

General State Budget 2009

Who does it benefit?

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for Fokupers
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Last November, the RDTL Council of Ministers approved the General State Budget for 2009, which was submitted to Parliament in early December. Parliament discussed it in Commission C for a few weeks, and in Plenary Session for the last three weeks of January. It may be passed by the time you read this article.

This is Timor-Leste's largest budget ever, with total expenditures of \$681 million. (Although the 2008 mid-year Rectified Budget was larger at \$773 million, the Appeals Court ruled that the Economic Stabilization Fund was illegal, reducing that budget to \$533 million.)

Of the \$681 million proposed to be spent 2009, \$589 million (86%) will come from the Petroleum Fund, much more than the \$408 million "Estimated Sustainable Income." The Ministry of Finance expects Timor-Leste's oil revenues to drop by almost half from 2008 to 2009, but they propose to increase expenditures for 2009 and for many years in the future.

La'ó Hamutuk believes that this is a major step toward bringing the "resource curse" to Timor-Leste. In many countries which depend on petroleum resources but have widespread poverty, people end up worse off after selling their petroleum than they would have been if they never had petroleum in the first place. This condition has any causes, three of which are happening in Timor-Leste today:

1. When oil revenues are high, the Government has big dreams and starts many expensive programs and projects. Later, when oil revenues inevitably fall, the Government will have to cancel programs or borrow money, creating social unrest, increasing poverty, and giving up Timor-Leste's independence.
2. It is easy to get money by selling petroleum, leading to thoughtless spending and causing policy-makers to neglect other parts of the economy. For example, food is imported from other countries, rather than increasing local agricultural production. Money is spent on overseas scholarships, rather than strengthening our own educational system. When money is no longer available, people go hungry and children have no place to learn.
3. Revenues from petroleum do not last forever. Timor-Leste's only producing oil and gas field, Bayu-Undan will be totally used up in 15 years. If other economic sectors are not developed before then, Timor-Leste's government will not be able provide essential services for our more than two million citizens.

The proposed 2009 RDTL State Budget includes several policies which move Timor-Leste in the direction of the resource curse, including:

Spending more money than the country can afford.

According to the 2005 Petroleum Fund Act, Timor-Leste's petroleum income is managed through a Petroleum Fund, which separates the amount of money received from selling oil and gas from the decision of how much to spend in Government Budget. By limiting expenditures in each year to 3% of the total value of the money in the Petroleum Fund and the oil and gas still in the ground, Timor-Leste can spend the same amount of money every year, even after the oil and

gas is used up. This amount is called the Estimated Sustainable Income (ESI), and last October the Ministry of Finance estimated it at \$408 million for 2009.

However, even though oil prices have dropped to one-fifth of last year's high levels, and Bayu-Undan production will fall every year from 2008 on, the Government proposes to spend more than the sustainable 3% in this and future budgets. Many experts, including the Petroleum Fund Consultative Council, civil society groups, and some political parties think this is a bad idea, and Parliament Commission C unanimously recommended that the Government not spend more than the ESI in 2009. However, the Government and the Parliamentary Plenary are unlikely to accept that advice.

Adding to the problem, the ESI calculated by Ministry of Finance is unrealistically high, given all the uncertainties in the world oil market and global financial system. Their calculation assumes that oil will sell for \$60 per barrel for the next five years – but in fact prices have been lower that since early November, varying from \$31 to \$49 /barrel in December and January.

If oil prices stay around \$40/barrel, the Sustainable Income each year will be \$170 million less than the Ministry's estimate, forever. In other words, Timor-Leste will lose as much money as the total budgets of the Ministries of Health, Education and Social Solidarity. Because of the tremendous uncertainty in future petroleum revenues, it is not prudent to spend so much of Timor-Leste's petroleum resources in 2009, and in the future our children will suffer the consequences of our greediness today.

Future commitments may be impossible to fulfill.

The largest increases in the 2009 budget are for salaries and capital infrastructure, setting a dangerous direction for the future. The 2009 budget will increase the expenditure for salaries in the entire Government by 94% over the original 2008 budget, to 138% higher than they were in 2007.

Salary increases are very difficult to roll back, so the raises which the Government is giving to its own leaders and workers are likely to be irreversible, persisting as pensions even after employees retire and taking money away from other needs. Unhappily, public servants who provide services to women and children (such as those working in the Ministries of Health and Education) receive much lower salaries and smaller increases than those who make decisions (such as in Parliament or the Prime Minister's Office), as shown in the table below:

	Average salary and benefits (\$/month)	Salary increase 2008-2009
Ministry of Education	\$199	11%
Ministry of Health	\$211	17%
Ministry of Social Solidarity	\$229	21%
Ministry of Finance	\$260	48%
Office of the President of the Republic	\$402	84%
Office of the Prime Minister	\$447	62%
National Parliament (including staff)	\$1,866	232%
Ministry of Foreign Affairs	\$2,587	451%

The World Bank's recent report *Timor-Leste: Poverty in a Young Nation* found that the number of poor people in Timor-Leste has increased significantly since independence. At the end of 2007, the report says, "About half of the Timorese population lives below the basic needs poverty line of \$0.88 per person per day, [and] one-third of the population is afflicted by extreme poverty." None of these people receive government salaries.

Heavy oil power plants dirty and unaffordable.

Although the Government boasts about the 2009 budget's commitment to improve infrastructure for schools, roads, and water, by far the largest part of the infrastructure budget is a three-year, \$381 million central electric generation system and national transmission line network. The project, based on heavy oil technology, is budgeted at \$87 million in 2009, increasing to \$162 million in 2010, when it will be more than two-thirds of the entire capital budget. This creates huge obligations in the future, even though nobody knows how much revenue will be available at that time.

These heavy oil power plants are much bigger than any project yet imagined in Timor-Leste. They will emit large amounts of particulate and acid pollution, fly ash, sulfur and other dangerous chemicals, causing acid rain, damaging agriculture, forests, fisheries and water supplies. They will produce large amounts of carbon dioxide, undercutting Timor-Leste's commitment to the Kyoto Protocol on climate change. In fact, this technology is so dirty and hard to manage that most developed countries have stopped using it, moving to natural gas, solar, wind, hydroelectric and other renewable energy sources which are available in Timor-Leste.

Caring about the future.

The cost of living in Timor-Leste rises about 10% every year, and our population grows by 3.5% every year. By 2023, when Bayu-Undan is used up, we will have about two million people, and prices will be four times as high as they are now. Maintaining today's minimal level of services will cost eight times as much, perhaps \$4 billion dollars per year. Even if Greater Sunrise and other oil fields are developed, the ESI will be less than one billion per year, and annual petroleum receipts may be lower. In other words, the "sustainable" income from the Petroleum Fund will not be enough to provide "sustainable" services for our people.

A wise person once said "if we do not change our direction, we are likely to end up where we are headed." It is not too late for Timor-Leste to change course, to use the potential of our oil and gas wealth to benefit future generations as well as today's adults. But it will require farsighted, analysis, thinking and action from women and men across our nation to move us from the path our leaders would like to take us down.