

Core Group Transparency Timor-Leste

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Statement to Media

New Mid-Year Budget is First Step to Resource Curse

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On 18 June 2008, the Timor-Leste Council of Ministers passed the amendment to the State Budget for 2008, and sent it to Parliament for approval. The Core Group on Transparency, a network of local NGOs monitoring aspects of government activities, is concerned about several issues related to this Mid-Year Budget Update and advocates for a significant improvement of the process. To that effect, the Core Group has asked Commission C and members of Parliament to allow the Core Group present a civil society statement to Parliament, but they have declined.

We would like to state that the National Parliament are representatives of the people, elected by the people and entrusted with the responsibility to protect the interests of the people. We urge them to listen seriously to what citizens of Timor-Leste have to say. We ask the media to accurately disseminate this information and continue their own investigations of the budget process. And we urge the public to discuss this information and press their elected representatives for improvements.

We like to stress several points related to the Mid-Year Budget Update and public participation in the process.

Comments on this Mid-Year Budget Update

The 2008 State budget approved last December was \$347.8 million, to be funded by withdrawing \$294 million from the Petroleum Fund and the rest from domestic revenues and existing cash reserves. At that time the amount to be withdrawn from the Petroleum Fund was the maximum allowed according to Petroleum Fund Act and the Estimated Sustainable Income (ESI) calculations. Our Prime Minister stated at that time that “the Government will not be withdrawing from the Petroleum Fund any amount that exceeds the Estimated Sustainable Income for the next fiscal year.”

The Mid-Year Budget Update proposes a “rectification” to increase the 2008 budget to \$773.3 million, of which \$686.8 million will come from the Petroleum Fund. This increases the budget by 122%, more than double the original. The ESI has been re-calculated and is now \$396.1 million (35% more than in December). This is not enough to finance the increase in expenditures, so the budget proposes to take an additional \$290.7 million from the Petroleum Fund.

We request the Parliament to consider carefully the following points and request clarification and improvement from the Government:

1. A Mid-Year Budget Update (MYBU) should be used to fine-tune the original budget and make minor adjustments, not to alter it completely. For an update with so many changes and additions, the timeline for a proper discussion within Parliament is too short. Therefore, we urge the Parliament to extend its discussion and decision-making timeline.
2. Much of the increase in the MYBU is related to new subsidies and increases in salaries and incorporates hasty policy decisions such as the \$240 million Economic Stabilization Fund and disbursements for a heavy oil power plant and electricity distribution system (\$390 million over four years). Both have been developed without any public consultation, and both do not contain

proper tender mechanisms. Especially for large projects and funds, there needs to be careful study of social, economic, cultural and environmental impacts.

3. The Economic Stabilization Fund has been allocated a lot of money—nearly as much as the original budget for 2008—but Parliament has not been told what it will do or how it will be managed. A so far undisclosed decree law has been passed to establish this Fund rather than a more consultative parliamentary law. Although we understand the Government wants to reduce prices of imported goods, the Fund will make the State pay for imports. This creates irrevocable commitments for the current and future governments. A large amount of money available for imports will drive prices up, exactly the opposite of what everybody wants. It also does not benefit the majority of people who live outside the cash economy.
4. During the first quarter of 2008, the Government spent only \$32.4 million, executing less than 10% of the budget for the year, and by mid-June they had spent around \$80.2 million. This means that of the original \$348 million budget \$267 million is still not spent. With the proposed “rectification” the Government would need to spend \$693 million. We think it is highly unrealistic that the Government can spend this in the next six months, as it would mean spending eight times as fast as they have done so far. Moving money into newly developed funds is not the same as spending it.
5. The Petroleum Fund was established to safeguard against the resource curse that afflicts nearly all developing countries that dependent on oil and gas revenues. The Estimated Sustainable Income was established as the maximum amount that could be prudently spent. We have a windfall in oil revenues which makes it look like we are rich. However, spending more than the ESI is a big and dangerous step towards the resource curse. If oil prices fall or when our oil is used up, Timor-Leste will have to borrow money.
6. In addition to the proposed \$773.3 million proposed by the MYBU for 2008, it includes commitments for multi-annual projects worth at least \$547 million (including electricity grid, patrol boats, and irrigation systems). If this rectification passes, all these projects are approved. This is a dangerous practice as most of them have not gone through a process of consultation looking at impact on the social, cultural, and economic life of our people and the environment of our country. Huge multi-year projects should not be approved this way.

Comments on the Budget process

1. Our Constitution (i.e. Art. 40, 46, 48, 63, among others) guarantees the right of our citizens, as individuals or in association in the form of civil society organizations, to make and express judgments on the country’s budget. This requires that budget documents be widely available. This is especially the case for the budget proposal, which should be available to citizens, and discussed in public consultations before it is adopted by the legislature. It will benefit, not hinder, the process when civil society is consulted for the budgetary process at Ministerial level prior to going to the Council of Ministers. We implore the Parliament to reiterate and propose to the Government procedures enhancing this process.
2. Timor-Leste has a budget process that is increasingly inefficient, undemocratic, hasty, short-sighted and secretive. Various issues contribute to this:
 - a. There is no annual pre-budget statement informing, and preparing, people and legislators of the State Budget’s general state of affairs such as total expenditures, total revenues expected and debt to be incurred during the upcoming budget year.
 - b. A state budget should be a reflection of the Program of the Government for that year, and for the future. It should implement medium and long-term policies set by the National Development Plan, the State of the Nation reports, as well as other important documents. There should be policy and programs first, with budgets to carry them out.
 - c. In almost every financial year, the new proposed budget is rushed in the last couple of weeks and Parliament is left with very little time to consider the budget. Consequently,

there is limited communication and consultation with the knowledgeable people. This creates the danger of setting unachievable goals in the budget.

- d. Budget execution reporting is late (Quarter1 report on the period January to March was only available on the internet by 23 June) and largely inaccessible as the Ministry of Finance has no means for effective dissemination of public information. Many times, budget execution reports have shown that expenditure is very low, which reiterates our comments earlier.
- e. The mid-year review should contain a comprehensive update on the implementation of the budget, including a review of the economic assumptions underlying the budget and an updated forecast of the budget outcome for the current budget year. Documentation should be widely available.
- f. There is no centralized place from which to access public documents in a timely fashion. Civil society and media have great difficulty to access budget documents: no help has been forthcoming from the State Secretariat of the Council of Ministers or the Ministry of Finance.

This press statement has been prepared by the members of the Core Group on Transparency. Electronic copies of this statement in Tetum and English can be obtained from the Secretariat, redetransparensia@gmail.com, or from www.laohamutuk.org/econ/MYBU08/RDTLMYBU08.htm.

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