

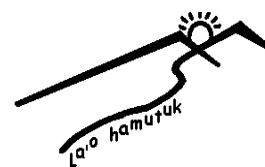
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Submission to
RDTL National Parliament

from
La'o Hamutuk

Regarding the
Proposed 2012 Mid-Year Budget Rectification

10 October 2012

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First, La'ó Hamutuk would like to congratulate the newly-elected Third National Parliament, and to hope that this legislature will function well, for the benefit of all Timor-Leste's people. Last July, we wrote you a letter¹ when each of you was sworn in to represent our people, and we hope that our letter and this submission will strengthen our relationship and communication in the future.

Unlike in past years, no Parliamentary Committee invited civil society organizations, including La'ó Hamutuk, to participate in public hearings or to give our comments on this Mid-year Budget Adjustment. However, through this submission we offer the following comments, with the hope that they will help you make wise and good decisions for Timor-Leste's future.

This adjustment will add weight to the 2013 budget.

The proposed 2012 Mid-year Budget Rectification says that it "will not add to total Government spending" and "will reduce the budget for the Infrastructure Fund" as the source of additional state spending in 2012.²

However, unfortunately, this budget adjustment is as if the Government borrowed money from the Tasi Mane project and the appropriation for installing pre-paid EDTL meters in the 2012 State Budget, and plans to pay back this "loan" in the upcoming 2013 State Budget.³

Therefore, this adjustment will actually add \$54 million to the \$1,674 million which Parliament already approved. Although this is a relatively small amount, we should study it carefully, because it will create obligations to enlarge Timor-Leste state budgets in the future.

In our past submissions to Parliament, we often explained that Timor-Leste has only a limited amount of natural resources. If we spend them quickly and unwisely, we will exhaust our petroleum reserves -- our main source of wealth -- creating problems for future generations. Today many people are content with our Petroleum Fund, but we cannot be proud of it if we do not ensure that its money will benefit all our people.

Last August 29, Finance Minister Emilia Pires said that the fiscal envelope for budget year 2013 will decrease to \$1.3 billion. We very much appreciate this change in budget direction, which we have advocated in order to help Timor-Leste avoid falling deeper into the resource curse.

Inflation here is increasing rapidly because public expenditures are escalating every year without increasing local productive capacity. Therefore we suggest that Parliament look deeper into Government spending, to reduce unnecessary expenditures and support Timor-Leste's economy.

The actual adjustment is greater than \$54 million.

Government, media and Parliamentarians are saying that this rectification includes only \$54 million in new expenditures. Unfortunately, a closer examination shows that this is wrong. The Government says that \$50 million is transferred from Tasi Mane and \$4 million from EDTL minor capital.

La'ó Hamutuk has concluded that the actual new expenditures total \$64 million, not including *virements*. Our website⁴ includes a table of new appropriations, as well as the original appropriations and expenditure to date. To understand all the additions, one needs to look at each line in Annex I of the Budget Book (pages 29-46), not only at the totals which combine reductions and increases.

¹ <http://www.laohamutuk.org/misc/eleisaun2012/LHtoPN23Jul2012te.pdf>

² Page 8, Book for Orsamentu Retifikativu Tinan 2012, 7 Sep. 2012. <http://www.laohamutuk.org/econ/OR12/BookScanTe.pdf>

³ Exposição de Motivos: Primeira alteração à Lei Orçamento Geral do Estado para 2012 "Foram transferidos do Fundo das Infra-estruturas \$50 milhões de dois projectos do Tasi Mane, com a condição de serem repostos em 2013."

⁴ <http://www.laohamutuk.org/econ/OR12/12OR2012.htm>, as well as pages 29-46 in the Orsamentu Retifikativu book.

We believe that National Parliament should realize this before approving the budget, to provide meaningful accountability for budgeting which is required, based on efficiency and effectiveness, to separate detailed revenues and expenditures to help you supervise state finances.

Therefore, Parliament should ask Government to provide the public with more detailed and comprehensive information about new expenditures in this rectification, to guarantee transparency and accountability to the public, as stated in RDTL Constitution articles 40 and 41.

The budget still does not respond to gender.

Because the roles of men and women are different in society, some budget allocations benefit one gender more than the other. For example, women benefit more from health care and rural water supply, while men benefit more from highways, industrial infrastructure and veterans' pensions. We believe that this budget rectification will increase the bias toward men which is already in the state budget.

The Government's proposed increases still do not prioritize sectors which respond to "little people's" needs or to sustainable sectors. The allocate most money for veterans, police, military and the Contingency Reserve – but cut programs in the for education sector.

The allocation for "school social action" (*Acção Social Escolar*) in the Ministry of Education, for programs including school lunches, is reduced by \$3 million without explaining where the money is being taken from.

We believe that you already know that Timor-Leste is encountering problems in the quality of education for our children. The original 2012 State Budget allocated only 7.2% for education, less than other Southeast Asian and developing countries.

This adjustment continues to overlook giving priority to education, even though \$1.7 million will be spent to rebuild schools which were damaged by natural disasters. Although it is clear that we need school facilities, it's not enough merely to erect buildings. We need more investment to increase educational resources, especially teachers, laboratories and libraries, to help develop and improve the quality of education in Timor-Leste.

Unfortunately, the allocation for veterans in this year is larger than we are allocating for children who are Timor-Leste's future. We encourage Parliament to ponder the foundation of Timor-Leste's future development, which requires investment in education today.

When we keep going like this, our budget does not respond to women's needs, especially those of poor people in rural areas. It ignores five year of work by the Government, through the State Secretariat for Promotion of Equality with international agencies and civil society, to promote policies responsive to gender, as an element of social and economic justice. We continue to encourage you, especially as Parliament has 30% women (the highest representation in Asia), and we hope that your determination will help the impoverished majority of Timor-Leste's people.

Transferring money justifies doubts about the Tasi Mane project.

We see this rectification as a sign that the Tasi Mane project is difficult to implement. This signal responds to our submission⁵ on the original 2012 State Budget, which said: "We remain dubious about the potential return on this 'investment,' which may have no offshore operations to supply. Bayu-Undan will probably be supplied from Australia until it runs dry in 2024, and Kitan – the small

⁵ <http://www.laohamutuk.org/econ/OGE12/LHSubComCPNOJE2012En.pdf>

oil field which just began production – will be empty by 2016. At present, no oil companies plan to drill more wells in the nearby Timor Sea, although next year's bidding round could spark new interest."

Therefore, we also believe that unclear economic and social return, land conflicts, and other social issues are obstacles to the Tasi Mane project. Although this project is not a priority in this budget adjustment, we would like to raise Members' awareness that Timor-Leste does indeed need a deep analysis about the return we will receive from investing in this project, which will cost billions of dollars of our people's money over the next several years. If we don't prioritize this cost-benefit analysis, we will just throw money away with no benefit to most of Timor-Leste's people, especially those who live in the project area and are being asked to sacrifice their livelihoods and the future of their children and grandchildren to this ambitious project.⁶

We agree that the state should transfer money from the Tasi Mane project to more necessary and productive sectors, such as education, health care and agriculture. Such sectors are closer to people's lives. In addition, we suggest that Parliament not restore this money to the Tasi Mane project in the 2013 budget, and should not spend more in the future.

We shouldn't put everyday activities on the "urgent" path.

This adjustment adds \$2.4 million for the Timor-Leste National Police (PNTL). The proposed adjustment is for local travel, workshops, fuel, equipment maintenance, technical assistance and food. In addition to PNTL, the Ministry of Defense and Security adds \$2.9 million for training sailors, maintenance and fuel for vehicles, advisor salaries, cleaning offices, radio communications and other operational costs. It also adds \$1.1 million to pay the Lifese company which had a contract to build the temporary F-FDTL naval port in Hera, which is controversial today because of the bad quality of the work. La'o Hamutuk sees that these are not urgent adjustments, but are everyday expenditures which should be in the annual state budget.

In the local media, the Secretary of State for Security acknowledged that these additional appropriations are needed because of maladministration within PNTL. The PNTL command didn't manage expenditures based on money already appropriated by Parliament. Such an adjustment weakens governance and management of the state budget itself, and we think that adjustments which are not "urgent" should wait to be put in the 2013 annual state budget in a few months.

Therefore, we suggest that all state institutions promote accountability in spending the budget. Timor-Leste should not be self-satisfied with spending policies which don't follow the plan approved by Parliament. Parliament should not tolerate mismanagement like this in the future.

Today we can fill our budget and management deficits because we money flows in from petroleum revenues, but when these resources are used up, we will no longer have economic and social stability, which is used to justify "unrealistic spending," which is part of the resource curse.

Parliament should seek more information about the Contingency Reserve.

In the original 2012 budget, the Government allocated \$21.2 million to the Contingency Reserve. The adjustment proposal would add \$6.1 million to this line, but contains no information about how this money has been used to date or will be used during the last three months of 2012.

Today, the Budget Transparency Portal shows that the Government has spent \$1.6 million of the \$21.2 million in this Reserve, but the remaining balance is only \$2.6 million. Unfortunately, neither

⁶ <http://www.laohamutuk.org/Oil/TasiMane/11TasiMane.htm#obzervasaun>

the Portal nor the Second Quarter Budget Execution Report gives clear information about where the other \$17 million went.

We think that Parliament can ask the Government to explain how \$18.6 million was used from the Contingency Reserve during the last nine months, and why the Reserve needs more money.

Money for veterans: their right or keeping an election promise?

The largest part of this year's rectification is \$26.9 million more for pensions for veterans of the liberation struggle, adding to \$79.8 million allocated in the original 2012 budget. The proposed rectification doesn't give a good reason why this needs to be increased.

In 2012 so far, the Government has spent \$78.2 million on veterans' pensions. The Ministry of Finance just published the second trimester budget execution report,⁷ showing that of this \$78.2 million, \$62.2 million had been spent between January and June, while Timor-Leste was holding Presidential and Parliamentary elections.

The European Union Election Observer mission just reported on the Parliamentary election, and mentioned the connection between veteran's payments and the election. Page 17 of this report says: "On 6 June, the day after the campaign began, the Secretary of State for Veterans Affairs, Marito Reis announced that the government would begin paying the pensions due to more than 27,000 veterans of the resistance and their families on 15 June. ... The decision ... suggests that the government may have been using the advantages of incumbency to win over to CNRT a constituency which had been identified as crucial to the success of the party's campaign. ... Although legal in Timor-Leste, this is not in line with international best practice for democratic elections."

We think that these warriors, genuine heroes of our independence, deserve attention from the state, but we are also very worried when this rectification is used to pay for political party promises. If the European Union report is right, this budget is not based on efficiency and effectiveness as required by Article 145.2 of the RDTL Constitution. Therefore we suggest that Parliament ask the Government whether these payments had a political objective. In addition, it is also important for the public to know why the appropriation for veterans goes up every year. In the original 2012 State Budget, projected veterans' payments increase 4% annually through 2016; will the \$26.9 million added in this rectification enlarge the 2013 budget by \$28.0 million? We suggest that Parliament not approve the rectification until this is explained.

Conclusion

La'ó Hamutuk is always ready to share perspectives and continue discussions with Members of Parliament, including about this mid-year budget rectification and the upcoming General State Budget for 2013. We are also ready to share our thoughts about other issues related to Timor-Leste's development.

Thank you very much.

Sincerely,



Juvinal Dias

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⁷ <http://www.laohamutuk.org/econ/OGE12/BudgExec2q2012.pdf>