

FORUM ONG TIMOR LESTE THE TIMOR LESTE NGO FORUM



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Civil Society Comments to 2014 Timor-Leste and Development Partners Meeting Economic Strategic Sector 25 July 2014

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Introduction

As the umbrella for civil society organizations in Timor-Leste, FONGTIL would like first to express our appreciation to the development partners who continue to assist in and keep an eye on the development process in Timor-Leste. We hope that your assistance can help develop and improve our people’s lives, moving us from poverty to prosperity. We also appreciate the opportunity which the Government of Timor-Leste has given us to share our perspective in this meeting.

Develop a sustainable and equitable economy.

The two oil fields which provide billions of dollars to Timor-Leste every year, Bayu-Undan and Kitan, will be dry soon. ConocoPhillips, the operator of Bayu-Undan, says the field will run out in 2020, four years earlier than previous predictions, because the reserve is being exhausted, so pressure has dropped and water is increasingly mixed with the oil.¹ This is normal, because oil is a non-renewable resource, which is gone once it is extracted.

Although we have already spent a lot of money, Timor-Leste has not yet developed a sustainable or equitable economic sector which will replace oil six years from now. Timor-Leste disregards human resources, depends on oil revenues, depends on imports, ignores non-oil development, and continues to spend foolishly, with weak quality control. These are signals that our nation has already fallen into the “resource curse.”

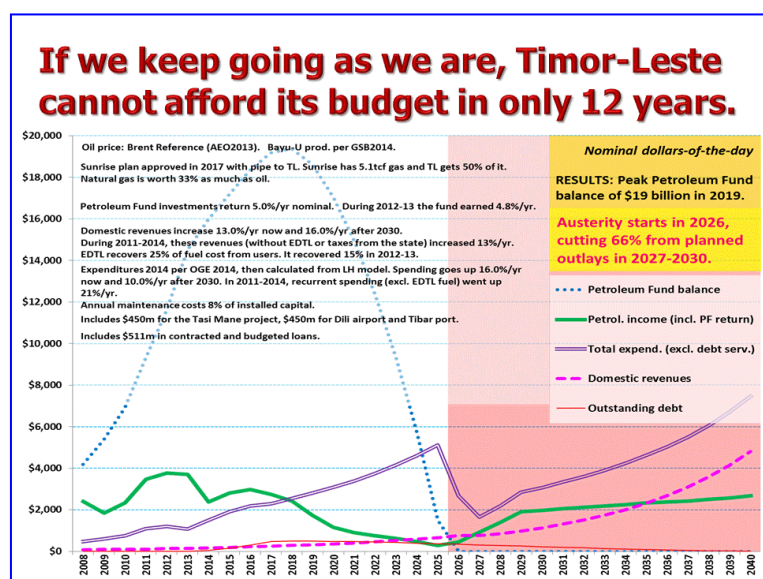
The Strategic Development Plan expresses Government’s dreams to bring Timor-Leste from a low-income to a medium-income country by 2030, but it does not ensure that everyone will share in the benefits, or that they will continue in the future. Most of this Plan keeps Timor-Leste oil-dependent. In addition, we wonder who will get the income – the entire population or only a few people.

Timor-Leste needs to develop its agriculture, fisheries, tourism and small industry. We have to give maximum attention to investing in health, education and sanitation, as these are the foundation of our children’s and our nation’s future. Donors can play an important role in influencing development policies, and can help Timor-Leste escape from the resource curse and move into an economy which will support every Timorese person, including future generations.

In addition donors can implement programs which can help address current needs in this land, especially when Government fails to invest in important sectors. Unless these gaps are filled quickly, this generation of Timor-Leste’s children will be permanently disabled, and it may be impossible to recover after the oil and gas is gone.

Timor-Leste doesn't have much oil

	TL already exported	Timor-Leste	TL without Sunrise	Australia
Oil and gas reserves per person	510 barrels	800 barrels	310 barrels	More than 1,180 barrels
Will last for how long at 2012 production rates		14 years	5 years	More than 58 years



¹ Book 1, 2014 General State Budget.

We need to produce, not to buy.

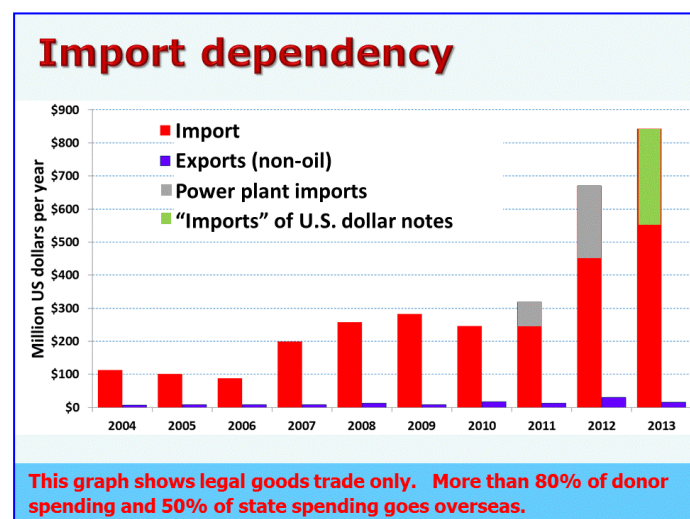
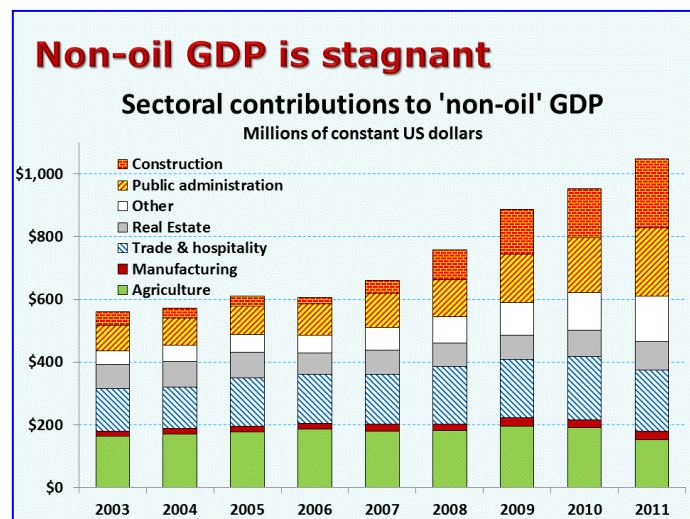
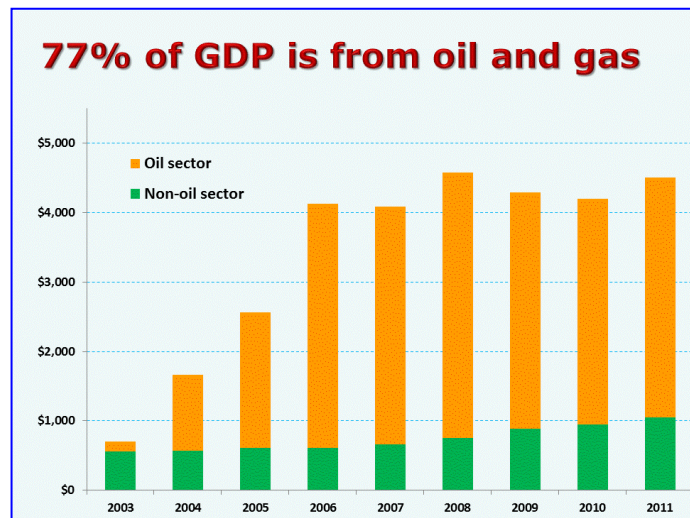
After South Sudan, Libya, and perhaps Equatorial Guinea, Timor-Leste has the world's most petroleum-export-dependent economy. About 77% of our GDP in 2011 was petroleum activities, while only 4% was agriculture and manufacturing.

State spending for public administration and construction comprise most of the growth in non-oil GDP. The contribution of the agriculture sector has actually dropped during the last decade, although most of our population depends on this sector. In addition to its economic importance, agricultural production and processing provides nourishment which sustains people's lives and will reduce import dependency as we move toward food sovereignty.

Unfortunately, the 2014 State Budget allocates only 2% for agriculture, less than last year which will have strong negative impacts on agriculture in Timor-Leste. In addition, we often ignore local wisdom, prioritizing mechanization and inputs from overseas.

Every year, Timor-Leste's dependency on imports goes up. In 2013, Timor-Leste imported \$535 million worth of goods,² while non-oil exports were only \$16 million, 98% of which was coffee. Combined with a services trade deficit of \$581 million, Timor-Leste spent \$1.1 billion more on imports than we received for exports, a negative balance of trade made possible by oil income. When Bayu-Undan and Kitan run dry, in six years, how can we pay for this?

Oil and gas provided about 75% of state revenues in 2013. Another 21% came from investing the Petroleum Fund, while only 4% was from non-oil sources, and a significant part of this was recirculated money spent by the state.



² DGS included \$307 million worth of U.S. dollar notes in their data which are not really imports, so we did not include them here.

With a tiny domestic economy, most state spending benefits other countries' economies, rather than our own. Last year, more than half of state spending immediately went overseas, and this doesn't include the money that state employees, pensioners and other recipients of public funds spent on imported goods.

Therefore, Timor-Leste needs to work to achieve food sovereignty, adding value to our harvests and producing things we need for everyday life. Small industries, agricultural processing and fish preservation for local consumption can improve our trade balance and provide work, and will also help us achieve true economic, as well as political, independence. At the same time, tourism and market places for export can attract visitors from abroad.

We urge Development Partners and Timor-Leste's government to consider ideas from farmers and civil society about how these sectors can be improved so that they will endure after the short-lived, oil- and import-dependent economic bubble has burst.

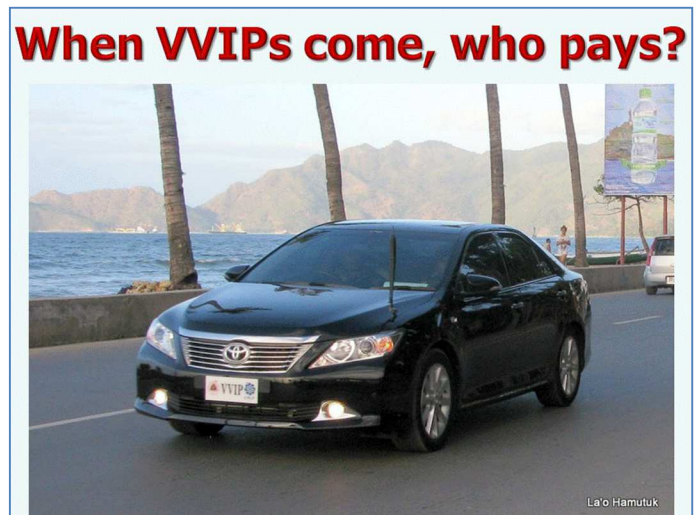
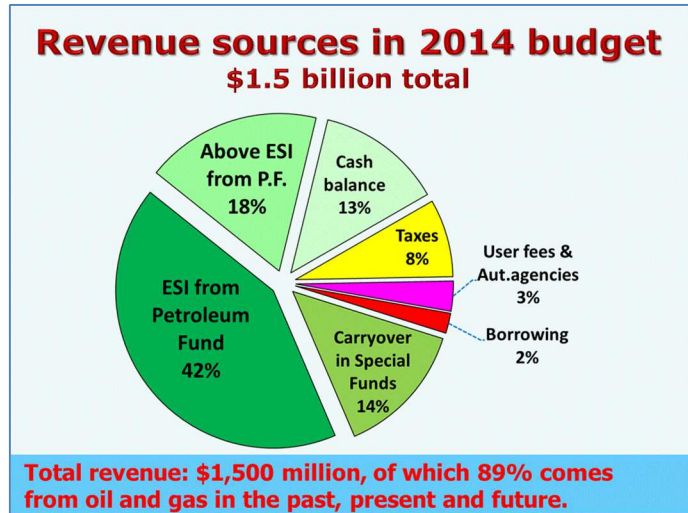
You can help local farmers increase their production, add to their wisdom, and provide technology which is sustainable and appropriate to their lives. Nevertheless, we hope that this help will not be to buy more seeds, chemical fertilizers or unsustainable tractors, and will not damage our environment or violate the principles and values of our culture.

Increasing poverty accompanies "double-digit" growth.

Our leaders, including many development partners, felt proud that Timor-Leste's non-oil GDP was growing at "double-digit" rates. We are ashamed when this economic growth comes with poverty, hunger, lack of basic infrastructure and human resources, even though Timor-Leste is spending billions of dollars.

According to the 2013 UNDP Human Development Report, 68.1% of Timor-Leste's people lived in Multidimensional Poverty in 2009-2010, and another 18% were vulnerable to multiple deprivations, meaning that at least one person in each household could not access education, health care or a decent standard of living. In addition, the distribution of public resources is not just for our people, especially those who live in rural areas. Although the oil and gas belongs to everyone, unfortunately a small upper class is receiving most of the benefits.

During the last few months, Government made a huge effort to show a beautiful face of Dili to special guests from CPLP who were just here, as well as to receive you for this meeting today. We encourage you to look beyond the façade and self-promotion to understand Timor-Leste's reality, including the people who have been relocated to places where you may not see them. Many roads are still in terrible shape, people are still poor, vendors are moved



to back streets, and some not-so-pretty homes have been moved away from “Protocol Streets,” but this is the real situation for most Timorese people. Because you are here to help our State and people develop our country, please don’t enjoy the generous hospitality our Government has provided for you and believe that most of our people live the beautiful life of Dili’s “protocol street.”

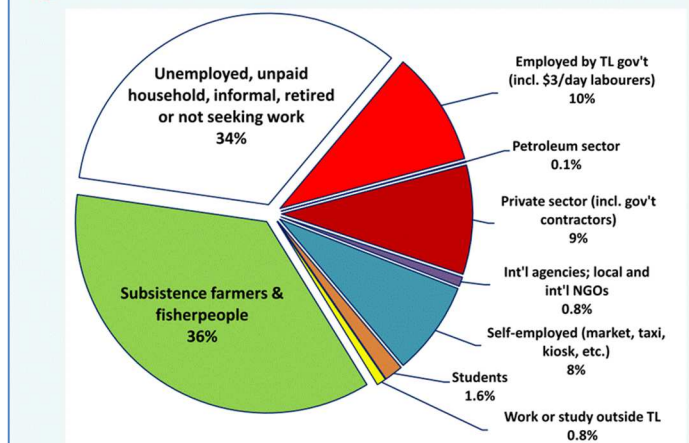
We all need to work together to change our economic system, develop non-oil sectors, especially agriculture and fishing which can provide food for ourselves. As we struggle to achieve economic justice, everyone can give and receive his fair share.

Today, more than one-third of our working-age population are subsistence farmers, while another third is unemployed or in the informal sector. Another 10% work in their own or family-owned small businesses. We ask donors and Government to prioritize these people, 80% of our citizens, so that they can enjoy a quality of life comparable to the people who work for your institutions.

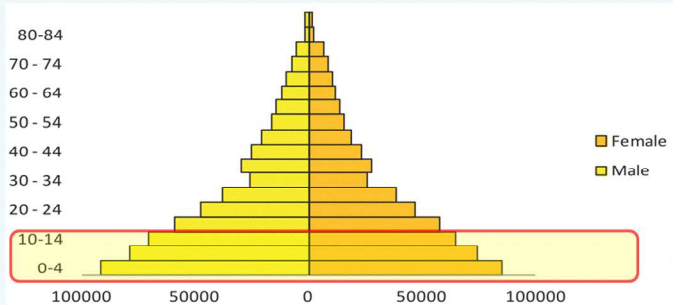
Every year, about 16,000 young people enter the work force, but this will almost double when the children born after the occupation ended become young adults. Timor-Leste has more than 510,000 people aged 0-14, two and a half times as many as are aged 25-39. What will they do when they grow up?

Sadly, the development plans proposed so far don’t consider how to provide opportunities for most people’s lives, don’t value people as a resource, and don’t move in a direction to provide enough long-term employment for the youth of today and tomorrow. The private sector has a large responsibility to provide jobs through their production and commerce, but unfortunately they haven’t taken on this responsibility. Most Timorese companies look for state contracts, looking for a quick piece of the oil money and ignoring their own and our people’s future.

What do 630,000 Timorese people age 15-64 do for work?



Many children will become youth



Timor-Leste has problems finding jobs for the 16,000 young people who will achieve working age during 2014.

In 2024, 28,000 more people will seek work each year, and the oil and gas may be gone. Today's youth will have children of their own.

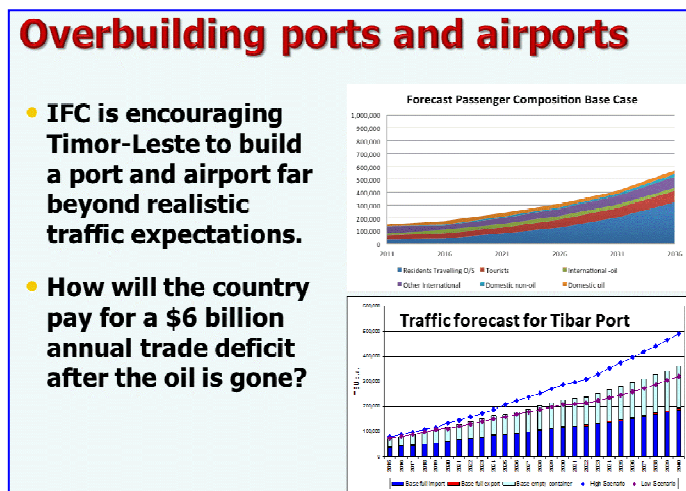
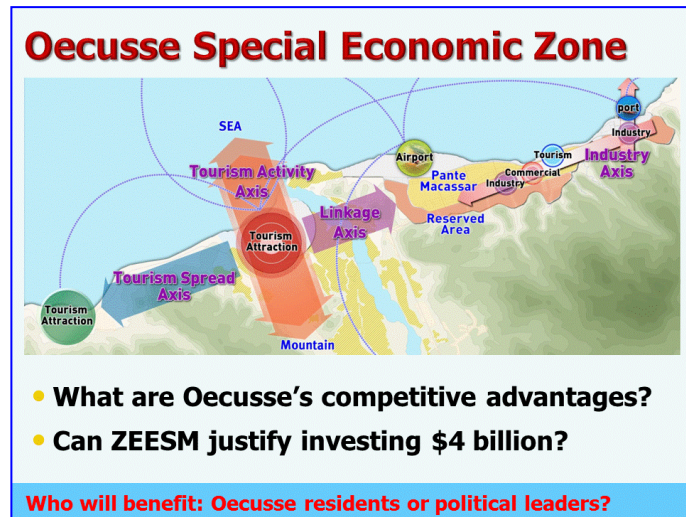
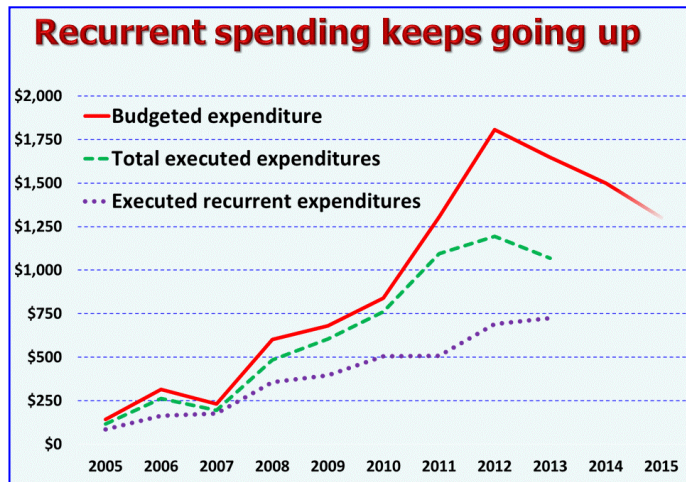
Rapid spending comes with weak planning.

We appreciate that executed annual state spending has declined since 2012, and that the Estimated Sustainable Income from the Petroleum Fund was respected in 2013. Nevertheless, recurrent expenditures still go up about 20% per year, and the 2014 State Budget shows that Timor-Leste will continue to move toward higher spending.

In countries which live with oil money, there is a temptation to spend a lot on showy projects and personal benefits while the oil money is coming in. Timor-Leste's Petroleum Fund has rules to limit spending in hopes that investment income will continue after the oil runs dry. However, state fiscal policy so far will make this goal unachievable.

In addition, Timor-Leste's leaders dream about huge future projects – the Oecusse Special Economy Zone, Dili Airport, Tibar Port, the Suai Supply Base and airport and other components of Tasi Mane Project. They intend to spend a lot on projects with dubious economic justification or commercial advantage. At the same time, money pours out for low-quality 'emergency' projects. Our Petroleum Fund could be empty five years after the oil and gas are gone.

Therefore, we plead with Development Partners to help Timor-Leste increase our planning skills, so that spending and development will be integrated and sustainable in the long term. Your programs for building financial management capacity need to be better, and you should recruit experts with relevant experience and wisdom, as well as willingness to help, listen and learn about the context of Timor-Leste's people.



We need human development.

Although the Government allocated 17% of the state budget for education and health this year, which is better than last year, this allocation is still too small to provide sufficient quality for Timor-Leste's human resources. Other countries which are meeting the Millennium Development Goals spend nearly 30% of their budgets on health and education.

Today, many people are worried about the quality of Timor-Leste's human resources. Although we appreciate the effort to develop the primary school curriculum, our children still go to substandard schools, with few hours of teaching, not enough books, incompetent teachers, and no libraries or labs. Our children's futures are threatened unless we improve the quality and results of education, rather than seeking simply to add names to the enrollment lists.

In 2014, the budget allocation for overseas scholarships is 35% larger than the allocation for the National University, which educates four times as many students as will get the scholarships. Even worse, students at private universities in Timor-Leste are even more marginalized. We need to improve the teaching, diversity and size of UNTL so that it can provide quality education to many more Timorese students, and can support research and help develop policies for the entire nation.

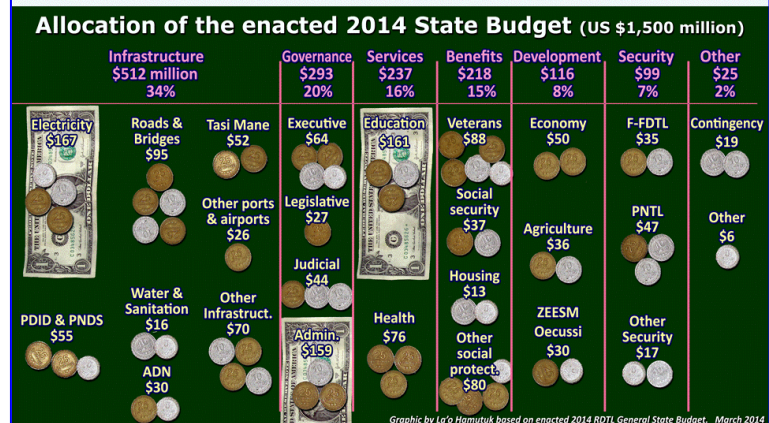
In addition, many of our children live with inadequate nutrition, or die from preventable conditions. About 1,200 children under 5 who die every year could be saved by better food, sanitation and health care. District hospitals and rural health centers lack equipment, medicine and personnel, perhaps because the state doesn't value the lives of poor people as much as richer citizens.

We believe that the state and development partners recognize the problems that confront our people, but often you prefer to send someone for school or health treatment overseas, an easier solution than building strong, available education and health services in our country. We wish that development partners and Timor-Leste's government would prioritize spending money on the education and health systems here, which would benefit far more people

Conclusion

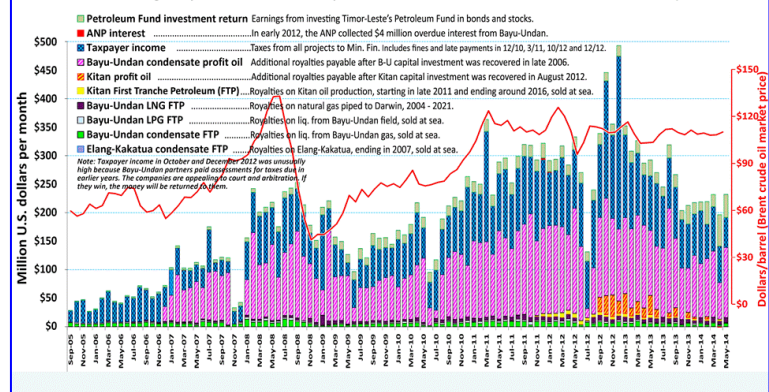
Timor-Leste has received significant oil and gas revenues since 2005, totaling about \$22 billion dollars. We are two-thirds through the lifespan of our petroleum reserves, and have already received about ¾ of their revenues. Even if the Sunrise field goes ahead with a pipeline to Timor-Leste, our total take from that project is likely to be less than we have receive from Bayu-Undan,

The 2014 budget doesn't prioritize education, agriculture or health



Petroleum income so far

Where Does Timor-Leste's Petroleum Revenue come from?
From 2005 through May 2014, \$21.6 billion was paid into our Petroleum Fund and \$5.3 billion was taken out).



and will only support public spending at less than one-third of current levels. Our Petroleum Fund could be used up by 2025, which is closer to today than today is to the Restoration of Independence in 2002. A lot of time and money has been squandered, and we need to make good use of what is still left.

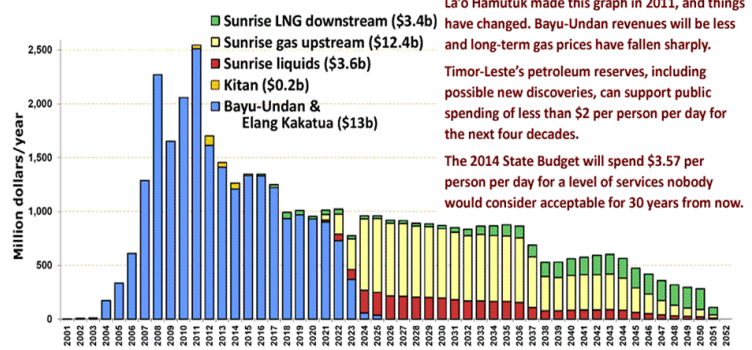
The only way to save Timor-Leste from the 'resource curse' is to develop a sustainable and equitable economy, by investing in agriculture, tourism, and small industries to replace Bayu-Undan and Kitan revenues. Starting today, we need to prioritize human development, starting with primary school and extending to higher levels to improve Timor-Leste's future wisdom.

In addition, economic development must have integrated plans, be transparent, and give priority to people's basic needs, as well as avoiding ongoing arbitrary spending on emergency projects and public relations.

In closing, we ask development partners and Timor-Leste's government to take our local context as the starting point and to make decisions for the benefit of all Timorese people, regardless of class, affluence or political or family connections. Everyone deserves to receive their fair share, as is their legal and moral right.

Timor-Leste doesn't have enough oil and gas wealth to meet our needs

Timor-Leste's Annual Petroleum Revenues (discounted 3.7% / year)
If Sunrise construction starts in 2016.



- Thank you -