



**Submission from La'o Hamutuk**  
**to**  
**Committee C and National Parliament**  
**regarding**  
**Proposed General State Budget for 2023**  
**17 October 2022**

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## Introduction

To begin, La'ó Hamutuk would like to express our appreciation to the Government for producing many documents and opening many discussions during the preparation of the proposed 2023 General State Budget (GSB), and for publishing essential documents such as the Pre-Budget Statement with detailed information. We appreciate that in the proposed 2023 State Budget, the Government has used the international classification system COFOG, as La'ó Hamutuk had suggested during discussions about the Budget Framework Law. We also appreciate the implementation of the new budget process, including the Major Planning Options Law and program-based budgeting, although not all components have been implemented well or effectively. We hope that the experience of the 2023 State Budget cycle can help improve the budget process in the future.

However, many essential documents that should be discussed during the budgeting process have been late, such as the 2021 Annual Reports of ANPM and TimorGap. These two reports were just published, and Deputies and the public have not had enough time to read and understand them, in order to use them during the 2023 State budget discussion. The Ministry of Finance has not yet published its 2021 Annual Report on the Petroleum Fund.

We encourage the Government and National Parliament to continue to improve transparency through functional websites and publishing relevant essential documents to help improve public understanding, including for civil society, and to encourage participation and important contributions to the budget process.

With this submission, we hope that we can help you make decisions to improve the proposed budget so that it truly reflects national urgencies and people's needs in Timor-Leste.

## Sustainability

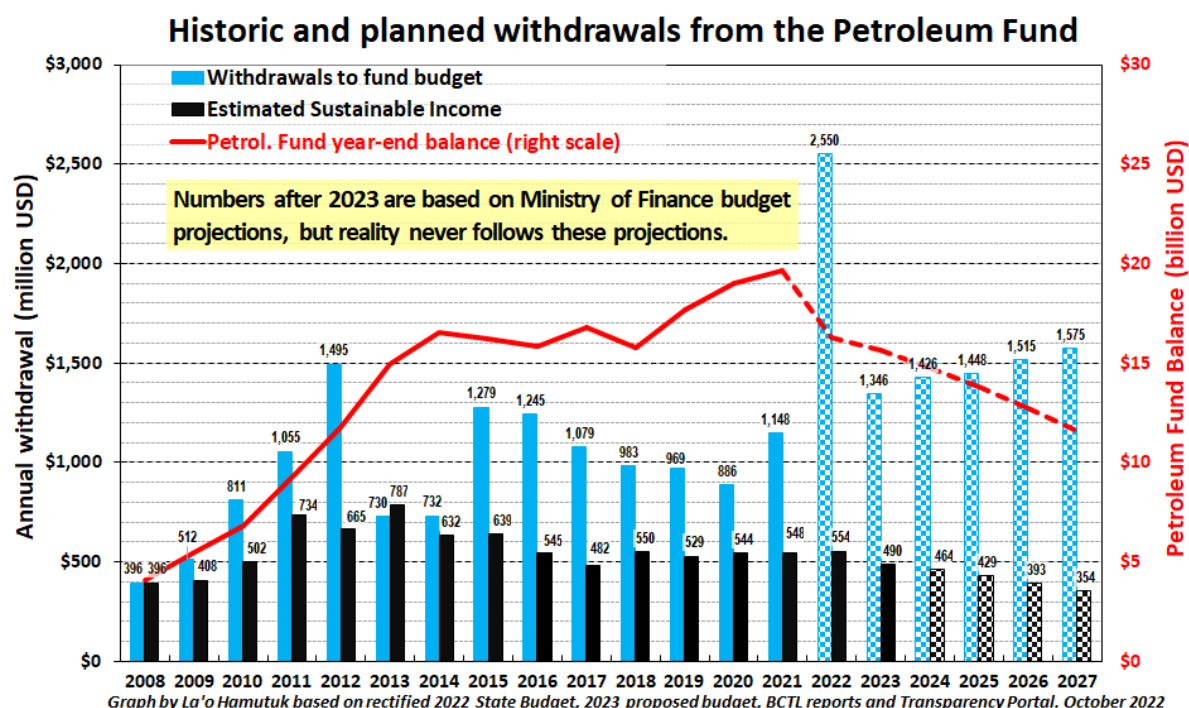
### ***There is no value in discussing sustainable models if they are not implemented.***

Deputies have a crucial duty to evaluate the proposed 2023 State Budget. The decisions that you make will have a great impact on our nation's future. During 2022, the reality of the situation regarding state finances, including the fiscal cliff, received growing attention from decision makers and the media. La'ó Hamutuk has warned of this danger for many years, and so we appreciate that some leaders now realize the urgency and seriousness of this problem - though we would, of course, prefer that this situation were not the case. Decisions made now can determine what happens in the future. The Government itself recognizes that if current spending trends continue, in 2034 spending will have to be cut by 60%, and then by 80% in 2035. This is a serious threat to the people of Timor-Leste.

The Government elaborates on the second sustainability scenario from the *Pre-Budget Statement* in point 3.1.20 of the Proposed Budget *Report*. This scenario is a way to extend the life of the Petroleum Fund to 2045. If the Government manages to prolong the Petroleum Fund, it would give Timor-Leste more time to diversify its economy and avoid the worst impacts of the crisis that would be caused by rapidly reaching the fiscal cliff.

Unfortunately, the Government's proposed budget clashes with the sustainable scenario presented in the *Report*. According to that scenario, spending needs to decrease 3% each year until 2034 and then continue at 2034 levels. However, according to tables in the budget

books, state spending (and transfers from the Petroleum Fund) will increase until 2027, and there is no information about years after 2027. Furthermore, projections about spending through the Infrastructure Fund are not taken into account - this shows that the Government is not committed to a sustainable model. Estimated spending on the Infrastructure Fund in 2024 will be \$1.3 billion (\$1.1 billion more than in 2023).



Therefore, La'o Hamutuk considers that although the Government recognizes that our nation faces a serious risk to the sustainability of state finances and the fiscal cliff, it has failed to implement a solution. There is no value in mentioning a sustainable model if it is not implemented. The people of Timor-Leste will face a major danger if the Government has no plan to confront the fiscal cliff.

**Spending projections for each program would help Deputies make wise decisions.**

Considering the context of today's state finances, which face significant obstacles, it is important for Deputies and the public to understand all the implications of *multi-annual* programs. The Government recognizes that measures in the Major Planning Options Law will be implemented over several years. However, the proposed budget does not have information about the total cost of each program. Only the Infrastructure Fund provides estimates of future costs.

Furthermore, the overall projections provided by the Government are inconsistent. One example is Figure 6 from the Major Planning Options Law which shows the global spending limit. While there is no table, the graphic shows global expenditure in 2023 of approximately \$1.6 billion — but the proposed 2023 State Budget is \$2.1 billion. This changes shows that the Government will readily change the recently-established spending levels in the Major Planning Options Law. Therefore, we have to ask how we can trust promises to limit spending in the future.

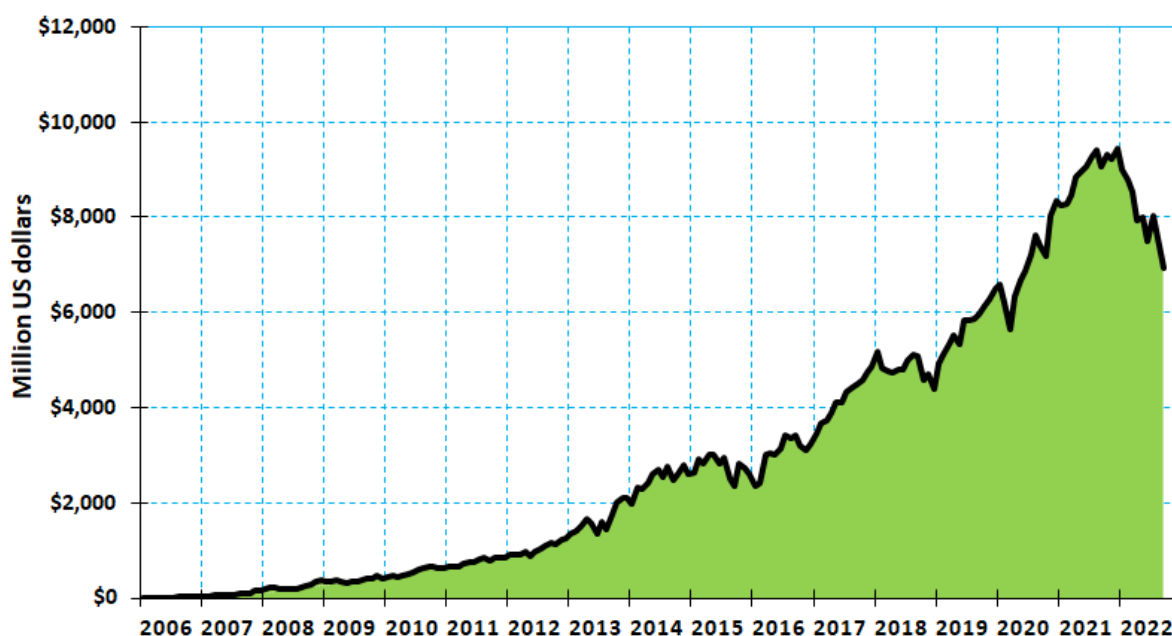
## Petroleum dependency

The Petroleum Fund (PF) is a unique, sovereign fund that transforms our oil and gas reserves into money. Bayu-Undan provided the most income to the Petroleum Fund, which has been the principal financing for the state budget throughout Timor-Leste's history. Production from Bayu-Undan field peaked in 2011, and by 2022 it has fallen sharply along with revenues. Production will end in October this year. There will be no further income from petroleum through the end of the year, except for taxes on the decommissioning process.

Timor-Leste has moved from dependency on petroleum to dependency on investments.

Now and in the future, Timor-Leste will rely on the capital and returns from the Petroleum Fund to finance most of the State Budget. The Petroleum Fund is invested in international financial markets, which for the last several months has seen the Fund lose more than \$2 billion, although over many years the Fund had accumulated returns of around \$8 billion.

### Cumulative Return from Petroleum Fund Investments



Graph by La'o Hamutuk based on monthly reports from the TL Central Bank. October 2022

Dependency on returns from the PF means that it is critical for Deputies to understand future projections for the Fund. Section 1.3 of Annex 5 states that it “assumes a return on investment in 2022 of -7.89% after accounting for the Fund’s performance through June”, and this is used to calculate the Estimated Sustainable Income (ESI) for 2023. Unfortunately, future scenarios for the Petroleum Fund continue to assume a 4.1% rate of return and fail to consider the possibility of negative or lower-than-expected returns in the future. Although the Petroleum Fund report for September is not yet available, we should be aware that its investments continue to lose value — the balance at the end of September was \$16.9 billion — \$2.7 billion less than at the start of 2022. The return on investment between January and September 2022 was negative 17% (annualized).

We note the risks that the Government describes in the *Report* in relation to Financial Sustainability, the Statement of Budgetary Risks and Contingent Liabilities, and the Methodological Annex (although they understate the actual peril), and we encourage Deputies to carefully read these documents, and to ask Government to plan expenditures consistent with Timor-Leste’s financial reality.

Although the Petroleum Fund has financed the State's programs and activities so far, it is unfortunate that in those many years we failed to use the opportunity to create a productive, sustainable, and diversified economy, one which would move Timor-Leste in a direction to avoid falling deeper into a dire situation. We continue to excessively depend on imports, depend on the Petroleum Fund, and the structural problems that to date have not been significantly adapted.

To address the problematic reality described above, the Government continues to dream that revenues from extractive industries will help the nation for a long time, while failing to develop sustainable sectors. This is reflected in the priorities of the Government to the Greater Sunrise project, other undeveloped fields, onshore petroleum activities, carbon capture and storage (CCS), new onshore and offshore contracts and mining activities. ANPM needs to try harder to make companies obey the requirements for Environmental Impact Statements (EIS) and Environmental Management Plans (EMP), because, unfortunately, companies tend to violate communities' rights: they don't seriously conduct detailed consultations, or they use security authorities to threaten people, such as at the Pualaca block in Natarbora. These projects (except for Sunrise) are small, and the majority of petroleum exploration efforts globally never generate revenues, because they are not commercially viable. Timor-Leste takes on a big risk when we depend on these fantasies and fail to prioritize diversification.

It is good to see that the Government did not include plans to spend money in 2023 to construct components of the Tasi Mane Project such as the highway, refinery and petrochemical plant. However, there are still plans to spend on the LNG project in Beaçu and the Suai supply base — it's important that an independent study is finalized before further investment in these components. We note that the allocation to the MPM includes an "Upstream and Midstream Study of the Timor Sea Petroleum Resources Greater Sunrise Regime", but we suggest creating an independent committee — an external consultant — to analyze the Tasi Mane project to understand in detail the benefits, risks, and costs of each part of the Tasi Mane project and Greater Sunrise. The project proponents need to give an opportunity to National Parliament, civil society, and independent groups to analyze both completed and planned studies. If not, we will be wasting our resources on an uncertain project.

Government uses the extractive projects mentioned above as a hope for future revenues, and perhaps the CCS or onshore projects can generate a little revenue and be of financial assistance, but the essential issue is that Timor-Leste needs a strong base to make the population resilient and create a diversified and sustainable economy. In reality, CCS and onshore activities might generate revenues between zero and \$50 million each year, and will not employ many people. Extractive industries are very capital intensive, and each dollar spent subsidizing the sector generates fewer benefits (employment, subcontracts, supplies) than almost any other sector. From a sustainability perspective, we need to ensure that the Government prioritizes activities that can really finance the State Budget and provide long-term benefits to our people.

## **Transparency and Accountability**

### ***National Parliament's website does not work.***

The process of developing the GSB is a very important one, and it needs to be done through a transparent process. National Parliament's website <https://www.parlamento.tl/> is presently not functioning, and not providing serving as a public source of any information such as agendas, activities, important documents that are important to share with the people it represents. We note that recently the National Parliament has been trying to minimize the information shared with the public, diminishing public participation and transparency. In fact, the people's representatives need to be open to receive suggestions, criticism and moral support to ensure their parliamentary role is executed effectively and efficiently.

### ***Public hearings - not hearings closed to the public and journalists.***

We note that 'public' hearings are closed to the public; Parliamentary Committees invite selected relevant entities and listen to various perspectives at the hearing, but do not allow journalists or the public to attend, as a way to share information that could then be disseminated to the public. We believe that to ensure transparency and participation at these hearings from civil society, academics, and international agencies, they need to be open to the public.

### ***The FCLN causes confusion.***

The Ministry of Finance needs to clarify to the public to prevent confusion, because they continue to say that the proposed GSB for 2023 is \$3,155 billion. The National Liberation Combatants' Fund (FCLN) was funded through the 2022 Rectified Budget, and the Government is not requesting further funds for 2023. Therefore, the real total spending in 2023 is \$2,155 billion.

Furthermore, we encourage Deputies to ask the Government why the proposed GSB continues to allocate \$116 million to veterans' pensions, despite the establishment of the FCLN. When will the FCLN start funding veterans' pensions? We also wonder why these pensions are classified as part of the Gender Equity and Social Inclusion program.

### ***Publish budget books in Tetun and English as in the past.***

In previous years, the Governments translated some budget books into Tetun and English, but this year they are almost all in Portuguese: three budgets documents are available in English, and only two are in Tetun. We encourage the Government to continue producing translations to Tetun and English so that all Deputies, researchers, journalists, and the public can access them.

### ***Notice of public hearings is inadequate.***

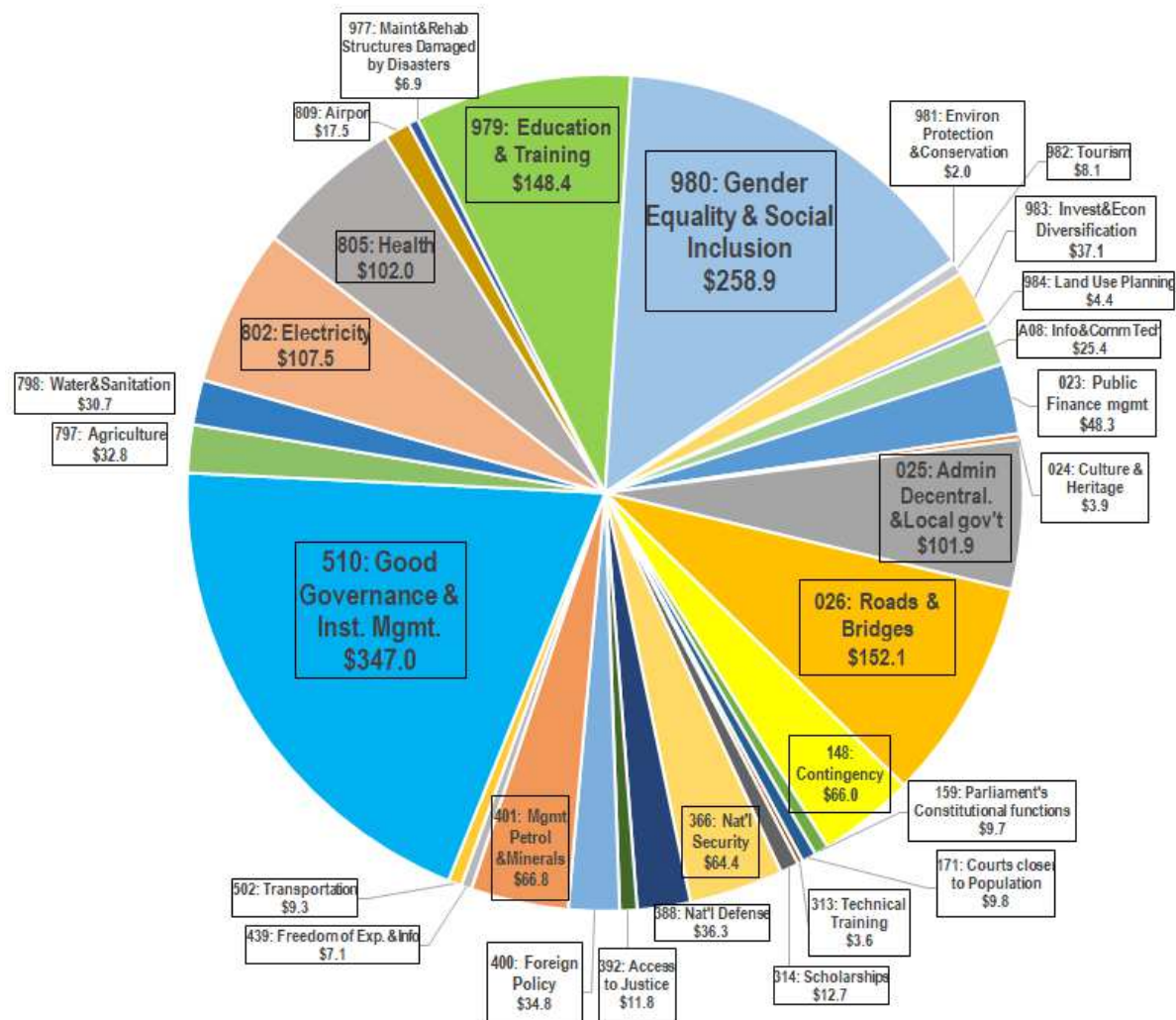
We were disappointed that the Parliamentary Committees have not considered that civil society can assist National Parliament with information, analysis and the perspective of the people. La'ó Hamutuk and other civil society groups were not invited to present oral testimony at the public hearings by Committee C. We encourage the National Parliament to improve the space for us and the public to share analysis and enrich the conversation prior to the Parliamentary debate.

## Priorities and Strategy

*The capacity to implement programs well needs consideration.*

The Government writes that one principle of the GSB is that “program quality is more important than program quantity.” In principle this is a good idea, but the reality is that the 275 measures (44 programs) in the budget are a lot; based on the historic capacity of the Government which has failed to implement plans on time with effective results. Next year there will be a general election, and many members of Government and staff will be campaigning. This will add to the obstacles to quality program implementation and execution. It would be better to prioritize programs that are realistic in light of existing capacity and resources, to guarantee execution and quality. In this way, we can respond to the people’s demands for food, water, basic infrastructure, small-scale irrigation at the suco and aldeia level, and promote agricultural processing, cooperatives, education, health and those sectors that will help the people’s lives and economy.

### Program allocations in proposed 2023 state budget (million USD) FCLN and programs under \$2 million omitted.



Graph by La'o Hamutuk based on proposed 2023 State Budget Law, October 2022

As an example, we can consider the budget for the agriculture sector in 2021 and 2022, as shown in the below table:

<b>Ministry of Agriculture and Fisheries</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Programs</b>	5	2	2
<b>Sub-programs</b>	17	11	16
<b>Activities</b>	63	44	63
<b>Staff</b>	1,153	1,441	1,441

We encourage National Parliament, as the legislative body that oversees budget and program execution, to conduct genuine monitoring and to talk with target communities to clarify program implementation and to understand their feelings about the programs, as evidence to measure the quality and results of budget execution.

Furthermore, Parliament should use its powers to demand that relevant Ministries conduct thorough evaluation of the implementation of each Ministry's annual plan, in order to understand the results of the programs as well as the shortcomings, and to understand how to improve programs in the next budget cycle and respond to the challenges. This approach can lead to coordination and efficiency, and enable Deputies to discuss and approve plans and programs for the next budget cycle in order to respond to the present situation in Timor-Leste.

La'ó Hamutuk appreciates that Government speeches and documents recognize that structural problems facing the population, including shortages of food, malnutrition, import dependency, unemployment, and poverty. But in the proposed 2023 GSB, once again Timor-Leste has not taken the opportunity from the budget perspective, to address those problems. Realistically, we do not see a strategy to increase production of rice, corn and other foodstuffs to respond to food shortages and improve nutrition.

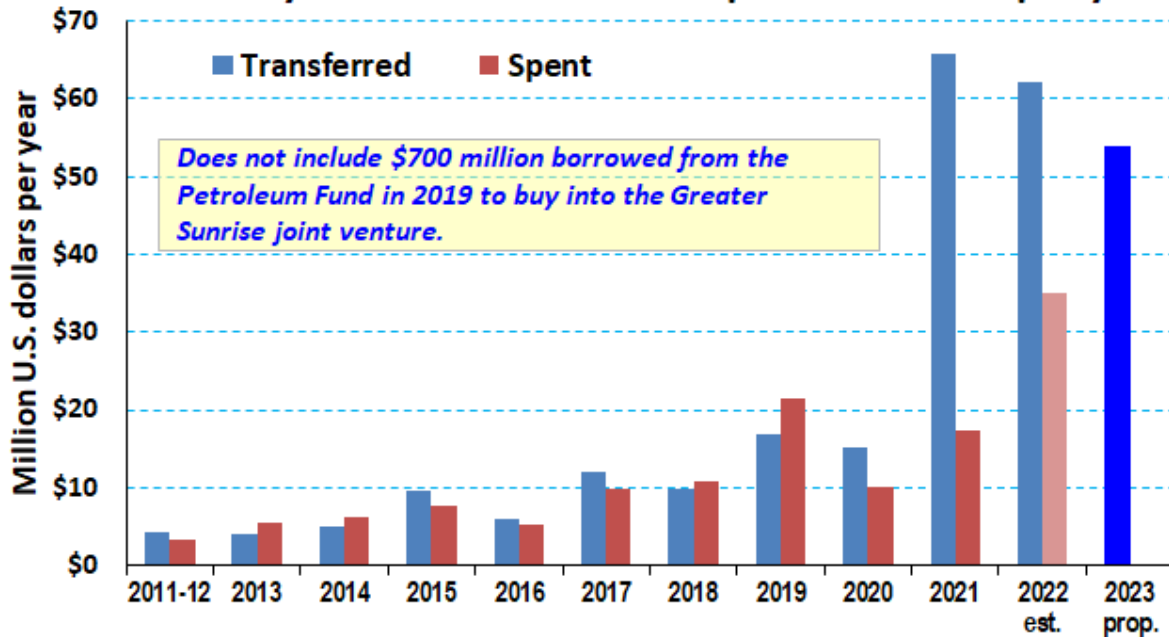
***Revise allocations to programs that do not benefit the people.***

Government speeches and documents frequently affirm that the Government's priorities are concentrated on people, but allocations to sectors directly related to developing human resources (education, health, water, and agriculture) together comprise 16% of the budget. Therefore, we encourage Deputies to raise these issues for detailed discussion with Government officials during the plenary debate. Further, as we note above in the section on petroleum dependency, extractive sectors are very capital intensive and benefit people less than other sectors.

With the new program-based budgeting system, the Government intends to better measure the results of its programs. Consistent with this principle, we observe that the Government should revise allocations to public enterprises that were formed to contribute revenues to the state, but which have unfortunately continued to be a burden on state finances. We can consider TimorGAP as one example, which has failed to use money it was given, but requests further funds without evidence of the benefits, as the following graphic shows.



## State subsidy to TimorGAP national petroleum company



Graph by La'o Hamutuk based on TimorGAP reports and Ministry of Finance state budgets. October 2022

We encourage Deputies to question allocations that have no evidence supporting the capacity to implement, or benefits to the people. Some recurring allocations are yet to demonstrate their benefit. We ask that the Government not to just add new programs, but to evaluate the benefit from and need for recurring programs and allocations.

### Recommendations:

1. The Government should present their actual plan with regard to financial sustainability, and share it with National Parliament and the public so that the proposed GSB can be considered with complete information.
2. The Government should provide estimated costs of each program for the next four years, so that the National Parliament can consider and evaluate proposed allocations based on their total cost.
3. We ask Deputies to insist that the Government not ignore the serious situation with regard to the fiscal cliff, and take appropriate action to implement a sustainable plan and ensure that spending plans align with the reality of state finances.
4. We ask Deputies to evaluate proposed allocations to the petroleum sector, bearing in mind that this sector will not resolve the problems we now face, and will not deliver benefits to the people. Cancel allocations that will not help the people achieve a good quality of life, and allocations to projects that are not backed by evidence with regards to their benefits, costs, and risks.
5. The Government should implement good transparency practices.
6. We ask Deputies to evaluate all proposed allocations from the perspectives of sustainability, capacity, and benefits to the people.
7. National Parliament should improve the system of holding public hearings or other mechanism to receive information and analysis from civil society.

We from La’o Hamutuk are always available to offer our analytic contributions to help Deputies have deeper discussions about the proposed 2023 GSB before its final, global approval by the National Parliament.

Thank you for your attention and consideration.

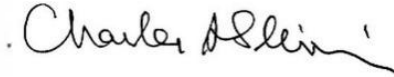
Sincerely,



Celestino Gusmão



Bree Ahrens



Charles Scheiner



Marta da Silva



Mariano Ferreira



Jonathan Gonsalves



Elizabeth da Silva



Elizaria Febe Gomes