Civil Society Comment to the
2015 Timor-Leste Development Partners Meeting
Economic Sector
6 June 2015

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Introduction
We would like to use this opportunity to outline our recommendations for an economic strategy which we strongly urge the Development Partners, along with the Government of Timor-Leste, to support in order to improve the quality of life for all Timorese people, today and tomorrow.

As the umbrella organization of civil society groups in Timor-Leste, FONGTIL appreciates Development Partners’ ongoing support to our country, and we hope that this assistance will succeed in helping the people of Timor-Leste.

In recent years, many Development Partners have told us that they concur with civil society’s recommendations and observations that the current development path is unsustainable. Unfortunately, we usually hear this in private conversations or read it in internal documents, rather than in public statements. We implore you not to hold back your observations about Timor-Leste policies and direction, but rather to express them clearly, openly and bravely, so as to encourage our leaders to respond to our common concerns and recommendations. Timor-Leste faces a huge challenge to emerge from dependency on limited petroleum exports, and we need all the help that we can get.
The World Bank/Ministry of Finance joint Public Expenditure Review: Infrastructure, released in March, explains that:

‘Dutch Disease’ results in a decrease in long term economic growth ... The majority of the recorded economic growth can be explained by increased Government expenditure and investment, with private sector investment lagging. ... Growth in sectors which are not directly reliant on Government expenditure but which rely on the existence of developed infrastructure for their production has been low. The output of the agricultural sector has declined in real terms since 2007.¹

Although this belatedly published report is less forthright and specific than earlier drafts, it nevertheless echoes concerns expressed by civil society. Timor-Leste has failed to develop its local productive economy to produce goods that can compete with imports, while squandering large amounts of public wealth to “invest” in infrastructure projects which are ill-conceived, overpriced, low-quality, and/or unlikely to provide significant returns. This is largely because Timor-Leste has been blessed with rentier income from oil and gas exports, avoiding the need to obtain alternative revenues or carefully manage the people’s money. The full impact of this resource curse will hit around 2026, about five years after the Bayu-Undan field, whose production peaked in 2012, runs dry.

Although we understand that Government officials would rather not see reports which question or suggest improvements to their decisions, this should not prevent you from telling the truth without self-censorship.

We also encourage the Government to be more timely, accurate and comprehensive in making data available. Although we are encouraged by the recent resurrection of the Transparency Portal, we are disappointed by the suppression of last year’s IMF Article IV report,² delays in publishing the 2013 National Accounts and the removal of time comparisons from the Labor Force Survey.³ We hope that the pending census and Living Standards Survey reports will be as prompt and complete as possible, to provide evidence to underpin wise, effective and prudent policy-making.

**Income from petroleum and gas is declining rapidly.**

Timor-Leste’s people live in one of the most petroleum-export-dependent countries in the world. In 2014, 73% of state revenues resulted from sale of nonrenewable oil and gas, and another 20% came from the return on investing the Petroleum Fund.

Unfortunately, Timor-Leste’s oil and gas production peaked in 2012. During 2014, Timor-Leste’s petroleum income was 40% less than in 2013, due to the depletion of the Bayu-Undan and Kitan reserves, as well as falling oil prices. More than three-fourths of the commercially viable oil and gas in these two fields has already been extracted.⁴

⁴ For more details, see [http://laohamutuk.blogspot.com/2015/04/timor-lestes-oil-and-gas-are-going-fast.html](http://laohamutuk.blogspot.com/2015/04/timor-lestes-oil-and-gas-are-going-fast.html)
The following graph shows the sharp drop in production and revenues since 2012. The dotted green line from 2015 on shows the revenue projections shared by the Ministry of Finance at their *Jornadas Orçamentais* workshop two weeks ago.\(^5\)

The Government is working hard to develop the Tasi Mane project on the south coast in hopes that an onshore petroleum industry will stimulate employment and economic development. Each year, the General State Budget allocates tens of millions of dollars to this project, while much of the local communities’ productive agricultural land will be confiscated. However, completion of the components of this very ambitious project will require investing many billions of dollars, and the likely benefits do not justify the cost, risks, and socio-environmental impacts.

The Tasi Mane Project is based on the expectation that oil and natural gas from the Greater Sunrise field will be processed on Timor-Leste’s soil. Unfortunately, the oil companies and the Government cannot agree on how to develop the field, and Australia refuses to discuss a permanent maritime boundary, so Sunrise is unlikely to begin production before the Petroleum Fund runs out. Timor-Leste’s future should not hinge on hypothetical new oil and gas discoveries, and Greater Sunrise is not large enough to pay for all the needs of our beloved land, which is still growing and developing. A decade from today, this nation may have to endure severe fiscal crisis, without enough money to pay for basic services like education, police, healthcare, water and roads.

Some of our leaders, especially those in the petroleum sector, often promise that our oil fields are not being exhausted and that undiscovered reserves are just waiting to be found, but we should not bury our heads in the sand. Timor-Leste urgently needs to find other sources of jobs, economy and revenue by developing our productive, non-oil sectors such as agriculture, tourism and small industry. Therefore, we need to rapidly and radically change our priorities to prepare for the day when our petroleum endowment has been used up.

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\(^5\) The Ministry’s presentation is at [https://www.mof.gov.tl/jornada-orsamental-2/](https://www.mof.gov.tl/jornada-orsamental-2/)

See page 28 for revised revenue projections.
Oil money alone is insufficient to finance our budget.

Since 2003, Timor-Leste has converted most of our oil and gas wealth into $20 billion in cash, of which $6 billion has already been spent, with a billion more to be used by the end of 2015. In addition, we have received $2.7 billion during the last 10 years in returns from investing the Petroleum Fund in international bonds and equities. At the end of March 2015, the Petroleum Fund balance was $16.82 billion, only 1.4% more than six months earlier. The minuscule increase shows that we cannot stake our future solely on the investment of the Petroleum Fund and receipts from Bayu-Undan and Kitan.

During the last seven years, Timor-Leste’s state has spent $6.6 billion, of which $5.7 billion was financed by the Petroleum Fund. Although the rapid budget escalation from 2007 to 2012 has slowed, executed expenditures during 2014 were 28% higher than in 2013, and recurrent spending increased by 26% last year. If all the projects currently designed or underway are implemented, the budget will swell even more in coming years, and this will be further exacerbated when loan repayments become due.
If these trends continue, the Petroleum Fund balance will begin to drop in 2017 even if domestic revenues increase at double-digit annual rates, and it could be completely gone about five years after Bayu-Undan production ends in 2020.\(^6\)

Although Greater Sunrise may eventually produce revenue, perhaps $15 to $20 billion spread out over 20 years, this will not be enough to pay for all our needs. Our population is increasing rapidly, requiring the state to spend increasing amounts for better-quality services. In addition, it will be costly to operate and maintain physical infrastructure which is already built.

Last month, the Ministry of Finance conducted its *Jornadas Orçamentais* workshop, setting a total fiscal envelope of $1.3 billion for the 2016 State Budget.\(^7\) We greatly appreciate this effort to rein in state spending, although it will be difficult to implement without making politically difficult decisions. We hope that Development Partners will help the Government manage public finances more efficiently, so that future state expenditures will be more effective and give better value for money. We also encourage cancelling proposed projects which, after objective and comprehensive cost/benefit/risk/feasibility analyses, are found to be unreasonable or unrealistic. This would allow money, human resources and policy space to be refocused on programs which will provide sustainable, equitable, achievable results for our population.

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6. The following graph shows one scenario from La’o Hamutuk’s fiscal sustainability model, which is explained at [http://www.laohamutuk.org/econ/model/13PFSustainability.htm](http://www.laohamutuk.org/econ/model/13PFSustainability.htm) and [http://laohamutuk.blogspot.com/2015/06/how-long-will-timor-lestes-petroleum.html](http://laohamutuk.blogspot.com/2015/06/how-long-will-timor-lestes-petroleum.html)

Timor-Leste’s non-oil GDP is not improving.

At the 2014 Development Partners Meeting, as well as in previous meetings, civil society highlighted the importance of developing local, non-oil productive sectors, including agriculture, tourism and small industry, in order to move away from dependence on impermanent oil and gas.\(^8\)

Reports from Development Partners and Government recognize that Timor-Leste’s non-oil economy is stagnant. Although GDP is not a good way to measure economic development (it counts dollars, not human beings, and therefore leaves out the impoverished majority), we have little other data. In 2012, our non-oil GDP was $1.246 billion, or 22% of total GDP. However, half of this non-oil GDP comes from state-spending (of oil-money) on construction and public administration. As growth in state spending has slowed, non-oil GDP growth has also slowed; total GDP has dropped as oil revenues decline. The following table, in reverse chronological order, shows that Government and IFI numbers for annual GDP growth have fallen as reality catches up with projections and estimates.

<table>
<thead>
<tr>
<th>Non-oil GDP annual growth</th>
<th>Date</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
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<tbody>
<tr>
<td>World Bank EAP Economic Update</td>
<td>Apr-15</td>
<td>5.4%</td>
<td>6.6%</td>
<td>6.8%</td>
<td>6.9%</td>
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<td>ADB Asian Development Outlook</td>
<td>Apr-15</td>
<td>7.8%</td>
<td>5.6%</td>
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<td>6.2%</td>
<td>6.6%</td>
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<tr>
<td>IMF World Economic Outlook</td>
<td>Apr-15</td>
<td>7.8%</td>
<td>5.4%</td>
<td>6.6%</td>
<td>6.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>RDTL 2015 State Budget</td>
<td>Oct-14</td>
<td>7.8%</td>
<td>5.6%</td>
<td>7.1%</td>
<td>7.0%</td>
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<td>RDTL Nat’l Accounts 2000-2012</td>
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<td>7.8%</td>
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<tr>
<td>World Bank EAP Economic Update</td>
<td>Apr-14</td>
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<td>8.1%</td>
<td>8.0%</td>
<td>7.7%</td>
<td>8.6%</td>
</tr>
<tr>
<td>ADB Asian Development Outlook</td>
<td>Apr-14</td>
<td>8.2%</td>
<td>8.0%</td>
<td>8.5%</td>
<td>8.5%</td>
<td></td>
</tr>
<tr>
<td>IMF Article IV Report (2013)</td>
<td>Dec-13</td>
<td>8.3%</td>
<td>8.1%</td>
<td>8.0%</td>
<td>7.7%</td>
<td>8.6%</td>
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<tr>
<td>RDTL 2014 State Budget</td>
<td>Oct-13</td>
<td>8.2%</td>
<td>8.0%</td>
<td>8.8%</td>
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<tr>
<td>RDTL 2013 State Budget</td>
<td>Dec-12</td>
<td>10.6%</td>
<td>10.4%</td>
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<table>
<thead>
<tr>
<th>Total GDP growth (including oil)</th>
<th>Date</th>
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<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
<td>World Bank EAP Economic Update</td>
<td>Apr-15</td>
<td>-10.4%</td>
<td>-10.7%</td>
<td>-10.2%</td>
<td>10.3%</td>
<td>-1.1%</td>
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<tr>
<td>IMF Article IV Consultation (2014)</td>
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<td>-10.7%</td>
<td>-10.2%</td>
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<tr>
<td>RDTL 2015 State Budget</td>
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<td>5.6%</td>
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<td>World Bank EAP Economic Update</td>
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<td>RDTL Nat’l Accounts 2000-2012</td>
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</table>

Recently available employment statistics heighten our sense of urgency. According to the 2013 Business Activities Survey,\(^9\) the number of private sector jobs declined between 2012 and 2013 – while Timor-Leste’s working-age population goes up by about 18,000 every year. As the Government implements promises to make the civil service more efficient, public sector employment may also drop. The people, private sector, development partners and government should work together to create livelihoods which can sustain our families, our economy and our state. This will require more than simply allocating public contracts to local businesses.

Once more, we urge Development Partners to continue to encourage the Government of Timor-Leste to prioritize the development of the non-oil economy rather than ill-considered megaprojects that are extremely expensive, use up valuable agricultural land, damage the environment, create negligible employment, and divert resources and attention from the development of our crucial local sectors.

**Productive sectors deserve more attention.**

Timor-Leste’s balance of trade shows that in 2014 we spent $526 million on imported goods, while our income from non-oil exports came to only $14 million, of which 95% was from coffee. This unsustainable $511 million trade deficit was about the same as 2013.

Agriculture is the most crucial sector for Timor-Leste’s domestic economy, involving the majority of our people and producing essential food which can replace imports. Therefore, we and many others urge that the agriculture sector should be prioritized, and are worried by some urban people’s low regard for subsistence farming. However, the model being adopted by Timor-Leste does not reflect the reality or needs of the country. Since 60% of households only have between 0.5 and 2 hectares of land, and 40% of land is not level, we think that Timor-Leste should adopt a small-scale agricultural model, combined with appropriate technology. Production should reflect and respond to local needs first, expanding to exports only after local requirements are met.

Regarding tourism, we believe that Timor-Leste can benefit from tourism if we carefully preserve our natural wealth, environment and culture. Timor-Leste will be able to compete with neighboring countries to attract tourists who are searching for new experiences, to breathe in fresh air in our mountains, enjoy our traditional culture, eat local food and stay in local communities to see how Timorese people live. By following a model of sustainable tourism, local communities can benefit greatly, avoiding the destructive consequences of mass-market or elite-only visitors.

Finally, we suggest that programs to establish small industries, such as food processing and manufacturing of goods made from locally-sourced materials, will help to increase domestic production and reduce imports, and thus are crucial to diversify our economy. We respectfully ask you, as Development Partners of Timor-Leste, to work with us to implement these ideas, develop our economy and reduce dependency on diminishing oil reserves and goods imported from overseas.

Thank you.