Can a Sovereign Wealth Fund Prevent the Resource Curse?

The case of Timor-Leste

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Timor-Leste Institute for Development Monitoring and Analysis

At the conference on
Natural Gas for Economic Transformation and Inclusive Growth
How to Prevent the Resource Curse in Mozambique

Maputo, 29 August 2019

Contents

Timor-Leste created its Petroleum Fund in 2005 to avoid falling into the ‘resource curse’ that afflicts many petroleum-export-dependent nations.

Has it been effective?

1. Introduction to Timor-Leste
2. Timor-Leste’s Petroleum Fund: objectives and mechanisms
3. How has it worked so far?
4. Prospects for the future
1. Introduction to Timor-Leste

<table>
<thead>
<tr>
<th></th>
<th>Mozambique</th>
<th>Timor-Leste</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>29.5 million</td>
<td>1.3 million</td>
</tr>
<tr>
<td>Land area</td>
<td>800,000 km²</td>
<td>15,000 km²</td>
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<tr>
<td>Became independent;</td>
<td>1975</td>
<td>2002</td>
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<tr>
<td>peaceful</td>
<td>1992</td>
<td>1999</td>
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<tr>
<td>GDP per capita</td>
<td>$493</td>
<td>$2,422</td>
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<tr>
<td>Remaining gas</td>
<td>6,400 ft³</td>
<td>2,700 ft³</td>
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<tr>
<td>reserve p.c.</td>
<td></td>
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</tbody>
</table>

What is La’o Hamutuk?

- Timorese and international people “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.
- A force for participatory, equitable, sustainable and evidence-based policies and practices.
History in one slide

- People have lived in Timor-Leste for at least 5,000 years.
- **Portugal colonized 500 years ago.**
  - They brought Catholicism but little development or education.
  - Onshore oil exploration started in 1890s.
- **Australia, then Japan, invaded in 1941-45.**
  - About 50,000 Timorese people died in WWII, which didn’t involve them.
- **Portugal’s military dictatorship resumed control in 1945.**
  - Offshore oil exploration began in the 1960s.
- **Portugal began decolonizing in 1974.**
  - After Carnation Revolution brought down Portuguese dictatorship
  - TL declared independence 28 November 1975 ... but 10 days later
- **Indonesia invaded on 7 December 1975.**
  - Mozambique provided crucial sanctuary and diplomatic support for the resistance.
  - Indonesia killed more than 100,000 Timorese during 24-year occupation.
- **Referendum 30 August 1999, then 2½ years of UN rule.**
- Finally restored independence on 20 May 2002.
  - Oil income surged after 2005, but peaked in 2012 and is 95% finished.
  - National Oil Company TimorGAP founded in 2011.

Basic Statistics for Timor-Leste

- Nearly half of Timor-Leste’s people live in poverty, 46% in multi-dimensional poverty.
- Two-thirds of people live in rural areas, largely by subsistence farming.
- Poor sanitation and malnutrition are endemic.
- About 1,200 Timorese children under 5 years old die from preventable conditions every year ...
  30 times as many people as die from homicide.
- In 2018, TL exported $23 million in non-oil goods (coffee).
- In 2018, TL imported $519 million (everything).
La'o Hamutuk

State revenues in 2018: $177 million
-$460 million was lost from investing the Petroleum Fund
$447 million from oil and gas revenues
$190 million from non-petroleum sources

Executed 2018 State Budget: $1,158 million ($1,277m appropriated)
$983 million transferred from the Petroleum Fund
$190 million from non-petroleum (domestic) revenues
$39 million from loans which will have to be repaid

State activities, paid for with oil money, are nearly half of the 'non-oil' economy because some of this money circulates in the local economy.

Petroleum doesn’t provide jobs or money for people – revenue goes to the State. Only 0.1% of the workforce is in oil and gas: 339 Timorese and 287 foreigners.

Although the Petroleum Fund could improve equity between generations, it does not guarantee good governance or eliminate corruption, and will not last long if current policies continue.

Petroleum Dependency (nominal USD)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tr>
<td>Petroleum GDP</td>
<td>$4,234</td>
<td>$2,591</td>
<td>$1,496</td>
<td>$820</td>
<td>$895</td>
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<tr>
<td>Non-oil GDP</td>
<td>(75%)</td>
<td>(64%)</td>
<td>(48%)</td>
<td>(33%)</td>
<td>(36%)</td>
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<tr>
<td>Productive (agric. &amp; manuf.)</td>
<td>$305</td>
<td>$307</td>
<td>$288</td>
<td>$287</td>
<td>$284</td>
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</table>

2013 2014 2015 2016 2017
Petroleum GDP $4,234 $2,591 $1,496 $820 $895
(75%) (64%) (48%) (33%) (36%)
Non-oil GDP $1,403 $1,451 $1,597 $1,684 $1,293
(25%) (36%) (52%) (67%) (64%)
Productive (agric. & manuf.) $305 $307 $288 $287 $284

Since 2015, more money has gone out than came in.

2018 trade: services non-oil goods total
Imports $447m $519m $966m
Exports $98m $23m (85% coffee) $121m
Deficit $349m $496m $845m

Timor-Leste’s External Balance of Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>Goods imports</th>
<th>Services imports</th>
<th>Goods exports (non-oil)</th>
<th>Services exports</th>
<th>Trade balance (excluding oil &amp; investment income)</th>
<th>Trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
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<td>2007</td>
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<td>2018</td>
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</tbody>
</table>

2017 included $2.800m in unrealized Petroleum Fund gains from dollar exchange rates and stock prices. $900m of this was lost in 2018.
2004: Why the “resource curse” might be even worse in Timor-Leste

No history of democracy or self-government
- Only a few returning exiles had ever experienced a government that even pretended to serve the public interest.
- Tradition of resistance -- not constructive criticism, coalition-building, alternatives or compromise -- with decisions handed down from above.

New public service with little experience of honesty, good governance or accountability
- Limited number of skilled people requires dual roles, reducing oversight and increasing appearance of nepotism.
- Just-invented government structures lack adequate oversight and separation of powers, with unclear and conflicting responsibilities.
- Learned inefficiency from Portugal, corruption from Indonesia and overpaid, unqualified personnel from the UN.
And why it could be reduced

We can learn from the good and bad experiences of other oil and gas producers.

- Oil industry in TL not yet large or entrenched.
- People fought for and still esteem national sovereignty and democracy.
- Many active NGOs and civil society groups

Use of U.S. dollar reduces inflation risk.

- But surrenders control of exchange rates
- Hedges against global oil price changes in USD

Most reserves are far offshore, processed abroad.

- Lower social and environmental risks and impacts

2. TL’s Petroleum Fund: goals and implementation

- **Decouple** oil revenues from state spending.
- **Stabilize** against oil production and price fluctuations.
- **Earn** investment return for **sustainability** when oil and gas are used up “For the benefit of current and future generations”
- **Improve** **transparency** and management of oil revenues, prevent corruption.
- **Ensure** that decisions are open and **democratic**.
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Maputo, 29 August 2019

State services shouldn’t rise and fall with world oil market prices

The Petroleum Fund shall contribute to a wise management of the petroleum resources for the benefit of both current and future generations.

The Petroleum Fund shall be a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interests of Timor-Leste’s citizens.

2002: Timor-Leste Constitution

Artigo 139.º
(Recursos naturais)

1. Os recursos do solo, do subsolo, das águas territoriais, da plataforma continental e da zona econômica exclusiva, que são vitais para a economia, são propriedade do Estado e devem ser utilizados de uma forma justa e igualitária, de acordo com o interesse nacional.

2. As condições de aproveitamento dos recursos naturais referidas no número anterior devem servir para a constituição de reservas financeiras obrigatórias, nos termos da lei.

2005: Petroleum Fund Law

The Petroleum Fund shall contribute to a wise management of the petroleum resources for the benefit of both current and future generations.

The Petroleum Fund shall be a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interests of Timor-Leste’s citizens.
Petroleum revenue is not income in the usual sense – it is a conversion of wealth from one form to another.

Government petroleum revenue is different from other tax revenues.

Revenue from the petroleum sector shows greater variations over time.

Sustainable expenditure benefiting both current and future generations.

‘Estimated Sustainable Income’

Intended to maintain a steady flow of revenue to the state budget.

3% of (Fund Balance + NPV of future oil and gas revenues)

Could provide constant revenues forever.

But

Investment real return has been less than 3%.

Population, prices and expectations grow.

Overspending is too tempting and easy, and happens every year.

The rules were weakened in 2011 and 2018.
Petroleum Fund Law no. 9/2005

- All oil-related revenue goes in to the Petroleum Fund
- Invested in overseas liquid instruments: initially all U.S. gov’t bonds; gradually included other international bonds and stocks
- Withdrawn only with Parliamentary approval (usually through the State Budget)
- Mandates regular publication, consultation and transparency
- Petroleum Fund cannot be used as collateral for borrowing
- Estimated Sustainable Income (ESI) withdrawal guideline: 3% of (balance + prudent projections of future petroleum revenue)
- 2011 revision: Changed investment profile, weakened ESI and debt collateral rules
- 2018: unauthorized and authorized extraordinary withdrawals
- 2019: investment rules overridden; 5% invested domestically

Petroleum revenue peaked in 2012, and this is how it flowed in and out of the Petroleum Fund that year.

The basic structure hasn’t changed, but details have.

From 2005 thru mid-2019:
$22.5 bn oil revenues
+$ 5.8 bn invest. returns
-$10.8 bn withdrawn
$17.4 bn balance
2005: TL Petroleum Activities Law no. 11/2005

• Petroleum exploration and production contracts must be published.
• Standard Production-Sharing Contract template: no bonuses or other special payments.
• Open, transparent bidding rounds.

But

• It does not apply to the two largest fields, which had contracts before 2005.
• All contracts since 2012 were awarded to TimorGAP with no open bidding.

Timor-Leste and the EITI process

• 2003: Prime Minister Alkatiri speaks at founding EITI conference in London, commits Timor-Leste.


• 2007: EITI qualification process starts; after elections new government continues it.

• July 2010: EITI certifies T-L as the third compliant country in the world (after Azerbaijan and Liberia).

• TL has published EITI reports through 2016. Recent ones have been late and less detailed.
3. How has it worked so far?

**Timor-Leste has avoided**
- Spending the money as fast as it comes in
- State budgets fluctuating with oil prices and production
- Significant oil money being diverted or stolen
- Having nothing left when the oil and gas is depleted
- Invasion, occupation and war

**But**
- The fund is being depleted by overspending.
- Investment returns are unpredictable.
- Rules are being weakened to enable insecure investments.
- The TimorGAP Nat’l Oil Company escapes accountability.

We led the world, but not any more

In 2010, Timor-Leste scored 70.5 on the Revenue Watch Index, 12th in the world and the best in the Asia-Pacific region.

In 2013, Timor-Leste scored 68 on NRGI’s Resource Governance Index, ranking 13th of the 58 countries included, and third in the Asia-Pacific region.

In 2017, Timor-Leste scored 49, ranking 43rd of 89 countries and 8th in Asia-Pacific.
In 2010, Timor-Leste scored 70.5 on the Revenue Watch Index, 12th in the world and the best in the Asia-Pacific region. In 2013, Timor-Leste scored 68 on NRGI’s Resource Governance Index, ranking 13th of the 58 countries included, and third in the Asia-Pacific region. In 2017, Timor-Leste scored 49, ranking 43rd of 89 countries and 8th in Asia-Pacific.

Production is dropping faster than prices, and will not go back up. The price will be irrelevant when we have nothing left to sell.
The Petroleum Fund reached $17.1 billion in mid-2015 and fell to $15.8 bn by the end of 2018, the lowest balance in 5 years. It has recovered slightly in 2019, but the future is uncertain.

We’ve moved from oil dependence to relying on our declining savings.
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Maputo, 29 August 2019

Diversification of P.F. investments

The 2011 revision allowed up to 50% in equities (stocks) and the 2019 change allowed 5% in domestic "Petroleum Operations".

Spending now exceeds income.

Figures from 2019 on are Ministry of Finance projections.
Nearly all the growth in ‘non-oil’ GDP has been from oil and gas revenues recycled through state spending.

The Government says its priorities are education, health, agriculture, and water. All together they will get less than 1/5 of state expenditures.
Signs of the ‘resource curse’ (1)

• Believing that the oil money will last forever
  Kitan is finished; Bayu-Undan will be dry by 2022.

• Dreaming of more wealth from under ground
  which are received without doing hard work.

• Borrowing today, to repay some day
  TL may borrow billions for projects with little chance of return.

• Lack of realistic long-term planning
  The Strategic Development Plan 2011-2030 is but a dream;
  Tasi Mane’s costs may be less than its benefits.
  As in all democracies, politicians’ planning horizon is the next
election.

• Spending without thinking

Signs of the ‘resource curse’ (2)

• Using money to ‘solve’ every problem
  It’s easier to buy a scholarship than to manage a university.

• Import dependency
  TL’s non-oil trade deficit is about a billion dollars every year.

• Benefits flow to the urban and political elite.
  Most people won’t use highways, airports and oil facilities …
  but will share the costs of paying for them.

• Ignoring non-oil development and revenues
  Farming is too hard to envision, even if oil may not last very long.

• Petroleum captures decision-making.
  Agriculture, tourism, small industries, etc. aren’t competing on a
  level playing field.’
4. Prospects for the future
Since 1910, oil companies have drilled 95 exploration wells in Timor-Leste, exploring all likely offshore areas. They found eight commercially viable reserves. Kitan is the only one discovered in the last 24 years. There may not be any more.

The Greater Sunrise stalemate
- This offshore gas and oil field was discovered in 1974.
- Development has been stalled because Timor-Leste and the companies do not agree on where to liquefy the natural gas.
- Woodside and its believe that floating LNG or a pipeline to the Darwin LNG plant (used for Bayu-Undan) is more 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 propose the path, but both governments need to approve it.
- Because of Australian spying, TL persuaded Australia to invalidate CMATS in 2017.
- The negotiations for the 2018 Boundary Treaty could not agree on where the pipeline will go.
- Timor-Leste bought Conoco-Phillips' 30% and Shell's 27% shares of Sunrise to control the decision. They are seeking more than $10bn to finance the project.
2018-2019 changes to Petroleum Activities Law

- Prohibits prior Audit Court review of petroleum-related contracts and agreements.
- Allows TimorGAP to own more than 20% of a project (which it already does for several projects).
- A last-minute addition overrides the Petroleum Fund Law to enable up to 5% of the Fund to be invested in petroleum operations within Timor-Leste.
- The law was vetoed by the President, but the veto was overridden.
- Last months’ amendments to institutionalize these changes and override all of PFL Article 15 for ‘petroleum operations’ were vetoed by the President yesterday because the Appeals Court said they are unconstitutional.

PF Law Article 15: Investment Rules

1. Under the criteria in this article, to qualify as eligible investment, the investment instrument must be issued or the investment be located abroad, in an internationally recognized jurisdiction.

4. No more than 5% of the Petroleum Fund should be invested in other eligible investments, provided that:
   a) The Minister has included such other asset class, which is part of the investment, in the proposed distribution of portfolios submitted to the National Parliament under Article 14.5, and
   b) The rules and criteria for selection, management and evaluation of each individual financial instrument within a certain asset class, have been approved by the Minister and published.

5. The exposure of the Petroleum Fund to:
   a) Any company or the issuing entity for the eligible instruments, with the exception of sovereign states, can never exceed 3% of the total value of the Petroleum Fund;

*The pink words were revoked by the proposed amendments.*
Petroleum Activities Law, new clauses added in 2018.  Article 22: State Participation

6. The Petroleum Fund may be applied directly in Petroleum Operations, in the national territory or abroad, through the execution of commercial transactions, through Timor Gap, E.P., pursuant to Article 15.4 of Law no. 9/2005 ... republished by Law no. 12/2011.

7. Contracts for purchase and sale, acquisition, assignment, transfer, transfer, novation, merger, encumbrance or any other legal transaction entered into or payments made by Timor-Leste or any other Timorese public corporation, including entities wholly owned or controlled by controlled by them, designed to allow the participation of Timor-Leste or any other Timorese public legal person, including through entities fully owned or controlled by them, or of the Petroleum Fund, in Petroleum Operations and, as well as for the conduct of these, are not subject to prior inspection by the Audit Chamber of the High Administrative, Tax and Audit Court.

*The green words are the key changes.*

2019: withdrawal called ‘investment’

- Ten months ago, Timor-Leste agreed to pay ConocoPhillips and Shell $650 million for their shares of participation in the Greater Sunrise Joint Venture.

- In February, the Minister of Finance informed the Central Bank and Parliament of a new P.F. investment policy, which was then approved by the Council of Ministers. A revised management agreement between the Ministry and the Bank was signed in March.

- On 10 April, the P.F. loaned $650 million to TimorGAP for 18 years at 4.5% interest. Six days later TimorGAP paid the money to the companies.

- Timor-Leste now owns 57% of Sunrise, and has to come up with 57% of the offshore, in-field capital costs and 100% of the on-shore costs. It may earn revenues in the future.
If current plans continue, TL may be unable to finance its budget in 11 years.

- Sunrise plan approved in 2022 with pipe to TL. Sunrise has 5.1 Tcf gas and TL gets 70% of it.
- Natural gas is worth 40% as much as oil. With 2018 MBT fields.
- Petroleum Fund investments return 5%/yr nominal. During 2016-2018 the fund earned 1.7%. 
- Domestic revenues increased 3.6%/yr now and 5.0%/yr after 2019.
- During 2018-2018, three revenues (fuel oil, ETF, LPG) from the state declined. ETFL, reduces 60% of fuel cost from users. It recovered 16% in 2015-16.
- Expenditures 2015/2019-OSB, then calculated from FIT model. Spending goes up 4.0%/yr now and 6.0%/yr after 2020. In 2012-2018, recurrent spending (excl. ETF) went up 18%/yr.
- Annual maintenance costs 8% of installed capital.
- Major projects: 9.7% loss Supply Base & airport ($810m), S-Coast Hwy ($1400m), ZEEEM ($860m), Dili airport ($200m) and Titir port ($130m).

**This model does not include the Betano refinery or Sunrise and the Beacu LNG plant.**

Problems with the Tasi Mane project

- It prolongs TL’s dependency on oil and gas.
- 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.
- It requires $10-$20 billion in capital investment, which traditional financiers (WB, ADB, JICA) are unwilling to lend.
- Nearly all the money spent will go to foreign companies, providing hardly any local livelihoods or subcontracts. The petroleum industry creates fewer jobs than any alternative.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- Cost projections leave out 90% of investment obligations.

The Government has made many unrealistic promises about revenues, profit-sharing, jobs and other benefits.
Maputo, 29 August 2019

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Many challenges lie ahead.

- **Accessing and analyzing public information**
  Leaders, public servants, journalists, civil society and citizens need to use available data to support evidence-based policies.

- **Resisting the temptation to overspend**

- **Ensuring that children, rural poor, women and other vulnerable people’s rights are respected**

- **Preventing lenders and oil companies from robbing the people**

- **Making the national oil company transparent, accountable and responsive to public needs**

- **Developing a diversified, sustainable economy**

---

With Tasi Mane, the Fund crashes in 5 years.

Current context and developments

- Very little future oil income. Kitan has finished and Bayu-Undan is 95% depleted. The Maritime Boundary Treaty will help a little, but Sunrise will probably provide less annual income than Bayu-Undan did.
- TL’s population, expectations, maintenance and salaries keep going up.
- U.S. and global financial markets are volatile and uncertain.
- About 5% of the Petroleum Fund is no longer liquid or tradeable.
- No serious, comprehensive, unbiased public analysis has evaluated the financial, economic, social and environmental costs, benefits and risks of the Sunrise project to Timor-Leste’s people, or the alternatives.
- Timor-Leste can force Sunrise gas to be liquefied in Beaçu, but will have to come up with $10-$20 billion in capital costs and find the expertise to design, build, manage and operate this complex project for the next 30 years. The money and attention given to it reduces the likelihood of more sustainable economic development options.
- Renewable energy is getting cheaper, and growing awareness of the climate emergency will make fossil fuels less valuable in the future.

The “resource curse” remains.

- Unsustainable spending levels
- Denial that the oil and gas will run out soon
- Neglect of human resources and non-oil sectors
- Poor planning
- Different rules for ‘petroleum operations’
- Preference for showy mega-projects
- Increasing gap between rich and poor
- Greed, corruption, mismanagement.
Lessons from Timor-Leste’s petroleum revenue experience

• A Sovereign Wealth Fund and transparency are not enough to prevent the resource curse.
• It’s easy to make rules before oil money pours in, but hard to follow them after it arrives.
• People expected too much from the Fund.
• Politicians can change laws easily.
• The temptation to overspend is very powerful.
• Non-government actors need to be stronger.

Muito obrigado.

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 following slides include additional information.

Use www.laohamutuk.org
### In 2018: Timor-Leste Mozambique

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<th>Category</th>
<th>Timor-Leste</th>
<th>Mozambique</th>
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<td>27 mill., 36% urban</td>
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### 2018 UNDP Human Development Report

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<tr>
<td>Data (most from 2016)</td>
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<tr>
<td>HDI rank out of 189 (and index)</td>
<td>180 (.437)</td>
<td>132 (.625)</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>59</td>
<td>69</td>
</tr>
<tr>
<td>Mean years of schooling</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Gross National Income (GNI) p.c. PPP</td>
<td>$1,093</td>
<td>$6,846</td>
</tr>
<tr>
<td>Median age</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Gini coefficient (inequality)</td>
<td>54</td>
<td>29</td>
</tr>
<tr>
<td>Gender Development Index</td>
<td>.904</td>
<td>.855</td>
</tr>
<tr>
<td>Child mortality (per 1,000)</td>
<td>71</td>
<td>50</td>
</tr>
<tr>
<td>Malnutrition (under 5 stunting)</td>
<td>43%</td>
<td>50%</td>
</tr>
<tr>
<td>People in multidimensional poverty</td>
<td>72%</td>
<td>46%</td>
</tr>
<tr>
<td>People in severe multidim. poverty</td>
<td>49%</td>
<td>16%</td>
</tr>
</tbody>
</table>
La’o Hamutuk

Australia and Timor-Leste have agreed on a boundary and on Sunrise revenue sharing – but the gas pipeline is still unresolved.

Maputo, 29 August 2019

But we don’t have very much oil.

<table>
<thead>
<tr>
<th></th>
<th>Timor-Leste (70% Sunrise)</th>
<th>TL without Sunrise</th>
<th>Australia</th>
<th>Brunei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proved oil and gas reserves per person at end of 2018</td>
<td>653 barrels</td>
<td>42 barrels</td>
<td>744 barrels+ (730 without Sunrise)</td>
<td>6,360 barrels</td>
</tr>
<tr>
<td>How long reserves will last at 2018 production rates</td>
<td>22 years</td>
<td>1.4 years</td>
<td>20 years+</td>
<td>23 years</td>
</tr>
</tbody>
</table>
TL has lived through bad examples

- Inefficient Portuguese bureaucracy; corrupt and violent Indonesian occupation
- History of confusing government services with personal favors (corruption, patronage, nurturing local contractors)
- UN missions focused on short-term fixes, with inexperienced and unqualified “experts”
- Donors and advisors promote private-industry, “free trade” economic model
- The UN, WB, ADB and IMF are not transparent or accountable

Limited checks and balances

- Weak mechanisms to control corruption
- Political parties are weak and inexperienced, few alternatives or compromises offered
- Media don’t do independent research or question officials
- Civil society has limited education and experience

Challenges from the past (1)

- Post-colonial
  - Language controversy
  - Land ownership in chaos
  - Illiteracy
  - Underdevelopment
  - People never lived under rule of law
  - Never had power to make decisions for ourselves
  - “To Resist is to Win” – lobbying and persuasion useless
  - Internalized Portuguese and Indonesian traditions
  - Bureaucracy, corruption, “entitlement,” military companies
  - Incorporating returned exiles, collaborators
  - Public officials all just learning their jobs
  - Skilled people gone: education, health, governance
  - Getting neighboring countries to respect sovereignty
Challenges from the past (2)

- Post-conflict
  - Pandemic Post-Traumatic Stress Disorder
  - Infrastructure and property destroyed
  - No experience of predictability or long-term planning
  - Poverty
  - High birth rate
  - Domestic violence
  - Respecting veterans; dealing with collaborators
  - Police and military come from different sides.
  - Leading in peacetime requires a different skill set.
  - Differences of opinion are personalized. Loyalty and betrayal paramount; long memories

Women face even more challenges

- Domination by patriarchal and political systems
- Responsible for household: water, fuel, food.
- Barlaki (Bride-price)
- Colonial and Church traditions
- Domestic violence
- Many children in each family
- 2012 election law: $\frac{1}{3}$ of new MPs are women
Since 2008, donors spent between $170 and $300 million each year, but most of this money doesn’t come into the local economy.

The percentage dropped after 2007 because Timor-Leste is spending more of its own money.

State Budgets 2002-2019

State Revenues and Expenditures (including autonomous agencies)

Narrow bars: revenue
- Borrowing
- Carry-over from prior year
- Domestic revenues
- Petroleum Fund spent
- Est. Sustainable Income

Wide bars: spending
- Donor support
- Capital Development
- Minor capital
- Public transfers
- Goods & Services
- Salaries & Wages

**The narrow bars show revenues from various sources.**
- The upper diagonally striped (lower left-upper right) area is loans which must be repaid in the future.
- The white part shows unspent money carried over from the previous year to be spent this year.
- The lower diagonally striped part is non-oil revenue from taxes, fees and autonomous agencies.

**Most is from the Petroleum Fund (valid color), with the darker area showing the Estimated Sustainable Income (ESI).**

**2002-2018 executed**

**2019 enacted**

Graph by La'o Hamutuk based on RSTI, Ministry of Finance budget books, budget law and Transparency Portal. February 2019
The graph shows legal goods trade only. Three-fourths of donor spending and two-thirds of state spending leaves the country.

### Public consultation & deliberations

<table>
<thead>
<tr>
<th>Legislation</th>
<th>When</th>
<th>Days</th>
<th>Consultation</th>
<th>Parliament</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum Fund Law no. 11/2005</td>
<td>2004-5</td>
<td>304</td>
<td>Three rounds of hearings nationwide, 25 submissions</td>
<td>Unanimous passage after two months of hearings and debate</td>
</tr>
<tr>
<td>Petroleum Activities Law no. 9/2005</td>
<td>2004-5</td>
<td>335</td>
<td>Many workshops, one round of hearings, nine submissions</td>
<td>Pending in PN for seven months, no hearings before enactment</td>
</tr>
<tr>
<td>Revisions to Petroleum Fund Law</td>
<td>2010-11</td>
<td>457</td>
<td>Many workshops, two hearings, four submissions</td>
<td>Discussed for two weeks, passed with few changes</td>
</tr>
<tr>
<td>$70m extraordinary transfer from PF</td>
<td>May 2018</td>
<td>0</td>
<td>No legislative process, probably illegal</td>
<td>Not submitted for approval</td>
</tr>
<tr>
<td>$140m extraordinary transfer from PF</td>
<td>July 2018</td>
<td>10</td>
<td>None. LH made submission to rumored broad draft, which was replaced by a one-time transfer</td>
<td>One-off transfer approved</td>
</tr>
</tbody>
</table>
Agencies involved with Timor-Leste’s Petroleum Fund

1. Best practice Petroleum Fund and revenue management
2. EITI + PWYP, global standards
3. Transparency portal
   - Budget Execution
   - Procurement
   - Foreign Assistance
   - Government results
4. Broadcast Parliamentary budget debates
5. Publish Council of Ministers decisions

These are Government promises. Practice is not consistent.
We find information in many places.

- Transparency portal
- Central Bank Petroleum Fund Reports
- ANPM, IAB and MoF reports on Petroleum production and revenue management
- Budget documents & execution reports
- EITI reports
- IMF, World Bank, ADB and oil company reports
- Budget hearings and debates
- Unofficial sources and leaks

But the National Oil Company TimorGAP is less transparent and accountable.

More stocks bring more volatility
TL has already received 95% of the revenues it will get from Bayu-Undan and Kitan, and they will end entirely by 2023.
In four years, the loan to TimorGAP will exceed the 5% legal limit.

TimorGAP will pay 4.5% annual interest on the $650 million loan, with an 8-year grace period and an 18-year repayment term.