Budget Rectification

Presentation to
Core Group Transparency

by La’o Hamutuk

8 July 2008

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“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

RDTL Constitution

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

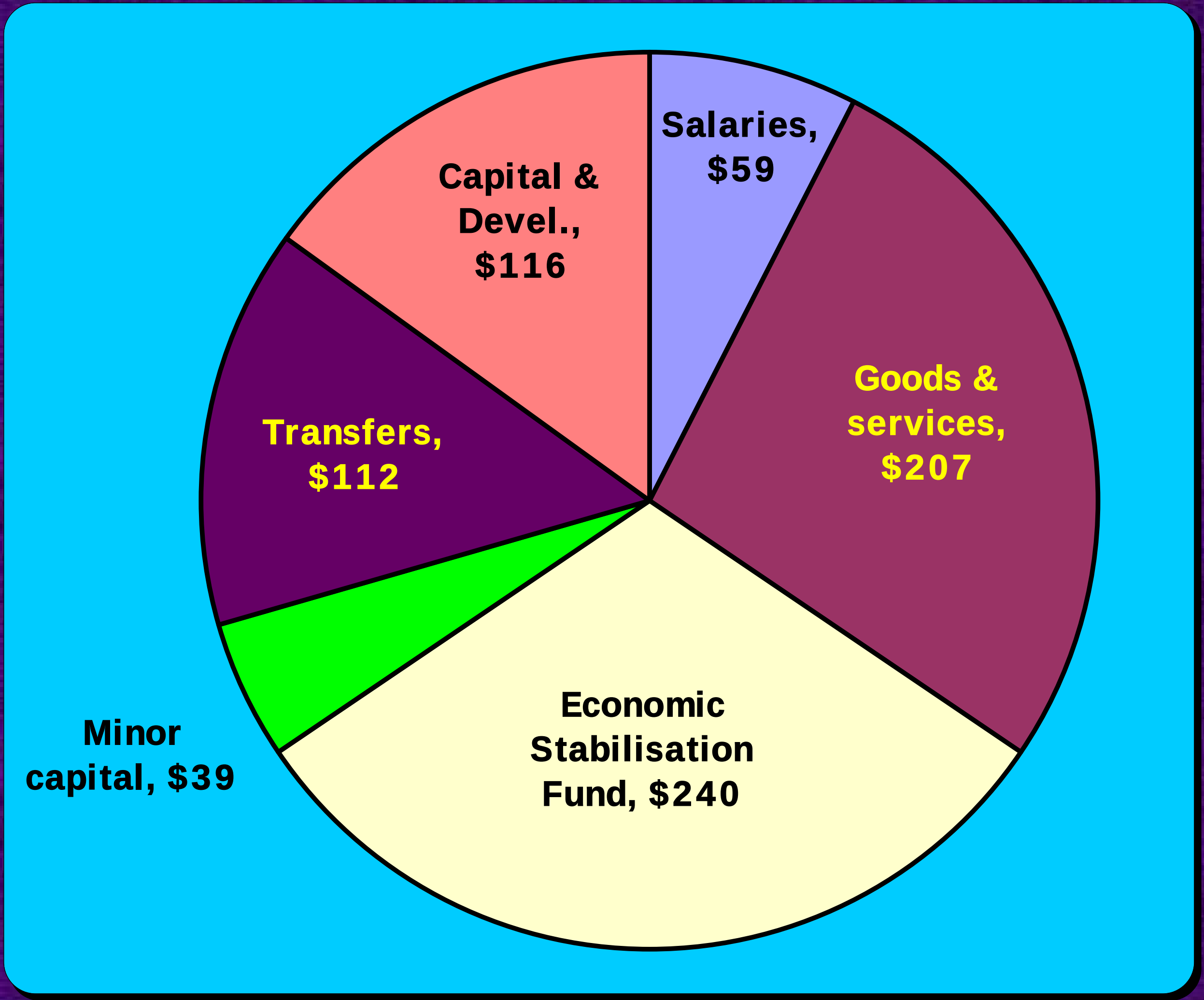
- **Receitas / receipts / rendimentu**
- **Despesas / expenditures / gasta**
- **Deficit** (gap between expenses and revenue)
- **Carryover** (money not spent in one budget year which is available for the future)
- **Sustentaveis / sustainable / sustentavel** (able to continue for the indefinite future)

Categories of Expenditures

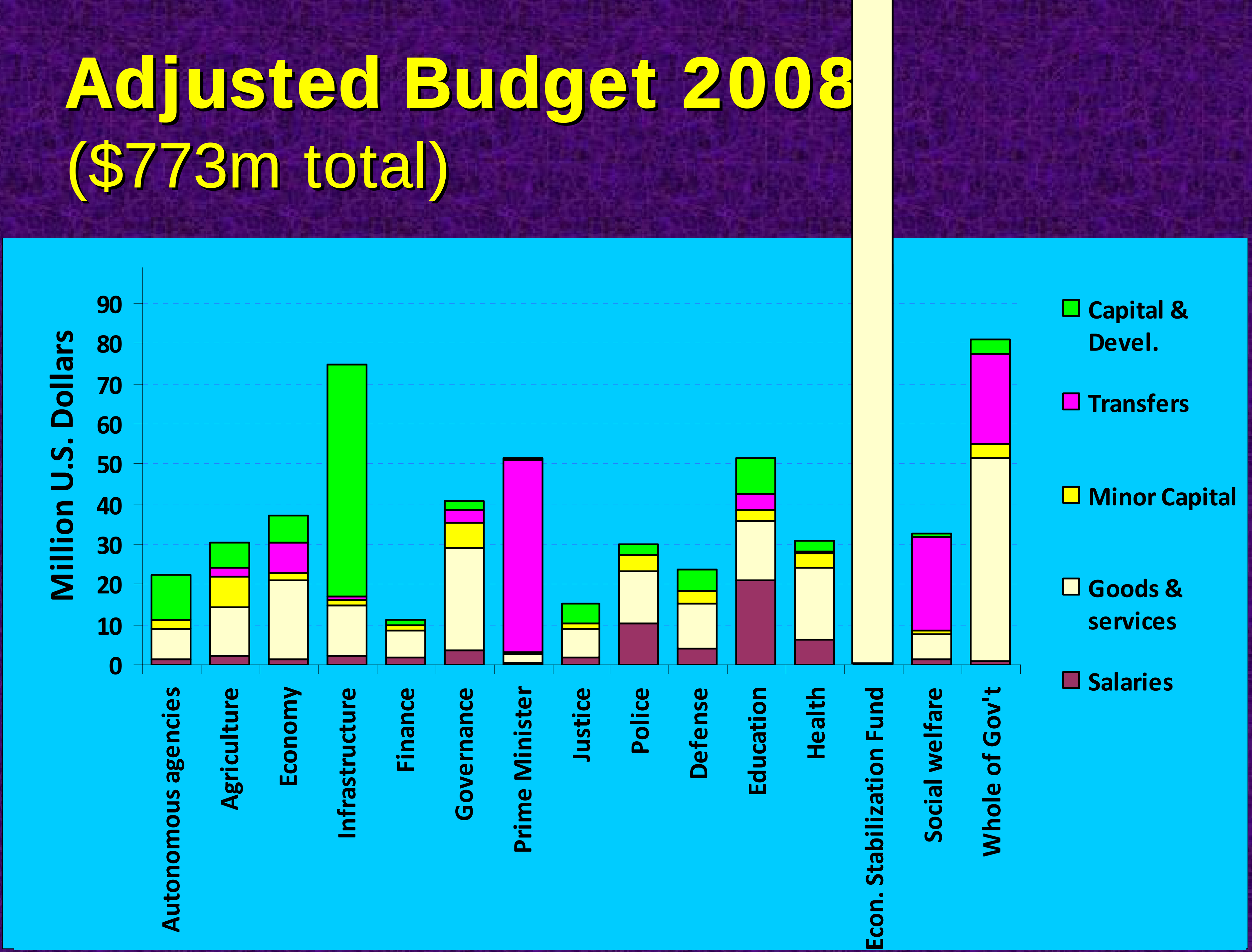
- Salaries (salarios e vencimentos)
- Goods and Services (bens e servicos)
- Minor Capital (capital menor)
- Capital Development (capital e desenvolvimento)
- Transfers (transfarencias publicas)

Mid-Year Adjusted Budget 2008

Total expenditures: USD $773.3 million



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

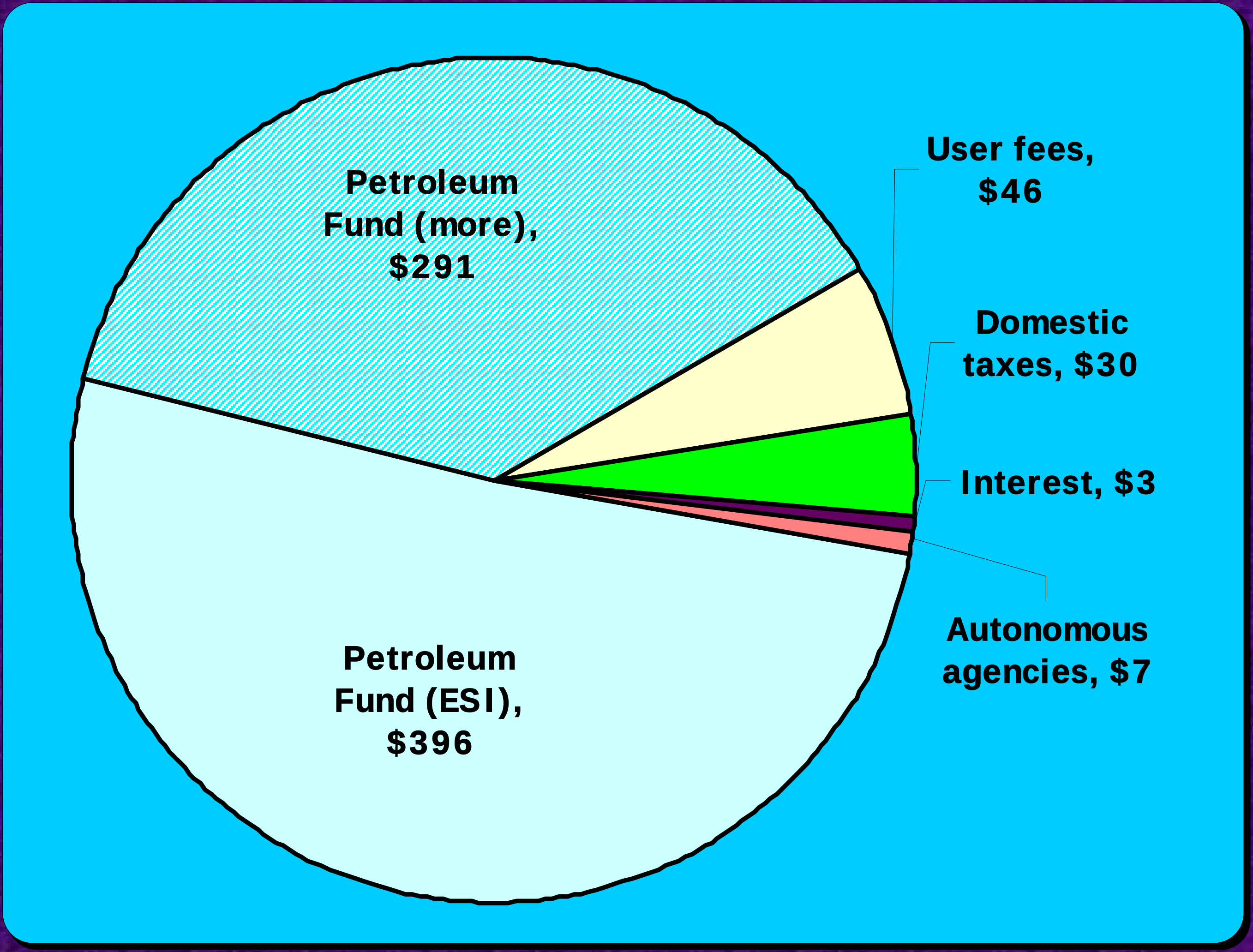
Table 2.2

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

	2006-07 Actual	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate	2011 Estimate	Total 4 Years
Revenue	**59.3**	**115.5**	**181.7**	**140.8**	**102.0**	**144.3**	**568.8**
Domestic Revenue	40.9	14.4	20.7	20.1	20.8	76.0	137.6
Direct Budget Support	11.4	-	-	-	-	-	-
Autonomous Agency Revenue	7.0	2.5	6.3	6.5	6.7	22.0	41.6
Confirmed Donor Funding		98.5	154.7	114.2	74.5	46.3	389.7
Expenses	**161.9**	**213.4**	**502.5**	**397.2**	**346.8**	**325.1**	**1,571.5**
Recurrent Expenditure	150.2	201.9	428.5	347.7	314.9	294.2	1,385.3
State Budget Funding	*150.2*	*110.5*	*280.1*	*235.4*	*240.8*	*248.3*	*1,004.6*
Confirmed Donor Funding		*91.4*	*148.4*	*112.3*	*74.1*	*46.0*	*380.7*
Capital Expenditure	11.6	11.5	73.9	49.4	32.0	30.9	186.2
State Budget Funding	*11.6*	*4.4*	*67.6*	*47.5*	*31.6*	*30.6*	*177.3*
Confirmed Capital Funding		*7.1*	*6.3*	*1.9*	*0.4*	*0.3*	*9.0*
Expenses							
Transfer from the Petroleum Fund	102.5	40.0	294.0	256.3	244.9	214.7	1,009.9
Existing Cash Reserves	-	(57.9)	(26.8)	-	-	-	(26.8)

Budget Adjustment 2008

Total revenues: USD $773.3 million



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)

	Appropriation		Actual Expenditure			
	Original	Revised	Cash Payments		Total Expenditure	
Salary & Wages	19,485	19,603	17,442	89%	17,442	89%
Goods & Services	73,107	68,403	37,116	54%	59,837	87%
Minor Capital	2,964	5,624	688	12%	5,286	94%
Capital & Development	8,739	10,665	727	7%	10,575	99%
Transfers	12,114	12,114	8,363	69%	11,731	97%
Total	**116,409**	**116,409**	**64,336**	**55%**	**104,871**	**90%**

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
8. Annex 1&2: expenditures in original and revised budgets, by category. p129/106.
9. Annex 3: breakdown of 2008 expenditures by organ and category. p120/108. This table is also Annex II of the budget law.
10. Annex 4: capital plan 2008-2011. Includes original and revised budget expenditures, by year. P 148/125
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
14. Annex 7: subsidies for autonomous agencies. P198/168
15. Annex 7(sic): report from independent auditor about petroleum fund. P199/169

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

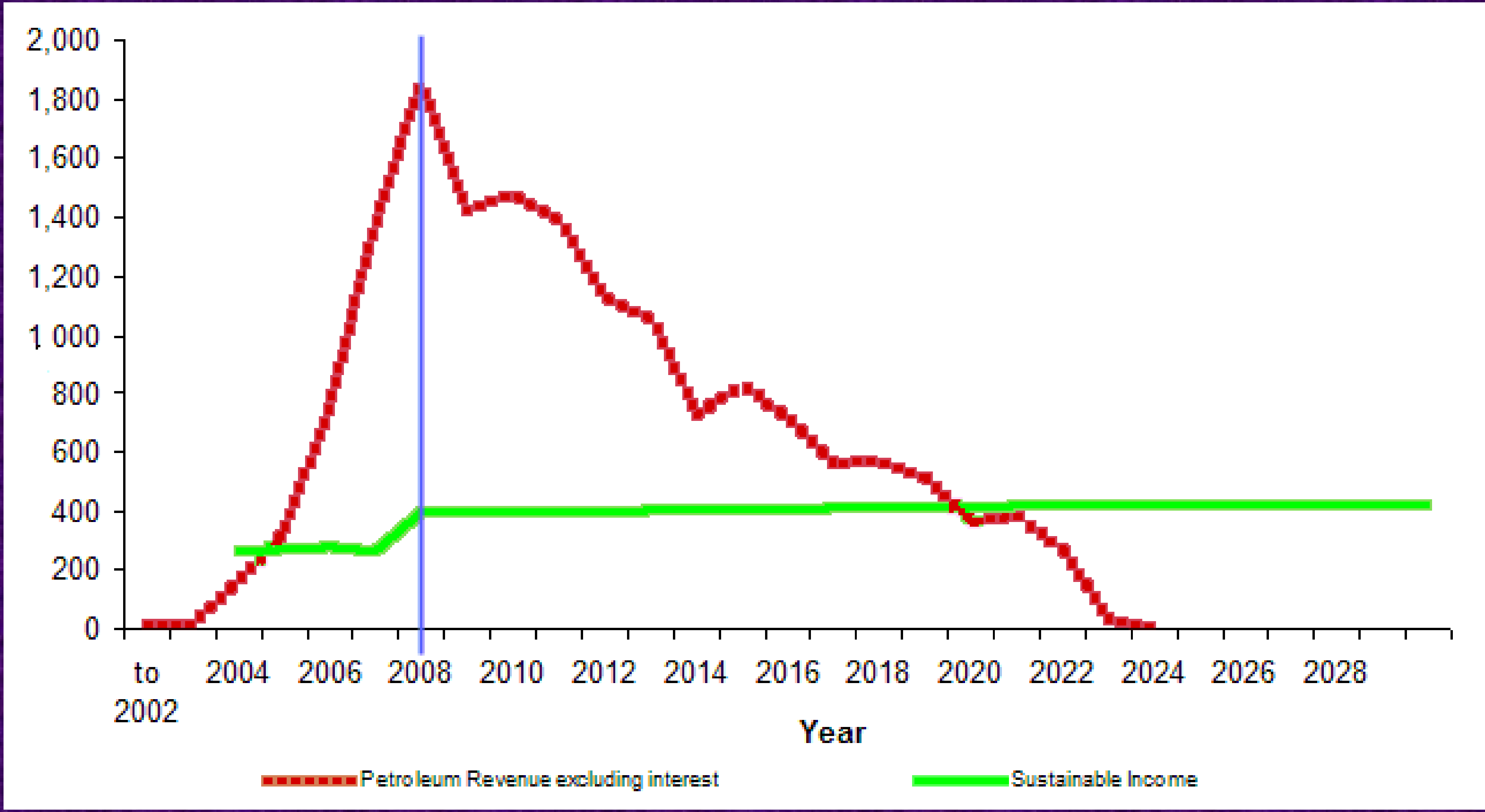
Economic Stabilization Fund

- $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?

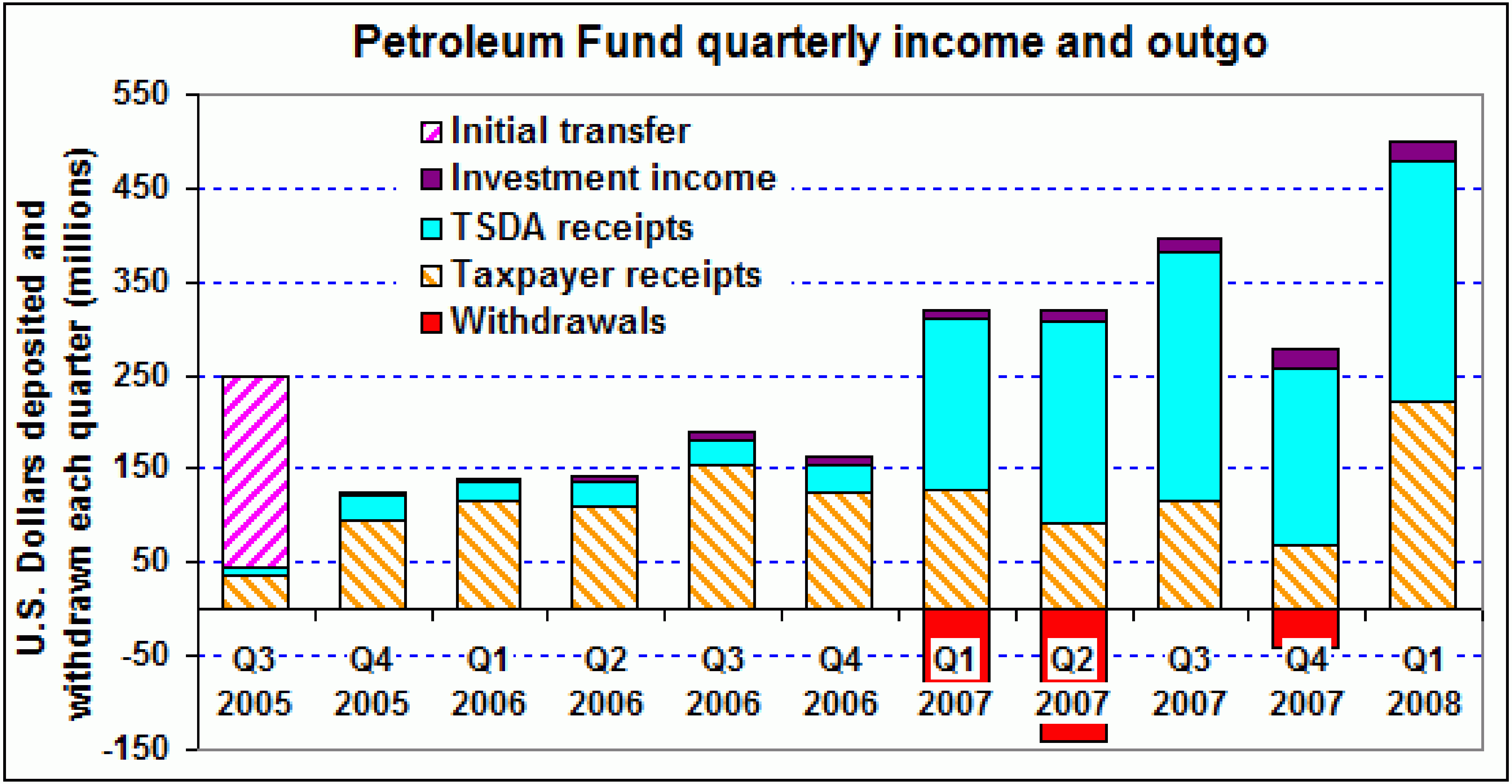
Petroleum Fund objectives

- 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

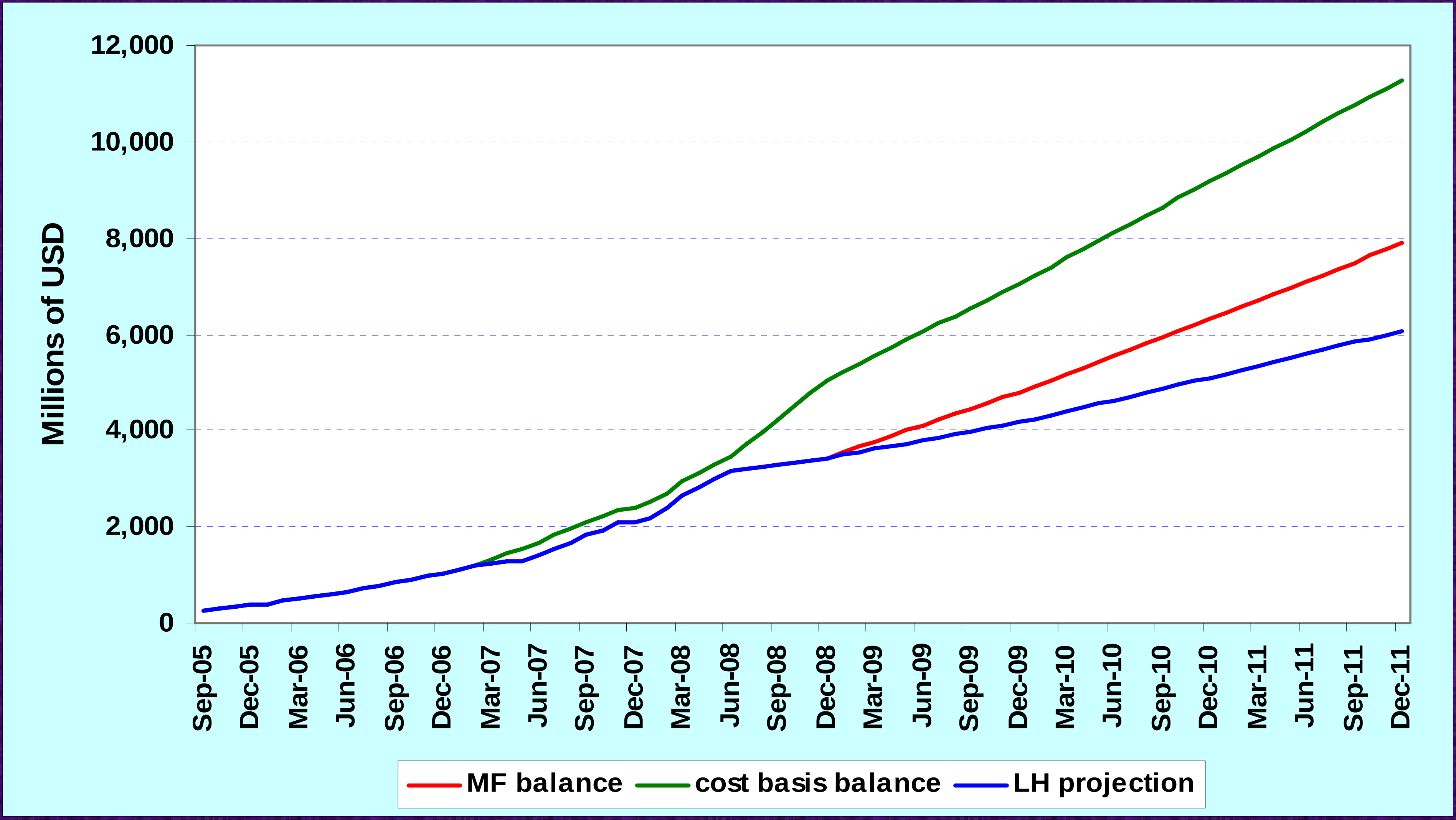
Petroleum Revenue and ESI



Petroleum Fund



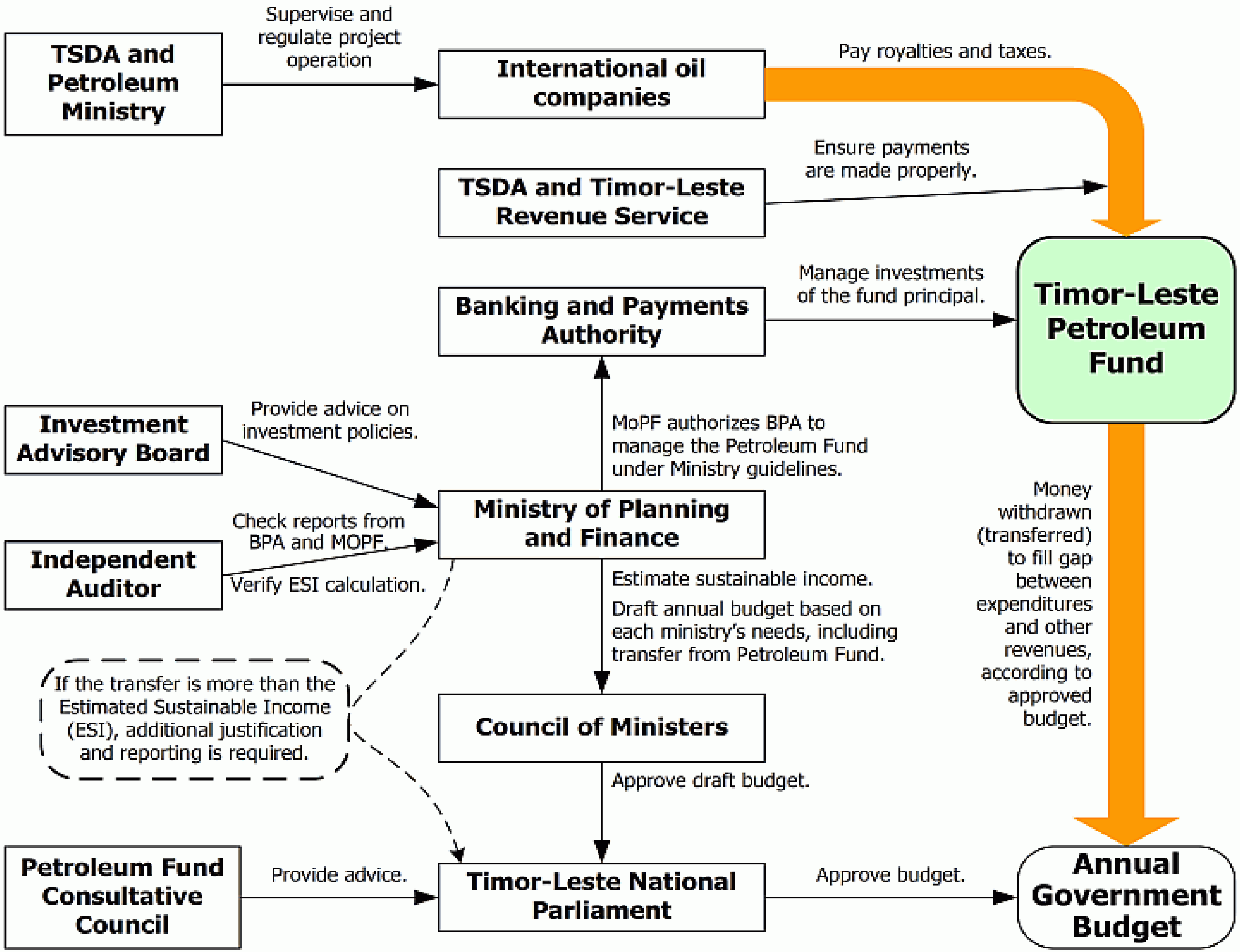
Future balance in Petroleum Fund



Multi-year projects

Total: $548m in 2009-2011

Figure 4: Agencies involved with Timor-Leste's Petroleum Fund

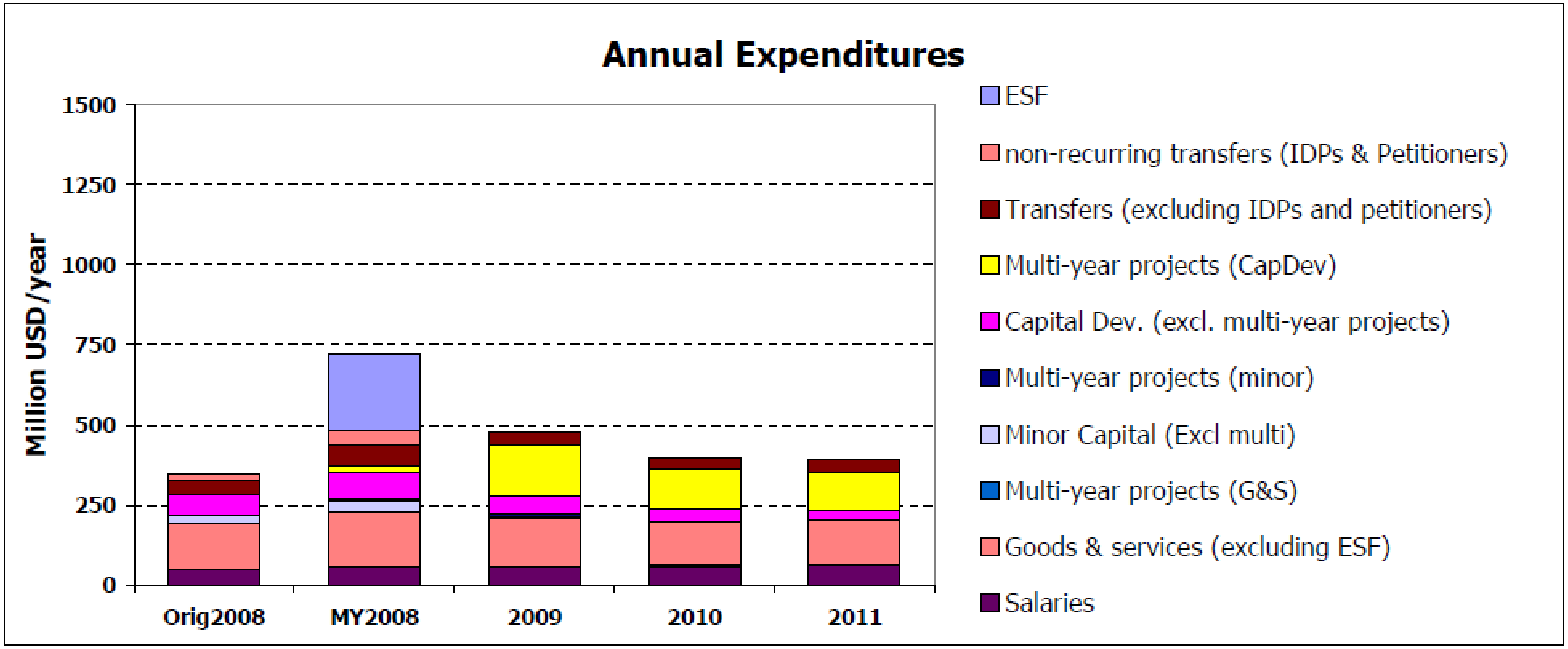


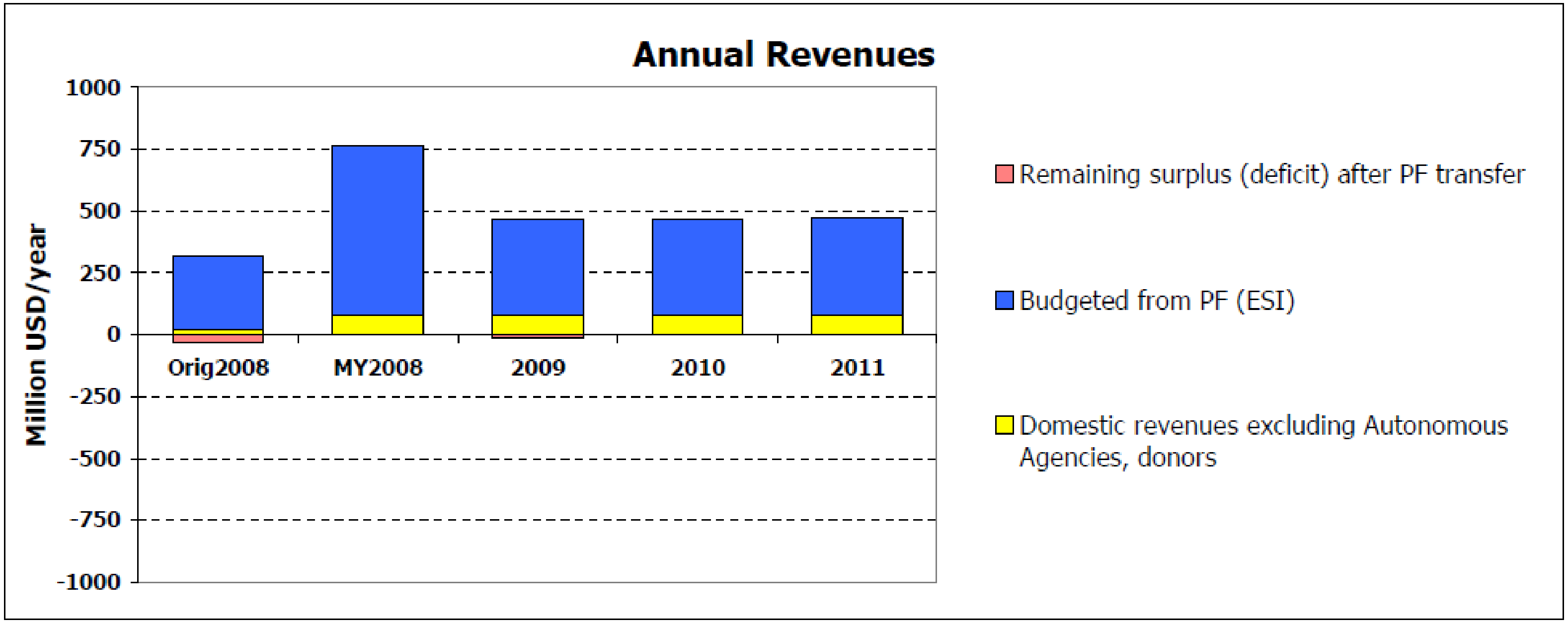
Scenarios for 2009-11 budgets

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

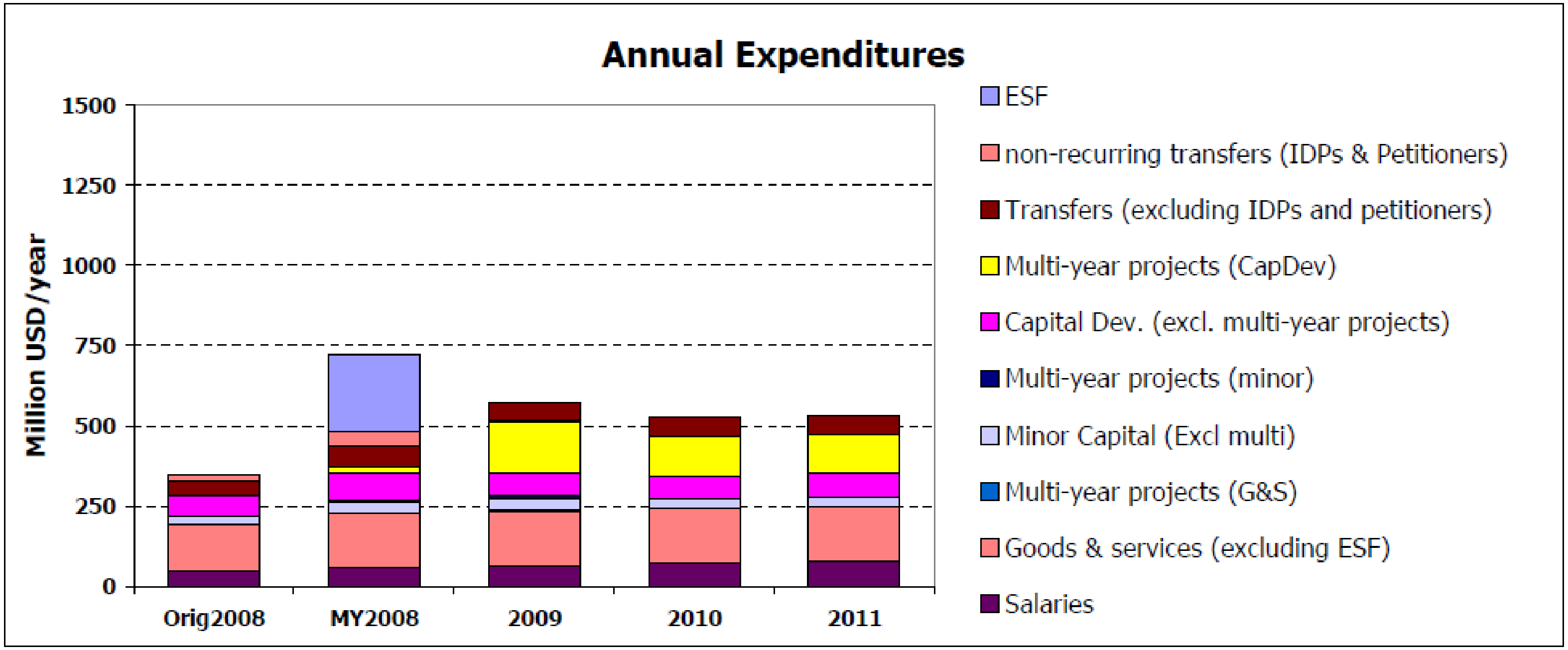
All these scenarios use government assumptions for oil prices, revenues, multi-year projects, non-recurring costs, 2008 budget. None include carry-over.

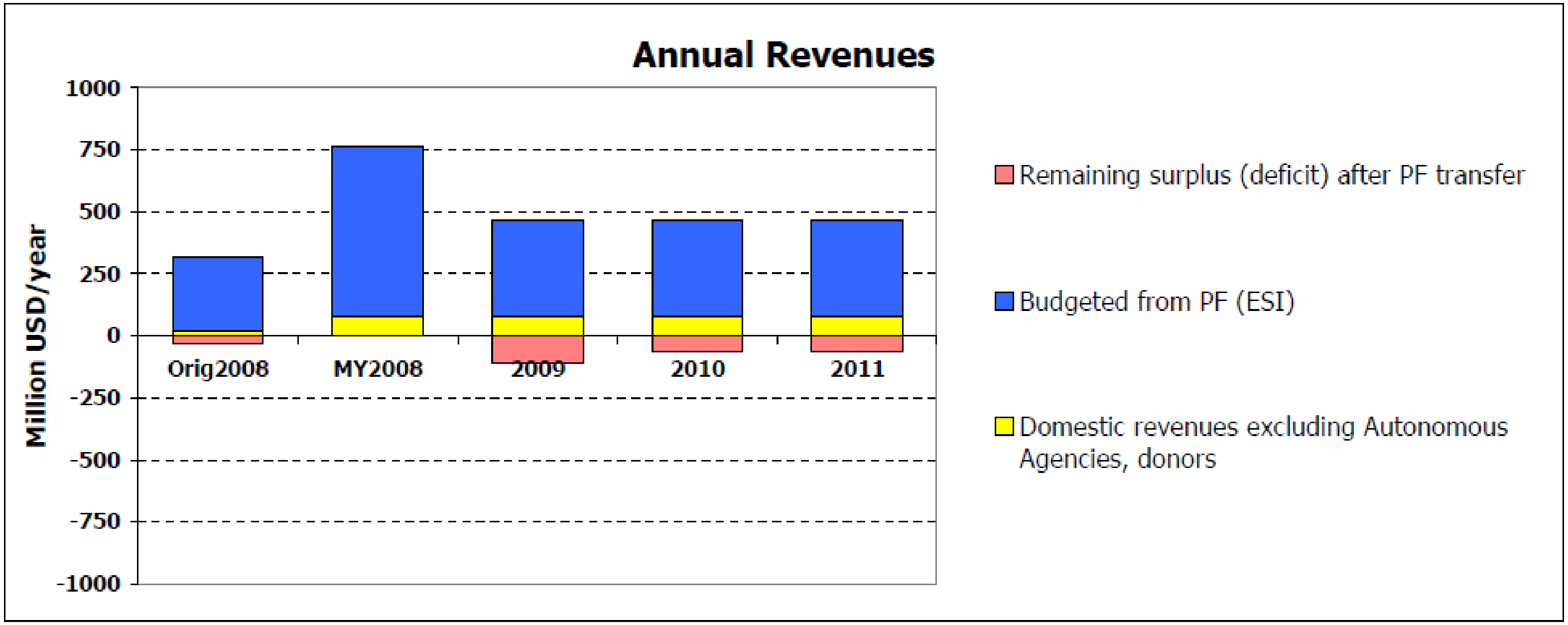
1. Government case



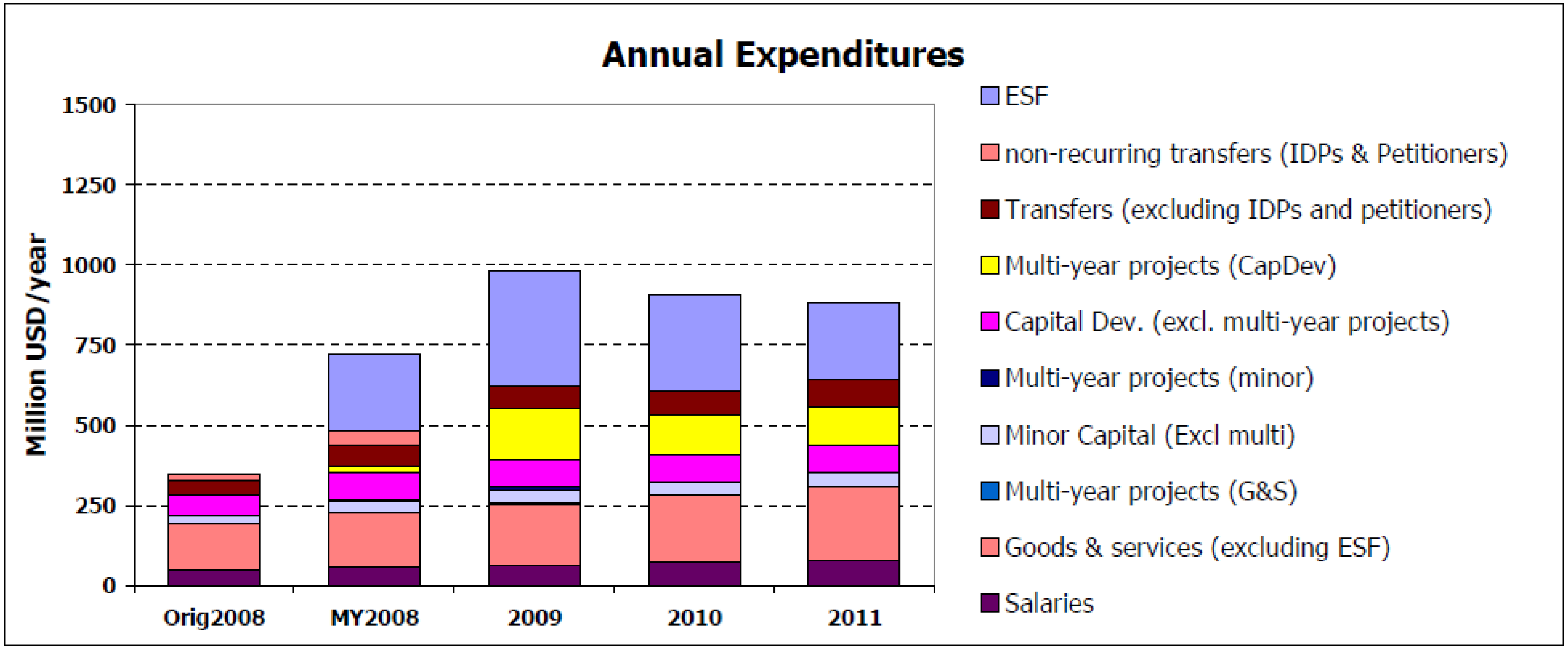


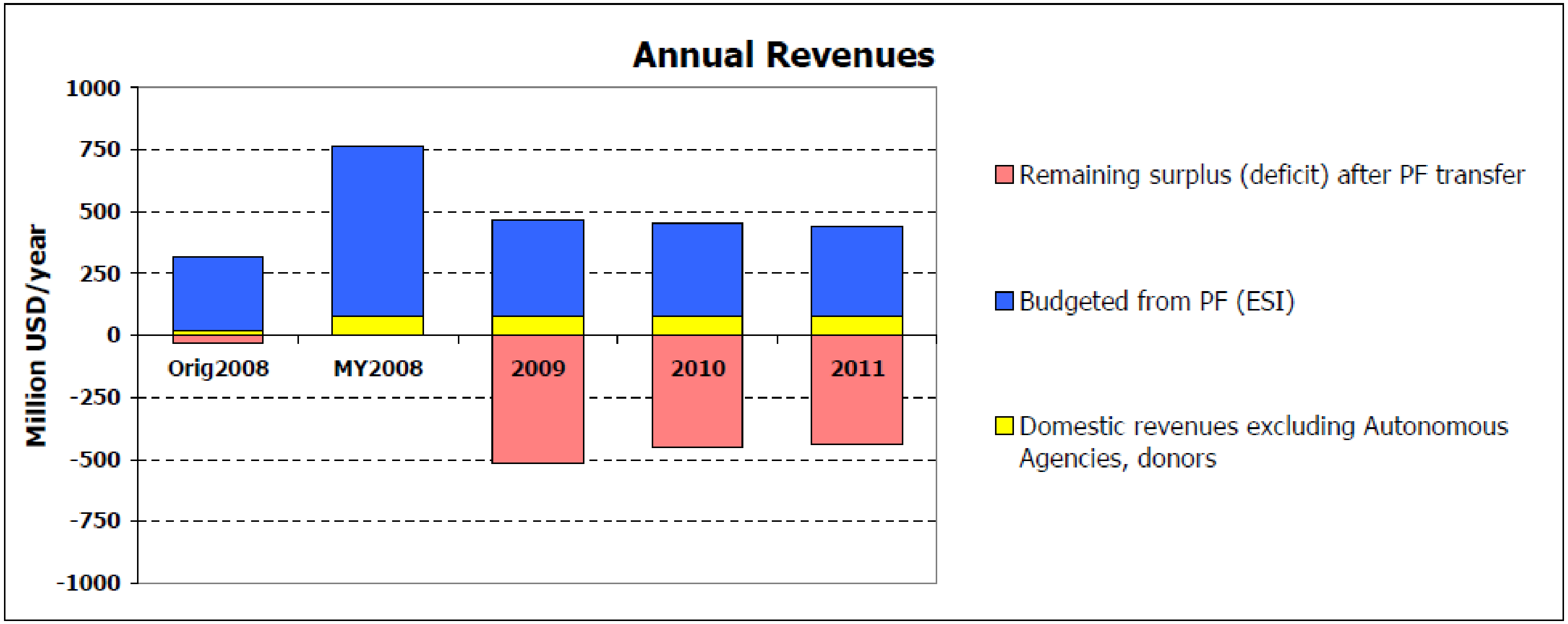
2. Conservative (no ESF)





3. Likely (phasing out ESF)





4. Possible (inflation adjusted)