



Summary

La'o Hamutuk preliminary analysis of the Strategic Development Plan as presented to Parliament

11 July 2011

This is a summary of La'o Hamutuk's initial analysis of the Strategic Development Plan. Although we only received it 5 days ago, the Government demands that Parliament approve it today, so we prepared comments to inform their discussion and the Development Partners Meeting. Our 13-page commentary is available at

<http://www.laohamutuk.org/econ/SDP/2011/LHSubSDP11Jul2011En.pdf>. The main points we wrote about, in addition to pointing out omissions, errors and invalid assumptions, follow:

- The Strategic Development Plan (SDP) is an important document, and is greatly improved over the version circulated last year. However, it is a large document, with many new ideas, and deserves thorough discussion before being enacted. We find it irresponsible that the Council of Ministers approved it after an all-night meeting, and it would be unconstitutional for Parliament to approve it less than a week after they received it.
- The Plan includes a welcome focus on social capital, not only physical infrastructure as pervaded last year's discussions. We hope that future budget priorities reflect this, and that some of the 52% of the 2011 State Budget allocated to physical infrastructure will be redirected to education and health.
- We agree that a plan is not a budget, but it needs to be more than a dream, and should include more information about what it will cost and where the money will come from. In particular, we are concerned that the SDP will be financed by taking out loans, but there is only a passing reference to this in the document, with no specifics.
- The SDP totally ignores Timor-Leste's mammoth trade deficit, with little priority to reducing imports. It includes incorrect information about school enrollment, inflation, and petroleum dependency. It is unjustifiably optimistic regarding possible future oil discoveries, exports to ASEAN, reducing population growth,.
- The SDP should focus more on human and intellectual infrastructure for education (buildings are not enough), improving the quality as well as the quantity of education, and supporting the needs of Timor-Leste and our people, not just possible employers.
- The SDP's positive discussion of environmental protection is threatened by a number of environmentally dangerous projects currently underway with no environmental review.
- More analysis, information and priority should be given to renewable energy.
- Land laws must recognize colonial injustices, and titling systems should not endanger land rights or discriminate against cash-poor farmers. More consultation is needed on the Land Law, and the Law and the SDP should consider the true value of land for people, not only its use by investors.

- Economic justice for all our people, not only the eradication of extreme poverty, should be the plan's economic objective.
- Agriculture should promote food sovereignty. Organic, sustainable agriculture, growing products for local consumption, should be the priority, and farmers must be involved at every level of decision-making and implementation. The "Green Revolution" model of industrial, high-input agriculture has severe negative impacts in the long term.
- Timor-Leste needs a broader vision of economic development. Since there is consensus that Timor-Leste needs to move away from oil-dependency in the long-term, we are disappointed that petroleum processing is the only industrial development discussed. What about agricultural processing, or light industry to replace imported products? The capital-intensive oil industry will provide few jobs for anyone, including Timorese. Allocating most of our intellectual and financial resources to the petroleum sector obstructs moving to a non-oil economy after oil and gas reserves are used up in 13 years.
- Current processes to revise the Petroleum Fund Law, create the TimorGAP national oil company, and invest heavily in feasibility studies for the Tasi Mane Petroleum Corridor contradict the goals of the plan and exacerbate our dependence on petroleum and the danger of long-term economic instability. They need to be undertaken with more care, and balanced against ideas and needs of other sectors.
- Increasing tourism requires more effort than merely building physical infrastructure.
- Private sector investment should provide benefit, not use up people's resources. Tax cuts, special economic zones and other favors for foreign businesses are unlikely to produce advantages for our people. State investment in business activities, such as Tasi Mane and rice importation, needs more careful analysis of its costs and benefits.
- The security sector plans should serve the national interest. Human and budgetary resources spend on F-FDTL can be reallocated as external threats become smaller.
- Public Sector management and good governance will be strengthened by designing institutional structures to resist corruption, and by having all state agencies use strengthened, government-wide systems for budgeting, procurement, hiring, salaries and public information.
- Although the Macroeconomics section is better than earlier drafts, it is still weak, and needs more focus on the temporary nature of non-renewable resource wealth revenues. It should be more honest about oil dependency, inflation, population growth and plans for future spending and borrowing to finance this plan.
- It is inconceivable that Timor-Leste can achieve real, long-term, annual non-oil GDP growth of 11.3%, higher than any country in recent history. Other than China, the best performing countries have grown 6.5% - 7.5%, and it is wishful thinking to expect Timor-Leste to grow nearly twice as fast as they could. Current rapidly escalating levels of public spending, the primary driver for our economy, are impossible to sustain.

Additional information, including the proposed SDP and the full text of our comments, is available from La'o Hamutuk's website:

English: <http://www.laohamutuk.org/econ/SDP/10SDPindex.htm>

Tetum: <http://www.laohamutuk.org/econ/SDP/10SDPindexTe.htm>