Budget Rectification

Presentation to Core Group Transparency by La’o Hamutuk
8 July 2008
“Part of being an open and transparent Government is being accountable to public scrutiny. All debates on Government expenditure are encouraged. It is a positive sign for our young democracy.”

Minister of Finances Emilia Pires
16 June 2008
Section 145 (State Budget)

1. The State Budget shall be prepared by the Government and approved by the National Parliament.

2. The Budget law shall provide, based on efficiency and effectiveness, a breakdown of the revenues and expenditures of the State, as well as preclude the existence of secret appropriations and funds.

3. The execution of the Budget shall be monitored by the High Administrative, Tax and Audit Court and by the National Parliament.
I. General Concepts

- **Receitas** / receipts / rendimentos
- **Despesas** / expenditures / gasta
- **Deficit** (gap between expenses and revenue)
- **Carryover** (money not spent in one budget year which is available for the future)
- **Sustentáveis** / sustainable / sustentável (able to continue for the indefinite future)
Categories of Expenditures

- Salaries (salarios e vencimentos)
- Goods and Services (bens e servicos)
- Minor Capital (capital menor)
- Capital Development (capital e desenvolvimento)
- Transfers (transfarencias publicas)
Mid-Year Adjusted Budget 2008
Total expenditures: USD $773.3 million

- Capital & Devel., $116
- Transfers, $112
- Minor capital, $39
- Goods & services, $207
- Economic Stabilisation Fund, $240
- Salaries, $59
Adjusted Budget 2008
($773m total)
Categories of Income

• **Domestic Taxes / Impostos Domesticas**
  (these will drop because of tax reform law)

• **User Fees / Taxas de Utilização**
  (mainly rice sales, and perhaps other sales)

• **Petroleum Fund ESI** (plus more)

• **Donor budgetary support** (ended already)

• **Donor projects**
  (not included in State Budget; *Combined Sources Budget* no longer used)
From original 2008 Budget
Combined Sources Financing

Table 2.2
Financing of the Combined Sources Budget 2006-07 to 2011 ($m)

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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Domestic Revenue</td>
<td>59.3</td>
<td>115.5</td>
<td>181.7</td>
<td>140.8</td>
<td>102.0</td>
<td>144.3</td>
<td>568.8</td>
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<tr>
<td>Direct Budget Support</td>
<td>40.9</td>
<td>14.4</td>
<td>20.7</td>
<td>20.1</td>
<td>20.8</td>
<td>76.0</td>
<td>137.6</td>
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<tr>
<td>Autonomous Agency Revenue</td>
<td>11.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Confirmed Donor Funding</td>
<td>7.0</td>
<td>2.5</td>
<td>6.3</td>
<td>6.5</td>
<td>6.7</td>
<td>22.0</td>
<td>41.6</td>
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</table>

**Expenses**

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<tr>
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<tbody>
<tr>
<td>Recurrent Expenditure</td>
<td>161.9</td>
<td>213.4</td>
<td>502.5</td>
<td>397.2</td>
<td>346.8</td>
<td>325.1</td>
<td>1,571.5</td>
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<tr>
<td>State Budget Funding</td>
<td>150.2</td>
<td>201.9</td>
<td>428.5</td>
<td>347.7</td>
<td>314.9</td>
<td>294.2</td>
<td>1,385.3</td>
</tr>
<tr>
<td>Confirmed Donor Funding</td>
<td>150.2</td>
<td>110.5</td>
<td>280.1</td>
<td>235.4</td>
<td>240.8</td>
<td>248.3</td>
<td>1,004.6</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>11.6</td>
<td>11.5</td>
<td>73.9</td>
<td>49.4</td>
<td>32.0</td>
<td>30.9</td>
<td>186.2</td>
</tr>
<tr>
<td>State Budget Funding</td>
<td>11.6</td>
<td>4.4</td>
<td>67.6</td>
<td>47.5</td>
<td>31.6</td>
<td>30.6</td>
<td>177.3</td>
</tr>
<tr>
<td>Confirmed Capital Funding</td>
<td>7.1</td>
<td>6.3</td>
<td>1.9</td>
<td>0.4</td>
<td>0.3</td>
<td>9.0</td>
<td></td>
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</tbody>
</table>

**Expenses**

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</thead>
<tbody>
<tr>
<td>Transfer from the Petroleum Fund</td>
<td>102.5</td>
<td>40.0</td>
<td>294.0</td>
<td>256.3</td>
<td>244.9</td>
<td>214.7</td>
<td>1,009.9</td>
</tr>
<tr>
<td>Existing Cash Reserves</td>
<td>-</td>
<td>(57.9)</td>
<td>(26.8)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(26.8)</td>
</tr>
</tbody>
</table>
Budget Adjustment 2008
Total revenues: USD $773.3 million

- Petroleum Fund (ESI), $396
- Petroleum Fund (more), $291
- Domestic taxes, $30
- Interest, $3
- Autonomous agencies, $7
- User fees, $46
Autonomous Agencies
Agências Autônomas

These can be included, or not

- TL Electricity Department
- Nicolau Lobato Airport
- APORTIL, including Dili port and Nakroma ferry
- Equipment Management Institute

Receipts = Expenses
$22 million in 2008
Timor-Leste changes every year

- Population increases
  3.5% per year, will double in twenty years.

- Inflation / prices go up
  IMF expects 9.0% in 2008, 5-7% in next three years.

Therefore, the cost of providing the same services increases 13% every year.
Recurring and one-time expenses

- Most expenses recur every year, as most government services and salaries are ongoing.
- Special one-time expenses – IDP resettlement and money for petitioners.
- Development capital costs – buildings, big infrastructure, last for decades
- Minor capital – cars, computers – last about 5 years
- Multi-Annual projects are approved now and spent over several years. Can be any category.
Budget Execution

• Ongoing problem in TL
• Big plans, low capacity to implement them.
• AMP is obsessed with this, hence using funds and transfers, which are easier.
• Reports are misleading, as commitments and obligations are counted as executed.
• Carry-over from past years has paid for all gov’t activities during the first half of 2008.
## Budget Execution

### Transitional 2007 Budget (Jul-Dec 2007)

<table>
<thead>
<tr>
<th></th>
<th>Appropriation</th>
<th>Actual Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
<td>Revised</td>
</tr>
<tr>
<td>Salary &amp; Wages</td>
<td>19,485</td>
<td>19,603</td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td>73,107</td>
<td>68,403</td>
</tr>
<tr>
<td>Minor Capital</td>
<td>2,964</td>
<td>5,624</td>
</tr>
<tr>
<td>Capital &amp; Development</td>
<td>8,739</td>
<td>10,665</td>
</tr>
<tr>
<td>Transfers</td>
<td>12,114</td>
<td>12,114</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116,409</strong></td>
<td><strong>116,409</strong></td>
</tr>
</tbody>
</table>
II. How to read the budget

• Look at each section of the documents
• Find the information that you need
• If it’s not there, use other sources or estimate
Parts of the budget document

1. Executive summary, p.4
2. Explanation of motives from the PM, separate
3. Fiscal and economic overview, p.6
   Petroleum Fund: Chart/table 3.4
4. Revenues (domestic), p.22p/21e
5. Expenses, p.25/24
   Execution, revision
6. Chart 5.6, p.31/29, The cost of each new program
7. Information about each ministry. p43/35


9. Annex 3: breakdown of 2008 expenditures by organ and category. p120/108. This table is also Annex II of the budget law.


11. Annex 5: staffing profile. p170/147
12. Annex 6: budget law. p.separate/162. This is the law that Parliament must pass.

13. Annexes to Budget law (part of the law)
   I. Revenue estimates
   II. List of expenditures (same as Annex 3 of budget document)
   III. Autonomous agencies
   IV. Multi-year capital projects


III. Important issues

- Size and implementation of Economic Stabilization Fund
- Overspending the Petroleum Fund
- Multi-year projects
- 2009-2011 budget deficits
- Public consultation and access to information
- Capacities of Government and Parliament
Economic Stabilization Fund

- $240 million, new in MYBU, only for 2008
- Very little information available, so we have to make educated guesses
- To subsidize
  - Rice – security of food supply
  - Stabilize fuel and other commodity prices
  - Construction materials – encourage development and private investment
- How long will the subsidies continue?
Petroleum Fund objectives

- Smooth out gov’t revenues when oil prices fluctuate
- Provide sustainability after petroleum is exhausted, in about 15 years (unless Sunrise is developed)
- Reduce temptation to over-spend when oil revenues are high
Petroleum Fund quarterly income and outgo
Future balance in Petroleum Fund

- MF balance
- Cost basis balance
- LH projection
Multi-year projects
Total: $548m in 2009-2011
Figure 4: Agencies involved with Timor-Leste’s Petroleum Fund

- **TSDA and Petroleum Ministry**: Supervise and regulate project operation.
- **International Oil Companies**: Pay royalties and taxes.
- **TSDA and Timor-Leste Revenue Service**: Ensure payments are made properly.
- **Banking and Payments Authority**: Manage investments of the fund principal.
- **Investment Advisory Board**: Provide advice on investment policies.
- **Independent Auditor**: Check reports from BPA and MoPF, verify ESI calculation.
- **Ministry of Planning and Finance**: Estimate sustainable income, draft annual budget based on each ministry’s needs, including transfer from Petroleum Fund.
- **Council of Ministers**: Approve draft budget.
- **Timor-Leste National Parliament**: Approve budget.
- **Petroleum Fund Consultative Council**: Provide advice.
- **Timor-Leste Petroleum Fund**: Money withdrawn (transferred) to fill gap between expenditures and other revenues, according to approved budget.
- **Annual Government Budget**:
Scenarios for 2009-11 budgets

1. Government figures - not realistic
2. Constant expenditures, subsidies stop
3. Subsidies phased out, plausible expenses
4. Subsidies and other expenses continue, adjusted for inflation

All these scenarios use government assumptions for oil prices, revenues, multi-year projects, non-recurring costs, 2008 budget. None include carry-over.
1. Government case

Annual Expenditures

- ESF
- non-recurring transfers (IDPs & Petitioners)
- Transfers (excluding IDPs and petitioners)
- Multi-year projects (CapDev)
- Capital Dev. (excl. multi-year projects)
- Multi-year projects (minor)
- Minor Capital (Excl multi)
- Multi-year projects (G&S)
- Goods & services (excluding ESF)
- Salaries

Annual Revenues

- Remaining surplus (deficit) after PF transfer
- Budgeted from PF (ESI)
- Domestic revenues excluding Autonomous Agencies, donors