

Rights and Sustainability in Timor-Leste's Development

Briefing for media and others

La'o Hamutuk 9 March 2012



Contents

This presentation is adapted from one that La'o Hamutuk gave to journalists on 9 March 2012. It discusses several topics that La'o Hamutuk follows which are critical to the future of Timor-Leste. We have inserted more slides to provide additional information.

1. TL is the second-most petroleum-export dependent country on earth. This determines our State, economy and future.
2. TL has almost no industry and an embryonic private sector. The State Budget increases faster than all but Zimbabwe.
3. Current plans for future development will not provide a sustainable improvement in our people's lives. These unrealistic dreams rely on Greater Sunrise gas, which is limited and might never come to our shores or treasury.
4. Impunity for past crimes threatens future rule of law.
5. Land is the base of our culture and lives; recent developments may increase injustice and conflict.

1. Petroleum Dependency

TL is the second-most petroleum-export dependent country on earth. This determines our State, economy and future.

Basic Statistics

- 41-50% of the people live below the poverty line.
- 80% of the people live in rural areas, largely by subsistence farming.
- More children die of diarrhea than malaria.
- About 2,000 children under age 5 die from preventable conditions every year ... about 50 times the number of Timorese who die from violence (39 in 2010).
- During the last few weeks, at least 10 people died from Dengue Fever and nobody died from election-related violence.
- In 2010, TL exported \$16 million (coffee).
- In 2010, TL imported \$288 million (everything).

Basic Statistics

By 2024, 360,000 babies
will have been born, and
the only producing oil and
gas field will be used up.

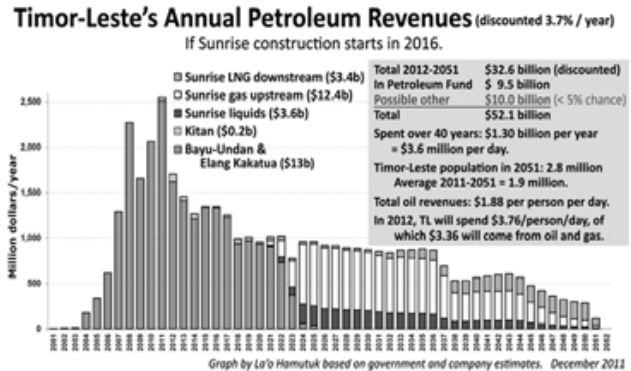
How will they survive?

Petroleum Dependency

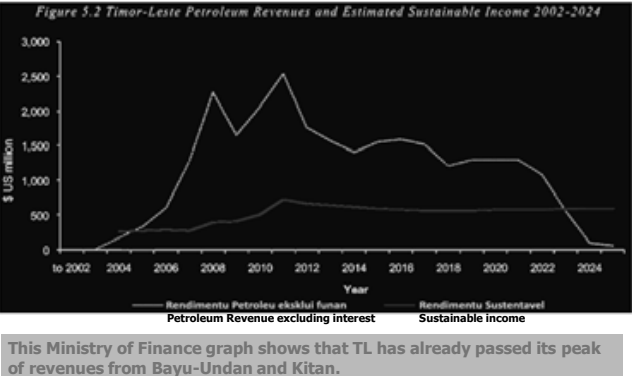
- State expenditures in 2012: **\$1,674 million**
\$1,495 million (89%) will come from the Petroleum Fund.
- Non-oil GDP in 2012: **\$1,252 million**
- GNI in 2012: **\$4,073 million**
\$2,821 million is from exporting nonrenewable oil and gas.
This is 69% of our entire economy and 95% of state revenues.
It is declining every year and will probably end by 2024.
- State activities paid with oil money are about half of Timor-Leste's "non-oil" economy as they are recycled through the local economy.
- Petroleum income doesn't provide jobs or money for people – it all goes to the State.
- Although the Petroleum Fund can improve equity between generations, it does not guarantee good governance or prevent corruption, and will not last long if current policies continue.

South Sudan is the only country which is more oil-export-dependent than Timor-Leste.

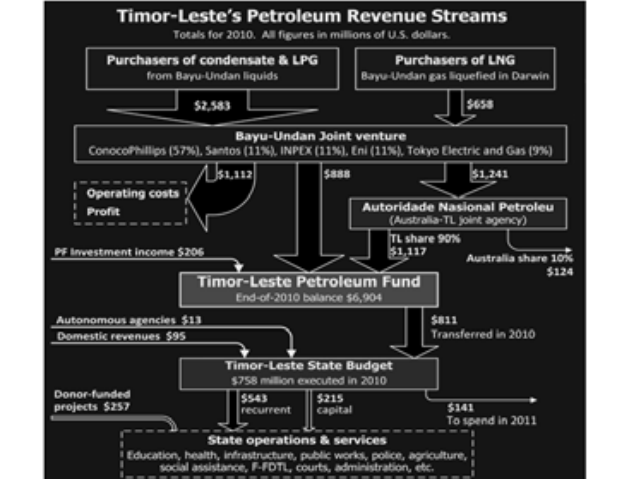
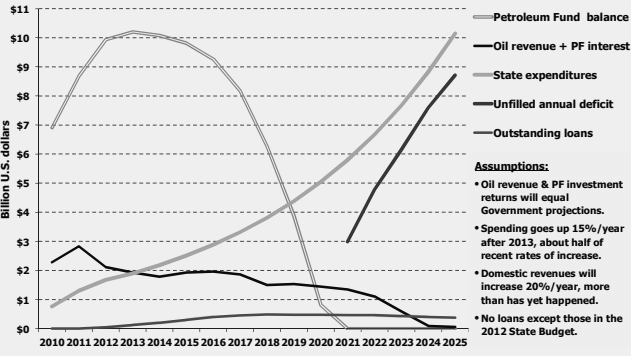
TL’s oil wealth alone cannot meet our needs.



Oil income will continue to decline.



If current trends continue, TL will be unable to finance its budget in 9 years.



Signs of the “resource curse” (1)

- **Seeing money as the solution to every problem**
It’s easier to buy a scholarship than to build a university.
- **Spending without thinking**
State expenditures are growing 28% every year.
- **Lack of realistic long-term planning**
The Strategic Development Plan is but a dream.
- **Import dependency**
TL has a billion-dollar non-oil trade deficit.
- **Inflation (17%) from little local productive capacity**
Our economy cannot absorb the cash in circulation.

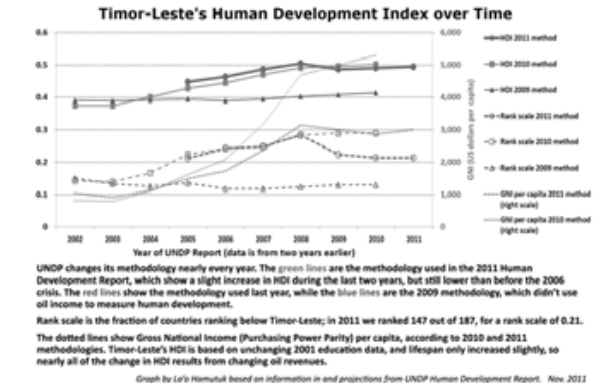
Signs of the “resource curse” (2)

- **Ignoring non-oil development and revenues**
- **Acting as if oil will last forever**
Bayu-Undan and Kitan will be dry by 2024.
- **Borrowing today, to repay tomorrow**
TL will borrow more than \$460 million in the next five years, often for projects with little likelihood of return.
- **Wealth goes mainly to the urban elite.**
Most people won’t benefit from highways, airports and oil facilities, but will feel the burden of loan repayments.
- **Petroleum sector “captures” decision-making.**
Few creative ideas to develop agriculture, education, tourism, small industries ...

Most people live in rural areas by subsistence agriculture.



UNDP HDI mainly shows oil revenues

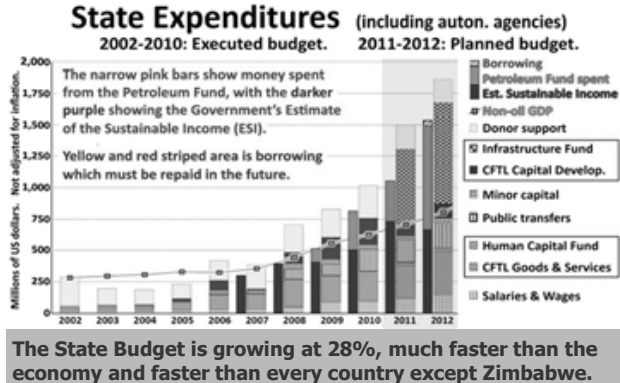


2. Unsustainable budget & economy

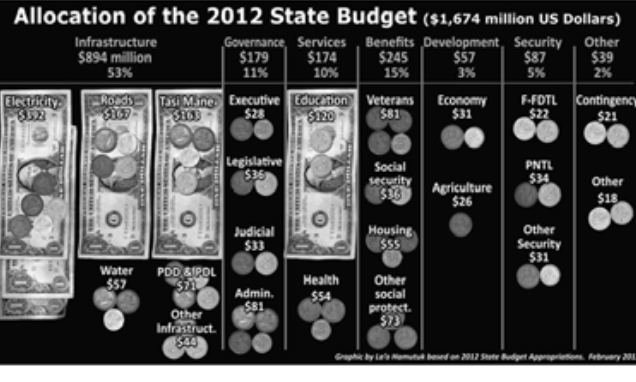
Timor-Leste has almost no industry and an embryonic private sector.

The State Budget increases faster than everyone except Zimbabwe.

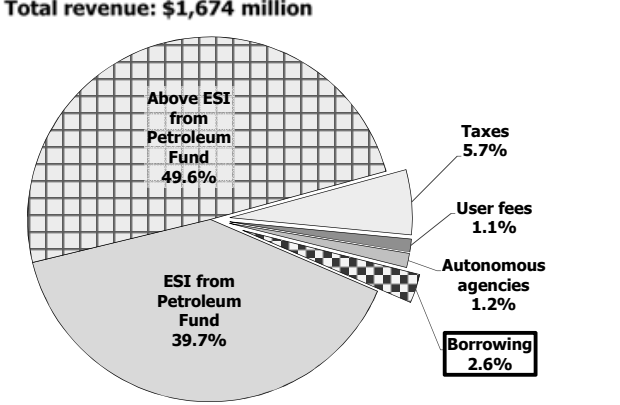
State Budgets 2002-2012

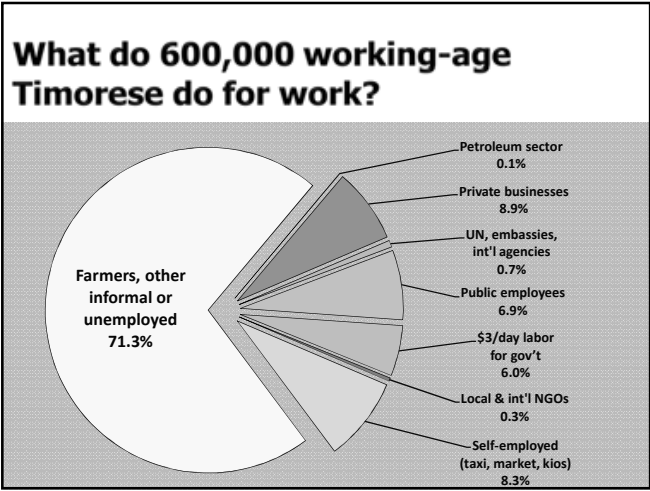
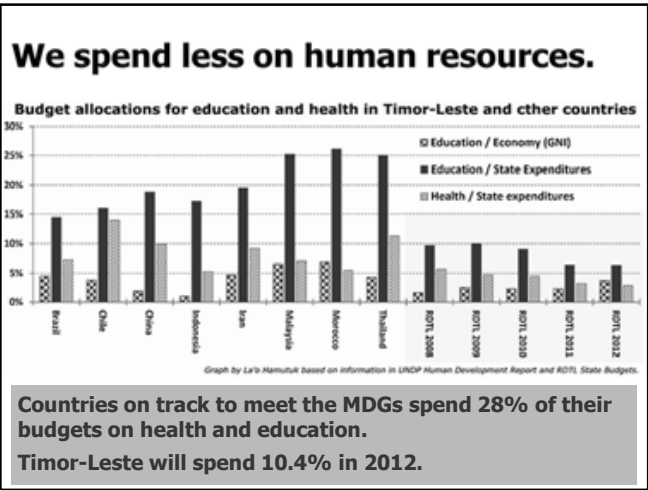
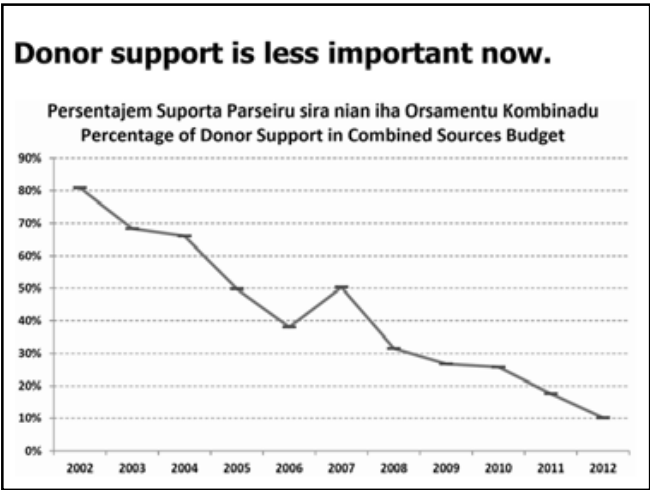


The 2012 Budget is for infrastructure.



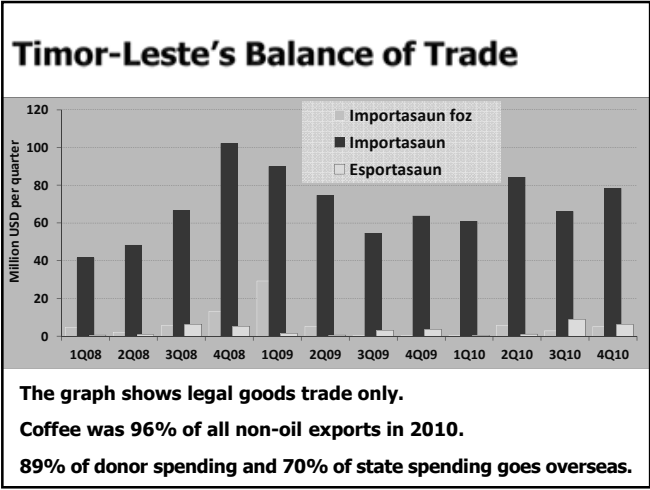
Income in the 2012 state budget





Real Threats to Real Security

- Human security is health care, food, education, employment, housing, etc.
- 50 times as many Timorese children under five die every year from avoidable conditions as people are killed by violence.
- These children will not be helped by police, soldiers or judges, but the UN and donors prioritize the "security sector" and see everything through a conflict lens.
- We must diversify our economy and strengthen our people and workers to prepare for the day our oil runs out and we can no longer pay for imports.



Timor-Leste trade in 2010

(million USD)

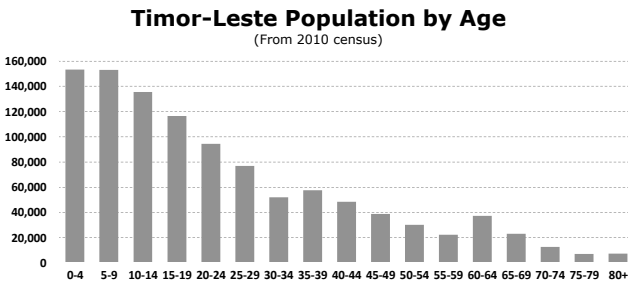
Category	Imports	Exports	Balance
Goods	\$289 (DNE reports)	\$17 (96% coffee)	-\$272
Other goods (extra-legal)	\$200 (LH est.)	\$0.3 (LH est.)	-\$200
Services	\$505 (2009, from BPA)	\$3 (LH est. remittances)	-\$502
Total excluding oil and gas	\$994	\$20	-\$974
Petroleum receipts (to state)	--	\$2,016 (incl. \$294 Petrol. Fund interest)	\$2,016
Total	\$994	\$2,036	\$1,042

Timor-Leste changes every year.

- **Population**
is increasing 2.4% per year, doubling in less than 29 years (the post-war "baby boom" will become parents).
- **Inflation**
According to the National Statistics Department, consumer prices in Dili increased 17.4% from December 2010 to December 2011.

People’s needs and desires will increase as the country develops.

Many children will become youth.



Timor-Leste is struggling to find jobs for 15,000 people who will enter the work force this year.

In 2024, it will be around 30,000 each year, and the oil will be used up. Today’s youth will have children of their own.

CONSUMER PRICE INDEX
DILI REGION, DECEMBER 2011

DECEMBER 2011 KEY FIGURES		
	% change from previous month (monthly rate)	% change Dec 2010 to Dec 2011 (rolling year rate)
All groups	3.8%	17.4%
All groups excluding Housing	3.9%	16.4%
1. Food	4.7%	19.8%
2. Alcohol and tobacco	4.6%	18.9%
3. Clothing and footwear	4.1%	19.7%
4. Housing	2.9%	11.7%
5. Household furnishings, supplies and services	0.5%	10.4%
6. Health	0.0%	8.1%
7. Recreation and education	1.1%	1.8%
8. Transport and communication	-0.3%	17.3%

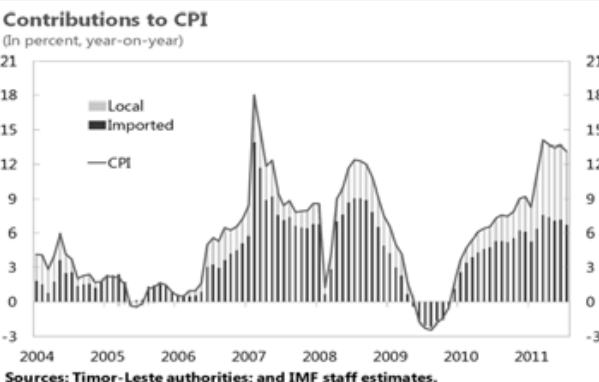
THE ALL GROUPS CPI

- On a monthly basis the CPI for Dili rose (3.8%) December 2011 from November 2011.
- On an annual basis the CPI for Dili increased (17.4%) Dec2011 compared to Dec 2010.

Inflation since 2009 comes from the government spending more than the economy can absorb.



Local factors drive recent inflation.



Sources: Timor-Leste authorities; and IMF staff estimates.

Dili is very different from the districts.

From Timor-Leste Demographic and Health Survey 2009-2010

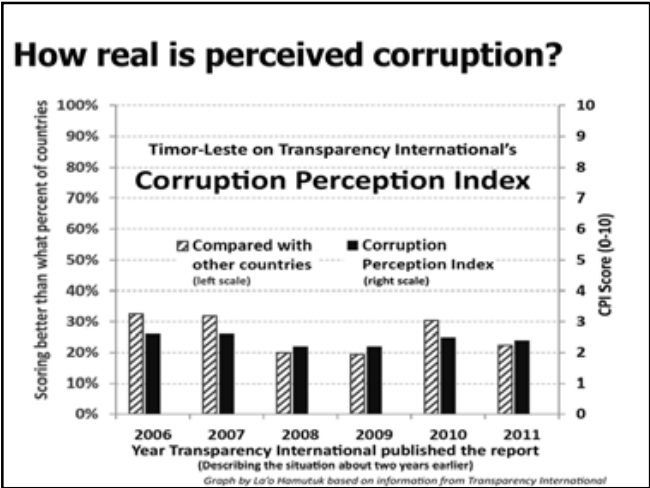
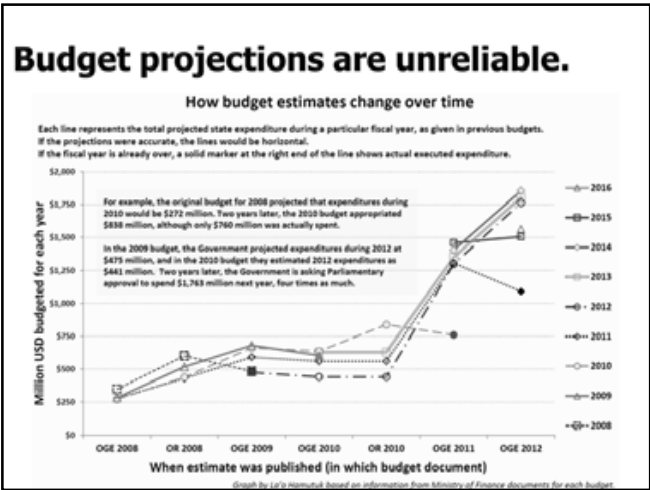
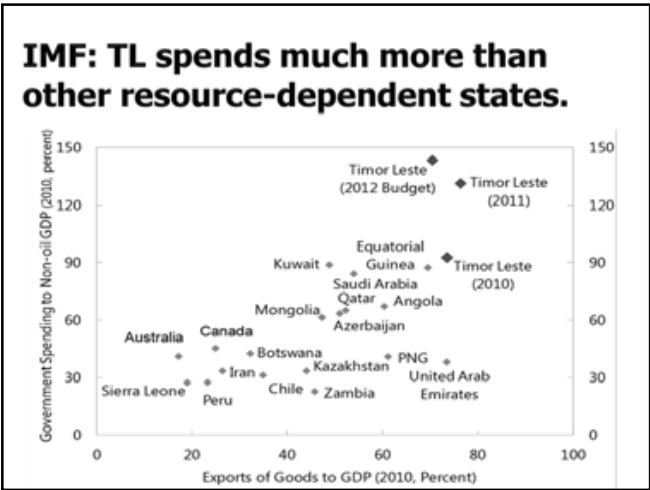
Table 2.11 Wealth quintiles

Percent distribution of the de jure population by wealth quintiles, according to residence and region, Timor-Leste 2009-10

Residence/region	Wealth quintile					Total	Number of population
	Lowest	Second	Middle	Fourth	Highest		
Residence							
Urban	4.5	6.1	9.3	22.2	57.8	100.0	15,852
Rural	24.6	24.2	23.3	19.2	8.7	100.0	51,134
District							
Aileu	20.6	27.9	25.1	18.2	8.2	100.0	2,785
Anasor	30.9	32.2	19.7	12.1	5.2	100.0	3,830
Baucau	26.9	28.9	19.3	13.4	11.5	100.0	7,590
Bobonaro	15.2	19.7	26.1	27.8	11.1	100.0	6,323
Covauna	17.2	17.7	23.1	25.1	16.8	100.0	3,993
Dili	9.4	2.1	6.5	20.1	71.0	100.0	10,905
Ermera	9.8	30.2	31.9	21.5	6.6	100.0	8,132
Lautem	28.0	16.7	20.4	24.5	10.4	100.0	4,547
Liquica	15.7	18.8	25.3	25.1	15.2	100.0	4,082
Manatuto	22.2	10.9	22.5	27.7	16.8	100.0	3,088
Manufahi	28.3	25.1	18.1	16.6	12.0	100.0	2,699
Oecussi	46.6	17.1	14.4	14.2	7.6	100.0	4,281
Viqueque	35.3	25.5	17.4	13.0	8.7	100.0	4,730
Total	19.9	19.9	20.0	19.9	20.3	100.0	66,985

More than 70% of Dili’s population are among the wealthiest 20% of Timorese, while only 2.5% are below the poverty line.

About 50% of Timorese families outside Dili live in poverty.



3. Unrealistic dreams

Current plans for future development will not sustainably improve our people's lives.

They rely on Greater Sunrise gas, which is limited and might never come to our shores or treasury.

The Strategic Development Plan

- Issued July 2011, promises to make TL an Upper Middle Income Country by 2030.
- A vision and dream, not a realistic plan.
- Focuses on physical infrastructure, not sustainable development.
- Will require loans and spending beyond TL's means.

TIMOR-LESTE PLANO ESTRATÉGICO DE DESENVOLVIMENTO 2011-2030

Tasi Mane petroleum infrastructure project

- In 2010, TL began working on the South Coast Petroleum Corridor.
- During 2011, TL spent \$19 million, and total project costs will be more than \$2 billion (much more if Timor-Leste pays to build the refinery, gas pipeline or LNG plant).
- The 2012 budget allocates \$164 million (including the Supply Base and highway).

Tasi Mane

TL is about to become a borrower.

- Laws passed since 2009 have paved the way for Timor-Leste to take out foreign loans.
- The 2012 Budget starts borrowing with \$160 million, including \$43.1 million to be spent this year.
- During the next four years, the Government plans to borrow nearly half a billion dollars.

Most loans will pay for roads.



Lenders are

- World Bank
- JICA (Japanese government)
- Asian Development Bank
- China Export-Import Bank

Brown: estimates from La'o Hamutuk

Project	Financed by	Loan	Grace Period (yrs)	Term (yrs)	Interest rate	Total Repaid
Dili-Liquica-Gleno roads	ADB ADF concessional	\$9.1m	8	32	1.0% / 1.5%	\$12m
Dili-Liquica-Gleno roads	ADB OCR commercial	\$30.9m	5	25	LIBOR + 0.19%	46m
Dili-Ainaro, Same, Ermera roads	WB IDA concessional	\$20m	10	25	2.50%	\$28m
Dili-Ainaro, Same, Ermera roads	WB IBRD commercial	\$20m	5	30	LIBOR + 0.46%	\$32m
Dili-Baucau road	JICA concessional	\$68.7m	10	30	0.70%	\$77m
Dili drainage	China Ex-Im bank	40m	10	25	3.00%	60m
Manatuto-Natarbora road	ADB OCR commercial (?)	\$75m	5	25	LIBOR + 0.19%	\$110m
Tasi Mane highway	unknown commercial	\$220m	10	20	4.00%	\$352m

Borrowing in the 2012 State Budget

Table 6.1. Financing needs for major infrastructure projects, 2012 – 2016 (\$ millions)

Roads	2012	2013	2014	2015	2016	Total
Dili-Liquica, Tiater-Emmera	5.26	10.70	10.70			26.66
Manatuto-Natarbora	2.84	2.88	2.28	5.34	30.00	43.34
Dili-Manatuto-Baucau	0.27	1.35	10.85	18.09	19.77	68.70**
Maubisse-Ainaro-Same	5.00	10.00	20.00	5.00		40.00
South Coast Highway		30.00	40.00	50.00	100.00	220.00
Dili sanitation & drainage		20.00				20.00***

** The total amount to be provided in Loans is \$67.7 million. This total is made based on the information provided by JICA. Government will be funding 23% to complete 95 million of the total project cost.

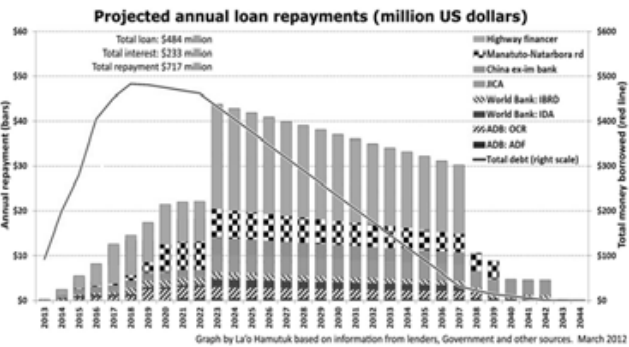
*** The Exim Bank still need to do design in 2012 therefore there will be no expenses in 2012.

Table 6.2 Loans and Co-financing from the Government, 2012 – 2016 (\$ millions)

	2012	2013	2014	2015	2016	
Loans	43.10	80.2	81.1	102.8	107.0	414.2
Government Co-financing	9.93	24.05	24.32	30.85	54.00	143.15
	53.03	104.25	105.42	133.65	161.00	557.35

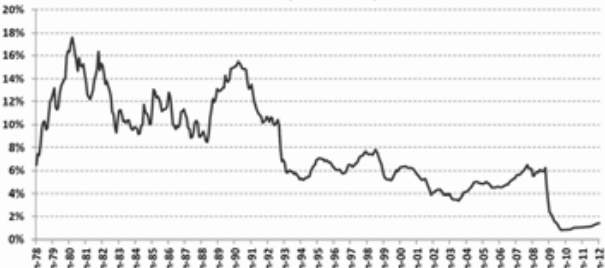
Source: Major Projects Secretariat, Ministry of Finance, 2011

Loans will have to be paid back.



Commercial loans will become more expensive in the future.

LIBOR (London Interbank Offering Rate) over time
Indicates the cost of borrowing from the global financial market



Important to consider



- Implementing the SDP will require billions of dollars more in loans, probably at commercial rates.
- Even at concessional rates, repaying a loan will permanently reduce money available from the Petroleum Fund.
- TL's oil and gas are small and non-renewable, and future oil prices are unpredictable.
- TL will have to make loan repayments before spending money on people's needs or developing other sectors.
- Our children and grandchildren will inherit our debt.

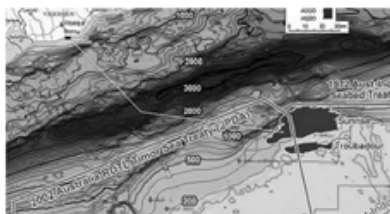
Sunrise and maritime boundary dispute

- Australian companies began exploring Sunrise in the early 1970s, after Australia and Indonesia divided our maritime resources without involving Portugal. In 1989, they closed the "Timor Gap" to share illegally occupied resources in the Joint Development Area.
- The 2006 CMATS treaty bans maritime boundaries discussion for 50 years. It divides Sunrise upstream revenues 50-50.
- Australia put its greed for oil before respect for its sovereign neighbors or international law.
- Based on UNCLOS , TL owns everything north of the median line.



The Greater Sunrise stalemate

- The project is stalled because Timor-Leste and the companies do not agree on how it should be developed.
- Woodside and its partners Shell, ConocoPhillips and Osaka Gas believe a floating LNG plant in the sea is the most profitable.
- Timor-Leste wants a pipeline from Sunrise to Beaçu, to get more tax revenues and anchor the Tasi Mane project.
- Under contracts and treaties, the companies can choose the path, but both governments need to approve it.
- TL can cancel CMATS next year if the parties haven't agreed yet.

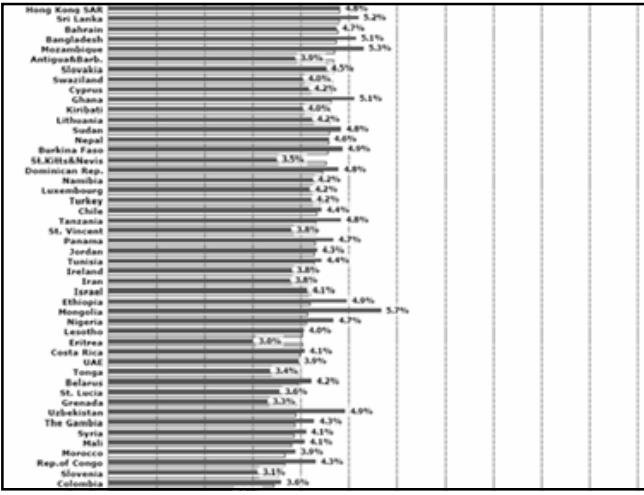
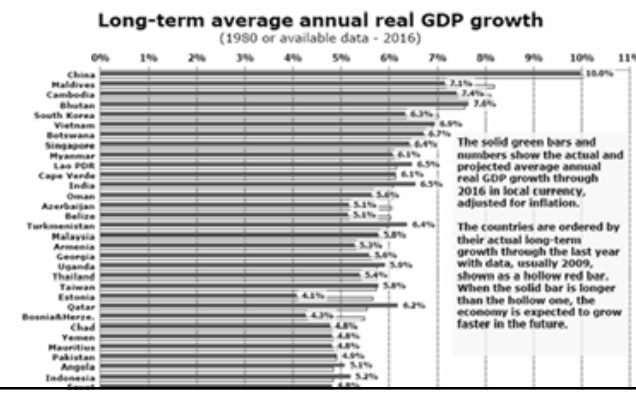


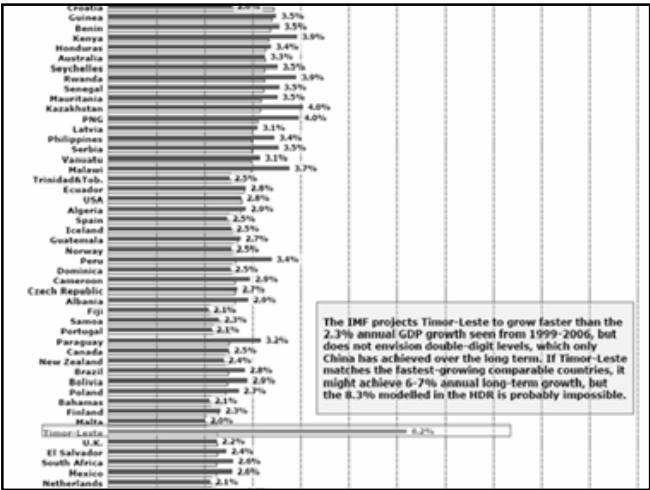
Beginning the theft of Maubere's wealth

Foreign ministers Gareth Evans and Ali Alatas toast the signing of the Timor Gap Treaty in 1989 while flying over the Timor Sea.



Can Timor-Leste achieve the highest economic growth in the world?





4. Impunity and accountability

Impunity for past crimes threatens stability, security and rule of law.

Impunity and accountability for crimes against humanity

- 1975-1999: Indonesian invasion and occupation killed about 180,000 people in a systematic and planned policy executed throughout Timor-Leste.
- 2000: Indonesian Commission on Human Rights Abuses in TL (KPP HAM) reported on 1999 crimes and recommended an international mechanism.
- 2001-2004: UN-supported Serious Crimes Unit indicted 391 people for 1999 crimes. All Indonesian and most Timorese indictees live free in Indonesia.
- 2001-2005: TL's Commission for Reception, Truth and Reconciliation (CAVR) researched history and encouraged reconciliation among Timorese. Its extensive report made 200 recommendations, including that if other processes fail, the UN should create an international tribunal.
- 2005: UN Commission of Experts (COE) reviewed legal processes to date and recommended creating an international mechanism.
- 2005: TL and Indonesian governments created the Commission of Truth and Friendship (CTF) using diplomacy to avoid individual accountability.

Until today, no legitimate processes in Indonesia or Timor-Leste have held major criminals accountable.

Indonesia's occupation included many massacres.



Above: 1983 massacre in Kraras, Viqueque

Right: Commemorating the 10th anniversary of the 1999 Suai Church massacre. Indicted ringleader Maternus Bere was illegally freed due to Indonesian pressure on TL's leaders.

UN Serious Crimes Unit Special Panel


The UN-supported Serious Crimes Unit indicted 391 people for 1999 crimes, tried 87 Timorese and convicted 84.

All Indonesian indictees and most Timorese are living free in Indonesia, and recent efforts to prosecute were blocked by political interference.



2004: President Xanana Gusmão and indicted ex-General Wiranto

The Serious Crimes Unit issued a warrant to arrest former Indonesian military head Wiranto for Crimes Against Humanity a few weeks before this photo was taken in Bali. Wiranto later ran for President of Indonesia twice.





Ongoing impunity creates insecurity.

- Today, all the main perpetrators of crimes against humanity during the Indonesian occupation are free in Indonesia, including everyone responsible for the 99% of occupation-related killings committed between 1975 and 1998.
- They are all protected by the Indonesian government, and many hold high Indonesian political and military positions.
- This ongoing impunity greatly threatens peace, security, democracy, rule of law and moral values in both Timor-Leste and Indonesia.

What happens next?

- Today, neither Indonesia, Timor-Leste nor the international community has the political will to bring these criminals to justice.
- The Commission of Experts report has never been discussed in the Security Council.
- UNMIT will leave Timor-Leste at the end of 2012, having failed to achieve justice, and future UN processes here will have less power and are not yet defined.
- UN policy and global consensus says that there can never be impunity for crimes against humanity. **Chega!**

A luta continua. We continue to demand that people who violate the law be held accountable for their crimes.

5. Access to land

Land is the base of our culture and lives.

Recent developments may increase injustice and conflict.

Traditional land system before Portuguese colonization and Indonesian occupation

Land functions

- Place of birth that determines our origin and identity
- Place occupied by our ancestors spirits
- Socio-cultural functions linked to tradition and cosmos
- Collective economic function

Access to land

- Inheritance
- Traditional system allowing right to collective use
- Property right allowed after occupying land for a long time

Land management

- Traditional collective management system at the family and village levels (Tara Bandu).



Consequences of colonization and occupation

Introduction of a new coercive system

- Forced displacement
- Transmigration
- Taxes
- Certificates
- Corruption and stealing

Changes in land functions

Land as a strategic tool to:

- Reinforce power and domination
- Support Portuguese and Indonesian economy
- Increase people's dependency and vulnerability

Land as a commodity without soul

Privatisation: communities lose rights to individuals.

Desertification: monocrop agriculture depletes soil.

Land registration in Portuguese and Indonesian times

- 200,000 parcels already registered.
- 2,843 land titles issued by Portuguese.
- 34,965 land titles issued by Indonesians including 10% through corruption.

This system transferred land ownership from Timorese families and communities to 100,000 - 150,000 non-Timorese private owners.

Land law elaboration

In 2009, the Ministry of Justice, with the support of USAID, implemented the cadastre and registration system and created the Special Regime for Determination of Ownership of Immovable Property, Expropriation Law and Real Estate Finance Fund Law.



These laws were elaborated with very limited community participation.

Land law concept

Establishment of a formal, basic land tenure system to address:

- needs of the modern
- urban sector
- formal land transactions
- registration.

It must also respect traditional land and customs.



Who will benefit from these land laws?

- The State.
Land "owned" by Portuguese and Indonesian administrations automatically becomes Timor-Leste state property without considering how the occupiers got it.
- People who got certificates during Portuguese and Indonesian times.
- Rich and powerful people.
People with a lot of land and money can pay taxes and exert disproportionate influence.

Likely consequences of the implementation of the Land Laws

Social, cultural and economic impacts:

- Land will become a commodity with no spiritual value.
- Degradation of our cultural system which is based on collective values.
- Land concentration in the hands of rich and powerful people.
- Increasing cases of eviction.
- Poor people will lose their land.
- Less land available for agriculture and production.
- Emergence of slums, landlessness and homelessness.

Thank you.

You will find more and updated information at

- La'o Hamutuk's website
<http://www.laohamutuk.org>
- La'o Hamutuk's blog
<http://laohamutuk.blogspot.com/>
- Reference DVD-ROM available from our office.

Timor-Leste Institute for Development Monitoring and Analysis
Rua Martires do Patria, Bebora, Dili, Timor-Leste
Mailing address: P.O. Box 340, Dili, Timor-Leste
Telephone: +670 7234330 (mobile); +670 3321040 (landline)
Email: info@laohamutuk.org