

# La’o Hamutuk

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## Submission to Commission C, RDTL National Parliament

From  
La’o Hamutuk

Concerning the  
Re-proposed 2020 State Budget

10 January 2020

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### Introduction

La’o Hamutuk appreciates the Government’s efforts to reduce the total amount of the proposed 2020 State Budget compared with the initial proposal from October 2019. However, we remain concerned that the total of \$1.7 billion still threatens Timor-Leste’s financial sustainability. In the revised budget, the Government has reduced allocations to programs and line items in a way that is inconsistent with the people’s urgent needs, but has maintained allocations to several line items that require further evaluation.

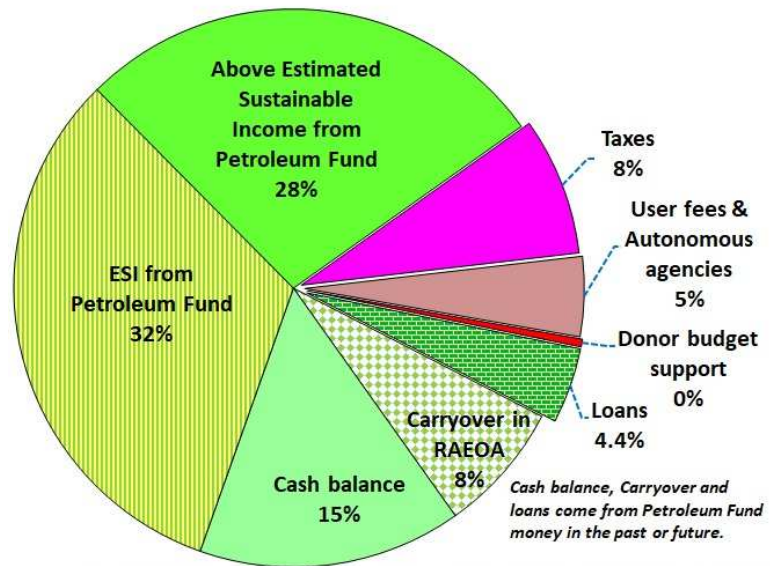
In this document, we hope to explain and share our concerns related to financial sustainability, loans, and allocations to basic services and sustainable economic sectors. We also offer a few recommendations to Parliament to discuss in depth before your Excellencies make a decision on the proposed budget.

## Fiscal Sustainability

The proposed 2020 State Budget withdraws an unsustainable amount from the Petroleum Fund. This revised budget would withdraw nearly one billion dollars, almost three times the Estimated Sustainable Income. In total, 60% of the State Budget will come directly from the Petroleum Fund, in addition to money carried over in the Treasury and RAEOA which were withdrawn from the Petroleum Fund in past years. In summary, 83% of the proposed State Budget comes from the Petroleum Fund. Additional money will come from loans which must be repaid in the future, largely from the Petroleum Fund.

## Revenues in 2020 State Budget

\$1,668 million total



Graph by La'o Hamutuk based on second proposed State Budget for 2020. December 2019

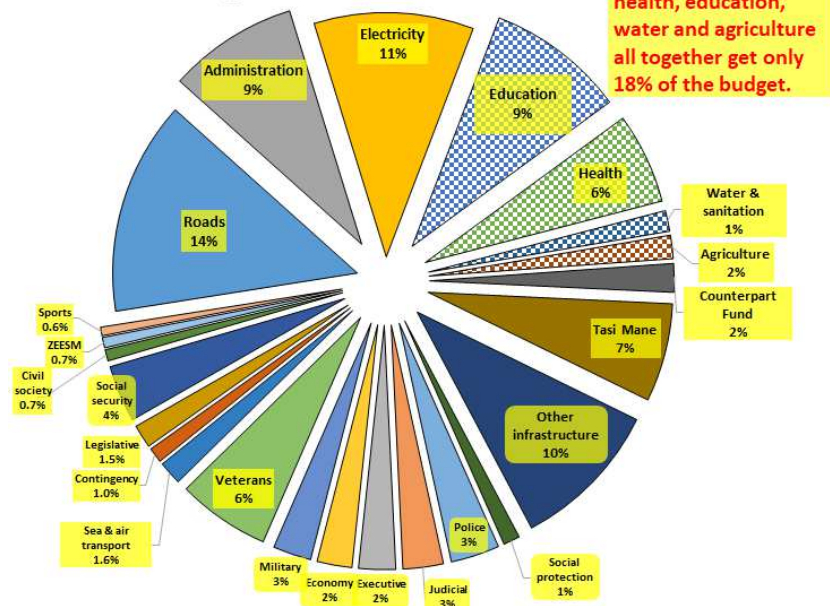
Timor-Leste should be using the remainder of the Fund carefully and sustainably to develop economically productive sectors which will sustain the future of our people. Instead, the Government continues to withdraw amounts far beyond the Estimated Sustainable Income, which threatens the Petroleum Fund and funding for future State activities.

## Government Priorities









La'o Hamutuk is concerned that the reduction in the total amount of the Budget has been undertaken without regard for the nation's needs and priorities. In evaluating the proposed 2020 State Budget, we note that while allocations to multi-year major projects are virtually unchanged, allocations to some basic services have been drastically cut, as shown in specific examples in the following table.

## Category breakdown for 2020

Total budget = \$1,668 million



Graph by La'o Hamutuk based on second proposed 2020 Budget Law and Books. December 2019

<b>Program</b>	<b>First proposed 2020 budget, October 2019</b>	<b>Second proposed budget, December 2019</b>	<b>Change</b>
Allocation to the Tasi Mane Project through the Infrastructure Fund	\$16,451,000	\$16,451,000	 <b>No change</b>
Transfers to TimorGap through MPM	\$74,900,000	\$74,900,000	 <b>No change</b>
Expo Dubai	\$2,119,000	\$2,119,000	 <b>No change</b>
Planning, development, operation, and maintenance of sanitation systems in Dili and 7 municipalities	\$1,500,000	\$300,000	 <b>cut 80%</b>
National Directorate for Basic Sanitation	\$1,384,000	\$114,000	 <b>cut 92%</b>
Program to sustainably increase agricultural production and productivity	\$10,026,335	\$7,984,727	 <b>cut 20%</b>
Subsidies for transporting agricultural products to market	\$961,795	\$86,900	 <b>cut 91%</b>
National Directorate for Education Infrastructure	\$29,230,000	\$8,033,000	 <b>cut 73%</b>

Furthermore, while La’o Hamutuk appreciates that the Government has reduced the allocation to the Counterpart Fund compared to the previous proposal, we note that there is still no explanation of the objectives of this funding, what it is to be used for, and to whom it will be allocated. It is impossible to assess the value and benefits of this appropriation when the Budget Books fail to provide detailed information about the Government’s plans. Sustainable, sensible, and transparent budgetary planning requires specific information about all spending.

La’o Hamutuk also notes that the new budget increases the Development Capital allocation for RAEOA (the Special Administrative Region of Oecusse Ambeno) from zero in October to almost \$100 million. Unfortunately Budget Book 3C does not say what this large amount will be used for. Although the Government has reduced allocations to many programs, there is no explanation why the RAEOA allocation increased so dramatically. Before voting on this proposed State Budget, we believe that Members of Parliament should know how this appropriation will be used. To ensure financial sustainability, the Government needs to allocate funds based on efficacy and addressing people’s needs; this large allocation to RAEOA, therefore threatens processes of transparency and sustainability.

We encourage Members of Parliament to engage in a thorough discussion with the Government concerning unexplained increases to allocations, so that you can carry out your responsibilities for control and oversight.

## **Loans**

The proposed State Budget fails to include key information about the Government's plan to use its proposed ceiling on new borrowing of \$750 million, for agreements to be signed in 2020. This amount is twice as much as Timor's total loans to date. Loans can have a great impact on the economy, and unsustainable borrowing can threaten financial sustainability. For this reason, it's vital to include accurate information and projections. Without such information, it is impossible to assess the impact of the budget or to make sound decisions.

Although the Government has declared that its debt level is sustainable, its projections do not reflect reality. Part 2.6.3.3 of Budget Book 1, on future loans, gives little information on the plan to accrue substantial additional debt and the impact of \$750m in additional debt loans in future budgets. If we borrow \$750m more in the future under similar terms to current loans, Timor-Leste will have to pay about \$78 million every year in debt service after the grace periods elapse. This means that the debt service-to-revenue ratio would reach 35%, almost twice the 18% maximum recommended by the IMF/World Bank Debt Sustainability Analysis mentioned in Budget Book 1. The National Parliament should ask the Government to clarify the objectives of this future borrowing (including the lender, the purpose, and the repayment terms).

## **Environment**

The State Secretariat for Environment (SEA) is a state institution with an important role to play in ensuring the implementation of Timor-Leste's existing policies and laws. Through such actions it can protect Timor-Leste from environmental problems that will arise from climate change, extractive industries, and major project developments currently underway in Timor-Leste.

We believe that this important responsibility should be strengthened with adequate budget allocations to increase human resource capacity, add to existing facilities and related equipment, and establish environmental science laboratories to make the Secretariat's technical operations more effective.

We recognize that in October the Government proposed a 39% increase in allocation to the SEA, resulting in a total proposed allocation of \$2.2 million. Unfortunately in the December 2020 State Budget proposal, this allocation was reduced by 15.2%. La'o Hamutuk is concerned that this reduction has implications for the establishment of environmental laboratories and other important programs that the SEA has developed. We therefore recommend that adequate money be appropriated for SEA to implement its programs and ensure its important work.

## **Agriculture and Tourism**

The revised 2020 State Budget proposal shows that agriculture is not a government priority. In 2019, the agriculture sector received an allocation of \$27.4 million, but in the revised proposal for 2020 this has been reduced by 7% to \$25.4 million. In the 2020 State Budget proposal issued in October 2019, the agriculture sector was set to receive \$29.8 million; 9% more than in 2019. Unfortunately the December proposal reduced this allocation: programs to increase sustainable productivity and production have been cut from \$10 million to \$8 million, and subsidies for the transport of agricultural produce to market has been cut by almost \$0.9 million. At the same time however, the Government has maintained its initial allocations to programs that offer no clear benefit to the people, such as the Dubai Expo which will be allocated \$2.1 million. The money allocated for participation in the Dubai Expo is almost as much as the Ministry of Tourism, Commerce, and Industry (MTCI) gets to ‘develop and promote Timor-Leste as an attractive and favoured destination in the Asia Pacific.’ MTCI’s major tourism programs are only allocated \$2.4 million. The budgetary approach ignores the reality that the majority of the Timorese people are engaged in the agricultural sector, and contradicts the Government’s own narrative that agriculture and tourism are priority areas.

## **Education**

The Eighth Constitutional Government declared its priorities to be strengthening the health and education systems, and ensuring access to clean water. However the proposed 2020 allocations to these sectors do not reflect the Government’s promises. Education spending comprises 9.1% of the total proposed budget for 2020, down from 9.3% in 2019. We are concerned in particular to the following reductions in allocations:

1. In the first 2020 State Budget proposal, the National Directorate for Education Infrastructure was to receive \$29 million, however the revised proposal has reduced this to \$8 million. We are concerned that this funding has been reduced despite the pressing need to improve school infrastructure to help improve learning outcomes.
2. The allocation to the training of teachers and education professions has also been cut, from \$2.3 million in the initial proposal, to \$1.8 million. This revised allocation is lower than the \$2.1 million allocated in 2019. We have great concerns about the Government’s decision to cut funding to important programs that increase teacher capacity.

## **Water and Sanitation**

The issue of clean water remains a concern for all citizens, especially in rural areas. The proposed 2020 allocation for water is \$19 million, about one percent of the total budget. Investment in clean water is a direct investment in human capital, because contaminated water or inadequate sanitation causes widespread health problems. The proposed allocation to sanitation in 2020 is \$3 million. The National Parliament needs to ask the Government to improve its efforts in water supply and sanitation to ensure that people can access clean water and adequate sanitation. We are concerned that the revised proposal slashed the allocation to the National Directorate of Basic Sanitation from

\$1.384 million to only \$0.114 million (a 92% cut). Allocations to the planning, development, operation and maintenance of sanitation systems in Dili and seven municipalities were also reduced from \$1.5 million to only \$0.3 million (an 80% cut).

### La’o Hamutuk’s principal recommendations

- The National Parliament needs to use its authority to set a total budget amount for 2020 that is sustainable, by reducing bureaucratic state mechanisms and allocations that do not respond to people’s needs.
- We ask Members of Parliament to ask the Government to justify why they have maintained funding for the Tasi Mane project and the Dubai Expo, while at the same time cutting funding for basic services and productive sectors such as water and sanitation, education, and agriculture.
- Rather than cutting basic services and funding for productive economic sectors, we suggest suspend all funding for the Tasi Mane project until there has been an independent study of its costs, benefits and risks, and to cancel funding for participation in the Dubai Expo.
- We ask Members of Parliament to reject the proposed ceiling of \$750 million for new loan contracts in 2020, if the Government fails to provide details of the purpose, source, and repayment conditions of the planned loans.

Finally we convey our good wishes to Members of Parliament for the new year, and we hope that the observations and analysis in this Submission will help Members assess the proposed State Budget before you vote.

Thank you.

Respectfully,



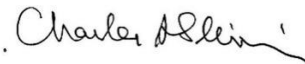
Celestino Gusmão



Elizaria Febe Gomes



Bree Ahrens



Charles Scheiner



Berta Antonieta



Maxi Tahu



Marta da Silva



Mariano Ferreira



Adilsonio da Costa Jr