The Timor-Leste budget and mid-year rectification

Training for the International Center for Journalists

by La’o Hamutuk

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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
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 / rendimento
- 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 / sustentáveis (able to continue for the indefinite future)
Big numbers

If we stack one quarter every second, how long will it take to collect one thousand dollars ($1,000)? How high is the stack?

About one hour. 8 meters high (twice as tall as this building).

How about one million dollars ($1,000,000)?
7 weeks. 8 km (from the Comoro river to Meti-Aut).

How about one billion ($1,000,000,000)?
127 years. 8,000 km (from Dili to Afghanistan).
Categories of Expenditures

- Salaries (salarios e vencimentos)
- Goods and Services (bens e servicos)
- Minor Capital (capital menor)
- Capital Development (capital e desenvolvimento)
- Transfers (transferencias publicas)
Mid-Year Adjusted Budget 2008
Total expenditure: USD $788.3 million

- Capital & Devel., $111
- Transfers, $132
- Minor capital, $39
- Salaries, $59
- Goods & services, $207
- Economic Stabilization Fund, $240
Adjusted Budget 2008
($788m total)
Categories of Income

- **Domestic Taxes / Impostos Domésticos**
  (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>
<thead>
<tr>
<th>Table 2.2</th>
<th>Financing of the Combined Sources Budget 2008-07 to 2011 ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
</tr>
<tr>
<td>Domestic Revenue</td>
<td>59.3</td>
</tr>
<tr>
<td>Direct Budget Support</td>
<td>40.9</td>
</tr>
<tr>
<td>Autonomous Agency Revenue</td>
<td>11.4</td>
</tr>
<tr>
<td>Confirmed Donor Funding</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Recurrent Expenditure</td>
<td>161.9</td>
</tr>
<tr>
<td>State Budget Funding</td>
<td>150.2</td>
</tr>
<tr>
<td>Confirmed Donor Funding</td>
<td>11.6</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td></td>
</tr>
<tr>
<td>State Budget Funding</td>
<td>11.6</td>
</tr>
<tr>
<td>Confirmed Capital Funding</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Transfer from the Petroleum Fund</td>
<td>102.5</td>
</tr>
<tr>
<td>Existing Cash Reserves</td>
<td></td>
</tr>
</tbody>
</table>

- **Revenue** and **Expenses** columns include data for different years with actual and estimated figures.
Budget Adjustment 2008

Total revenues: USD $773.3 million
($15 million is carryover from 2007.)
Autonomous Agencies
Agências Autônomas

These can be included, or not

- TL Electricity Department (EDTL)
- Nicolau Lobato Airport
- APORTIL (Dili port and Nakroma ferry)
- Equipment Management Institute
- National Petroleum Authority (new)

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
  Latest IMF projections are 4.0% in 2008, 3.4% per year after that.

Therefore, the cost of providing the same services increases 8% every year.
Recurring and one-time expenses

- **Most expenses repeat** 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 Timor-Leste

• Big plans, low capacity to implement them.

• AMP is obsessed with this, hence using funds and transfers, which are easier to spend.

• Reports are misleading, as commitments and obligations are counted as executed.

• Carry-over from past years paid for nearly all gov’t activities during the first half of 2008.
## Budget Execution

First six months of 2008

<table>
<thead>
<tr>
<th></th>
<th>Current Appropriation</th>
<th>Actual Payments</th>
<th>Outstanding Commitments / Obligations</th>
<th>Total Expenditure</th>
<th>% to Current Appropriation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>46,783</td>
<td>21,862</td>
<td>-</td>
<td>21,862</td>
<td>46.7%</td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td>137,614</td>
<td>58,583</td>
<td>18,731</td>
<td>77,314</td>
<td>56.2%</td>
</tr>
<tr>
<td>Minor Capital</td>
<td>24,228</td>
<td>3,406</td>
<td>12,903</td>
<td>16,309</td>
<td>67.2%</td>
</tr>
<tr>
<td>Capital &amp; Development</td>
<td>60,866</td>
<td>4,233</td>
<td>36,895</td>
<td>41,128</td>
<td>67.6%</td>
</tr>
<tr>
<td>Transfers</td>
<td>63,913</td>
<td>19,622</td>
<td>20,116</td>
<td>39,738</td>
<td>62.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>333,404</strong></td>
<td><strong>107,706</strong></td>
<td><strong>88,645</strong></td>
<td><strong>196,350</strong></td>
<td><strong>58.8%</strong></td>
</tr>
</tbody>
</table>

This is based on the original 2008 budget, before the rectification. Capital is almost all “obligations,” not actual payments.
Day 2. 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, p4
2. Explanation of reasons by the PM, p5
3. Fiscal and economic overview, p14
   Petroleum Fund: Chart/table 3.3
4. Revenues (domestic), p31t/28e
5. Expenses, p34t/31e
   Execution, revision, summary table 5.5
6. Table 5.6, p39t/36e, The cost of each new program
7. Information about each ministry. p46t/43e

8. Annex 1&2: expenditures in original and revised budgets, by category. p129t/119e

9. Annex 3: breakdown of 2008 expenditures by organ and category. p131t/121e. 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. p149t/137e

11. Annex 5: staffing profile. p171t/158e

12. Annex 6: budget law. p198t/172e*. This is the law that Parliament passed.
13. Annexes to Budget law (part of the law)
   I. Revenue estimates p201t/175e
   II. List of expenditures (same as Annex 3 of budget document, p131t/121e)
   III. Autonomous agencies p202t/176e
   IV. Multi-year capital projects p203t/177e

14. Annex 7: subsidies for autonomous agencies. p204t/178e

15. Annex 8: report from independent auditor about petroleum fund. p206t/180e

16. Annex 9: letter from Prime Minister about why the ESI must be exceeded. p211t/185e
Day 3. 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, for six months only
- More than Timor-Leste’s GDP for this period
- 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
- Impact on local farmers and producers?
- 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
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.
  - Ensure payments are made properly.

- **TSDA and Timor-Leste Revenue Service**
  - Manage investments of the fund principal.

- **Banking and Payments Authority**
  - MoPF authorizes BPA to manage the Petroleum Fund under Ministry guidelines.
  - Estimate sustainable income.
  - Draft annual budget based on each ministry’s needs, including transfer from Petroleum Fund.

- **Ministry of Planning and Finance**
  - Check reports from BPA and MoPF.
  - Verify ESI calculation.
  - If the transfer is more than the Estimated Sustainable Income (ESI), additional justification and reporting is required.

- **Investment Advisory Board**
  - Provide advice on investment policies.

- **Independent Auditor**
  - Verify ESI calculation.

- **Council of Ministers**
  - Approve draft budget.

- **Petroleum Fund Consultative Council**
  - Provide advice.

- **Timor-Leste National Parliament**
  - Approve budget.

- **Annual Government Budget**

Money withdrawn (transferred) to fill gap between expenditures and other revenues, according to approved budget.
Oil prices: unpredictable

Daily world market price over the last 12 months

World oil prices peaked at over $145/barrel in June and July, while Parliament was debating the budget update. Today they are less than $80/barrel.
Petroleum Revenue and ESI
Petroleum Fund

Petroleum Fund quarterly income and outgo

- Initial transfer
- Investment income
- TSDA receipts
- Taxpayer receipts
- Withdrawals

U.S. Dollars deposited and withdrawn each quarter (millions)
Future balance in Petroleum Fund

Millions of USD

MF balance

Cost basis balance

LH projection

Future balance in Petroleum Fund
Multi-year projects
Total: $548m in 2009-2011
Government projections
From the promulgated, rectified budget.

Annual Expenditures

Million USD/year

Orig2008  MY2008  2009  2010  2011

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
Government projections
From the promulgated, rectified budget.

Annual Revenues

Million USD/year

-500 -250 0 250 500 750 1000

Orig2008 MY2008 2009 2010 2011

-250 -500

Remaining surplus (deficit) after PF transfer
Budgeted from PF (ESI)
Domestic revenues excluding Autonomous Agencies, donors
La’o Hamutuk projections
Continue current programs, phase out ESI

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

Million USD/year

Orig2008 MY2008 2009 2010 2011
La’o Hamutuk projections
A billion dollars more than ESI in 2009-2011

Annual Revenues

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

Million USD/year

Orig2008 MY2008 2009 2010 2011
Obrigado barak

Preguntas no kommentariu?