

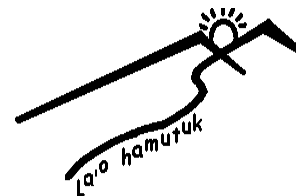
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Submission to Committee C Economy, Finances and Anti-Corruption

National Parliament, Democratic Republic of Timor-Leste

**From
La'o Hamutuk**

**Regarding the
Proposed General State Budget for 2011**

15 December 2010

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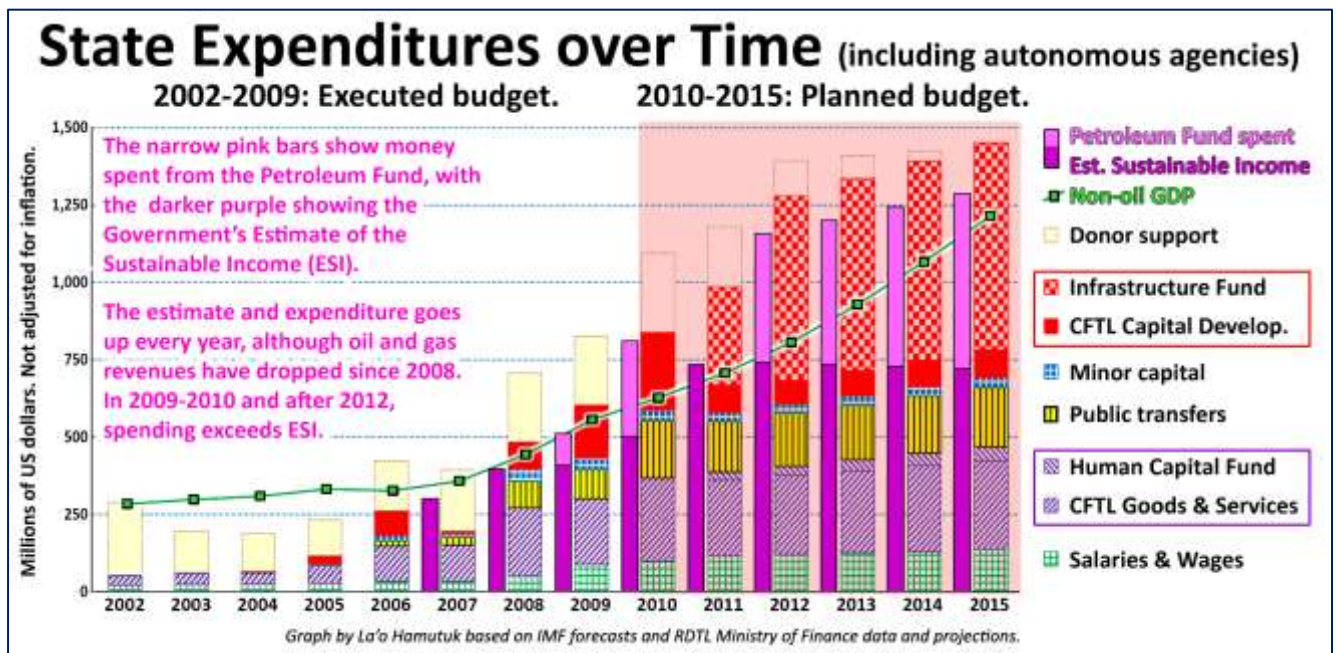
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La'o Hamutuk appreciates the invitation from Committee C to provide information at your hearing today. As in the past, we are confident that Committee C will do a good job in analyzing and reporting on the complex State Budget for 2011, in spite of the difficulties in obtaining complete information. We hope that our observations will help you in that challenging task, and are happy to try to provide more information or answer questions.¹

Spending at this level is unwise and unsustainable.

The proposed budget would expend \$985 million of Timor-Leste's money next year, including \$734 million to be transferred from the Petroleum Fund during 2011 and \$141 million to be carried over from unspent 2010 budget funds, nearly all of which came from the Petroleum Fund. In other words, 89% of this budget is financed by extracting and exporting Timor-Leste's non-renewable oil and gas wealth and converting it into dollars.

The 2011 budget represents a large increase in expenditures over the last several years, an increase which the Government wants to continue in the future. Between 2006 and 2012, the State Budget will have grown by a factor of five, from \$262 million to \$1,280 million, an average annual increase of 30%. But the benefits to Timor-Leste's people have not increased five-fold.



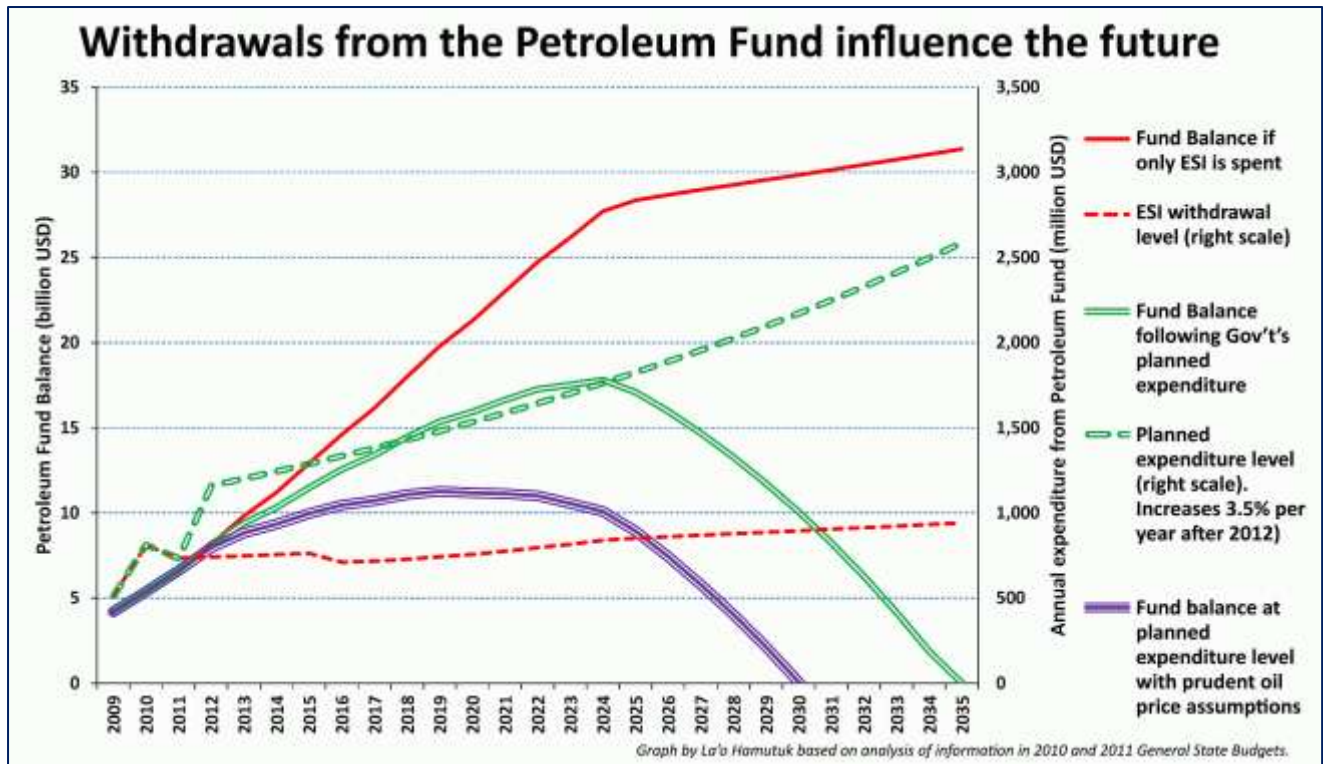
As the graph above shows, the 2011 budget is a major increase over 2010, and 2012 will be even higher. We believe that the budget does not adequately consider where this money is coming from. The budget documents demonstrate that the Government does not realize that if it spends more money from the Petroleum Fund in the short term, less will be available for the future.

In tables 5.8 and 5.9 of the Revenue chapter of Budget Book 1, future balances in the Petroleum Fund and the Estimated Sustainable Income (ESI) are projected assuming that the Government will only withdraw the ESI amount every year. The Government makes overly optimistic predictions about future world market oil prices, and assumes that the investments from the Petroleum Fund will earn 4% more than inflation. In this scenario, the amount in the Petroleum Fund gradually increases, reaching \$14.6 billion by the end of 2015 and \$31.7 billion by 2035.

¹ Two weeks ago, La'o Hamutuk testified to National Parliament Committee D on the 2011 Budget, and provided a submission available at <http://www.laohamutuk.org/econ/OGE11/LHsubComDOGE11Dec10En.htm> (English) and <http://www.laohamutuk.org/econ/OGE11/LHsubComDPNOGE11Dec2010Te.pdf> (Tetum). In addition to discussing issues in this submission, we told Committee D more about agriculture and expenditures in the petroleum sector.

We believe that the 2013-2015 numbers come from an excessively simplistic approach to budgeting. The Ministry of Finance appears to base them on a model of fixed annual percentage increases, rather than on actual program and project plans and costs. We do not believe that they will prove to be accurate, but have included them in this graph below because they represent the Government's thinking. We have extended their model beyond 2015, based on the Government's assumptions to see how it impacts on Timor-Leste's future.

In the graph below, the dashed single red line (right-hand axis) indicates the amount withdrawn from the Petroleum Fund every year if ESI is respected as table 5.8 says, and the solid single red line (left axis) shows the balance remaining in the Fund.

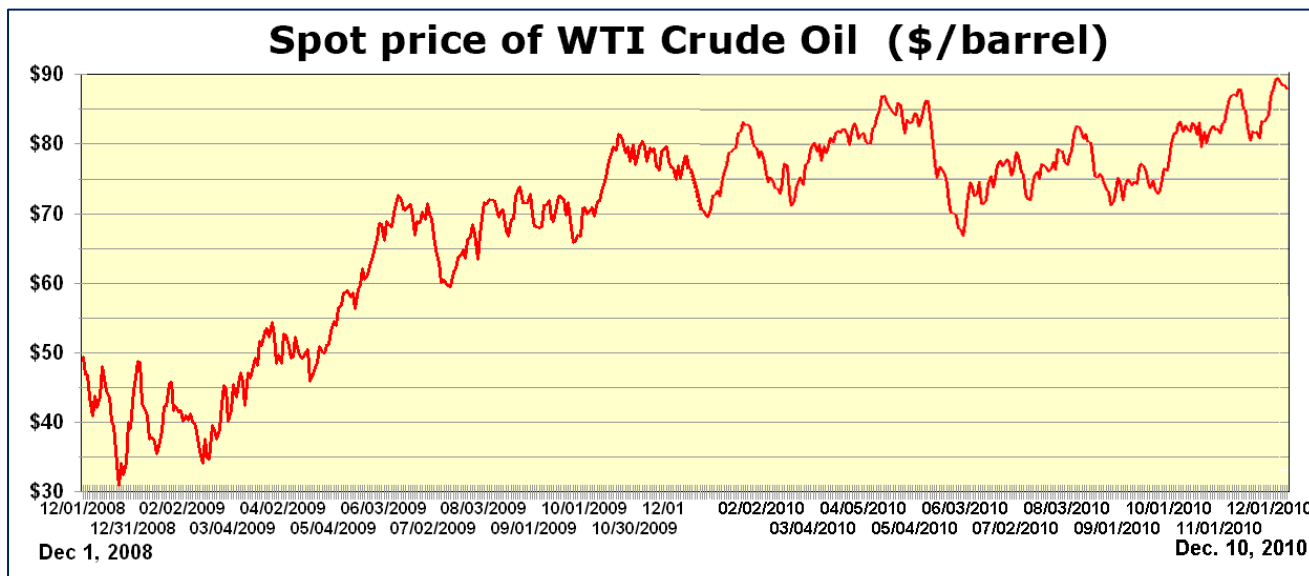


However, table 4.2 in the Expenditure chapter of Budget Book 1 explains that the Government plans to withdraw \$418-\$526 million more than ESI from the Fund every year starting in 2012 (dashed double green line), settling down to a 3.5% annual increase in withdrawals after the 2012 election. In this case, the balance in the Fund (solid double green line) is \$12.6 billion at the end of 2015 and begins to decline in 2025. The Petroleum Fund will be totally used up by 2035 if no new oil or gas projects come on-line to replace Bayu-Undan and Kitan.

The budget makes imprudent assumptions about oil prices.

In the proposed 2011 budget, the Government assumes that future world market oil prices will be about 50% higher than they assumed in the 2010 budget, an assumption that La'o Hamutuk believes violates the Petroleum Fund Law's requirement that "all assumptions made shall be prudent."² These high price assumptions are used in the two scenarios discussed above. If one re-calculates the data based on the oil prices assumed in the 2010 budget, with the level of expenditures in the 2011 budget, the balance in the Petroleum Fund (triple purple line in the graph) is only \$10.5 billion at the end of 2015, and the fund will be entirely exhausted by 2030. The Government which takes office in 2017 will have \$13.9 billion in the Fund, as compared with \$17.1 billion if spending had stayed within sustainable levels.

² Schedule 1 to Law no. 9/2005, paragraph V: "All assumptions made shall be prudent, reflect international best practice and be based upon internationally recognized standards." The Law's Preamble and Article 11.4 also state that "The Petroleum Fund shall be managed prudently..."



As the above graph shows, global oil prices fluctuate every day. Although they closed at \$87.79/barrel last week, they change rapidly, and it is impossible to predict accurately what they will be in six months, let alone a decade. Nobody in the world anticipated the \$145 peak and \$30 trough that occurred in 2008-2009. This is why the Petroleum Fund Law requires conservative assumptions – it is safer to guess too low and have extra money in the Fund than to guess too high and deprive our children of benefits from Timor-Leste’s non-renewable resources.

The oil prices assumed in the 2011 Budget increase every year after 2011, reaching \$114 per barrel in 2025, leading to an Estimated Sustainable Income of \$734 million. La’o Hamutuk believes it would be better to continue to use the price assumptions in the 2010 budget, which increase to \$70/barrel in 2025, and would produce a 2011 ESI of \$527 million according to the Government’s other assumptions.

The proposed revision of the Petroleum Fund Law threatens fiscal sustainability.

As Committee C knows, the Government is current proposing to revise the Petroleum Fund Law³ to facilitate faster spending, more risky investments, fewer checks and balances, and politically-directed management of the Fund. La’o Hamutuk has already explained to the Ministry why we think these proposed changes endanger Timor-Leste’s future, and we have attached our submission to this one. Our main concerns are

1. It’s too soon to put half the Fund in the stock market.
2. Don’t weaken the sustainable income rule.
3. Keep the Banking and Payments Authority as operational manager of the Fund.
4. Maintain the independence of the Investment Advisory Board.

The Government plan to submit the revisions to Parliament early next year, but we believe that Committee C should consider their implications as you consider the 2011 State Budget.

The big dreams exemplified by the high spending requested in this budget are matched by dreams of high investment returns from the Petroleum Fund. We hope that Committee C will help restore realism to Timor-Leste’s state budget and financial management, rather than risking our children’s entitlement on impossible fantasies.

³ La’o Hamutuk’s submission is available in English at <http://www.laohamutuk.org/Oil/PetFund/revision/10LHSubMFRevFPEn.htm> and in Tetum at <http://www.laohamutuk.org/Oil/PetFund/revision/LHSubRevPFLaw5Nov2010Te.pdf>. Background information, including the Ministry’s draft laws, is at <http://www.laohamutuk.org/Oil/PetFund/revision/10PFRevision.htm> (English) and <http://www.laohamutuk.org/Oil/PetFund/revision/10PFRevisionTe.htm> (Tetum).

We encourage Committee C to look at other evaluations of Timor-Leste's current and future economic situation, rather than just accepting the Government's politically-influenced projections, or those the Government has requested from the World Bank. An IMF team visited Dili last month for their annual Article IV consultation. Although their full report has not been published, they have shared their preliminary forecasts, which we have included on the next page. The IMF uses Government figures for 2006-2009 (even though they don't always agree). Although the Government didn't include economic forecasts in the budget documentation, we believe it is important to have an idea of where the economy is going.

[After this submission was given to Parliament and circulated publicly, the IMF asked La'o Hamutuk to remove their preliminary forecast, although we believed we had permission to use them. We will add the final numbers when they are available.]

The Infrastructure Fund undercuts Parliamentary authority.

When Parliament approved the Budget and Financial Management Law (Law No. 13/2009) last year, you probably didn't expect that more than a third of the state budget would be moved into "Special Funds" created under article 32. As that article explains, such funds carry over from year to year, and the Minister of Finance (with approval from the Council of Ministers) can change what they are allocated for, provided that Parliament is informed. In short, Parliament's power to enact and oversee much of the state budget will be surrendered to the Council of Ministers.⁴

The Infrastructure Fund is intended to facilitate the implementation of the National Strategic Development Plan (PEDN), which may eventually be submitted to Parliament for approval. The Government has not yet released a draft of the PEDN, and the Prime Minister discussed only its objectives during his subdistrict socializations,⁵ with no information about implementation, cost or timing. Therefore, we believe it is too early for Parliament to approve hundreds of millions of dollars to execute the PEDN, even though Timor-Leste has already paid millions of dollars to foreign companies to prepare and publicize it.

These are major decisions with long-term impacts on Timor-Leste's people, and should not be taken in haste. After the PEDN has been debated, amended and approved by Parliament, the Government can ask that the Infrastructure Fund to be created, and a budgetary allocation could be made for it in a 2011 mid-year Budget Rectification or in the 2012 General State Budget.

The proposed General State Budget Law for 2011 may be the only opportunity for Parliament to exercise its competence with regard to the Infrastructure and Human Capital Development Funds. Once they have been created, all authority will go to the Ministers. In fact, the Infrastructure Fund could be seen as an attempt to constrain whoever wins the 2012 election, by beginning projects which will be difficult to modify even if the voters change the Government.

We urge you not to approve the Infrastructure Fund until you have received the following:

1. Estimates of the total cost of each project to be implemented, including design, construction, operation and maintenance, broken down by year. Article 3.3 of the Budget and Financial Management Law requires that such information be provided for 2011 and 2012. Although the budget documents provide it only for 2011, Parliament should require this information for as long as each project will require state funds.
2. Timetables for design, construction and completion of every multi-year project.

⁴ This is reinforced by article 9.4 of the proposed General State Budget Law for 2011.

⁵ Most of the Prime Minister's slide show is at <http://www.laohamutuk.org/econ/SDP/PEDNLaularaSlides.pdf>. Other documents and analysis related to the plan are at <http://www.laohamutuk.org/econ/SDP/10SDPindex.htm> (English) and <http://www.laohamutuk.org/econ/SDP/10SDPindexTe.htm> (Tetum). The 400-pages leaked May 2010 "final draft" of the full plan is at <http://www.laohamutuk.org/econ/SDP/SDPDraft.htm> (English only).

3. Detailed, factual, comprehensive and current information on the Heavy Oil electricity project and national power grid, including changes in design, contractor, schedule and cost for the entire project (see below).⁶
4. A legally-binding commitment that the projects promised to Parliament in the budget documents will be built unless Parliament approves a reallocation of funding.⁷
5. A promulgated Parliamentary Law approving the National Strategic Development Plan (PEDN).
6. A promulgated Decree-Law establishing the National Development Agency (ADN).
7. A promulgated law describing the procurement process which will be used for the very lucrative, complex Infrastructure Fund projects, including detailed Terms of Reference, open and transparent tenders, and publicly announced contract awards.

The Infrastructure Fund creates a new state agency in an effort to repair a deficiency in governmental function: the inability to execute infrastructure projects. This Fund reverses the trend to distribute project management authority from line Ministries to local authorities (through PR and PDD), centralizing it in the yet-to-be-created ADN and EPIA. Structural changes cannot fix fundamental defects. If state leaders are committed and capable (and understand what kind of help they need) to solve a problem, they will do so regardless of the structure – and if they aren't, no change in structure will make a significant difference.

The national electric project is much more expensive than it appears.

The largest part of Infrastructure Fund spending for 2011 is \$166 million for the troublesome heavy oil power plants and national electric grid, which have been through numerous design changes, contract revisions, and supplier reassignments since the project started in 2008. Timor-Leste spent nearly \$100 million for this project in 2008-2010. Although the original contract price with Chinese Nuclear Industry Construction Company No. 22 (CNI22) was \$367.1 million, this has grown to \$628.7 million and is likely to escalate further. Another \$8 million is allocated to project supervision, as well as \$15 million for “management and operation” from 2012 to 2017.

Budget Book 1, Part 4.4,⁸ says “This project is costed at \$166 million and will provide reliable access to electricity across the country, with capacity to support industry, particularly in the northern coast from Batugade to Tutuala.” That sentence contains two falsehoods: the actual project cost will be at least four times this figure, and the power grid along the north coast extends only from seven km east of Liquica town to Laga, with lines heading inland to Maliana and Los Palos. There are no plans for high- or medium-voltage lines to go farther west or east.

In September a contract was signed with the Indonesian company Puri Akrya Engineering to replace CNI22 in building the generating stations at Hera and Betano – increasing the contract cost of the two power stations from \$91,038,377 to \$352,569,123.⁹ Since only 1.2% of the towers for the national grid had been

⁶ La'o Hamutuk just revealed huge delays and cost overruns for the generating stations, at <http://laohamutuk.blogspot.com/2010/12/heavy-oil-project-delayed-over-budget.html>

⁷ In mid-2009, the Government transferred \$70 million from the National Electricity Project (which had been the explanation for exceeding the ESI in 2009) to *Pakote Referendum* without informing Parliament or seeking approval.

⁸ Page 30 in the English version of Budget Book 1 provided to Parliament; page 18 of the scanned budget information at <http://www.laohamutuk.org/econ/OGE11/Book1En.pdf>.

⁹ Although the Government did not mention this in the Budget or otherwise make this information public, La'o Hamutuk has posted the September 2010 report by project supervising consultant Electroconsult and Bonifica to <http://www.laohamutuk.org/Oil/Power/redesign/BonificaMonthlyReportSep2010.pdf>. This 133-page report reveals numerous problems in cost, implementation, scheduling, environment, employment, safety and other areas. La'o Hamutuk's summary is at <http://laohamutuk.blogspot.com/2010/12/heavy-oil-project-delayed-over-budget.html>, and background information is at <http://www.laohamutuk.org/Oil/Power/10PowerPlant.htm>.

erected by September, the Government is also looking to re-assign most of it to Indonesian companies, further increasing the cost. We hope they will hire more than the 155 Timorese workers employed by CNI22.

Most people have forgotten the Prime Minister's promises to Parliament that this project would provide 24/7 electricity to all district capitals by the end of 2009, while providing jobs for 20,000 Timorese workers during construction. Today's promise to complete the project by the end of 2011 will also be broken.

The delays, cost overruns, redesigns, poor planning, environmental negligence, deficient safety protection, legal violations and conflicts with local communities have been far worse than La'o Hamutuk and others predicted. If the Infrastructure Fund is established, the limited ability of Parliament to approve funding and to oversee this project will be nearly totally ended, as the Council of Ministers will be able to reallocate the Fund's money from one project to another, or to carry it over from year to year.

We encourage Parliament to think carefully before allocating unlimited funding to this challenged project, or even the \$166 million requested for 2011, and to insist that the Government keep Parliament informed in detail about progress and plans. You should not approve the Infrastructure Fund until you have received comprehensive information on the status of the project, including all contractual, re-tendering and design changes now and later, as well as revised schedule and cost projections for the completion and operation of the entire project.

The Heavy Oil power project has not only wasted Timor-Leste's money, but it carries an "opportunity cost" by delaying the use of cleaner, more sustainable and less expensive forms of energy. In 2008, Timor-Leste hired the Portuguese company Martifer to do an in-depth study of alternative energy potential in Timor-Leste, to be finished by May 2010, but it has not yet been published. Parliament should ask for this study and make a well-informed determination whether available renewable energy sources can serve our energy needs more reliably, more rapidly and less expensively than pouring more money into the heavy oil sinkhole.

The "Tasi Mane" project is a troublesome foot in the door.

This budget allocates \$36 million from the Infrastructure Fund for the "Tasi Mane" south coast petroleum infrastructure corridor, but that is only the initial payment, primarily for designs and studies. Like other multi-year projects in the Infrastructure Fund, no information has been provided about the total costs of these projects, including construction, operation and maintenance, which could be in the many hundreds of millions of dollars.

Furthermore, nothing is said about how many jobs these projects will provide for Timorese workers, how much land they will take from uses such as agriculture and fishing, how many people will have to be displaced, or how much revenue they will generate for the state. We understand that detailed designs will be required to give precise projections of these figures, but preliminary estimates are essential to deciding whether they should be undertaken at all. If Parliament does not receive such information in a credible and accessible form, we urge you not to give the Government a "blank check" for a project which may turn out to be useless or have negligible benefits.

Projects like those envisioned for "Tasi Mane" are often undertaken by private investors and industries because they can be profitable in many situations. Government support is appropriate to encourage private investors and to ensure that they don't encounter regulatory difficulties, and some public money may be needed to attract private companies to a marginal project. However, if these projects were expected to make money, investors would be implementing them already.

We are also concerned about the amount of Timor-Leste's money being spent on research and studies related to a possible onshore LNG plant for the Greater Sunrise gas and oil field. The 2010 rectified budget included \$3.1 million "for studies in Beacu by marine specialists", and last month the Council of Ministers awarded a contract to Toke-EGS for this work.¹⁰ The proposed 2011 budget allocates \$23.6 million for "oil

¹⁰ According to *Suara Timor Lorosa'e*, 2 December 2010, the Secretary of State for Natural Resources said that this contract is for \$6.6 million. Perhaps it includes both the 2010 appropriation and funds not yet approved for 2011.

and gas infrastructure” to be spent from the Infrastructure Fund during 2011, including \$5.8 million for “Detail site survey, design, and supervision of southern cost development of Beacu” and another \$3.5 million for “pipeline route analysis.”

If these are approved, Timor-Leste will spend at least \$12.4 million for a project that may never happen. Although the Timorese public and the Government want the Sunrise gas to be piped to an onshore LNG plant in Beacu, the Sunrise project’s operator (Woodside Petroleum, working under contracts signed in 2003, the Timor Sea and CMATS Treaties, and the International Unitization Agreement, all legally binding commitments of the Timor-Leste government) is uncooperative. Woodside remains committed to a mid-sea floating LNG plant, which it thinks is more profitable. It seems unlikely that Woodside will believe Timor-Leste’s studies more than its own research, or that additional information (including vituperative press releases) from Timor-Leste will change Woodside’s view that a Timor-Leste onshore LNG project would earn the companies \$2 billion less than a floating project. If Woodside is not persuaded, the project will remain stalled, and Timor-Leste’s \$12.4 million or more will have provided work for foreign consultants and contractors, but no benefits for our people.

The Government often discusses the need to move Timor-Leste’s economy, including state revenues, away from our overwhelming dependence on oil and gas. The “Tasi Mane” project, however, is still in the oil and gas sector, and will become useless when our finite petroleum reserves have been used up in 15-40 years. Timor-Leste’s future economic growth would be better served if major infrastructure projects, especially those paid for with the people’s money, directly benefited our population, rather than providing services for international oil companies who will be here for only a few decades.

If the main objective of the “Tasi Mane” project is to provide jobs for Timorese workers (even if it loses money), shouldn’t those jobs contribute directly to the lives of Timorese citizens by improving health care, education, rural roads and water systems, electricity, housing, food production and other services that people across our country desperately need?

The PETRONATIL national oil company is dangerous and problematic.

Although it is not clear in the budget law, the proposed 2011 Stage Budget includes a \$2 million transfer from the SERN budget to establish PETRONATIL, Timor-Leste’s state-owned oil company.¹¹ The decree-law for this new entity is currently being considered by the Council of Ministers.¹²

We believe that PETRONATIL should be created by Act of Parliament, not by decree-law, and that its budget should be approved by and overseen by Parliament. Unfortunately, the draft decree-law will exempt this agency from Parliamentary oversight, while giving it powers to take out loans; invest in overseas projects; spend petroleum revenues (bypassing Petroleum Fund and Parliamentary budgeting); ignore civil service, procurement and salary rules; and open opportunities for corruption and abuse of power. By taking on huge financial obligations which could later burden the state, PETRONATIL could potentially undermine the responsibility of Committee C and Parliament to enact state budgets and oversee state finances.

Since this may be Parliament’s only opportunity to participate in the decision to establish PETRONATIL, we urge you to use “the power of the purse” to encourage the Government to create a more transparent, accountable, democratic, responsible and less risky state-owned oil company which will serve the interests of Timor-Leste’s people.

¹¹ This expenditure is not mentioned in Budget Books 1-5 or the Budget Law, but it is in the Explanatory Memorandum as a main item in the Public Transfers category.

¹² For information on PETRONATIL, including the draft decree-law, see <http://www.laohamutuk.org/Oil/PetRegime/NOC/10Petronatil.htm>. Our submissions to SERN are at <http://www.laohamutuk.org/Oil/PetRegime/NOC/LHSubPetronatil24Nov2010En.pdf> (English).

The Institute for Petroleum and Geology should be a Government department.

We cannot tell if the budget appropriates initial capital for the Institute of Petroleum and Geology (IPG), a new autonomous agency (*Instituto Publico*) which the Government hopes to create soon by decree-law. Perhaps its funding (as well as the subsidy for the National Petroleum Authority) is concealed in the \$4.3 million of SERN public transfers (\$2 million of which is allocated to PETRONATIL) or the \$1.2 million SERN will spend on “professional services.”

La'ó Hamutuk feels that the draft IPG decree-law is unnecessary and risky.¹³ We support the establishment of an effective state organ to collect and manage information about Timor-Leste's geology, including our mineral and petroleum resources, but we believe that it should be done through normal government structures, and subject to standard processes for hiring, salaries, procurement and contracting. It should not be empowered to take out loans or enter partnerships or investments with private companies.

The Human Capital Development Fund prioritizes the state over our citizens.

We believe that an educated population is essential to developing Timor-Leste's economy, as well as to improving the functioning of state institutions and the lives of our people. But short-term quick-fixes, such as trainings and scholarships for state employees, will not accomplish this goal. We find it unconscionable that the proposed 2011 budget allocates twice as much money (\$12.952 million) for scholarships to send a few students abroad as it does for the entire National University of Timor-Leste (\$6.355 million).

The great majority of scholarships are for public servants, and we hope that their expensive education will improve the functioning of state institutions in the short-term, reducing reliance on foreign advisors and national consultants. But in the medium- and long-term, Timor-Leste's own educational system, from primary school through university, must give our people the understanding, knowledge and skills to work for state institutions, the private sector, foreign investors or their own small businesses. This was the key to developing Singapore and is the only way to develop Timor-Leste.

Timor-Leste will have oil money to spend on expensive, elite overseas education for only a few years. Who will provide the workers for the many industries and agencies envisioned in the National Strategic Development Plan, or to start and run industries which can substitute for imports and add value to our agricultural products? Where will the next generation of leaders come from, once those who get scholarships or were educated in Indonesia or in exile during the Indonesian occupation have retired?

Parliament and the public must have access to full information.

Although the Government often states that Timor-Leste is a world leader in budget transparency, we believe that the claims contradict the reality. Unfortunately, much critical information is concealed from the public and from Parliament, reducing the effectiveness of democratic and legislative processes. The national electricity project discussed on page 6 is one example of how lack of transparency enables bad policies, the omission of information about infrastructure project expenditures after 2011 is another, and the inability of Parliament to oversee Special Funds will exacerbate this problem in the future.

Many international agencies have issued disturbing assessments of Timor-Leste's financial management, transparency and ability to control corruption. There are not mentioned in Government press releases,¹⁴ but

¹³ Our submission regarding the draft IPG Decree-Law is available at <http://www.laohamutuk.org/Oil/PetRegime/NOC/LHSubIPG25Nov2010En.pdf>

¹⁴ The Government's 15 November press release “A new Timor-Leste emerges after three years of skilled leadership,” available at <http://timor-leste.gov.tl/wp-content/uploads/2010/11/A-new-Timor-Leste-emerges-15.11.10.pdf> (English) uses out-of-context statistics and questionable forecasts to paint a misleadingly optimistic picture of the health of Timor-Leste's economy.

In particular, the World Bank's “A 2009 Update of Poverty Incidence in Timor-Leste using the Survey-to-Survey Imputation Method” (<http://siteresources.worldbank.org/INTTIMORLESTE/Resources/tlpovertynote.pdf>), produced

we would like to bring them to Committee C's attention so that you can help the Government improve. Among those published in the last few months are the following:

- The International Budget Partnership's *2010 Open Budget Index*¹⁵ rated Timor-Leste at 34 out of 100: "Provides minimal information to the public in its budget documents during the year."
- Last month, the IMF released their "Report on Observance of Standards and Codes (ROSC)—Fiscal Transparency Module"¹⁶ and "Public Financial Management—Performance Report."¹⁷ Each of these 60-page reports contains numerous observations about limitations in transparency, planning and budget management. The IMF found that "Planning and budgeting are largely unconnected, and a medium-term perspective is just starting. Strategic planning is largely absent." La'o Hamutuk has written the authors explaining how things have gotten worse since they were here 10 months ago.¹⁸
- The U.S. Government's Millennium Challenge Corporation recently published its annual ratings for Timor-Leste.¹⁹ Timor-Leste did worse on 11 criteria compared with last year and improved on four, with two unchanged. On the key "control of corruption" indicator, Timor-Leste fell from 21% to 10%, worse than 28 other lower-middle-income countries, better only than Angola, Iraq and Afghanistan.
- The World Bank's *2011 Doing Business report*²⁰ paints a grim picture of the business climate here, ranking Timor-Leste 174th of 183 countries in "ease of doing business."

A high-level delegation from the FreeBalance software company was here last week, spending some of their \$7 million allocation from the 2010 mid-year budget to explain to Parliamentarians, public officials and the public about their soon-to-be-operational on-line data system and "transparency portal" which will provide access to selected budgetary, execution, procurement, personnel and contract information to people inside and outside of Government. When this becomes available, it will be a very useful tool to enable members of Parliament to oversee the Government's fiscal management. We hope that you will ask the Ministry of Finance to provide full access to all FreeBalance modules to members of Parliament, rather than the limited components of the data which will be available to the public.

at the Government's request, uses irrelevant information such as increased ownership of TV sets and motorcycles since 2007 and the return of people to Dili after the 2006 crisis, to infer that poverty levels have dropped 9%.

¹⁵ IBP's three-page Timor-Leste summary is at <http://www.internationalbudget.org/files/OBI2010-TimorLeste.pdf>, and a detailed questionnaire is at <http://www.internationalbudget.org/files/EastTimor-OBI2010QuestionnaireFinal.pdf>.

¹⁶ Available at <http://www.imf.org/external/pubs/ft/scr/2010/cr10340.pdf>. This report contains important information the budget process, summarized as "The main issues with the openness of the budget process regard: the weak linkage between planning and budgeting, no fully-developed functional or program classification, macro-fiscal forecasting capacity is limited and planned resource provision by donors is not collected for the medium term, capital and recurrent budget are largely developed separately, expenditure review, especially of capital projects, needs to be substantially strengthened, the medium-term planning and budgeting process are embryonic, both for capital and recurrent expenditure, and strategic planning needs to be further developed. FreeBalance does not record accounts payable and there is no monitoring of arrears, its interconnectivity needs to be improved, and the procurement module activated." (Paragraph 94)

¹⁷ Available at <http://www.imf.org/external/pubs/ft/scr/2010/cr10341.pdf>.

¹⁸ La'o Hamutuk's 14 December letter is at <http://www.laohamutuk.org/econ/OGE11/LHLetterIMF14Dec10.pdf>.

¹⁹ The MCC scorecard for Timor-Leste is at <http://www.mcc.gov/documents/scorecards/score-fy11-timorleste.pdf>. An analysis, with links to scores since 2004, is at <http://www.laohamutuk.org/econ/MCC/10MCC.htm>.

²⁰ The complete report is at <http://www.doingbusiness.org/Reports/Doing-Business/Doing-Business-2011>. A recap of the Timor-Leste data is at <http://easttimorlegal.blogspot.com/2010/11/doing-business-2011-in-timor-leste.html>.

Key state institutions must continue to grow.

Although no information is provided about staffing levels for 2011, Budget Book 1 says that new recruitment will be frozen for all ministries and agencies except PNTL, F-FDTL and the Civil Service Commission. We believe that this is a mistake.

Current levels of service in key sectors such as education, health and agriculture are inadequate, and additional public servants are needed to meet the needs of our growing population. These ministries should be scaling up the quality and quantity of their staff. It seems absurd to allocate half the budget to foreign companies to provide infrastructure which benefits hardly any Timorese citizens, while not providing salaries for more Timorese workers to address people's daily lives.

EDTL provides another example. Repairs to the Comoro generating station and construction of the national grid could soon provide electricity to many more citizens across the country. But if EDTL cannot hire more people to implement and oversee these projects, install meters, sell pulsa, maintain and repair equipment and manage this much bigger system, how can it operate effectively?

We do not agree that hiring 600 more soldiers for F-FDTL next year will serve the national interest better than hiring teachers, nurses, agricultural extension workers, engineers, managers for infrastructure projects, or other public servants to meet any of the urgent needs of our citizens.

Recommendations

While it is impossible for Parliament to remedy all of these shortcomings completely, the following recommendations summarize what we have explained in our submission above.

1. Keep spending within sustainable levels, based on prudent projections of future oil prices. The proposed massive budget increases for 2011 and 2012 should be curtailed, and withdrawals from the Petroleum Fund in future years should not exceed the Estimated Sustainable Income.
2. Emphasize that expenditures are connected with revenues, and that the current surge in petroleum-related income is only temporary. Insist that the Government provide expenditure projections after 2010 based on actual plans, rather than econometric models.
3. Consider the budgetary implications of the pending revision of the Petroleum Fund Law, and use more accurate and realistic data than the Government provides when considering both the Budget and the Petroleum Fund Law revision.
4. Refuse to establish the Infrastructure Fund until complete and detailed annual cost, employment and schedule information is provided for each project, and until Parliament has approved the National Strategic Development Plan, with necessary oversight processes, organs and laws. Do not surrender Parliamentary authority to oversee one-third of the budget.
5. Do not approve more money for the Heavy Oil project and national electric grid until the Government has provided accurate, comprehensive information about the project's many problems, and until adequate consideration has been given to renewable sources of energy for Timor-Leste's people.
6. Insist on accurate and detailed cost information and revenue and employment projections for the full project cycle of the Tasi Mane projects, so that Parliament can decide if they are a reasonable investment of state resources.
7. Evaluate whether spending large amounts of public money to prepare for a possible LNG plant is worthwhile, since the company with decision-making power refuses to consider that option.
8. Prioritize development of a strong non-oil economy, primarily based on agriculture, to replace transient oil revenues and industry.

9. Reject funding for the national oil company until it has been established by Parliamentary law with adequate safeguards, accountability and transparency, and for the Institute of Petroleum Geology except within the structure of SERN.
10. Insist that the budget give priority to education of Timor-Leste citizens in Timor-Leste, rather than sending a few public servants for expensive schooling overseas.
11. Make budgetary decisions based on facts, rather than on political propaganda, and encourage the Government to provide accurate information about our economy rather than campaign promises.
12. Insist on unrestricted access by Parliament to the FreeBalance financial information system.
13. Allow hiring of additional personnel for key sectors like health, education and agriculture, and to manage and maintain new infrastructure, rather than expanding armed forces only.

Thank you very much for your attention and consideration, and we are happy to discuss these or other relevant concerns with anyone who is interested.

The image shows two handwritten signatures. The first signature on the left is for Juvinal Dias, and the second signature on the right is for Charles Scheiner. Both signatures are in black ink and appear to be written in a cursive or semi-cursive style.

Juvinal Dias

Charles Scheiner

Researchers, Natural Resource and Economy Team, La'o Hamutuk