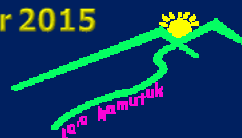


Fiscal Strategies and their Implications for Wealth Distribution

By Charles Scheiner, La'o Hamutuk
ANU 2015 Timor-Leste Update Conference

Canberra, 20 November 2015



Topics to discuss

1. Current poverty, inequality and negligible progress (and the lack of good, current data)
2. Where the state gets its money
3. What the 2016 budget will pay for, and who benefits?
4. Implications for the future of the half of Timor-Leste's people who are less than 17 years old.

1. Current poverty, inequality and negligible progress
2. Where the state gets its money
3. What the 2016 budget will pay for, and who benefits?
4. Implications for the future of the half of Timor-Leste's people who are less than 17 years old.

Basic Statistics

- More than half of Timor-Leste's people live in poverty, and the number is growing.
- 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 ... 20 times the number of people who die from physical violence.
- Poor sanitation and malnutrition are endemic.

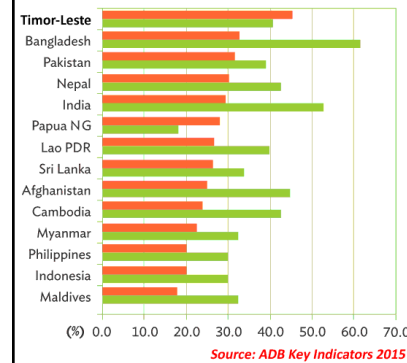
Basic Statistics

By 2021, 200,000 more babies will have been born, and the only producing oil and gas fields will be used up.

How will they survive?

We're worst in the region ... and getting worse.

Figure 1.8: Prevalence of Underweight Children Under 5 Years of Age, Earliest (1990-2005) and Latest (2004-2014) Years

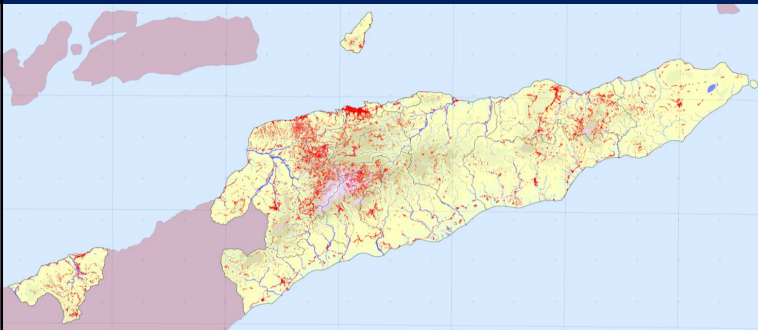


A malnourished child may be permanently damaged.

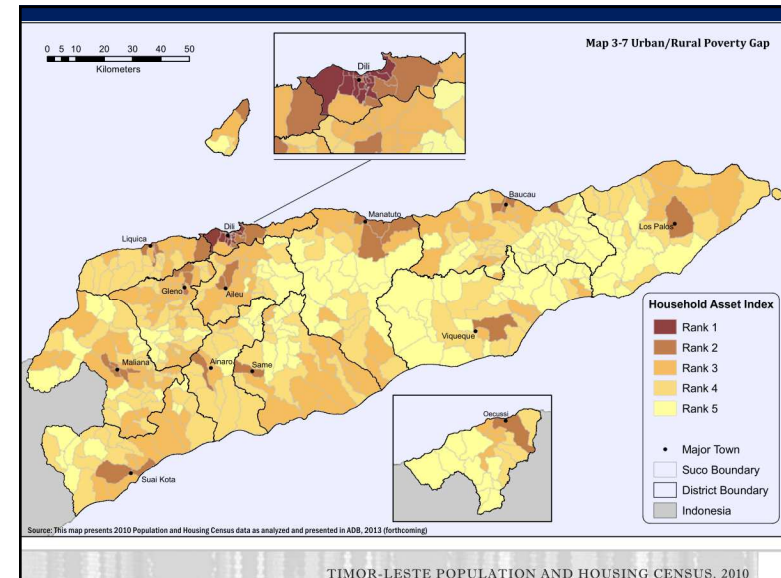
An undereducated child will not be a productive worker.

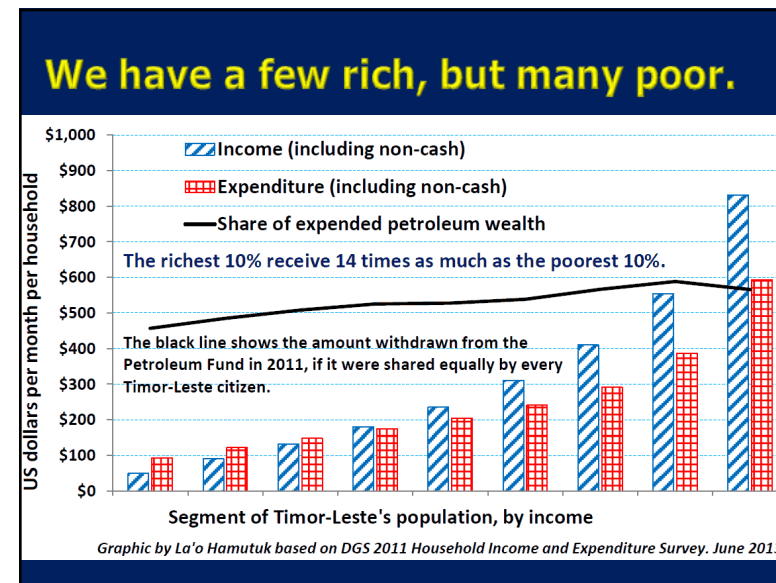
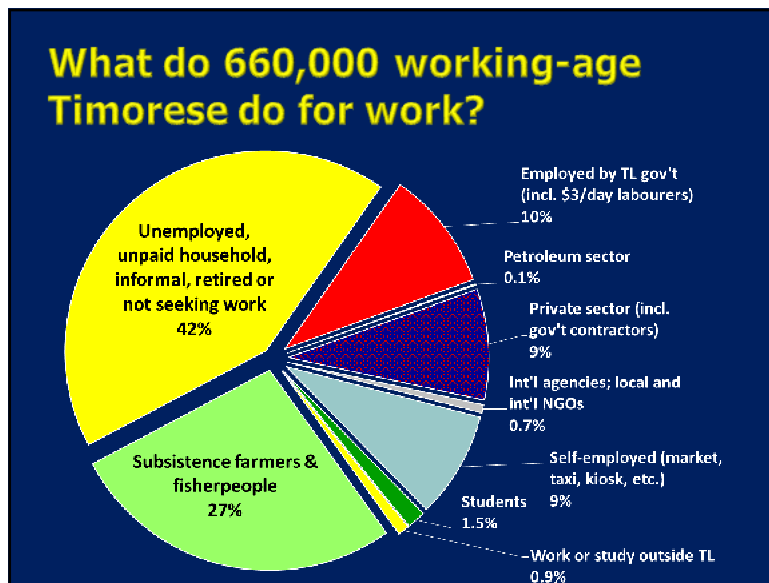
Half of Timor-Leste's population is less than 17 years old, and the largest group is still in primary school.

Most people live in rural areas by subsistence agriculture.



Agriculture will get 1.9% of state expenditures in 2016, although it is the livelihood of 65% of the population.





Dili is very different from the districts.

From Timor-Leste Demographic and Health Survey 2009-2010

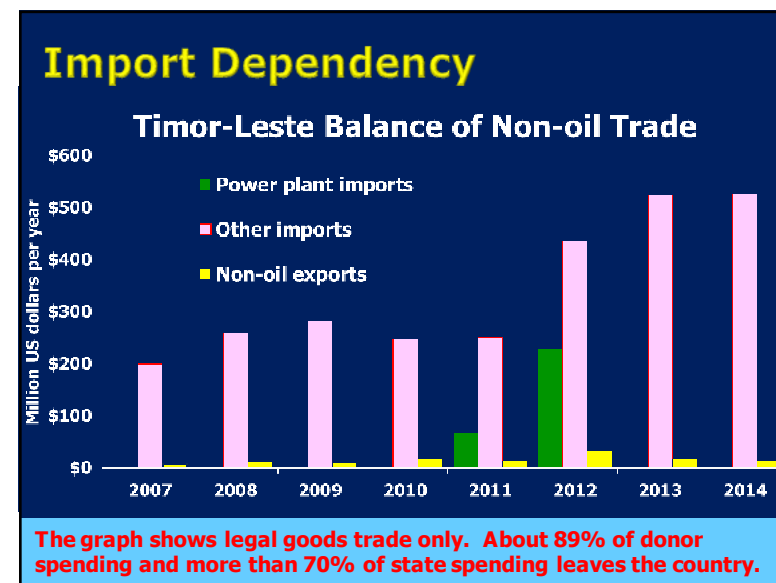
Table 2.11 Wealth quintiles

Percent distribution of the de jure population by wealth quintiles, according to residence and region, Timor-Leste 2009-10

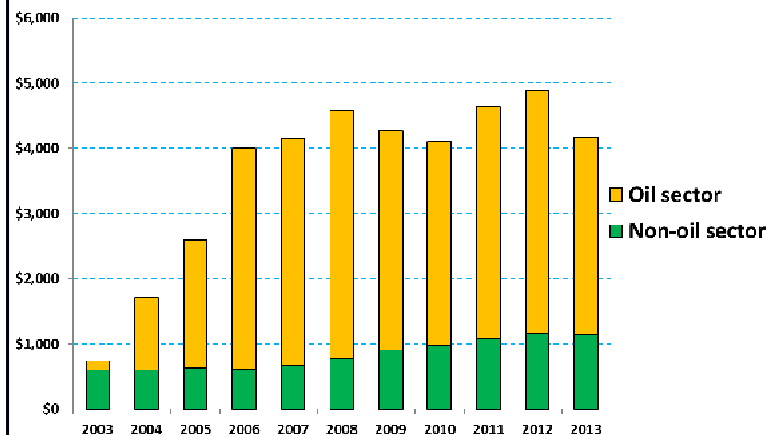
Residence/region	Wealth quintile					Total	Number of population
	Lowest	Second	Middle	Fourth	Highest		
Residence							
Urban	4.5	6.1	9.3	22.2	57.8	100.0	15,852
Rural	24.6	24.2	23.3	19.2	8.7	100.0	51,134
District							
Aileu	20.6	27.9	25.1	18.2	8.2	100.0	2,785
Ainaro	30.9	32.2	19.7	12.1	5.2	100.0	3,830
Baucau	26.9	28.9	19.3	13.4	11.5	100.0	7,590
Bobonaro	15.2	19.7	26.1	27.8	11.1	100.0	6,323
Covalima	17.2	17.7	23.1	25.1	16.8	100.0	3,993
Dili	0.4	2.1	6.5	20.1	71.0	100.0	10,905
Ermera	9.8	30.2	31.9	21.5	6.6	100.0	8,132
Lautem	28.0	16.7	20.4	24.5	10.4	100.0	4,547
Liquiçá	15.7	18.8	25.3	25.1	15.2	100.0	4,082
Manufato	22.2	10.9	22.5	27.7	16.8	100.0	3,088
Manufahi	28.3	25.1	18.1	16.6	12.0	100.0	2,699
Oecussi	46.6	17.1	14.4	14.2	7.6	100.0	4,281
Viqueque	35.3	25.5	17.4	13.0	8.7	100.0	4,730
Total	19.9	19.9	20.0	19.9	20.3	100.0	66,985

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

More than half of families outside Dili live in poverty.



More than 3/4 of GDP is from oil.

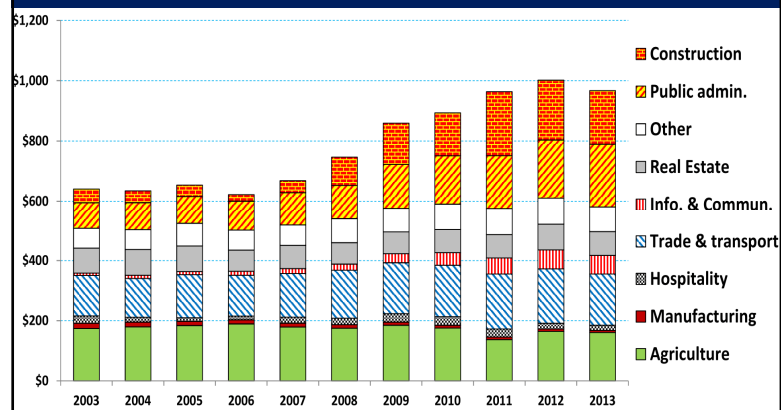


Timor-Leste's GDP is falling and uncertain

Real growth in total GDP	Date used	2011	2012	2013	2014 (proj)
RDTL National Accounts (2013)	Jun-15	12.6%	5.2%	-13.9%	
IMF Article IV Consultation (2014)	Oct-14	7.9%	-10.4%	-10.7%	-10.2%
RDTL 2015 State Budget	Oct-14	9.8%	5.6%		
World Bank EAP Economic Update	Oct-14		5.7%	-3.2%	-6.9%
IMF Article IV Report (2013)	Dec-13	7.3%	5.7%	-3.2%	-6.9%

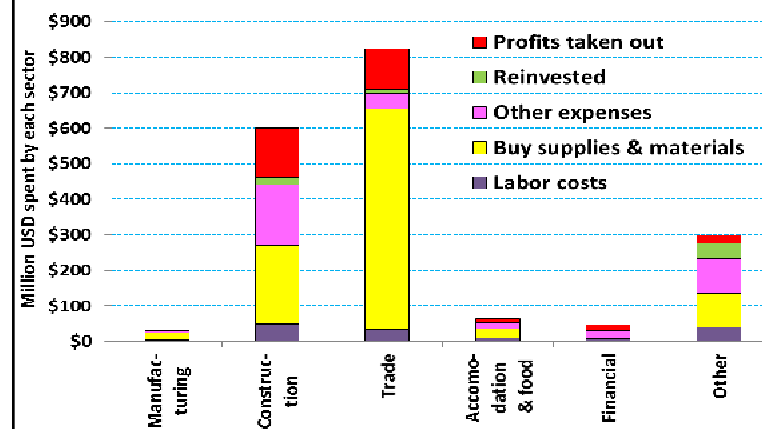
Non-oil GDP per capita also fell in 2013, as the population grew faster than the economy.

The non-oil, non-state GDP per capita is stagnant.



Businesses don't invest in themselves.

How businesses spent the money they received in 2013



1. Current poverty, inequality and negligible progress
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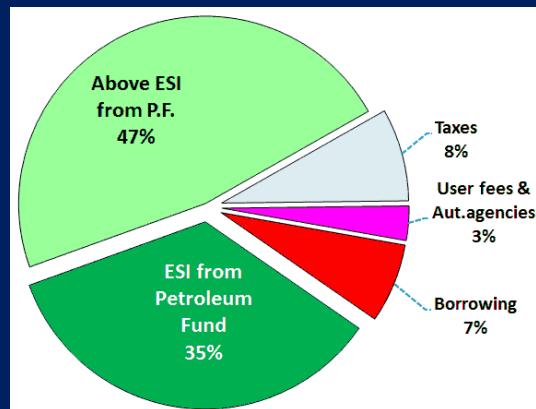
Petroleum Dependency

- Petroleum GDP in 2013:..... **\$4,276 million (76%)**
- Non-oil GDP in 2013:..... **\$1,319 million (24%)**
 Productive sectors (agric. & manufacturing) **\$ 265 million (5%)**
- Projected state revenues in 2015:..... **\$1,594 million**
\$1,394 million (87%) will be from oil (incl. \$916m investment return)
\$ 171 million (11%) will be from non-petroleum sources
- 2016 Proposed State Budget:..... **\$1,562 million**
\$1,184 million (82%) will come from the Petroleum Fund in 2016.
\$ 107 million (7%) more is from the Petrol. Fund in the past and future.
- State activities, paid for with oil money, are about half of the "non-oil" economy, because some of this money circulates in the local economy.
- Balance of trade (2013):

	services	non-oil goods	goods (2014)
Imports	\$1,536m	\$523m	\$550m
Exports	\$78m	\$16m	\$14m (coffee)
Deficit	\$1,458m	\$507m	\$536m
- Petroleum "income" goes to the government, not the people.

Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste is.

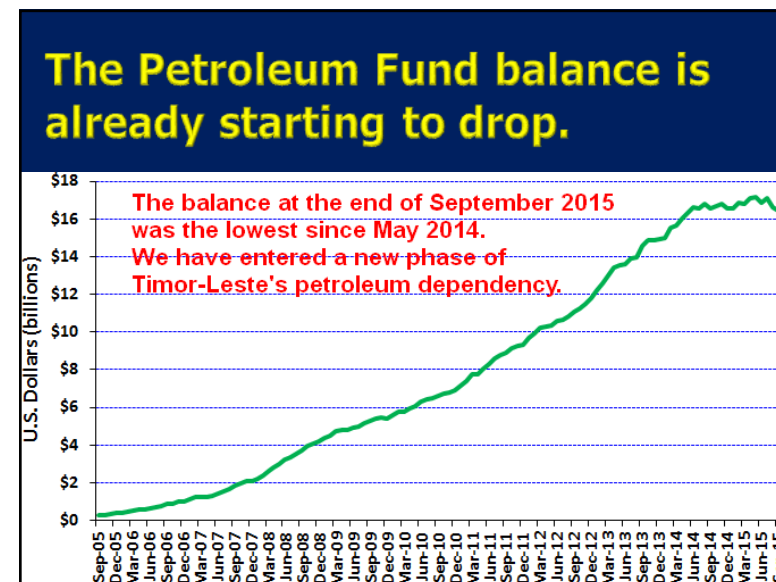
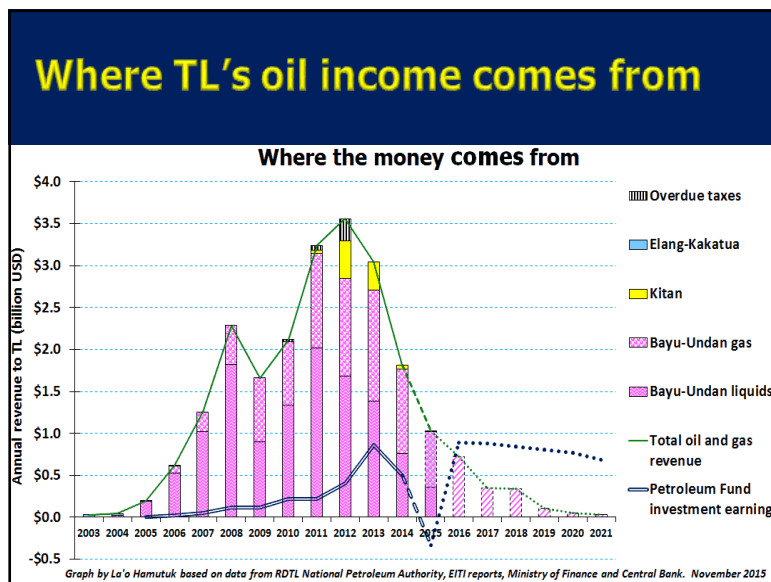
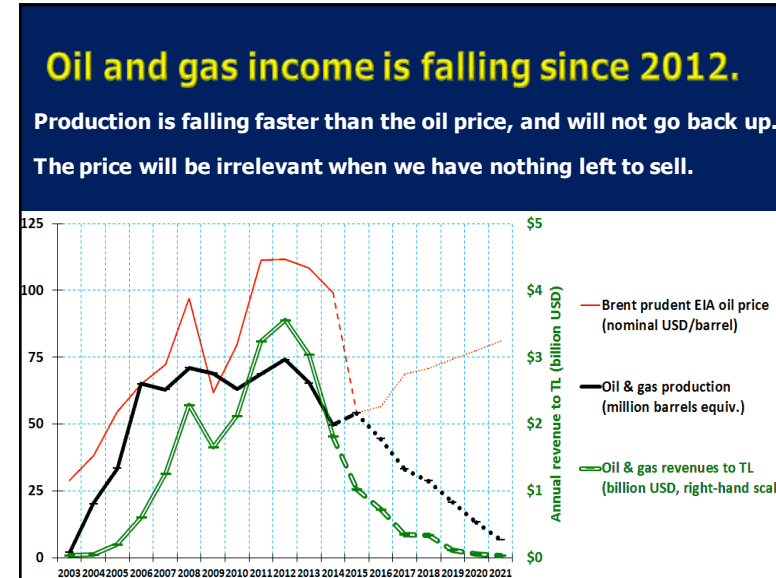
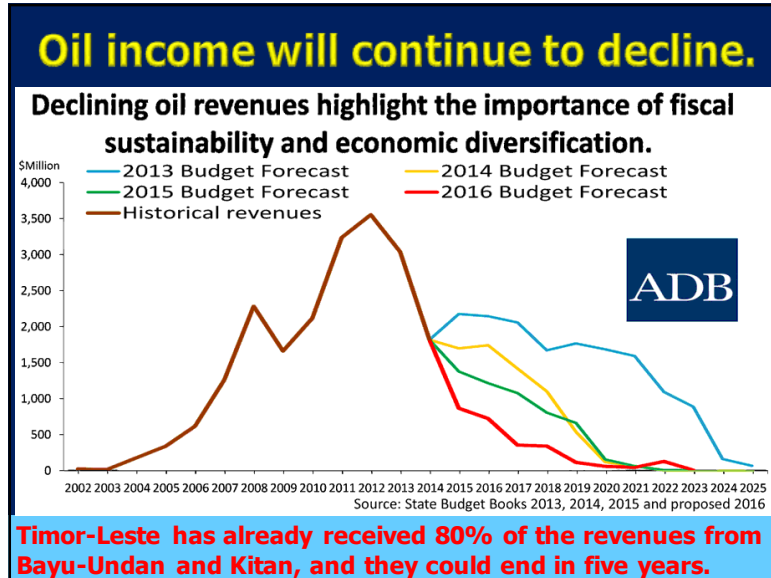
Income in the 2016 state budget



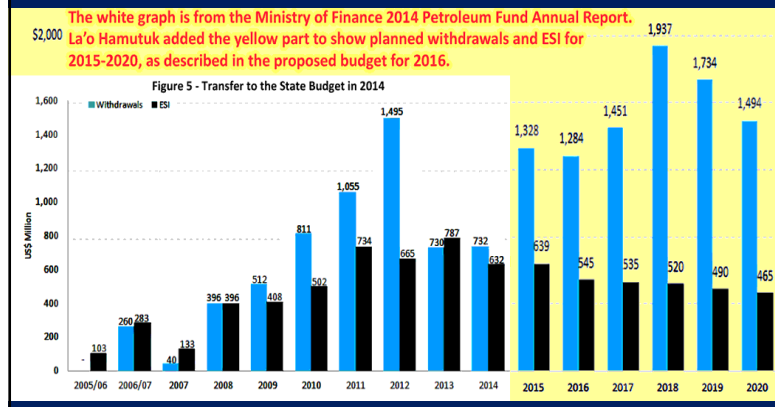
Total revenue: \$1,562 million, of which 88% is from past, present and future oil and gas income.

But we don't have very much oil.

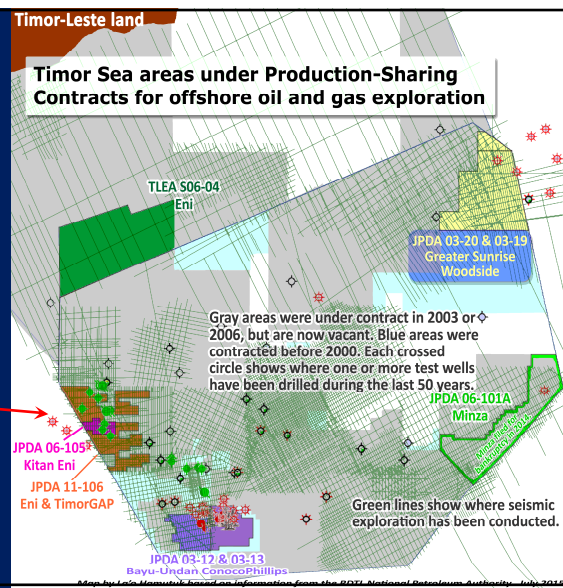
	Timor-Leste	TL without Sunrise	Australia	Brunei
Known oil and gas reserves per person	605 barrels	168 barrels	1,170 barrels+ (1,150 without Sunrise)	6,438 barrels
How long reserves will last at 2014 production rates	16 years	4 years	51 years+	23 years



ESI and past and future transfers from the Petroleum Fund

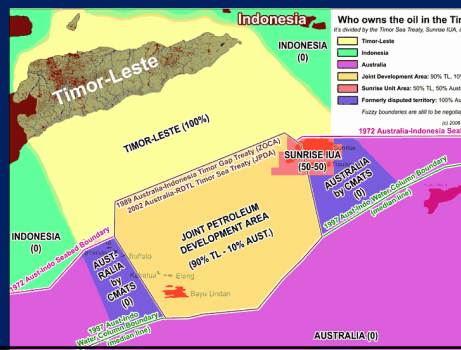


Our seas have long been explored



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.

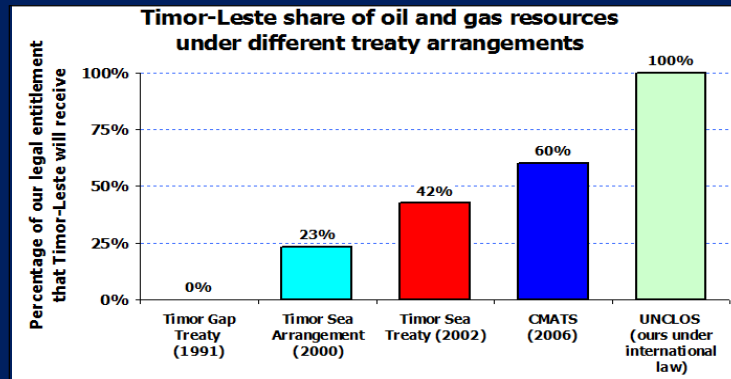


Conspiring to steal Timor's wealth

1989: Foreign ministers Gareth Evans and Ali Alatas toast the signing of the Timor Gap Treaty while flying over the Timor Sea.



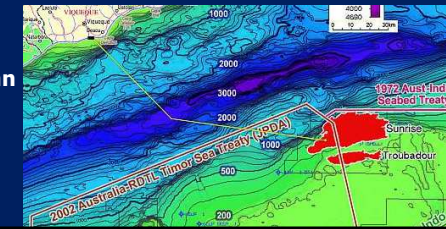
Australia is still stealing 40%.



This graph includes known fields which would belong to Timor-Leste under the international law median line principle: Bayu-Undan, Elang-Kakatua, Greater Sunrise, Kitan, Laminaria-Corallina and Buffalo.

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 can withdraw from most of CMATS any time before a development plan is approved.
- Because of Australian spying, TL is trying to invalidate CMATS.

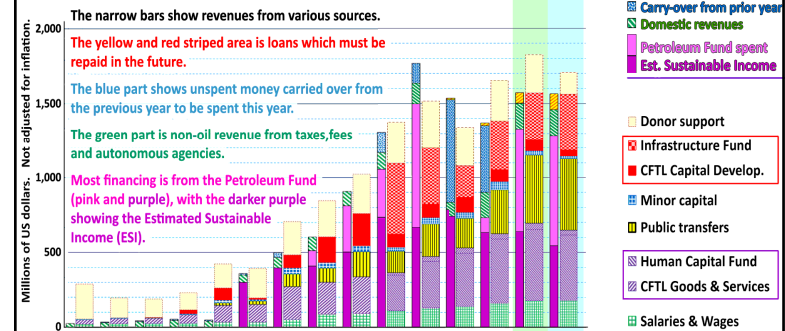


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State Budgets 2002-2016

State Revenues and Expenditures (including auton. agencies)

2002-2014: Executed 2015: Enacted 2016: proposed



Graph by La'o Hamutuk based on RDTL Ministry of Finance data and projections. October 2015

PLANEAMENTU NO PANORAMA EKONOMIKA
5 Fatores Prinsipais

- Prioridade Nasional ba 2016:** (1) Edukasaun (2) Saude (3) Agrikultura (4) Infrastrutura Bazika (inklui Bee mos no saneamentu no Operasaun no Manutensaun)
- Kapasidade Ezekusaun - \$1.570 miliaun**
 Taxa Ezekusaun to'o dia 9 Novembro 2015 = Real=57%, Obrigasaun = 14%, Komitmentu = 8%. Balansu = 21%
- Sustentabilidade Fiskal**
 Despezas =< Reseitas
- Kualidade Orsamentu**
 - Ligasaun entre Planeamentu, Orsamentu no Monitorizasaun
 - Despezas Rekorentes vs Kapital
- Kapasidade Ekonomika hodi Absorve**
 Inflasaun no despezas ne'ebe sai ba rai-liur

The 2016 Budget still neglects farmers, students, and health care.

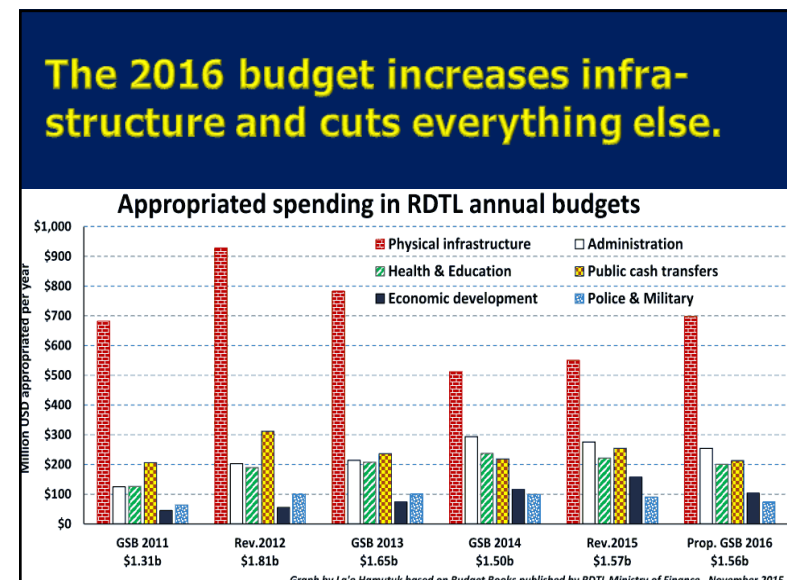
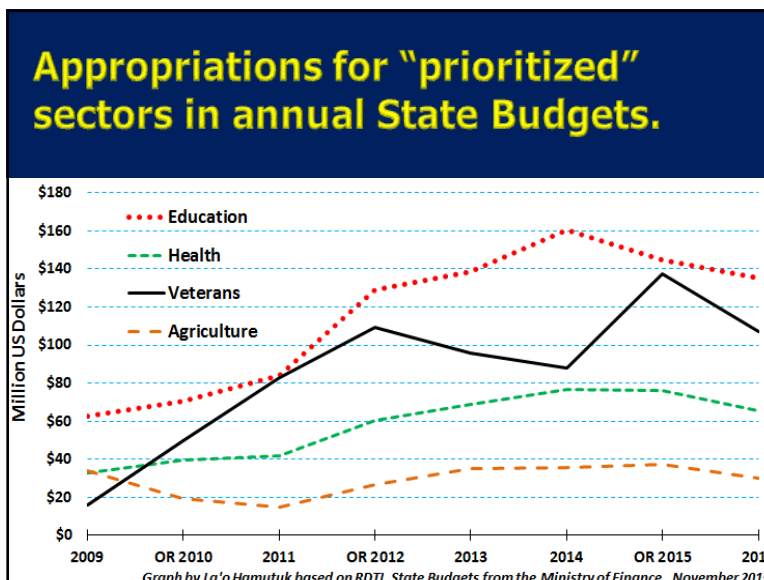
Allocation of the proposed 2016 State Budget (US \$1,562 million)

Category	Amount (US \$ million)	Percentage
Infrastructure	\$697	45%
Governance	\$254	16%
Services	\$201	13%
Benefits	\$213	14%
Development	\$104	7%
Security	\$73	5%
Other	\$20	1%

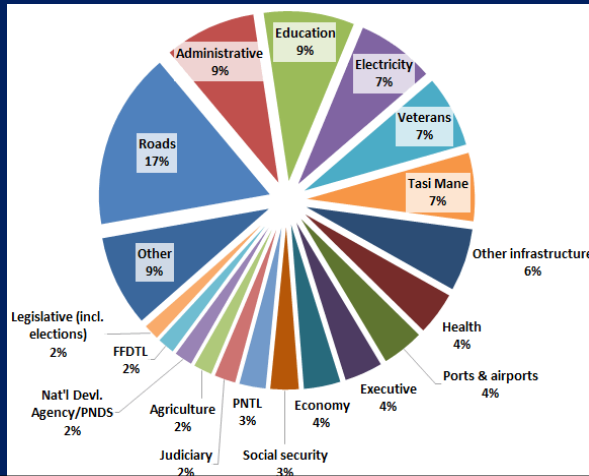
Sub-categories and amounts shown in the graphic:

- Electricity: \$116
- Roads & Bridges: \$260
- Tasi Mane: \$102 (includes \$43 for Suai S.B. \$15 for Suai airport, \$35 for highway)
- Executive: \$58
- Education: \$135
- Veterans: \$107
- Housing: \$5
- Economy: \$56
- F-FDTL: \$28
- Contingency: \$15
- Legislative: \$26
- Judicial: \$34
- Admin.: \$137
- Health: \$66
- Social security: \$44
- Other social protection: \$57
- Agriculture: \$30
- PNTL: \$41
- Other: \$5
- PDID/PNDS: \$13
- Water & Sanitation: \$19
- Other ports & airports: \$64
- Other Infrastruct.: \$94
- ADN: \$29
- ZEESM Oecussi: \$17
- Other Security: \$4

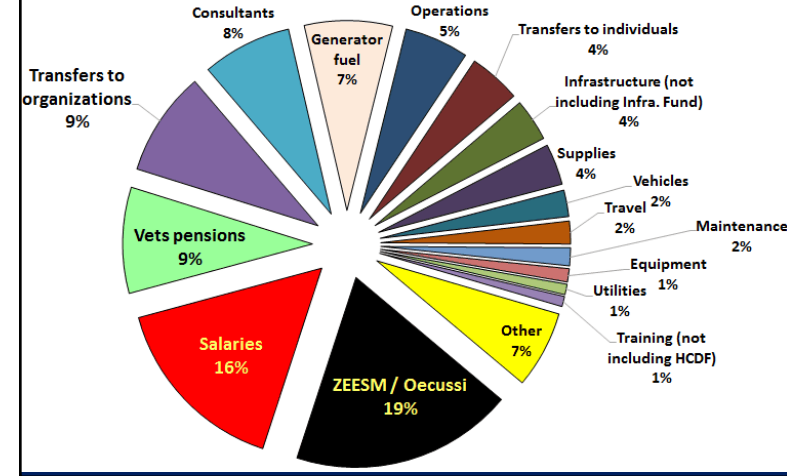
Graphic by La'o Hamutuk based on proposed 2016 RDTL General State Budget, November 2015



Sectoral allocation of the 2016 budget

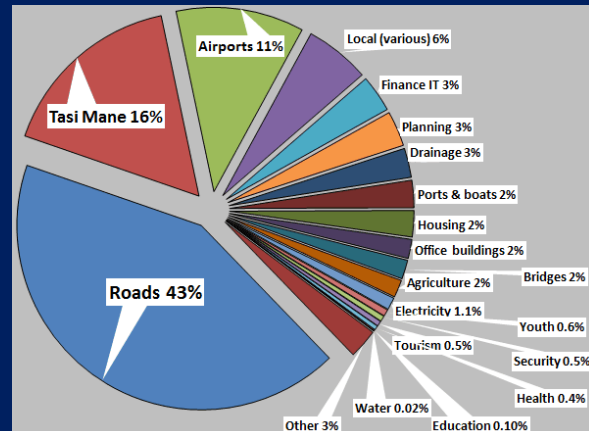


2016 Consolidated Fund: \$1.15 billion

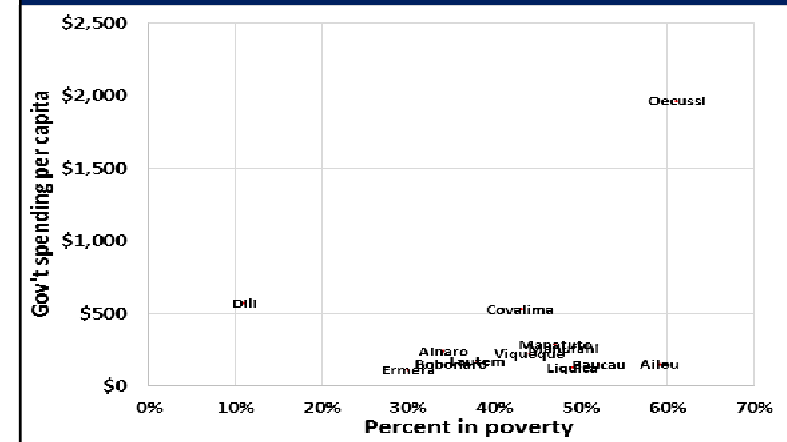


Building physical infrastructure gets \$589m in 2016, 38% of the budget.

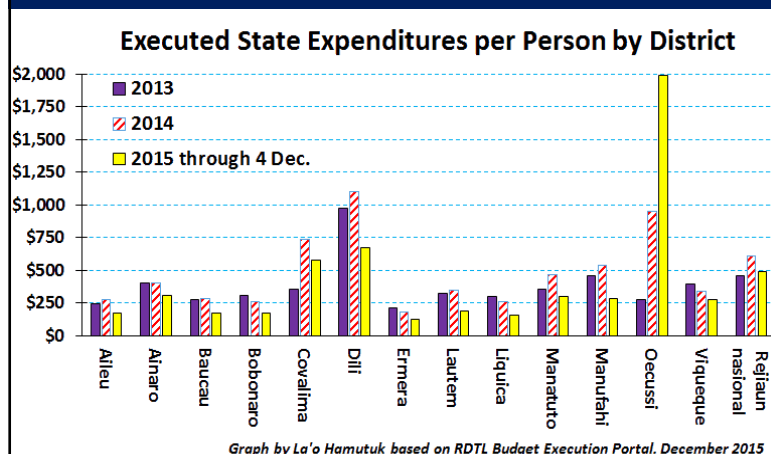
- Including:
- Infrastructure Fund
 - Loans
 - CFTL Development Capital
 - ZEEISM
 - Tasi Mane
 - PDID
 - PNDS



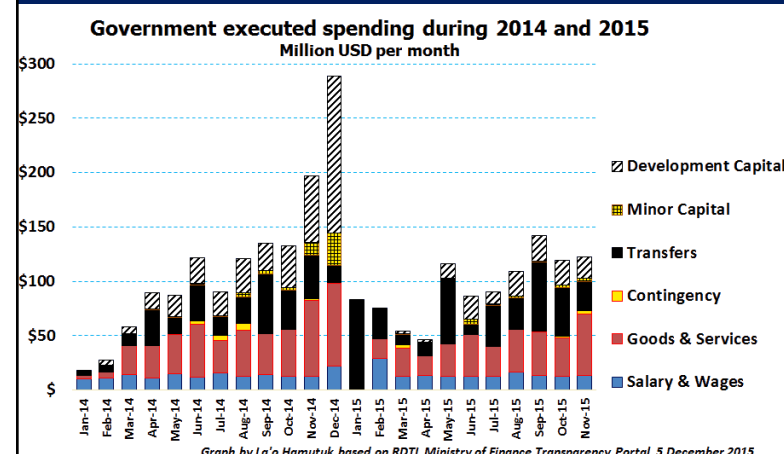
To each according to her needs?



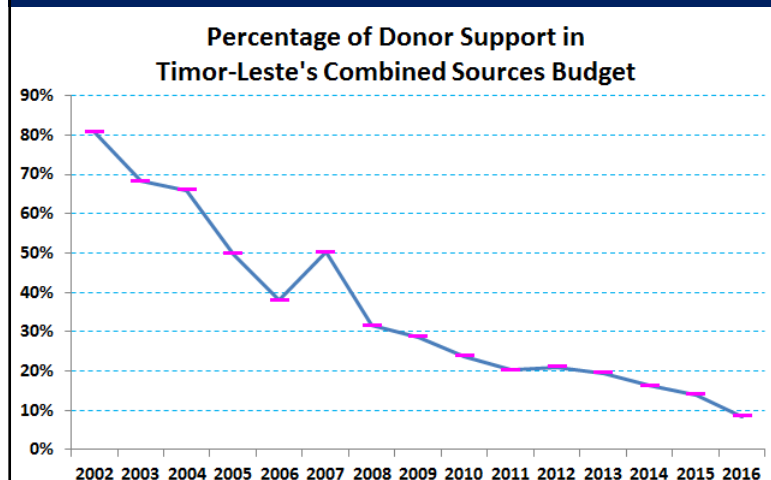
Spending is not equitable.



Spending peaks at year-end.



Donor support is less important now.



The Tasi Mane Project includes the Suai supply base, Betano refinery, Beacu LNG plant, 150-km highway, onshore and offshore pipelines, 2 airports and 2 seaports.



Tasi Mane petroleum infrastructure project

- In 2010, Timor-Leste began the South Coast Petroleum Corridor.
- Total project costs could be at least \$15 billion (much more if Timor-Leste pays for the refinery, gas pipeline or LNG plant).
- The state has already spent \$94 million on TMP.
- The proposed budget allocates \$97 million in 2016 and \$1.6 billion in 2017-2020, but leaves out the largest items.
- The most expensive contract in the nation's history was signed in August: \$719 million to build the Suai Supply Base.



Suai Supply Base

- RDTL just signed a \$719,212,000 contract with Hyundai Engineering and Construction to build the Suai seawall and Supply Base.
- This is more than Timor-Leste has spent on education since independence in 2002.
- The Audit Court has rejected the contract, but Government is appealing.
- Other TMP contracts for Suai will cost at least \$100 million more.

Suai Supply Base



COMISSÃO NACIONAL DE APROVISIONAMENTO
MINISTÉRIO DO PLANEAMENTO E INVESTIMENTO ESTRATÉGICO

Intent to Award

Tender Number	Description	Winning Contractor	Contract Price
ICB/012/MPMR-2013	Design and Construction of Suai Supply Base	Hyundai Engineering & Construction Co., Ltd / Hyundai Engineering Co., Ltd (HDEC-HEC) consortium	USD: 719,212,000

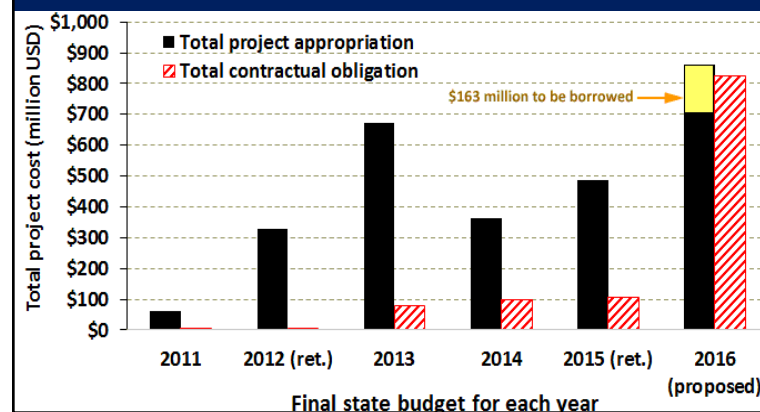
The National Procurement Commission will respond to any protest in writing received at the Office of the National Procurement Commission, Rua dos Direitos Humanos, Dili, Timor-Leste no later than five (5) working days from the posting of this tender result.

Américo do Rosario
National Procurement Commission
Dated: 12 June 2015

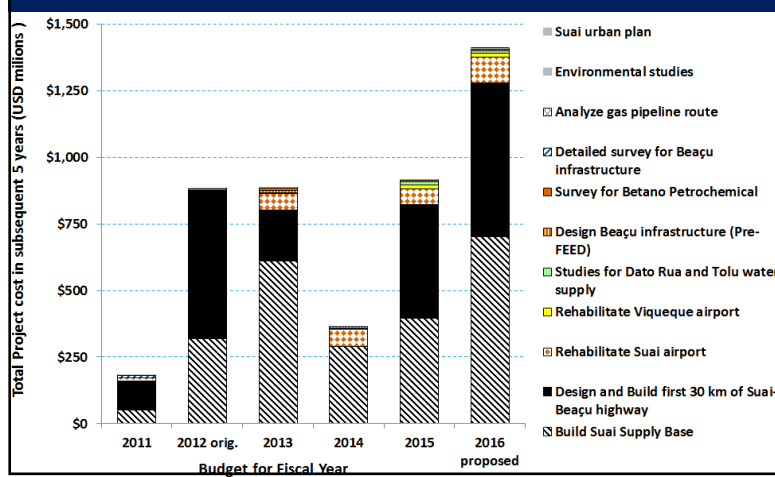
Timor-Leste and Hyundai Engineering signed this \$719 million contract on 27 August 2015. It is the largest contract in the nation's history, more than the total spent on education since independence was restored in 2002.

Hyundai is currently blacklisted by the Korean government for collusion.

Allocations for Suai Supply Base and Airport for the whole project cycle.



What will the Tasi Mane Project cost?

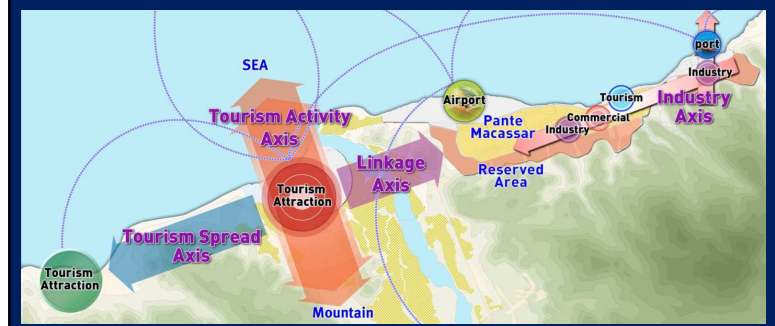


Problems with the Tasi Mane project

- It makes TL more dependent on the oil and gas sector.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on the multi-billion-dollar investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the money 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.

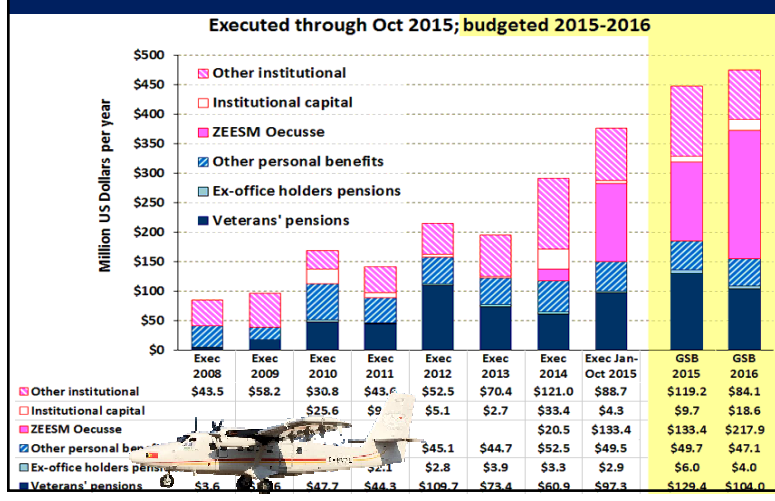
Special Market Zone in Oecusse



- For 2016, ZEESM has \$218 million with no accountability.
- What are Oecusse's competitive advantages?
- Can ZEESM recover a \$4 billion investment?

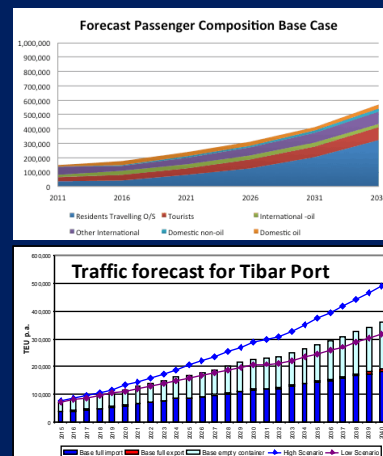
Who benefits: residents of Oecusse or political ex-opposition?

Spending on Public Transfers



Overbuilding ports and airports

- IFC is encouraging Timor-Leste to build Tibar port and Dili airport far beyond realistic traffic expectations.
- How will the country pay for a \$6 billion annual trade deficit after the oil is gone?



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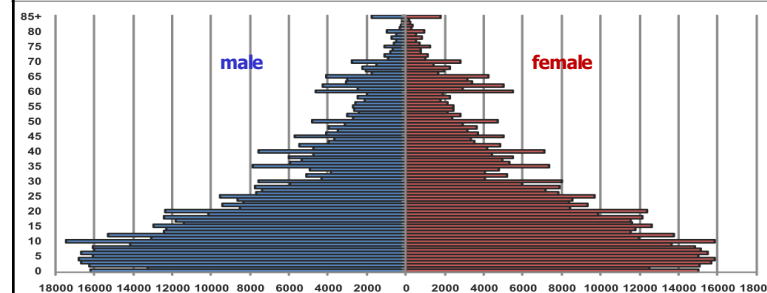
Timor-Leste changes every year.

- **Population**
Increases 1.8% every year, slower than 5.3% in 2004 and 2.4% in 2010. The post-war "baby boom" will start having children in the next few years.
- **Inflation**
Consumer prices went up 11% during 2012, but rose only slightly in 2013-15 due to slower state spending and the rising US dollar.

People's needs and desires will increase as the nation develops.

Many children will become youth.

Figure 2.2: Population by single year age group and sex: Timor-Leste, 2010 Population and Housing Census



Timor-Leste is struggling to find jobs for 15,000 people who will enter the work force in 2015.

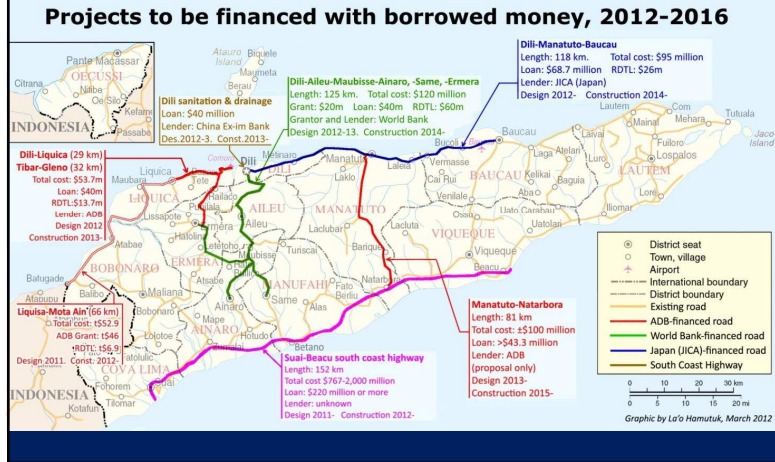
By 2024, it will be about 28,000/year, and the oil will be gone. Today's youth will have their own children.

Timor-Leste is going deeper into debt.

- Laws since 2009 paved the way for foreign loans.
- Between 2012 and 2015, Timor-Leste signed contracts to borrow \$211 million from Japan, the ADB and the World Bank to build roads.
- During 2016-2020, TL plans to borrow more than a billion dollars for physical infrastructure:

2016	2017	2018	2019	2020
\$107m	\$348m	\$366m	\$160m	\$39m
But the 2015 State Budget had different numbers:				
\$194m	\$135m	\$160m	\$50m	

Most loans will pay for roads.

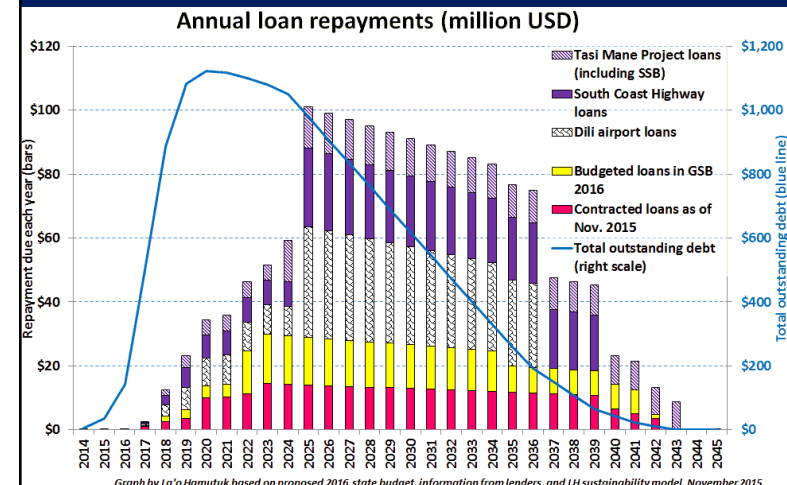


Borrowing in GSB 2016. Many projects after 2018 are left out.

This table is from Book 6 of the proposed 2016 State Budget, showing loan-financed projects. Many projects after 2018 are not included.

	Orçamento 2015 Final Aprovado	Despesas Estimativas Dezembro 2015	Orçamento 2016	Orçamento 2017	Orçamento 2018	Orçamento 2019	Orçamento 2020
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Programa de Empréstimos	70,000	28,568	107,002	348,385	366,213	160,451	39,178
Construção e Supervisão de Estradas Dili-Liquica (L)	9,500	2,650	6,731	-	-	-	-
Construção e Supervisão de Alinhamento de Estradas desde Cruzamento Tibar a Rolunda Lafatic Quatro Vias (L)	-	-	2,800	5,600	-	-	-
Construção e Supervisão Estradas Tibar-Gleno (L)	8,000	4,372	3,722	-	-	-	-
Construção e Supervisão de Estradas Dili-Manatuto-Baucau (L)	11,550	3,990	10,500	12,000	10,800	-	-
Construção e Supervisão de Estradas Manatuto-Natarbora (L)	14,250	8,720	9,780	-	-	-	-
Construção e Supervisão de Estradas Aileu-Maubisse e Ainaro (L)	11,700	8,837	11,406	14,219	-	-	-
Construção e Supervisão de drenagem de Dili (Esqoto) (L)	5,000	-	5,000	31,830	14,880	3,720	-
Construção e Supervisão de Estradas Aitulo-Halubuliko-Letefoho-Ermera-Gleno (L)	-	-	14,500	16,160	8,620	2,150	-
Construção e Supervisão do Aeroporto Internacional Nicolau Lobato (Pista + Termina Fase I)	-	-	15,000	98,840	117,790	58,740	14,680
Construção e Supervisão de Estradas Baucau-Lautem	-	-	7,900	14,000	18,000	9,500	2,818
Construção e Supervisão de Estradas Maubara - Molain e Alzabe - Molain	-	-	2,583	4,966	3,133	1,771	-
Construção e Supervisão de Estradas Baucau-Viqueque	-	-	7,500	14,880	16,580	8,840	2,210
Construção e Supervisão detalhadas relativamente a Estradas e Pontes - Auto Estrada Sual-Betano-Beaco (L)	10,000	-	15,000	84,000	109,200	37,440	9,360
Concepção de construção e Supervisão para o Desenvolvimento de Infra-estruturas na Costa Sul em Sual - Base de Fornecimentos (L)	-	-	10,000	53,550	59,670	31,820	7,960

Loans will have to be paid back.

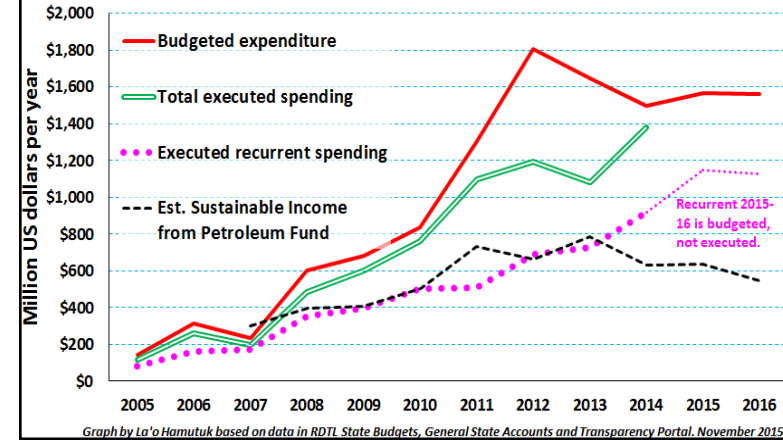


Important to consider

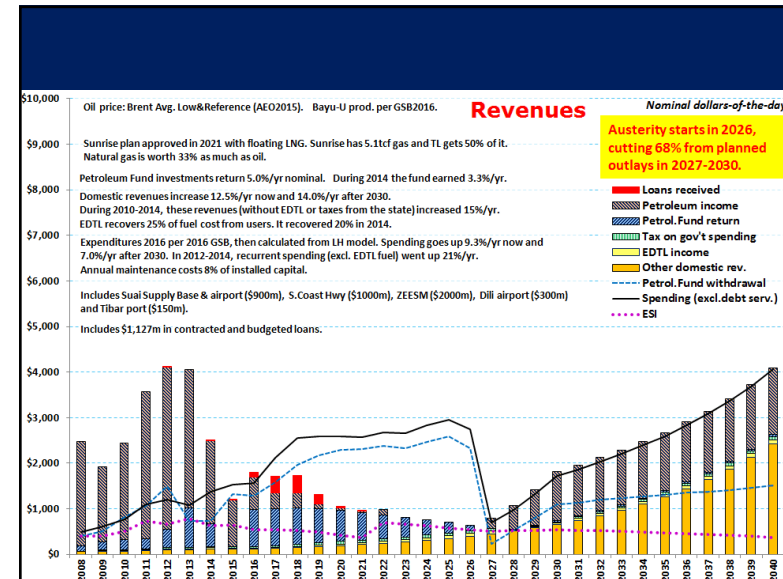
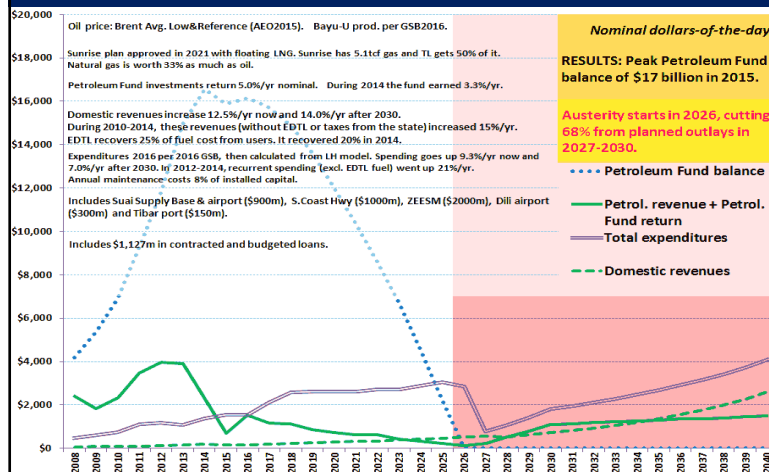


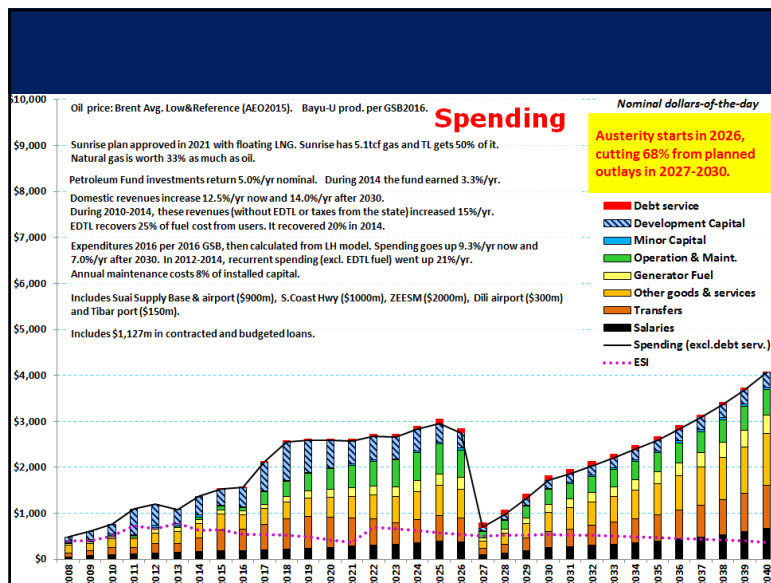
- Implementing the SDP will require billions of dollars in loans, probably at commercial rates.
- Even at concessional rates, repaying a loan will permanently reduce money in the Petroleum Fund. The yen loan makes us hostage to a strong dollar.
- TL's oil and gas reserves are limited, non-renewable, and 75% depleted already.
- 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.

Budgeted & executed spending



If current plans continue, TL will be unable to finance its budget in ten years.





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Instituto ha Analiza no Monitor Dezenvolvimentu da Timor-Leste
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Recent Postings

- Apr 2015: LH submission to Parliament on 2015 Budget Revision (also Tetum, Komunika, Imprensa)
- Mar 2015: General State Budget for 2015 (including Gov't Program, proposed verification, substitute text and other documents and analysis)
- Mar 2015: Proposed LNG Plant in Bequn, including LH letter urging cancelling of design contract tender (also Tetum and blog)
- Mar 2015: 'Is Fiscal Policy Sustainable?' presentation (also PDF) also Patricia Pissal/Susanawati ka laet (PDF)
- Feb 2015: Can the Petroleum Fund Exercise the Resource Curse from TL?
- Feb 2015: LH Blog: letter urging consideration of lower oil prices in revision of 2015 State Budget (also Tetum) and Ministry of Finance response (also Tetum)
- Feb 2015: LH Blog: Transparency Initiative (TTI) gets a little more opaque (also Tetum)
- Feb 2015: LH Blog: Update more than money to achieve development: Lessons for and from Timor-Leste (also Tetum)
- Feb 2015: Revenue list on Executive Interference in Timor-Leste's Judicial System
- Jan 2015: Media Law, documents and commentary with Court Opinions and attached law
- Jan 2015: Bobby Boye, Comment, Advisor and Fraud (also Tetum)
- Dec 2014: TL government blocks publication of IMF Article IV report for 2014

Brent Crude Oil
\$57.87 ▲ 1.30 2.28%
2015-11-02 end-of-day

WTI Crude Oil
\$51.64 ▲ 1.46 2.88%
2015-11-02 end-of-day

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Thank you.

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