Timor-Leste’s oil wealth:
Financing government, building for development and providing for people

Presentation by Charles Scheiner to
25 Years of IPJET Conference
Lisbon, Portugal
29 May 2017

La’o Hamutuk?

• The Timor-Leste Institute for Development Monitoring and Analysis, founded in May 2000.

• Timorese and international supporters “walking together” on the journey to create a new nation.

• An independent, Timorese, non-governmental organization which does research, policy analysis, public education and advocacy.

• Working toward participatory, equitable, sustainable and evidence-based policies and practices.
Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste was.
Spending now exceeds income.

State (including Petroleum Fund) income and expenditures

- Domestic revenues
- Oil and gas revenues
- Return on P.F. investments
- Loans taken out
- Executed state spending

Graph by Lo Hamausing based on data and projections in Ministry of Finance 2017 Budget Books and Transparency Portal. May 2017

State Budgets 2002-2017

State Revenues and Expenditures (including auton. agencies)

2002-2016: Executed
- The narrow bars show revenues from various sources.
- The yellow and red striped area is loans which must be repaid in the future.
- The blue part shows unspent money carried over from the previous year to be spent this year.
- The green part is non-oil revenue from taxes, fees and autonomous agencies.
- Most financing is from the Petroleum Fund (pink and purple), with the darker purple showing the Estimated Sustainable Income (ESI).

2017: enacted
- Borrowing
- Carry-over from prior year
- Domestic revenues
- Petroleum Fund spent
- Est. Sustainable Income
- Donor support
- Development Capital
- Minor capital
- Public transfers
- Goods & Services
- Salaries & Wages

Graph by Lo Hamausing based on RDTI, Ministry of Finance data and projections. March 2017
Budgeted & executed spending

The money doesn’t match the promises.
‘Priority’ sectors get less resources than they did three years ago, but veterans get more.

Graph by Le’t Hanoitu based on NFIE. State Budgets from the Ministry of Finance, May 2017

Oil dropped from 82% to 48% of GDP in three years and will continue to fall.

Timor-Leste Gross Domestic Product per capita
Current prices, 2015 dollars
The ‘non-oil’, non-state GDP is stagnant.

Sectoral contributions to ‘non-oil’ per capita GDP
Current prices, 2015 dollars

What do 672,000 Timorese people aged 15-64 do for work?

The potential workforce grows by 19,000 people every year.
Since 2015, more money goes out than comes in.

<table>
<thead>
<tr>
<th>2016 trade:</th>
<th>services</th>
<th>non-oil goods</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>$603m</td>
<td>$559m</td>
<td>$1,162m</td>
</tr>
<tr>
<td>Exports</td>
<td>$77m</td>
<td>$20m (99% coffee)</td>
<td>$99m</td>
</tr>
<tr>
<td>Deficit</td>
<td>-$526m</td>
<td>-$539m</td>
<td>-$1,063m</td>
</tr>
</tbody>
</table>

**Timor-Leste’s External Balance of Payments**

- Goods exports (non-oil)
- Goods imports
- Services exports
- Services imports
- Trade balance (including oil & investment income)
- Trade balance (excluding oil & investment income)

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Our seas have been explored for 50 years.

There may be no other fields.
What’s in their future?

La'o Hamutuk
P.O. Box 345, Olo, Tonga, S.T.

Index pages
- July 2017 newsletter (PDF)
- June 2017 newsletter (PDF)
- May 2017 newsletter (PDF)
- April 2017 newsletter (PDF)
- March 2017 newsletter (PDF)
- February 2017 newsletter (PDF)
- January 2017 newsletter (PDF)
- December 2016 newsletter (PDF)
- November 2016 newsletter (PDF)
- October 2016 newsletter (PDF)
- September 2016 newsletter (PDF)
- August 2016 newsletter (PDF)
- July 2016 newsletter (PDF)
- June 2016 newsletter (PDF)
- May 2016 newsletter (PDF)
- April 2016 newsletter (PDF)
- March 2016 newsletter (PDF)
- February 2016 newsletter (PDF)
- January 2016 newsletter (PDF)
- December 2015 newsletter (PDF)
- November 2015 newsletter (PDF)
- October 2015 newsletter (PDF)
- September 2015 newsletter (PDF)
- August 2015 newsletter (PDF)
- July 2015 newsletter (PDF)
- June 2015 newsletter (PDF)
- May 2015 newsletter (PDF)
- April 2015 newsletter (PDF)
- March 2015 newsletter (PDF)
- February 2015 newsletter (PDF)
- January 2015 newsletter (PDF)
- December 2014 newsletter (PDF)
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/

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The rest of these slides provide additional information about topics discussed in this presentation.

They are part of a longer presentation which is at
http://www.laohamutuk.org/econ/briefing/RightSustainCurrentEn.pps
Basic Statistics

- Nearly half of Timor-Leste’s people live in poverty.
- Two-thirds of our people live in rural areas, largely by subsistence farming.
- About 1,200 Timorese children under 5 years old die from preventable conditions every year ... 15 times the number of people who die from physical violence.
- Poor sanitation and malnutrition are endemic.

Where TL’s oil income comes from

[Diagram showing financial data related to petroleum income]
Timor-Leste has already received 98% of the revenue from Bayu-Undan and Kitan, and they will end entirely in 2021.

We’ve moved from oil dependence to relying on our declining savings.

The balance has been dropping for nearly two years.
The Petroleum Fund balance at the start of 2016 was $16.2 billion, significantly lower than the $16.6b that the Ministry of Finance expected six months earlier. It was $15.8b at the end of 2016; the Ministry had expected $15.6b.

Total revenue: $1,387 million, of which 85% is from past, present and future oil and gas income.
If current plans continue, TL will be unable to finance its budget in ten years.

The 2017 Budget still neglects farmers, students, and health care.

Allocation of the approved 2017 State Budget (US $1,387 million)

- Physical Infrastructure: $547 million (39%)
- Governance: $245 million (18%)
- Services: $202 million (15%)
- Benefits: $206 million (15%)
- Development: $80 million (6%)
- Security: $78 million (6%)
- Other: $17 million (1%)

Scheiner to IPJET 25th anniversary

29 May 2017
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.

Many children are becoming youth.

Timor-Leste is struggling to find jobs for 19,000 people who will enter the work force in 2017.

By 2024, it will be about 28,000/year, and the oil will be gone. Today’s youth will have their own children.
Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- During 2011-2016, TL already spent $286 million on it.
- Total project costs could be more than $15 billion if Timor-Leste pays for the refinery, pipeline or LNG plant.
- The 2017 budget allocates $65m in 2017 and $1.62 billion in 2018-2021, but leaves out the biggest items.
- The largest contract in TL history was signed in 2015: $719 million to build the Suai Supply Base. It was ruled invalid.

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 could have withdrawn from most of CMATS at any time before a development plan is approved.
- Because of Australian spying, TL successfully pressured Australia to invalidate all of CMATS in January 2017.
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 billions 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.

Special Market Zone in Oecusse

- In 2016, ZEESM got $218 million with no accountability.
- What are Oecusse’s competitive advantages?
- Can ZEESM justify a $4 billion investment?

Who benefits: residents of Oecusse or political ex-opposition?
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?

Traffic forecast for Tobar Port

Timor-Leste is going deeper into debt.

- Laws in 2009 opened the door to foreign loans.
- In 2012, Timor-Leste signed contracts to borrow $107 million from Japan and from the ADB.
- In 2013, TL signed for $90m more from ADB and World Bank. In 2015, TL signed for $12m more from ADB.
  - In December 2015, TL borrowed $50m from China’s EX-IM bank.
  - In March 2016, TL signed for another $76m from the ADB.
  - In April 2017, TL signed for $35m more from the World Bank.
- During 2016-2021, TL hopes to borrow about $1.3 billion:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$50m</td>
</tr>
<tr>
<td>2017</td>
<td>$102m</td>
</tr>
<tr>
<td>2018</td>
<td>$223m</td>
</tr>
<tr>
<td>2019</td>
<td>$399m</td>
</tr>
<tr>
<td>2020</td>
<td>$300m</td>
</tr>
<tr>
<td>2021</td>
<td>$200m</td>
</tr>
<tr>
<td>Total</td>
<td>$1.27bn</td>
</tr>
</tbody>
</table>
Loans will have to be paid back.

Annual loan repayments (million USD)

Graph by Lea Hamalik based on 2017 state budget, information from lenders, and IHR sustainability model. October 2016.