



## Comments from La'o Hamutuk to 2016 Timor-Leste and Development Partners Meeting 4 July 2016

### Contents

Timor-Leste's state budget and economy are not yet sustainable. ....	1
We must invest in our people to eliminate poverty. ....	4
Timor-Leste has to transform our consumption. ....	5
Infrastructure should be sustainable and provide a public benefit.....	6
Support our right to sovereignty in the Timor Sea.....	7

La'o Hamutuk is a Timor-Leste civil society organization which has monitored and analyzed the nation's development process for a decade and half. We undertake this work to promote development which is sustainable, equitable and adequate for all of Timor-Leste's people.

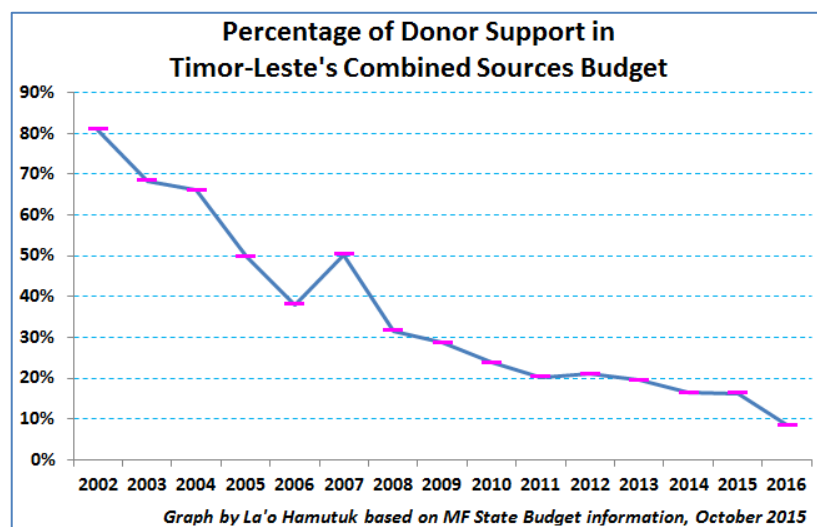
La'o Hamutuk, the NGO Forum and other Timorese CSOs have participated in Timor-Leste Development Partners Meetings since 2001. For the last three years, we have been invited to speak on the Economic Strategic Sector. We regret that no presentations or observations from civil society are included in the agenda for this year's meeting.

Therefore, through this comment, we would like to continue to share our thoughts with you as a perspective which may help you support our government to engage in development which benefits our entire population.

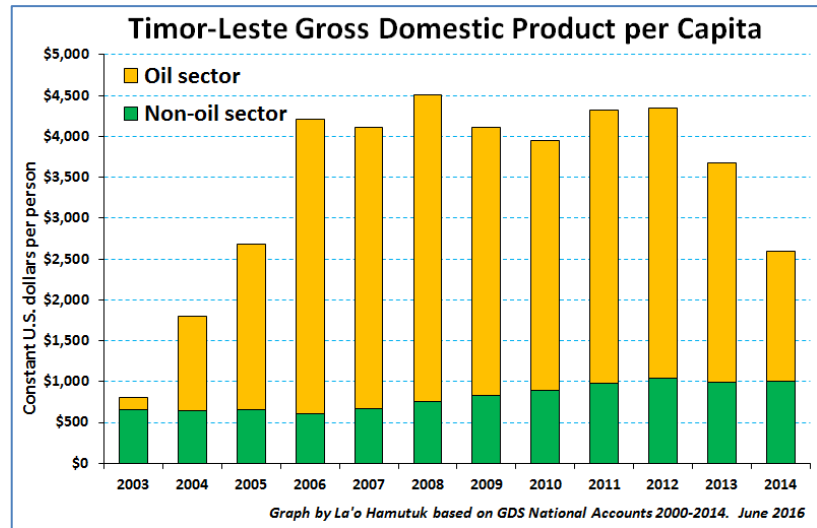
### Timor-Leste's state budget and economy are not yet sustainable.

Since before Timor-Leste restored its independence, our economy and public finances have been dominated by contributions from development partners and revenues from non-renewable oil resources, rather than domestic income from non-oil economic activities. Timor-Leste established its Petroleum Fund ten years ago, and since 2007 oil and gas revenues have financed nearly all

economic and state activities. During the last ten years, donors have steadily reduced their support for Timor-Leste, and in 2016 donors will contribute less than 10% of the Combined Sources Budget.



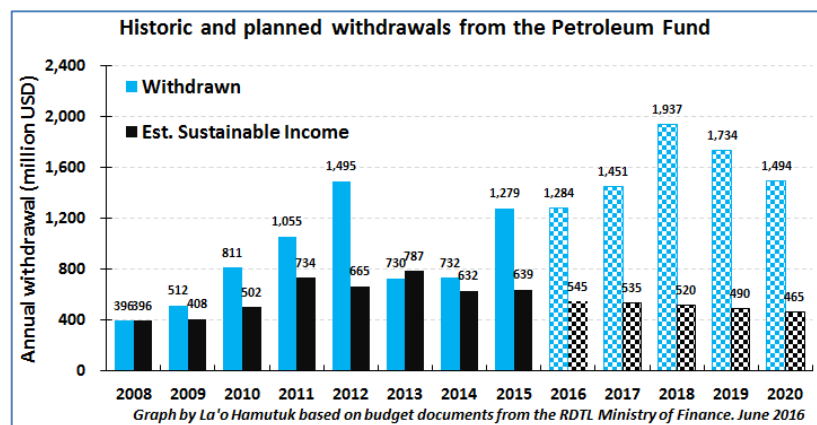
In 2016, 82% of the State Budget will come from the Petroleum Fund, but only a small amount from domestic revenues. Furthermore, 61% of Timor-Leste's 2014 Gross Domestic Product (GDP) was petroleum sector activities. This figure has fallen from the peak of 76% in 2012 because petroleum GDP has dropped by half since then, although the non-oil economy only grew 9% from 2012 to 2014.



The just-published *National Accounts 2000-2014* report shows that Timor-Leste's total GDP in 2014 was 28% less than in 2013. This is because of falling oil and gas production, exacerbated by the collapse of global oil prices in 2014. Our reserves are almost used up. During the first five months of 2016, production averaged 4.2 million barrels per month, down from 6.2 million barrels/month extracted during 2012. Today, only about 6% of our producing reserves remain to be extracted. All of it is in Bayu-Undan which has only five years left; Kitan was exhausted and closed last year.

The above figures show that Timor-Leste's economy is still on an unsustainable path. Development of the Greater Sunrise field is stalled by the maritime boundary dispute between Timor-Leste and Australia and by disagreements with the companies about the best place to liquefy the natural gas. Therefore, when Bayu-Undan runs dry in 2021, our economy and state activities will have to rely on the Petroleum Fund, whose success depends on the global stock market and state spending policies. At the end of May 2016 the balance in this Fund was \$16.6 billion, the same as in June 2014. The Fund reached its peak of \$17.1 billion a year ago, and we are drawing down our savings to pay for state activities.

In the 2016 State Budget, the Government continues to violate the sustainability rule in the Petroleum Fund Law by spending more than the Estimated Sustainable Income (ESI). However, our Government says that this is to continue the infrastructure development strategy which will promote economic growth and improve people's living conditions.



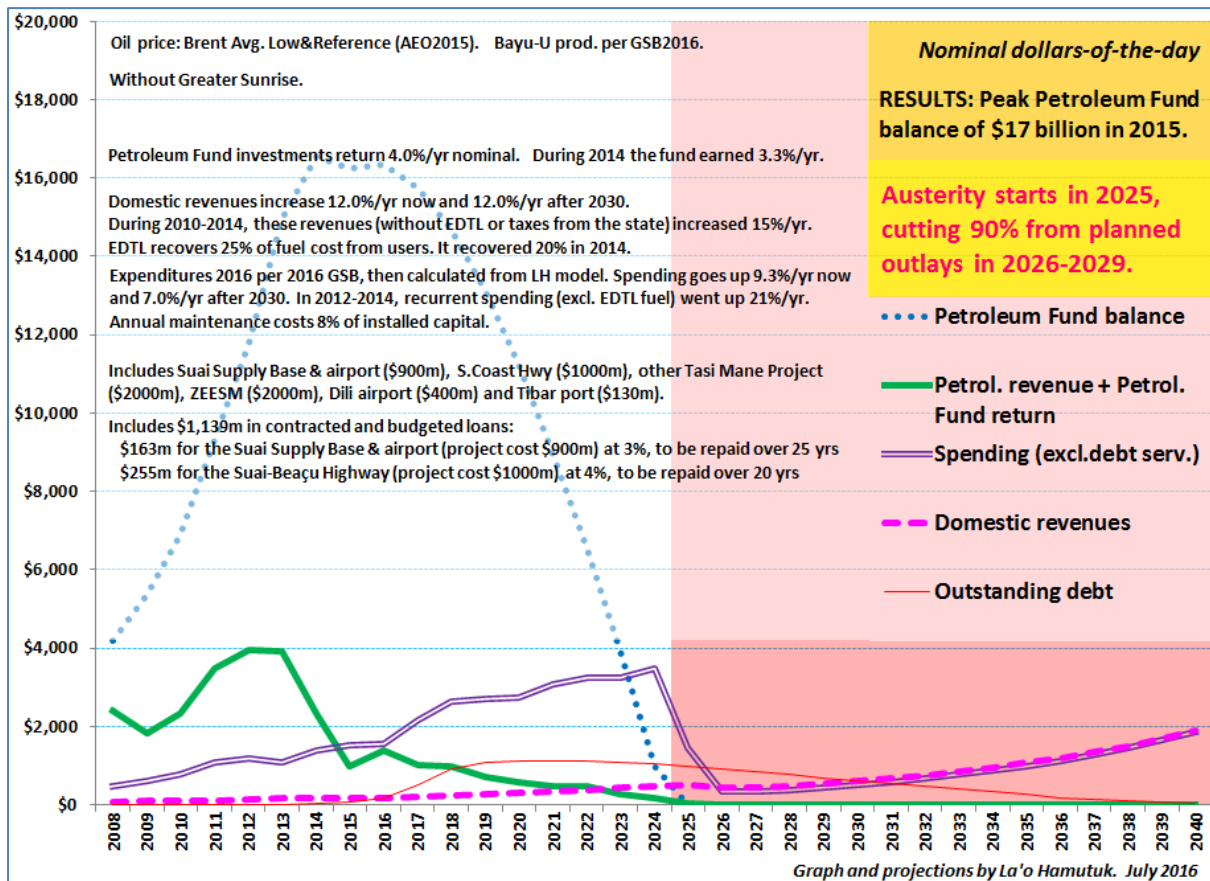
In the 2016 State Budget, ESI is \$545 million, but we regret to say that Government plans to take \$1.28 billion from the Petroleum Fund.<sup>1</sup> This amount is more than 7% of Timor-Leste's total petroleum wealth, the highest percentage in the history of the Fund.

<sup>1</sup> Last month, the Council of Ministers proposed a mid-year increase in the 2016 State Budget to pay for poorly-planned infrastructure construction. If approved by Parliament, 2016 withdrawals from the Petroleum Fund will be even larger.

Unfortunately, the largest part of the 2016 Budget will be spend on infrastructure projects with dubious return, which will primarily benefit foreign companies, rather than Timor-Leste’s people, betraying the principle that the Petroleum Fund is intended to benefit both current and future generations.

Since 2015, Timor-Leste’s Government has discussed achieving the 2015-2030 Sustainable Development Goals (SDGs), an objective shared by development partners. La’o Hamutuk suggests that these goals can only be met by adopting more sustainable policies to diversify Timor-Leste’s economy by investing in agriculture, fishing, tourism, light industry and other sources of non-petroleum economy which can replace oil revenues and help the country develop a sustainable economy.

We believe that Timor-Leste cannot achieve sustainable development if our fiscal policies do not also follow a sustainable path. Development Partners can help by encouraging Government to take this approach by providing advisors on sustainable economic management, not just advice on politicians’ designs which will deepen our petroleum dependency or spend money carelessly on programs which benefit only a select few, rather than the greater population.



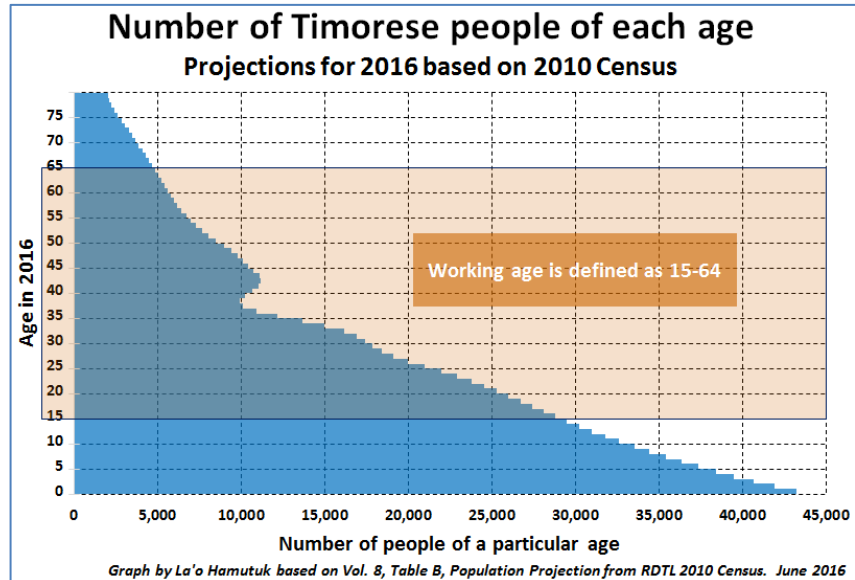
About five years after oil and gas income ends in 2021, Timor-Leste may have spent all the money we have saved in our Petroleum Fund. Unless policies have changed drastically, Government will have to cut the state budget by about 90%.<sup>2</sup> With annual spending of less than \$300 million (2016 dollars), how will we provide essential services for 1.4 million citizens?

<sup>2</sup> If Greater Sunrise is developed soon under CMATS Treaty terms, the cuts may “only” be 66%.

## We must invest in our people to eliminate poverty.

In Timor-Leste, more than half of the population lives in extreme poverty, and the number continues to increase.<sup>3</sup> The biggest cause of poverty in Timor-Leste is the failure to invest in the rural majority, most of whom live by subsistence agriculture. Still today, about 1,200 children under five die every year from preventable causes – yet we neglect health care, public health education, water, sanitation and nutrition.

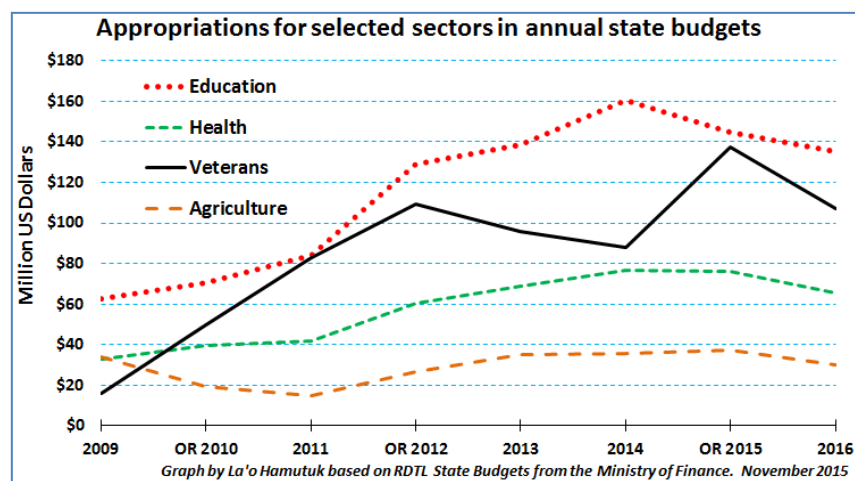
If the Government doesn't change its policies and invest in our own people, the level of poverty will escalate. This year, nearly 30,000 young people will reach working age, but work opportunities are very limited, and this number will swell further when babies born after 2002 reach working age in three or four years, after Bayu-Undan revenue ends.



We think that the Government and development partners must invest in creating large numbers of sustainable jobs, not just temporary work which depends on government projects or short-term spending.

We encourage you to support creating small industries which produce for Timor-Leste's people's daily needs. Such industries can source materials from our farmers and fisherpeople to help keep our money circulating in rural areas, avoiding growing inequality as money flows to the cities.

Another way to reduce poverty is to fix our social protection system, making it more sustainable and balanced for everyone. Today, the Government allocates a lot of money to veterans, widows, politicians' pensions and subsidies for vulnerable people. Unfortunately, this social protection system doesn't yet promote principles of economic and



social justice, and it is not sustainable because it depends on the state budget. The political elite and their families get much more luxurious social protection than ordinary people receive.

<sup>3</sup> Unfortunately the 2014 Living Standards Survey has not yet been published, so only estimates, extrapolations and anecdotal observations are available.

We suggest that more equitable and sustainable social protection would be to continue free health care at hospitals and clinics throughout Timor-Leste, which should be open 24 hours, fully equipped with equipment and medicines, and staffed with enough skilled, effective health professionals.

In addition, the education system must be improved through building schools with facilities such as water, sanitation, laboratories, dedicated teachers and enough hours of learning. Today, many children, especially from poor families in rural areas, have inadequate access to education because of shortages in school facilities, books and teachers, while the number of hours of instruction continues to decline. We are heartened by the new primary school curriculum, and hope that the Government and development partners will ensure that it is widely and effectively implemented.

Therefore, we encourage Development Partners to support the development of education, health and agriculture, as well as creating small industries, to reduce social inequality and strengthen Timor-Leste's economy for the long term.

### Timor-Leste has to transform our consumption.

Timor-Leste continues to depend on imported things. In 2014, our non-oil good and services trade deficit totaled \$2,080 million. In 2015, we had a \$562 million deficit in goods alone, and our non-oil exports were only \$16 million, of which 95% was coffee.

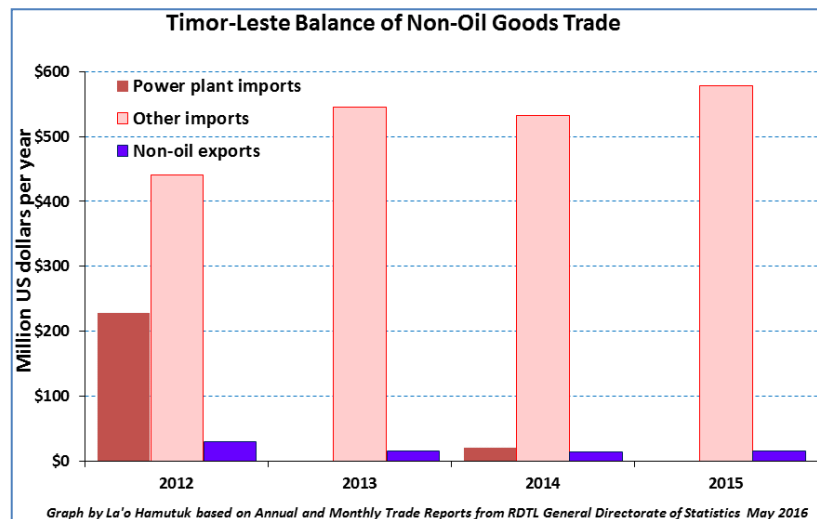
Import dependency makes Timor-Leste poorer, because a large part of our money doesn't circulate in our own economy, but flies overseas to the countries we import from.

Although most Timorese people's livelihoods are in agriculture, we continue to import rice and other foodstuffs. In 2015, we spent nearly \$100 million to import food, including \$26 million worth of rice and other cereals and \$30 million worth of beverages.

Although many factors influence Timor-Leste to import food, reducing domestic agricultural production, the Government does not motivate farmers to produce, does not prioritize agriculture, and reallocates arable land to non-agricultural mega-projects. Furthermore, many consumers do not prioritize local products in their diets and buying patterns, preferring imported processed food which is usually less nutritious than local products. Timor-Leste's economic nationalism has not kept pace with our desire for political sovereignty.

We suggest that imports must be decreased to develop our own industries to produce basic necessities, and we encourage the state, private sector, and development partners to invest much more in agricultural production and processing. We believe that the agriculture sector is essential for sustainable economic development. Unfortunately, some development partners' agricultural projects have undermined these development principles by promoting non-organic seeds, fertilizers and pesticides.

Therefore, La'o Hamutuk recommends that both development partners and government encourage sustainable agriculture to produce organic products, implement agro-ecological practices, promote organic inputs, and build a labor-intensive agriculture sector. This can reduce unemployment by providing a beneficial work environment for small-scale producers, while ensuring that small



producers can access services such as productive land, water, local seeds and other basic materials. We also support ways to improve respect for Timorese agriculture in the broader society, such as the school gardens program, to improve the social and economic position of farmers and encourage young people to continue the vocations of their farming parents.

## Infrastructure should be sustainable and provide a public benefit.

Physical infrastructure gets 44% of the 2016 state budget, the largest piece, and the proposed budget revision will make it even larger. The components of the Tasi Mane Project and others related to ZEESM continue to get more resources, especially compared with water and sanitation. Yet, since the beginning, these projects have raised concerns about their financial, social and environmental impacts, as well as their economic viability.

The Tasi Mane Project will depend on the Greater Sunrise field. Unfortunately, the maritime boundary dispute between Australia and Timor-Leste, and our Government's determination to build an on-shore LNG plant (which the companies say will reduce revenues and profit), make its future uncertain. Nevertheless, people working in Timor-Leste's petroleum sector continue to claim that Timor-Leste's oil will not run out, promoting unrealistic optimism to encourage the government to spend more of the people's money on this nonrenewable, capital-intensive, unsustainable sector. In addition, Government has allocated \$218 million for the ZEESM project in Oecusse this year, with no public information about future expenditures or the project's economic, social or environmental plans.


Although the people managing these projects are still making political claims to persuade political leaders and the public, La'o Hamutuk's projections show that projects like these will weaken the country's fiscal sustainability, especially when the oil runs out. We have yet to see an objective market and economic analysis which justifies the financial, social, land and environmental costs and risks in comparison with the benefits and returns these projects will bring to Timor-Leste's economy, finances and people.

The recent cancellation of the Suai Supply Base contract stemming from an invalid procurement process opens an unexpected opportunity to re-evaluate the entire Tasi Mane Project, potentially saving more than ten billion dollars in unproductive expenditure.

From another angle, donors push Timor-Leste's government to implement various other costly infrastructure projects. One

kind is the Public-Private Partnership (PPP) promoted by the International Finance Corporation (IFC, part of the World Bank Group) since 2012.

Timor-Leste just signed a PPP contract with the French company Bolloré to construct and operate a new container port in Tibar. La'o Hamutuk is concerned about how the company and the state will share risk and profit, as the Government could have to underwrite Bolloré's profit if the port's traffic (which may not have been realistically projected) is too little to generate enough revenues to cover the state's and company's investments.




**COMISSÃO NACIONAL DE APROVISIONAMENTO**  
**MINISTÉRIO DO PLANEAMENTO E INVESTIMENTO ESTRATÉGICO**

**Intent to Award**

Tender Number	Description	Winning Contractor	Contract Price
ICB/012/MPMR-2013	Design and Construction of Suai Supply Base	Hyundai Engineering & Construction Co., Ltd / Hyundai Engineering Co., Ltd (HDEC-HEC) consortium	USD: 719,212,000

The National Procurement Commission will respond to any protest in writing received at the Office of the National Procurement Commission, Rua dos Direitos Humanos, Dili, Timor-Leste no later than five (5) working days from the posting of this tender result.

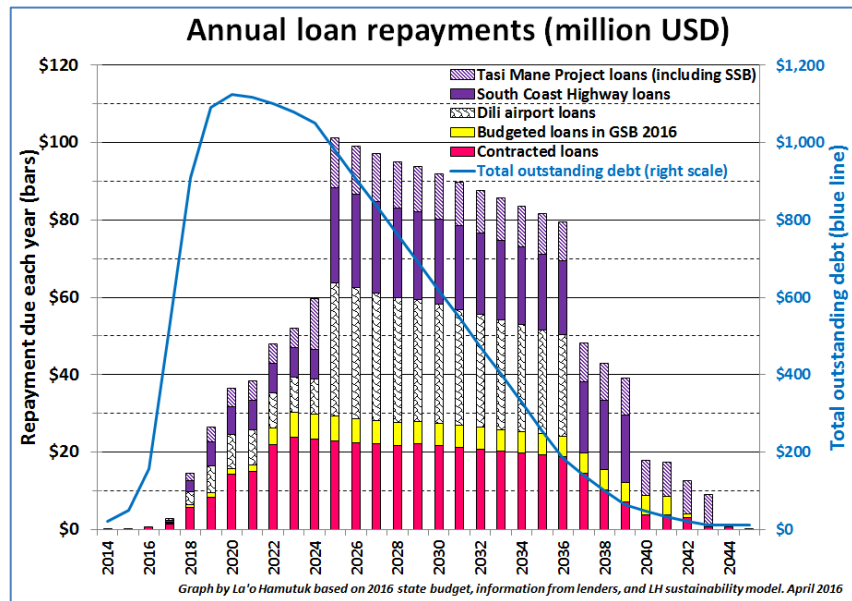


Aniceto do Rosario  
National Procurement Commission  
Dated: 12 June 2015

**Timor-Leste and Hyundai Engineering signed this \$719 million contract on 27 August 2015. It is the largest contract in the nation's history, more than the total spent on education since independence was restored in 2002.**

**This announcement was made while Hyundai was blacklisted by the Korean government for collusion.**

Other projects promoted by development partners require the government to borrow to build infrastructure. Although we agree that Timor-Leste needs adequate infrastructure, we are concerned that financing projects with loans is not a wise policy. As we have described above, Timor-Leste's only producing oil and gas field will be dry in five years. Therefore, debt repayment will come from our Petroleum Fund's



earnings and domestic revenues, the only resources we have and which will not last long unless Government changes its direction. If the plans in the 2016 State Budget to borrow more than a billion dollars are followed, in ten years we will be paying \$100 million in debt service every year, close to one-fourth of domestic revenues.

We continue to urge Development Partners not to promote policies which will squander Timor-Leste's wealth, threatening future generations. The development goals many of you promote today will move Timor-Leste deeper into poverty, hunger, and political and social crisis tomorrow.

### Support our right to sovereignty in the Timor Sea.

As everyone who follows Timor-Leste knows, today Timor-Leste's government is working to reaffirm its sovereign rights in the Timor Sea under international law. The decades-long occupation is perpetuated by Australia, our neighbor which also continues as the largest donor in Timor-Leste.

Recently, the Movement Against the Occupation of the Timor Sea (MKOTT) -- a popular force including students, activists, civil society organizations and former

resistance fighters -- organized thousands of people in front of the Australian embassy to ask the Australian government to return the right of Timor-Leste's people which Australia has used its political and economic power to take from this land.



We believe that a genuine partnership is based on mutual respect for each other's sovereignty, and on rights based on the principles of international law. Therefore, we take this opportunity to continue to ask all development partners, especially the Australian government, to listen to the

people's cries, respect the sacrifices people made to build this nation, and blood and bones of nearly 200,000 people, and the trauma and torture suffered by countless others in this long conflict.

This concludes our comments, and we hope that the policies of donors and Timor-Leste's Government will reflect this perspective, to secure development which is truly sustainable.

Thank you for considering our ideas, and we would be glad to provide additional information about any of the issues we discussed. There is already a lot of information on our website, [www.laohamutuk.org](http://www.laohamutuk.org).

Sincerely,

Juvinal Dias

Charles Scheiner

Adilson da Costa Junior

Marta da Silva

Celestino Gusmão

Niall Almond

Researchers on Economy and Natural Resources