

# It takes more than money to achieve development Some lessons from Timor-Leste

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- **Timor-Leste restored its independence in 2002, after decades of war and centuries of foreign rule.**
- **Oil and gas income is three-fourths of its economy and 93% of state revenues.**
- **Its non-oil GDP grew rapidly from 2008 to 2012.**
- **It has saved \$16 billion in its Sovereign Wealth Fund.**
- **Its 1.2 million people are still among the poorest in the region, and most of them are younger than 17.**
- **The oil fields could run out in six years, and the fund six years after that.**

**What can we learn from Timor-Leste's experience?**

## Basic Statistics

- More than half of Timor-Leste’s people live in poverty, and the percentage is growing.
- 75% of 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.

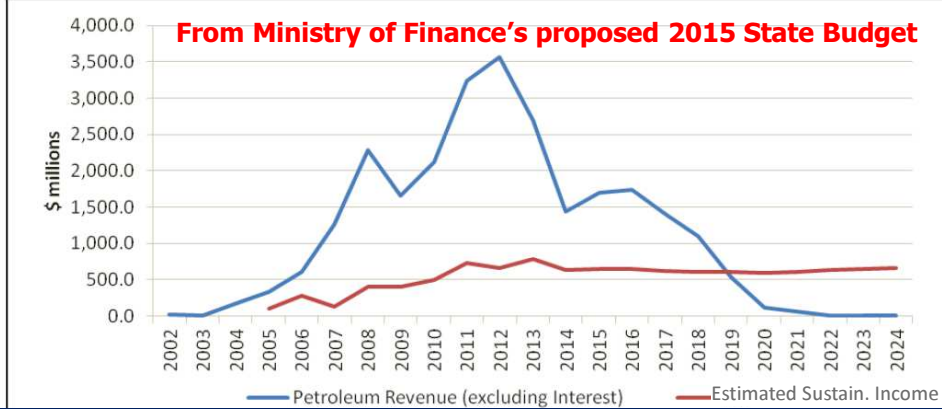
## Petroleum Dependency

- Petroleum GDP in 2012:..... **\$4,309 million (78%)**  
 Non-oil GDP in 2012:..... **\$1,246 million (22%)**  
     Productive sectors (agric. & manufacturing)     **\$ 247 million (4%)**
- Projected state revenues in 2014:..... **\$2,380 million**  
**\$2,213 million (93%)** will be from oil (incl. \$770m investment return)  
**\$ 166 million ( 7%)** will be from non-petroleum sources
- 2014 State Budget:..... **\$1,500 million**  
**\$903 million (60%)** will come from the Petroleum Fund in 2014.  
**\$430 million (29%) 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.
- Non-oil balance of goods trade: **\$694m imports, \$18m exports** (98% coffee)
- 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.**

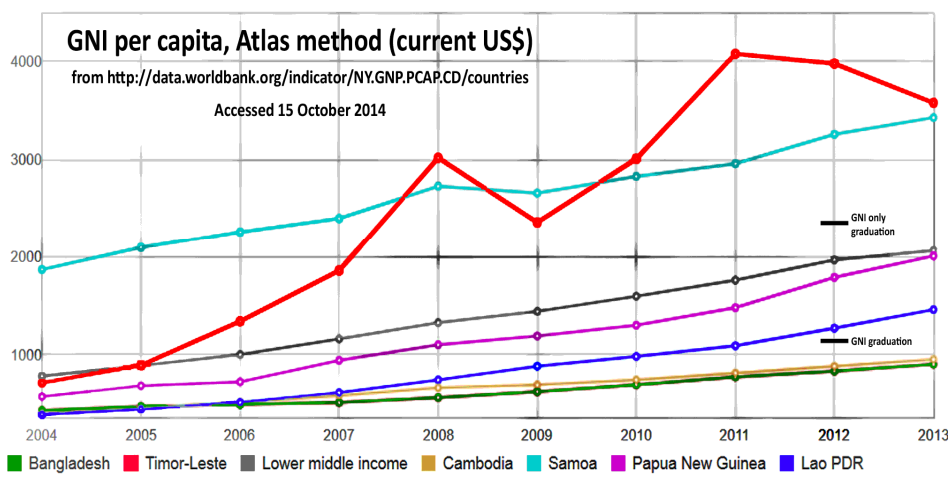
## Oil income will continue to decline.

Figure 2.6.3.2.1: Timor-Leste Petroleum Revenues and ESI 2002-2025 (\$m)



**Timor-Leste has already received 2/3 of the revenues from Bayu-Undan and Kitan, and they could end in six years.**

## Timor-Leste's GNI pc has begun to fall



## Lesson 1: Sustainability

- **Development is an ongoing process, not a project which comes to an end.**
- **Non-renewable or over-exploited resources will be exhausted, and must be replaced by something else.**
- **This requires thinking and planning for much longer than a consultant's contract, project timetable or electoral cycle.**
- **Saving petroleum revenues helps, but they may not last beyond this generation.**

## Sustainability (2)

- **Investment is different than spending – it must produce a tangible economic or social return in the future.**
- **Infrastructure must be maintained, and the full life-cycle costs of maintenance, operation and debt service should be analyzed and budgeted before a project is approved. Timely maintenance is cheaper than repeated rebuilding.**
- **Borrowing, whether through loans or implicit in Public-Private Partnerships, can hurt sustainability if repayments are higher than return or persist longer than income or the project's earnings.**

## Lesson 2: Planning

- **Planning should be long-term, both for overall development and for projects. It should be based on technical, social and financial considerations, not politicians' agendas or promoters' suggestions.**
- **Megaprojects should provide real benefits for the people. They should be scaled to meet reasonable forecasts of future needs.**
- **Just because something is feasible doesn't mean it's the right thing to do or the best option.**

## Planning (2)

- **Be flexible and creative – if a proposal turns out to be misguided, change it.**
- **Don't let one sector or one advocate distort decision-making and priorities.**
- **Use 21<sup>st</sup>-century technology – decentralized, renewable, sustainable. Learn from others' experiences.**
- **Plans and promises should be budgeted and carried out, or people will feel betrayed and disappointed.**

## **Planning should be based on data.**

- **Accurate, timely information is essential – even on uncomfortable topics like poverty.**
- **Don't believe your own advertising – decisions should be based on facts, not on claims or dreams.**
- **When old data is erroneous, apparent improvements or trends may be misleading.**
- **Data should be meaningful: names on a school enrollment list do not mean children are learning.**
- **An economy is people, not dollars. GNI and GDP show how the wealthy or the government is doing, not the average poor citizen.**

## **Lesson 3: Recognize the context**

- **Past legacies -- trauma, impunity and inexperience -- must be dealt with.**
- **Citizens and leaders in a new nation don't trust that the "Rule of Law," will always apply, protecting the weak from arbitrary power, including the state.**
- **Initial progress from a very low base ("ground zero") is not too hard, but doesn't go far enough to ensure people's rights.**
- **Citizens became strong during difficult times; consider them your greatest resource.**

## **Lesson 4: Sovereignty & diversity**

- **People have to eat before they can buy, and farming should address local needs before exports. Food and economic sovereignty can be as valuable as political sovereignty.**
- **An economy cannot stand on one leg. Although no single sector can replace oil, many – ecotourism, small industries, agriculture and food processing – can provide jobs, income and necessities.**
- **Local production should substitute for imports, which provides competitive advantage as well as survival when imports are unaffordable.**

## **Diversity (2)**

- **Tariffs or subsidies may be needed in the short term, just as they were in industrialized countries.**
- **Not all infrastructure investments are glamorous. Rural roads, neighborhood primary schools, decentralized renewable electricity, health clinics and local water supply and sanitation can improve people's lives much more than costly megaprojects.**

## Lesson 5: Human resources

- **The state exists to ensure its people's rights to education, housing, health care, and sanitation.**
- **Universal quality primary education is essential for developing and improving people's quality of life.**
- **Inadequate nutrition can permanently limit a child's potential.**
- **It's quicker to buy an overseas scholarship than to create a university, or to send a sick politician abroad for treatment than to create a good hospital. But quality local facilities serve everyone.**

## Lesson 6: Governance

- **Law should apply to everyone, including officials, state agencies and foreign investors and contractors, especially in areas like procurement, environment, civil rights and personnel.**
- **Transparency is only useful when the data is accessible, understood and utilized. Policy debates should be public, including how decisions are made.**
- **State-owned companies and autonomous agencies need more transparency and tighter control and supervision by democratic institutions.**



## Governance (2)

- **Open political opposition is essential to democracy, providing checks and balances, give and take and alternative ideas.**
- **Budget execution is not a good measure of government performance -- stealing or wasting money does not deliver public services.**
- **Mismanagement and poor decisions can be more damaging than outright corruption.**
- **A free, vital media and civil society are necessary to ensure that government serves the public interest.**

## Lesson 7: Consultation

- **Listen to people who will be affected, including intended beneficiaries, don't just socialize plans. Decisions should be based on free, prior and informed consent, responding to community concerns, needs and rights. A local sense of ownership is key to a successful project.**
- **Spending priorities should be based on what is best for the public, not what makes decision-makers proud, rich or powerful.**
- **Citizens should not be displaced or deprived so that their leaders can welcome visiting VIPs. "Family hold back" is not appropriate for a nation.**

## Lesson 8: Equity

- **It takes effort to overcome discrimination, to ensure that each citizen gets her fair share of resources (aid or oil) that belong equally to everyone. (The dominance of oil money means that even the rich barely pay taxes.)**
  - ❖ **The poor get fewer benefits than the affluent.**
  - ❖ **The rural majority receives much less services and resources than those in the capital, even though their needs would be less costly to satisfy.**
  - ❖ **Policies that would benefit women, children, the disabled, the uneducated, the unwaged and other vulnerable people are often neglected.**
  - ❖ **The elderly get a dollar a day ... unless they're veterans.**

## Equity (2)

- **“Inclusive growth” is often a euphemism for discredited trickle-down economics: the powerful get fat and the poor get the crumbs.**
- **“Buying peace” by rewarding disaffected or insistent constituencies will undermine stability and cohesion.**
- **Airports, highways, and subsidized, centralized electricity address the needs of the wealthy minority.**  
(In Timor-Leste, the state spends more on electricity than on health care – and only a few people have air conditioners or dishwashers. Remote areas are off the grid.)

## Lesson 9: Economics for people

- “Dutch disease” inflation is less severe in our dollarized economy now that state spending growth has slowed. It could be reduced further by increasing local production to reduce the demand for supply-limited imports.
- GDP growth can indicate gains for a small minority, even as most people get poorer. Median income or assets, or poverty data, are a better measure.
- When most “national income” goes to the state (which saves the bulk of it), GNI does not indicate citizens’ prosperity.

## Economics (2)

- Yesterday, we observed that Bangladesh and Nepal have better EVI and HAI scores than would be expected for their GNI, indicating well-managed policies.
- Timor-Leste’s high GNI is mainly composed of temporary oil and gas income, and it has not been effectively used to improve HAI and EVI. As in Equatorial Guinea, oil money can be a curse.
- If Timor-Leste graduates from LDC status solely on its pre-2020 GNI, it could be the first country to retroactively fail and re-enter LDC status in only a few years. Does this make sense?

## What's in their future?



## Thank you.

You will find more and updated information at

- La'o Hamutuk's website  
<http://www.laohamutuk.org>
- La'o Hamutuk's blog  
<http://laohamutuk.blogspot.com/>

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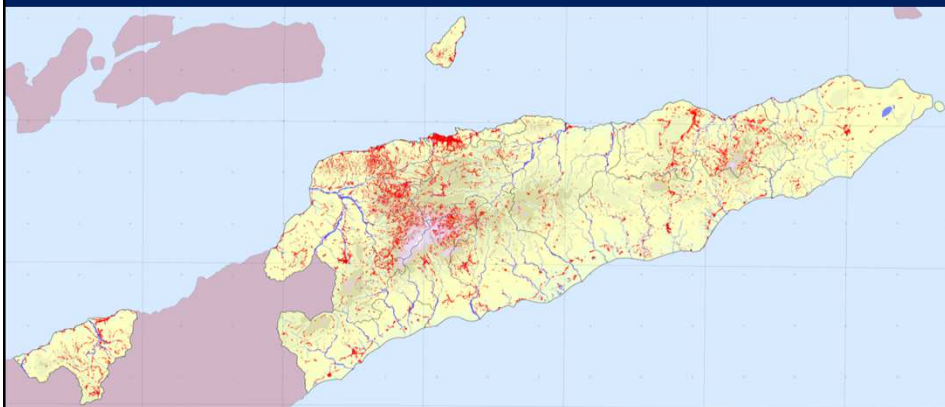
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## Annexes

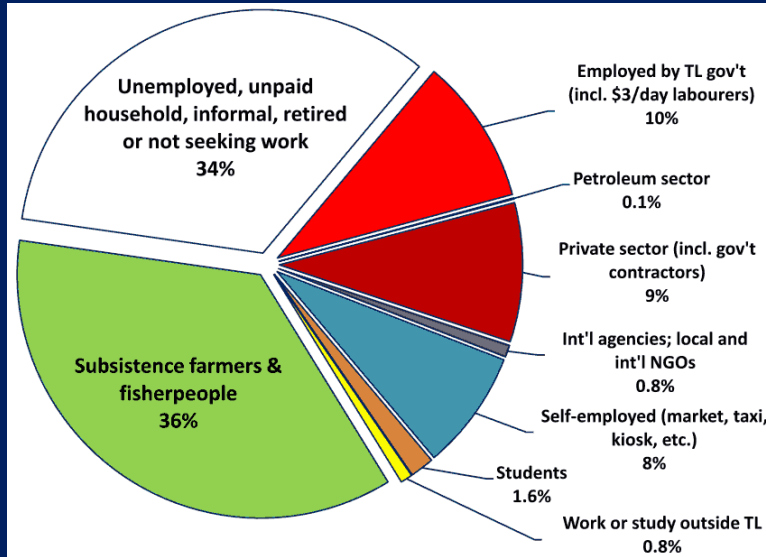
The following slides contain some graphs and summaries of Timor-Leste's specific economic and financial situation, as well as brief descriptions of some of the experiences and projects which taught the previous lessons.

**Most people live in rural areas by subsistence agriculture.**



**Agriculture will get 2.3% of state expenditures in 2015, although it is the livelihood of 2/3 of the population.**

## What do 630,000 working-age Timorese do for work?



## 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

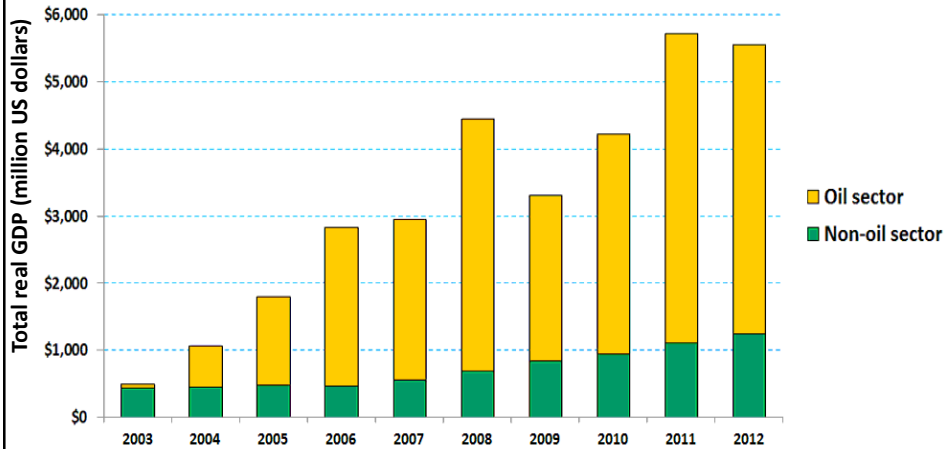
Residence/ region	Wealth quintile					Total	Number of population
	Lowest	Second	Middle	Fourth	Highest		
<b>Residence</b>							
Urban	4.5	6.1	9.3	22.2	57.8	100.0	15,852
Rural	24.6	24.2	23.3	19.2	8.7	100.0	51,134
<b>District</b>							
Aileu	20.6	27.9	25.1	18.2	8.2	100.0	2,785
Ainaro	30.9	32.2	19.7	12.1	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
<b>Dili</b>	<b>0.4</b>	<b>2.1</b>	<b>6.5</b>	<b>20.1</b>	<b>71.0</b>	<b>100.0</b>	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
Manatuto	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.

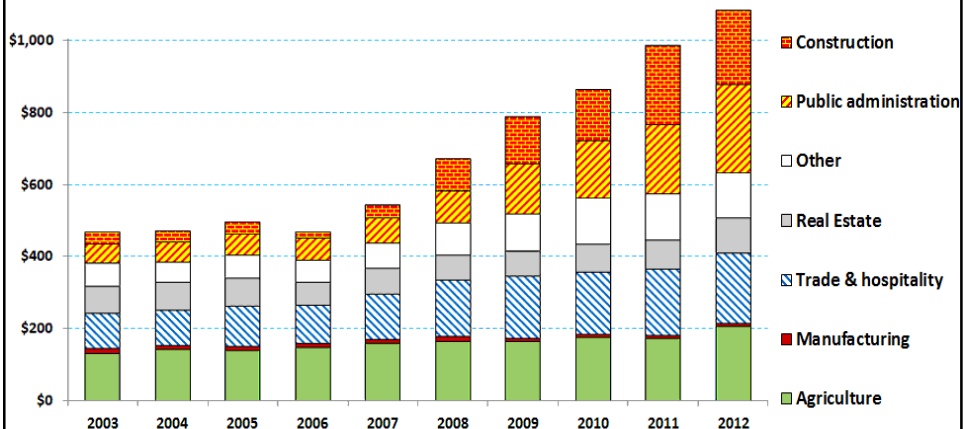
About two-thirds of the families outside Dili live in poverty.

## Oil and gas are the bulk of GDP

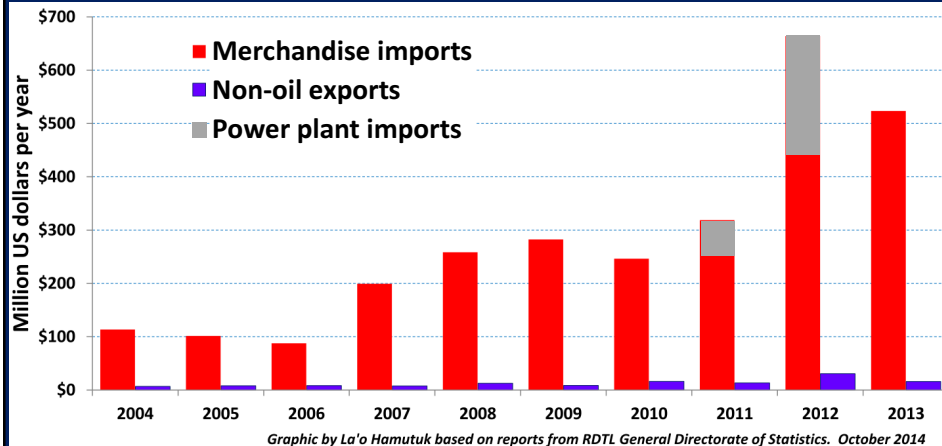
Timor-Leste's oil and 'non-oil' GDP



## Sectoral contributions to non-oil GDP per capita



## Import Dependency



The graph shows legal goods trade only. About 89% of donor spending and more than half of state spending leaves the country.

## Timor-Leste's total GDP is falling and uncertain

Real growth in total GDP	Date used	2011	2012	2013 (est)	2014 (proj)
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%
RDTL Nat'l Accounts 2000-2012	Jul-14	7.9%	-10.4%		
IMF Article IV Report (2013)	Dec-13	7.3%	5.7%	-3.2%	-6.9%



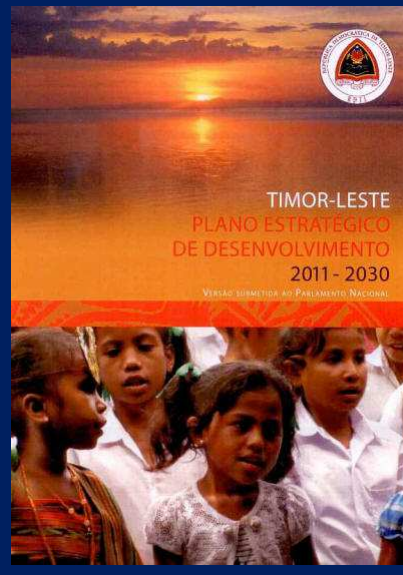
## UN Special Rapporteur on Extreme Poverty

**“Ending impunity is an essential prerequisite to ensuring stability, peace and sustainability. The Special Rapporteur encourages the State to take measures to ensure that post-conflict justice and reconciliation is prioritized and that a legal framework is put in place to ensure that those responsible for serious crimes during the conflict are called to account for their deeds, and the victims of those crimes are able to access reparations. She also reminds the Government of Indonesia, the United Nations and the international community of the role they must play in ensuring that the perpetrators of crimes during the Indonesian occupation are brought to justice.”**

*June 2012 report to Human Rights Council on Timor-Leste*

## The Strategic Development Plan

- Issued July 2011, promises to make TL an Upper Middle Income Country by 2030.
- A vision and dream, not a realistic plan.
- Focuses on physical infrastructure, not sustainable development.
- Will require loans and spending beyond TL’s means.



## Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- During 2011-2014, TL spent \$46 million
- Total project costs could exceed \$2 billion (much more if Timor-Leste pays for the refinery, pipeline or LNG plant).
- The 2015 budget allocates \$48m in 2015 and \$393m in 2016-2019, but leaves a lot out.



## 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 investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the money spent 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.**

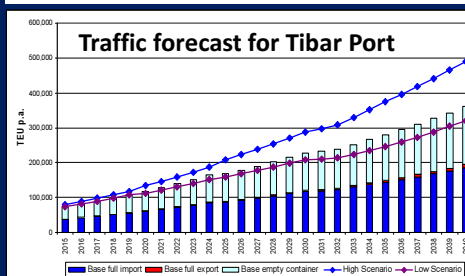
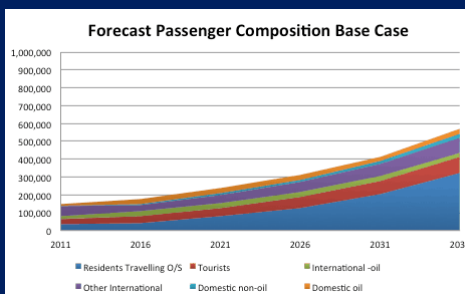
## Special Market Economy Zone in Oecussi



- What are Oecussi's competitive advantages?
- Can ZEESM justify a \$4 billion investment?

## 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?



## TL 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 the ADB.
- In November 2013, we signed for \$90 million more from the ADB and World Bank.
- During 2015-2019, TL hopes to borrow half a billion dollars.

<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>\$20m</b>	<b>\$70m</b>	<b>\$194m</b>	<b>\$136m</b>	<b>\$160m</b>	<b>\$50m</b>

## The 2014 Budget neglects farmers, students, and health care.

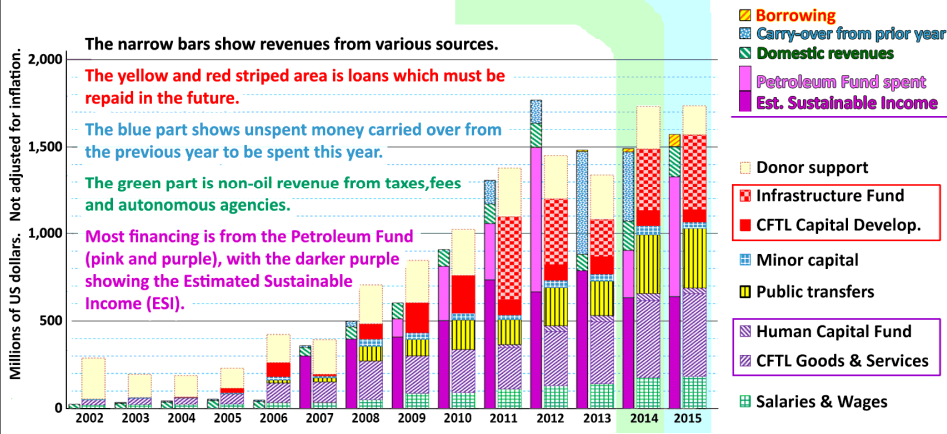
### Allocation of the enacted 2014 State Budget (US \$1,500 million)



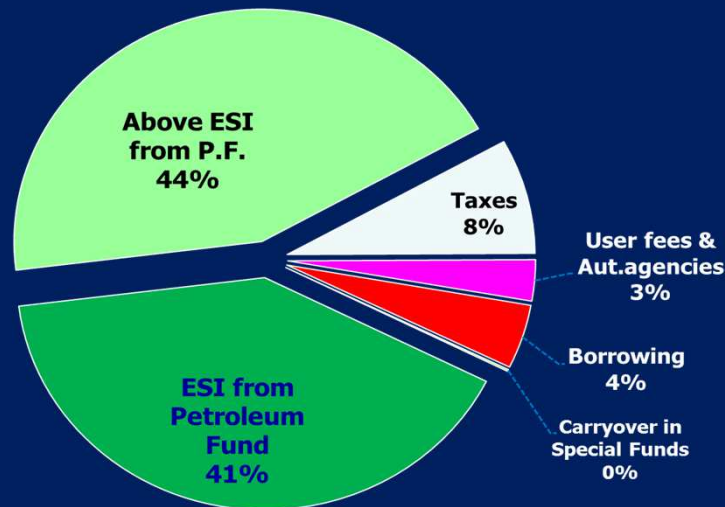
## State Budgets 2002-2015

### State Revenues and Expenditures (including auton. agencies)

2002-2013: Executed 2014: Enacted 2015: Proposed



## Income in the 2015 state budget



**Total revenue: \$1,570 million, of which 89% is from 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	700 barrels	230 barrels	1,140 barrels+	6,780 barrels
How long reserves will last at 2013 production rates	14 years	5 years	64 years+	23 years

## 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

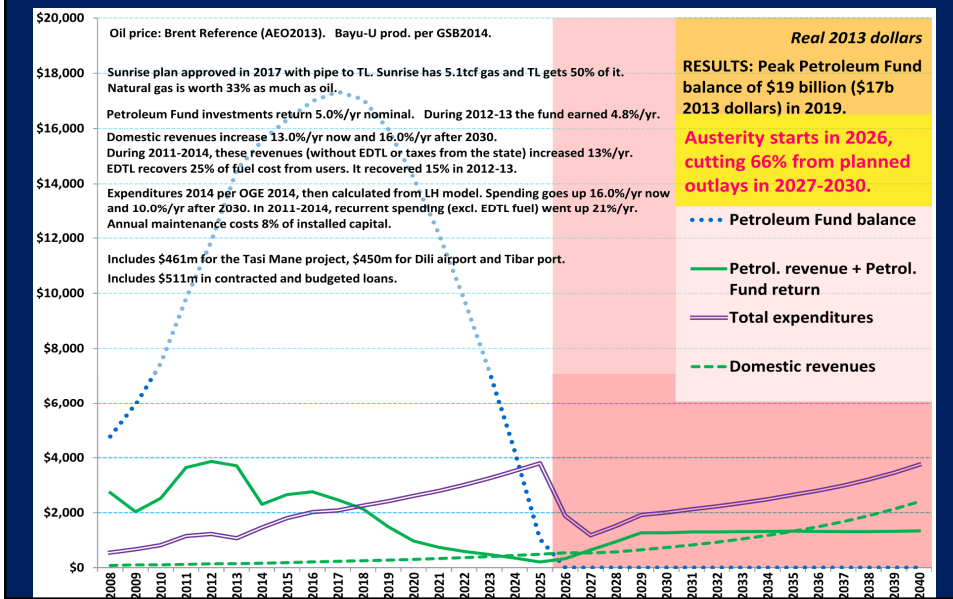
Enacted 2014 State Budget (2/14)

	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

Proposed 2015 state budget (10/14)

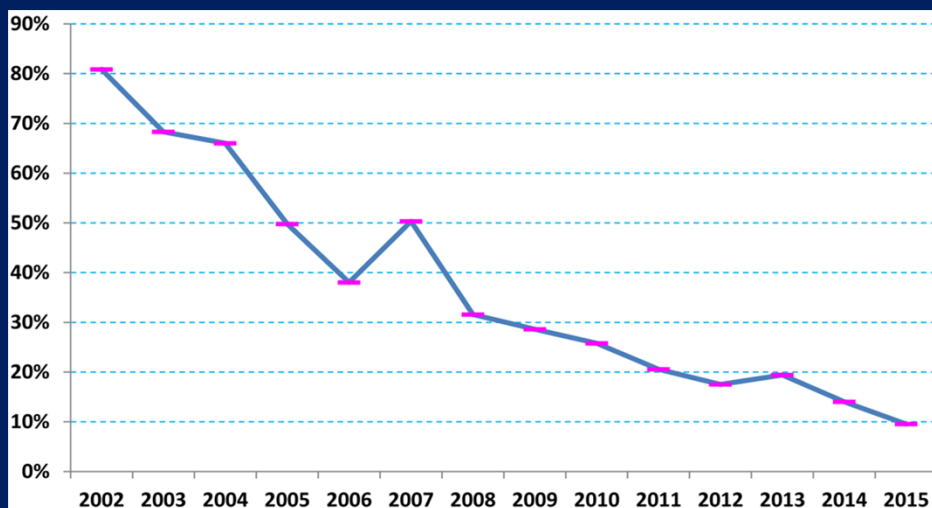
These tables show how quickly future oil revenues will decline. Even the predictions are dropping.

## If current trends continue, TL will be unable to finance its budget in 11 years.



## Donor support is less important now.

### Percentage of Donor Support in Combined Sources Budget



Graph by La'o Hamutuk based on MF State Budget information, October 2014