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.

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 from the Petroleum Fund in 2014.
  - $430 million (29%) more is from the Petroleum 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

Section 145 (State Budget)

1. RDTL Constitution
2. Budget and Financial Management Law
3. Petroleum Fund Law
4. Annual Budget Law
5. Infrastructure Fund Decree-Law
7. Human Capital Development Fund Decree-Law

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$177m</td>
</tr>
<tr>
<td>Goods and services (including HCDF)</td>
<td>$480m</td>
</tr>
<tr>
<td>Minor Capital</td>
<td>$52m</td>
</tr>
<tr>
<td>Public Transfers (to people or organizations)</td>
<td>$336m</td>
</tr>
<tr>
<td>Development Capital (including Infra. Fund)</td>
<td>$455m</td>
</tr>
<tr>
<td>Donors (not in state budget)</td>
<td>$178m</td>
</tr>
<tr>
<td>Consolidated Fund (CFTL)</td>
<td>$1,091m</td>
</tr>
<tr>
<td>Infrastructure Fund (including carry-over &amp; loans)</td>
<td>$369m</td>
</tr>
<tr>
<td>Human Capital Development Fund</td>
<td>$40m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,500m</strong></td>
</tr>
</tbody>
</table>

State Budgets 2002-2014

State Revenues and Expenditures (including auton. agencies)

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 2.3.2.1: 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!

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

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

Budget Execution 2011-2013

Priorities in last year’s 2013 Budget

Allocation of the 2013 State Budget ($1.648 million US Dollars)

Allocation of the proposed 2014 State Budget (US $1,500 million)
Infrastructure Fund in 2013

Infrastructure Fund Execution after the end of 2013

Goods and Services spending during 2013

Total $828 million spent of $918 million budgeted

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 3/4 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.
LH briefing for The Asia Foundation

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.

<table>
<thead>
<tr>
<th>Income (including non-cash)</th>
<th>Expenditure (including non-cash)</th>
<th>Share of expended petroleum wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000</td>
<td>$900</td>
<td>$800</td>
</tr>
<tr>
<td>$800</td>
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<td>$200</td>
<td>$100</td>
<td>$0</td>
</tr>
</tbody>
</table>

The black line shows the amount withdrawn from the Petroleum Fund in 2011, if it were shared equally by every Timor-Leste citizen.

More than 70% of Dili’s population are among the wealthiest 20% of Timoreses, while only 2% are below the poverty line.

More than half of families outside Dili live in poverty.

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

Farmers, fishers, other informal or unemployed 71%

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.

Dili is very different from the districts.

<table>
<thead>
<tr>
<th>Residence</th>
<th>Lowest</th>
<th>Second</th>
<th>Tenth</th>
<th>Fourth</th>
<th>Higher</th>
<th>Total</th>
<th>Number of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>District</td>
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<tr>
<td>Dili</td>
<td>6.4</td>
<td>8.3</td>
<td>10.2</td>
<td>12.1</td>
<td>14.2</td>
<td>16.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Ata</td>
<td>4.1</td>
<td>6.0</td>
<td>7.9</td>
<td>9.8</td>
<td>11.7</td>
<td>13.6</td>
<td>15.5</td>
</tr>
<tr>
<td>Bairo</td>
<td>2.9</td>
<td>4.8</td>
<td>6.7</td>
<td>8.6</td>
<td>10.5</td>
<td>12.4</td>
<td>14.3</td>
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<td>1.3</td>
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<td>5.1</td>
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<td>1.1</td>
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<td>4.8</td>
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<td>8.6</td>
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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.

Timor-Leste is struggling to find jobs for 15,000 people who will enter the workforce 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.

Many children will become youth.
3. Unrealistic dreams

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

Tasi Mane Project total cost projections fluctuate wildly

- 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, Beacu LNG Plant and maybe the highway.
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?

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.

IFC’s scenario for imports

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

Dili Airport

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending</th>
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<tbody>
<tr>
<td>2014</td>
<td>$31m</td>
</tr>
<tr>
<td>2015</td>
<td>$117m</td>
</tr>
<tr>
<td>2016</td>
<td>$158m</td>
</tr>
<tr>
<td>2017</td>
<td>$140m</td>
</tr>
<tr>
<td>2018</td>
<td>$37m</td>
</tr>
</tbody>
</table>

**Most loans will pay for roads.**

Projects to be financed with borrowed money, 2012-2016

**Currently announced loans**

<table>
<thead>
<tr>
<th>No.</th>
<th>Code</th>
<th>Year</th>
<th>Project Name</th>
<th>Total Cost (million USD)</th>
<th>Loans: ADB</th>
<th>World Bank</th>
<th>Total</th>
<th>Loans: ADB</th>
<th>World Bank</th>
<th>Total</th>
<th>Loans: ADB</th>
<th>World Bank</th>
<th>Total</th>
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<th>World Bank</th>
<th>Total</th>
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<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>2014</td>
<td>Dili Airport</td>
<td>31.0</td>
<td>14.5</td>
<td>16.5</td>
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<td>16.5</td>
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<tr>
<td>2</td>
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<td>2015</td>
<td>Dili Airport</td>
<td>117.0</td>
<td>50.0</td>
<td>67.0</td>
<td>117.0</td>
<td>50.0</td>
<td>67.0</td>
<td>117.0</td>
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<td></td>
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<tr>
<td>3</td>
<td>3</td>
<td>2016</td>
<td>Dili Airport</td>
<td>140.0</td>
<td>60.0</td>
<td>80.0</td>
<td>140.0</td>
<td>60.0</td>
<td>80.0</td>
<td>140.0</td>
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<tr>
<td>4</td>
<td>4</td>
<td>2017</td>
<td>Dili Airport</td>
<td>37.0</td>
<td>15.0</td>
<td>22.0</td>
<td>37.0</td>
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</table>

**Loans will have to be paid back.**

Projected annual repayments (million USD)
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.

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.

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

Australia is more “oil-rich” than Timor-Leste

<table>
<thead>
<tr>
<th></th>
<th>Timor-Leste</th>
<th>Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Known oil and gas reserves per citizen</td>
<td>797 barrels</td>
<td>1,178 barrels</td>
</tr>
<tr>
<td>How long they will last at 2012 production rates</td>
<td>14 years</td>
<td>58 years</td>
</tr>
</tbody>
</table>
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.

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**


**Australia is still stealing 40%.**

The 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**

Who owns the oil in the Timor Sea? Timor-Leste, Indonesia, Australia.