



## Introduction

First of all, we are grateful that Committees C and D of the National Parliament have again invited La’o Hamutuk to public hearing to share our thoughts with you as you discuss the state budget.

National Parliament has a key responsibility which requires attention, energy and deep and careful analysis to ensure that the allocations in the state budget can bring our poor people to the lives they deserve, in the spirit of national liberation. “Free the Fatherland and Free the People (*Liberta Patria e Liberta Povu*)”.

Therefore, we hope that this submission will help Parliament adopt policies and recommendations for the long-term benefit of all Timor-Leste citizens, especially women and those who most need support from the State.

### **We appreciate the slower rate of escalation in the total budget.**

La’o Hamutuk applauds the Government’s efforts to reduce the rate of budget escalation this year. We also appreciate clearer information about money carried over in the Special Funds. More realistic budgeting of infrastructure expenditures, in particular, will help make the budget more in line with reality. We realize that keeping the fiscal envelope from growing took a lot of debate and struggle within the Government and that hard decisions had to be made, and we hope that this trend will continue. It is the only way Timor-Leste can avoid squandering our petroleum wealth, increasing inflation, and greater misery for the next generation.

La’o Hamutuk appreciates that the lower total new expenditure in 2013 will require less money to be taken from the Petroleum Fund. The Government proposes to withdraw \$1.2 billion from the Petroleum Fund, compared with \$1.5 billion in 2012. However, this is still 52% above the \$0.8 billion Estimated Sustainable Income (ESI) for 2013.

Unfortunately, some of the apparent fiscal responsibility of this budget results from last year’s carefree appropriations, rather than actual spending cuts. According to the Transparency Portal, only \$1.2 billion of last year’s \$1.8 billion budget has been spent, with \$0.2 billion more committed or obligated. In other words, the proposed 2013 budget, if completely executed, will be 32% higher than executed expenditure during 2012.

Although new appropriations for the Infrastructure Fund are smaller because \$445 million not spent in 2012 was carried over, the proposed 2013 State Budget continues the rapid growth in recurrent expenditures, such as pensions, salaries, veterans’ benefits and goods and services. Recurrent expenditures in GSB 2013 are budgeted at 20% higher than were budgeted in the original 2012 state budget. Although this is a lower growth rate than the 22% from GSB 2011 to GSB 2012, it is still not sustainable. We hope that the change in direction exemplified by the proposed 2013 State Budget will continue even when there is less money to carry over in the Special Funds.

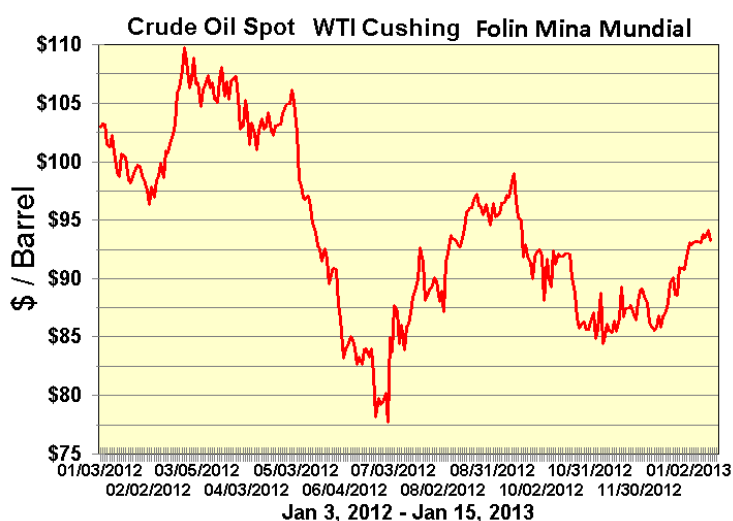
**Table 1: Annual increases in categories of State spending**

	<b>Total expenditure</b>	<b>Recurrent expenditure</b>
2011 budget to original 2012 budget	28.2%	21.7%
2011 budget to rectified 2012 budget	38.3%	28.7%
2011 executed to original 2012 budget	64.8%	49.2%
2011 executed to 2012 executed	24.4%	41.9%
2012 original budget to 2013 budget*	7.4%	19.9%
2012 executed to 2013 budget	31.9%	19.2%

\* For consistent timing and because the mid-year rectification budget was in effect for only two months of 2012, we compare with the original 2012 budget.

## Declining oil revenues should be the basis of budget planning.

The 2013 budget calculates an Estimated Sustainable Income of \$787 million, significantly more than the \$665 million which was estimated for 2012. The higher number comes from unduly optimistic assumptions about world market oil prices. When the Ministry of Finance estimated the 2013 ESI at mid-year, they wrote “oil prices are expected to average \$106 across 2012.”<sup>1</sup> In fact, the average WTI oil price during 2012 was \$94/barrel, only slightly higher than the \$91/barrel used to calculate the ESI. Prudence mandated by the Petroleum Fund Law requires more conservative projections. Oil prices dropped by \$8/barrel from the first to the second half of 2012, and could continue to fall in the future.



We have often explained that Timor-Leste’s natural resources are finite, and our producing oil and gas fields will run dry by 2024. We are glad that the Government recognizes that “Petroleum revenues from Bayu-Undan and Kitan peaked in 2011 and are forecasted to decline to \$2,309.1 million in 2013.”<sup>2</sup>

Over the next 5 years, as the Bayu-Undan field is depleted and Kitan is exhausted, Timor-Leste’s petroleum exports will increasingly be natural gas, and its value is dropping on the world market as unconventional gas sources come on line, so the assumption of annual price increases of \$3-\$4/barrel<sup>3</sup> is dubious.

Budget trends between 2010 and 2012 could have spent the entire Petroleum Fund in ten years,<sup>4</sup> and we are glad that the 2013 budget begins to move in a different direction. We hope that this momentum will continue, and that new expenditures can be kept within the Estimated Sustainable Income. Timor-Leste still depends on oil revenues, and we need to work harder to develop other sources. In the meantime, we should not only be proud of what we have today, but exercise fiscal restraint to support our people after the reserves are exhausted.

We worry that the state continues to prioritize its term of office over the needs of future generations. We therefore suggest that National Parliament should control state spending carefully to ensure that today’s petroleum receipts will be used to benefit future generations. As well as spending less on wasteful projects, we should invest more in our people and local industry and agriculture.

Many people don’t understand that Timor-Leste’s economic situation remains perilous, because we have \$11 billion saved in the Petroleum Fund, billions of dollars in annual oil income, and a non-oil GDP of around \$850 million. However, about half of this GDP comes from state spending, of which 94% is fueled by petroleum income. In other words, Timor-Leste has very little economy without oil money.

The 2011 External Trade Statistics report<sup>5</sup> from the National Statistics Directorate (DNE) shows that in 2011 Timor-Leste spent \$319 million on merchandise imports and received only \$13 million from exports, mostly coffee. In addition, the proposed 2013 General State Budget projects that domestic

<sup>1</sup> GSB 2013 Budget Book 1 (English), page 13.

<sup>2</sup> GSB 2013 Budget Book 1 (English), page 7.

<sup>3</sup> GSB 2013 Budget Book 1 (English), page 38.

<sup>4</sup> <http://laohamutuk.blogspot.com/2012/05/how-timor-lestegot-ten-billion-dollars.html>

<sup>5</sup> <http://laohamutuk.org/econ/trade/DNETradeStats2011en.pdf>

revenues will cover less than 10% of the state budget from 2013 to 2017. Even worse, it expects a non-oil fiscal deficit of more than a billion dollars every year, increasing to \$1.8 billion by 2017.

We will not be able to close this deficit after our oil and gas reserves are gone. Therefore we suggest that Government and Parliament should plan more realistically, working for a sustainable, economical and appropriate future for the nation and people of Timor-Leste.

**Double-digit economic growth amidst inflation does not benefit most people.**

Government press releases, speeches and official documents often proclaim that Timor-Leste has double-digit economic growth. We are saddened that this economic growth is accompanied by double-digit inflation and increasing hunger and poverty, even after spending billions of dollars. Inflation hits the poor hardest, unemployment grows as our children become youth, and people outside Dili have not received a fair share of the benefits. This inequality, a common result of the “resource curse,” results from poor planning, short-term priorities, and little investment in the local productive economy.

Inflation averaged 11% in Timor-Leste during 2012, partly because the U.S. dollar fell and global prices rose, but the most influential factor is Timor-Leste government spending. We have almost no domestic production to absorb this flood of money. The 80% of our people who live by agriculture should be the foundation of our domestic economy, but this sector will receive only 2.0% of 2013 state appropriations, up from 1.6% in 2012. The budget expects inflation to decline to 7% this year, but when we do not create a local economy and state spending continues to increase, it will push inflation even higher.

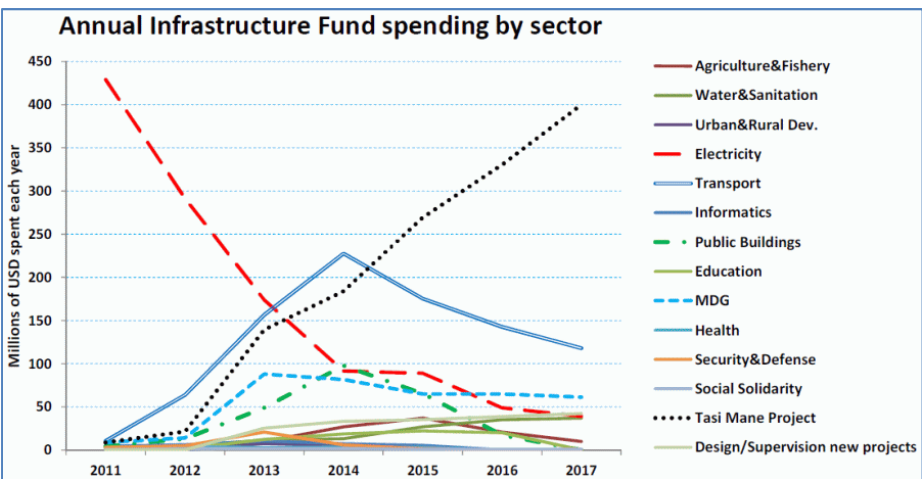
The 2011 Household Income and Expenditure Survey is one way to measure the level of poverty and other indicators, but this report has unfortunately not been published. Parliament should ask for it to help you make wise decisions.

**Parliament needs total cost information for Tasi Mane and other multi-annual projects.**

New appropriations for 2013 are about the same as in the 2012 State Budget largely because \$445 million appropriated for the Infrastructure Fund in 2012 was not spent and is being rolled over into the 2013 budget. Therefore, only \$308 million in new appropriations are requested for the Infrastructure Fund, compared with \$804 million in 2012. However, if all the money allocated for the Infrastructure Fund for 2013 is actually spent this year, the Fund will require at least \$800 million in new appropriations every year from 2014 on, and our overall budget will resume its rapid annual escalation.

La’o Hamutuk continues to urge Parliament to insist that Government provide projections of full project costs for all multi-year infrastructure projects, including those which will extend beyond 2017. The current budget proposal omits this essential information.

The Tasi Mane project “lent” \$50 million to the 2012 rectification budget, which promised to replace it in future budgets. That promise has been kept many times over. Although the 2013 budget appropriates “only” \$38 million in new Infrastructure Fund spending for Tasi Mane this year, the Tasi Mane



project will consume **\$1,323 million** during 2013-2017, including \$331 million in 2016 and \$400 million in 2017 alone (see graph and table 2), the lion’s share of infrastructure spending.

More than half of this is for the Suai Supply Base. The budget says nothing about how much Timor-Leste will pay to build the refinery or the LNG plant, each of which will cost billions of dollars. TimorGAP is seeking private investors, but we are worried that they may not be interested in projects with doubtful financial return. How much more will Timor-Leste's people have to pay after 2017?

In recent statements to the media, the public and Parliament, officials from MPRM and TimorGAP have used a lot of numbers to create the illusion that there are customers for the Suai Supply Base, cars to drive the south coast highway, and buyers for the Betano refinery's products. La'o Hamutuk has tried to analyze the implications of these numbers, but they do not make us confident that the projects are economically viable, with or without the Sunrise pipeline. Frankly, we do not believe the high rates of return claimed for the Tasi Mane project.

Before allocating additional funding for Tasi Mane, Parliament should insist on full project cost and earnings projections, expected rates of return (with underlying assumptions, data and calculations), realistically expected socio-economic benefits and spinoffs, and other concrete project information, including what happens if the Sunrise Pipeline is delayed or never comes to Beacu. How else can you decide whether this a secure investment in Timor-Leste's future or a multi-billion-dollar gift from Timor-Leste's people to international contractors and oil companies?

**Table 2: Budgeted capital costs for the Tasi Mane project (million USD)**

Tasi Mane Project	GSB 2012 after virement and rollover	Estimated expenditure in 2012	Final GSB 2013	2014	2015	2016	2017	Total 2013-2017
Design, construction and supervision to develop infrastructure on the south coast (rehabilitation of Suai airport)	5.0	0.9	14.1	20.0	20.0	7.5		61.6
Detailed geotechnical and marine survey for Betano petrochemical plant	5.0	2.5	3.6	5.0				8.6
Design and construct Betano refinery and petrochemical plant (not in budget)	0	0	0	?	?	?	?	<b>billions</b>
Construction and detailed supervision for roads and bridges (Suai-Betano-Beacu Highway)	25.6*		34.0	50.0	100.0	150.0	200.0	534.0
Design, construction and supervision to develop infrastructure on the south coast in Suai (Supply Base)	77.2*	10.7	84.0	100.0	149.4	173.0	200.0	706.6
Detailed local survey to develop infrastructure on the south coast in Beacu	0.5	0.5						-
Construction and supervision to develop infrastructure on the south coast in Beacu	3.7	3.5	1.2	8.0				9.2
Analysis of the Pipeline Route to develop infrastructure on the south coast	3.1	2.0	1.1	1.0				2.1
Design and construct Beacu LNG plant and pipeline (not in budget)	0	0	0	?	?	?	?	<b>billions</b>
Environmental Studies (SOB) to develop infrastructure on the south coast	2.9	1.4	1.4					1.4
<b>Total</b>	<b>123.0</b>	<b>21.6</b>	<b>139.4</b>	<b>184.0+</b>	<b>269.4+</b>	<b>330.5+</b>	<b>400.0+</b>	<b>1,323.3+</b>
* \$45.2 million in original 2011-2012 budget.								
** \$100 million in original 2012 budget.								

Timor-Leste's state expenditures to manage and supervise the foreign companies who will build the Tasi Mane project and to "liberate" the land they will occupy from local communities are secret. The Budget Law and six Budget Books do not mention the annual subsidy from the Ministry of Petroleum and Mineral Resources to the TimorGAP national oil company. TimorGAP will manage and own the Tasi Mane project, but it will spend the Timorese people's money to do so.

During 2012, SERN subsidized TimorGAP with \$2.3 million in "public grants" (SERN granted an additional \$1.5 million to the National Petroleum Authority (ANP) and \$0.5 million to the Institute for Petroleum and Geology (IPG)). The proposed 2013 GSB will increase Petroleum Ministry public grants from \$4.3 to \$7 million (3/4 of MPRM's entire allocation in the Consolidated Fund). Minister Alfredo Pires informed

Parliament this week that TimorGAP will get \$4.0 million (nearly double its 2012 allocation), ANP \$2.2 million, and newly-established IPG \$0.8 million.

TimorGAP, IPG and ANP merit the same budgetary scrutiny and financial oversight as all other state agencies, including by Parliament. We continue to encourage Parliament to require budgets and financial reports from these institutions. Last year, ANP was embarrassed when people learned that it allocated public money to secure special health care privileges for its staff.<sup>6</sup> The recent Deloitte reports did not cover these agencies. If Parliament approves this funding without adequate information, you will fail to meet your responsibilities under Article 95 of the RDTL Constitution.

### Non-renewable electricity gets more and more costly.

The national electricity project has already shown that accurately anticipating total costs of multi-year projects is crucial. When it was first proposed in 2008, it was expected to cost \$390 million in total. By the end of 2011, \$540 million had been expended, and about \$300 million more was spent in 2012.

GSB 2012 expected that \$111 more would be needed from the Infrastructure Fund from 2013 on to finish the project, but GSB 2013 tripled this to \$359 million over the next four years.

**Table 3: Expected capital costs for the national electricity project (million USD)**

	2012 (actual)	2013	2014	2015	2016	2017	Total 2012-17
GSB 2012 power plants and high voltage lines	282.0	111.0	0.0	0.0	0.0	0.0	<b>393.0</b>
GSB 2012 medium and low-voltage lines	20.7	0.0	0.0	0.0	0.0	0.0	<b>20.7</b>
<b>Total GSB 2012</b>	<b>302.7</b>	<b>111.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>413.7</b>
GSB 2013 power plants and high voltage lines	270.7	122.1	40.0	30.0	25.0	20.0	<b>507.8</b>
GSB 2013 medium and low-voltage lines	21.6	47.2	25.0	25.0	15.0	10.0	<b>143.8</b>
<b>Total GSB 2013</b>	<b>292.3</b>	<b>169.3</b>	<b>65.0</b>	<b>55.0</b>	<b>40.0</b>	<b>30.0</b>	<b>651.6</b>

In the 2013 budget, expenditures for fuel for EDTL's generators have been removed from EDTL's budget and moved into the budget for the Director-General for Corporate Services in the Ministry of Public Works, which makes it difficult to analyze EDTL's actual operations or to separate autonomous agencies from the rest of the budget.

In addition, EDTL's costs of operation (not including Infrastructure Fund capital expenses discussed on page 7 of Budget Book 6) are significantly increased over last year's budget. However, they are still too low to provide fuel when the Betano power plant begins operation. The budget predicts that fuel expenditures will rise exactly 4.00% each year after 2013, which is totally unrealistic and ignores rising fuel prices, growing numbers of consumers, and increased electricity use per consumer as more people expect reliable electricity and purchase appliances.

**Table 4: Projected fuel and operational costs for the national electricity project (million USD)**

	2011	2012	2013	2014	2015	2016	2017
<b>Fuel in GSB 2011</b>	44.3	46.1	47.9	49.8	51.8		
<b>Fuel in GSB 2012</b>	44.3	102.3	106.4	110.7	115.1	119.7	
<b>Fuel in GSB 2013</b>	44.3	102.3	117.8	122.5	127.4	132.5	137.8
<b>Total EDTL operational costs (GSB 2012/13 est.)</b>	48.2	109.1	124.0*	130.0	139.0	150.0	155.0
<b>EDTL revenues (GSB 2013)</b>	12.4	14.9	17.9	20.9	23.7	26.2	28.0
<b>Percent of operational costs recovered</b>	<b>28%</b>	<b>15%</b>	<b>15%</b>	<b>17%</b>	<b>19%</b>	<b>20%</b>	<b>20%</b>
* This number is different from the \$131.6 million in Annex III of the proposed Budget Law because the budget documents do not include information for past and future years. Therefore, we have estimated EDTL operational costs with a consistent methodology. However, it is likely that EDTL operational costs are actually about \$7 million higher each year than the table shows, with cost recovery therefore about 1.5% lower.							

<sup>6</sup> <http://laohamutuk.blogspot.com/2012/03/petroleum-regulators-to-get-better.html>

La'o Hamutuk agrees that Timor-Leste's people need and deserve electricity. As we have written elsewhere,<sup>7</sup> this goal can be achieved with solar panels for much less money and reaching many more people than the centralized oil-fueled power plants and national electric grid.

A solar panel costs about \$800 to purchase and install, including storage batteries. Two such panels will provide enough power for lights, fans, TV, radio and refrigerator for an average home, and do not require a centralized grid. Timor-Leste has about 170,000 households, including many in remote areas not reachable by the power lines under construction. Solar panels last for decades and require no fuel and little maintenance. Installing two panels on every house in the country would cost under \$300 million, less than one-fourth of the construction cost alone of the Government's program, less than two years operational costs for the oil-fueled generating stations.

Two solar panels cannot supply enough electricity for air conditioners, dishwashing machines or electric stoves. Rich people who use such appliances are receiving a big state subsidy, and many large institutional customers do not even pay according to the amount of power they use. Even when users pay EDTL for each kilowatt-hour, they cover only about one-quarter of the operational costs of generation. Are high electric consumers the best beneficiaries of so much of Timor-Leste's limited nonrenewable resource wealth, while the rural poor remain in the dark?

### **The Contingency Fund should be smaller.**

The 2013 State Budget allocates \$29 million to the Contingency Fund, a 37% increase over the original 2012 budget and 6.1% more than the rectified 2012 budget. At 3% of the Consolidated Fund, this is consistent with IMF international guidelines. However, we feel that it is much larger than Timor-Leste needs.

During the report and discussion on the 2011 General State Accounts last month, it became obvious that this fund has been misused, with the great majority of 2011 disbursements going to items which were neither urgent nor unforeseeable, which is what the fund is intended for. We suggest that Parliament reduce this fund to \$10 million or less, perhaps after analyzing how much of the \$22 million spent from the fund in 2012 went to unpredictable, emergency expenses.

### **Important information is missing or confusing in the budget documents.**

Perhaps because the Ministry of Finance was in a rush, the budget documents lack important information, such as tables of the total expenditures for each ministry and for each Expense Item, as were included in Book 1 and the first few pages of Book 4A of the 2012 state budget.

Under Whole of Government appropriations, the proposed budget includes \$10 million for "provision for impact of special regimes" and \$10 million in "funds for legal services," each of which is expected to increase annually. These are new items which were not in previous budgets and should be explained. It is not clear why these expenditures are not within specific Ministerial budgets, rather than in apparently unaccountable, non-specific "slush funds" which could be misused.

In the macroeconomics discussion in Budget Book 1, the methodology for calculating Timor-Leste's non-oil GDP has been revised in cooperation with the IMF. This change increased the GDP figure for every year since 2009. We encourage Parliament to ask why this was done, including GDP calculations and projections using both the old and new methodologies for all years from 2007 through 2013. Otherwise, you cannot know how much the economy is actually growing and how much is due to statistical manipulations.

### **Veterans' pensions: how much in future decades?**

The 2013 state budget allocates \$92.5 million for benefits for veterans of the liberation struggle during 2013 and projects this to increase by exactly 4.00% each year in the future, which ignores inflation and the passage of generations. This year's budget rectification included a huge increase in veteran's

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<sup>7</sup> <http://www.laohamutuk.org/Oil/Power/2011/11PowerPlant2011.htm#sustain>



benefits, and we are dubious that they will be reduced from now on. This is a large part of the budget, and Parliament deserves better information about how much it will cost the state over the next decades. We understand that the Ministry of Finance already has such a report, and hope that Parliament can read it.

### Parliament should analyze the risks of public borrowing.

During 2012, Timor-Leste signed loan agreements with the Japanese agency JICA and the Asian Development Bank, for a total of about \$108 million, out of the \$160 million debt ceiling specified in the 2012 General State Budget. Although \$43.1 million of this was to be received last year to build the Dili-Baucau and Tibar-Ermera roads, these projects are behind schedule and the money was not received in 2012. Therefore, it has been rolled over into 2013, and will be increased by \$0.5 million to design the Manatuto-Natarbora and Ainaro-Cassa roads. According to Article 5 of the proposed 2013 Budget Law, total borrowing in 2013 will be \$43.6 million, and new loan contracts can be signed for up to \$223.5 million, an increase from last year's \$160 million.

Table 5, adapted from page 15 of Budget Book 6, outlines some of the government's future borrowing plans, which total \$480 million from 2013-2017.

**Table 5: Anticipated loan financing for capital projects (million USD)**

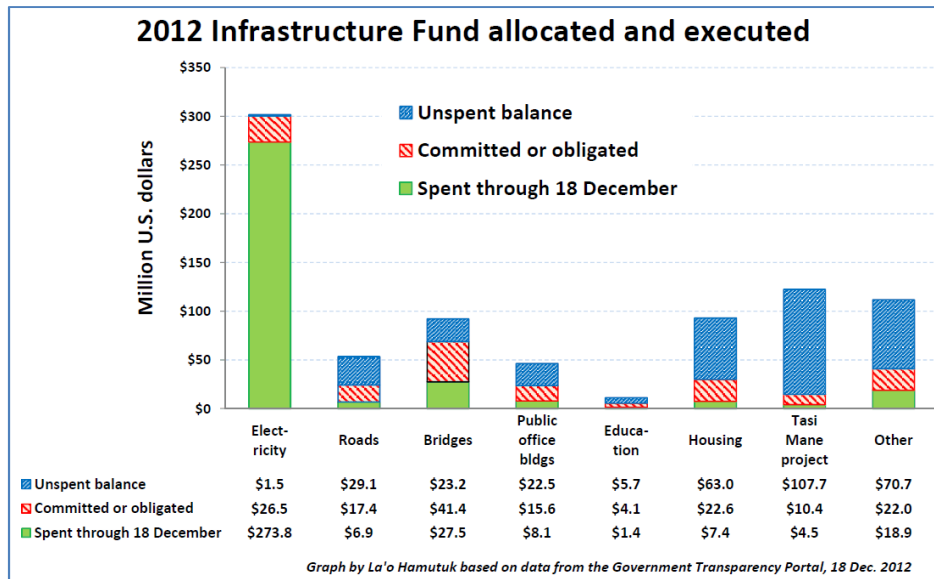
Program	Rollover 2012 to 2013	New in 2013	Final Budget 2013	2014	2015	2016	2017	Total 2013- 2017
Construction and supervision of Dili-Liquiça and Tibar-Ermera roads	10.0		10.0	13.5	13.5	3.0		40.0
Construction and supervision of Aileu-Ainaro and Maubisse roads	10.0		10.0	10.0	12.0	6.0	2.0	40.0
Construction and supervision of Dili-Manatuto-Baucau road	3.1		3.1	10.2	19.0	20.0	16.4	68.7
Drainage in Dili (sewers)	20.0		20.0	20.0	20.0	25.0	20.0	105.0
Construction and supervision of Manatuto-Natarbora road		0.3	0.3	13.4	13.4	13.4	9.6	50.0
Construction and supervision of Ainaro-Cassa road		0.3	0.3	3.5	10.0	4.3		18.0
Construction and supervision of Aituto-Hatubuuliko-Letefoho-Ermera-Gleno road					5.0	20.0	25.0	50.0
Construction and supervision of Suai-Betano-Beaçu highway, Phase 1					28.0	30.0	50.0	108.0
Not included: • Phases 2 and following of Suai-Betano-Beaçu highway • Roads in the eastern part of Timor-Leste • Tibar and other ports • Dili and other airports • Other non-road infrastructure			0.0	?	?	?	?	?
<b>Total</b>	<b>43.1</b>	<b>0.5</b>	<b>43.6</b>	<b>70.6+</b>	<b>120.9+</b>	<b>121.7+</b>	<b>123.0+</b>	<b>479.7+</b>

We continue to suggest that borrowing today to repay after a decade (because the loans have 5-10 year grace periods) is not a good or wise decision, as at that time Bayu-Undan and Kitan will be empty and there will be twice as many young people entering the workforce as today. We hope that Parliament will not impose an economic risk on future generations, increasing their suffering and difficulties to develop. Many other countries have experienced debt and default, when their leaders decide to borrow against their natural resources.



## MDG-Suco continues to repeat past failures.

Like other non-electricity projects in the Infrastructure Fund, the MDG Suco public housing program spent very little of the money allocated to it during 2012 -- \$14 of \$93 million. We are glad to see that no additional money is requested for this project during 2013, and that the \$79 million carried over will ostensibly pay to build 11,145 houses, five in each aldeia in Timor-Leste.



As La'o Hamutuk has often written, the MDG-Suco project has been like a slippery worm, unpredictably changing objectives, scope, cost, and schedules. Is it for vulnerable people who need homes, for public servants, for people displaced by state projects, or for people from remote areas? How are large families or animals to be accommodated in such small houses? Why are we importing prefabricated "Kobe houses" while sacrificing jobs, local business development and maintainability which could have come from local construction? A year and a half ago, this was rationalized "to complete the construction of new houses within a tight timeframe"<sup>8</sup> but that timeframe clearly no longer applies.

In October 2011, the Government signed an \$87 million contract (the company bid \$144 and then \$100 million) with Carya Timor-Leste and Jonize Construction to build 9,237 (or fewer?) houses (the tender was for 11,855 houses). This was supposed to be for the first year of a five-year project. However, as most of the money for this contract has not been disbursed, we assume that most of the houses are not yet built, so the first "annual" installment of houses will take more than two years.

Although no new money is requested for 2013, Book 6 announces new appropriations of \$44.6 million for each year from 2014-2017. At 2011 prices, this could pay for 4,700 houses each year if schedules are met, half of the 55,000-house goal and two years behind the "end of 2015" target announced in the 2011 State Budget. (The 55,000 house number is repeated in the Prime Minister's explanation about transferring more than ESI in GSB 2013.)

Parliament should exercise its oversight responsibilities to look into this program more deeply. Cancelling the MDG-Suco project would free up the \$79 million already in the Infrastructure Fund for well-conceived, more appropriate, and better-managed projects, which could include public housing. It would also save Timor-Leste \$178 million in the future.

## Government continues to overlook human resources.

Today, many people worry about the quality of Timor-Leste's human resources. Our education system is weak, malnutrition widespread, and health care grossly inadequate. La'o Hamutuk considers that these problems can only be addressed with serious investment in the social service sector.

<sup>8</sup> <http://laohamutuk.blogspot.com/2011/09/cleaning-glass-on-procurement-portal.html>  
<http://www.laohamutuk.org/econ/specialfunds/MDGSucoHousesTenderJune2011.pdf>

Although the proposed 2013 GSB is a little better than 2012, buying important medical equipment, it still allocates only 3.8% for the health sector (2012 was 3.3%), far below the 15% many developing countries set as a goal.

The education sector is also neglected, although it is slightly improved. Developing countries which value their people spend at least 20% of their budgets on education; Timor-Leste's 2013 State Budget will spend 7.9%, slightly better than last year's 7.1%.

The Ministry of Finance is currently conducting a public consultation process to identify how Timor-Leste can achieve the Millennium Development Goals in sectors including education and health. We believe that to achieve these targets, Government should seriously prioritize these sectors, to improve both the quality of service and the number of people who can access them. We believe that improving the quality of our people's lives and human resources is essential to social and economic development for Timor-Leste's non-oil future.

### **Other legislation also requires attention.**

La'o Hamutuk was glad to see that the Government has accepted the decision of Parliament last year and did not propose funding for the Timor-Leste Investment Company (CITL) in 2013. We encourage the Council of Ministers and/or Parliament to remove this temptation for the future by repealing ill-considered Decree-Law No. 41/2011 of 21 September.

In recent months, the media, public and Parliament have been surprised by the \$1.6 million contracted from the Infrastructure Fund to build the official residence of the Minister for Finance. Although information and accounting for the Special Funds has improved over the last year, they still have many vulnerabilities. Parliament should amend Article 32 of Law No. 13/2009 of 21 October 2009 on Budget and Financial Management to ensure better oversight and decision-making for Special Funds. In particular, Special Fund money should not be allocated for projects that Parliament has never been told about. As enacted, this law gives too much unsupervised authority to the Minister for Finance, and it should be amended before more serious abuses occur.

Thank you very much for considering our ideas, and we are ready to continue to partner with Committees C and D and other members of Parliament in the future.

Sincerely,



Juvinal Dias

La'o Hamutuk researchers on economy and natural resources



Charles Scheiner