

La’o Hamutuk

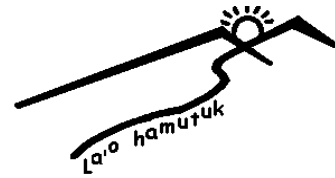
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Observations from La’o Hamutuk to the Global Conference on the 2030 Agenda

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La’o Hamutuk is a Timor-Leste non-governmental organization which has analysed and advocated for equitable, sustainable development for 17 years. We are gratified that the Timor-Leste Government is embracing the Sustainable Development Goals (SDGs), the global framework for achieving sustainable, equitable and peaceful social and economic development. Timor-Leste’s National Strategic Development Plan (SDP) contains many admirable targets in health, education and other areas, and we believe that harmonizing those parts of the SDP with the SDGs is a useful step towards achieving these objectives.

Timor-Leste faces many challenges, from enduring effects of occupation and war, young institutions, limited fiscal and human resources, poor infrastructure and widespread poverty and malnutrition, and meaningful progress toward the Sustainable Development Goals requires political will, wise and strategic policies, careful planning and concrete action on the part of policy makers, public servants, development partners and all Timorese citizens. Decision-making must also include civil society, youth and marginalized groups, in order to pursue an equitable development process, and their concerns and needs should be incorporated into all development programs.

The Government’s programs and those of its international partners should be realistically achievable and based on evidence, understanding Timor-Leste’s current context and aimed at improving people’s well-being and incomes in the short term, and achieving equitable economic and environmental sustainability in the medium- and long-term. Therefore, La’o Hamutuk offers this analysis of Timor-Leste’s economic reality and current government policies, along with some suggestions that we believe can help use the remaining money from our limited petroleum resources to improve all our people’s lives, and achieve lasting peace, stability and prosperity.

Achieving sustainability requires updating our priorities.

La'o Hamutuk congratulates the Timor-Leste Government on successfully pushing for the inclusion of SDG number 16, 'Peace and Justice and Strong Institutions,' which aims to "promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels." Peace is an essential element of sustainable, equitable development, and the people of this country made tremendous sacrifices to achieve it. We also note that the Government has selected 19 indicators from several SDGs, including reducing extreme poverty and infant mortality, reducing violence, improving food security and increasing access to education, water and electricity.

La'o Hamutuk agrees that Timor-Leste needs to make its state institutions even more effective, and we appreciate that the other selected indicators address many of the profound challenges our people currently face. However, there are other important areas which have more immediate impacts on people's lives, such as endemic malnutrition and disease, dysfunctional healthcare and education systems and poor quality infrastructure, particularly in rural areas, but are not expressly addressed by any of the selected indicators.

The SDP contains targets for many of these areas, and we understand that the Government plans to implement the SDGs according to the objectives outlined in the SDP; however, it is an aspirational document, not a realistic plan, and as such it does not include cost estimates or timelines for achieving its objectives. Furthermore, some aspects of the SDP – such as the Tasi Mane petroleum infrastructure project, airports and ports – do little to address the urgent needs of the majority of our people, and the country has limited resources with which to carry out these large projects.

The Prime Minister's office carried out a review of the SDP in 2016, but the results have not yet been released. When we participated in this process, they told La'o Hamutuk that the main objective of the review was to evaluate the progress of the SDP's implementation, rather than revising and adjusting its priorities according to new information and circumstances. The plan was developed in 2009-2011, when many people incorrectly believed that Timor-Leste's oil revenues would last for decades.

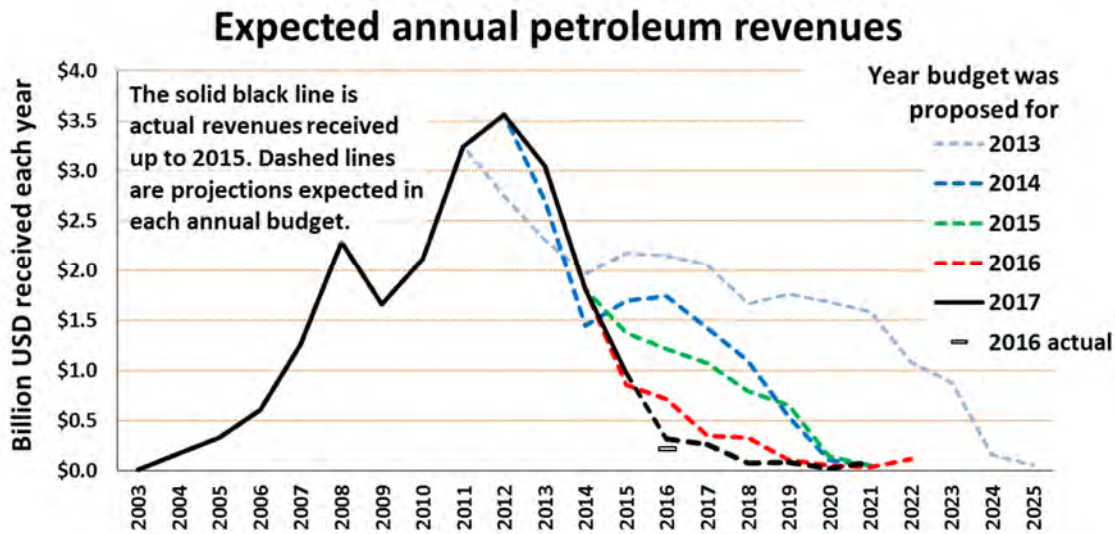
Six years later, we have received nearly all of the revenues we will get from developed oil and gas fields. This requires a major rethink of our national programs and priorities, to reduce near-term spending to sustainable levels and evaluate the costs and likely benefits of the most expensive projects. Continuing down the current unsustainable course on is very risky, and could lead Timor-Leste into severe financial difficulties within a decade, without a diversified economy or strong human resources to overcome them.

Therefore, we call on Timor-Leste and its friends to seriously reassess the development strategy, analysing all major projects, with the goal of building a diversified non-oil economy to move us toward long-term sustainability. The SDGs can be used as a reference, but the most important guide should be the needs of the majority of our people.

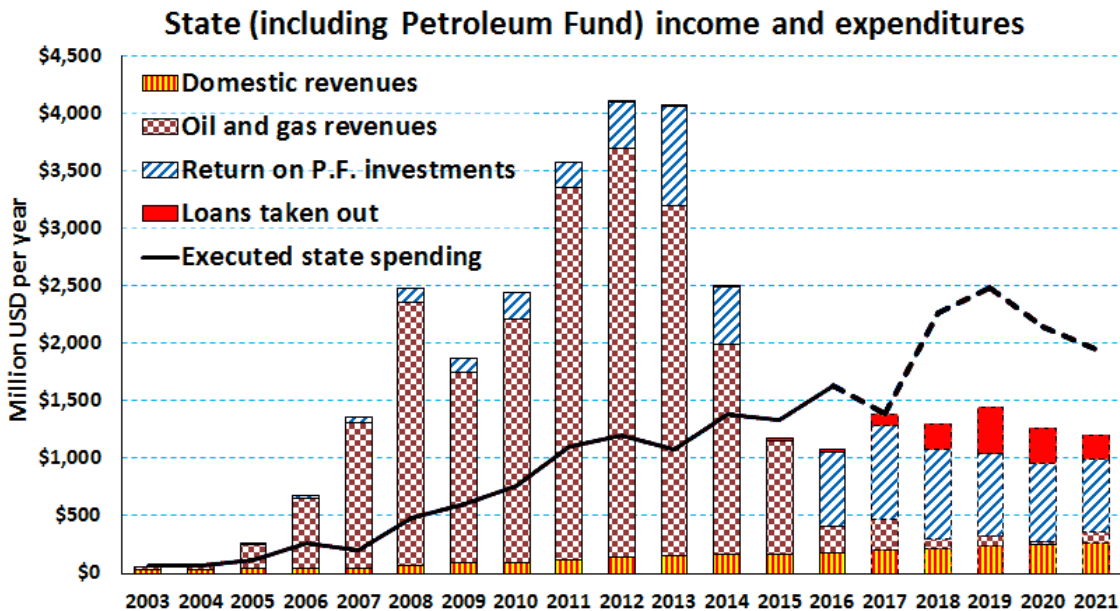
Petroleum revenues will effectively end next year.

In order to design sustainable, realistic plans for the future, Timor-Leste's policy makers first need to recognize the imminent end of petroleum revenues. The projections in the 2017 State Budget show revenues falling to \$80 million in 2018, or less than one-twentieth of what they

were in 2014; by 2021, they will be zero. As of today, Timor-Leste has already received 98% of the total expected revenues from Elang-Kakatua, Bayu-Undan and Kitan.



Thus, Timor-Leste now depends on returns on investing its Petroleum Fund (PF) to finance state activities. However, even though yearly withdrawals are supposed to be limited to the 'estimated sustainable income' (ESI)¹ the Government has consistently violated this principle, withdrawing excessively almost every year since the PF's establishment. In addition, the PF's investment returns have been lower than the 5.7% nominal annual returns projected by the Ministry of Finance, earning less than half of what was predicted during 2015 and 2016.² Since 2015, the state's overall financial flow has been negative.

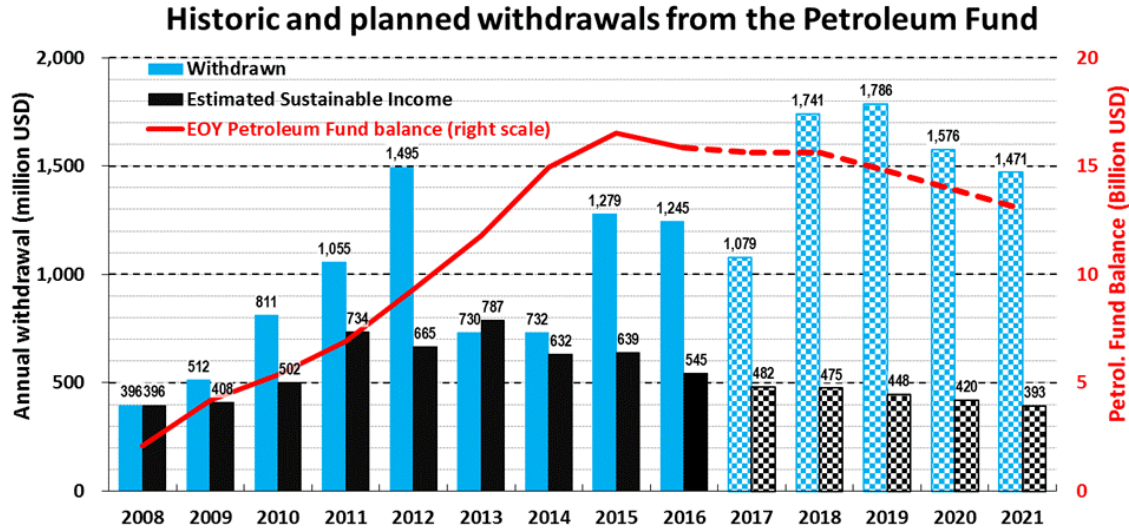


Graphic by La'o Hamutuk based on data and projections in Ministry of Finance 2017 Budget Books and Transparency Portal. May 2017

¹ ESI is calculated as 3% of total petroleum wealth, which includes the value of the Petroleum Fund, plus projected future revenues and investment returns.

² The Government predicted \$532 million and \$874 million in returns during 2015 and 2016 respectively, whereas total returns in 2015 were *negative* \$21 million, and only \$648 million in 2016.

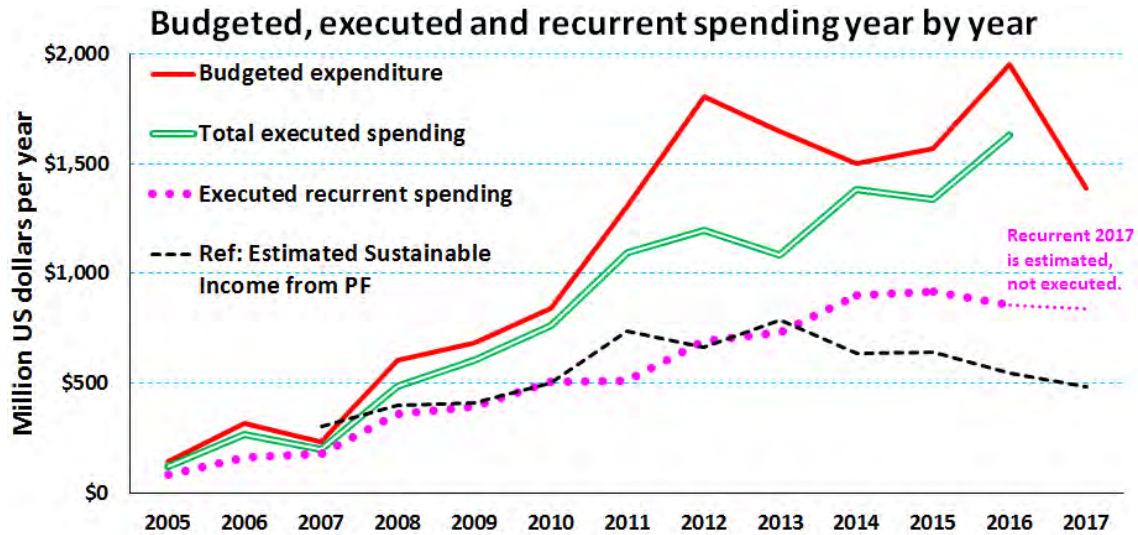
The combination of excess withdrawals, dwindling revenues and lower than expected investment earnings is causing the balance of the PF to fall from its \$17 billion peak two years ago, and the 2017 State Budget expects that the Fund's total value will fall to just over \$12 billion by 2021. (La'o Hamutuk calculates that it will drop even further if all the government's current proposals are implemented.) At the same time, most of the growth in 'non-oil' GDP is driven by state spending (of oil money). Without a large and rapid increase in non-oil revenues, the State will run out of money as soon as a decade from now.



Although it is possible that Timor-Leste will achieve additional revenues from Greater Sunrise or other gas and oil fields, or from mining, the likelihood is remote, and this will not be significant for many years, if ever. It would be foolhardy to gamble the country's future on imaginary quantities of hypothetical non-renewable resources that may appear someday. Even if they do materialize, they will not provide as much revenue as Bayu-Undan already has, and will only prolong non-sustainable resource dependency for a little longer.

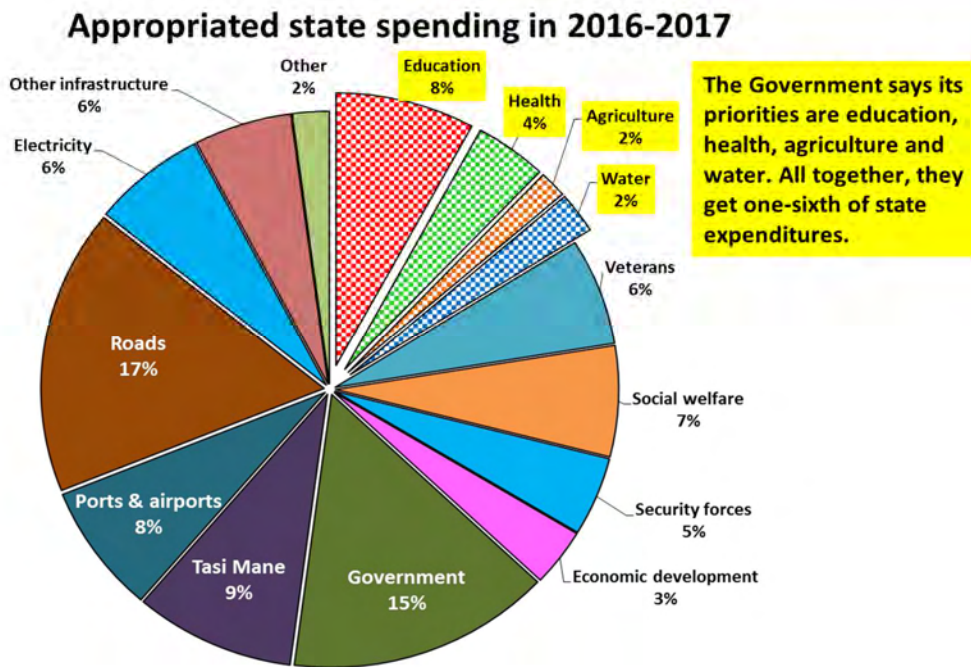
Megaprojects and extractive industries undermine sustainable development.

The Government is withdrawing non-sustainable amounts from the PF partly because recurrent expenditures on wages, goods and services, fuel, and social security programs, are steadily increasing; in fact, recurrent spending alone has been much more than ESI since 2014.



Graph by La'o Hamutuk based on data in RDTL State Budgets, General State Accounts and Transparency Portal. March 2017

The bigger drain on the Petroleum Fund is the 'frontloading' policy which involves high spending on physical infrastructure, ostensibly to build foundations for future development. However, the bulk of the infrastructure spending so far has been for national roads, bridges, electricity, airports and ports, while other areas like water, sanitation, schools and hospitals have been underserved. Increased access to electricity and improved roads has benefited people; however, water, sanitation, health and education are more fundamental to people's lives, and should receive more resources and attention.



In addition, the Tasi Mane petroleum infrastructure project absorbed more than \$200 million between 2011 and 2016. The 2017 budget allocates \$65 million more for it, about as much as Timor-Leste has allocated for health this year.

Between 2017 and 2021, the Government plans to spend more than \$1.1 billion on just the three largest projects,³ or almost a third of total capital expenditure, and billions more after 2021 to complete the projects. However, the Budget only includes a few smaller components of Tasi Mane – Suai airport, the Suai Supply Base and part of the south coast 'highway'. The other two (much larger) projects – the petrochemical refinery at Betano (which involves two oil pipelines) and the Sunrise gas pipeline and LNG processing plant in Beacu – are left out. La'o Hamutuk's rough estimate of total cost is \$15 billion – the entire Petroleum Fund if private investors continue to avoid the project.

Space does not permit a detailed analysis of the Tasi Mane project, but La'o Hamutuk agrees with most independent analysts that it is not economically or socially justifiable. Uncertainties about markets, raw materials, procurement processes, economic analysis, environmental risk, maritime boundaries, investor and consumer confidence and managerial experience put the entire project into question – especially as it is diverting financial and policy resources from more realistic, achievable and sustainable development. It is time to stop pouring good money after bad.

During the last three years, the Oecusse special economic zone (ZEESM) has received almost \$500 million in public funds, with no significant private investment, no public cost/benefit/risk analysis, and little transparency or accountability. Future expenditure projections for ZEESM have not been released, but it could receive billions more in public funds, especially if other investors continue to stay away.

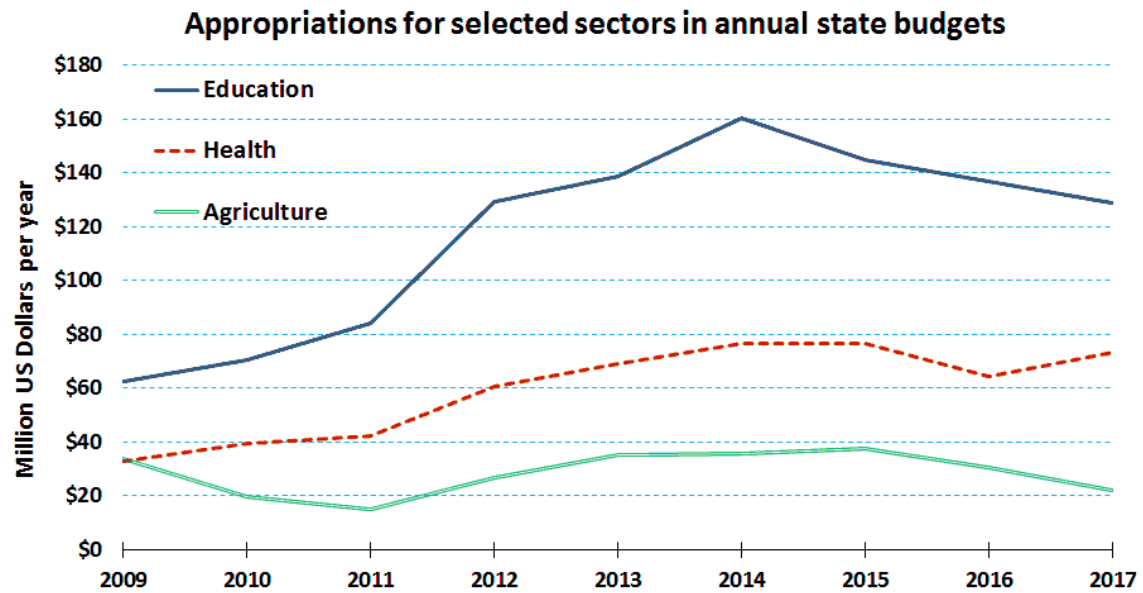
We are therefore deeply concerned that these projects will waste a large proportion of Timor-Leste's people's money, while taking up valuable agricultural land, evicting people from their homes and farms, and causing increased poverty, social conflict and environmental destruction. Although dubious new airports in Oecusse and Suai are already under construction, the planned expansion of Dili airport – which is expected to cost up to \$400 million – is also difficult to justify, given the limited numbers of flights, airlines and passengers. Last year, the government created a public-private partnership for a large container port west of Dili, which is also questionable, given the country's overwhelming import dependency and plausible traffic projections.

Around \$400 million in loans has already been contracted, mostly for roads, and the Government hopes to borrow almost \$1.3 billion more over the next five years, around \$900 million of which is for Dili airport, Suai Supply Base and the south coast highway. When the oil money is gone, Timor-Leste will probably be unable to repay those loans without cutting essential services. Therefore, taking on so much debt is a threat to the next generation, especially as much of it is for projects that may not recover their investments. None of Timor-Leste's current creditors (Japan, World Bank, and ADB) will make loans for these projects as they believe they are unviable, and we worry that less scrupulous lenders could exploit our precarious position to purloin our petroleum savings or infringe on hard-won national sovereignty. We should learn from the experience of other countries who took on unsustainable debt, only to become trapped in a debt-cycle which continues to this day.

³ These are two components of the Tasi Mane project – the south coast 'highway' and Suai Supply Base – and the expansion of Dili airport.

While Government policies have neglected agriculture, tourism and other sustainable industries, they are giving more attention to new extractive activities. National Parliament is debating a new Law to invite mining in Timor-Leste, which threatens our environment, our people's health, and will usurp arable land. In addition, the Government recently awarded a contract to conduct onshore exploration for petroleum over an area of around 200,000 hectares in southwest Timor-Leste.

Most of Timor-Leste's people live as subsistence farmers who depend on the earth for their livelihoods, but there is limited land which is suitable for agriculture. The largest area of arable land is on the south coast, but petroleum and mining industries could make it unavailable or unusable. Also, many livelihoods depend on the sea, and fishing and tourism could potentially become important sources of revenue. Unfortunately, these sectors have not been prioritized by the Government, and are instead being endangered by the promotion of extractive industries.



Graph by La'o Hamutuk based on RDTL State Budgets from the Ministry of Finance. October 2016

Prioritize healthcare, education, basic infrastructure and sustainable economy.

Access to certain services has improved in some areas, such as electricity, water and sanitation, and malaria appears to be under control. However, malnutrition and stunting, especially for young children, are among the highest in the world, and could permanently damage their lives and future economic development. Small-scale rural infrastructure continues to be underfunded and mismanaged, and more work is needed to combat waste and corruption in public services and infrastructure projects. However, the biggest barrier to progress is the continued prioritization of megaprojects and development of offshore and onshore extractive activities, which diverts the state's time, energy and money away from these basic services and infrastructure.

Therefore, in addition to evaluating all projects and cancelling those without clear benefits, Government efforts need to be refocused towards the key areas with the most immediate impact on people's lives, including healthcare, education, basic infrastructure and agriculture

and other sustainable economic activities. This requires not only increased budget allocations, but improved planning and management in the state institutions in charge of these sectors.

The SDGs contain many useful targets that can strengthen Timor-Leste's national development plan. The following is by no means an exhaustive list, but contains a few suggestions for targets which La'o Hamutuk believes are possible to achieve, and which would improve all of Timor-Leste's people's lives.

- ❖ SDG #1 – 'No Poverty' – contains targets for social protection systems, equal rights to economic resources, and pro-poor and gender sensitive national policy frameworks.
- ❖ SDG #2 – 'Zero Hunger' – contains targets for reducing malnutrition, and increasing food productivity, farmer incomes and investment in technology and training for agricultural development.
- ❖ SDG #3 – 'Good Health and Wellbeing' – includes targets such as achieving universal access to quality healthcare services, medicines and vaccines, reducing maternal deaths, universal access to reproductive healthcare services, combating tuberculosis, hepatitis and water-borne diseases, and increasing health financing and the recruitment and development of the health workforce.
- ❖ SDG #4 – 'Quality Education' – includes targets for early childhood development, building and upgrading education facilities and increasing the number of qualified teachers.
- ❖ SDG #5 – 'Gender Equality' – calls for recognition of unpaid domestic work through the provision of public services and social protection policies, ensuring universal access to sexual and reproductive rights, and ending violence and discrimination against women and girls.
- ❖ SDG#6 – 'Clean Water and Sanitation' – contains targets for achieving adequate sanitation and hygiene for all, reducing pollution and dumping into water sources, and protecting water-related ecosystems.
- ❖ SDG #9 – 'Industry, Innovation and Infrastructure' – aims to develop quality, sustainable infrastructure for economic development and human wellbeing, increase small-scale industries' access to credit, enhance scientific research and technological capacity in developing countries.

Conclusion

In order to achieve a truly sustainable, equitable society and economy in line with the Sustainable Development Goals, the Government of Timor-Leste must honestly evaluate its plans to determine which aspects advance sustainable development. If certain projects are found to be unreasonably expensive, lacking in clear returns or not compatible with the principles of sustainability or equity, they should be cancelled.

The Government's roadmap for the implementation of the SDGs echoes the SDP's aspirations about improving Timor-Leste's human resources, infrastructure and institutions, and eliminating poverty and diversifying the economy by 2030. While these are laudable goals, they will be extremely difficult to achieve while policy makers' energy is focused on promoting

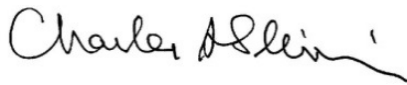
megaprojects and searching for investors in extractive industries. Without the distractions of Tasi Mane, ZEESM and other boondoggles, the Government will have more resources to allocate to the areas that are essential for improving ordinary people's lives. Cancelling these megaprojects will also bring state spending down a more sustainable level (although it may not be enough to prevent the Petroleum Fund from being depleted), and supporting agriculture and small industries while limiting extractive activities will protect people's livelihoods and the environment, as well as increasing economic sustainability.

While it will be impossible for Timor-Leste to meet every target in the SDGs, we can make good progress in reducing poverty, improving access to basic services, building and fixing infrastructure and growing our economy by increasing focus on key areas, and improving the planning and implementation of state programs. Timor-Leste has limited resources available and we face many obstacles to achieving our objectives – however, if we base our policies on evidence, make plans that are realistic and achievable, and put the basic needs of our people first, we will be able to make Timor-Leste the equitable, peaceful and sustainable country that Timor-Leste's people deserve.

Thank you.



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