A JOINT PRESS RELEASE

THE MINISTRY OF FINANCE AND THE WORLD BANK

Dili, 13 March 2015

Timor-Leste Public Expenditure Review: Infrastructure

The Ministry of Finance and World Bank today jointly released a report reviewing infrastructure spending in Timor-Leste. The report notes that in line with Government policy there has been significant spending on infrastructure, which has increased electricity generation and contributed to economic growth. In the short and medium term, Timor-Leste is in a strong financial position with current savings in the petroleum fund being more than ten times larger than the annual State Budget.

Dili, 9th March 2015 – Ministry of Finance and the World Bank today jointly published a report entitled "Public Expenditure Review: Infrastructure". The report reviews the quality of infrastructure spending in Timor-Leste and focuses on the electricity, irrigation and road sectors.

The Government has emphasized the development of infrastructure through its Strategic Development Plan (SDP). In line with the SDP, the Government increased spending on infrastructure to nearly half of non-oil GDP in 2011. Infrastructure spending has been concentrated on electricity, roads and district development.

Timor-Leste has exceeded expectations and its peers in the development of its public investment management system. The preparation of project briefs, appraisal of projects and budget preparation are all areas of particular strength. Areas of comparative weakness include projects being included in the budget despite appraisals showing they have low economic rates of return and little consideration of maintenance costs when selecting projects.

Outputs from Infrastructure spending have been mixed. The central electric project massively increased electricity generation capacity and connections. Improved connections likely raised living standards. Irrigation projects have benefited relatively few farmers and their economic rates of returns have been low.

Expenditure on infrastructure has increased short-term economic growth, which has been concentrated in the construction and Government administration sectors. Household consumption has also grown strongly, indicating that living standards have likely increased.

In the long term spending on infrastructure increases economic growth when it results in roads, electricity and other outputs which firms use to increase production. The evidence is that this has not yet occurred in Timor-Leste, with manufacturing and agriculture growing slowly between 2008 and 2012. This is, however, unsurprising as there are normally lags between spending, the completion of construction and firms using new infrastructure to produce goods. The central electric project has only recently been completed and

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much other infrastructure has not yet been constructed. In addition, there are already indications that some energy intensive industries, such as brewing and cement making, are considering moving to Timor-Leste.

In the short and medium term the Government is in a strong financial position. Timor-Leste has wisely saved over $16.5 billion in the petroleum fund, enough to pay for the 2014 budget more than ten times over. Few countries have accumulated savings that are more than ten times their current budget and in this sense overall fiscal policy has been conservative.

The Government is committed to long-term fiscal sustainability and has outlined a policy of frontloading infrastructure expenditure. According to this policy there will be excess withdrawals followed in the longer term by economic growth, increased domestic revenue and declining expenditure. The achievement of these goals should enable withdrawals to fall back to the level of the Estimated Sustainable Income.

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