

The Resource Curse in Timor-Leste¹

By Charles Scheiner², 27 June 2026. Unabridged version

Abstract

After restoring independence in 2002, Timor-Leste established a rigorous system to manage oil and gas revenues and activities, based on international best practice. Policymakers hoped that it would protect the small nation from the ‘resource curse’ which afflicts countries that depend on exporting non-renewable wealth. Within five years, petroleum exports were financing 85% of the state budget and comprised 75% of GDP. By 2026, with its known oil and gas reserves depleted, Timor-Leste has made little progress in diversifying into a sustainable economy. This paper explores what happened and tries to explain why well-intentioned legal and structural measures are not sufficient to avert the ‘paradox of plenty.’

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Introduction

This paper explores the impacts of oil and gas dependency on the Democratic Republic of Timor-Leste. Soon after Timor-Leste restored its independence in 2002, the new nation established a strict legal system to manage oil and gas activities and revenues. Building on international best practice and informed by the experiences of other countries, the nation hoped to avoid the resource curse that afflicts many nations which depend on resource extraction. This “paradox of plenty” often causes people in countries with large non-renewable resource reserves to have lower quality of life than those in countries without such wealth. Although several dozen countries had larger oil and gas reserves than Timor-Leste, the small country had very little other economic activity and hoped to use the windfall of non-renewable assets to move its development forward.

The resource curse, sometimes called “Dutch disease,” has been described from various perspectives, including macroeconomic, human rights, conflict, political, governance, budgetary and psychological (Karl 1997; Collier 2010; Ross 2018; Humphreys et al 2007; Barma 2021). This paper does not try to deconstruct it analytically, but uses the term more broadly to include negative outcomes related to dependency on exporting non-renewable resources. Rather than the academic approach to Timor-Leste taken by some researchers (John et al 2020; Lundahl and Sjöholm 2019), this paper draws mainly on primary sources and first-hand observations.

Policy-makers and civil society in Timor-Leste were aware of the resource curse early on. A 2004 government discussion paper called petroleum “the devil’s excrement”, noting that “many petroleum producing countries are associated with negative developments like: poverty..., conflict..., corruption and unrepresentative government” (Ministry of Planning and Finance 2004). One NGO responded that “Th[is] description of the curse ... does not mention some of the worst manifestations of the ‘devil’s excrement.’ Nearly all petroleum-revenue-dependent countries experience artificially high prices, substitution of imports for locally produced items, and neglect of non-oil sectors of the economy.” (La’o Hamutuk 2004).

In 2005, as Timor-Leste was enacting its systems into law, money began to flow in from offshore oil and gas production. It peaked seven years later, and by the end of 2012 totalled US\$25.5 billion – a large amount for a country with only 1.4 million people and a \$1.9 billion annual non-oil GDP.

Timor-Leste did a lot of things right, but, with its oil and gas fields now depleted, it faces significant hurdles in transitioning to a sustainable economy.

This paper looks at governance, contracting and revenue management during four phases of Timor-Leste’s petroleum history: creation of regimes, rising revenues and expectations, decline from peak production, and today. In conclusion, it examines what has and hasn’t worked, and some of the reasons why.

Starting in a good place

Timor-Leste created its petroleum management systems before beginning large-scale oil and gas production. Its citizens, having lived through centuries of colonialism and brutal foreign military occupation, highly valued peace, sovereignty and constitutional democracy. Although, as explained below, the post-conflict, post-colonial, fragile context exacerbated some of the resource-dependency-related problems, people were determined to move forward.

Following two years of UN-run transitional administration, the country was blessed with international good will and advisors. The nation had no foreign debt and negligible local corruption. Known oil and gas reserves were far offshore, minimizing proximate impacts on communities and the environment.

In this promising context, Timor-Leste's First Constitutional Government established what was expected to be a safe and durable petroleum and financial regulatory regime "for the benefit of current and future generations." It included the following:

- The Petroleum Activities Law 13/2005 requires contracts (PSCs) with oil companies to use a common template, with public tenders, published contracts, and no special fees which could be avenues to corruption. Every project would have the same tax rules³ (República Democrática de Timor-Leste 2005b; La'ó Hamutuk 2005; La'ó Hamutuk 2026a).
- The Petroleum Fund Law 9/2005 stipulates that all revenues from oil and gas-related activities go directly into a sovereign wealth fund called the Petroleum Fund (PF). The PF is independently managed by the Central Bank and invests in hundreds of publicly-traded international stock and bonds. Withdrawals from the PF would fill the "non-oil fiscal deficit" in the state budget, and the PF was intended to stabilize expenditures, buffering state spending from fluctuating oil prices and production. Interest and dividends from PF investments are re-invested in the PF, and money can only be withdrawn with prior Parliamentary authorization. An Estimated Sustainable Income (ESI) rule limits annual withdrawals to 3% of the balance in the PF added to the inflation-adjusted value of future revenues from projects with approved development plans, although excess withdrawals are allowed if Parliament agrees that they are in the long-term interests of Timor-Leste (República Democrática de Timor-Leste 2005a; La'ó Hamutuk 2005; La'ó Hamutuk 2026b).
- As a further safeguard, the Petroleum Fund cannot be used as collateral for borrowing. Although international lenders encouraged borrowing to fill an anticipated "financial gap" because oil revenues would come in too slowly to pay for the state apparatus and economic development, the government declined to do so.

In 2003, the Prime Minister addressed the founding conference of the Extractive Industries Transparency Initiative (EITI) in London (Alkatiri 2003). The Petroleum Fund was then set up

³ Unfortunately, the contracts for the two largest fields, signed in 2003 to replace illegal occupation-era agreements with Indonesia, were not subject to these rules.

to be an international model of transparency, publishing regular reports on its income, outgo and investments (La'o Hamutuk 2026b; Central Bank of Timor-Leste 2026).

The government also enacted local content rules in hopes that future jobs and subcontracts in the oil industry would help underpin Timor-Leste's economy, although realists did not expect this to be significant (La'o Hamutuk 2008).

For a few years, many things worked as intended.

Timor-Leste's oil and gas production and global energy prices surged after 2005, and the country's annual petroleum revenues were far higher than expected, exceeding \$2 billion by 2008 and peaking at \$3.3 billion in 2012, nearly three times non-oil GDP (see Figure 1).

In 2005-2006, independent Timor-Leste held its first licensing rounds for new oil and gas contracts, awarding six PSCs through transparent public tenders (La'o Hamutuk 2006a, 2006b).

Management of the Petroleum Fund followed the spirit and the letter of the established rules. Because the PF was entirely invested in bonds issued by foreign governments, it was the only sovereign wealth fund in the world which didn't lose value in the 2008 global financial crisis. PF managers avoided short-sighted investment decisions and maintained a diverse portfolio.

Because petroleum income exceeded expectations, the country did not need to borrow right away. The state began taking out loans in 2012, but foreign debt was less than \$100 million at the end of 2017 (although loan agreements totalling \$400 million had been signed).

In 2010, Timor-Leste was the third nation in the world certified as compliant with EITI, publishing annual reports (Timor-Leste Extractive Industries Transparency Initiative 2026). The National Petroleum Authority, Central Bank and Ministry of Finance regularly reported petroleum revenues and PF investments, setting up websites on procurement and budget execution. Revenue Watch compared 41 resource-rich countries on natural resource governance and Timor-Leste ranked 12th -- the best in Southeast Asia (Revenue Watch 2010, 16).

In 2011, Timor-Leste created a state-owned petroleum company, TimorGAP, E.P., to enable the government to participate in joint ventures. Although it was less transparent and had a wider mandate than some had recommended, its scope and activities were limited (TimorGAP 2025; La'o Hamutuk 2007, 2026f).

Revenues and impatience increase.

After civil unrest and a return to precarious stability, Timorese voters elected a new government in 2007, led by Prime Minister Xanana Gusmão. It adopted a National Strategic Development Plan 2011-2030, which promised to use oil money to transform Timor-Leste into a moderate-to-high income country. However, the plan is aspirational, with no costing or details.

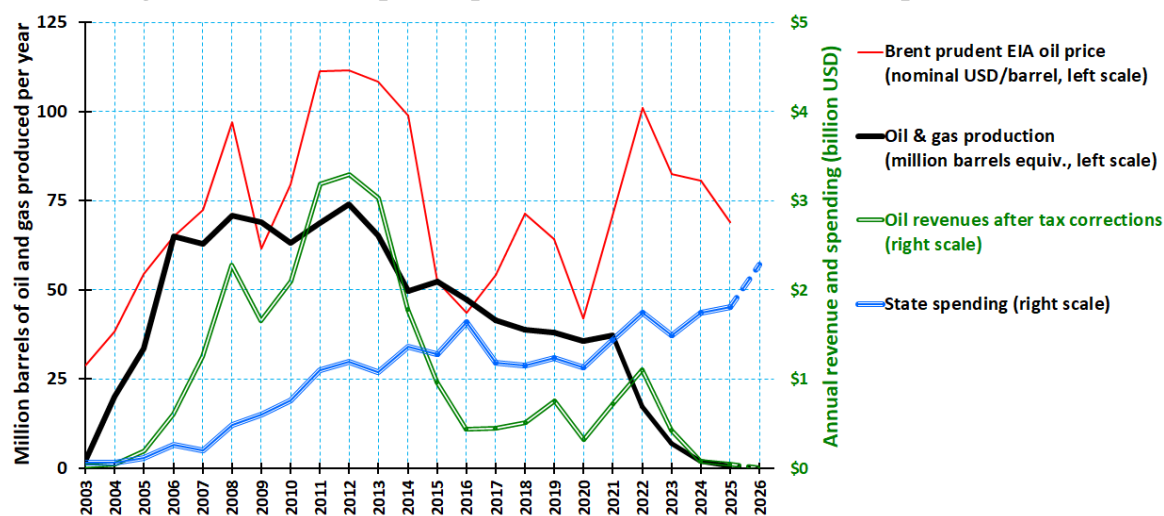
Oil companies did seismic research and drilled test wells in areas contracted in 2006, but by 2019 none of them had found commercially viable oil or gas, and all were relinquished. No public bidding rounds for new exploration were held between 2006 and 2019.

From 2008 on, Government leaders gave less attention to governance and more to spending money. With annual oil and gas revenues exceeding a billion dollars, state spending exploded from \$0.2 billion in 2007 to \$1.2 billion in 2012. Much of the money paid for physical infrastructure, especially national roads, power plants and transmission lines.

When Indonesia destroyed Timor-Leste's electricity system in 1999, they 'created' an opportunity to build modern, renewable, decentralized electricity infrastructure with solar and wind power generated throughout the country. Instead, decision-makers opted for a 19th century design -- centralized, oil-fuelled plants and a national grid -- which cost more than twice as much to build as a renewable system would have, and reaches only part of the population (La'o Hamutuk 2017). More than \$100 million of public money is spent to import fuel every year, opening avenues for legitimate and corrupt businesses (Tribunal da Recurso 2021b).

In addition, the government spent to "buy peace," paying generous pensions to veterans of the independence struggle and compensating people affected by the 2006 unrest. However, as Figure 1 shows, oil production declined after 2012 and revenues fell rapidly, although the state budget continued to increase.

Figure 1: Petroleum prices, production, revenues and state expenditures



Sources: Autoridade Nacional do Petróleo 2025; U.S. Energy Information Administration 2025, 2026; Ministry of Finance 2026.

Withdrawals from the Petroleum Fund paid for nearly all the escalating state spending, exceeding the Estimated Sustainable Income in every year except 2013, when \$700 million in unspent withdrawals were carried over from 2012. During 2010-2015, the state withdrew \$6.1 billion from the PF, 54% more than the ESI, financing 89% of state expenditures. Although the government formally justified the unsustainable withdrawal levels, it did not explain why every year was exceptional. (See figure 4.)

Nevertheless, thanks to rising oil prices and favourable investment returns, the balance in the Petroleum Fund grew from \$2 billion in 2007 to \$17 billion in 2014. Oil revenues began to decline after 2012, although non-oil (domestic) revenues were still only enough to finance about 1/5 of the state budget (see Figure 3). Budget execution was often less than was appropriated, and the PF-financed “surplus” was carried over from one year to the next.

As a small, inexperienced government with billions of dollars, Timor-Leste attracts con artists, although few multi-million-dollar corruption cases have come to light. In 2009 the fictitious Asian Champ Investment Company offered benefits to Timor-Leste in return for an investment of \$1.2 billion from the PF. The Central Bank and the Investment Advisory Board realized that the offer was too good to be true, foiling the scam. Nevertheless, its main Timorese supporter remains in a key position, and its Singaporean proponent is behind the recently cancelled Pelican Paradise resort (La’o Hamutuk 2012; República Democrática de Timor-Leste 2021).

In 2009, Norway recruited Nigerian-American Bobby Boye as a petroleum tax advisor in Timor-Leste’s Ministry of Finance, where he gained confidence by (falsely) accusing petroleum companies of cheating on their taxes. Boye then persuaded the Ministry to pay millions of dollars to his non-existent law firm. Eventually, U.S. courts convicted Boye of fraud and imprisoned him for more than five years. His incorrect tax advice led to protracted negotiations, and Timor-Leste had to pay more than \$250 million back to the companies (La’o Hamutuk 2021a, 2021c). The repayments were not done through the budget, but, less transparently, by deducting them from incoming oil and gas revenues.

In 2011, after extensive public consultation, the government persuaded Parliament to revise the Petroleum Fund Law. They weakened the ESI spending guideline, sought higher returns by shifting investments from bonds to riskier equities, and allowed 10% of the PF to be used for collateral for loans. By 2014, 40% of the PF was invested in the volatile global stock market.

The current situation

Timor-Leste today is largely a peaceful, democratic country under rule of law. It has had six constitutional changes of government. Democratic practice thrives, and people enjoy their civil and political rights. No foreign powers have intervened militarily, and internal political conflicts are resolved through legal mechanisms. All identified cases of corruption have been under \$20 million; many of the perpetrators have been tried and sentenced. Compared with the other fragile states in the g7+ group that Timor-Leste initiated, the country is doing exceptionally well.

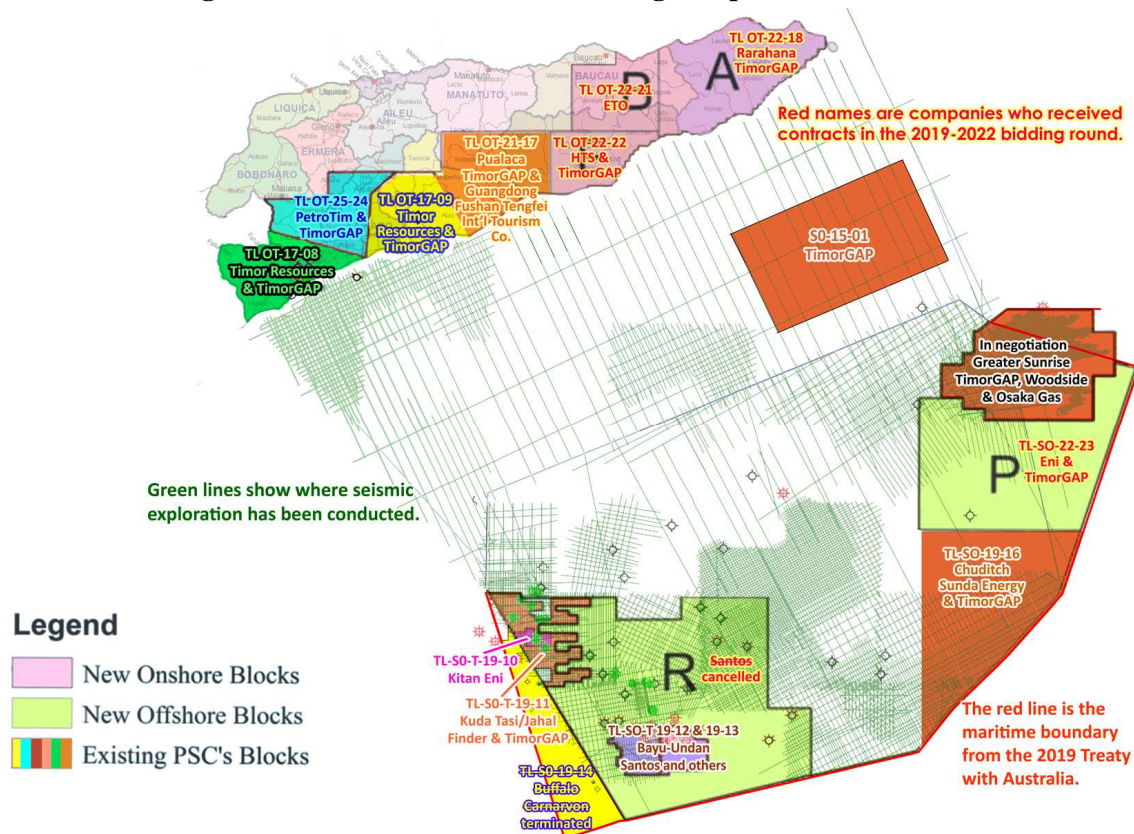
International governance scorecards rank Timor-Leste about average globally, albeit better than other Southeast Asian or post-conflict countries. Some, such as the Corruption Perceptions Index, show slow but steady improvement (Transparency International 2029; V-Dem Institute 2026), while others, including the EIU’s Democracy Index and the Bertelsmann Transformation Index, show little change or a slight decline in recent years (Economist Intelligence Unit 2026; Bertelsmann Transformation Index 2026). With oil money still available, the country is a stable, middling democracy.

Although a growing middle class in the capital Dili has benefited from government spending, little has changed for the impoverished, rural, agricultural majority. Most intermediate targets in the 2011-2030 Strategic Development Plan have not been met, and a long-overdue evaluation and revision of the plan was aborted by the IX Government elected in 2023, which is conducting its own review to prolong the plan by five years.

Six new oil and gas exploration contracts were awarded between the 2006 bid rounds and 2021, all without public tenders. Timor-Leste has a long history of petroleum prospecting, and most companies believe it is unlikely that commercially viable fields are waiting to be discovered. Therefore, the inexperienced national oil company TimorGAP, sometimes in partnership with small companies who have never run a successful oil or gas project, is part of all these contracts (La’o Hamutuk 2026a).

In 2019-2022, Timor-Leste held its first tender for new oil exploration in 13 years. Seven companies bid for six of the 18 blocks on offer and four contracts were awarded, as shown in Figure 2. Nearly all the area in the eight offshore blocks which nobody bid for had previously been explored and relinquished.

Figure 2: Current and future oil and gas exploration contracts



Sources: *Autoridade Nacional do Petróleo e Minerais* 2018, 2022; *La’o Hamutuk* 2020, 2026a.
 Notes: Red companies in pink and green areas were awarded contracts in 2022. Small circles are previously-drilled test wells.

The only large verified oil and gas reserve is the offshore Greater Sunrise field, which was discovered in 1974. The area is shared with Australia and was subject to a prolonged

maritime boundary dispute which was settled in 2018. Sunrise development was suspended while the boundary was unresolved, and is still stalled because Timor-Leste's Government insists that the gas be piped to Timor-Leste's south coast for liquefaction and export, and no one will finance that option.

In May 2018, when shifting political coalitions delayed enactment of the 2018 state budget, government withdrew \$70 million from the Petroleum Fund without Parliamentary authorization. Since then, Parliament has authorized all withdrawals in advance.

In 2018-2019, the government again proposed revising the Petroleum Fund Law and Petroleum Activities Law to weaken the ESI guideline, to allow 5% of the PF to be invested in domestic petroleum operations (previously it could only invest in financial instruments outside the country), to reduce judicial oversight of petroleum sector contracts, and to require oil companies operating in Timor-Leste to use less economical practices. Despite opposition from some Parliamentarians, the President and the courts, many of these amendments were enacted (Scheiner 2020).

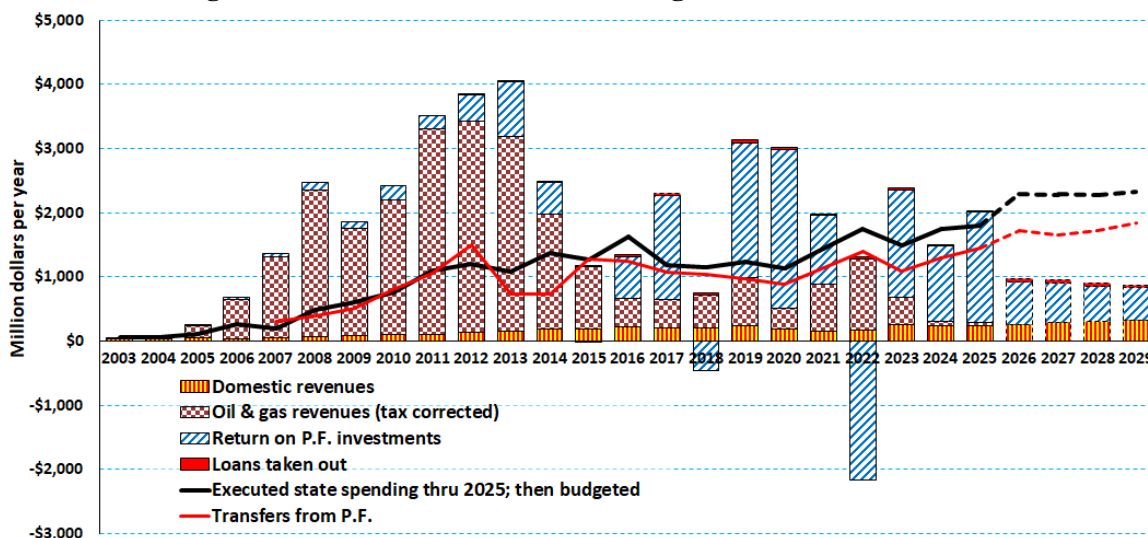
Because Sunrise joint venture partners ConocoPhillips⁴ and Shell believed that a pipeline to Timor-Leste was not commercially optimal, they sold their 56.7% shares of the Sunrise project to TimorGAP for \$650 million in 2019, which was borrowed from the Petroleum Fund. This loan was not in the state budget, and, having grown to \$900 million with accrued interest, is now considered one of the Petroleum Fund's investments, even though it is not tradeable and may never be repaid (La'o Hamutuk 2021f). Annual repayments (more than \$120 million/year) won't be required until 2027, which may be extended.

In mid-2020, Sunrise joint venture partner Woodside Petroleum, recognizing that the project may never be developed, revalued it at zero (Evans 2020). A few months later, TimorGAP's auditors told them to write down the value of their share to zero (TimorGAP 2025). The Ministry of Finance incorporated this revaluation when they calculated the Estimated Sustainable Income for the 2022 state budget (Ministry of Finance 2022a, Final Book 1, page 49), and the Central Bank belatedly included a reduced value for the Sunrise loan in the PF balance (Central Bank of Timor-Leste 2026). This caused confusion which delayed the 2020 Annual Reports of TimorGAP and of the Petroleum Fund (which is the responsibility of the Ministry of Finance). The Audit Court lamented these illegal delays when it reviewed the state accounts for 2020 (Tribunal de Recurso 2021a, 13). Nine months after the deadlines, TimorGAP published its 2020 report in March 2022, and the Ministry published its 2020 PF report the following month. The Central Bank has devalued its Sunrise investment by more than \$275 million, due to risks that it may not be paid fully or on time (Ministry of Finance 2022c, 54; Central Bank of Timor-Leste 2026).

Oil revenues dropped drastically after their 2012 peak, and Timor-Leste has already received all of the revenue it will get from Bayu-Undan (BU) and two smaller fields, all of which have ceased production. Although BU revenues increased in late 2021 and early 2022 due to high LNG and oil market prices, this did not last long. Production began to fall sharply and extraction from Bayu-Undan ended in June 2025 (Santos 2026).

⁴ ConocoPhillips management had also developed a distaste for Timor-Leste due to unfounded tax evasion allegations.

Figure 3: Income to the state (including the Petroleum Fund)



Source: Ministry of Finance Budget Books 1 for 2026 and previous years.

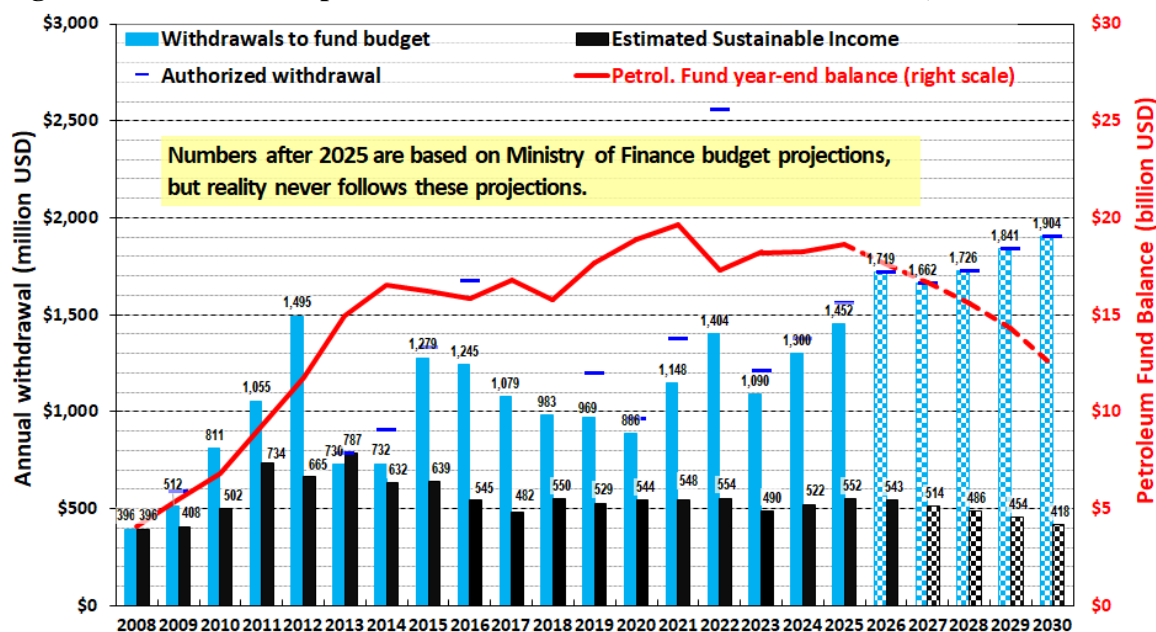
Note: Dashed lines and bars after 2025 are projections by the Ministry of Finance.

Most of the oil and gas revenue received in 2023 relates to extraction in 2022.

A small Australian company, Carnarvon, drilled a test well in the offshore Buffalo field in 2021, but results were not commercially viable. In June 2026, ANP notified the British company Sunda Energy that its contract for the Chuditch field will be terminated because Sunda has not drilled the test well they promised. Other possible projects are being discussed, but they are too uncertain to estimate results. Nevertheless, if all planned projects achieve their proponents’ optimistic targets, they might bring in about \$1 billion to the state treasury, less than Timor-Leste received in a single quarter in 2012, not even enough to cover six months of today’s state spending (Scheiner 2021, 16).

In August 2021, the balance in Timor-Leste’s Petroleum Fund, buoyed by slow budget execution and ebullient financial markets, reached an all-time high of \$19.7 billion, which had dropped to \$18.6 billion by the end of 2025. From its creation through 2025, the PF received \$25.5 billion in petroleum revenues and \$5.9 billion in interest and dividends on its investments. The unrealized value of the investments has increased by \$6.9 billion (even after dropping \$2.4 billion in 2022). The \$18.9 billion withdrawn from the Fund (far above ESI, which totalled \$10.4 billion), has paid for 83% of all state spending.

Figure 4: Historical and planned withdrawals from the Petroleum Fund, and PF balance

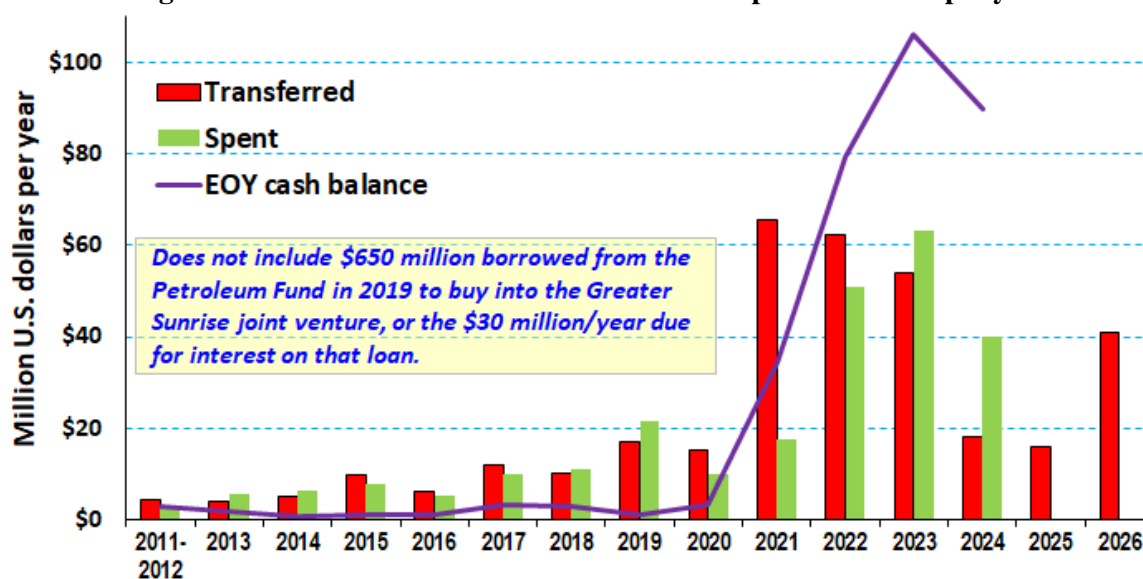


Sources: Ministry of Finance 2026; Central Bank of Timor-Leste 2026.

By the end of 2025, \$320 million in foreign loans to Timor-Leste had been disbursed, out of \$864 million contracted.⁵ The 2026 budget authorizes up to \$850 million in new loan agreements. Debt service consumes about 1.2% of the state budget (Ministry of Finance 2026).

Because TimorGAP’s Sunrise and Tasi Mane projects may never happen, and its other contracted areas are unlikely to produce substantial revenue, the national oil company is searching for a mission. In addition to operating retail petrol stations, the company is the main importer of diesel fuel for power plants. Although it has produced hardly any income, TimorGAP’s subsidy from the state budget quadrupled in 2021, to \$66 million. When the Government proposed to reduce it to \$35 million for 2022, the Minister of Petroleum and Mining persuaded Parliament to add \$27 million more. It has since declined, as many of TimorGAP’s former functions are now done by the Ministry of Petroleum and Minerals (the current Minister was President of TimorGAP until 2020). These subsidies are provided through lump-sum public transfers, so the budget law does not specify how the money should be used.

⁵ \$161 million more had been contracted but were cancelled in late 2024.

Figure 5: State subsidies to TimorGAP national petroleum company

Sources: TimorGAP 2025; Ministry of Finance 2026.

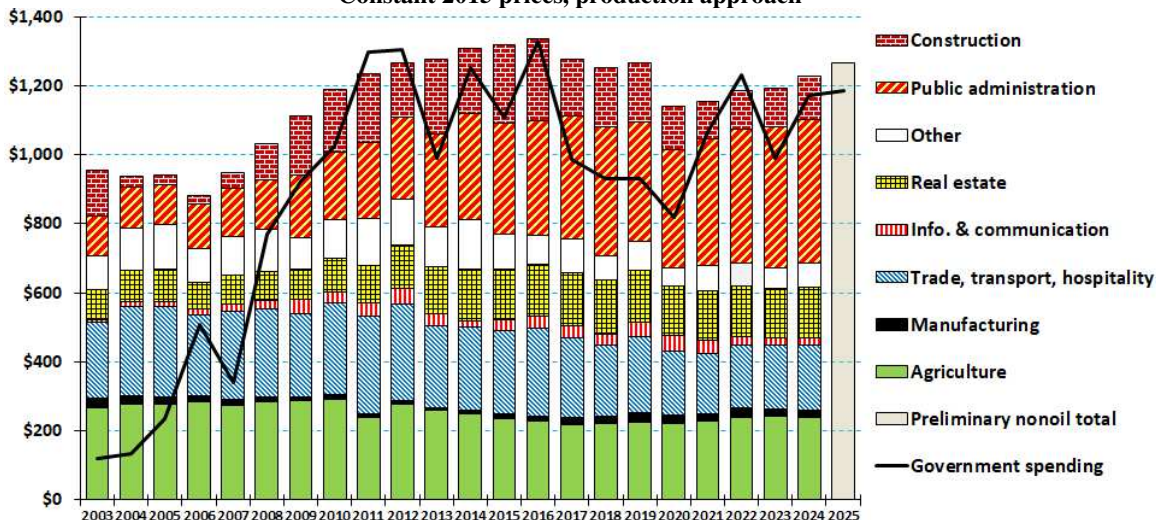
Transparency laws remain in force, although few use or understand the published information and data is increasingly hard to access (La'o Hamutuk 2022c). Timor-Leste's strong initial commitment to EITI and contract transparency has weakened. EITI certification was briefly suspended in 2017, and the most recent report is for 2023. From 2015 to 2023, the Open Budget Survey scores for the country have hardly changed (International Budget Partnership 2024). Its rank on the Resource Governance Index dropped from 12th in the world in 2010 to 43rd in 2017 (Revenue Watch 2010; Natural Resource Governance Institute 2017).⁶

In early 2022, Timor-Leste adopted a new budgetary process based on program-based budgeting (República Democrática de Timor-Leste 2022b; La'o Hamutuk 2021d, 2022a). Some aspects may improve planning and oversight, but the new law requires less transparency than its predecessor, creating opportunities and challenges for citizens engaging with the budget process (La'o Hamutuk 2022b). Some of the changes were rolled back in 2023 and 2025. The new system does not address many fundamental issues discussed in this paper and fails to recognize the unique characteristics of petroleum export dependency.

Because the state budget is funded by petroleum and investment revenues, other economic development has been limited and the entire economy relies on state spending. Although about half of the \$23 billion spent by the state in 2008-2025 left the country to pay for imported goods and services, the remainder has been the principal driver of 'non-oil' GDP, which totalled \$30 billion during those 18 years (see Figure 6). The top two segments, almost entirely funded by state spending, determine the GDP's rise and fall; productive sectors are virtually stagnant.

⁶ NRGI did not include Timor-Leste in its 2021 index and, since 2025, the OBS omits Timor-Leste.

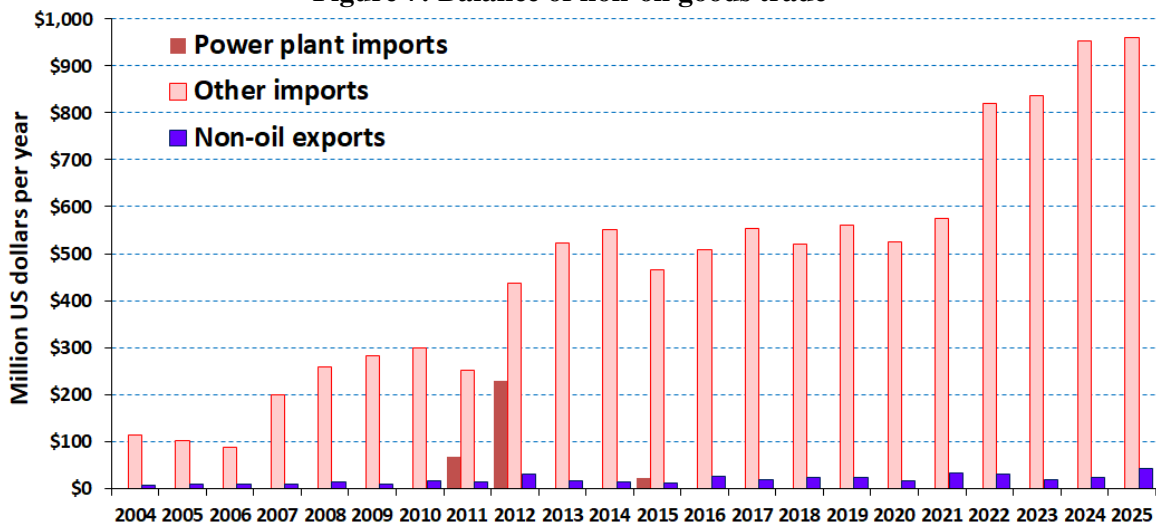
Figure 6: Sectoral contributions to non-oil GDP per capita
Constant 2015 prices, production approach



Source: National Statistics Institute 2025b, 2026a.

One impact of oil money is the tendency to import goods and services, rather than source them domestically, as shown in Figure 7. If petroleum exports are not included, the country’s international trade deficit is over \$1 billion every year. Many of the imports could be produced locally, and 80% of non-oil exports are coffee.

Figure 7: Balance of non-oil goods trade



Source: National Statistics Institute 2026b.

Money from the Petroleum Fund has a rentier effect. Many entrepreneurs seek rents (usually government contracts), rather than invest in productive activities. Outside of the large subsistence farming sector, about half of the formal labour force in Timor-Leste works either for the state or for contractors paid by the state. Private sector employment increased by only 4,400 from 2014-2024, while the working-age population went up by 220,000 (National Statistics Institute 2025a).

Where Timor-Leste is headed

Because exporting petroleum wealth has funded Timor-Leste for almost a generation, most politicians and citizens hope to continue to convert non-renewable assets into cash forever, and are in denial that this may be impossible. This political/psychological ‘resource curse’ has impeded difficult changes in policy that are essential to avoid economic collapse in the 2030s, when the Petroleum Fund runs out.

People don’t want to acknowledge that the quality of their lives could become much worse. Although the country still has high monetary and multi-dimensional poverty and malnutrition, oil revenues boosted its Human Development Index between 2002 and 2010, when it ranked 128th of 189 nations. By 2022, its rank had fallen to 155 (United Nations Development Program 2024), having dropped further since 2015 than every country except Venezuela and Lebanon, although Timor-Leste’s HDI improved slightly in 2023 (United Nations Development Program 2025). Without more attention to education, health care and economic diversification, the HDI could get worse.

Due to the Indonesian occupation, no oil or gas wells were drilled onshore in Timor-Leste between 1972 and October 2021, when the Feto Kmaus test well was drilled by the privately-held Australian start-up company Timor Resources. This well did not find commercially viable reserves. The company drilled in other areas in 2022-23 and is looking for investors, but has not committed to production wells. However, its optimistic estimate of the total reserve is equivalent to five months of Bayu-Undan production at its peak. Operators of other possible fields, including Chuditch and Jahal/Kuda Tasi, have not yet drilled but continue to seek financing.

Petroleum advocates in industry and government are joining the global push for ‘Net Zero’ greenhouse gas emissions to greenwash or conceal the climate consequences of continuing fossil fuels extraction. In Timor-Leste, Santos would like to use the depleted Bayu-Undan reservoir to store carbon dioxide emitted by natural gas extraction from carbon-intensive fields in Australia. Although this Carbon Capture and Storage (CCS) project will not capture all of the CO₂ released by these fields, it might provide regulatory and public relations cover for the companies, as well as a little income to Timor-Leste. Although CCS at Bayu-Undan, which Timorese civil society calls “Carbon colonialism”, is still pending Final Investment Decision, Santos recently started extraction from Barossa (Santos 2026; Evans 2022; Robert 2022; La’o Hamutuk 2021e, 2026a).

Timor-Leste officials also hope for large mining revenues, although current mining is only sand and gravel for local construction projects. They would like to reopen marble quarries which operated during the Portuguese and Indonesian periods – the only profitable mineral extraction in the country’s history. A Mining Code was enacted in 2021, and Government has established a National Mining Company and a Minerals Fund, creating a mirage that minerals could be as lucrative as oil. Several foreign companies are looking for copper, gold or manganese (La’o Hamutuk 2021b, 2026e).

Withdrawals from the Petroleum Fund consistently ignore the sustainability guideline, and are often more than the government can spend. During 2015-2025, withdrawals averaged

more than double ESI, and the Government expects to withdraw 3.6 times ESI during 2026-2030 (Ministry of Finance 2026).

For a decade, independent projections have estimated that the Petroleum Fund may be empty in less than a generation (Scheiner 2015, La'o Hamutuk 2015), and by 2021 government technocrats agreed (Ministry of Finance 2022a (Book 1, Figures 17 and 18), 2026 (*Relatorio*, Figure 14)). In 2022, the Ministry of Finance stated that "Timor-Leste will reach a fiscal cliff by 2034" which "will force a radical cut in all spending ..." (such as slashing public employees' salaries by 85%) (Ministry of Finance 2022e), and the World Bank discussed the "inescapable macro-fiscal cliff in the next decade" (World Bank 2022, page 30). These warnings were reiterated in following years, despite the change in Government and slower growth in public spending. In 2025, the World Bank pointed out that "Timor-Leste's fiscal outlook remains fragile. ...[t]he Petroleum Fund... could be depleted by 2038 if current policies persist. ... Temporary windfalls from Greater Sunrise or other petroleum reserves would only postpone the challenge, not resolve it" (World Bank 2025; IMF 2025).

Nevertheless, most office-holders still expect that, because oil money has carried the country thus far, it will continue to do so indefinitely. State budgets and projects are approved without considering financing sources, future debt service, maintenance, or related medium- and long-term expenses. Spending reached record highs in 2024 and 2025.

Many people envision the undeveloped Greater Sunrise gas and oil field as part of the Tasi Mane Project (TMP). This megaproject on the south coast will include an oil refinery, LNG plant, offshore gas and onshore oil pipelines, a supply base for offshore petroleum projects, highway, airports, and new towns. It could cost \$24 billion to build, although the financial returns are dubious and no investors have come forward (La'o Hamutuk 2019). Timor-Leste has already spent \$1.3 billion on it, half for a controlling interest in the Sunrise Joint Venture. They used the rest to build an airport and part of a highway, both of poor quality and rarely used.

Figure 8: Money spent, budgeted and required to build the Tasi Mane Project
(million USD)

Component	Location	Status	Spent through 2024	Budgeted 2025	Budgeted 2026	Estimated total capital cost	Percent budgeted
Airport	Suai	Constructed	79	2	2	83	100%
Supply base	Suai	Tender pending	52	14	20	1,200	7%
Highway	Suai-Fatukai	Mostly built	306	4	1	340	91%
Highway	Fatukai-Natarbora	Not started	-	22	30	800	7%
Airport (is this real?)	Natarbora	Not started	-	-	-	100	0%
Oil refinery & petrochemical	Natarbora	Pending design	5	0	-	2,200	0%
Gas pipeline, LNG plant & port	Sunrise-Natarbora	Pending design. Seeking financing	117	0	-	8,700	1%
57% share of Greater Sunrise Joint Venture	Offshore	Borrowed directly from the Petroleum Fund	650		-	650	100%
57% of Sunrise upstream capital expenditure	Offshore	Pending design. Seeking financing	-	12	52	9,200	1%
Administrative and other costs	Dili	Ongoing	106	13	20	744	19%
TOTAL			1,315	67	124	24,017	6%

Sources: Ministry of Finance 2026; TimorGAP 2025; Tribunal de Recurso 2021a.

Note: This table does not include \$587 million in interest to be paid on the loan to buy into Greater Sunrise.

Analyses of TMP and Greater Sunrise exaggerate its benefits and use “anticipatory transformation” to justify the project (Bovensiepen 2024). Tasi Mane’s opportunity cost – neglecting other economic sectors which would create far more Timorese revenues, jobs and subcontracts – is ignored. Investing money in Timor-Leste’s coffee production could create six times as many jobs and six times as much GDP growth per dollar as investing in the TMP (Inder and Qu 2019).

The Government elected in 2023 returned former Prime Minister Xanana Gusmão and other project proponents to power; they have met many times with Woodside and Australia and done new studies, including a much-touted report by Wood which has not been released (La’o Hamutuk 2026g). The 2026 state budget allocates \$119 million for the Greater Sunrise and Tasi Mane programs, up from \$56 million in 2025 and \$26 million in 2024.

Some cautionary signs

Systematic analysis of the forces and reasons behind Timor-Leste’s looming fiscal cliff is beyond the scope of this paper. Nevertheless, these are some factors which led to this situation:

As described above, the state budget and economy depend on petroleum revenue. Because that money has been available, people and organizations (including the state) who need something would rather buy it than build it. Many things are imported, including food and essential goods which could have been produced locally.

Money is seen as the solution to most problems. Well-connected people go to overseas schools and hospitals (often paid for with public funds), while local education and health care systems remain underfunded and substandard. In 2026, Timor-Leste allocated 15% of

its state budget to health and education (La'o Hamutuk 2026d), about half of what is considered good practice in developing countries (United Nations Development Program 2011, 123). Greater investment in human capital could help diversify the economy and reduce the impact of the fiscal cliff.

It is easier to hire a foreign company to build a large infrastructure project than it is to develop local, decentralized capacity to address communities' needs for rural roads or water supply. The biggest expenditures have been to build national roads, electricity systems, ports and airports, which disproportionately benefit the small upper and middle classes, not the rural poor majority. Little attention is paid to management, design, construction quality or ongoing maintenance (World Bank 2021).

The expansion of the Petroleum Fund into the global stock market caused returns to fluctuate, and PF investments lost money in 2015, 2018 and 2022 (La'o Hamutuk 2026b; Central Bank 2026). Although foreign advisors promoting diversification had a long-term investing perspective, most politicians, responsible for annual budgets and facing voters every five years, have a shorter planning horizon. (Ryan-Kane 2010, 8-11; La'o Hamutuk 2010, 3-4).

Lessons which could be learned

Although it may be too late for Timor-Leste to avoid the 'fiscal cliff' when the Petroleum Fund runs out, it is not too late to reduce the severity and duration of its impacts. In approaching this challenge, it may be useful to identify some underlying factors which brought the country to this point, especially those which were not foreseen when Timor-Leste created its petroleum governance regime 21 years ago. With hindsight, many of them seem obvious.

Anything that is legislated can be revised. A civil society submission on the draft Petroleum Fund Law highlighted the need for strong laws to protect the nation's resource birthright "from hypothetical ill-intentioned, corrupt institutions and individuals", encouraging "the current Government to establish structures that protect the people of Timor-Leste regardless of who is in power in the future" (La'o Hamutuk 2004, 8-9). In retrospect, this may be impossible in a democratic country, because even a leak-proof legal system can be perforated by subsequent laws.

Democratic governance undercuts long-term strategic planning. Politicians can only remain in power if they win the next election, so immediately visible benefits take priority over longer-term outcomes. This 'front-loading' policy of spending unsustainably in anticipation of future development helps win elections, but saving money or investing in human resources, which could produce better outcomes in the long run, does not.

A rentier economy is addictive. When one receives money without doing any work, it is tempting to act as if the windfall will continue indefinitely. Although finite buried treasure inevitably runs out, many are seduced by the fantasy that yet-to-be developed petroleum or mineral deposits will continue to provide money, even when geology, research, corporate reports to regulators, and potential investors say otherwise (Neves, 2022).

This factor is exacerbated by limited numeracy and scientific knowledge among politicians and citizens, few of whom have had quality formal education. Although an oil and gas mega-project (such as Bayu-Undan) could yield tens of billions of dollars in revenues, most are much smaller, and the majority of test wells drilled worldwide do not find any commercially viable deposits (Westwood Global Energy, 2019). Few people consider the impacts of Timor-Leste's oil extraction on the climate, or the imminent changes to the global energy economy to address climate change.

Petroleum extraction and processing involve hardly any Timorese workers or subcontractors, with negligible spinoffs into the local economy. In this highly automated, capital-intensive industry, oil companies pre-fabricate major components in specialized overseas facilities. Although some Timorese workers may do manual labour during construction or installation, there are very few permanent positions for medium- and low-skilled workers.

Private companies make decisions to maximize their profits. Although a commercially viable petroleum project could benefit both a company and the state, legitimate investors and oil companies opt for the most profitable projects. Furthermore, companies dislike dealing with governments they perceive as unreasonable. Other companies or investors, perhaps with less experience or a hidden agenda, may arrive to fill the space ... or may not. Although China has not yet taken advantage of Timor-Leste's vulnerability, some western politicians and journalists are worried that it could (La'o Hamutuk 2023).

The successful independence struggle left a complex legacy. In 1999, Timor-Leste ousted the Indonesian occupiers in defiance of 'experts' around the world who told them it would never happen. In 2018 they transcended 'expert' advice again, coercing Australia to agree to a fair maritime boundary. Some Timorese leaders, especially veterans of the independence struggle, now believe they can accomplish anything, regardless of physical or economic realities.

Although the first Prime Minister, who guided the creation of the petroleum regime, was a technocrat who was in exile during the Indonesian occupation, his successors were leaders of the underground resistance, with different skills than are needed for democratic governance. (When you are hiding from a murderous occupying army, you can't practice transparency, conduct public consultations, do extensive research or consider long-term sustainability.) The attributes of a guerilla commander are not well-suited to managing a peaceful state – but most voters will elect national heroes for as long as they seek power.

Except for a few who went into exile, until 2002 no Timorese person had lived under a government which even pretended to listen to its citizens or to serve the public interest. After they created their own democratic state, political leaders and citizens had to unlearn skills for resisting dictatorship and to learn basic civics practices -- coalition-forming, lobbying, building consensus, seeking public input, listening to people from different backgrounds or parties, making choices based on 'what' rather than 'who.' Although some progress has been made, historical and personal connections and animosities still often outweigh evidence in policy decisions.

One consequence of prolonged war is pervasive trauma. For more than two decades, most people lived every day with the well-founded fear that an Indonesia soldier was going to kill or torture them, kidnap their family, or burn down their home and farm. In such an environment, it makes little sense to plan for the future – all one can do is survive until tomorrow. These lessons are hard to unlearn, and ‘sustainable development to benefit current and future generations’ sounds more like a cliché than a possibility.

After evicting the Indonesian occupation, Timor-Leste was inundated with international advisors. Many of them perceived Timor-Leste as a *tabula rasa* (perhaps because they had first heard of the country in 1999), and ignored Timorese people’s skills, experience, needs, wishes and culture. A few years later, international attention moved elsewhere, and even less-qualified advisors came to Timor-Leste. Timorese officials gradually lost respect for ‘expertise’ and began to wonder whether anyone really knows what they’re doing. Timorese officials with limited education and experience believe that they can do as well as foreign ‘experts,’ often ignoring or rejecting well-founded advice.

Oil and gas have become a patriotic rallying cry. Politicians point out that “Australia got the Bayu-Undan pipeline, so it’s only fair for Timor-Leste to get the one from Sunrise,” regardless of the economic, social and environmental costs, benefits and risks of various options. The undersea gas pipeline is called a *kadoras*, the Tetum word for a bamboo pipe which brings vital water to a house or farm (derived from the Indonesian word for gift), and many people view it as being a similarly indubitable benefit. The *kadoras* becomes a goal in itself, rather than one option for the most lucrative, safe and reliable way to process and sell the gas (Kehoe 2022).

Conclusion

Timor-Leste is a petro state without much petrol. Although petroleum dependency is not the only source of Timor-Leste’s problems, the easy money and temptations it caused have serious, lasting consequences. Transition from a rentier economy is very difficult. Furthermore, decisions dominated by nationalistic, political, polemical or partisan priorities are often suboptimal, leading to lost opportunities or squandering public resources.

In addition to learning from experience, the dynamics of Timor-Leste are changing. The majority of Timor-Leste’s people were born after Timor-Leste achieved sovereignty in 2002. Many have had better educational opportunities and more international exposure than their elders did, and can consider the impacts on their children and grandchildren as they make decisions. Unfortunately, generational change and PTSD recovery may take longer than the limited extractive wealth will last (Cardoso 2022).

Although Timor-Leste started with many advantages, the best governance and revenue management practices have not been enough to prevent impending calamitous consequences of addiction to oil and gas money. Its experience shows that many factors in a young, post-conflict, rentier state can swamp well-designed measures to support sustainable finances and accountability.

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