The 2014 State Budget and how it relates to Timor-Leste's economy

Presentation to The Asia Foundation by

La'o Hamutuk

18 February 2014

Basic Statistics

- More than half of Timor-Leste's people live in poverty, and the number is growing.
- 80% of the people live in rural areas, largely by subsistence farming.
- About 1,500 Timorese children under 5 years old die from preventable conditions every year … about 20 times the number of people who die from physical violence.
- More children die from diarrhea than malaria, and our malaria rate is among the highest in the world. Sanitation and malnutrition are endemic.

Basic Statistics

By 2022, 280,000 more babies will have been born, and the only producing oil and gas fields will be used up.

How will they survive?

1. State Budget

The state gets money from exporting oil and gas and spends it on various activities.

The budget plan and execution reflects the leaders' wishes and capacity.

Petroleum Dependency

- Projected state revenues in 2014:……….. $2,380 million
  $2,213 million (93%) will be from oil (incl. $770m investment return)
  $ 166 million (7%) will be from non-petroleum sources
- 2014 State Budget:……………………….. $1,500 million
  $903 million (60%) will be taken from the Petroleum Fund in 2014.
  $430 million (29%) more is from the Petrol. Fund in the past and future.
- Non-oil GDP in 2011:………………….. $1,046 million
  Petroleum GDP in 2011:……………….. $3,463 million (81%)
- State activities, paid for with oil money, are about half of our "non-oil" economy, because some of this money circulates in the local economy.
- Non-oil balance of trade (2013): $843m imports, $16m exports (98% coffee).
- Petroleum "income" goes to the State, not the people.

South Sudan (and Equatorial Guinea?) are the only countries which depend more on oil and gas exports than Timor-Leste.

Legal Basis of the State Budget

1. RDTL Constitution
2. Budget and Financial Management Law
3. Petroleum Fund Law
4. Annual Budget law
5. Infrastructure Fund Decree-Law
6. National Development Agency (ADN) Decree-Law
7. Human Capital Development Fund Decree-Law

Section 145 (State Budget)

1. The State Budget shall be prepared by the Government and approved by the National Parliament.
2. The Budget law shall provide, based on efficiency and effectiveness, a breakdown of the revenues and expenditures of the State, as well as preclude the existence of secret appropriations and funds.
3. The execution of the Budget shall be monitored by the High Administrative, Tax and Audit Court and by the National Parliament.

Signs of the "resource curse" (1)

- **Acting as if the oil money will last forever**
  Bayu-Undan and Kitan will be dry by 2020.
- **Borrowing today, to repay tomorrow**
  TL will borrow $491 million in the next six years, often for projects with little chance of return.
- **Lack of realistic long-term planning**
  The Strategic Development Plan 2011-2030 is but a dream.
- **Seeing money as the solution to every problem**
  It's easier to buy a scholarship than to build a university.
- **Spending without thinking**
  Recurrent expenditures go up more than 20% each year; projects often produce little result or return.

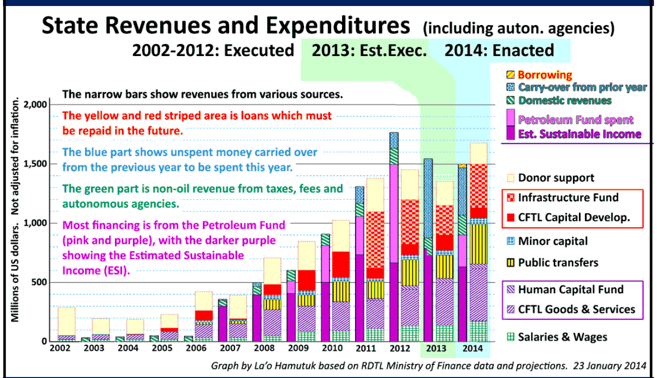
Signs of the "resource curse" (2)

- **Import dependency**
  In 2011, TL's non-oil balance of payments deficit was $1.5 billion.
- **Inflation from little local productive capacity**
  Our productive economy cannot absorb the cash in circulation
- **Ignoring non-oil development and revenues**
- **Benefits go mostly to the urban elite.**
  Most people won't use highways, airports and oil facilities … but will share the costs of paying for them.
- **Petroleum "captures" decision-making.**
  Agriculture, tourism, small industries, etc. don't get a "fair go."

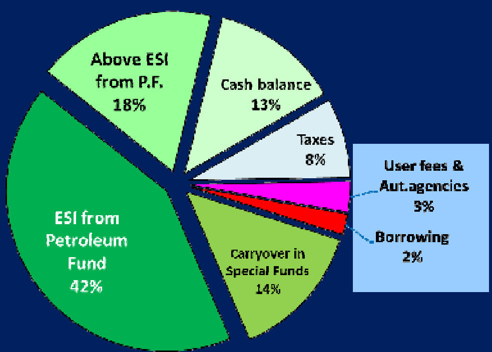
Spending in the 2014 budget: $1,500 million

Salaries	$ 177m
Goods and services (including HCDF)	$ 480m
Minor Capital	$ 52m
Public Transfers (to people or organizations)	$ 336m
Development Capital (including Infra. Fund)	$ 455m
Donors (not in state budget)	$ 178m
Consolidated Fund (CFTL)	$1,091m
Infrastructure Fund (including carry-over & loans)	$ 369m
Human Capital Development Fund	$ 40m
Total	$1,500m

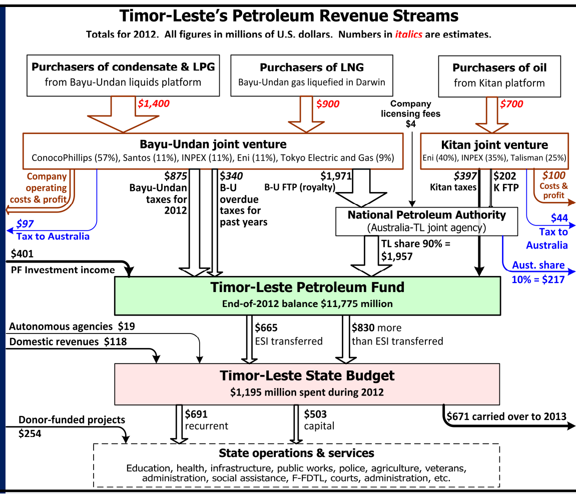
State Budgets 2002-2014



Income in the 2014 state budget



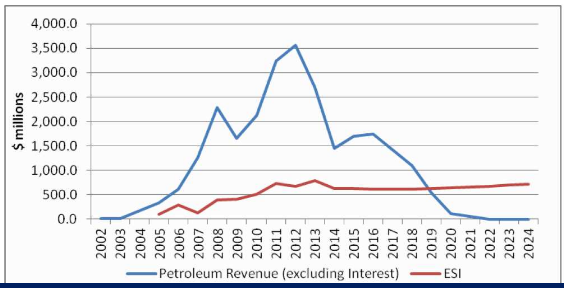
Total revenue: $1,500 million, of which 88% is from past, present and future oil and gas income.



Oil income will continue to decline.

Figure 2.5.3.2.1: Timor-Leste's Petroleum Revenues and Estimated Sustainable Income 2002-2025

From Ministry of Finance's proposed 2014 State Budget



Timor-Leste has already received 60% of the revenues from Bayu-Undan and Kitan, and they could end in seven years.

Oil is running out quickly!

Table 2.5.3.2.2: Petroleum Wealth and the Estimated Sustainable Income (ESI), $ millions

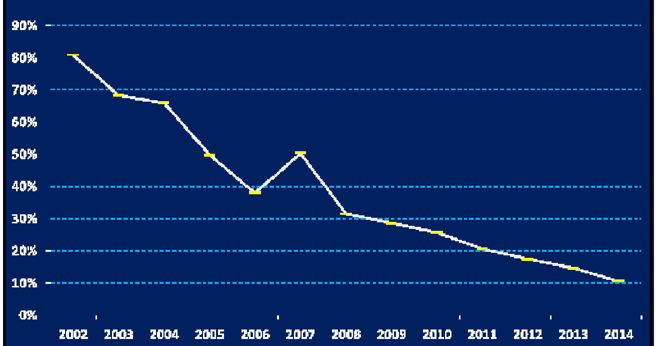
	2013 BB1	2014 Budget	2015	2016	2017	2018
Estimated Sustainable Income (PWx3%)	**787.0**	**632.3**	**638.7**	**628.4**	**616.0**	**612.8**
Total Petroleum Wealth (PW)	**26,231.7**	**21,076.3**	**21,291.0**	**20,947.4**	**20,534.9**	**20,425.9**
Opening PF Balance	10,776.7	14,058.5	15,369.0	16,431.1	17,548.5	18,723.9
Net Present Value of Future Revenues	15,455.0	7,017.8	5,922.0	4,516.3	2,986.4	1,702.0

Source: Petroleum Fund Administration Unit

This table, from the 2014 budget proposal, shows how quickly our future revenues will decline, as the ESI falls every year.

Donor support is less important now.

Percentage of Donor Support in Combined Sources Budget



Graph by La'o Hamutuk based on the proposed 2014 State Budget, October 2013

The 2014 Budget will neglect farmers, students, and health care.

Allocation of the proposed 2014 State Budget (US $1,500 million)

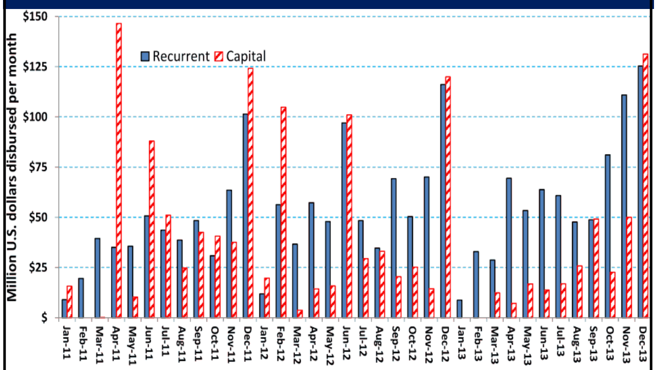
Graphic by La'o Hamutuk based on proposed 2014 RDTL General State Budget. October 2013

Priorities in last year's 2013 Budget

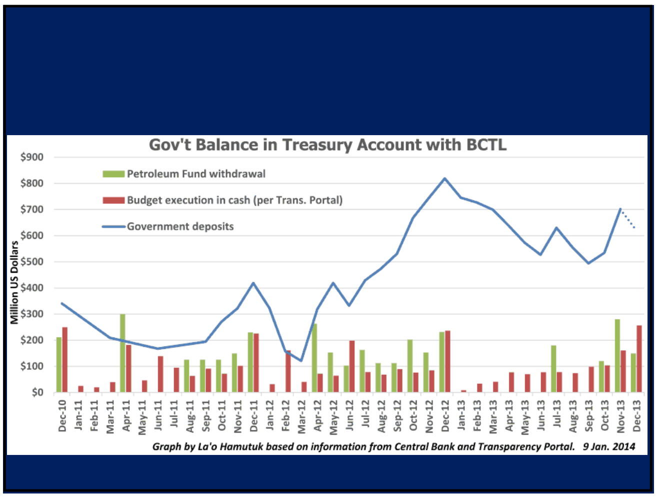
Allocation of the 2013 State Budget ($1,648 million US Dollars)

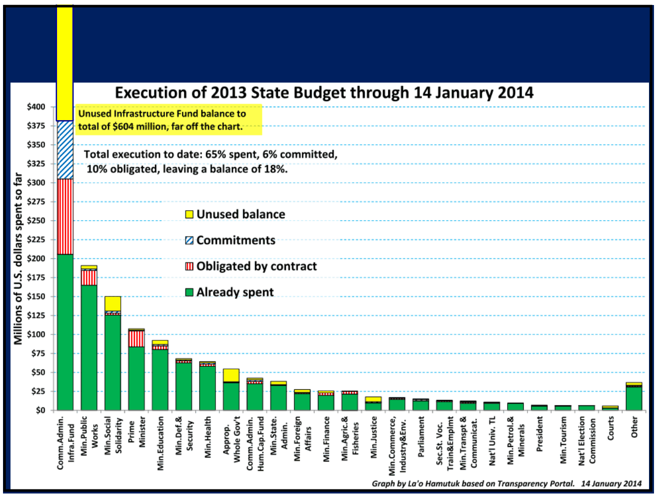
Graphic by La'o Hamutuk based on 2013 State Budget Appropriations. March 2013

Budget Execution 2011-2013

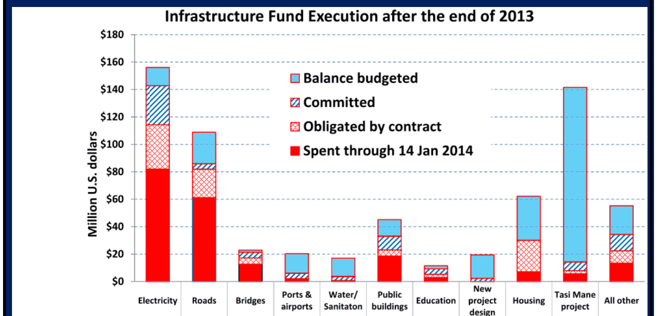


Graph by La'o Hamutuk from RDTL Budget Transparency Portal. 9 January 2014



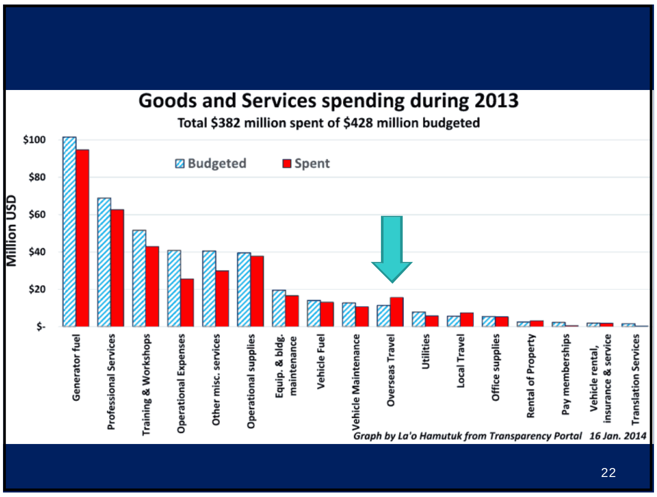


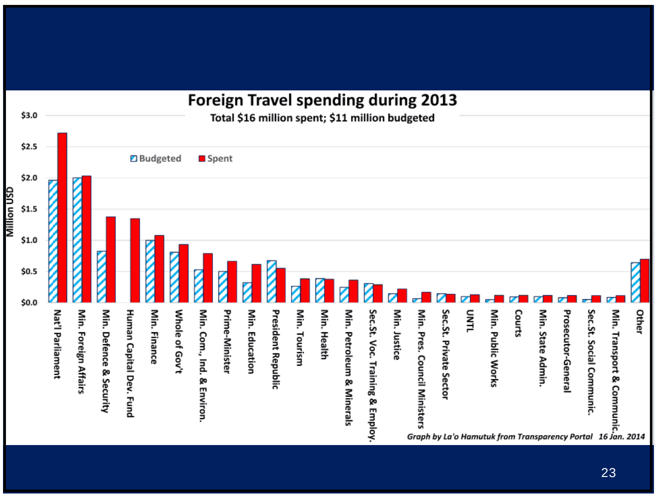
Infrastructure Fund in 2013



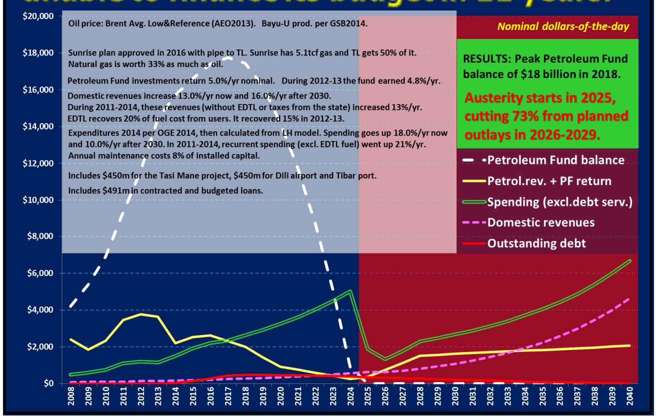
	Electricity	Roads	Bridges	Ports & airports	Water/ Sanitaton	Public buildings	Education	New project design	Housing	Tasi Mane project	All other
Balance budgeted	$13.4	$23.0	$1.6	$14.2	$13.3	$12.1	$2.1	$17.0	$32.2	$127.3	$21.0
Committed	$28.3	$3.9	$4.0	$4.0	$3.0	$9.9	$4.1	$2.4	$0.0	$6.4	$11.8
Obligated by contract	$32.4	$20.8	$4.6	$0.8	$0.0	$4.4	$2.4	$0.0	$22.9	$2.2	$8.9
Spent through 14 Jan 2014	$81.9	$61.2	$12.7	$1.3	$0.8	$18.6	$2.9	$0.1	$7.1	$5.7	$13.5

Graph by La'o Hamutuk using data from Budget Transparency Portal. 14 January 2014





If current trends continue, TL will be unable to finance its budget in 11 years.



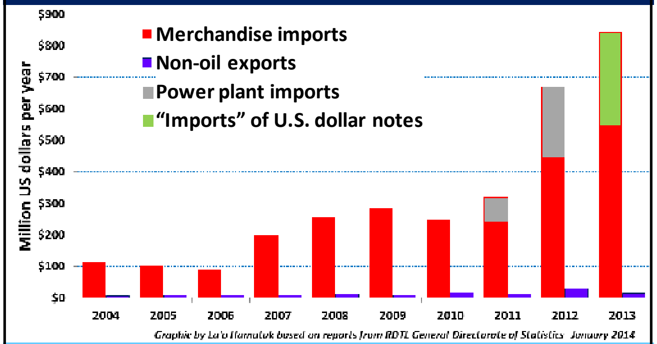
2. Unsustainable economy

Timor-Leste has almost no industry and a tiny private sector.

Real Threats to Real Security

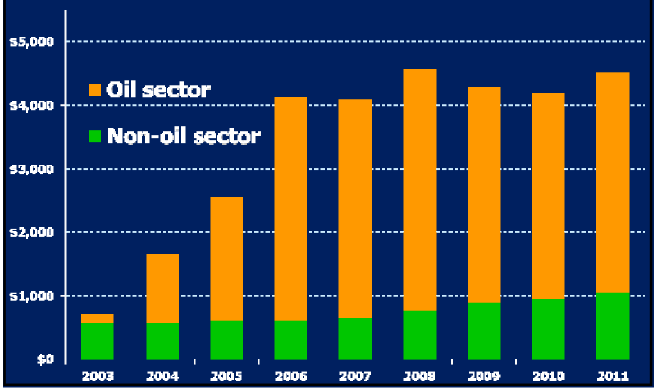
- Human security is health care, food, education, employment, housing, etc.
- 20 times as many Timorese children under five die from avoidable conditions as people are killed by violence.
- These children will not be helped by police, soldiers or judges, but many donors prioritize the "security sector," seeing 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.

Import Dependency

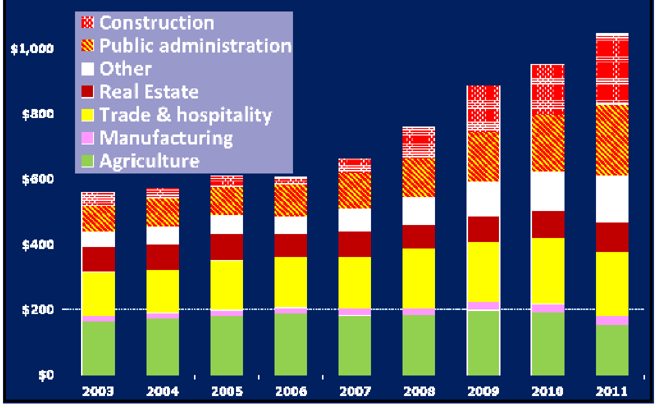


The graph shows legal goods trade only. About 89% of donor spending and more than 70% of state spending leaves the country.

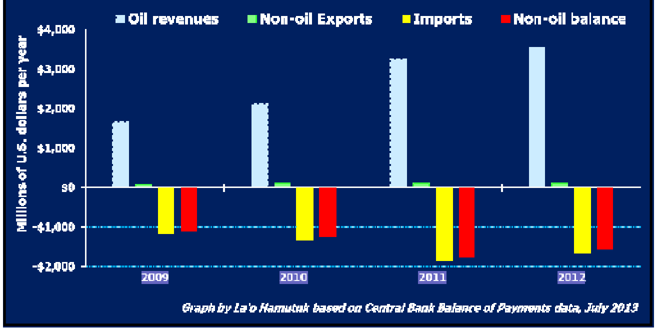
More than ¾ of GDP is from oil.



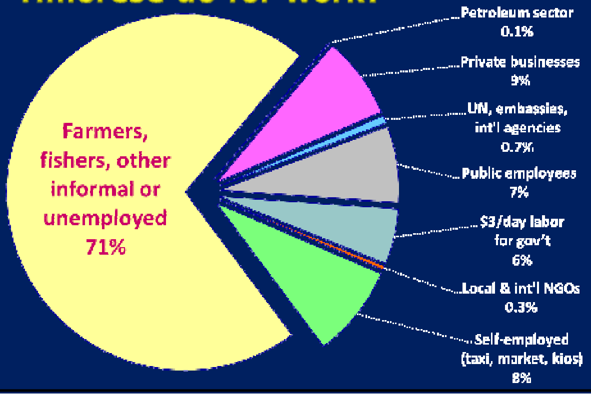
The non-oil, non-state GDP is stagnant.



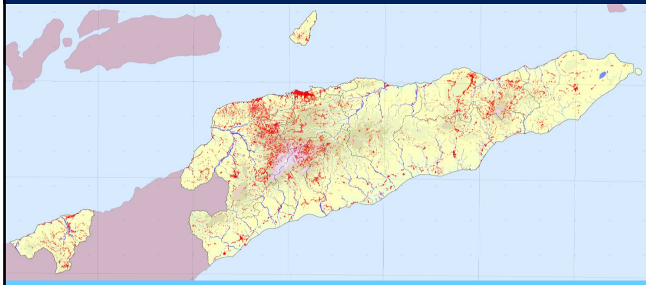
We have a $1.5 billion trade deficit, covered by oil revenues…for now.



What do 600,000 working-age Timorese do for work?

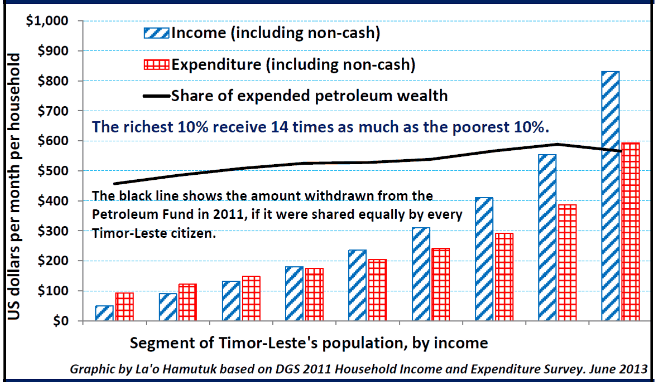


Most people live in rural areas by subsistence agriculture.



Agriculture will get 2.3% of state expenditures in 2014, although it is the livelihood of 75% of the population.

We have a few rich, but many poor.



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
Ainaro	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
Covalima	17.2	17.7	23.1	25.1	16.8	100.0	3,993
Dili	**0.4**	**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
Liquiçá	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% are below the poverty line.

More than half of families outside Dili live in poverty.

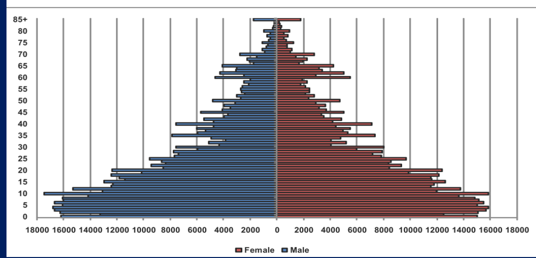
Timor-Leste changes every year.

- **Population**
  is increasing 2.4% per year, doubling in less than 29 years (the post-war "baby boom" will become parents).
- **Inflation**
  Consumer prices increased more than 11% during 2012, but inflation slowed to 4% in 2013.

People's needs and desires will increase as the nation develops.

Many children will become youth.

Figure 2.2: Population by single year age group and sex: Timor-Leste, 2010 Population and Housing Census

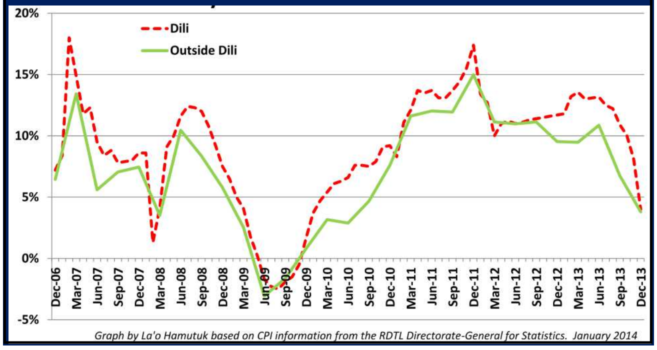


Timor-Leste is struggling to find jobs for 15,000 people who will enter the work force in 2014.

By 2024, it will almost 30,000 each year, and the oil will be gone. Today's youth will have children of their own.

Year-on-year inflation

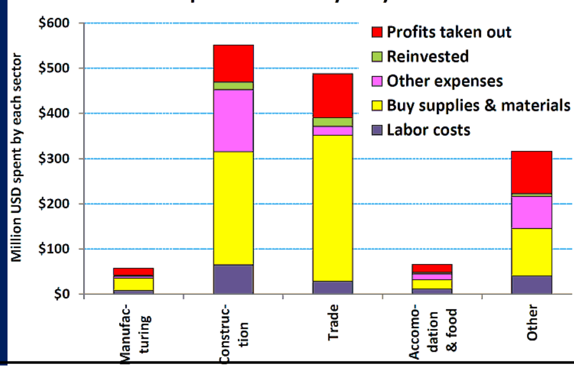
Inflation since 2009 comes from the government spending more than the economy can absorb.



Graph by La'o Hamutuk based on CPI information from the RDTL Directorate-General for Statistics. January 2014

Our businesses don't invest in themselves.

How businesses spent the money they received in 2011



3. Unrealistic dreams

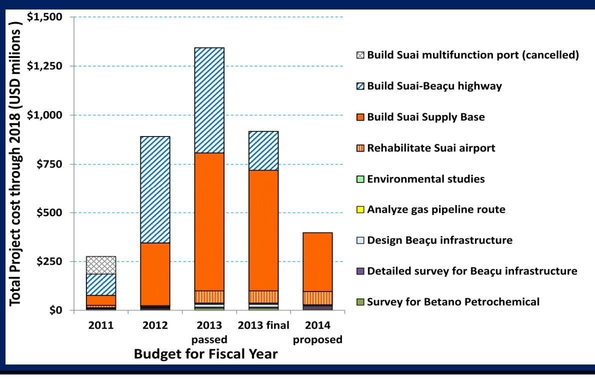
Current plans for development will not sustainably improve people's lives.

Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- During 2011-2013, TL spent $35 million
- Total project costs could exceed $2 billion (much more if Timor-Leste pays for the refinery, pipeline or LNG plant).
- The new budget allocates $46m in 2014 and $320m in 2015-2018, but leaves a lot out.

Tasi Mane includes Suai supply base, Betano refinery, Beaçu LNG Plant and maybe the highway.

Tasi Mane Project total cost projections fluctuate wildly



Draft 2014 State Budget Book 6 - Infrastructure Fund for Tasi Mane project

No.	Codigo	Dono do Projecto	Nome do Projecto	Orçamento 2013 apos Rectificação e Saldo Transitado	Saldo Final Transitado	Projectos de Continuação	Novos Projectos	Orçamento 2014	Orçamento 2015	Orçamento 2016	Orçamento 2017	Orçamento 2018
				$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
			Programa Desenvolvimento Tasi Mane	**152,195.08**	**33,070.00**	**10,930.00**	**2,300.00**	**46,300.00**	**101,619.00**	**92,465.00**	**82,000.00**	**42,845.00**
1	808	MRNP	Concepção, construção e supervisão para o desemvolvimento de infraestruturas na costa sul- Reabilitação **Aeroporto de Suai**	14,070.00	14,070.00	5,930.00	-	20,000.00	20,465.00	17,465.00	7,000.00	-
2	808	MRNP	Concepção de construção e supervisão para o desemvolvimento de Infra-estrutura na costa sul em Suai - **Base de Fornecimentos**	94,450.08	18,000.00	-	-	18,000.00	80,000.00	75,000.00	75,000.00	42,845.00
3	808	MRNP	Levantamento detalhado do local para o desemvolvimento de Infra-estrutura na costa Sul em Beaço-**Pre Feed LNG Beasu**	546.00	-	5,000.00	-	5,000.00	1,154.00	-	-	-
4	808	MRNP	Betano Petrochemical- Estudo detailhado de "geotechnical e marine survey" - **Estudo Geotechnico - Betano**	3,550.00	1,000.00	-	-	1,000.00	-	-	-	-
5	808	MRNP	Construção e supervisão detalhadas relativamente a estradas e Pontes - **Auto Estrada Suai-Betano-Beaco**	34,040.00	-	-	-	-	-	-	-	-
6	808	MRNP	Concepção e Supervisão para o desenvolvimento de Infra-estrutura na costa Sul em Beaço	2,954.00	-	-	-	-	-	-	-	-
7	808	MRNP	Analise da Rota do Gazoduto para o desemvolvimento de Infra-estruturas na Costa Sul	1,097.00	-	-	-	-	-	-	-	-
8	808	MRNP	Estudos ambientais (S/B/B) para o desenvolvimento de infra-estruturas na costa Sul	1,488.00	-	-	-	-	-	-	-	-
9	808	MRNP	Desenho Plano Urbano - Suai	-	-	-	2,000.00	2,000.00	-	-	-	-
10	808	MRNP	Estudo e Levantamento de Abastecimento de Agua-Dato Rua e Dato Tolu	-	-	-	300.00	300.00	-	-	-	-

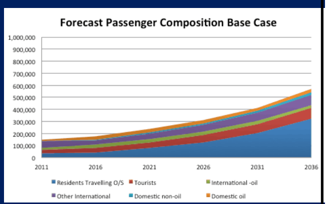
Problems with the Tasi Mane project

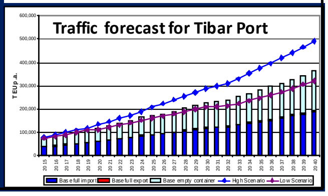
- It makes TL more dependent on the oil and gas sector.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the money spent will go to foreign companies, providing hardly any local jobs or subcontracts.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- Cost projections leave out most expenditures, including nearly all of the highway, LNG plant and refinery.
- What if Sunrise gas doesn't come to Timor-Leste?

The Government has made many unrealistic promises to local communities about profit-sharing, jobs and other benefits.

Overbuilding ports and airports

- IFC is encouraging Timor-Leste to build a port and airport far beyond realistic traffic expectations.
- How will the country pay for a $6 billion annual trade deficit after the oil is gone?





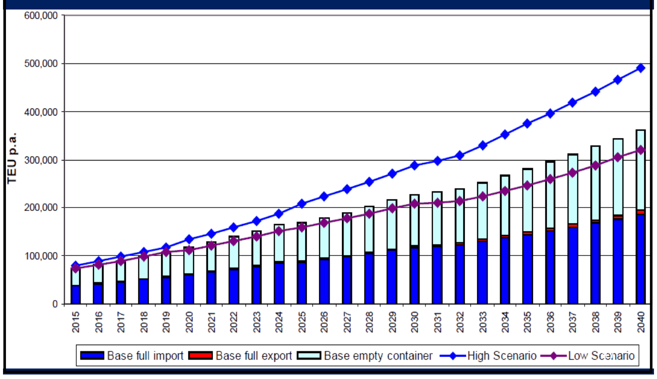
PPP

Tibar Port

- Done through Public-Private Partnership
- IFC (World Bank Group) oversees project design
- IFC expects that Timor-Leste will increase imports indefinitely
- Estimated capital investment $300-$400 million

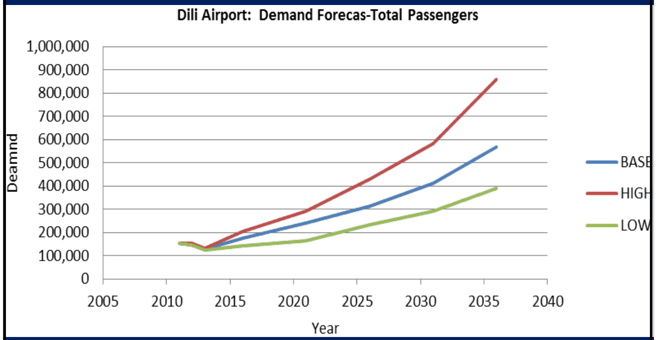
Tibar Port in the Infrastructure Fund, 2013 State Budget						
Spent in 2012	2013	2014	2015	2016	2017	After 2017
0.7	3.8	15	25	30	50	more
Infrastructure Fund, 2014 State Budget						
0.7	2.5	7.5	20.4	109.5	9.9	more

IFC's scenario for imports



Dili Airport

- Another PPP managed by IFC
- Expected that 300,000 Timorese people will fly every year



49

From the Infrastructure Fund in 2013							
	Spent in 2012	2013	2014	2015	2016	2017	After 2017
Dili Airport	0	3	15	20	20	20	liu
From the Infrastructure Fund in 2014							
Dili Airport (RDTL)	0	1	5.6	53.6	68.9	30.6	100
Dili Airport (borrowed)			2	15.5	25	40	14+

$2.5 million more is allocated in 2014 for runway rehabilitation.

50

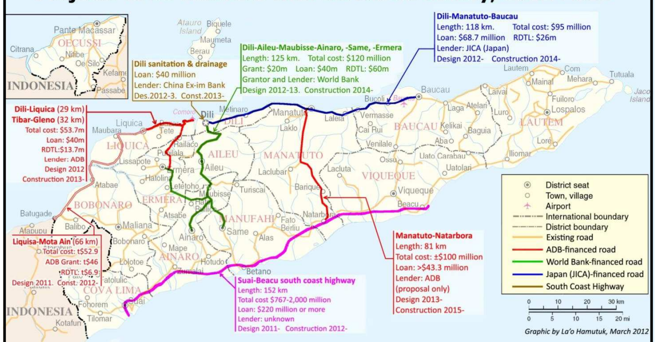
TL is going deeper into debt.

- Laws since 2009 paved the way for foreign loans.
- In 2012, Timor-Leste signed contracts to borrow $107 million from Japan and the ADB.
- In November 2013, it signed for $90 million more from the ADB and World Bank.
- During 2014-2018, it hopes to borrow half a billion dollars. See the proposed infrastructure budget:

2014	2015	2016	2017	2018
$31m	$117m	$158m	$140m	$37m

Most loans will pay for roads.

Projects to be financed with borrowed money, 2012-2016

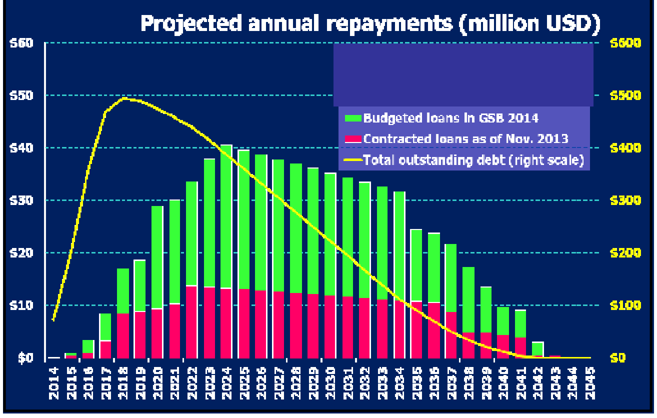


Currently announced loans

Draft 2014 State Budget Book 6 - Special Funds

No.	Codigo	Dono do Projecto	Nome do Projecto	Orçamento 2013 apos Rectificação e Saldo Transitado	Saldo Final Transitado	Projectos de Continuação	Novos Projectos	Orçamento 2014	Orçamento 2015	Orçamento 2016	Orçamento 2017	Orçamento 2018
				$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000	$ 000
			Programa de Emprestimos	**43,588.00**	**18,108.00**	**30,940.50**	**2,000.00**	**51,048.50**	**117,270.00**	**158,150.00**	**139,501.50**	**37,000.00**
1	809	MOF/ MOP	Construção e supervisão estradas Dili-Liquiça (L) e Alinhamento de Estradas desde Cruzamento Tibar a Rotunda Lafatic Quatro Vias	5,000.00	540.00	5,314.50	-	5,854.50	5,000.00	1,500.00	-	-
2	809	MOF/ MOP	Construção e supervisão estradas Tibar-Gleno (L)	5,000.00	540.00	8,686.00	-	9,226.00	5,000.00	3,500.00	999.50	-
3	809	MOF/ MOP	Construção e supervisão de estradas Dili-Manatuto-Baucau (L)	3,088.00	1,778.00	8,940.00	-	10,718.00	20,000.00	27,000.00	9,672.00	-
4	809	MOF/ MOP	Construção e supervisão de estradas Manatuto-Natarbora (L)	250.00	250.00	8,000.00	-	8,250.00	24,270.00	18,150.00	9,330.00	-
5	809	MOF/ MOP	Construção e supervisão de estradas Aileu-Maubesse e Ainaro (L)	10,000.00	5,000.00	-	-	5,000.00	10,000.00	17,000.00	8,000.00	-
6	809	MOF/ MOP	Drenagem de Dili (Esgoto) (L)	20,000.00	10,000.00	-	-	10,000.00	10,000.00	20,000.00	10,000.00	-
7	809	MOF/ MOP	Construção e supervisão de estradas Ainaro-Cassa (L)	250.00	-	-	-	-	5,000.00	10,000.00	3,500.00	-
8	809	MOF/ MOP	Construção e supervisão de estradas Aituto-Hatubuiliko-Letefoho-Ermera-Gleno (L)	-	-	-	-	-	3,000.00	12,000.00	30,000.00	15,000.00
9	809	MOF/ MOP	Construção e supervisão de estradas Kuncing-Solerema (L)	0	-	-	-	-	5,000.00	12,000.00	3000	0
10	809	MOF/ MTC	Construção e supervisão do Aeroporto Internacional Nicolau Lobato [Runway + Terminal phase I]	0	-	-	2,000.00	2,000.00	15,000.00	25,000.00	40,000.00	14,000.00
11	809	MOF/ MOP	Construção e supervisão de estradas Baucau-Lautem	0	-	-	-	-	15,000.00	12,000.00	25,000.00	8,000.00

Loans will have to be paid back.



Important to consider

- Implementing the SDP will require billions of dollars in loans, probably at commercial rates.
- Even at concessional rates, repaying a loan will permanently reduce money in the Petroleum Fund. The yen loan makes us hostage to a strong dollar.
- 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 the debt after the oil wells have run dry.

Use www.laohamutuk.org

Thank you.

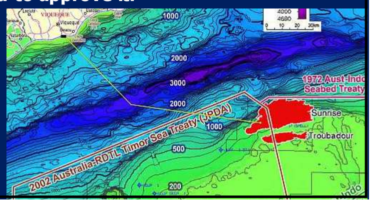
You will find more and updated information at

- La'o Hamutuk's website
  http://www.laohamutuk.org
- La'o Hamutuk's blog
  http://laohamutuk.blogspot.com/
- Reference 16GB USB available from our office.
- If you want to use our graphics, just ask.

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
Tel. +670 77234330 (mob.) +670 3321040 (landline) Email: info@laohamutuk.org

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 withdraw from most of CMATS any time before a development plan is approved.
- Because of Australian spying, TL is trying to invalidate CMATS.

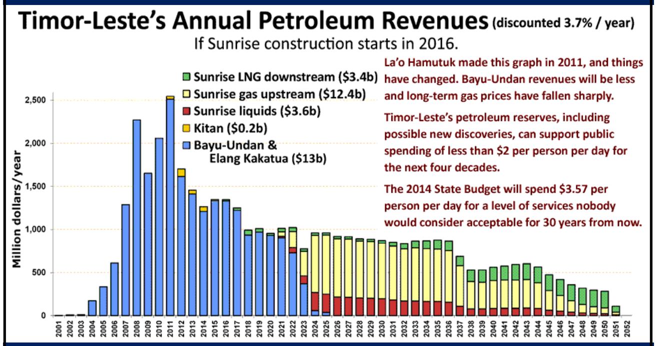


The Government brought the Sunrise Pipeline to Timor-Leste in May 2012

Australia is more "oil-rich" than Timor-Leste

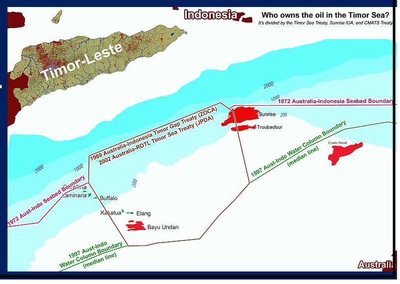
	Timor-Leste	Australia
Known oil and gas reserves per citizen	797 barrels	1,178 barrels
How long they will last at 2012 production rates	14 years	58 years

TL's oil wealth alone cannot meet our needs.



Sunrise and maritime boundary dispute

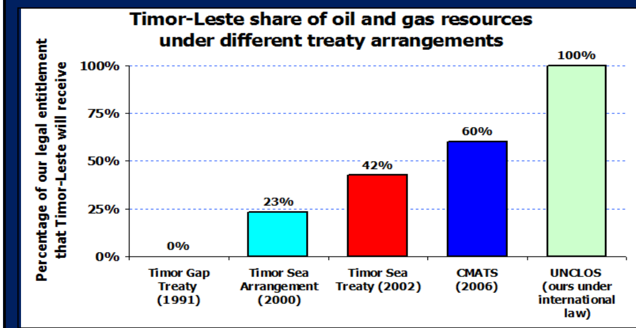
- Australian companies began exploring Sunrise in the early 1970s, after Australia and Indonesia divided our maritime resources without involving Portugal. In 1989, they closed the "Timor Gap" to share illegally occupied resources in the Joint Development Area.
- The 2006 CMATS treaty bans maritime boundaries 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.



Conspiring to steal Timor's wealth

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

Australia is still stealing 40%.



This graph includes known fields which would belong 100% to Timor-Leste under the international law median line principle: Bayu-Undan, Elang-Kakatua, Greater Sunrise, Kitan, Laminaria-Corallina and Buffalo.

The occupation continues