

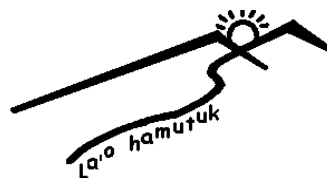
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Submission to Committee C, RDTL National Parliament from La'ó Hamutuk about the Proposed General State Budget for 2019 29 November 2018

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Introduction

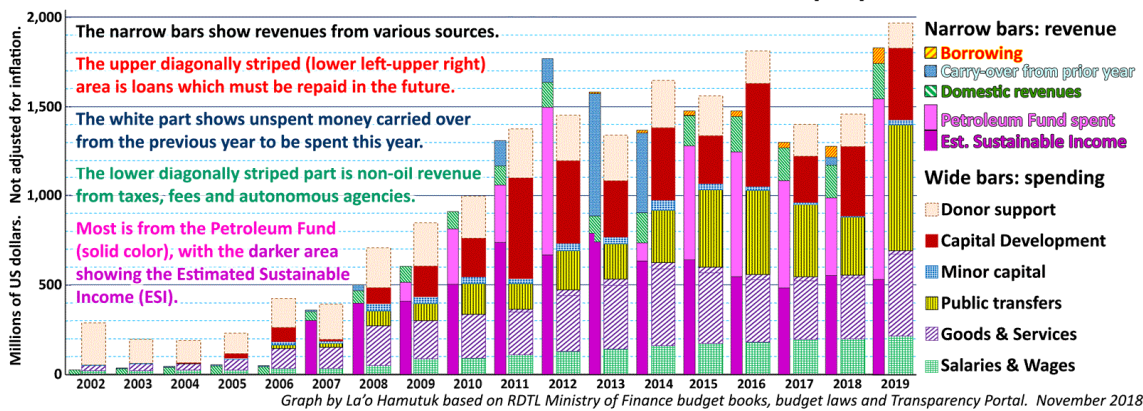
La'ó Hamutuk appreciates this opportunity to share our ideas about the proposed General State Budget for 2019. We hope that the information in this submission will help you to make decisions about how to improve the proposed budget and strengthen our economy and social services, to serve the needs of Timor-Leste's people.

The proposed 2019 General State Budget is \$1.827 billion, the largest in Timor-Leste's history. Until now, the largest executed State Budget was in 2016: just \$1.631 billion. Although limited time and information make it challenging for you to analyze and decide about approving this Budget Law, we encourage and congratulate you for carefully considering this proposal and making wise alterations.

At this time, the State of Timor-Leste is at a crossroads; the Fifth National Parliament and Eighth Constitutional Government must decide which path to take. You have the chance to choose a path which strengthens equity, diversification, and sustainability – or you can choose to rush ahead carelessly toward a dream which could conceivably create great wealth, or could bankrupt the nation and increase people's poverty and despair. We all want a positive future for our people and this beloved land, but sometimes we have not yet agreed on which path will lead us there.

As always, La'o Hamutuk tries to bring evidence and facts to you, distinguished Parliamentarians, to help you make prudent decisions to ensure the future of Timor-Leste. Although we do not yet know everything and still do not have access to complete information, we ask you to look for evidence and independent analysis, and not rely on only one opinion or perspective to inform your decisions. We are always available to provide further explanation, or additional information if you are interested.

State Revenues and Expenditures (including autonomous agencies) 2002-2017 executed 2018 enacted 2019 proposed



We need to allocate money to the sectors the Government has identified as priorities.

At the end of Budget Book 1, the Government lays out six priorities for 2019:¹

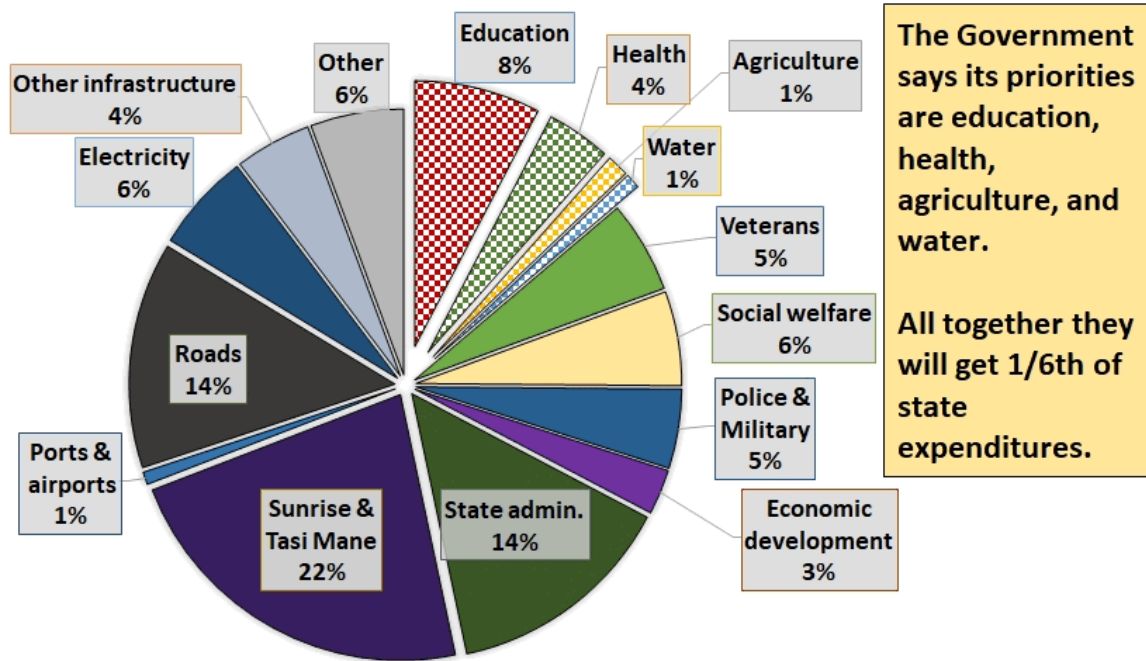
1. Increase agricultural production to provide food security and reduce malnutrition.
2. Promote quality education (inclusive, meeting standards, and market oriented).
3. Strengthen access to health services, and continue the family health visits program.
4. Raise the quality of basic infrastructure in clean water & sanitation, and roads, including rural roads.
5. Strengthen the tourism sector, concentrating on developing community tourism.
6. Continue the implementation of the program for administrative decentralization.

The Government states that its priorities are agriculture, education, health, and basic infrastructure. However, we do not see these priorities reflected in the allocation of spending in the

¹ These are slightly different in the English version of Book 1; we have listed them as they are in the Portuguese and Tetum versions.

2019 State Budget. Education, health, agriculture and clean water all together will receive less than 15% of the State Budget. Most of the Budget will be spent on big infrastructure projects, including buying into the Greater Sunrise project, which will cost billions of dollars in the future, as well as on other aspects of the Tasi Mane project.

Appropriated Spending in the Proposed 2019 State Budget \$1.827 billion total



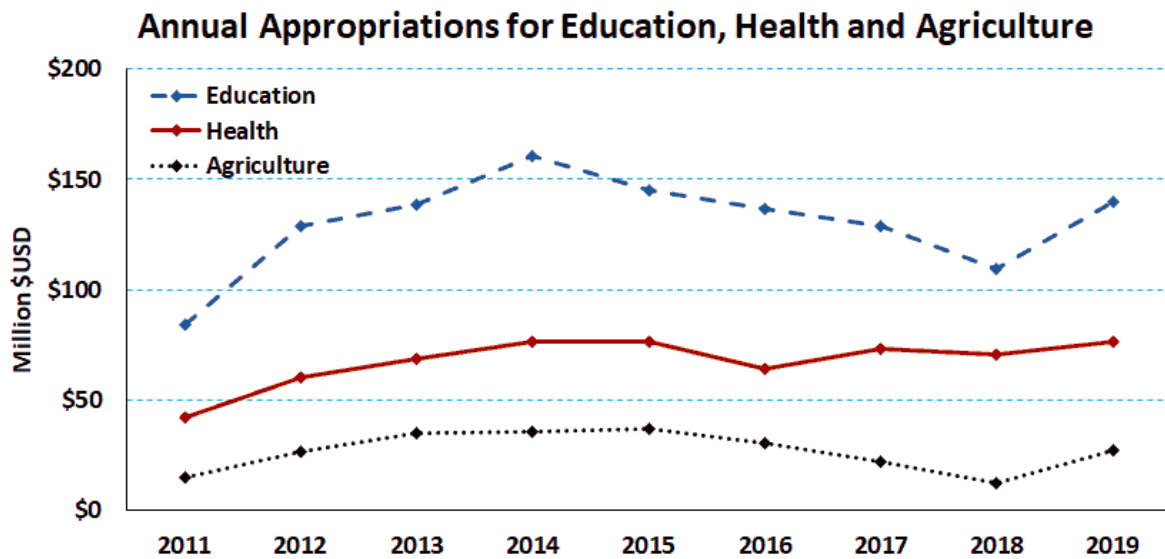
Graph by La'o Hamutuk based on proposed 2019 State Budget. November 2018.

The UNDP National Human Development Report recommends that the Government spend at least 25% of the State Budget on education and health to achieve the targets in the National Strategic Development Plan, however the combined allocation to these sectors has never reached this target. In recent years, the budgets for these sectors have been declining, which will restrict the ability of the nation to achieve the goals laid out in its Strategic Development Plan and the VIII Government's 5-year plan.

Priorities should not be just words on paper, but must be backed up with actions. The State Budget allocations should respond to the basic needs of the people and improve their lives through investment in basic services, as it promises to do. Investments in basic services, such as education and health, have direct positive impacts on people's daily lives as well as on the economy as a whole, as these investments directly increase our human capital. With quality education and healthcare, our people will live more productive lives, and can contribute significantly to the private and public sectors of the economy.

Government should invest in people (human capital) by spending on basic services.

Allocations to education, health, clean water and agriculture are still a small part of the 2019 budget although the Government says they are top priorities. The appropriations for these sectors has increased from last year, however 2018 is not a good comparison because the duo-decimal system restricted State spending for nine months out of the year. Therefore, the 2018 budget as a whole was much lower than previous years and reflects what was spent through the duo-decimal system, not plans or priorities for the year. Therefore, we use the 2016 and 2017 budgets to compare with 2019.



Graph by La'o Hamutuk based on proposed 2019 Budget Books. November 2018.

Education

The proposed 2019 budget allocates approximately \$140 million, 7.7% of the total budget, to the education sector. This allocation is \$11 million higher than 2017 and roughly the same as 2016. The 2019 Budget proposes to spend \$270 per student this year.² This allocation is not enough to address the pressing problems facing the education sector, including insufficient learning and teaching equipment, lack of training to ensure proper implementation of the curriculum, and inadequate infrastructure. Investing in human resources is vital to Timor-Leste's development and will be an important tool for pulling our people out of poverty; however, we cannot improve our people's knowledge without larger and higher quality investments in education.

Investment in the education sector must improve physical infrastructure and materials to facilitate the learning process, while simultaneously improving the quality of that education. We appreciate Parliament's decision to reject the proposed changes to the 2015 Pre-School and Primary School Curricula. We hope that now the Government can prioritize printing books for teachers and students, with a systematic process to organize and protect these books. We also hope that the Government will prioritize training teachers as an important tool for improving the quality of education in Timor-Leste through increasing teachers' capacity to teach according to the curriculum, which uses a proven and effective methodology.

² Using 2017 EMIS data for public school students and assuming 1.8% increase per year.

We agree with the Government that education must be inclusive for all. Inclusive education, by definition, must take into account Timor-Leste's most vulnerable people, including those with disabilities, people in rural areas, impoverished people, pregnant women and others. Currently, there are still significant challenges that prevent many vulnerable people from accessing quality education. Therefore, we hope that the Government can follow through on its promises to ensure that education is inclusive. The Government will need to do an evaluation of the reality for the most vulnerable population, and confront the remaining challenges in education through programs that are clear, equitable, effective and based on evidence.

Health

The health sector is allocated \$71 million in the proposed 2019 budget, representing only 3.9% of the total budget. This is essentially the same as previous years' allocations to the health sector, as seen in the above graph. The 2019 State Budget proposes to spend \$56 on health per Timorese citizen for the entire year. Increasing the health budget is vital to ensure healthy and productive future generations.

Malnutrition rates, especially for children under five, remain a serious threat to Timor-Leste's future. 46% of children under 5 are stunted and 24% are wasted, which are measures of height and weight used to assess malnutrition.³ The reality that many children still suffer from malnutrition shows that Timor-Leste needs to make a larger and more effective investment to combat malnutrition. The children of Timor-Leste are our nation's most valuable resource; investment in their health is a direct investment in our future.

The public health system as a whole still lacks adequate equipment, infrastructure, and trained health care professionals. Although there is a good national policy on family planning, it is not implemented well and health care officials need further training to be able to provide complete information to all people who want it, without discrimination based on social status, gender or age. The challenges in health are exacerbated in rural areas, where access to care remains a significant challenge. The Government must make significant investments in the health sector to realize the goals laid out in the Health Sector Strategic Plan 2011-2030, which include improving access to and quality of public health care for all Timorese citizens. It is important that investments in this sector target improving the quality of health services through trainings for health care professionals, infrastructure, and investing in equipment, along with training on how to use them.

Clean water and sanitation

The proposed allocation to clean water & sanitation in 2019 is only \$17 million, less than 1% of the total State Budget. This sector continues to receive small annual allocations although access to clean water and adequate sanitation remains a challenge, especially in rural areas where 70% of the population live. According to the 2016 DHS, only 58% of households in rural areas have access to water in or near their house. The rest have to walk some distance to access clean water, a burden which disproportionately falls on women and children.

Based on the 2016 DHS, only 50% of households have access to improved sanitation facilities, meaning they are connected to a septic tank or pit latrine. Additionally, in rural areas, 35% of households have no facility at all, and practice open defecation.

Timor-Leste has ratified the International Covenant on Economic, Social and Cultural Rights, article 11 of which states that everyone has the right to water. La'ó Hamutuk believes that privatizing the water sector or implementing Public-Private Partnerships for water, such as those recommended in the Asian Development Bank's (ADB) *Sector Investment Plan 2018-2030 for Water Supply and Sanitation*, are dangerous and could violate human rights. Most of Timor-Leste's people live in rural areas with limited access to water and sanitation, therefore we do not agree with ADB's plan

³ 2016 Demographic and Health Survey (DHS)

to prioritize Dili over rural areas. We hope that the Government will invest more in water and sanitation, especially in rural areas.

Investment in water and sanitation is a direct investment in human capital because contaminated water and improper sanitation have serious negative health impacts including diarrhea, a leading cause of malnutrition, especially in children. Chronic diarrhea and malnutrition have permanent cognitive effects and can reduce educational attainment and labor productivity when the child reaches adulthood. Unsafe and unhygienic sanitation practices damages people's health, and may also be obstacles for children's – especially girls' – educational attainment and ability to work.

The government is responsible for ensuring access to clean water and adequate sanitation for every Timorese. We cannot depend on outside donors to invest in this sector. Donors come for short periods of time to implement specific projects; this is not a sustainable or long-term way to manage the water and sanitation sector. The Government should make a long-term investment plan which includes future maintenance costs.

Agriculture is an important tool for economic diversification.

In order to increase domestic revenue and diversify Timor-Leste's economy away from oil, the Government must prioritize investment in agriculture, small industries and eco-tourism, which can provide benefits for local communities. 70% of the population depends on agriculture for their lives, yet the 2019 State Budget allocates only 1.3% to this sector.

The budget trend for agriculture has always been low and has been declining since 2015. The trend shows that the Government has not prioritized productive sectors, such as agriculture, although it constantly promotes the importance of these sectors in speeches and plans. This allocation is not enough to significantly improve agricultural productivity, which is vital for diversifying the economy and making people less poor.

Investments in agriculture must be targeted to improve productivity, while promoting organic, healthy and diversified foods. Farmer training and education will be much more effective interventions than simply supplying minor capital, such as tractors, which is not a sustainable or long-term investment. The Government can also invest in promoting and supporting small industries to add value to agricultural products through processing; this in turn can create jobs, reduce our import dependency, and help to pull farmers out of poverty.

The Budget Books should include serious projections of future recurrent spending.

In the proposed 2019 General State Budget, Budget Books 1 and 4 contain annual projections from the Government that are not based on calculations or research. Each number is simply 4% more than the previous year's budget, which is a violation of the Budget and Financial Management Law. The total budget summary found in Budget Book 1 is based on the details in Books 4a and 4b, which all include 4% projections.

Budget and Financial Management Law no. 13/2009, article 3.3 and article 22.3(a), states that the General State Budget must include "the total revenue foreseen by the Government, as well as the expenses and resulting balances, for the following two years." (*"As receitas totais previstas pelo Governo, assim como as despesas e os saldos resultantes e para os dois anos seguintes."*)

The table on page 7 of Budget Book 1 does not comply with the Budget and Financial Management Law. The calculations of increasing by 4% are too simple and the reasons for this increase each year are not explained.

Table 2.1.3.1: Fiscal Table, \$ million from Proposed 2019 General State Budget, Book 1.

	2015 Actual	2016 Actual	2017 Actual	2018 Budget	2019 Budget	2020	2021	2022	2023
Total Expenditure by Appropriation Category (incl. loans)	1,336.7	1,629.9	1,194.7	1,277.4	1,827.0	2,160.0	1,876.6	1,902.9	1,798.5
Total Expenditure by Appropriation Category (excl. loans)	1,312.5	1,599.3	1,164.6	1,215.8	1,740.0	2,120.0	1,863.1	1,893.2	1,798.5
Recurrent	1,029.6	1,027.7	931.3	878.5	1,397.4	1,453.3	1,511.5	1,571.9	1,634.8
Salary and Wages	173.4	178.6	197.2	200.3	214.0	222.6	231.5	240.8	250.4
Goods and Services (inc. HCDF)	423.8	378.1	328.4	354.0	478.3	497.4	517.3	538.0	559.5
Public Transfers	432.5	471.1	405.8	324.2	705.1	733.3	762.7	793.2	824.9
Capital	307.1	602.2	263.3	398.9	429.6	706.6	365.2	330.9	163.7
Minor Capital	33.9	20.8	13.1	5.1	29.4	30.6	31.8	33.1	34.4
Capital and Development (including loans)	273.1	581.4	250.2	393.7	400.2	676.1	333.4	297.9	129.3
Revenue***	808.5	744.2	671.2	739.2	727.6	708.9	680.9	659.5	637.7
Domestic Revenue	170.0	199.4	189.6	188.8	198.6	206.4	217.3	228.2	240.4
Estimated Sustainable Income (ESI)	638.5	544.8	481.6	550.4	529.0	502.5	463.6	431.3	397.2
Fiscal Balance	(528.2)	(885.8)	(523.5)	(538.1)	(1,099.4)	(1,451.0)	(1,195.8)	(1,243.3)	(1,160.9)
Financing	528.2	885.8	523.5	538.1	1,099.4	1,451.0	1,195.8	1,243.3	1,160.9
Excess Withdrawals from the PF	640.0	700.0	597.1	432.1	1,012.4	1,411.0	1,182.3	1,233.6	1,160.9
Use of Cash Balance	(136.0)	155.1	(103.7)	44.4	-	-	-	-	-
Borrowing/Loans (disbursements)	24.2	30.6	30.1	61.6	87.0	40.0	13.5	9.7	-

Sources: National Directorate of Budget, National Directorate of Economic Policy, Petroleum Fund Administration Unit, Development Partnership Management Unit, PPP&Loans Unit, Ministry of Finance, 2018.

The numbers in these boxes are derived from the 4% numbers above.

**Notes by
La'o Hamutuk
November 2018**

Every number in these boxes is 4.00% higher than the number to its left. These are not serious estimates of future spending obligations.

Half of the Public Transfers in 2019 are \$350 million to buy into Greater Sunrise. Will we pay that again, plus 4%, in every following year?

Articles 3.3 and 22.3(a) of Law 13/2009 on Budget and Financial Management require projections for at least two years after the budget year.

This simplistic formula does not comply with the law.

National Parliament is mandated to monitor and analyze the Ministry of Finance's calculation of their projections. National Parliament also has the responsibility to analyze the budget in-depth,

including its implications for the future. La'o Hamutuk asks National Parliament to insist that the Ministry of Finance make real projections and not continue to violate the Budget and Financial Management Law.

We can see these violations of the law clearly in the projections about borrowing and public transfers. The Government allocated \$350 million in the 2019 Budget to buy ConocoPhillips' participation in the Greater Sunrise joint venture. We see the 4% increased projections for 2020 and each following year; do we expect to pay ConocoPhillips again every year?

When we do not have accurate projections, we cannot understand or predict the sustainability of state finances in the future. Another example is the debt repayment projections in Budget Books 4a and 1. Book 1 calculates how much money Timor-Leste will need to pay back each year, but in Book 4, the Government did not use these projections; they simply increased the numbers by 4% each year.

Budget Book 1, proposed GSB 2019, analyzes debt repayment obligations.

Table 2.5.3.2: Debt Service, \$m

Annum	2012 (Hist.)	2013 (Hist.)	2014 (Hist.)	2015 (Hist.)	2016 (Hist.)	2017 (Hist.)	2018 (Hist.)	2019 (Proj.)	2020 (Proj.)	2021 (Proj.)	2022 (Proj.)	2023 (Proj.)
Debt Service (\$m)	0.02	0.10	0.32	0.34	0.86	1.76	2.22	7.17	8.27	10.31	17.03	22.39

Source: MPW, 2018

Budget Book 4A, proposed GSB 2019 doesn't use data: just adds 4% each year.

B30123 - PROVISÃO PARA PAGAMENTO DE EMPRÉSTIMOS
PROVISION FOR PAYMENT OF LOANS (\$'000)

Rubrica de Despesas / Expense Item	2018	2019	2020	2021	2022	2023
Despesas / Expenses	4,505	7,075	7,358	7,652	7,958	8,277

Debt projections

As projected in the 2018 State Budget, the proposed 2019 Budget authorizes the spending of \$87 million in borrowed money to build roads during 2019. The government also plans to borrow an additional \$60 million in 2019 to implement the Aituto-Letefoho-Gleno road project, but this contract is not yet signed.

Projected spending of borrowed money in the 2019 State Budget is the same as was projected in the 2018 Budget, but very different from what was projected in the 2017 budget.

	Total	2017	2018	2019	2020	2021	2022	2023
GSB 2017 (million \$)	1409.4	101.8	310.7	460.8	317.8	218.2	-	-
GSB 2019 (million \$)	198.2	21.9 (actual)	26.1 (to Nov.)	87.0	40.0	13.5	9.7	0.0

La'o Hamutuk appreciates the Government's commitment to minimize borrowing, since the projections show no plans to take out more loans. However, we are concerned that the development of the Tasi Mane project will require billions of dollars to implement, and will open the door for new debt in the future, which could severely threaten the sustainability of our economy.

La'o Hamutuk encourages the Government to stop spending the people's money on the Tasi Mane Project.

We recommend stopping the Tasi Mane project and instead mobilizing our financial and human resources to develop other productive sectors which can improve people's lives. This will support fiscal sustainability and prevent new debt in the future, which would be a burden on future generations.

Money spent, budgeted and required for the Tasi Mane project (millions of USD)								
Component	Location	Status	Spent through 2017	Budgeted 2018	Budgeted 2019	Budgeted 2020-2023	Estimated total capital cost	Percent budgeted
Airport	Suai	Constructed	65	10	10	3	90	98%
Supply base	Suai	Tender pending	5	1	10	677	850	82%
Highway	Suai-Fatukai	Mostly built	170	99	50	8	340	96%
Highway	Fatukai-Beaçu	Not started	3	-	-	-	1,320	0%
Airport	Viqueque	Not started	-	-	-	-	60	0%
Oil refinery & pipelines	Betano	Pending design	3	-	-	-	1,500	0%
Gas pipeline, LNG plant & port	Sunrise-Beaçu	Pending design	12	-	-	-	6,000	0%
57% share of Greater Sunrise Joint Venture	Offshore	Pending OK from government, Parliament and companies	-	-	350	-	650	54%
57% of Sunrise upstream capital expenditure	Offshore	If ownership approved	-	-	-	-	4,700	0%
Administrative and other costs	Dili		37	10	15	2	400	16%
TOTAL			295	121	435	690	15,910	10%

Table by La'o Hamutuk from 2018 and 2019 budget books, transparency portal and our estimates. November 2018

The Timor-Leste Government has already spent more than \$400 million on a few components of the Tasi Mane project. The 2019 State Budget allocates \$435 million, most of which is to buy ConocoPhillips' share of Greater Sunrise and for the first phase of the highway from Suai to Fatukai. The projected budget from 2020-2023 is \$690 million, however La'o Hamutuk estimates that the total capital investment for Tasi Mane and Greater Sunrise could exceed \$16 billion. Timor-Leste should not keep spending money on this project; we have already spent \$400 million, however that is only 2.5% of the total money which will be needed to complete project. We still have time to save the finite resources belonging to the people of Timor-Leste.

From the above estimates, Timor-Leste could spend the entire Petroleum Fund on the Tasi Mane Project and Greater Sunrise. Perhaps the Government will look for loans to pay for some project components, however we will have to pay this money back with interest in the future. Timor-Leste has decided to buy ConocoPhillips' and Shell's shares in Greater Sunrise for a total of \$650 million; once Timor-Leste has actually paid for ConocoPhillips' and Shell shares, Timor-Leste will control the majority of this joint venture.

With 57% of the joint venture, Timor-Leste will be required to pay 57% of the upstream capital costs. Building the pipeline and LNG plant will require billions more, but we don't know whether Timor-Leste will pay for this alone or find another financing partner.

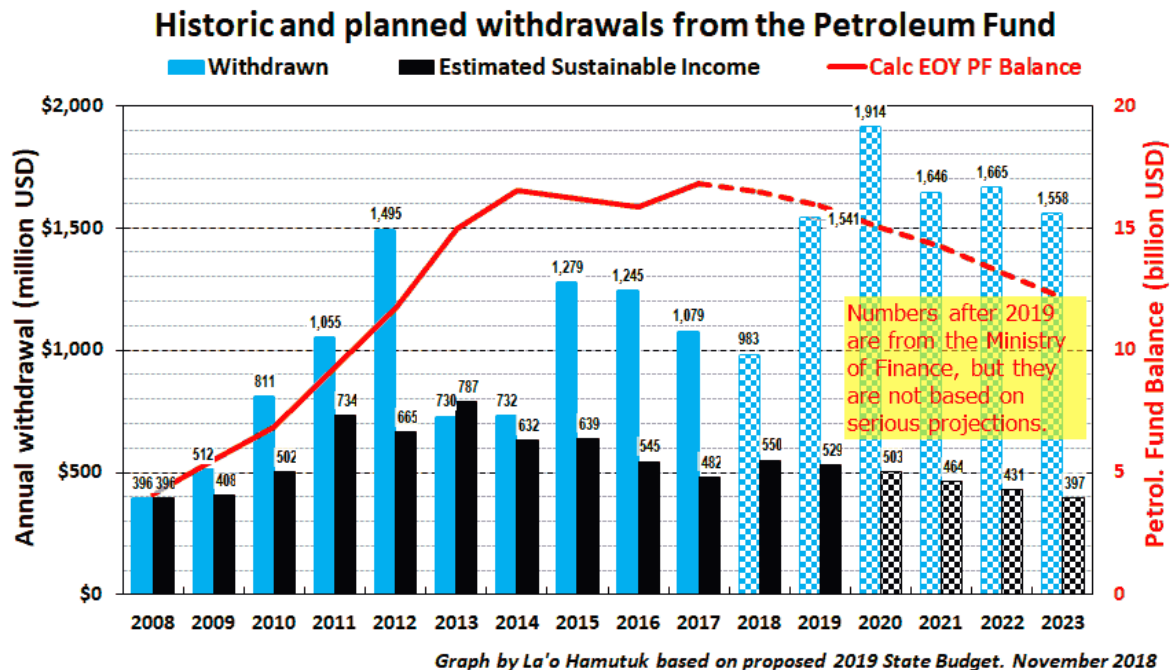
For several years, La'o Hamutuk has been concerned that petroleum projects will never provide the many jobs that TimorGAP and some leaders promise. In reality, they will provide mostly temporary jobs in construction for some people. The LNG plant will create permanent jobs for only 300-400 people, however Timor-Leste's labor force includes hundreds of thousands.

National Parliament should understand the realistic costs and benefits of the Tasi Mane Project and Greater Sunrise, and consider all aspects, including commercial, environmental and social. It is important to have independent experts with in-depth knowledge of the petroleum industry verify the numbers, rather than merely to accept what is presented by the Government and TimorGap.

Reality clearly shows us that community people displaced by this project want to get their land back for farming, which shows that the compensation the Government has paid for their land is not enough to ensure their livelihoods. We must invest in productive sectors; we cannot spend all of the people's money on unrealistic dreams.

The 2019 Budget threatens the sustainability of the Petroleum Fund.

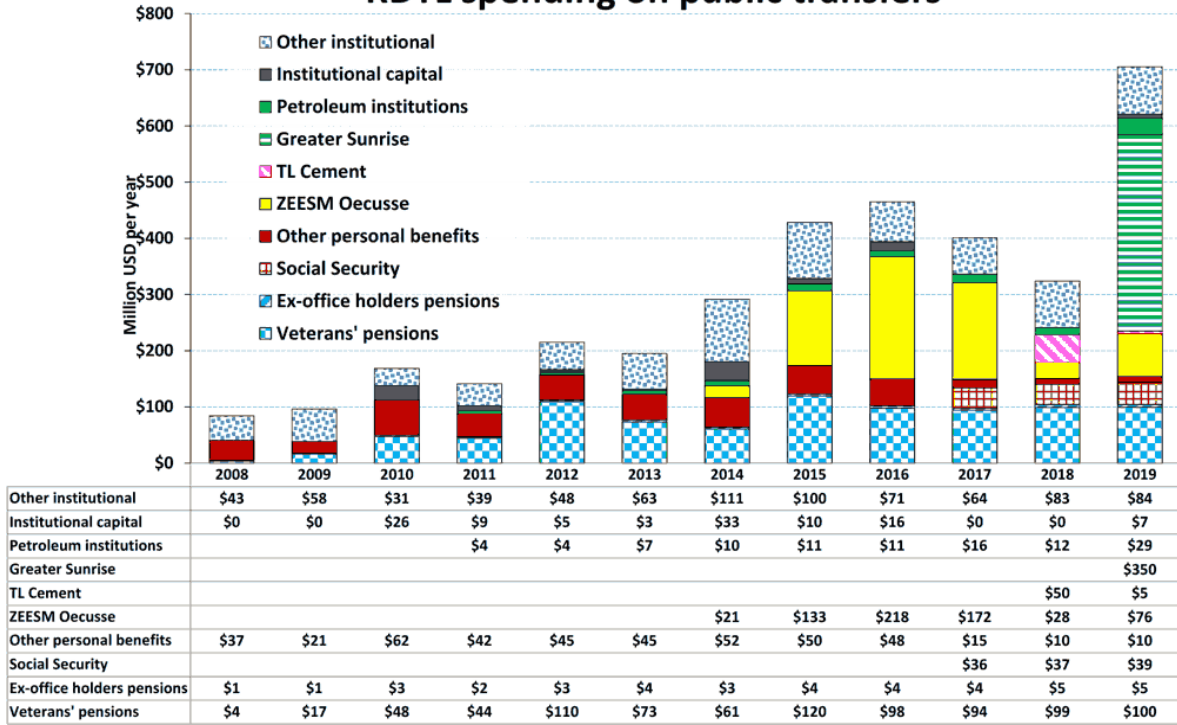
The Petroleum Fund was established with the goal of providing benefits to current and future generations. However, after the start of the Petroleum Fund in 2008, the Timor-Leste Government has always withdrawn more than the Estimated Sustainable Income. We have not only taken the interest on the Petroleum Fund's investments, but have spent the principal which was converted from oil and gas.



The Petroleum Fund balance depends on oil and gas revenues, financial markets, and withdrawals from the Fund. The price of oil is volatile, and has dropped 32% in the past six weeks. The price of equities also fell sharply in October, causing the Petroleum Fund to lose \$680 million in just one month, the biggest loss in its history. This experience shows that we cannot expect that the balance of the Fund will always go up.

Currently Timor-Leste has a good system for managing its money from oil and gas, with accountability and transparency, as well as based on future sustainability. We are worried that the Government may ask to revise the Petroleum Fund Law to open the way to use the Petroleum Fund outside the budgetary process. We ask Parliament to use your power and responsibility to defend and protect State finances.

RDTL spending on public transfers



Graphic by La’o Hamutuk from Ministry of Finance Transparency Portal and budget books, November 2018.

La’o Hamutuk hopes that our recommendations will help the distinguished Members of Parliament revise the proposed budget and create a plan that promotes the best interests of the people whom you represent. We are ready to share more information or meet with you if needed, and look forward to participating further in this important process.

Thank you very much for your attention.

With respect,





 Berta Antoineta Elizaria Gomes Charles Scheiner Adilson da Costa Junior






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 Researchers at La’o Hamutuk