

La'ó Hamutuk

Timor-Leste Institute for Development Monitoring and Analysis

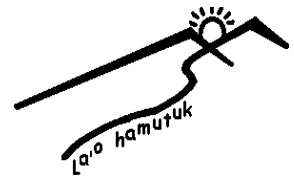
Rua dos Martires da Patria, Bebora, Dili, Timor-Leste

Tel: +670 332 1040

Mobile: +670 7723 4330

Email: info@laohamutuk.org

Website: www.laohamutuk.org



To: Committee C and other Members of the National Parliament of RDTL

From: La'ó Hamutuk

Re: Proposed RDTL General State Budget for 2014

Date: 8 November 2013

Dear Distinguished Members of Parliament:

As a Timor-Leste Civil Society Organization, La'ó Hamutuk believes that the National Parliament has a crucial role in Timor-Leste's democracy. We want to help you fulfill your responsibilities as a sovereign organ under articles 92, 95 and 145 of the RDTL Constitution to develop objective information and analysis of draft legislation which is independent of the Government's proposal and motivations.

Parliament has conducted seven state budget processes since 2009, and Committee C has asked for La'ó Hamutuk's input every time. We have been honored to provide submissions or presentations to Parliamentary Committees or workshops twelve times, as well to Parliamentary reviews of the audited General State Accounts for 2010 and 2011. We would like to offer some observations and suggestions on the proposed General State Budget for 2014 and the reports on the 2012 General State Accounts.¹

We are disappointed that only Committee B invited civil society to a hearing on the 2014 budget (GSB2014). When the 2013 budget proposal was discussed last January, at least three committees held hearings with civil society. We believe that Committee C found La'ó Hamutuk's testimony helpful, as 12 of the 16 recommendations in their report reflected concerns we had raised.

We hope that the reduced attention to independent views in Parliament's consideration of GSB 2014 is not part of a trend to reduce transparency and participation in budget discussions, but we are worried by recent developments:

- Moving the plenary debate on GSB2013 to a closed-door ad-hoc committee.
- The agreement between the party leaders and the Secretary of State for Parliamentary Affairs to violate the date for submitting the budget.²
- Not informing civil society organizations about the seminar on 24 October, a change from previous Parliamentary seminars where La'ó Hamutuk was often invited to observe or present.

¹ We saw in the media that other Civil Society Organizations criticized Parliament's budget, especially overseas travel. La'ó Hamutuk did not join in their comments, and our focus here is on the 99% of the proposed State Budget allocated to entities other than the National Parliament.

² Article 30 of Law No. 13/2009 of 21 October on Budget and Financial Management does not authorize Parliamentary and Government leaders to arbitrarily extend the 15 October deadline in a normal year. The only legal way to do so would have been to enact another law, as was done with Law No. 9/2010.

It's ironic that the Ministry of Finance is moving toward more budget transparency at the same time that Parliament appears to be going in the opposite direction. We appreciate that the Ministry published the Budget Books on their website on the same day they sent them to Parliament, and that their "Yellow Road" workshop was open to the public.

If Committee C or another committee had invited La'o Hamutuk to testify, these are some of the issues we would have discussed:

- **Bayu-Undan production will be significantly lower than previously expected.** According to Book 1 of GSB 2014, it will be empty by 2020. In 2011, 81% of our GDP was from oil and gas, which will provide 93% of state revenues in 2014. We have only six years to develop our non-oil economy and markedly increase domestic revenues, which is an urgent national challenge.³
- **We welcome the smaller fiscal envelope for GSB 2014,** \$1.5 billion compared with \$1.65 billion for 2013. We also appreciate that execution of the 2013 budget will be less than 100%, and the total amount spent during 2013 will be under \$1.2 billion. Therefore, if the 2014 budget is fully executed, it will represent a 25% increase over 2013.

Most of the reduction in the 2014 budget and the low execution during 2013 is for capital expenditure. If we look only at recurrent expenditure (salaries & wages, goods & services, and transfers), the 2014 budget represents a 12% increase over what was budgeted for 2013, more than 22% above likely executed recurrent spending during 2013.

At the end of 2012, the Government granted \$5 million in bonuses to public servants⁴ and reallocated \$7 million which had been appropriated for social security to benefits for veterans.⁵ As we cannot anticipate whether similar things will happen in 2013, it is difficult to predict execution of recurrent spending.

- **Better planning for infrastructure projects is needed.** Except for the Ministry of Finance building, the new Comoro bridges (which were not in the 2013 budget) and continuing the national electricity project, very little has been done on large infrastructure projects during 2013. To date, 2013 Infrastructure Fund execution for all other projects is less than 15%.

We welcome the removal of funding for the South Coast Highway in OJE 2014, and hope that the tenders in process will be cancelled and the project will be permanently stopped, as it is still in the Annual Action Plans of TimorGAP and the Ministry of Public Works for 2014.⁶ We also welcome the reduction of multi-year appropriations for the Suai Supply Base from the \$771 million approved by Parliament in GSB 2013 (which was reduced in the final Ministry of Finance version of GSB 2013 Budget Book 6 to \$684 million), to \$374 million in the proposed GSB 2014. However, we continue to encourage Parliament to examine all

³ La'o Hamutuk has developed a model to analyze the fiscal sustainability of Timor-Leste's oil and gas revenues and Petroleum Fund, which can be accessed at <http://www.laohamutuk.org/econ/model/13PFSustainability.htm>. This paper was written before we knew of the oil revenue projection in GSB 2014, which worsens our "optimistic case" estimate of when the Petroleum Fund will be used up from 2029 to 2026.

⁴ This expenditure from the Contingency Fund was justified by Decree-Law 46/2012 of 12 December, which is not in the internet version of the *Jornal da República*, although it was published in Série I, no. 44 of 2012.

⁵ This information comes from the Treasurer's Declarações Financeiras Consolidadas Anuais, Fundo Consolidado de Timor-Leste, Ano Fiscal de 2012.

⁶ Budget Book 2, pages 317 and 372.

economic viability studies which have been done for Tasi Mane project components, and to verify their reliability, as cost estimates fluctuate wildly.

The National Procurement Commission just announced its intent to award a \$68 million contract for Suai airport, which is a questionable project and should be re-examined; the proposed budget allocates \$20 million for it in 2014 and another \$45 million in 2015-2017. We also doubt that it is wise to continue to spend money for studies related to the Beaçu LNG plant and Betano refinery when no progress has been made toward ensuring the possibility or viability of these projects.

The GSB 2014 proposes to increase appropriations for two other questionable megaprojects. Dili airport expansion has jumped in total cost from \$78 million in GSB2013 to more than \$350 million, while Tibar Port has grown from \$124 to \$148 million (with more to be invested by a private partner, possibly guaranteed with Timor-Leste's funds). These projects are based on unrealistic projections of traffic and benefits, and we hope that Parliament will examine them closely. In particular, the projection of Tibar Port traffic expects Timor-Leste to have a trade deficit in 2040 of more than \$5 billion per year; how will we pay for these imports when we have no more oil income?

Similarly, we encourage Parliamentarians from all political parties to look into the economic feasibility of the proposed Special Economic and Social Market Zone in Oecusse, whose planning is already absorbing significant public resources. What are the costs and benefits of this project to the nation and to local communities? What competitive advantages does it have in which markets? How will it repay investment by Timor-Leste and others, and what happens if it is unable to?

- **As we have in past years, La'o Hamutuk continues to encourage Timor-Leste not to take out foreign loans.** We are glad that less money will be borrowed in 2013-2015 than was previously planned, but are concerned that planned debt is now higher for 2016 and 2017. We are also worried about Article 6 in the proposed Budget Law; does this authorize the Government to sign Public-Private Partnership Agreements which put half-a-billion dollars of Timor-Leste's funds at risk if a project fails to meet expectations?
- **The 2014 budget should not withdraw more than the Estimated Sustainable Income from the Petroleum Fund.** Last year, Parliament wisely amended the Government's budget proposal, and GSB 2013 will only withdraw ESI, while spending down the cash balance in the treasury. At the end of September 2013, the cash balance was only \$37 million less than it was in September 2012, and only \$180 million of the \$787 million authorized from the Petroleum Fund in 2013 had been transferred. Although the ESI for 2014 is smaller than previously expected, it is more than enough, together with domestic revenues, to finance execution of the 2014 State budget, as follows (millions of USD):

\$494	cash balance at the end of September 2013
+ \$607	to be transferred from the Petroleum Fund in fourth quarter of 2013
- <u>\$350</u>	high estimate of expenditures (net after domestic revenues) during 4 qtr 2013
\$751	expected cash balance at end of 2013
+ \$632	ESI from Petroleum Fund during 2014
+ \$166	domestic revenues during 2014
+ <u>\$ 51</u>	loans received during 2014
\$1,600	Expenditures during 2014 will be less than the appropriated \$1,500.

- **We support the plan to spend more on health and education** and hope that it represents greater attention to these essential areas for the nation’s future. Even with these increases, Timor-Leste still spends less than 2/3 as much on human infrastructure as other well-run developing countries.
- **We are disappointed that appropriations for Agriculture have been reduced.** This sector, representing three-fourths of Timorese people, should get far more than 2.3% of the budget.
- **We must invest in Timor-Leste’s future.** Budget Book 1 and the Ministry of Finance’s presentation to the 24 October Parliamentary conference redefine “investment” to mean virtually all spending which claims to help people, including generator fuel, veterans’ benefits, disaster relief, sports, and donations to other countries. If we don’t understand that “investment” means spending which generates a future social and financial return greater than its cost, how can we escape petroleum dependency?
- **We need to truly understand Timor-Leste’s economy.** Section 2.3.2.2 of Budget Book 1 is a confusing discussion of non-oil GDP which obscures the fundamental fact that the part which is not driven by state spending – agriculture, manufacturing, and private-sector trade – is stagnant or shrinking. If we cannot reverse this trend long before oil revenues run out in six years, Timor-Leste’s future is indeed bleak, and most of our people will be unable to provide for daily necessities. Growth in state spending is responsible for all of the recent “double-digit growth” in non-oil GDP; as it slows, so will the economy.

GDP counts dollars, not people, and therefore measures the well-being of the most affluent people in every society. We urge Parliament to seek information about how many people in Timor-Leste live in poverty, as there is no official data less than six years old.⁷ The poverty line was \$0.88/person/day in 2007, but inflation has increased it to about \$1.31/person/day in 2013. Much more than half of our rural population gets by on less than that, and the number is increasing daily.

Recently published trade statistics show a huge trade deficit in 2012: we imported \$670 million worth of merchandise, while non-oil exports were only \$32 million – coffee and scrap metal. After subtracting the one-time imports of the Hera and Betano power plants, imports nearly doubled from \$250 million in 2011 to \$441 million in 2012.

If we do not change direction, we will end up where we are headed.

- **Please look deeper into electricity.** We are concerned that merging EDTL into the Ministry of Public Works will make it more difficult to understand its financial picture, including its continuing losses and subsidies for the richest people in Timor-Leste, who use far more electricity than everyone else. Timor-Leste has just spent \$2.2 million to buy 50,000 electricity meters, but revenues are only expected to increase slightly, while fuel expenditures continue to rise. The formerly forgotten fuel jetty at Hera will cost an additional \$24 million. Can Parliament commission a report on the investment, operating

⁷ The often-cited World Bank figure that 41% of our people lived below the poverty line in 2009 (including in paragraph 2.3.2.5 of GSB 2014 Book 1) is a statistical manipulation which was never correct, and poverty estimates were taken out of the recently published 2011 Household Income and Expenditure Survey for technical, data quality and/or political reasons. Current plans may not provide new poverty data until after the 2017 elections.

costs, benefits and future return of the national electricity system, with recommendations for reducing its drain on public resources?

- **Reinforce the rule of law.** As Parliament is the most important law-making body in Timor-Leste, we encourage you to help ensure that laws are obeyed. In addition to submitting the budget after the 15 October deadline, other recent legal violations are cause for concern:
 1. Most ministries failed to implement the duodecimal regime in Article 31 of Law No. 13/2009 on Budget and Financial Management, crippling state operations during the first few months of 2013. Fear of repetition has put undue pressure on Parliament to enact the 2014 budget without enough time for adequate consideration.
 2. Environmental License No. 02/C:A-1/SSE-MCIE/VI/2013 for the Suai Supply Base, Airport and Nova Suai, was granted without public consultation and without the Environmental Management Plan required by Decree-Law 5/2011.⁸
 3. Although Article 30.1(a)(i) of Law No. 9/2005 on Petroleum Activities states that petroleum Production Sharing Contracts must be made available to the public, the ANP has refused for more than six months to release PSC JPDA 11-106, the first signed since 2006 and the first including the TimorGAP national oil company.
- **Regarding the audited General State Accounts for 2012**, it is unfortunate that the Court of Appeals was unable to provide its Opinion to Parliament before you had to discuss the 2014 budget proposal. We have noticed significant improvements in the way the Contingency Fund was managed in 2012 compared with 2011, and we look forward to discussing the State Accounts with Committee C early next year.

If Distinguished Members of Parliament are interested, we are happy to provide more in-depth comments on these and other relevant issues, either orally or in writing.

Thank you for your attention and hard work.

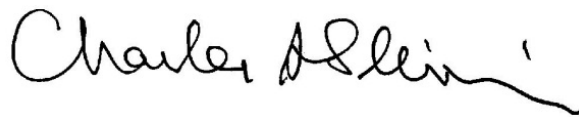
Sincerely,



Adilson da Costa Junior



Celestino Gusmão



Charles Scheiner

La'ó Hamutuk Researchers on Economy and Natural Resources

⁸ The relevant documents can be downloaded from <http://www.laohamutuk.org/Oil/TasiMane/13SSBen.htm#EIA>, and the license itself is at <http://www.laohamutuk.org/Oil/TasiMane/SSB/EIA/SSBEnvLic12Jun2013.pdf>.