

# La'o Hamutuk

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## Submission to Committee C and all Members of the National Parliament

from  
La'o Hamutuk

### Regarding Proposed Rectification of the 2022 State Budget

4 May 2022

#### Introduction

La'o Hamutuk appreciates that Parliament Committee C shared their report with us on the proposed process to alter the 2022 State Budget. Although we were not invited to present testimony on the proposed rectification of the 2022 State Budget in hearings organised by Parliament Committee C, we want to convey through this submission our perspective and analysis to help Parliamentary Deputies and the public understand the importance and level of urgency of the proposed 2022 Budget Rectification.

The existing 2022 State Budget already exceeds \$2 billion, the largest budget in our history. Presently the Parliament is deciding on whether to increase the transfer from the Petroleum Fund to \$2.44 billion, which will be the largest transfer in history and will endanger state financial management, accountability, and sustainability. Of the new measures the Government is proposing, almost 89% of the additions in the proposed 2022 Budget Rectification are allocated to the National Liberation Combatants' Fund (FCLN). This Fund is not based in clear planning, but is a short-term response to the present electoral situation and preparation for the forthcoming Parliamentary elections.

We appreciate that Committee C's report questions the urgency of the contents of the proposed law, and it is unfortunate that the majority of Deputies have voted in favor of the urgency of the proposal.

Therefore, we encourage Committee C to undertake thorough consultations and discussions with various groups in Parliament in order to produce a consistent and substantive report to submit to the plenary discussion for approval.

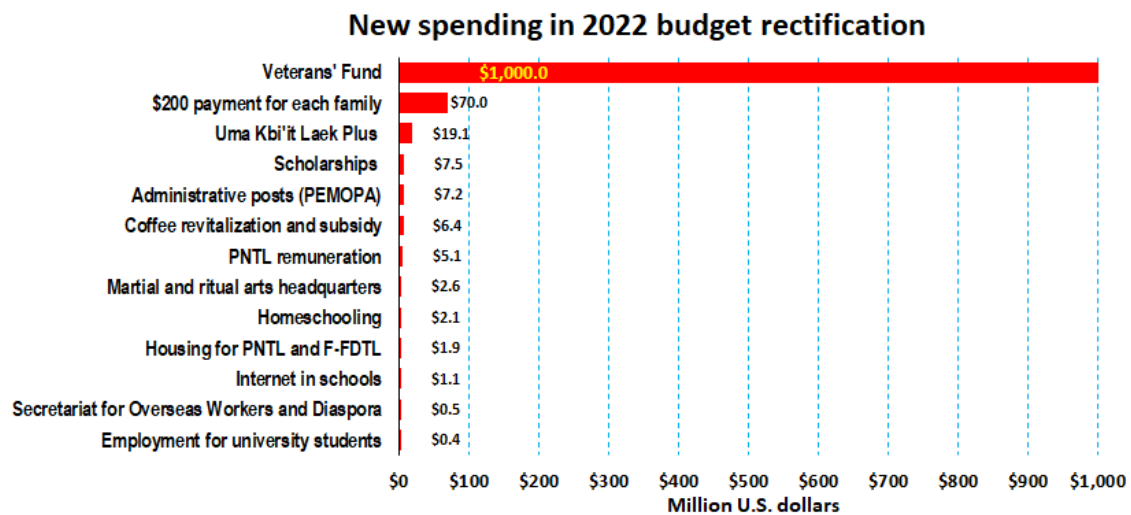
#### ***We should not sacrifice democratic process and transparency in the name of 'urgency'***

The Government's attempt to rapidly pass the 2022 Budget Rectification and urgently transfer a large amount from the Petroleum Fund is at odds with the normal process that ensures transparent

and democratic principles are upheld. This situation will not facilitate thorough and substantive discussion with all relevant parties before the proposal is submitted for Parliament’s approval.

In the recent Presidential election on 19 April, the majority of Timor-Leste’s voters cast their ballots for Dr Ramos Horta, and the new President-Elect will begin his term as President of the Republic after being sworn in on 20 May. This election result should not be a reason for Government to pressure National Parliament to pass legislation so that it can be promulgated by the outgoing President, and we note that this is an important precedent, a rapid process without the opportunity for in-depth discussion.

While the Government has stated that the 2022 Budget Rectification is necessary to respond to an urgent situation, the reality is that the programs proposed by the Government are not urgent, and support for vulnerable people is only a small portion of the proposal. The Government claims that the 2022 Budget Rectification will help individuals and families that are more vulnerable in the current economic conditions, but in truth only 8% of the proposed new transfer will benefit this group, through the household subsidies and the UKL+ program, and a further 1% will support education.



These plans are not time-sensitive and could be incorporated into the 2023 State Budget. “Urgency” is not a reason that can justify this process. Should the economic situation of families worsen, the Government can find other ways to help the population using money already authorized in the 2022 State Budget.

Through the approved 2022 State Budget, the Government already has the capacity to respond to situations it did not foresee. The Government allocated \$29.5m to the Contingency Fund in the 2022 State Budget; this amount is enough to pay for the majority of proposed new programs, only the National Liberation Combatants’ Fund would require a new transfer of funds. Furthermore, Articles 25 and 26 of Law 2/2022 on the Budget Framework allow the Government to move some allocations within the budget without creating a rectified budget. The Government thus has the capacity to implement the majority of proposed programs without a 2022 Budget Rectification. We observe that the proposals to provide a little support for the people are intended to hide the main intention of this proposal: to create the FCLN.

Structural social problems like poverty, inadequate nutrition, and suffering household economies will not be resolved by arbitrary policy decisions. We need to implement consistent, evidence-based interventions that are planned and subject to thorough consultation. We agree there need to be a

greater effort to create long-term solutions to these pressing issues, but the answer is not in the sudden introduction of new measures during an election cycle.

From the perspective of transparency, we are also concerned that most of the funds that the Government proposes to spend will be allocated as Public Transfers through the Whole of Government budget line. This means that there will not be a Ministry or other authority responsible for the programs and their expenditure. Previously, La'o Hamutuk has expressed concern in our submissions on State Budgets over the growing tendency to allocate funds through Public Transfers. In this proposal, more than 61% of spending from the Central Government Budget will be Public Transfers.

We continue to ask the Government to strengthen accountability by reducing dependency of the use of Public Transfers and the Whole of Government budget line.

### ***The proposed Rectified State Budget will impact the sustainability of the Petroleum Fund***

The transfer from the Petroleum Fund in the proposed Rectified State Budget is four times greater than the Estimated Sustainable Income. As the Government itself has recognised, this will mean that the Petroleum Fund will run out sooner. If the National Parliament is not careful about these considerations and approves the proposed Budget Rectification, the 2022 State Budget will exceed \$3 billion.

The Petroleum Fund is invested in international financial markets, and we need to consider the fact that the stability of this sole resource depends on global economic fluctuations and the spending proposed by Government and approved by Parliament. In 2015 and 2018, Timor-Leste lost money on its Petroleum Fund investments. We need to also consider that in April 2022 the international stock market declined sharply; the forthcoming Petroleum Fund reports will show a loss in the value of the Fund's investments, which may be worth \$1 billion less than the Fund's value at the end of 2021.

For these reasons, La'o Hamutuk is concerned about the Government's proposal, which will have a major impact of the sustainability of State Finances, and which is being rushed through despite a lack of urgency.

## **Concerns about specific measures**

### ***Veterans' Fund***

The majority (89%) of the proposed 2022 Budget Rectification will be allocated to a National Liberation Combatants' Fund (FCLN). Veterans were already allocated \$95 million in the approved 2022 State Budget. Since 2010 the Government has spent more than \$1 billion on veterans, not including scholarships and some other benefits. The creation of a Veterans' Fund is not urgent - changes to the existing mechanisms to support veterans and the structure of future State Budgets need to be discussed more thoroughly. La'o Hamutuk agrees that we should try to find a sustainable way to support veterans and their families, but we this is not so urgent as to require a 2022 Budget Rectification.

We are concerned with the Government's proposal to create this new Fund, with incomplete information about how it will be managed. There is not yet a Decree-Law governing the Fund, and the Government itself has not yet planned to establish a legal framework; at the end of April, the Government published its *2022 Legislative Agenda*<sup>1</sup>, which did not include legislation to create a

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<sup>1</sup> [http://timor-leste.gov.tl/wp-content/uploads/2022/04/plano\\_legislativo\\_2022-f2.pdf](http://timor-leste.gov.tl/wp-content/uploads/2022/04/plano_legislativo_2022-f2.pdf)

National Liberation Combatants' Fund. We note that such arbitrary planning continues a pattern of past decisions regarding veterans' subsidies that were enacted without the substantial analysis and planning needed for them to be sustainable.

Furthermore, there is not enough information about the goals of the Fund. In its presentation to the *Jornadas Planeamentu*, Government explained that this Fund will replace other budget allocations to veterans' pensions, but the Government has not proposed to withdraw existing allocations to pensions. There is not yet information about the objectives and management of this large Fund - without such information, how can members of National Parliament use their mandate to make wise and prudent decisions?

### ***Family subsidy (Christmas bonus)***

The proposed Budget Rectification includes \$70 million to fund a \$200 'Christmas bonus' for all families (excluding public servants). According to the 2015 census, there were 205,000 households in Timor-Leste. Based on population changes, that number may now be 235,000; this means that the total cost of the program would be \$44 million.<sup>2</sup> What will the remaining \$26 million be used for? Members of National Parliament need complete information about what this amount will be spent on.

We do not believe that the subsidy to households is an effective measure to fight poverty. We continue to ask that the Government gives priority to more vulnerable people, and distribute subsidies through existing mechanisms such as the Bolsa de Mae. Assistance for vulnerable people needs to be consistent, and based on need. To respond to the situation currently faced by Timor-Leste and the world, we should discuss types of subsidies or food assistance, or appropriate mechanisms to support household food production to prevent further deterioration of nutrition levels and food shortages in the long term.

### ***Uma Kbiit Laek+***

La'o Hamutuk is concerned about inconsistency in the amount allocated to this program; according to the memo accompanying the proposed Budget Rectification Law the amount is \$19.1 million, but some press releases and coverage by *Tatoli* say the amount is \$25 million.

## **Conclusion and Recommendations**

### ***Conclusion***

La'o Hamutuk considers that the reasons set out the Government's Explanatory Memorandum are insufficient to justify the request for urgency that National Parliament approved.

Furthermore, we are concerned that this proposal could establish a dangerous precedent that allows State Budgets that have been developed in accordance with the Budget Framework Law to be ignored when there is political motivation to quickly implement large-scale programs.

The proposed Budget Rectification is almost entirely allocated to the Veterans' Fund, which bears no relationship to global food prices or the impacts of Covid-19. The proposal to create a separate fund for veterans needs to be considered in depth, before making a large withdrawal from the Petroleum

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<sup>2</sup> This figure is based on the assumption that there are 15,000 public servants who are ineligible for the subsidy - so a total of 220,000 families would be eligible, leading to a total cost of \$44m.

Fund. The Government needs to provide more information about its objectives, legal framework, and other details before it can be approved.

We agree the vulnerable citizens need access to social protections in special circumstances such as those we now find ourselves in, but we need to consider how we can build greater resilience in the long term so that the population is empowered in the face of future challenges.

### **Recommendations**

- I. Based on the concerns described above, La'ó Hamutuk suggests that National Parliament use their Constitutional responsibility and not approve the spending proposed in the proposed 2022 Budget Rectification, and wait to discuss these measures if they are proposed in the 2023 State Budget.
- II. La'ó Hamutuk recommends that the National Parliament use the period of debate over the proposed 2022 Budget Rectification to consider in detail plans related to shifts or non-implementation of parts of the approved 2022 State Budget.
- III. After the Parliament rejects the 2022 Budget Rectification, the Government and Parliament can discuss and decide if Timor-Leste requires legislation to facilitate benefits to veterans, and also consider the UKL+ program, assistance for families, education, excise tax reform, and other specific measures. These issues should not be decided on hastily, and require lengthy consideration.

These are the concerns and suggestions from La'ó Hamutuk to the National Parliament to help your Excellencies make wise decisions that can benefit all citizens of Timor-Leste. We appreciate your attention to and consideration of our perspectives before debating and voting on the 2022 Budget Rectification.



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Koordenadór La'ó Hamutuk



Marta da Silva