivers. In 2018, only about 10% of the working age population (53,000 workers) were formally employed in the private sector. With low formal employment, interventions through social protection schemes for workers are limited. It is estimated that about 33% of formal private sector employment is in sectors and occupations disrupted by the pandemic.

Policy Response and Recommendations

Despite limited capacity and resources, restricting connectivity allowed Timor-Leste time to respond to the pandemic and increase the preparedness of its health services. The government quickly established two main mechanisms to coordinate the overall response. First, a COVID-19 emergency fund was set up, presided over by a ministerial committee, supported by a technical secretariat. The fund was capitalized with \$219.5 million transferred from the Petroleum Fund and served as a clearing house for all COVID-19-related expenditures. It allowed the government to approve a health response and an economic stimulus package equivalent to 10.8% of GDP, despite the expenditure constraints brought by the rejection of the state budget. Second, the Integrated Crisis Management Center supported by the World Health Organization was established to lead the health response.

In April 2020, the government announced wide-ranging policy responses. These may be grouped under four pillars or areas of support: (i) strengthening health services; (ii) promoting food security and social protection; (iii) boosting employment and output; and (iv) providing fiscal and financial stimulus to support macroeconomic policies. Timor-Leste's response to COVID-19 was effective but also brought to the fore deeper weaknesses in the system that need to be addressed. We summarize the actions taken under each of these pillars and suggest recommendations for the short and longer-term to help the country get back on the path to inclusive growth.

Pillar 1: Strengthening health services

The government prioritized strengthening health communications and capacity for testing, quarantine, and treatment, for which it received significant donor support. Information campaigns were conducted through television, radio, and billboards in the municipalities. For 2 months, all public transport and scheduled passenger flights were suspended and the land border with Indonesia was closed. Schools, universities, and the Catholic Church—a dominant institution in the country—were shut. Businesses and markets could remain open with adherence to government guidance on hygiene and social distancing, but several shut down due to their inability to meet health requirements. All restrictions within the territory were progressively lifted between May and June and subsequently only strict controls on entries and compulsory quarantine on arrival remained.

Going forward. The risk of community transmission remains high. Congested housing and limited sanitation will also make disease prevention more difficult. A high level of vigilance is required when borders reopen. Illegal crossing at the land borders are also a significant hazard. Continued health surveillance is essential. Shortages of basic medicine—even at the National Hospital—have been reported in the local media, and it is essential to ensure availability and continuity in the distribution and supply of medicines and clinical equipment, through price subsidies if necessary. Limited access to improved sanitation services, estimated at 48.7% in rural areas, impedes the practice of proper hygiene. [4]

Pillar 2: Promoting food security and social protection

Fighting malnutrition is one of the most pressing challenges for Timor-Leste, which shows some of the

highest rates of stunting and wasting in the world.^[5] State-of-emergency measures impacted the production and circulation of food leading to the rise in food insecurity. The measures on social distancing and hygiene forced many companies and self-employed individuals to interrupt activities, causing income losses.

The government's response centered on in-kind and cash transfers and extending the coverage of social protection schemes.

In the absence of a national registry of households or unique identification, the implementation was challenging. There is no national database. To identify eligible households, the government opted to use village-level registers, cross-checking names against the most recent agricultural census. This postponed implementation by almost 2 months. Additional in-kind transfers included electricity credits to businesses and households, and free internet data to secondary school students for online study.

The government also implemented programs to support salaried employees during the state of emergency. Social security contributions were temporarily lifted. Workers whose employment was reduced or suspended due to the pandemic were entitled to payment of 60% of their ordinary remuneration through the COVID-19 Fund. Late registration for companies to the social security scheme was permitted and this led to a surge in registrations.

Going forward. Logistical issues related to the state of emergency showed the fragility of the food situation and the lack of food autonomy. The temporary disruptions in public transport led to high food insecurity. In March, the government announced its intention to distribute food to households with immediate shortages, but this could not be implemented and was ultimately replaced by the cash transfer scheme. The Ministry of Agriculture has a food security monitoring system in place in all 422 sucos or villages, but it needs to be strengthened. Lessons on potential issues with food distribution in the country include cash flows within the supply chain and transport bottlenecks. Although the government guaranteed emergency stocks and purchased rice from overseas during the lockdown, it is imperative to look at the issue of low productivity and production levels in agriculture.

Pillar 3: Boosting employment and output.

Timor-Leste's tourism sector is small, yet travel service exports were equivalent to 4.7% of non-oil GDP in 2019. Timorese working abroad were affected by job losses and the flow of remittances from overseas, which amounted to \$95 million in 2019, will see a fall in 2020. The departure of expatriates led to significant loss of demand for some businesses, and the travel ban will likely have a lasting effect on numerous businesses.

To contain the impact of the crisis on private consumption and the loss of income related to the economic slowdown, a wage support program for registered businesses was initiated, and employers' contribution to social security pensions was waived. The government took steps to maintain access to credit by amending the national credit guarantee scheme, extending it to micro-businesses that employ fewer than six workers and microfinance institutions in addition to commercial banks, thereby including self-employed farmers, who represent 64% of employment.^[6] A moratorium on loan obligations was also

approved by law.

Going forward. It is essential to address the limitations and gaps in the existing social protection system. The current system leaves out large groups of the population, including some of the most vulnerable. Access to these groups is complex as shown by the delays in implementing cash transfers due to the high number of informal workers with low levels of financial inclusion. A small-scale survey conducted by the Asia Foundation found that only 63% of surveyed individuals had received the cash transfer by late July. There were also challenges relating to the distribution of payments because of the limited development of electronic payment systems and the low financial inclusiveness. Timor-Leste still has limited use of mobile and electronic payments and does not have well-established networks of banking agents that could have facilitated payments in rural areas. Improving digital coverage will help address the issue.

Pillar 4: Providing fiscal and financial stimulus to support macroeconomic policies

Timor-Leste's large fiscal buffer offers protection from short-term impacts, and the government was able to draw on its large sovereign wealth fund to support households and businesses. Success depended on political cohesion and the capacity to execute an effective expenditure program; the government stepped up and took decisive actions to adapt to the new global context. The new coalition stabilized the political situation and passed the budget.

Going forward. The implementing and absorptive capacity of the public sector is low. Although the creation of the COVID-19 Fund facilitated the funding of the emergency response, the execution was only 56% between its creation in April till end-September. The budget execution of some sub-programs has been slow, such as support to agricultural production and productivity for which only 30% of the allocation has been used. Acceleration of the budgeted public expenditure in the initial months of the crisis through payment of salaries and wages and procurement procedures would have helped further mitigate the impact of the crisis.

Beyond COVID-19

Timor-Leste developed a satisfactory set of actions to meet the challenges. However, it is equally important to build follow-on measures beyond the short-term emergency response. While the Petroleum Fund savings provided a large fiscal buffer to manage immediate socioeconomic impacts, the COVID-19 pandemic is forecast to have long-lasting economic impacts. The country, thus, needs to reflect on the relevance of policies in the post-COVID-19 context. On the health front, the government needs a clear strategy to minimize the risk of a second wave of infections when borders open fully.

COVID-19 has raised some fundamental questions about Timor-Leste's development strategy. It seems likely that the pandemic will result in a sustained period of low energy prices and reduced investment in the sector. In this new context, the country's vision of developing Tasi Mane—the integrated oil and gas cluster on the south coast around the Greater Sunrise reserve located between Timor-Leste and Australia—now seems much less feasible. The government has already invested \$650 million (around 40% of non-oil GDP) to acquire a 56.6% stake in the Greater Sunrise Joint Venture. It now needs to take

into account that there may be fewer credible investors who are ready to join the project. The exploration licensing round, which began in the fourth quarter of 2019 and was due to close in 2020, is now extended to 2021.

With the depletion of current oil reserves by 2022, it is vital to build the capacity of the government to invest in other productive sectors to ensure fiscal sustainability. Increasing private investments in productive activities that are not directly related to public demand will be key to meet Timor-Leste's objective of economic diversification. This requires further improving business efficiency and addressing skills shortages. Investments are needed to improve the coverage and quality of education, which will increase factor productivity and accelerate economic growth

Four recommendations are emphasized for Timor-Leste beyond COVID-19:

- Focus on non-oil economic growth.
- Update the social protection strategy to develop a more efficient and inclusive system that leverages technology to enable frequent and well-targeted payments.
- Develop a “smart stimulus” program to use budget resources to drive economic diversification and development of the private sector.
- Review and update the tourism policy and strategy to ensure that Timor-Leste is positioned to develop a sustainable tourism sector.

The *Economic Recovery Plan* charts out immediate and medium-term strategies to combat COVID-19. The objectives are two-fold: (i) to contain the crisis and sustain the economy and (ii) to lay the foundations for Timor-Leste's economy to become more resilient to future shocks while changing the course of development to improve the economic well-being of the people. Crisis mitigation is the short-term focus for the remaining part of 2020—to maintain jobs that existed before the crisis and recover lost family income, through direct support to citizens to protect consumption levels. In the medium term (2021–2022), the plan emphasizes recovery and transformation to respond to the pandemic and focus on structural issues, such as “new, productive, and dignified jobs”; consolidation of social programs, and public investment in education, health, housing, social protection; and changes in the production structures and factors that contribute to economic growth.

The plan notes that agriculture, tourism, and manufacturing have received much less attention than large infrastructure projects over the past decade and spending in the key areas of health and education have declined. GDP has broadly stagnated and growth has not been inclusive. The plan incorporates a set of medium-term measures which, if well implemented, will start to address many of the existing challenges highlighted by the crisis. The ambitious list of measures relates to the need to extend coverage of social protection systems, invest in agriculture to increase productivity and develop local markets to reinforce food security, incentivize formalization of the labor market, and lead the tourism industry to transform and find its own niche.

This policy brief was prepared by Kavita Iyengar and Claire Potdevin.

[1] In the absence of a budget, the government operated under the duodecimal budget regime

in which it makes monthly appropriations of one-twelfth of the budget from the previous year.

[2] The GDP forecast for 2020 by the Central Bank of Timor-Leste is -6%, while forecasts from the [World Bank](#) and [International Monetary Fund](#) is -6.8% and the [Asian Development Bank](#), -6.3%.

[3] According to the 2019 Agriculture Census, approximately 70% of the population in the country is rural and about 66% of households are involved in agriculture. Two-thirds of these households were farming a land measuring less than 1 hectare, representing only 8% of total agricultural area of the country. (Sources: General Directorate of Statistics (GDS) and Ministry of Agriculture and Fisheries (MAF), 2020 and *Timor-Leste Agricultural Census 2019*.) In 2016, 53.3% of people involved in agricultural activities were subsistence foodstuff producers. (Source: GDS and International Labour Organization. 2019. *Labour Force Survey 2016*. Dili and Geneva.)

[4] Government of Timor-Leste and World Bank. 2016. *Poverty in Timor-Leste 2014*. Dili and Washington D.C.

[5] World Health Organization. 2020. *Global Nutrition Report*. Geneva.

[6] Government of Timor-Leste, International Labour Organisation, and United Nations Population Fund. *Timor-Leste Population and Housing Census 2015: Analytical Report on Labour Force*. Dili, Geneva and New York.

Resources

ADB COVID-19 Policy Database. [Timor-Leste](#).



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