

La'ó Hamutuk

Timor-Leste Institute for Development Monitoring and Analysis

Rua Dom Alberto Ricardo, Bebora, Dili, Timor-Leste

Tel: +670-3321040 or +670-77234330 (mobile) email: laohamutuk@gmail.com

Website: www.laohamutuk.org



Open Letter to Members of RDTL National Parliament

from

La'ó Hamutuk

about

The Proposed Major Options Planning Law

24 May 2022

La'ó Hamutuk appreciates that through the proposed Major Options Planning Law, the Government has made an effort to convey the reality and the current situation of state finances, including projections that the Petroleum Fund will be empty before 2035, and the reality that revenues from oil and gas production will continue to decline.

We think that this information is very important to help Members of Parliament make careful and well-considered decisions; we hope that in the future the proposed Law and planning documents can also be published in Tetum to facilitate better comprehension.

La'ó Hamutuk wants this proposed law to be an opportunity for Parliamentary Deputies, the media, academics, civil society, and the general public to evaluate, discuss and define a realistic, equitable, and sustainable direction for our beloved nation.

Projections of State Finance Need to Include Complete Information

Just as LH has stated many times, this proposed law also recognizes that the Petroleum Fund depends on international financial markets that are prone to fluctuation. The markets have more often been in our favor than they have been against it, such as in 2015, 2018 and the last few months. Between January and April 2022, the Petroleum Fund declined in value from \$19.65 billion to \$18.68 billion. During April alone, the fund lost \$443 million, and continued to decline in May because of losses in the stock market. Therefore, we hope that the Ministry of Finance will provide an analysis of the impact of these recent developments on the projections in this draft law, to assist Members of Parliament in understanding the current situation.

We note that this proposed law uses financial data that fails to take into account the recently promulgated Rectification of the State Budget for 2022, which increased it by \$1.24 billion. Further, the proposed future spending outline in the Rectified Budget is not included in this proposed law. Chart 6 (page 16) shows estimated future spending, but this information is no longer relevant

because the Rectified Budget predicts much higher levels of spending. In the proposed law, there is also inconsistent information - for example, Chart 6 shows global expenditures of around \$1.6 billion in 2023, but in Annex III (page 50), expenditures for this year are given as \$2.09 billion.

We are concerned that projected revenues include uncertain revenues, without any evidence. Table 3 (page 12) in the proposed law suggested that the Estimate Sustainable Income will increase in 2026 and 2027. We infer that this change is based on an assumption that the value of future petroleum revenues will increase from zero to \$6 billion. We are waiting for the Ministry of Finance to provide complete information about these estimates, to help Members of Parliament and the public evaluate this proposal, and to understand the actual impact of this proposal on our state finances.

Proposed Plans and Spending do Not Conform to the Current Position of State Finances

While we appreciate the Government's inclusion of a summary of the state's financial situation, we are concerned that the budget measures contained within this proposed law are inconsistent with the reality that the Government itself acknowledges in the Major Options Planning Law. If the Government recognizes that we face a difficult situation with regard to state finances, why do they propose a fiscal envelope of \$2.15 billion in 2023 and project the same amount for each year until the Petroleum Fund is exhausted? Why not spend the remaining Petroleum Fund more carefully?

We are dismayed by the impact of large budgets on the sustainability of state finances, and also wonder if the state has the capacity to implement the many projects described in this proposal. Our financial resources are limited, and so we need to ensure that each project is implemented to a high standard, and in a way that is accountable and transparent. We need to prioritize programs that can build our domestic economy and strengthen the resilience of the population to confront challenges that result from economic crises, including strengthening economic sectors that don't rely on Government spending, such as the private sector and subsistence activities, and increasing food sovereignty and reducing dependency on imports.

We Need to Prioritize Programs that Benefit the People

We appreciate that, through the Major Planning Options Law, the Government has an opportunity to establish an integrated plan to contribute to achieving specific objectives. We observe, however, that this proposed law cites 263 measures - this means that the proposed law fails to identify "major options", but instead lists many measures without indicating which will be prioritized or receive the largest allocations. We think that the purpose of the Major Planning Options Law is to determine an integrated plan and demonstrate which measures will be prioritized, not to list all the activities that will be included in the next State Budget.

We think that the Government should prioritize projects which can reinforce and diversify the economy and strengthen basic sectors. These measures should work towards ensuring that all Timorese people can access good nutrition, quality education and health services, and water and sanitation infrastructure, to prevent them from becoming more vulnerable or falling deeper into poverty. When the Petroleum Fund is empty, we will not have enough money to invest in these key sectors. Therefore we need to use this opportunity to invest in the people. Although the Government states that its planning objective is to invest in people, we have not yet seen strategic measures to build resiliency and sustainability.

We have identified some proposed programs that should be prioritized in the 2023 State Budget, including:

Agriculture (2), through measures oriented to support production for domestic consumption. Our dependency on imports is a major obstacle to the people's well-being, and increases our vulnerability to international markets and global inflation. This includes strengthening local production through measures using existing types of production, such as cooperatives (2.5). We also believe that promoting local production (2.2.1), including agricultural processing industries, can be one way to build a more inclusive local economy. We hope that the proposal to improve national coordination (2.1.2) can help ensure that Government interventions such as Cesta Báziku can support local production.

Water and sanitation (9) is key to a healthy population. We know that rural communities face a more difficult situation in this regard, compared with Dili. We appreciate the proposal to strengthen the availability of clean water and build a sanitation system in Dili, but also need to include effective measures in rural areas. Members of Parliament can discuss in greater detail the sustainability of water resources, which are declining over time as consumption increases, mainly for large businesses rather than our people.

Strengthening our human resources through **education (10)** is important to ensure our future. We agree that education is the key to the future, and hope the steps taken in this regard include improvement of education infrastructure (10.1.2). We hope that the Government can prioritize equitable measures, and conduct a study on equity in the CAFÉ schools program (10.1.7) before expanding it. The priority should not be to introduce programs that benefit only some students, but to ensure that all students can access schools with complete facilities and teachers with adequate capacity and resources.

Health (11) is a sector that needs to be prioritized, so that our health infrastructure and health systems can become strong before the Petroleum Fund runs out. We appreciate that the proposed programs include projects in Dili as well as rural areas, which to date have had inadequate infrastructure. We also see a need to achieve a balance between quality infrastructure and equipment, and capable human resources. There needs to be investment, and effective execution, in both elements to achieve maximum benefit for the people.

We have also identified programs that should not be prioritized in the 2023 State Budget, including:

- ◆ **Regional airports (8.3)**, including the Baucau international airport. There is no evidence that we need it, or that it will impact on national economic development. Maintenance of strategic roads is more important, based on the people's needs. We think that our limited resources should be used for important and urgent projects; there is major possibility that the Government will not build a resilient economy through these measures.
- ◆ **Petroleum and Mining Infrastructure (6)** including a refinery. We are concerned that the objective of this proposed program is to maximize investment, rather than maximize benefit to the nation. The proposed law includes measures to "acquire land and resettle the population," despite the fact that the status of the Tasi Mane project is uncertain. Before allocating more money to implementation we need to prioritize an independent study of its costs, benefits, and risks, as ANPM and TimorGap have already committed to do.
- ◆ Related to the above point, we are concerned that the proposed highway in section 8.1.5 refers to an extension of the South Coast highway that is part of the Tasi Mane project. Construction

of the first part of this highway cost \$350 million for just 30 km - the quality of construction was poor and the road is currently in disrepair. If the Government continues to build this road, the total cost could be \$1.3 billion more - although an independent study of the project has not yet been done. This raises major concerns - what are the benefits to the people, and what are the risks to the sustainability of state finances?

From our comments and concerns above, we conclude with the following suggestions:

1. We ask the Ministry of Finance to update financial projections based on the Rectified Budget and changes in the balance of the Petroleum Fund, and to clarify calculations about future state revenues.
2. Do not include as Major Planning Options parts of the Tasi Mane project and other major projects that are part of the unrealistic ambitions of the National Strategic Development Plan.
3. We ask Deputies of the National Parliament to consider the proposed measures from a long-term perspective, and give priority to measures that can secure our nation's future.
4. We ask that the Government and Parliament not sacrifice the true objective of the Petroleum Fund, which was intended to benefit current and future generations.
5. We also ask academics, journalists, and activists to pay attention and give input to the Government and National Parliament before they decide to approve this law in the PN.

This concludes La'o Hamutuk's open letter on the Major Options Planning Law. We thank you for your attention.



Marta da Silva
La'o Hamutuk Coordinators



Celestino Gusmão