



Preliminary thoughts on the Strategic Development Plan as presented to Parliament

11 July 2011

The Strategic Development Plan (SDP) contains many attractive goals, inspiring ideas and insightful analysis of how to improve the lives of the Timorese people during the next twenty years. We believe that it is an important contribution to the discussion, and is greatly improved over the summary and drafts which circulated officially and unofficially last year.

However, it is a large document, with many new proposals or refinements on ideas already being discussed in various circles. It deserves careful, thoughtful, thorough discussion and consideration before being enacted. We find it irresponsible that the Council of Ministers approved it in the pre-dawn hours after an all-night meeting, and it would be unconstitutional for Parliament to approve it less than a week after it was distributed to Members. Such a hasty action would violate Parliament's definition under Article 92 of the Constitution of the Democratic Republic of Timor-Leste as a sovereign state organ which represents all Timorese citizens, and we urge both the Government and Parliament to slow down and consider these issues more carefully.

Nevertheless, given political realities, we are providing a few of La'o Hamutuk's preliminary observations on the proposed Strategic Development Plan, which we hope are helpful to Parliament, Government, donors and the public as the Plan evolves. We look forward to discussing these more thoroughly, once we and others have had enough time to properly consider the document.

This version is much improved over last year's draft.

It is based on a more fact-based assessment of current conditions in Timor-Leste, and has goals which are closer to being achievable. Many of the fundamental contradictions, unfounded assumptions and impossible dreams in the earlier draft have been removed, and we welcome the recommendations for further analysis and studies to work out the specifics of many of its suggestions.

The design, layout and photographs demonstrate that voluminous technical information can be pleasing to the eye, as well as reminding us of the people this Plan is intended to benefit.

The Plan includes a welcome focus on social capital, rather than the dominant attention to physical infrastructure that pervaded last year's discussions. We hope that future budget priorities will reflect this; the allocation of 52% of the 2011 State Budget to physical infrastructure is a bad signal.

We agree that a plan is not a budget.

However, it needs to be more than a dream, and should include more concrete information about what it will cost to implement and where the money will come from.

There is only a passing reference to borrowing (p.206/213¹). However, we believe the Government intends to borrow to raise money for the levels of public spending and investment needed to implement this plan, which is why the Government is pushing for rapid enactment of the Regime for Public Debt. However, the Plan does not explain how borrowing fits into its economic models or spending forecasts. This Plan is

¹ The lack of paragraph numbers and inconsistent page numbers between the Portuguese and English texts makes it hard to reference the Plan. We have included page numbers from the English version on the Government website, followed by those in the Portuguese version distributed to Parliament.

incomplete without information on how much the Government intends to borrow, over what period, what it will be used for, how it will be repaid, and how repayment will affect future Government expenditures.

We also believe that a comprehensive plan needs a risk analysis. What will happen if oil prices fall, if economic growth or domestic revenues fall short of desired targets, or if borrowed money cannot be repaid?

More imaginative thinking is required.

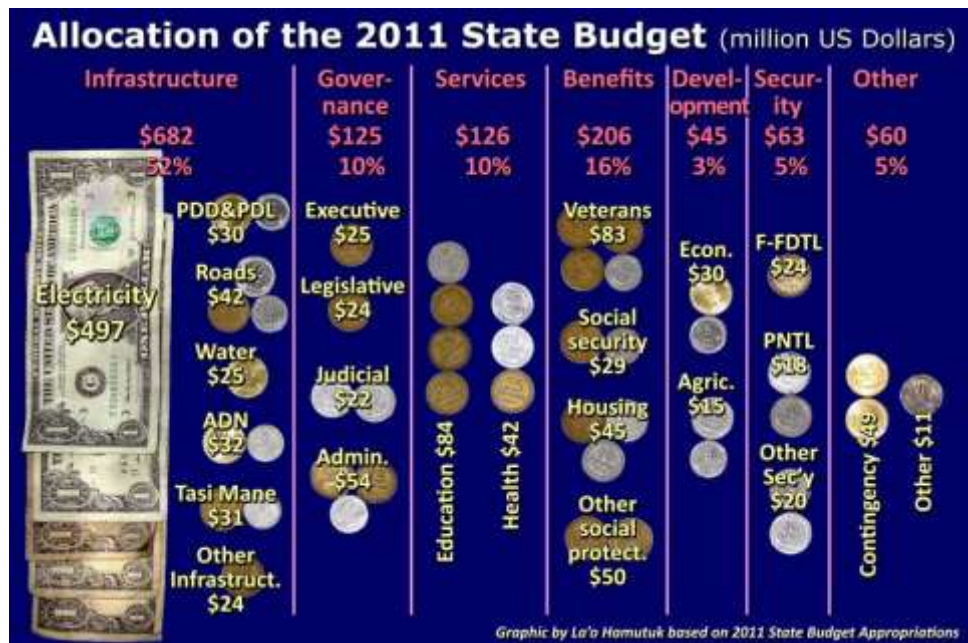
La'o Hamutuk, the UNDP and the Government all agree that Timor-Leste needs to move away from an oil-dependent economy in the long-term. We are therefore puzzled that petroleum processing is the only industrial development proposed by this Plan. What about agricultural processing, or light industry to produce products to replace current imports?

There is no discussion to Timor-Leste's trade deficit, which was nearly a billion dollars last year (when all non-oil goods and services are considered). Increasing exports can improve this slightly, but reducing imports will have much

Category	Imports	Exports	Balance
Goods	\$289 <small>(DNE reports)</small>	\$17 <small>(96% coffee)</small>	(\$272)
Other goods <small>(extra-legal)</small>	\$200 <small>(LH estimate)</small>	\$0.3 <small>(LH estimate)</small>	(\$200)
Services	\$505 <small>(2009, from BPA)</small>	\$3 <small>(LH est. remittances)</small>	(\$502)
Total excluding oil & gas	\$994	\$20	(\$974)
Petroleum receipts <small>(to state)</small>	--	\$2,016 <small>(incl. \$294 Petrol. Fund interest)</small>	\$2,016
Total	\$994	\$2,036	\$1,042

greater impact. However, the plan focuses primarily on economic development for exports. More attention should be given to processing agricultural products, canning fish, or producing simple products that people use every day, like candles, instant noodles, beer, bottled water or other low-technology industry.

The 2011 State Budget² allocates twice as much money for feasibility studies for the Tasi Mane project as for the entire Ministry of Agriculture. This Plan also reflects the disproportionate influence of the petroleum sector on state priorities. We recognize that petroleum exports currently dominate Timor-Leste's state economy and revenues, and that many of the smartest and most imaginative people in Government are focused on oil and gas.



However, the oil industry is famously capital-intensive, amoral and environmentally dangerous. It will provide few jobs for anyone, including Timorese workers. Therefore, we encourage people in other sectors, both inside and outside Government, to develop creative proposals to develop Timor-Leste's economy, so that non-oil ideas can be considered on an equal basis with the Tasi Mane project.

Although we will not discuss it further here, La'o Hamutuk is disappointed that neither the Foreign Affairs nor Justice sections of this Plan mention the pervasive ongoing impunity for crimes against humanity

² More information on the 2011 State Budget is at <http://www.laohamutuk.org/econ/OGE11/100JE2011.htm>

committed against Timorese people as part of the 24-year, illegal Indonesian occupation, or suggest any ways to deal with it. This failure to hold criminals accountable, or even to acknowledge most people's desire for justice, weakens our democratic state under rule of law, as well as international and domestic principles of human rights that are in force in our country. In addition, it sets a precedent for impunity, oppression and lawlessness that reverberates throughout our nation and around the world.

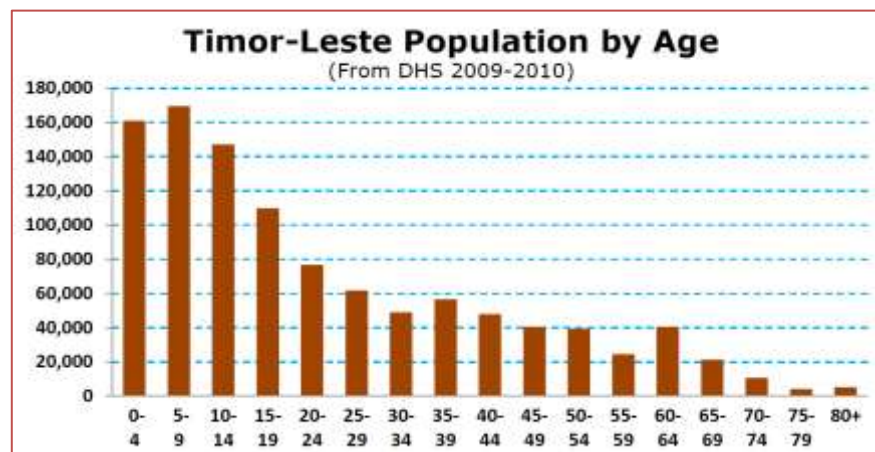
The Plan includes some incorrect assumptions.

The first Fragile States Principle is "Use context as the starting point." It also applies to this Strategic Development Plan.

Being in the dynamic economic region of Southeast Asia (p.194/200) isn't necessarily an advantage. Timor-Leste needs to find a competitive advantage to motivate importers to prefer our products. If ASEAN is to be a "large potential market," (p.200/206) we need to have exports which provide more quality for value than our ASEAN competitors.

Our post-war baby boom was very large, and we have twice as many children aged 0-9 as people aged 20-29.³ This means that assumptions of continually declining population growth (footnote, p.209/215) are incorrect, because there will be another growth spurt when today's children reach childbearing age.

It is unlikely that significant additional oil and gas reserves will be discovered in Timor-Leste, and this plan should not dangle unrealistic hopes.



The Macroeconomics section has outdated and misleading numbers on inflation and petroleum dependency, which we discuss further below.

Education needs more careful thought.

Human and intellectual infrastructure (i.e. teachers and books) are at least as important as buildings, and the quality of schooling, as well as the number of classroom hours per day and days of instruction per year, are more important than simply counting of years of schooling or percentage enrolment.

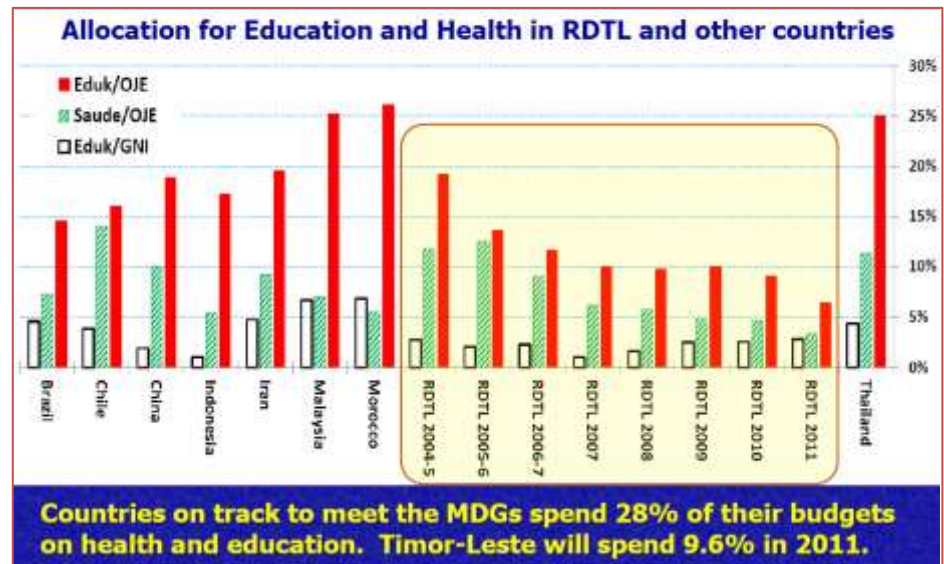
The current school enrolment data (pages 17-18/16) are inconsistent. How can there be 90% enrolment in basic education if fewer than 54% of six-year-olds start first grade and 70% of these drop out before year nine, with the highest dropout rate in the first two years of primary school?

We encourage the Plan to highlight the quality of education in basic life and employment skills – math, reading, writing, basic science, basic financial management, basic farming – rather than the number of years during which students spend some time in school. Especially at secondary and university levels, successful economic development requires more attention to physical science and math than liberal arts. If a solid foundation isn't established in primary school, the student (and the society) will be handicapped for their entire life. Similarly, technical secondary education shouldn't only focus on "market needs" (p.21/20) but also on the society's needs: civil and industrial engineering, business management, entrepreneurship, math – enabling graduates to start and run companies as well as to work for others.

³ According to the 2009-2010 Demographic and Health Survey.

The National Training Commitment (p.28/26) should also include agriculture and civil engineering skills (i.e. drafting, project management, etc.). Its focus on the petroleum industry is misdirected, as this industry will never provide very many jobs.

The many references to the Human Capital Development Fund (p.29, 30, 130, 137, 184, 202), exaggerate its importance for its size (\$25 million per year, mostly for overseas scholarships) and divert attention and resources from improving local higher education institutions, such as UNTL, which will benefit many more students for a longer time, as well as providing employment.



We offer brief suggestions for improving Health plans.

La'o Hamutuk are not experts in the health sector, but we noticed a few things. More attention needs to be given to HIV/AIDS (p.40/38), as the conditions for rapid escalation of this epidemic already exist in Timor-Leste's general population. Prevention of HIV/AIDS, tuberculosis, malaria and other contagious diseases not just "awareness," should be targeted (p.42/40), as there are things the state can do.

During the next several years, the Cuban doctors who form the backbone of today's health care system will return home. We do not see anything about how this vacuum will be filled.

The plan has some good ideas about environment, but is inconsistent with recent legislation and actions.

The national electricity project – by far the largest project in the history of Timor-Leste – is being undertaken without any Environmental Impact Studies or Assessments, notwithstanding major ecological impacts from construction of the Hera and Betano power plants, Behau port, substations, and nearly a thousand kilometers of power lines. Contractors are not being held to environmental or health and safety standards, and there has been no public information or discussion about the environmental impacts of the systems operation once it is built.

In February, the Council of Ministers approved Decree Law No. 5/2011 on Environmental Licensing without any public consultation or discussion, a process which appears designed to facilitate environmental damage. The draft Environmental Basic Law circulated for consultation earlier this year is also extremely weak. Petroleum activities in the Joint Petroleum Development Area are largely outside of public environmental scrutiny. There has been no environmental assessment of any of the Tasi Mane petroleum projects.

In order to achieve the Plan's 2015 targets (p.60/60) for a legal framework to protect and conserve the environment and for enhanced public awareness of environmental protection, these sorts of practices need to be immediately stopped and reversed. Postage Stamps do not compensate for an environment which may be severely, permanently damaged even before the 2015 targets come due.

La'o Hamutuk opposes Carbon Trading (p.56/56) in principle. We do not believe that industrialized countries should be able to buy the right to continue to destroy the global climate through encouraging responsible practices in countries like Timor-Leste. Under principles of Climate Justice, those who have destroyed the climate are obliged to provide reparations to people who are suffering its impacts, but that does not give them permission to continue destruction.

Infrastructure needs more thought, especially renewable energy.

This section is much better than the earlier draft, and we appreciate that the Plan recognizes the societal value of roads for more than getting goods to market. We also appreciate the goal of generating at least half Timor-Leste's electricity from renewable sources by 2020. We are glad that the heavy reliance on dams in the Prime Ministers' presentation in the subdistricts has been removed.

Given that, we are even more puzzled by spending close to a billion dollars on the heavy oil-fueled system currently under construction, and by the reluctance to public distribute the Martifer "Electrification Plan of Timor-Leste based on Renewable Energy," the source of four illustrations in the SDP. Although the Plan mentions that it could be technically possible to convert the Hera and Betano power plants to diesel or natural gas, there is no date for this action, if it is ever to happen. Similarly, the national electricity grid currently being built should be designed differently if its main, long-term purpose is to distribute renewable energy from decentralized sources. Since the national electricity project has absorbed 56% of all government expenditures (\$281 million of \$501 million) to date in 2011, it needs to be integrated better into planning.

The statistics on renewable energy (p.87/89) are confusing, using a unit of energy (GWh, gigawatt-hours) in a discussion of energy consumption (perhaps it should be GWh/year, or simply GW).

We agree that biomass (p.90/92) is worth exploring; and are glad to see that biofuel plantations are not included in the Plan. We hope that the reference to corn and sugarcane to produce ethanol for vehicle fuel is not a signal of something larger for export. Food crops and scarce land which can grow them should not be reallocated to inedible cash exports.

We also appreciate the recognition that a feasibility study is needed before we can process or use domestically produced natural gas (p.87/89) to support Timor-Leste's energy consumption, and we hope it is carried out in a transparent, objective and realistic way.

Land laws must consider colonial injustices, and titling should not endanger land rights.

Timor-Leste needs laws to regulate access to land, but they must recognize our history, especially the Portuguese colonization and Indonesian occupation which forced many from their land. The draft Land Law before Parliament was written with limited public participation, and will reinforce past injustices, opening the way for many people and communities to lose their land. The Law ignores that land has more than economic value, that Timorese people are bound to our land with values that cannot be sold. Land is critical to the lives of grassroots people, providing a place to live, food, and the basis of culture, social life, and economy.

The Plan mentions a "long process of public consultation" on the draft Land Law (p.179/183), but the main participants in the consultation were community leaders and political parties, with most grassroots people excluded, especially poor, rural people who depend on their land. We believe that the draft law will create injustice for poor people's access to land, as it will not allocate land to currently landless people, many of whom were forced from their land by Portugal or Indonesia.

Timor-Leste is moving toward a disturbing concept that land must be secured to protect 'investment.' The State taking people's land is Timorese people's number one land concern, which has been heightened by many recent unfair/unethical land seizures⁴ which have profound impacts on productivity.⁵ Unfair land laws will undermine economic development by promoting corruption and discouraging ethical investors.

The Land tenure section of the Plan (p.112/114) describes how people will get the right to use land, providing easier titling and credit for farmers with money. We agree that people's rights should be protected

⁴ Recent concerns include the seizure of land for the road to the FDTL port in Hera, the below market purchase of land for the site of the Hera Heavy Oil Power Plant, and the State giving community land in Mota Ikun for three companies); illegal evictions (such as Ai-tarak laran and Ex-Brimob); and proposed laws that take land from communities and give it to the State

⁵ For instance, one site for the Betano Heavy Oil Power Plant was a community teak plantation – with trees that take 25 years to develop.

with titles, but worry that farmers may lose their land if they default on loans which use their titles as collateral. In many countries, banks confiscate land when people cannot repay loans, even if the land is worth much more than the value of the loan.

Titling services should enable all farmers to participate, not only those who can pay. Most farmers here are worried that the system will lead to injustice, because it increases the gap between the poor and rich farmers, who have capital to invest in their land. Furthermore, the Government must ensure that everybody, especially farmers, understands the consequences of selling their title.

Timor-Leste needs a broader vision for economic development.

La'ó Hamutuk believes that the single-minded focus on the petroleum sector for industrialization will not produce the desired results. This industry is not labor-intensive, providing few jobs for anyone. We have a small domestic market for petroleum products, and no competitive advantage for our exports.

Allocating many intellectual and financial resources exclusively to this sector will impede moving to a non-oil economy after local oil and gas reserves are used up, which is likely by 2024. It is an unfortunate example of the “capture” of decision-making processes by oil sector, which has attracted the most imaginative and persuasive officials in Government.

Eradication of “extreme poverty” is of course worthwhile, but the Plan should have a broader focus on economic justice, to include everyone in Timor-Leste’s economic growth, and GDP or GNI *per capita* indicate the wealth of our more affluent residents, rather than of the entire population. Extremes of poverty and wealth should be avoided, with a goal of improving the lives of the bottom 60-80% of the population, not only the poorest of the poor.

Although the discussion of MDG suco program talks about “building houses” (p.109), the ADN’s current tender⁶ is to import prefabricated houses, which will provide few local jobs, be difficult to maintain, and send more than \$40 million of our money out of the country in 2011 alone. How will “local communities work together” on this, other than to reduce the conflict inherent in allocating the houses to families?

The Plan accurately, but sadly, identifies that the private sector today only provides about 400 new formal jobs per year – far less than the 15,000 Timorese who reach the age of employment annually. However, it appears not to adequately consider the future – that in 2023 more than 30,000 young people will enter the workforce. We have not seen a plan to create jobs for them.

The discussion of the Referendum Package and the Program for Decentralised Development (p.110) fails to mention the poor quality and completion record of projects under these schemes, although it plans to expand them in the future.

The discussion of “cooperatives” (p.110) omits the core principle of such structures – that decisions are taken democratically by their members. Perhaps the mis-named Cooperativa Café Timor (CCT), where members have little information and no control over CCT’s decisions, has confused this concept.

Although decentralization (p.112) is worthwhile, it will be more effective if municipal governments have their own sources of revenue, or at least a guaranteed share of national wealth.

The section on agribusinesses (p.113) focuses on marketing, rather than on production or adding value. It should also include such things as dairy and poultry production, juice packaging, coffee processing and other light industry which will provide employment and add value to Timorese agriculture. This will substitute for imports for domestic use, and may create export opportunities if there is surplus production and a competitive advantage can be identified. Light industry could also produce low-tech, commonly-used, currently imported products such as canned fish, beer, instant coffee, cigarettes, instant noodles, candles, soft drinks, etc.

⁶ Tender ID No. ICB/012/OPM-2011, available at <http://www.mof.gov.tl/en/sf/DPP/Procurement/CurrentInternationalTenders/ICB.pdf>

National strategic zones (p.115) need to be refined and revised. They largely leave out the interior of the country, especially mountainous areas (e.g. Ainaro and Manufahi), where many people live. One could read the Plan as encouraging economically mobile people to move out of these areas. We also wonder if it makes sense to allocate some of the most productive agricultural areas, in the southwest, to petroleum processing.

Agriculture should promote food sovereignty and involve farmers.

We agree with the Plan that in the long-term, Timor-Leste should expand organic agriculture (p.119/121). However, a number of its other ideas are not as wise.

Timor-Leste is a small country with limited arable land. In this situation, we should work to achieve Food Sovereignty, reducing import dependency by producing the food we consume. Organic production will provide nutritious, quality food for our people, reducing spending on food imports. We should not depend on inputs we cannot produce ourselves, such as imported chemical fertilizers and pesticides, which are produced by foreign companies. If our farmers and agriculture become dependent on them, these companies can manipulate price and supply to maximize their profits.

Our agricultural priorities should be food sovereignty and import substitution, not exports. In areas like livestock, poultry and fish canning, Government action may be necessary initially to make local production competitive with cheap imports, and to improve storage and transport, but it will reap long-term benefits in health, economic development, employment, and the overall economy.

The Strategic Development Plan reads like many post-independence agriculture policies from the 1950s and 1960s. The plan is top-down –government, not farmers, decide what should be planted. The approach is crop-driven, rather than looking at the production cycles – such as intercropping, poly-cropping; and heavy on tangible inputs (such as tractors) which increase popular support but often have limited, or sometimes negative impacts. The emphasis of ‘top down,’ all-or-nothing programs can lead farmers to distrust government programs, since they are not seen as independent, objective and ultimately supportive of what farmers’ think is the best way to plant, use or sell what they grow.

We are concerned that the Plan suggests emulating the “Green Revolution” (p.119/121). Today, the state of Punjab, India’s breadbasket where the Green Revolution started, confronts many crises from these technologies. The water table drops a meter per year; nitrate (from fertilizers) levels in drinking water endanger people’s health; soil compaction by agriculture machinery increases erosion, decreases soil fertility, and reduces water infiltration. Farmers have to go deeper into debt to drill deeper wells, buy fertilizers and maintain their equipment. They need three times as much fertilizer as 30 years ago, and the pests are now pesticide resistant.

The impacts of industrial agriculture were poorly understood when the Green Revolution began a half-century ago. However, today industrialized countries are reducing pesticide and fertilizer use, increasing urban food production, reducing waste, reducing farmer indebtedness and increasing water sustainability. Timor-Leste should learn these lessons and implement more sustainable agricultural practices.

Government agriculture programs to date give the appearance that tools are more important than farmers. A lot of money is spent for big tractors, but not much to increase farmer’s capacity to use them. The Plan should put farmers at the center, prioritizing increasing their capacity for agricultural production to increase their income, such as food processing, diversified incomes, market analysis, managing their incomes, and other trainings that will empower them to improve their own lives. The Government should only be a facilitator, and equipment it provides is only to complement their work. We believe that if farmers don’t have enough capacity, all the equipment won’t be used effectively.

Farming is not only a technical area, it is social – and human relationships, knowledge and cooperation play a large role in agricultural outcomes. For example:

- Popular participation in decision making (not just government-organized cooperatives) can avoid many mistakes, using popular consultation, increased farmer-to-farmer networks, exchanges and unions, agricultural expos, and involvement of farmers in advisory and other groups.
- Local research and development will develop more appropriate policies for our many microclimates.

- Farmers can help monitor, understand and respond quickly to changing climate or adverse events.
- Supporting farmers, with objective, reliable information.

The report downplays sustainable agriculture, equating it with low-production, unskilled, subsistence farming (p.118/120). Timor-Leste already supplies about 70% of our own food needs (compared with 25% in Africa), a substantial achievement. During the war, Indonesia targeted food sovereignty, decimating the local environment and farming knowledge and promoting increased dependence on Indonesian rice, coffee, sugar and noodles. Unfortunately, government has continued with many of the early Indonesian era policies (such as rice subsidies to civil servants) and grossly underinvested in agriculture (receiving only about \$16 million, a tiny fraction of the State Budget), although agriculture is the foundation of our non-oil economy.

The UN Special Rapporteur on the Right to Food recently wrote that agroecological farming (sustainable agriculture) could double food production in some regions within 10 years,⁷ echoing the UN's in-depth 2008 "International Assessment of Agricultural Knowledge, Science and Technology for Development" report, which also emphasized sustainable agriculture.⁸ Sustainable agriculture needs long-term work by Government and farmers together to increase their knowledge and skills and to increase the effectiveness of existing programs. Government statistics are heavily politicized and not reliable. We need fundamental, accurate information about the informal economy, and local non-cash markets.

Although many of the challenges that Timor-Leste faces are not unique, we have a unique opportunity as we rebuild our agriculture and food systems to do so sustainably.

Nearly all the nation's resources, education and employment opportunities are concentrated in Dili. The small attention in the Plan's National Strategic Zones (p.115/116) to agriculture only considers export crops. Since 2002, Timor-Leste's leadership has been working to build a 'modern,' urban society. It is difficult for rural populations to gain fair shares of State resources and equal status to city dwellers. This causes more people to move to the cities, and further undermines agriculture.

Large-scale irrigation (p.121-122/123-124) in Timor-Leste has often been inappropriate. Irrigation systems next to steep hills silt-up; and in some cases can increase water-related conflict. The irrigation system is developed with no geotechnical expertise, leading to mistakes being repeated. We hope that the feasibility studies for large dams will learn from such wasteful infrastructure projects as the Betano wall, which failed protect the fields from river flooding.

The Indonesian occupation promoted hybrid seeds. The process of broadly promoting a single seed – such as Nakroma rice (p.123/125) – can increase pest problems, as shown by recent hopper infestations in Indonesia and China. Promoting seeds solely on yield is dangerous (they should also be selected for climate change durability, cooking time, nutritional value, pest resistance, etc.) and may unsustainably deplete soil nutrition. Seeds of Life's 'improved' varieties are more vulnerable to pests and require more resource intensive storage, making them harder for poorer farmers to use. We suggest promoting seed banks, seed sharing and locally adapted seeds to develop more diverse and resistant seed stocks over time.

During the occupation, Indonesia promoted eating rice to undermine food and political sovereignty. Unfortunately, Timor-Leste is continuing many of these policies. For some people, eating rice without balancing nutrition can lead to worse nutrition. We agree with the Plan's goal to increase production of maize, roots and tubers (p.120/122), and hope it will be further developed and implemented. We disagree with focusing on fruits such as 'rambutan, peaches and plum' (p.125/127) as high-value products for the domestic market, and encourage increased access to fruit and vegetables for all Timorese people, not only an elite.

This Plan explores increasing coffee quality and coffee production (p.127/129), but not on improving the economic gain and quality of life for coffee farmers, helping them to enjoy benefits throughout the year,

⁷ See 'Agroecology and the right to food' available at <http://www.srfood.org/index.php/en/component/content/article/1174-report-agroecology-and-the-right-to-food>

⁸ <http://www.agassessment.org/>

weather global market changes, reduce water pollution and achieve more gender equality. Better consultation and more transparency can make “fair trade” truly fair, involving farmers in all phases of production, processing and marketing. Coffee is much more than 80% of non-oil exports: 95.9% in 2010.⁹

The Plan refers to agricultural training colleges and the university (p.119/121), which promote industrial agriculture practice, but a multifaceted approach to agricultural education is needed. We encourage better training for extension workers, giving them more farming experience, better outreach to farmers, and involving more women. As agriculture is the mainstay of the non-oil economy, it should be mainstreamed into school education – which would increase the status of agriculture, reduce flight to urban areas, help preserve traditional knowledge, and value cultural identity.

Petroleum activities get too much attention.

Although the SDP improves on some earlier proposals, it still relies too much on the petroleum sector as the only form of industrial development. Perhaps this results from little creative thinking in other sectors.

We agree with the prudence of excluding possible revenues from Greater Sunrise in the economic modelling for this Plan (p.209/212), although it should be remembered that GS, Timor-Leste’s only large undeveloped field, was discovered nearly 40 years ago. Like many who avoid reality, the Plan holds out the hope of “potential future finds” (p.206/209) of significant oil and gas reserves. Kitan, the only commercial field found in the last 15 years of spite of intensive exploration, is 3% the size of Bayu-Undan, and Timor-Leste probably doesn’t have any more large petroleum fields.

Petroleum provides few jobs and subcontracts, and the SDP should include some realistic numbers, rather than wishing for “great opportunities” (p.136/138). If data isn’t available, the Plan could include a study to develop it. This would also help educational planning by projecting how many students can benefit from the specialized education needed to work at higher-paying jobs in the oil industry.

“Maintaining the current petroleum fund arrangements” (p.136/138) is a good idea, but is undercut by the proposed revisions to the Petroleum Fund Law that the Government sent to Parliament last month. We prefer maintaining the existing rules.¹⁰

The proposed TimorGAP national oil and gas company Decree-Law is dangerous, as La’o Hamutuk pointed out in submissions to the State Secretariat of Natural Resources and the President of the Republic.¹¹ In addition to lacking a sound legal foundation, the proposed structure is largely unaccountable, non-transparent and vulnerable to corruption. It could impose large debts on the state of Timor-Leste.

As described above, we have serious doubts about the wisdom of spending large amounts of the people’s resources on the Tasi Mane petroleum corridor (p.139-141/141-143), whose benefits in jobs, subcontracts and revenue may be very small. If it were profitable, private industry would invest in it without state subsidies.

- The Suai supply base will cost public money with limited return -- Kitan will be almost finished by the time it is operational, and there may be no other fields for it to serve.
- The economics of the Betano refinery are unclear. Will it use imported crude oil as input? What is the competitive advantage for exporting its products?
- The Beaçu LNG plant may have no feed gas to work with. Even if it does eventually get Sunrise gas, it is unlikely to get more from other fields, so 20 MTPA capacity makes no sense. The Plan is wise in leaving this LNG plant out of the timeline for targets, but what is the purpose of Beaçu port without it?
- Why is the Southwest corridor highway to be built after the oil facilities, when it could be greatly facilitate their construction?

⁹ According to DNE trade reports.

¹⁰ See <http://www.laohamutuk.org/Oil/PetFund/revision/10PFRevision.htm>

¹¹ See <http://www.laohamutuk.org/Oil/PetRegime/NOC/10Petronatil.htm>

Potential gains from tourism need deeper consideration.

The figure of 100 tourist arrivals per day (Figure 23, p.142/144), is not credible. The great majority of visitors who get Class I visas on arrival do not come to Timor-Leste for tourism, but for events such as the academic conferences last week and the Development Partners' Meeting.

In order to significantly increase tourism, a number of factors need to be addressed in addition to the marketing and infrastructure mentioned in the Plan, including:

- Reducing the risk of illness (i.e. malaria, dengue, poor sanitation) and traffic accidents
- Simplifying the bureaucracy for visa extensions, currency exchange, etc.
- A functioning postal system
- Improving quality of service, interpersonal relations and value-for-money in hotels and restaurants
- Creating more user-friendly public transportation (not only taxis)
- Chinese restaurants should also be expanded (in addition to "Timorese, Portuguese and African" (p.144/146)), as Singapore and China are potential sources of tourists.
- Ecologically sensitive tourist areas should be protected from destructive activities conducted without environmental review, such as the Behau temporary port for the power plant equipment in the midst of the prime scuba diving area, and the bulldozing and privatizing the beautiful, Dili-accessible beach behind Cristo Rei for a private hotel project.

Private sector investment should be a benefit, not a drain.

It is clear that this area needs much improvement, as evidenced by the recurrent dismal ratings of Timor-Leste in the World Bank's annual *Doing Business* report. However, changes need to be well-thought-out and address the actual problems.

The Timor-Leste Investment Authority (TLIA, p.153/155) has the potential to absorb a lot of state money. Clear oversight, planning and accountability are essential. If a project is not economically attractive to private investors, it is probably also a bad investment for public funds managed by TLIA.

Special Economic zones, especially using tax incentives, are unlikely to attract legitimate businesses and may only deplete state revenues and increase business profits, as we should have learned from the experience of the 2008 tax reform law. Timor-Leste's corporate tax rate is already the lowest in the world by far,¹² and other obstacles to foreign investment, such as contract enforcement and bureaucratic burden, must be addressed.

The security sector plans should serve the national interest.

La'o Hamutuk believes that genuine national security is achieved by ensuring that every family lives without fear of violence, repression, unemployment, poverty, disease and starvation. The latter factors affect many more people. For example, 39 Timorese people were killed by violence during 2010, while approximately 2,000 children under 5 years old died from preventable causes.

Some believe that the security sector was a principal cause of the 2006 crisis, not that it became "largely dysfunctional following unrest in 2006" (p.158/162). The responsibility of police to respect human rights should be mentioned.

The "less of a demarcation between internal and external threats" (p.165/169) blurs the distinction between the police and the military and undermines Articles 146 and 147 of the Constitution.

Although the plan for FALINTIL-FDTL has few specifics, it refers to "supporting national development activities" (p.166/170) which raises concerns that an Indonesian-style *dwi fungsi* role of the military in economic activities is being considered. We think that would be a mistake.

¹² See <http://www.laohamutuk.org/misc/AMPGovt/tax/NewTaxLaw08.htm>

The SDP correctly identifies that “there is a low probability of a direct military attack on our country” (p.166/170). Consequently, some human and budgetary resources currently allocated to F-FDTL could be redirected toward more pressing needs, including economic development. The reduced external threat does not require expanding the functions of F-FDTL beyond its Constitutional role, and makes it hard to understand why significant new recruitment for F-FDTL is funded in the 2011 state budget while sectors such as health and education had a hiring freeze.

Making Public Sector management and good governance even better.

The Plan appropriately mentions the importance of preventing corruption (p.181/185), but highlights creating new agencies to investigate and punish. La'o Hamutuk feels it is important to strengthen government agencies' resistance to corrupt activities. When creating a new agency in a sector where corruption is widespread in other countries (such as petroleum management and operations), it is critical to minimize vulnerability to corruption, through transparency, checks and balances, avoiding conflicts of interest, etc. Corruption-resistant structures provide more long-term benefit than punishing individuals after they steal.

All state agencies, including autonomous agencies, Public Institutes and Public Enterprises, should use effective, standard, transparent procedures for budgeting hiring, procurement, salaries and public information, rather than inventing a new system for each new agency. Agencies including the National Petroleum Authority, Banking and Payments Authority, and TimorGAP state oil company should follow normal processes. If donors are being urged to use Government systems, state agencies should also do so.

We welcome the mention of protecting Whistle-blowers (p.186/190), but there is no need to wait until 2015, as this could be incorporated in the Anti-Corruption Law currently being discussed by Committee C.

Anti-corruption measures, such as the much-needed Code of Conduct (p.186/190), should apply to higher-level officials in all state agencies (including the legislative and judicial branches, as well as autonomous and semi-independent state agencies), not only to Members of the Government. The Code should be legally enforceable, with administrative and criminal sanctions for violations.

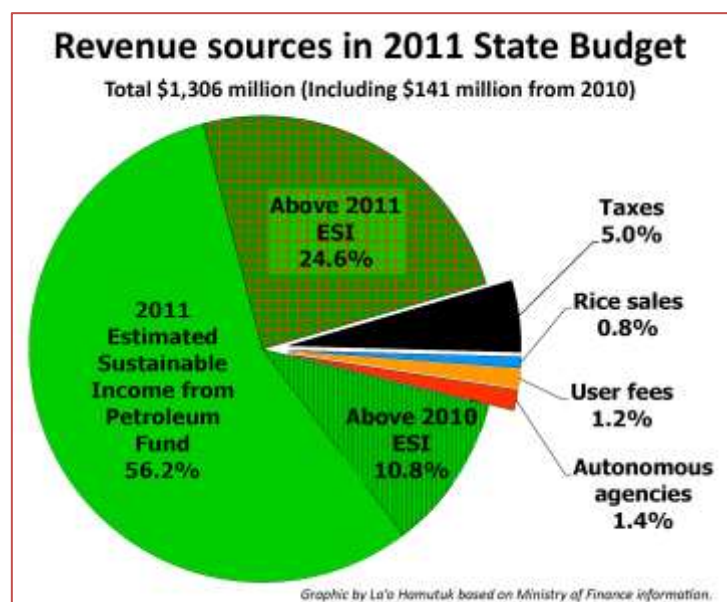
The responsibilities for major project procurement and management (p.189/203) should give more attention to environmental impact, health and safety, and independent oversight of major projects.

The Macroeconomics section is better than before ... but not good enough.

In general, this is an improvement over what we have seen from Government to date. However, it should give more attention to economic justice – ensuring that everyone shares equitably in the benefits of Timor-Leste's development.

We agree with the vision of “a sustainable and diversified non-oil economy” (p.193/200), but don't believe that prioritizing the petroleum processing industry moves the country in that direction.

The economic discussion downplays the near-total dependence of our current economy on temporary oil revenues, and the domination of our GNI by the conversion of non-renewable petroleum wealth into dollars. Oil and gas provides 91.6% of revenues in the 2011 state budget, not “almost 90%” (p.195/201). If the Petroleum Fund is considered part of the state, oil and gas in 2011 provides 95.4% of state income.¹³

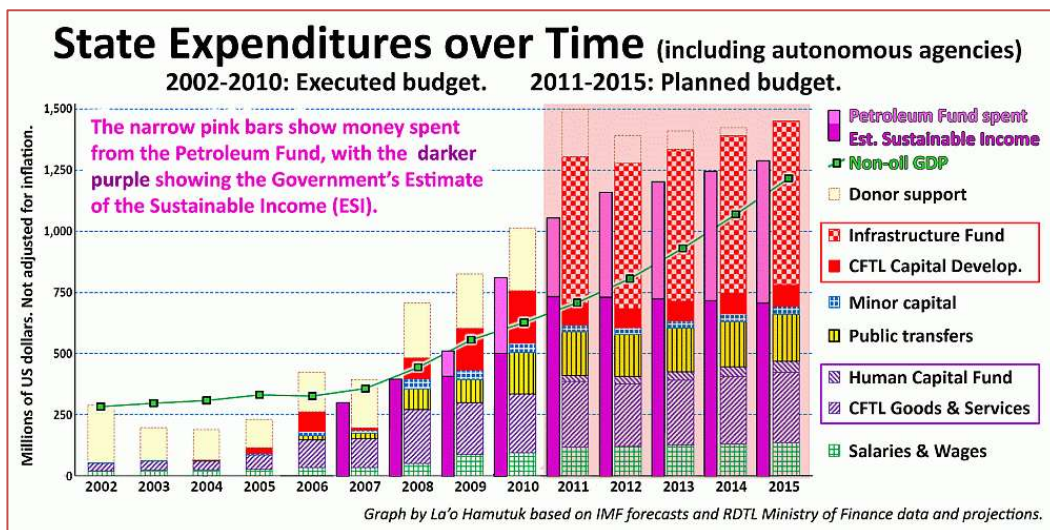


¹³ 2011 General State Budget, Book 1, table 5.1.

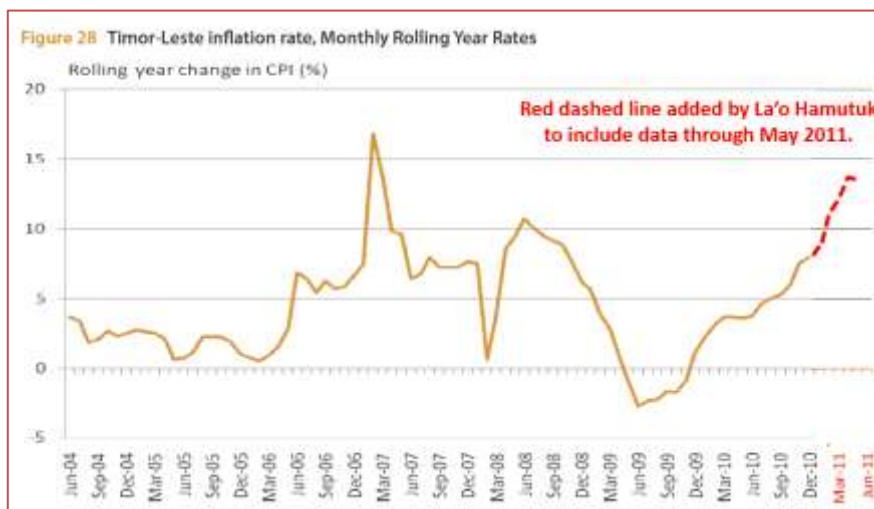
The graph in figure 31 (p.205/211) appears to be intentionally misleading about Timor-Leste's dependence on petroleum revenues, by using two different vertical scales.¹⁴ However, that graph (and the percentages discussed in the previous paragraph) exaggerates actual domestic revenues by roughly a factor of two. State revenue figures include taxes paid by one government agency to another, as well as gross receipts from selling electricity and rice, state activities which expend more money than they receive. When EDTL and the Food Security Fund have no petroleum revenues to underwrite their losses, they will have no revenues. At present, EDTL's cost of generation is far higher than they charge, and we should not expect that this "source of revenue will increase" (p.204/210) without being offset by even greater expenditures.

The Box on the Petroleum Fund (p.196/202) contains several errors, and assumes that the ill-advised proposed revisions to the Petroleum Fund Law have already been enacted.

Figure 25 (p.197/203) confirms that non-oil GDP is growing more slowly than public sector expenditures, both in dollars and in percentages. Future budgets will not continue to grow at the same rate (see Table 11, p.204), and GDP growth will also slow down.



The inflation graph in Figure 28 (p.199/205) shows data only through October 2010, and omits current high levels of inflation which are a manifestation of "Dutch disease." Although the graph appears to show current inflation at about 8%, the National Statistics Directorate reports monthly year-on-year rates from November 2010 through May 2011 as 9.1%, 9.2%, 8.3%, 11.1%, 12.1%, 13.7% and 13.5%. If these are included, the graph looks very different, and the Plan would not state that "Timor-Leste has been broadly successful at keeping inflation under control" (p.199/205).



By 2030, Bayu-Undan and Kitan will be exhausted. We believe it is unrealistic to expect Timor-Leste's GNI to be "substantially increased" (p.200/206) from today, when these fields provide 80% of it. We urge the Government to publish the models (p.203/209) planners are using to "look to the future" to set targets, so that La'o Hamutuk and others can better understand their assumptions and mechanisms. The list of assumptions raises many questions.

¹⁴ This is similar to the logarithmic scale used in Figure 2.1 of last year's draft Strategic Plan; see <http://www.laohamutuk.org/econ/SDP/10SDPindex.htm#underestimating>, which we based on that draft.

Employment targets to accept the 12,000-15,000 job-seekers who enter the labour force every year (p.210/216) are hard enough; our post-war baby boom means that in 2023 that number will be double what it is today, creating even more daunting challenges.

According to Table 11 (p.204/210), the Government plans to annually spend more than ESI for at least the next decade, but details are scarce. More information should be provided, notwithstanding that “the Strategic Development Plan is not a budget document.” Enacting it without budget projections and estimates would be endorsing a fantasy, and Timor-Leste’s people deserve better than wishful thinking.

The “average annual growth rate target of 11.3% to 2020 in real terms” (p.208/214) is a pipe dream which has not been achieved in recent world history. China is the only country with double-digit, long-term growth since 1980 – 10.0% derived from sweatshops, environmental destruction, human rights violations, coercion and other practices which should be abhorrent in Timor-Leste. The best performing other countries – Maldives, Cambodia, South Korea, Bhutan, Vietnam, Botswana, Singapore –achieved growth between 6.5% and 7.5%. We do not believe it is honest to expect Timor-Leste to grow nearly twice as fast as they could.

We agree with the Plan that high levels of public expenditure are the primary driver for the current economy (p.202/208), and that they are not sustainable over the longer term. We share the goal of finding other ways to improve the lives of the Timorese people, and look forward to working with the Government, Parliament, civil society, development partners and others to make it a reality based on sound foundations and realistic implementations, not only hopes and dreams.

Thank you for your consideration of our ideas, and we are happy to discuss them further with anyone who is interested. Our website <http://www.laohamutuk.org> includes more information on most of these topics.

