

Initial Observations

Proposed State Budget for 2016

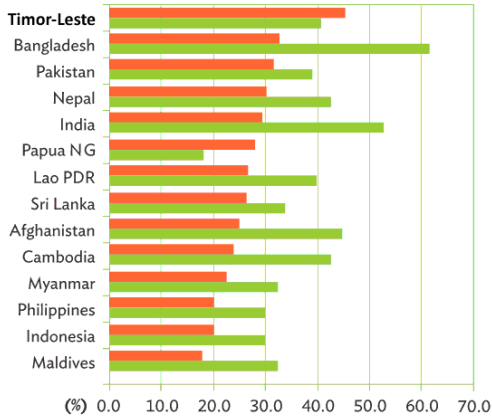
Presentation to National Parliament Seminar
By La'o Hamutuk

10 November 2015



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



Source: ADB Key Indicators 2015

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.

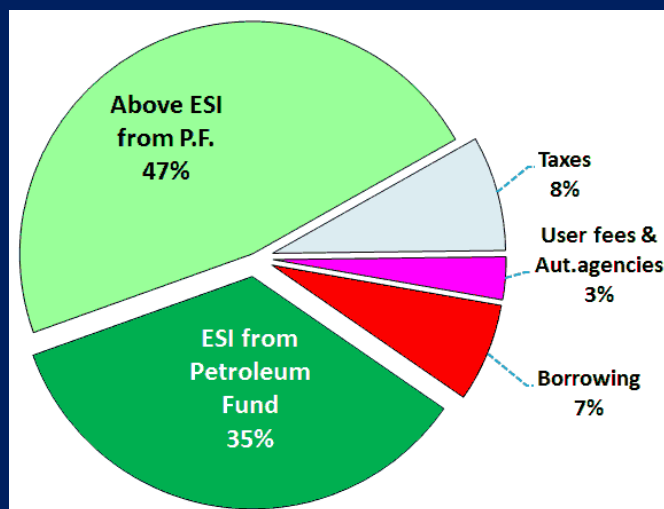
Petroleum Dependency

- 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	<u>\$78m</u>	<u>\$16m</u>	<u>\$14m</u> (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.

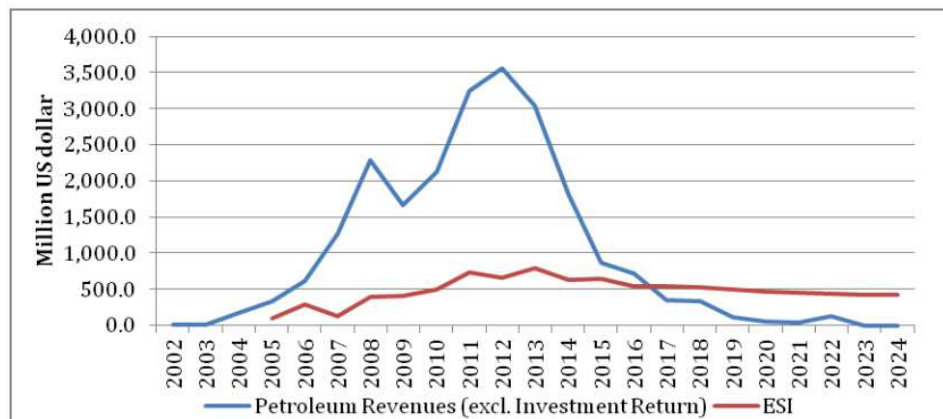
Income in the 2016 state budget \$1,562 million total



88% is from present and future oil and gas income.

Oil income will continue to decline.

Figure 2.6.3.2.1: Timor-Leste Petroleum Revenues and Estimated Sustainable Income 2002-2025
Prop. GSB 2016

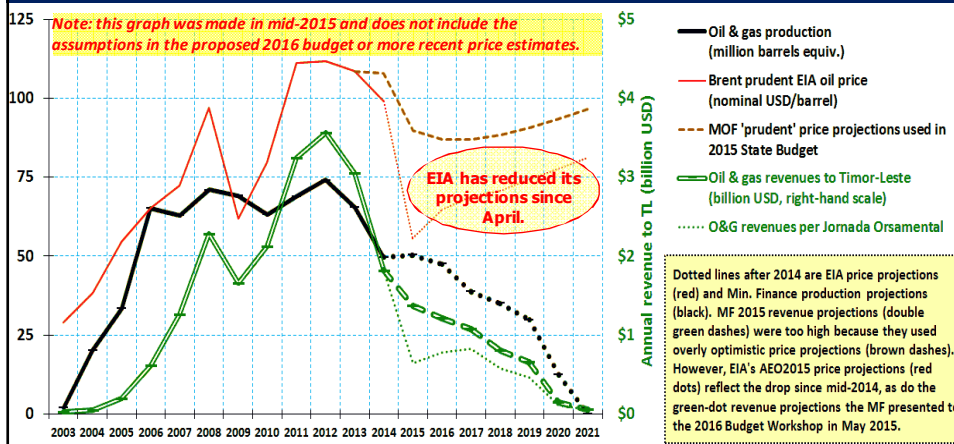


Timor-Leste has already received 80% of the revenues from Bayu-Undan and Kitan, and they could end in five years.

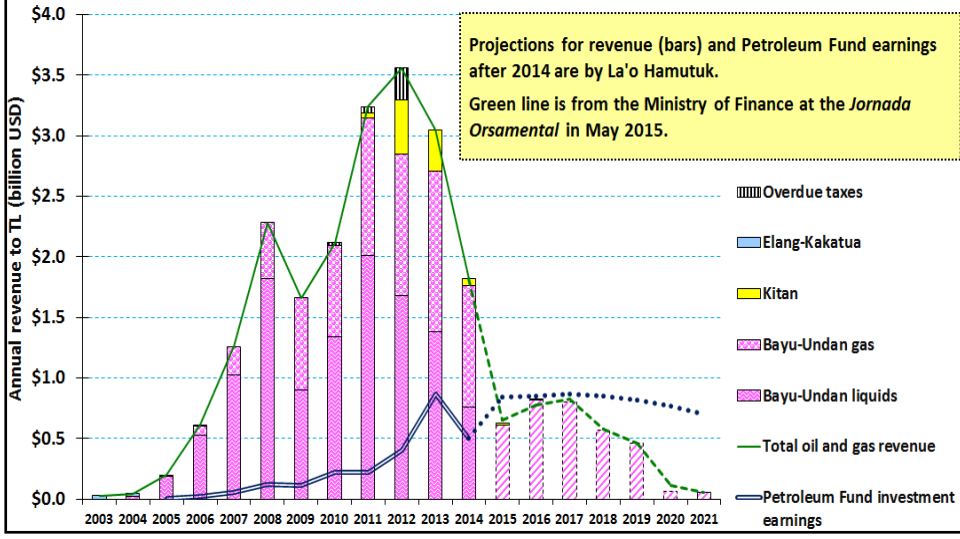
Oil and gas income is falling since 2012.

Production is falling faster than the oil price, and will not go back up.

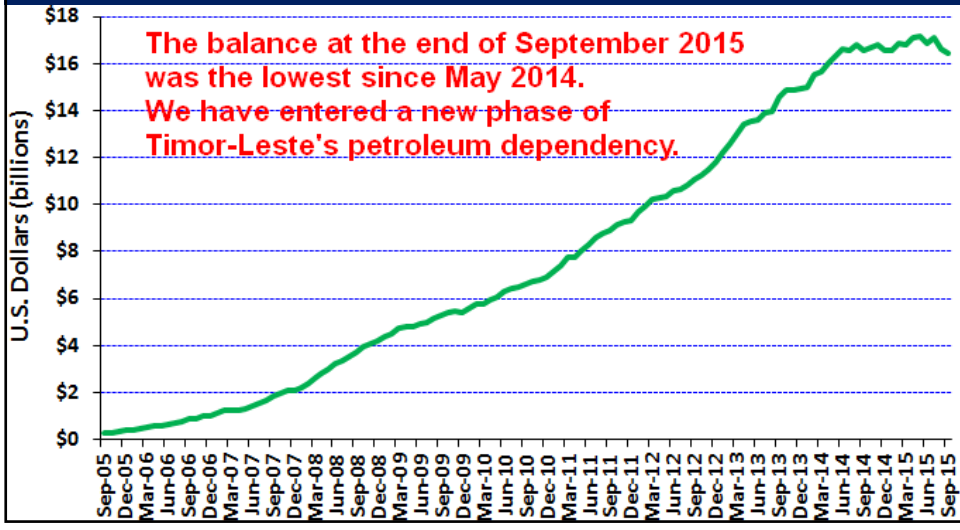
The price will be irrelevant when we have nothing left to sell.



Where TL's oil income comes from



The Petroleum Fund balance is already starting to drop.



Petroleum Fund Jan-Sep 2015

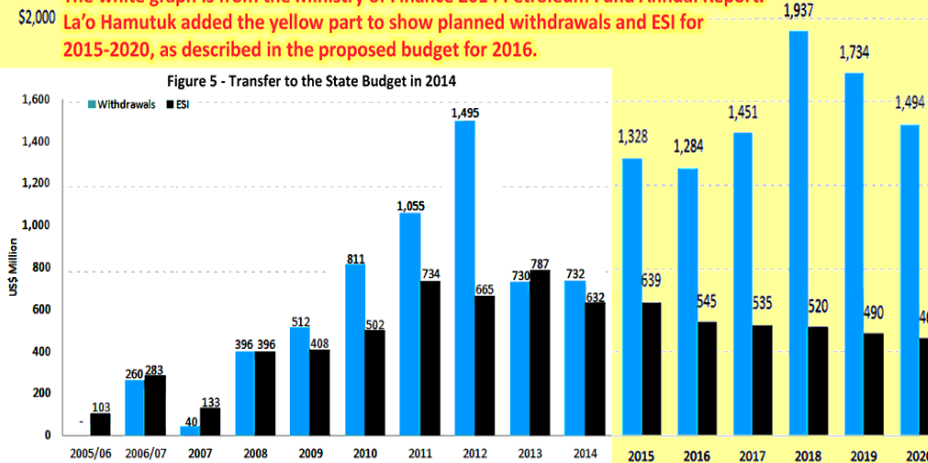
BALANCE SHEET	
In thousands of USD	
	2015 September
ASSETS	
Cash and Cash Equivalents	148,252
Receivables	50,538
Financial assets held at fair value through profit or loss	16,275,703
TOTAL ASSETS	16,474,492
LIABILITIES	
Payables for securities purchased	-32,642
Accounts payable	-5,269
TOTAL LIABILITIES	-37,911
NET ASSETS	16,436,582
CAPITAL	
Opening Balance	16,538,617
PF Law Art. 6.1 (a) Revenue receipts	366,012
PF Law Art. 6.1 (b) DA receipts	420,185
PF Law Art. 6.1 (e) Other receipts	-
PF Law Art 7.1 Transfers to State Budget	-638,500
Income for the period	-249,733
CAPITAL	16,436,582

Return on Petroleum Fund investments

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - QUARTER		
In thousands of USD		
	Quarter Sep-15	Year to Date Sep-15
INVESTMENT INCOME		
Interest income	40,951	116,221
Dividend income	36,338	132,050
Trust income	1,343	5,086
Other investment income	1	19
Net gains/(losses) on Financial Assets at fair value	-431,788	-240,855
Net foreign exchange gains/(losses)	-92,517	-241,476
Total Investment Income	-445,673	-228,955
EXPENSES		
External management, custody fees	2,661	7,445
Internal operational management fees	1,701	5,025
IAB Expenses	149	154
Other expenses	1	4
Total expenses	4,512	12,628
Profit before tax	-450,185	-241,584
Withholding taxes on investments	752	8,149
Profit/loss for the period	-450,937	-249,733
Other comprehensive income	-	-
Total comprehensive income for the period	-450,937	-249,733

ESI and past and future transfers from the Petroleum Fund

The white graph is from the Ministry of Finance 2014 Petroleum Fund Annual Report.
La'o Hamutuk added the yellow part to show planned withdrawals and ESI for 2015-2020, as described in the proposed budget for 2016.



Oil is running out quickly!

Table 2.5.3.2.2: Petroleum Wealth and the Estimated Sustainable Income (ESI), \$ millions

	2013 BB1	2014 Budget	2015	2016	2017	2018
Estimated Sustainable Income (PWx3%)	787.0	632.3	638.7	625.8	610.8	604.9
Total Petroleum Wealth (PW)	26,231.7	21,076.3	21,291.0	20,860.7	20,358.4	20,162.3
Opening PF Balance	10,776.7	14,058.5	15,369.0	16,344.4	17,372.0	18,460.3
Net Present Value of Future Revenues	15,455.0	7,017.8	5,922.0	4,516.3	2,986.4	1,702.0

GSB 2014 (2/14)

	2014 BB1	2015 Budget	2016	2017	2018	2019
Estimated Sustainable Income (PWx3%)	632.3	638.5	632.4	616.3	600.0	590.9
Total Petroleum Wealth (PW)	21,076.3	21,283.3	21,078.4	20,542.1	19,999.3	19,696.0
Opening PF Balance	14,058.5	16,567.2	17,514.7	18,023.8	18,441.2	18,871.2
Net Present Value of Future Revenues	7,017.8	4,716.1	3,563.7	2,518.3	1,558.1	824.8

GSB 2015 (6/14)

	2014*	2015*	2016 Budget	2017	2018	2019	2020
Estimated Sustainable Income (PWx3%)	632.3	638.5	544.8	534.5	519.8	490.1	464.9
Total Petroleum Wealth (PW)	21,076.3	21,254.7	18,159.6	17,815.9	17,326.1	16,335.5	15,497.6
Opening PF Balance	14,058.5	16,538.6	16,605.2	16,914.9	16,732.8	16,052.8	15,308.4
Net Present Value of Future Revenues	7,017.8	4,716.1	1,554.4	901.1	593.3	282.7	189.2

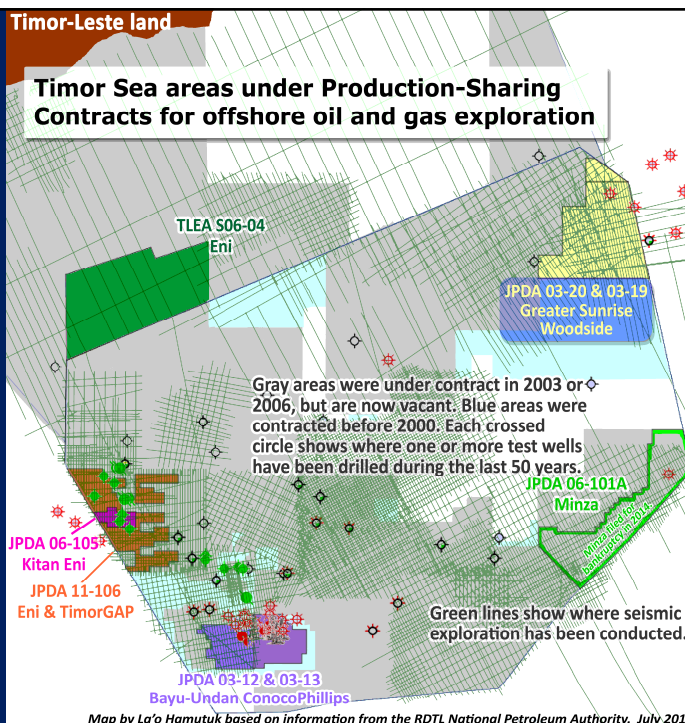
GSB 2016 (6/15)

Based on Jan-Sep 2015, La'o Hamutuk estimates the end-of-2015 balance in the Petroleum Fund at \$15.9 billion, not \$16.6 as the Ministry of Finance projects.

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

Our seas have been explored for decades.



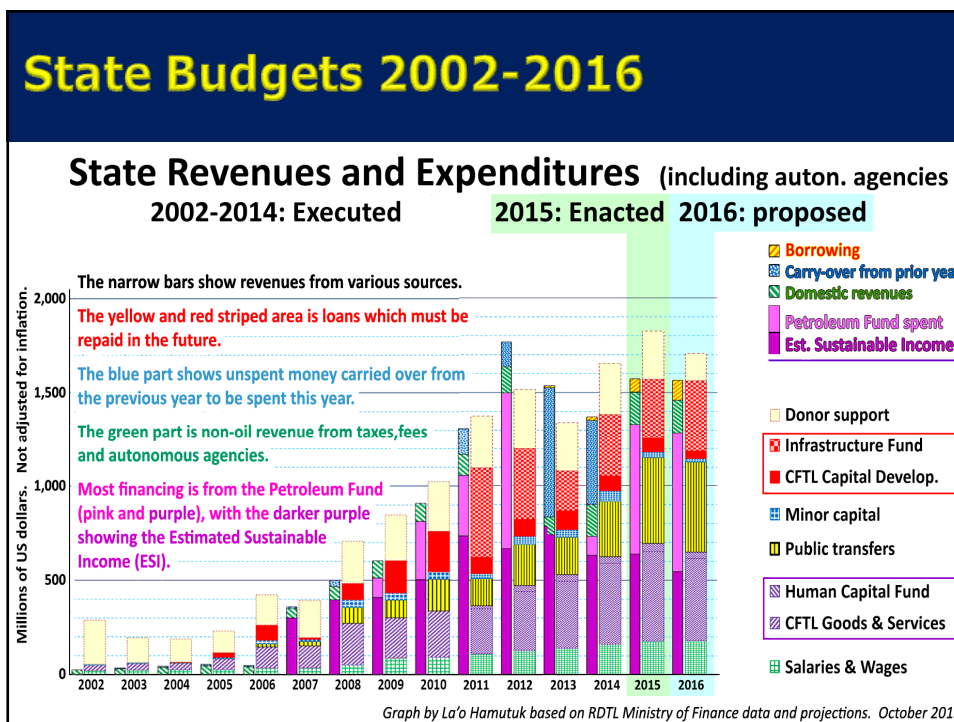
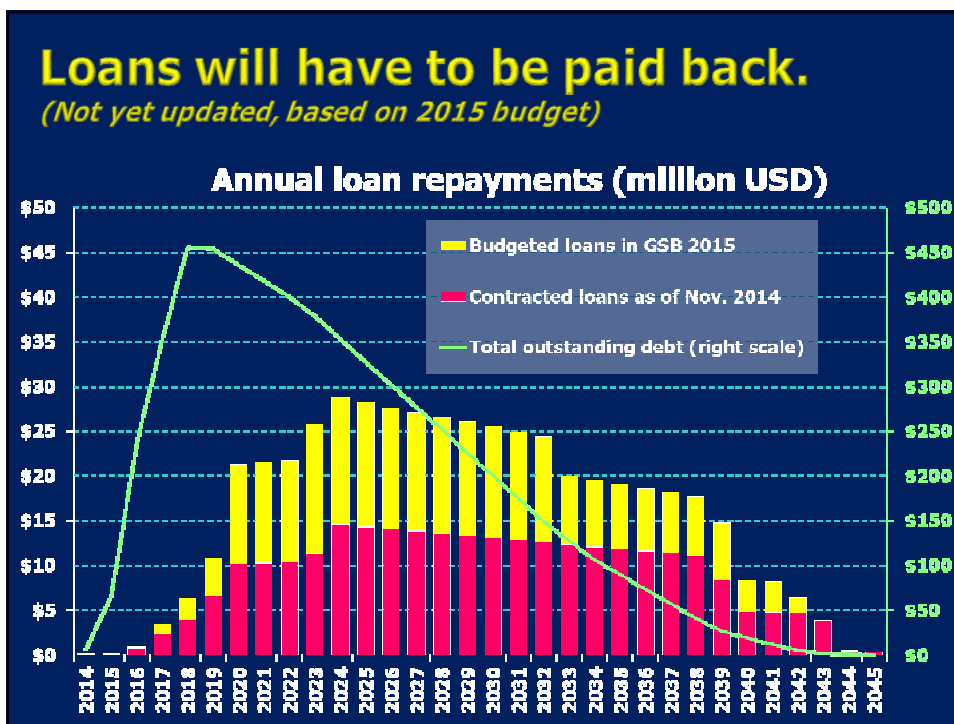
Timor-Leste is going deeper into debt.

- Laws since 2009 paved the way for foreign loans.
- In 2012, Timor-Leste signed contracts to borrow \$107 million from Japan and from the ADB.
- In 2013, we signed for \$90m more from ADB and World Bank.
- In 2015, we signed for \$12m more from the ADB.
- During 2016-2020, TL hopes to borrow more than a billion dollars. See the proposed infrastructure budget:

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

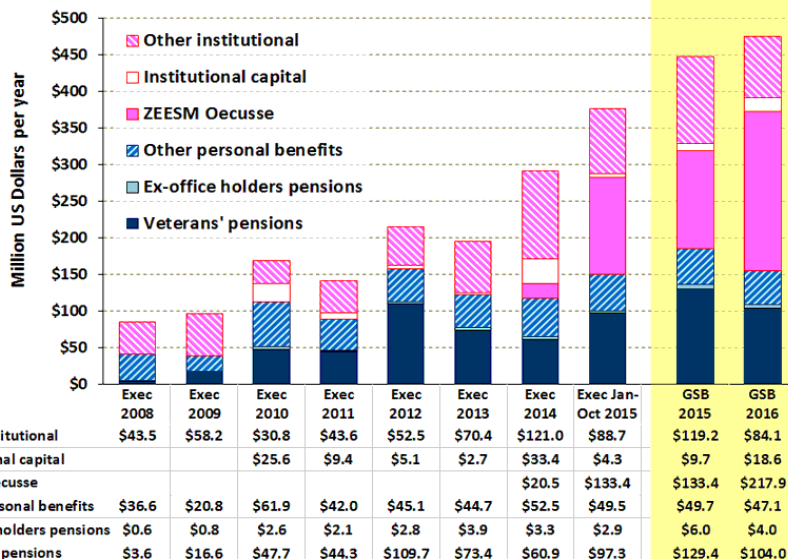
Borrowing in GSB 2016. Many projects after 2018 are left out.

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	Orçament o 2016	Orçament o 2017	Orçament o 2018	Orçament o 2019	Orçament o 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 Díli-Liquiça (L)	9,500	2,650	6,731				
Construção e Supervisão de Alinhamento de Estradas desde Cruzamento Tibar a Rotunda Lalalic 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 Díli-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 Díli (Esgolo) (L)	5,000	-	5,000	31,830	14,880	3,720	
Construção e Supervisão de Estradas Aituto-Halubuitiko-Lelefoho-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	-	-	7,000	14,000	18,000	9,500	2,818
Construção e Supervisão de Estradas Maubara - Molain e Atabae - Molain	-	-	2,563	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 Suai-Belano-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 Suai - Base de Fornecimentos (L-)		-	10,000	53,550	59,670	31,820	7,960



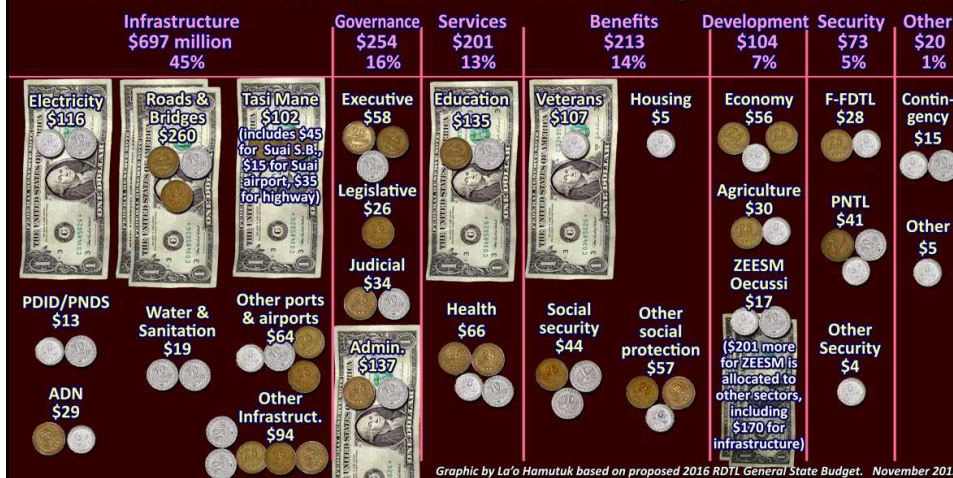
Spending on Public Transfers

Executed through Oct 2015; budgeted 2015-2016

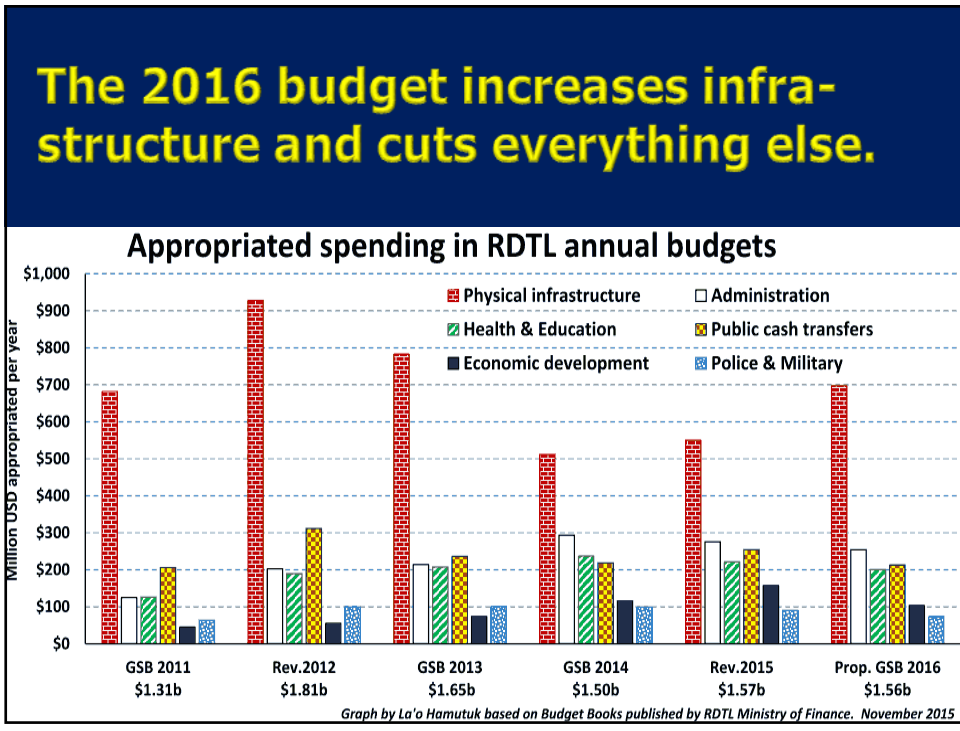
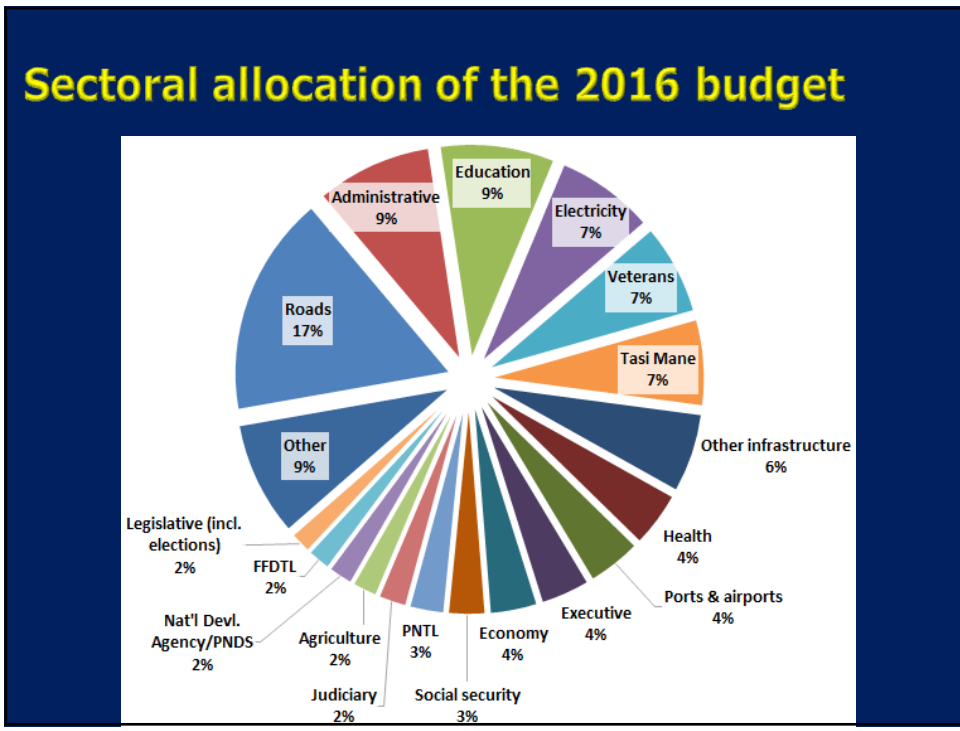


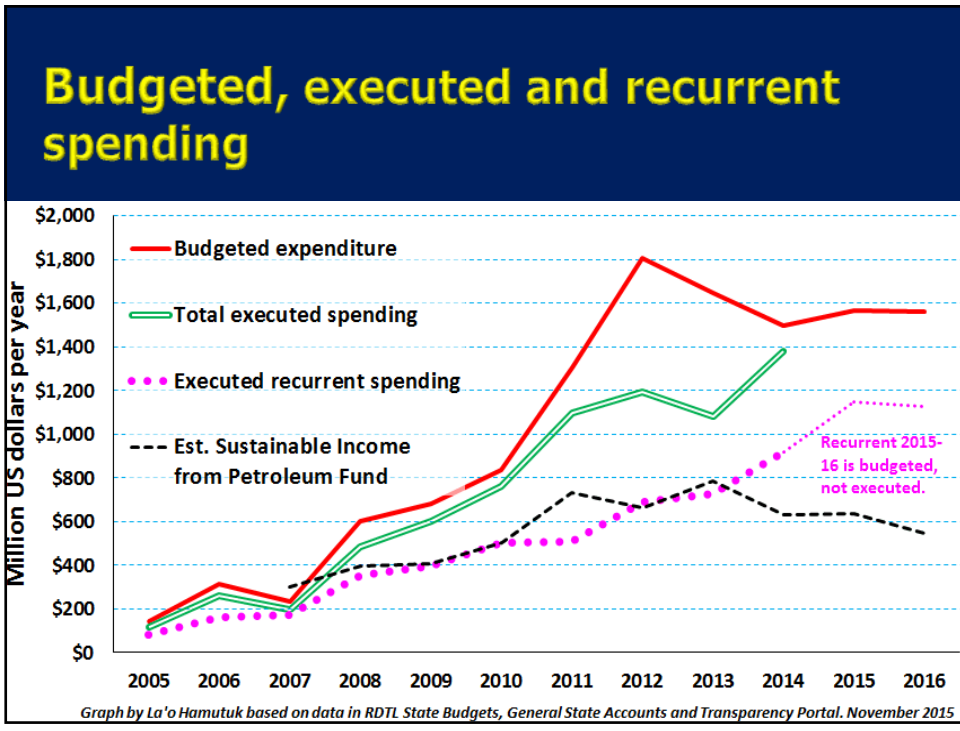
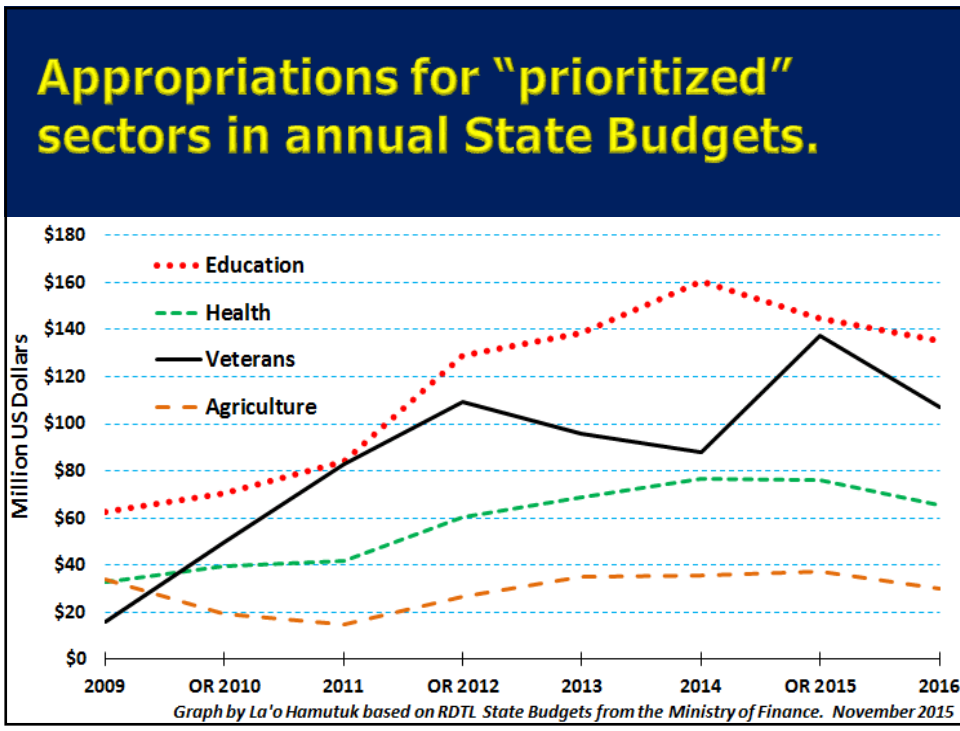
The 2016 Budget will neglect farmers, students, and health care.

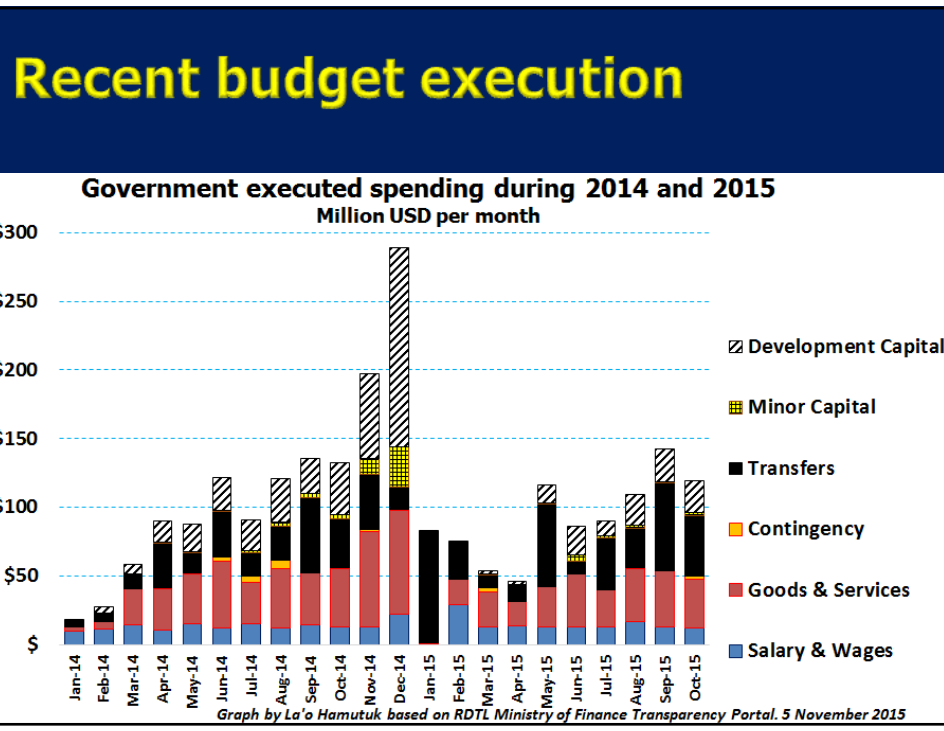
Allocation of the proposed 2016 State Budget (US \$1,562 million)



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







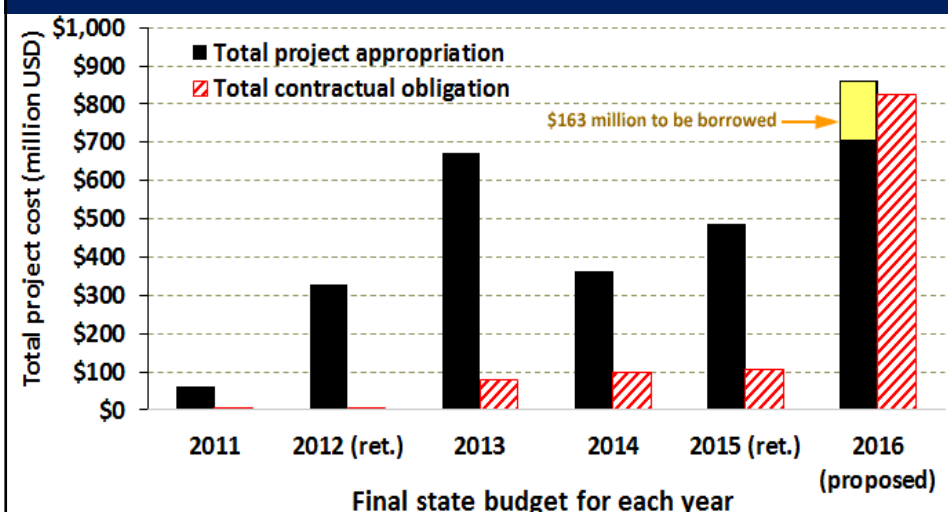
Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- Total project costs could be \$15 billion (more if Timor-Leste pays for the refinery, pipeline or LNG plant).
- **The largest contract in TL history was signed last 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 seawall and SSB.
- This amount is more than Timor-Leste has spent on education since independence was restored in 2002.
- The Audit Court has rejected the contract.
- There are other contracts for TMP in Suai, totaling more than \$50 million.

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



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.



Aniceto 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.

The Korean government has blacklisted this company.



KOREA JOONGANG DAILY

Agency bans 21 builders from business with gov't

Apr 26, 2014

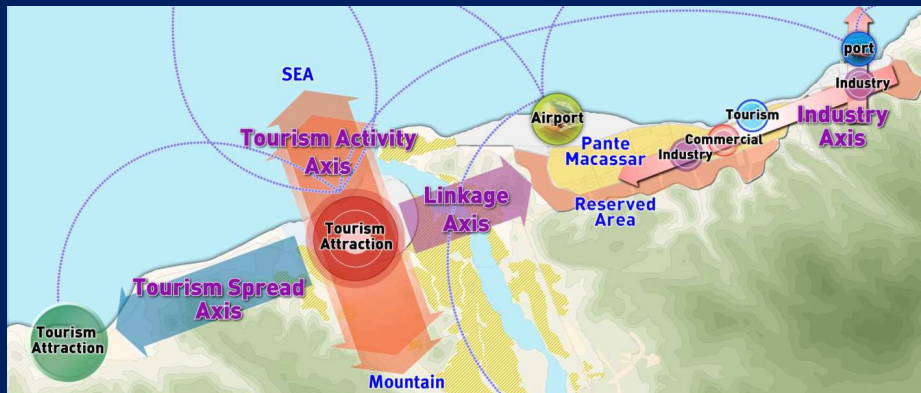
The Public Procurement Service (PPS) yesterday banned Korea's largest builder, Hyundai Engineering and Construction, and 20 other builders from receiving government contracts as punishment for collusion.

Collusion penalties

- *Two-year bans*

Daelim Industrial, Daewoo E&C, Doosan E&C, GS E&C, Hanyang Corp., Hyundai Development Company, Hyundai E&C, Kolon Global,

Special Market Zone in Oecusse

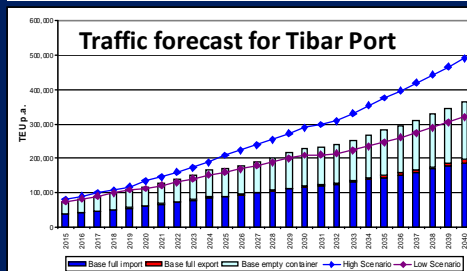
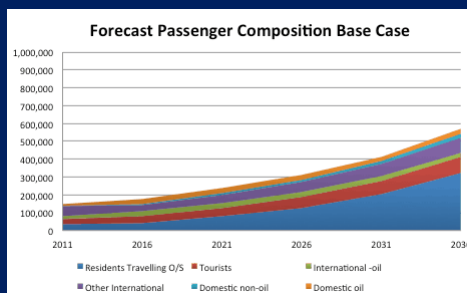


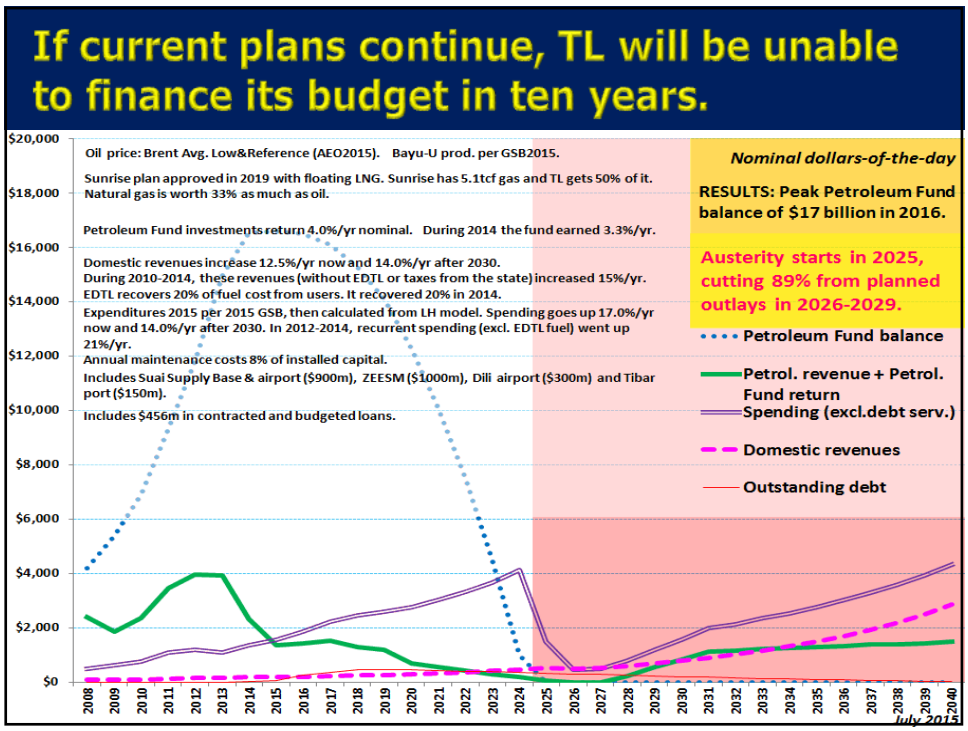
- For 2016, ZEESM has \$218 million with no accountability.
- What are Oecusse's competitive advantages?
- Can ZEESM justify a \$4 billion investment?

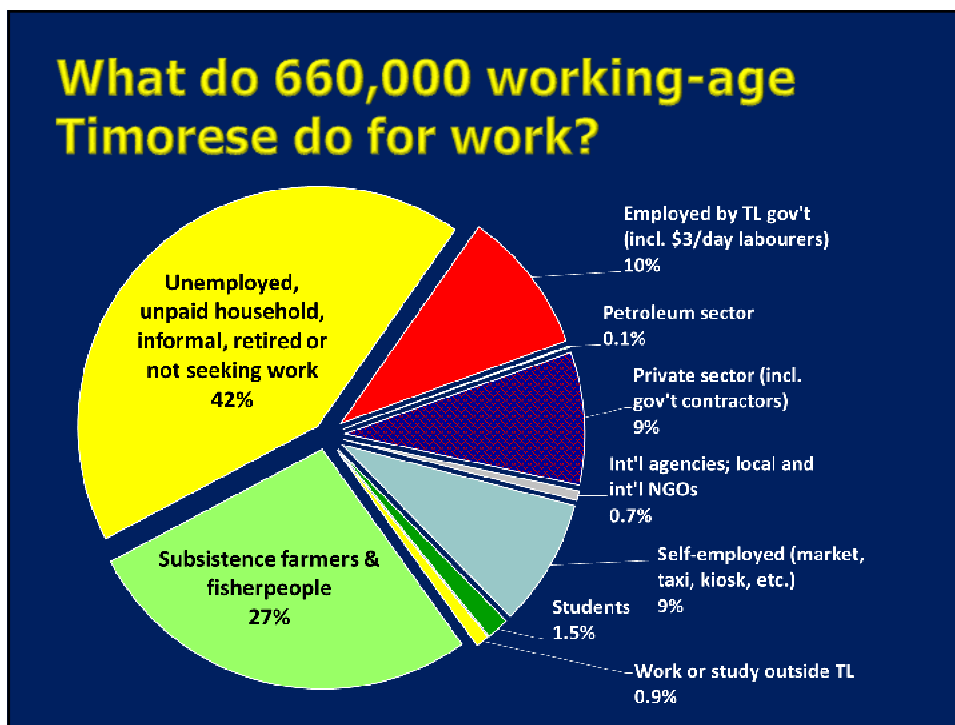
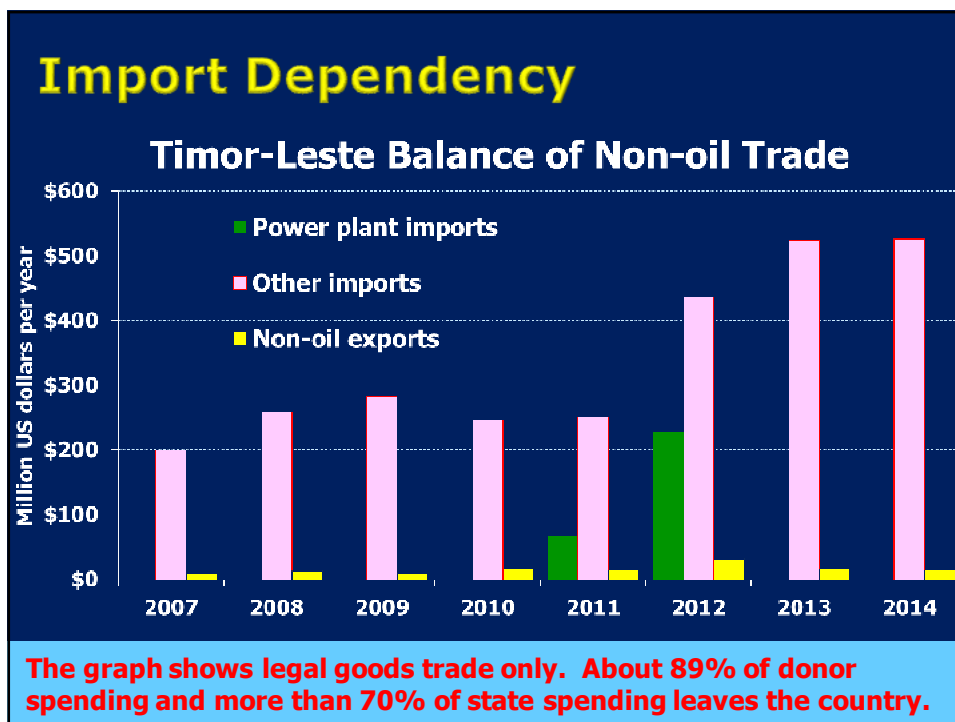
Who benefits: residents of Oecusse or political ex-opposition?

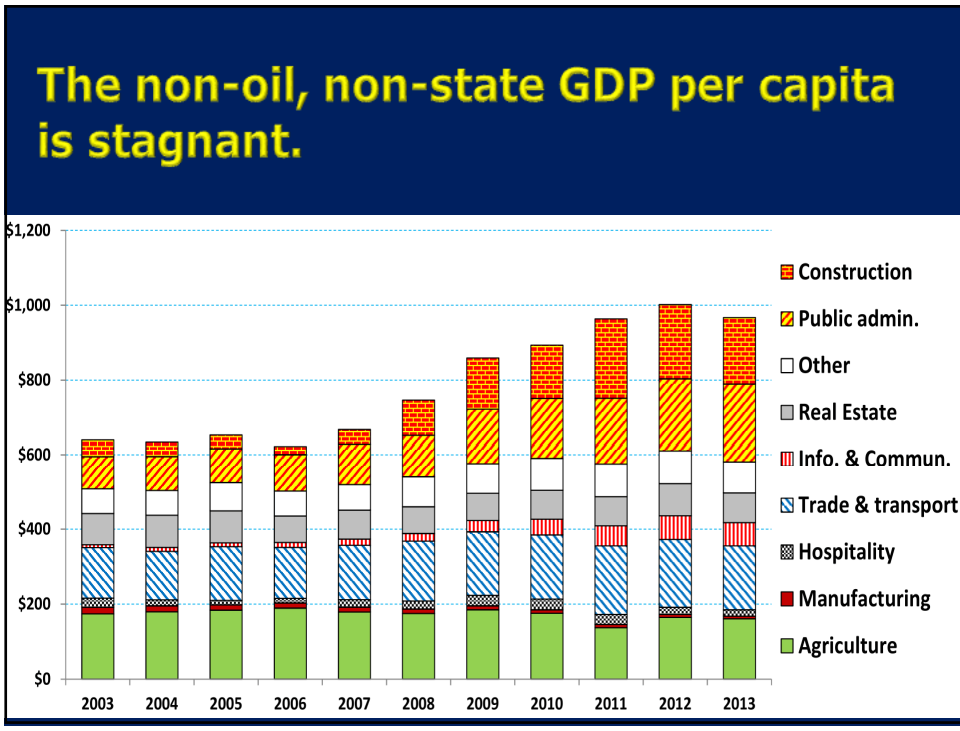
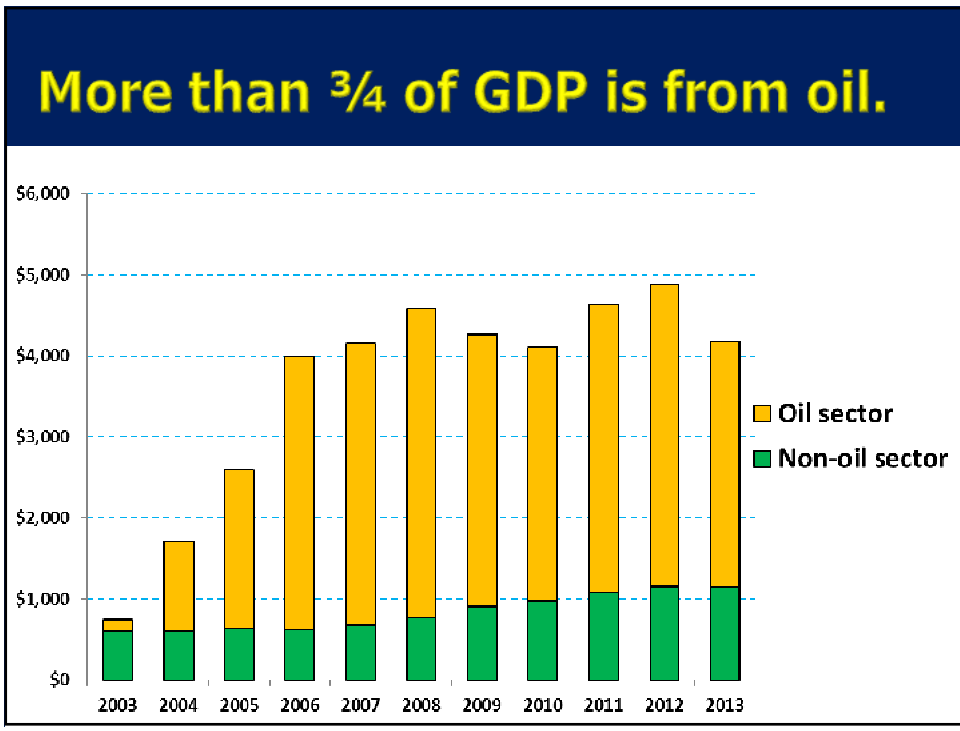
Overbuilding ports and airports

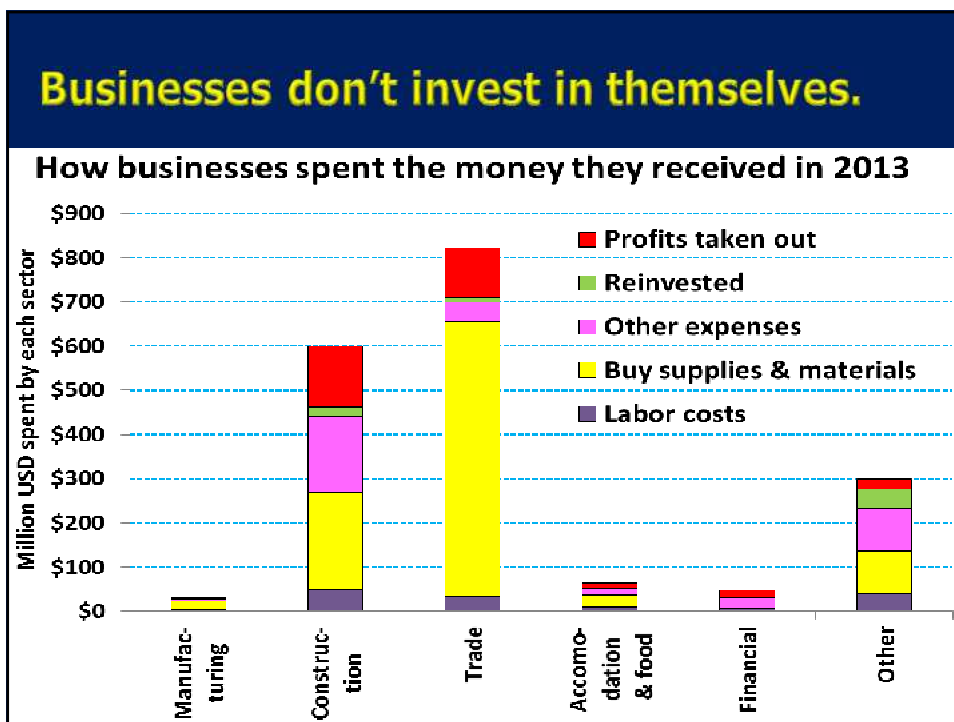
- IFC is encouraging Timor-Leste to build a port and airport far beyond realistic traffic expectations.
- How will the country pay for a \$6 billion annual trade deficit after the oil is gone?











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- Mar 2015: [Proposed LNG Plant in Beacu](#) including [LH letter urging cancelling of design contract tender](#) (also [Tetum](#) and [blog](#))
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- Feb 2015: [Resource list on Executive Interference in Timor-Leste's Judicial System](#)
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- Jan 2015: [Bobby Bojo: Convict, Advisor and Fraud](#) (also [Tetum](#))
- Dec 2014: [TL government blocks publication of IMF Article IV report for 2014](#)

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Brent Crude Oil
\$57.87 ▲ 1.30 2.25%

2015.04.12 end-of-day

WTI Crude Oil
\$51.64 ▲ 0.85 1.65%

Thank you.

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