

Presentation to Anti-Corruption Commission Strategic Planning

The Risk of Corruption and the Resource Curse come with Dependency on Oil Exports

By Charles Scheiner

Timor-Leste Institute for Development Monitoring and Analysis

La'o Hamutuk

22 February 2011



La'o Hamutuk is an NGO.

- ❖ **Founded in 2000.**
- ❖ **To watch, monitor and analyze activities of donors, the Government, UN, IFIs and others in Timor-Leste.**
- ❖ **Principal topics of research and advocacy:**
 - ❖ **Non-renewable resources/oil dependency**
 - ❖ **Agriculture/food sovereignty/land rights**
 - ❖ **Democracy/governance/justice**
- ❖ **This presentation is a small demonstration of our work.**

Timor-Leste lives by selling oil.

- ❖ **Petroleum revenues pay for 95% of state activities.**
- ❖ **They're four times larger than the local economy.**
- ❖ **Our oil and gas reserves will run dry in only 13 years.**
- ❖ **Petroleum doesn't give jobs or money to the people
– it all goes to the State.**
- ❖ **The Petroleum Fund can help justice between generations, but it cannot guarantee good governance or prevent corruption.**

Basic statistics

- ❖ **40-50% of our people live below the poverty line.**
- ❖ **80% of the people live in rural areas, largely by subsistence farming.**
- ❖ **More children die of diarrhea than malaria.**
- ❖ **In 2009, TL exported \$8.6 million (coffee).**
In 2009, TL imported \$283 million (everything).
- ❖ **Extracting oil provides 98% of state revenues, more than 80% of GNI. They will stop in 2023.**

Signs of the “resource curse”

- ❖ **Spending without thinking**
- ❖ **Lack of long-term planning**
- ❖ **Import dependency leading to inflation**
- ❖ **Borrowing, to repay later**
- ❖ **Neglecting non-oil economic development**
- ❖ **Belittling other revenue sources**
- ❖ **Ignoring that oil will run out**
- ❖ **Wealth goes to urban power elite**
- ❖ **“Povo” doesn’t benefit now, suffers later.**
- ❖ **Companies “capture” regulators.**
- ❖ **The “national interest” may be stronger than the legal system.**

We can learn from other countries

- ❖ **Equatorial Guinea – Almost all the money has been stolen.**
- ❖ **Nigeria – Huge oil exports, but brought conflict, poverty and corruption, and reduced local agriculture.**
- ❖ **Ecuador – Companies destroyed the environment.**
- ❖ **Saudi Arabia – Has no capacity to do things for themselves**
- ❖ **Gabon – Imports everything, but oil almost used up.**
- ❖ **Nauru – Once was rich, now poor. Bad or stolen investments.**
- ❖ **Netherlands – Exporting gas created inflation, reduced local production.**
- ❖ **Timor-Leste – Australia steals our oil and gas reserves, companies don't pay all their taxes, and ???.**

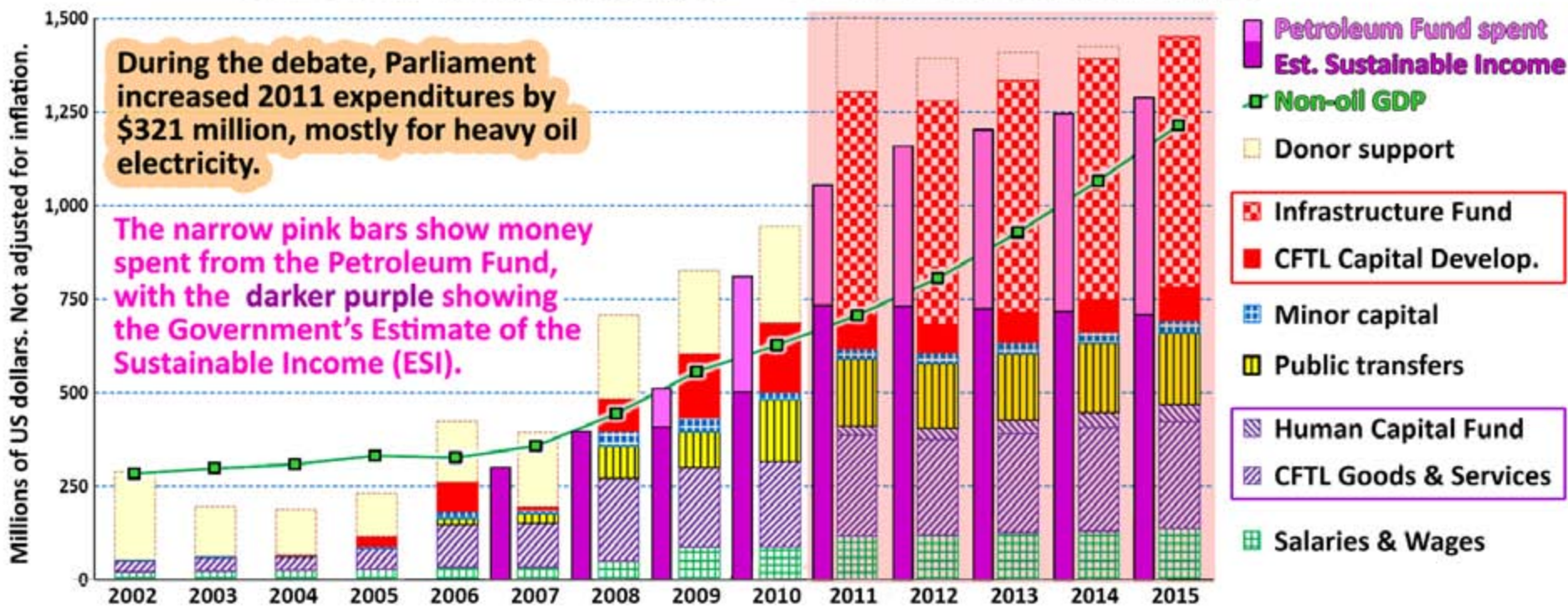
If we don't learn, we can repeat their bad experiences.

Government spending goes up every year, but our economy doesn't.

State Expenditures over Time (including autonomous agencies)

2002-2010: Executed budget.

2011-2015: Planned budget.

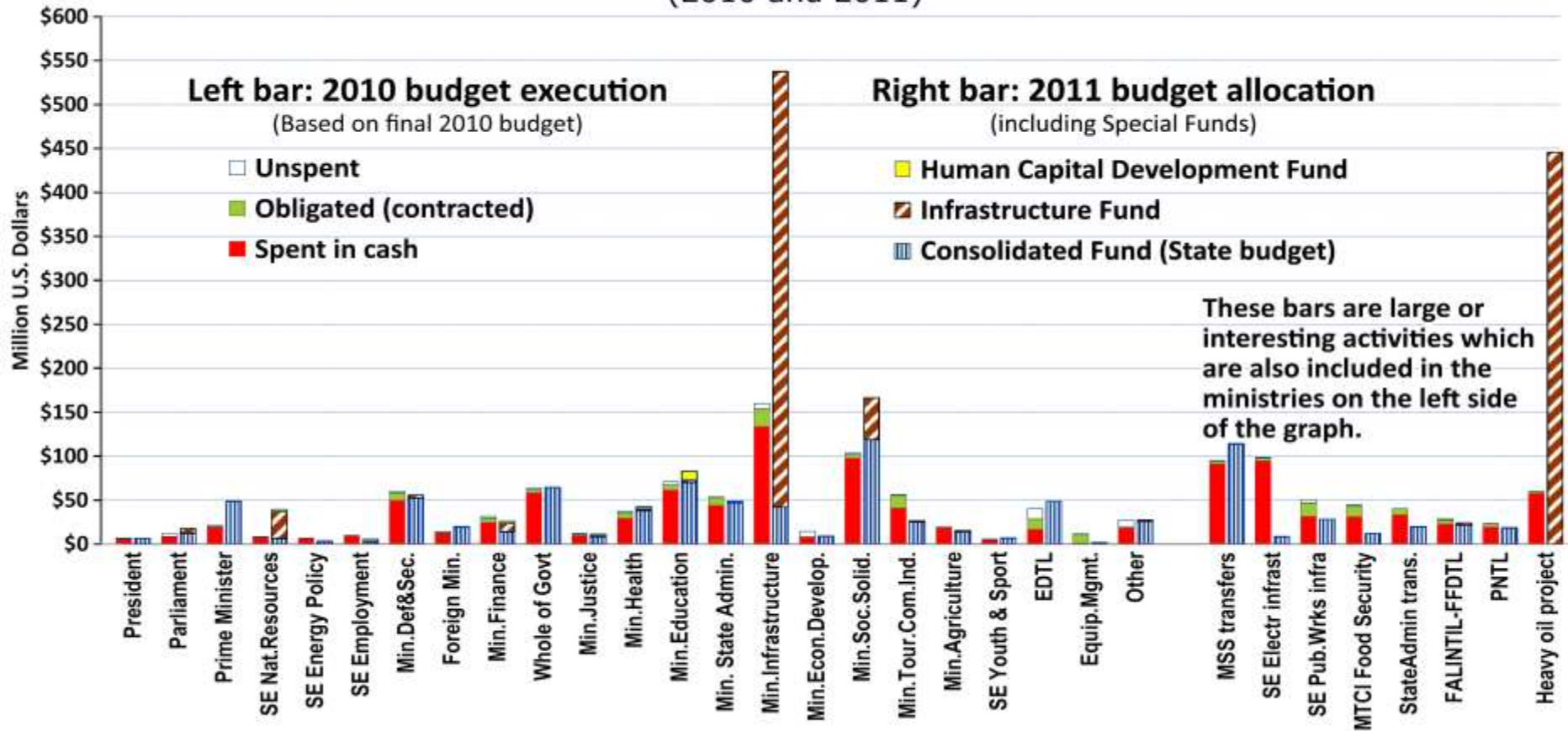


Graph by La'o Hamutuk based on IMF forecasts and RDTL Ministry of Finance data and projections.

During 2010, Timor-Leste spent \$688 million, but withdrew \$81 million from the Petroleum Fund.

State Expenditures 2010-2011

RDTL State Budget allocations and spending by ministry or function (2010 and 2011)



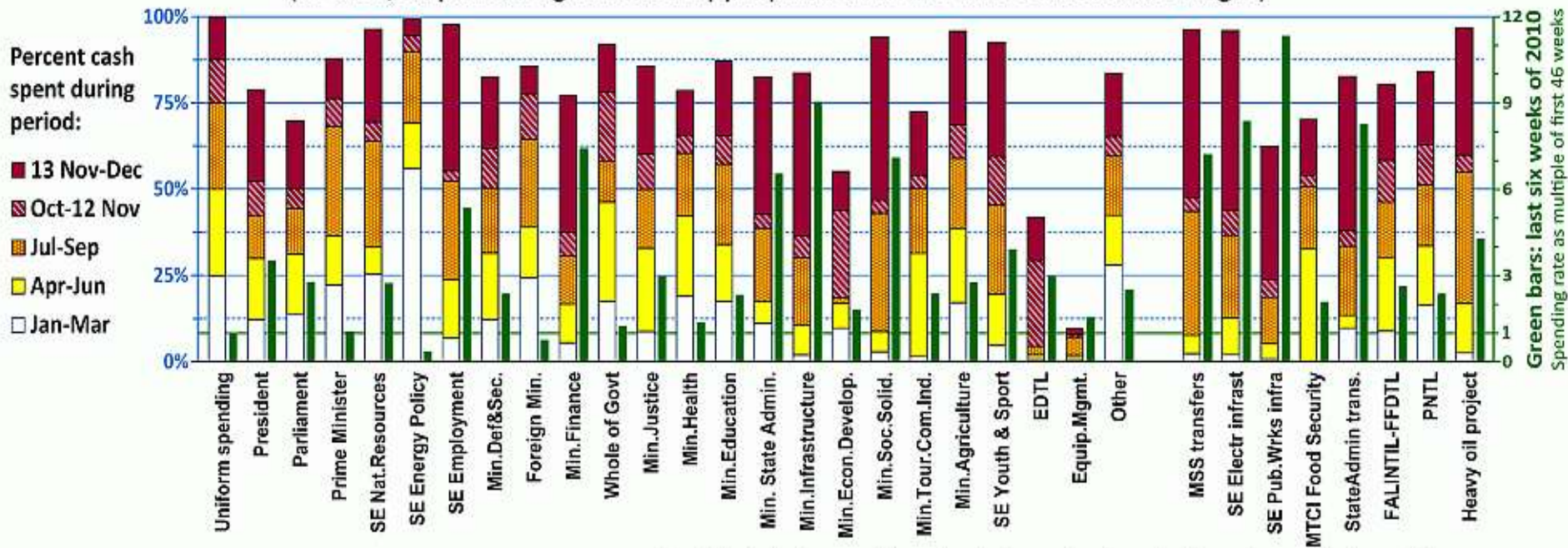
Graph by La'o Hamutuk based on data from the RDTL Ministry of Finance.

Look at the biggest allocations – the most opportunities for corruption.

The race to spend appropriations

Budget Execution by Ministry during each Quarter of 2010

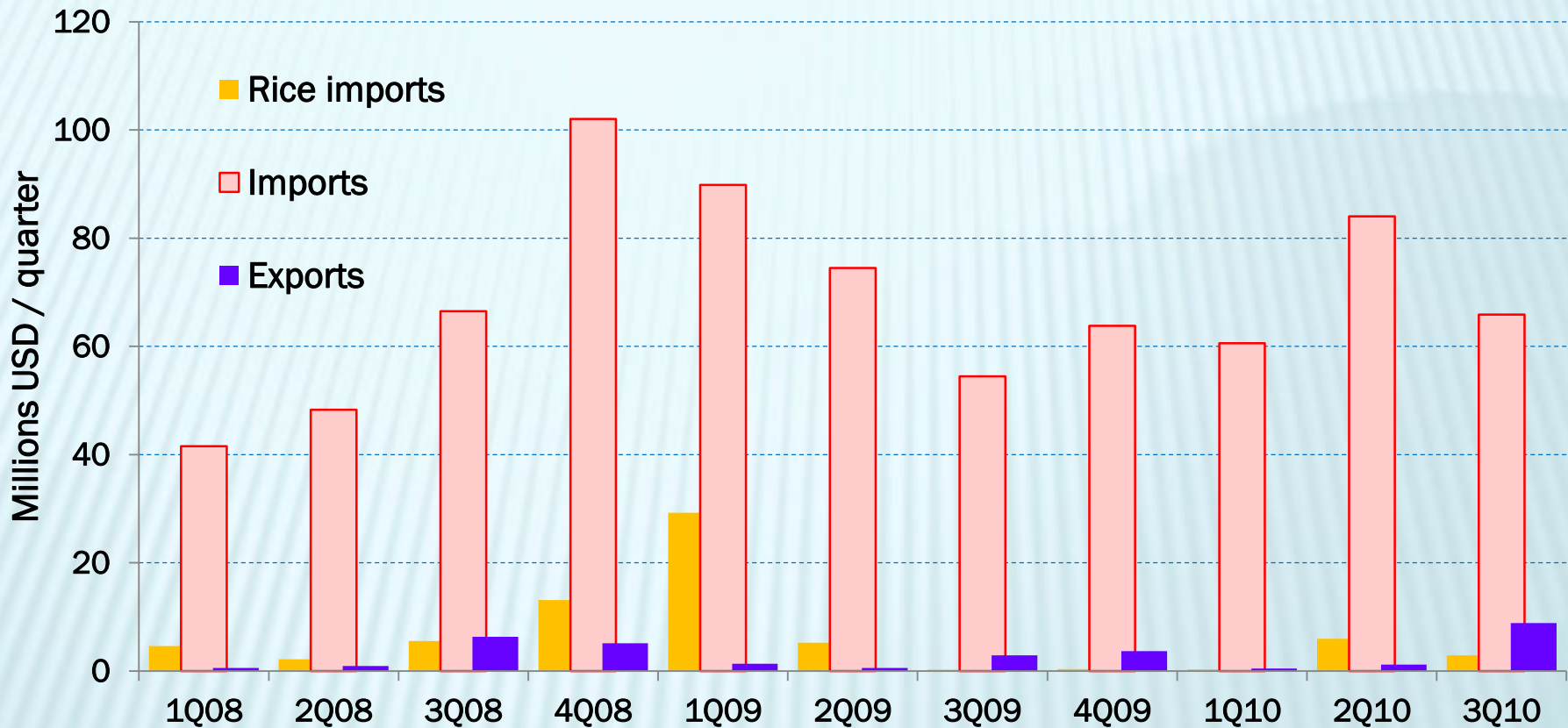
(In cash, as percentage of each appropriation in the final 2010 State Budget)



Graph by La'o Hamutuk based on information from the Timor-Leste Ministry of Finance.

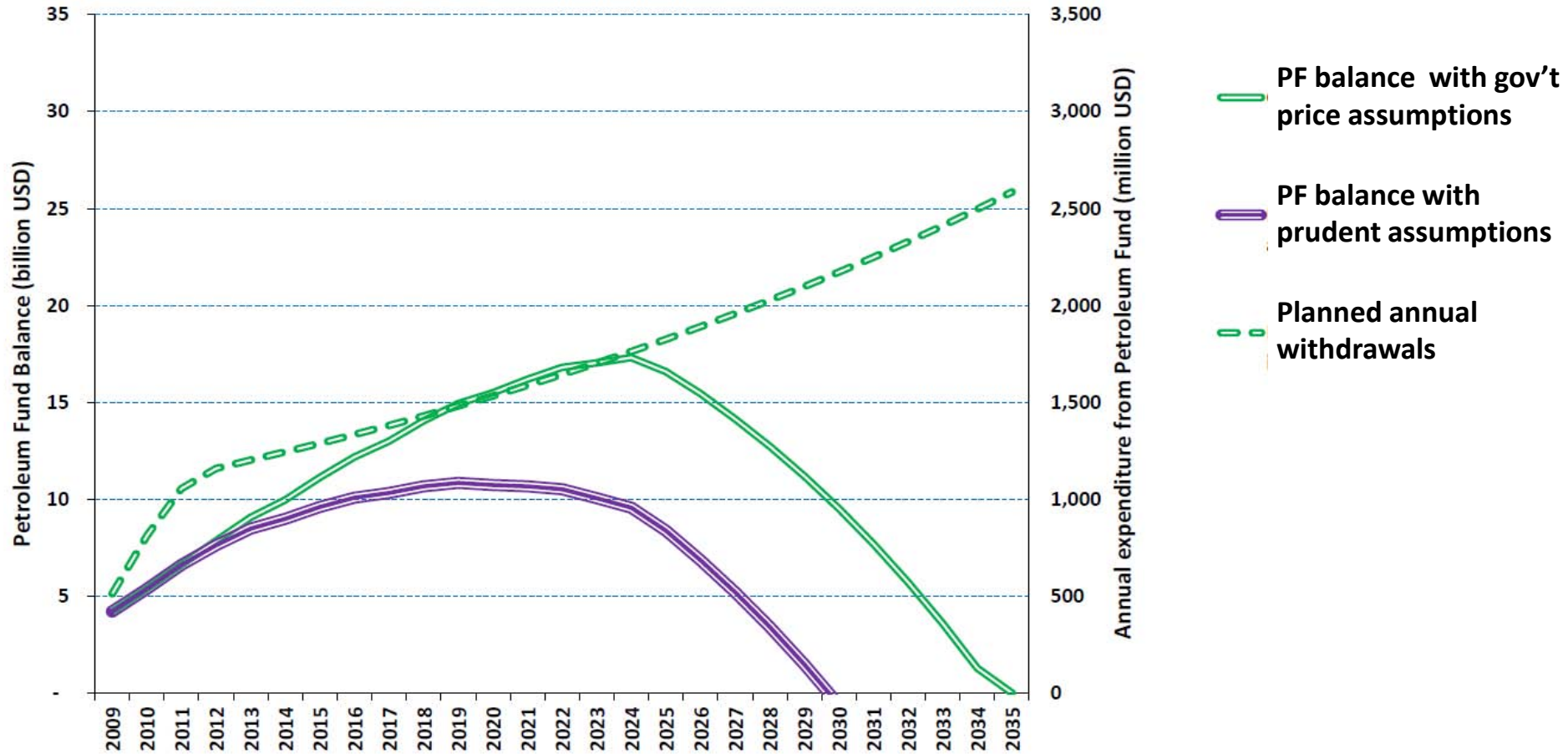
Some agencies spent rapidly during December – indication of corruption?

Timor-Leste's balance of trade



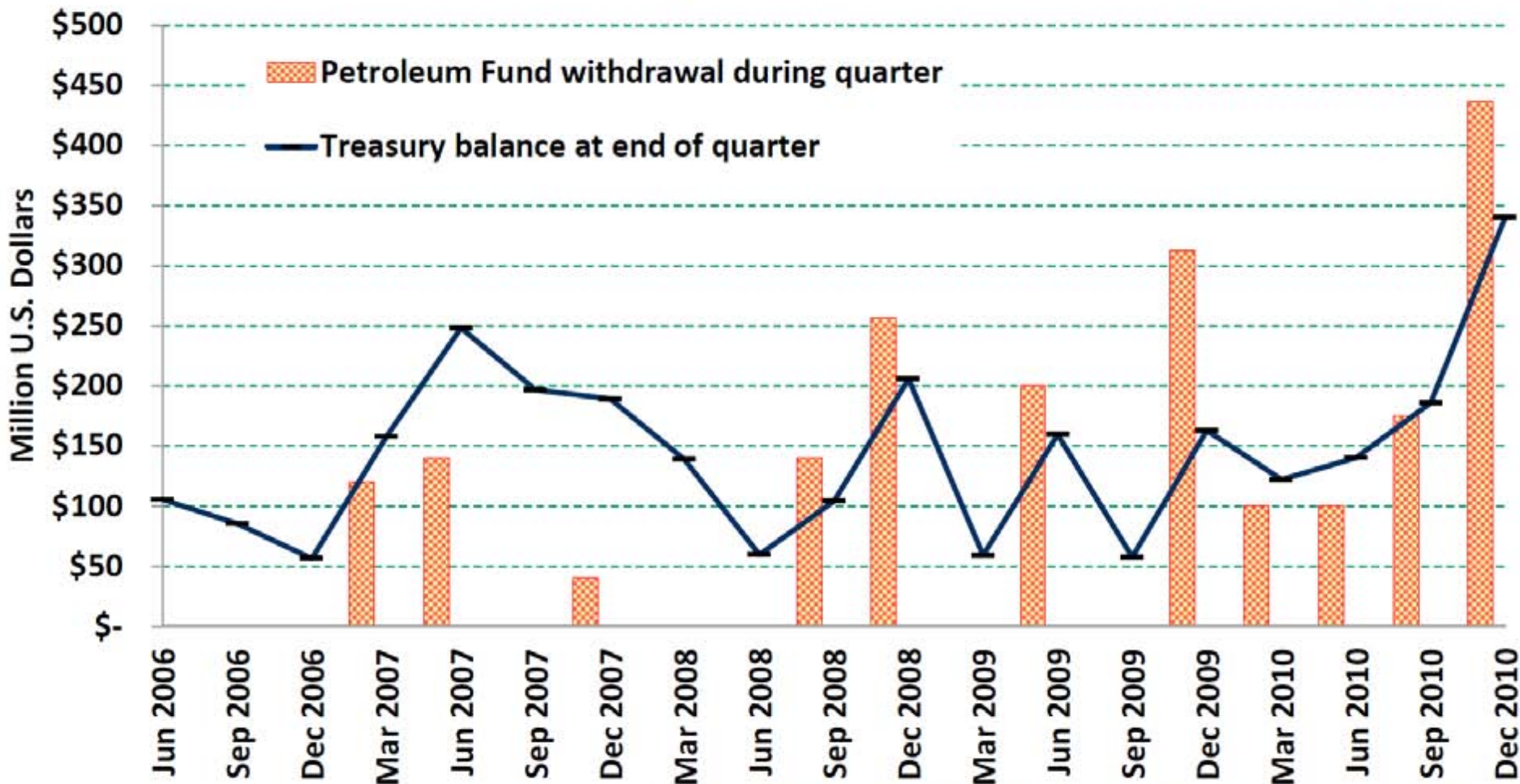
**Exports are 97% coffee. Illegal imports may add 50%.
However, oil exports today are about \$500 million every quarter.**

The Petroleum Fund can fall to zero.



Money in the bank – very tempting

Balance in RDTL Treasury Account at End of each Quarter



Graph by La'o Hamutuk based on data from the Banking and Payments Authority

One suggestion which could help prevent corruption

- ❖ **Establish a Legal Section in the Anti-Corruption Commission.**
- ❖ **It would analyze and give comments to relevant legislative bodies about whether draft laws are open to or will resist corruption.**
- ❖ **Parliament will soon enact several laws:**
 - ❖ **Civil Code, Land Expropriation Law, Basic Environment Law, National Strategic Development Plan, Revision of Petroleum Fund Law**
- ❖ **The Council of Ministers is about to pass Decree-Laws:**
 - ❖ **National Oil Company, National Development Agency (ADN), new procurement system and many others.**
- ❖ **In the future, you can look at existing laws, to suggest revisions.**

CAC can help strengthen draft laws to prevent corruption.

Thank you.

For more information, see our website:

www.laohamutuk.org

For recent updates, see our blog:

<http://laohamutuk.blogspot.com/>

Or contact us at:

email: info@laohamutuk.org

landline +670-3325013