

FORUM ONG TIMOR LESTE THE EAST TIMOR NGO FORUM



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Civil Society Statement to the 2013 Timor-Leste and Development Partners Meeting Economic Development Sector¹

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Timor-Leste must develop an equitable and sustainable economy.

First of all, we greatly appreciate that the Government and Development Partners have improved cooperation and communication with civil society, including the recent *Yellow Road Workshop* where the Government invited us to discuss Timor-Leste’s economic and social development.

We believe that the Government and Donors have demonstrated their commitment to develop this country, and we hope that this development will reduce the challenges confronting Timor-Leste, such inadequate human resources, reliance on petroleum, extreme import dependency, neglect of non-oil development and weak quality of expenditure. Therefore, we suggest that Government and Development Partners listen to ideas from many people and institutions, to shift their policies in order to achieve sustainable and equitable economic development. This will guarantee that everyone has the same rights to share in the nation’s resources, including access to education, health, clean water and farming. Our economy will be sustainable when it provides for the future, not only for a few years.

Timor-Leste is already “cursed” by our resources, and we believe that development partners have an important responsibility to help our Government exorcise this curse from our nation.

¹ This statement was developed by the following organizations: La’o Hamutuk, World Vision Timor-Leste, Kolping Nasional Timor-Leste, Luta Hamutuk, Juventude ba Progresu and Lezival.

We continue to believe that the only way Timor-Leste can do this is through an economic development concept which is equitable and sustainable.

We need to revise the Strategic Development Plan.

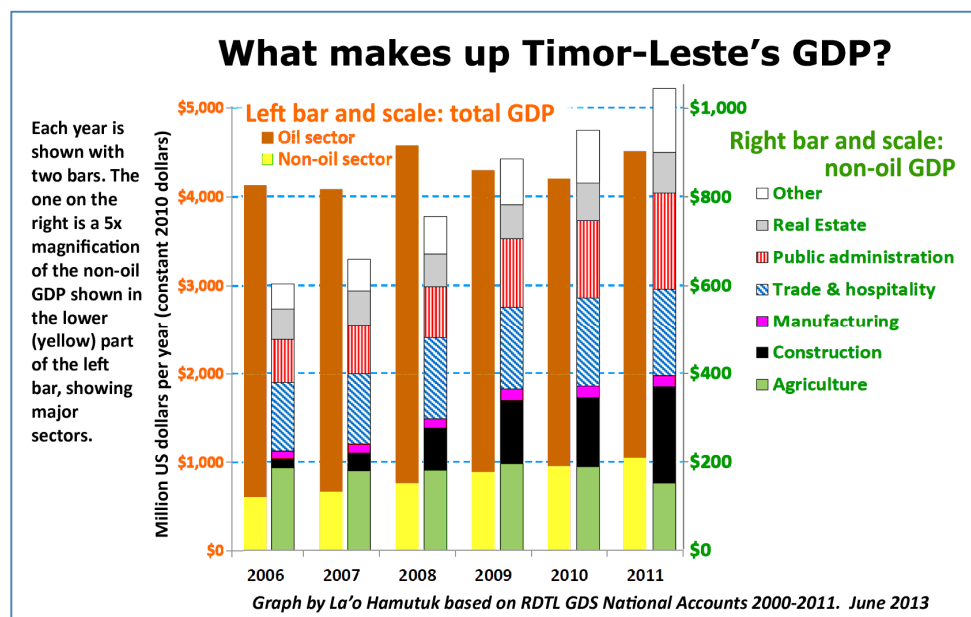
We appreciate the goal of the SDP to eliminate poverty and provide good lives for our people. In the two years since Timor-Leste began to implement this plan, we have gained experience and new information. We believe that today is a good opportunity to reflect on this knowledge, and to revise the SDP so that we can achieve its objectives.

During these two years, the bulk of state spending has gone for physical infrastructure, especially electricity and the Tasi Mane project. We have neglected to develop human resources, education, health, agriculture, fisheries, clean water, small industry and ecotourism – sectors which would improve nearly every Timorese person’s life.

Therefore, we suggest to move in a direction of prioritizing social services in the future. If we don’t start to shift direction today, we will not have enough resources to develop these sectors when our oil and gas reserves run dry, which could be in only a decade.

We need to escape from petroleum dependency and move toward sustainable development.

Timor-Leste more dependent on oil and gas exports than every nation but one. The temporary windfall from this nonrenewable resource makes us ignore other potential sectors which could sustain us after the petroleum is exhausted.

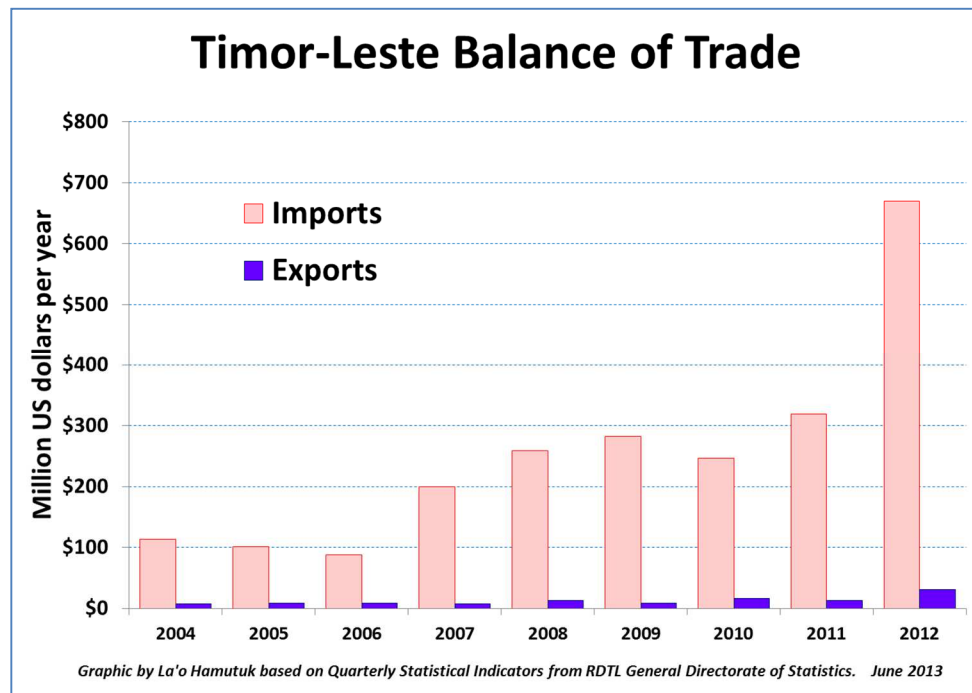


The agriculture sector is critical for Timor-Leste’s future, to sustain and provide livelihood for most of our people. Unfortunately, the Government does not prioritize this sector, which receives only 2% of this year’s State Budget.

81% of our \$5.8 billion Gross Domestic product (GDP) in 2011 comes from extracting oil and gas.² Even worse, about half of the \$1.1 billion “non-oil GDP” was from state spending, of which 94% is fueled with oil revenues.

² 2000-2011 National Accounts, just published by the RDTL General Directorate for Statistics

We are increasingly reliant on imports. In 2011, we exported \$34 million in non-oil goods and \$77 million in services that year, while importing \$325 in goods and \$1,033 million in services, not counting the petroleum sector.³ Last year, imports doubled -- \$670 million worth of



goods like electrical equipment, fuel, vehicles, steel articles, rice, beverages and cement, while exports were only \$31 million, mostly coffee.⁴ Today we are able to close this trade deficit with oil revenues, but if we don't develop our non-oil sector and reduce imports, we will have no money for imports or social assistance when the oil is gone.

Consequently, we ask our Development Partners to help our Government support farmers to improve their production, increase their skills and provide technology which is sustainable and appropriate to their lives. Therefore, are not asking help in importing seeds, chemical fertilizers or tractors, which are not sustainable and will damage the environment, as well as undermining our social and cultural values.

“Double-digit” economic growth comes with inflation, benefiting only a few people.

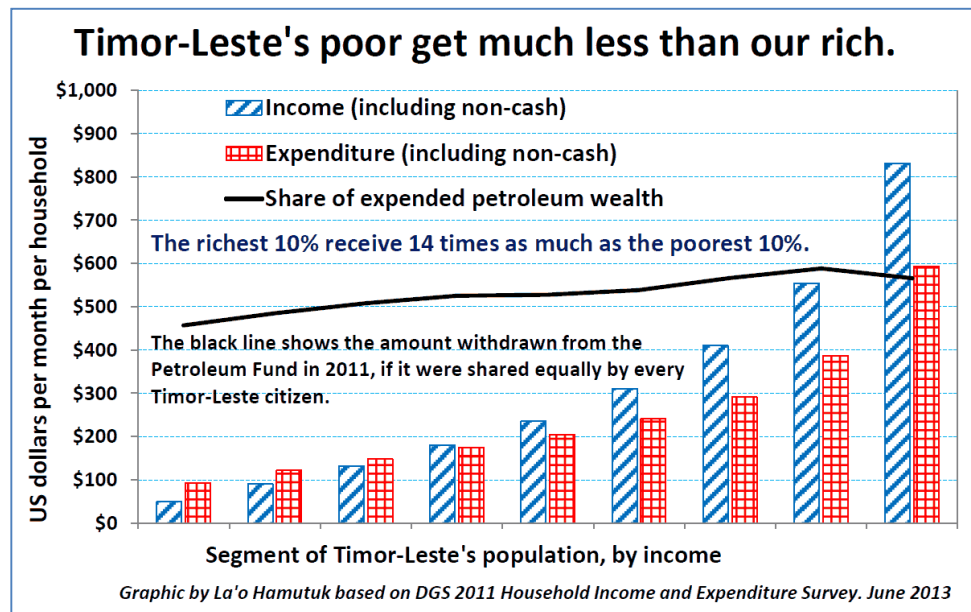
Nearly every week, Government speeches, press releases or documents boast of “double-digit” GDP growth. We regret that this growth comes with double-digit inflation, and increases poverty and hunger even while this nation spends dollars by the billions.

Inflation hits poor people hardest, reducing their buying capacity and increasing poverty among those in rural areas and those without work. We have inflation because we have not developed a strong, productive domestic economy which can absorb state spending, which increases rapidly every year.

³ 2011 National Accounts, RDTL General Directorate for Statistics

⁴ Quarterly and monthly trade statistics reports from RDTL General Directorate for Statistics

In addition, our wealth is not shared fairly among our people, especially those in rural areas. Although the great majority of our economy is fueled by exporting petroleum wealth which belongs to all of our people, a small upper class



gets most of the benefits. The richest 10% of our population receives 14 times as much income as the poorest 10%, even when subsistence farming and barter is included.⁵ Timor-Leste's median monthly per capita income is \$40 (in Oecusse it's only \$24). In other words, half of Timor-Leste's people survive on \$1.33 per person per day.

All of us must work together to meet the challenge of finding a more sustainable path. By transforming our economic system and developing the non-oil sector, especially agriculture and fishing, we will be able to provide food for ourselves. Many now talk about an "inclusive economy" –meaning that the poorest people get a few crumbs – but we should strive to achieve economic justice, where everyone gets a fair share.

We must try harder to achieve food sovereignty, to add value to our farming, producing basic needs to substitute for imports. Small industry and agricultural and fish processing for local consumption can reduce our trade deficit, provide jobs, and help become truly economically and politically independent. At the same time, tourism and places for selling local products can increase foreign visitors.

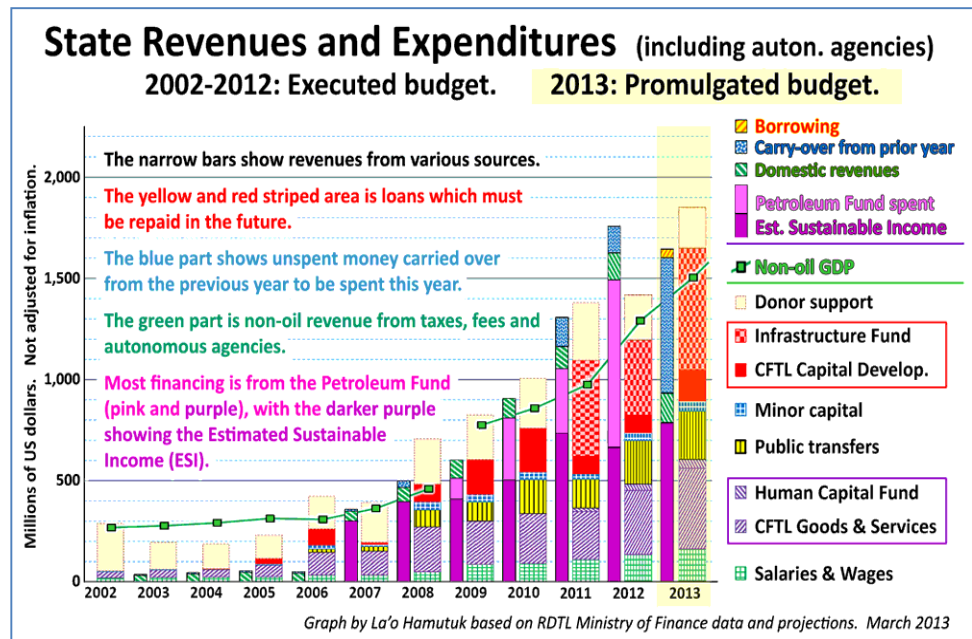
We ask Timor-Leste's Development Partners to help us produce for our domestic market, adding value for Timor-Leste's people, rather than struggling to compete with industrialized agriculture in other countries.

Government should continue to reduce state spending.

We appreciate the Government's effort to reduce the growth of the state budget this year. We believe that this reduction should continue, and be accompanied by more realistic budget allocations for infrastructure spending, which will help bring the budget in line with reality.

⁵ Household Income and Expenditure Survey 2011, RDTL General Directorate for Statistics.

This year's budget reduction reduces the money taken from the Petroleum Fund to the Estimated Sustainable Income of \$0.8 billion, compared with \$1.5 billion taken out in 2012. We hope that the Government's discipline will continue, to



provide fiscal sustainability for current and future generations. However, we also recognize that the reduction in 2013 is possible because last year we withdrew much more than we needed; 41% of the 2013 budget is financed with unspent money taken out of the Petroleum Fund in 2012, and another 48% will be paid for with new withdrawals from the Fund.

Recurrent expenditures in 2013 will be 21% higher than what was spent in 2012, which is a slower escalation than the 37% increase from 2011 to 2012, but is still unsustainable. Some people don't think our economic situation is dangerous because we have \$14 billion in our Petroleum Fund.

We have almost no productive domestic economy to absorb the money flowing through government from our oil wealth. But the 2013 budget will spend \$144 million on the Tasi Mane project, which could cost ten billion dollars or more if it is ever completed.

We seriously doubt that the Tasi Mane project will bring benefits to most of our people, because public spending for this project is far more than the return it can earn. It will provide few jobs for Timorese workers, but large subsidies to foreign contractors. Farmers will lose productive land and imports will grow, creating even more poverty when the oil is gone. We hope that Development Partners will help Government and civil society carry out a realistic analysis of the costs, benefits and feasibility of Tasi Mane before imminent construction contracts obligate Timor-Leste to pay hundreds of millions of dollars.

In addition to the Tasi Mane project, the Government is spending more money on Comoro airport, the Oecusse Economic Zone, Tibar Port, two Comoro bridges, and other projects of dubious benefit. The IFC is helping with the port and airport, based on unrealistic assumptions of vastly increased imports and air travel. We worry when development partners' "assistance" makes our resource curse more acute, allocating large shares of public resources to benefit a minority of our people.

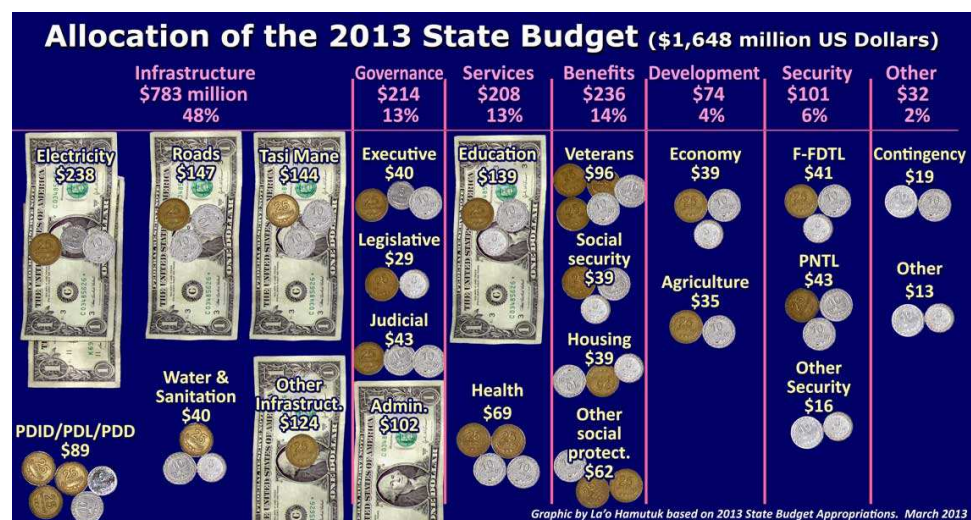
Therefore, we ask the Development Partners to be honest with our Government, helping policy-makers understand that unrealistic mega-projects threaten economic justice and the

future of all Timorese people. Help us invest in human resources, effective management, and fiscal policies oriented to sustainable, equitable development. Timor-Leste needs you to prioritize programs which help our poor and vulnerable people, enabling them to provide for themselves and their grandchildren.

The Government continues to close its eyes to human resource development.

Today, many people worry about the quality of Timorese human resources. Kids don't learn in school; children's futures are permanently limited for lack of nutritious food; people die unnecessarily because our health care system does not help them. How can we achieve these human rights, which Timor-Leste committed to ten years ago when we ratified the International Covenant on Economic, Social and Cultural Rights?

This problem can be reduced by serious investment in the social service sector. Although the 2013 State Budget is a little better on health, including important medical equipment purchases, it still allocates only 4.2% for health, less than half of global norms.



We still don't allocate enough to education, only 8.4% in 2013, improved over last year's 7.0%. Most developing countries place more value on their people, spending around 20% of their budgets on education.

At the moment, the Government is asking how Timor-Leste can achieve the Millennium Development Goals in sectors like education and health. To achieve these standards, Government and donors need to get serious, improving the quality of education and health and making them accessible to everyone. This will make people's lives better, respecting their human rights. It will also enable them to earn and produce more, providing a basis for developing Timor-Leste's national economy.

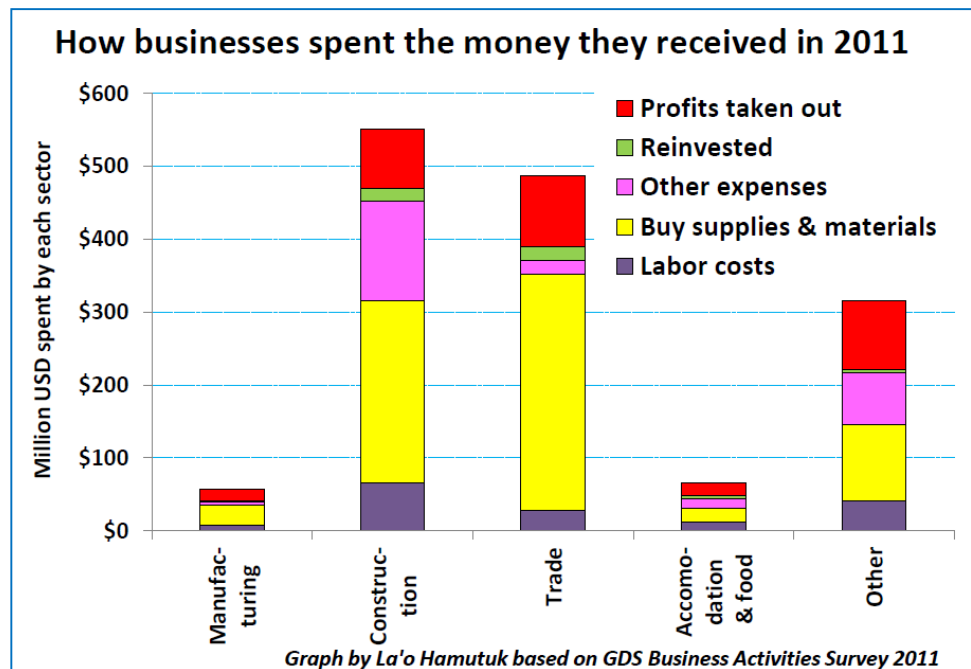
The private sector should invest in the nation's future.

Timor-Leste needs a strong private sector to help build this nation. Our businesses cannot continue to depend on money from the state.

At present, Timor-Leste's private sector largely ignores areas which provide jobs for Timorese people. Around 70% of our 600,000-strong labor force works in the agriculture and informal

sectors, while less than 10% work for private companies, including government contractors.⁶ The private sector should give higher priority to agriculture, which can reduce poverty and develop our economy.

Our non-oil private sector employs 58,200 workers, three-fourths of whom are men, and 18,000 of whom work in construction, the largest sector. Business owners took out almost all their profits, reinvesting very little to make their companies and Timor-Leste grow. Dili-based



businesses were especially short sighted – although profits increased by 44% from 2010 to 2011, reinvestment actually dropped by 38%, amounting to less than 9% of profits. District businesses were better – investing more than half of their profits, a significant increase over 2010. Our private sector should think about their and the nation’s future.

In addition, local and international contractors need to produce better quality work. Can Government and Donors work with our business sector to build an equitable and sustainable Timor-Leste, with better quality of projects and quality of life, for the long term?

Today, Timor-Leste has many beneficiaries – contractors, veterans, public employees – living off our petroleum nonrenewable petroleum wealth and the generosity of development partners. All of us – civil society, the State, the private sector, development partners, and every citizen – must focus our money, our resources, our time and our efforts on improving the lives of every Timorese person, including our children and grandchildren. If we don’t work smarter and harder for a better future, who will?

⁶ 2011 Business Activities Survey, RDTL Directorate General for Statistics. This is also the source of the data in the following paragraph.