



global witness

Delivering revenue transparency in Timor Leste

Transparent and accountable management of oil revenues, which will comprise a majority of Timor's income in the near future, is essential to ensure that such money is used more effectively to promote national development. It will greatly increase the hope that Timor Leste will escape the 'resource curse' of weak growth, corruption, authoritarian government and instability that has afflicted so many oil-rich developing countries.

Revenue transparency means that:

- companies extracting resources publish what they pay to the government;
- the government publishes what it receives from the companies;
- information is audited and discrepancies investigated and reconciled;

so that ordinary citizens can track the money from oil extraction into the national budget and government reserves.

If citizens do not know how much money their government is receiving, there is no way of knowing whether the money is being properly used or not. Trust in the government is weakened and corruption by officials is made much easier.

Transparency of payments by extractive companies will make government revenue collection simpler and create an open and positive business climate. The reputation of oil companies themselves will also be improved by transparency because citizens will be able to clearly see companies' financial contribution to national development.

We warmly welcome the government's recognition of the importance of getting transparency in place in the early stages of the oil industry's development in Timor Leste, as highlighted by Prime Minister Mari Alkatiri's statement to the international Extractive Industry Transparency Initiative meeting in June 2003.

We would like to offer a series of suggestions that we hope will help the government to design its own legal and regulatory framework for revenue transparency.

- An explicit commitment to revenue transparency should be embodied in national law at the possible earliest stage. Although the draft Petroleum Act aims to create a regulatory regime to ensure 'stability and transparency', it contains relatively little detail about how the latter would be achieved. The terms of the Act do not

cover the transfer of revenues to government, nor do they provide in any detail for disclosure. We have attached more detailed comments on the Act's structure overleaf. It may be the intention to provide for a separate oil revenue management law or freedom of information provisions elsewhere but it is very important that the act also contains pro-transparency language so there is not a 'clash' later.

- Timor Leste could take advantage of model legislation provided by Columbia University's oil revenue management project with Sao Tome and Principe (whose situation approximates Timor Leste in many ways). The main legislative clauses promoting transparency in English and Portuguese are attached to this briefing. The draft legislation can be obtained at www.earth.columbia.edu/cgsd.
- International donors should provide more effective and joined-up assistance to the government and civil society to implement transparency in Timor as soon as possible. Donors should form a coherent donors' group on the issue as part of their commitment to the EITI and consider funding a model legislation project like that of Sao Tome and drawing on its lessons.
- Local civil society and independent observers should be actively involved in the design and implementation of laws and regulations from an early stage in the process, rather than waiting until laws have already been drafted. Local NGOs should also be helped by donors and international NGOs to improve their capacity so that they can effectively watchdog the management of oil revenues.
- There should be separate public disclosures of payments to the state by each extractive company, not data aggregated between more than one company.
- After publication, there needs to be a regular audit by a credible and independent institution to reconcile all payments and receipts. Audits should be publicly available in an easily accessible form.
- The right of companies to commercial confidentiality should never include data about payments to the state.

These principles have been endorsed by EITI front-runners like Nigeria and Sao Tome and Principe: we hope they can also be enacted in Timor Leste to ensure an enabling environment for the best use of Timor's resources for its citizens.

Thank you.

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