

# The Timor-Leste budget and mid-year rectification

Training for the  
International Center for Journalists



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This PowerPoint presentation is for a four-morning workshop for Timorese journalists in October 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

The Ministry of Finance issued this press release in response to the first debate about cars for members of Parliament. That release categorically asserted that there were no plans to buy cars for every MP, an assertion which became false when the Council of Ministers approved the mid-year budget rectification the following day.

# **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.

Does Article 2 make the ESF illegal? Is it "secret" when there is no accountability, even if the existence of the fund is known?

## 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)
- **Sustentaveis / sustainable / sustentavel** (able to continue for the indefinite future)

There are apparently no Tetum words for deficit or carryover.

## **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 vencimientos)**
- **Goods and Services (bens e servicios)**
- **Minor Capital (capital menor)**
- **Capital Development (capital e desenvolvimento)**
- **Transfers (transferencias publicas)**

Salaries are regular payments to civil servants

Good and services are supplies that are used up: paper, water, petrol, consultants, contractors, etc.

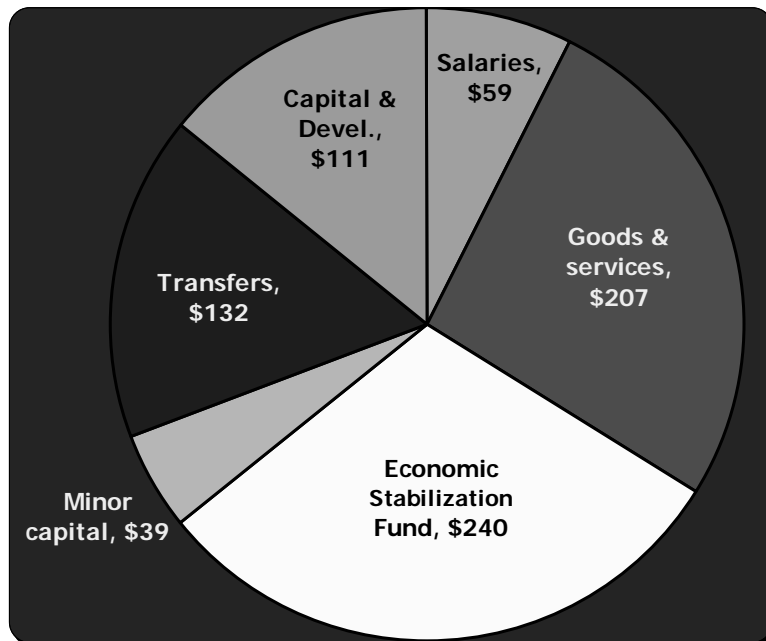
Minor capital is things like cars, computers, and furniture for government that lasts about five years.

Capital Development is buildings, major infrastructure, that last longer and supports the national economy.

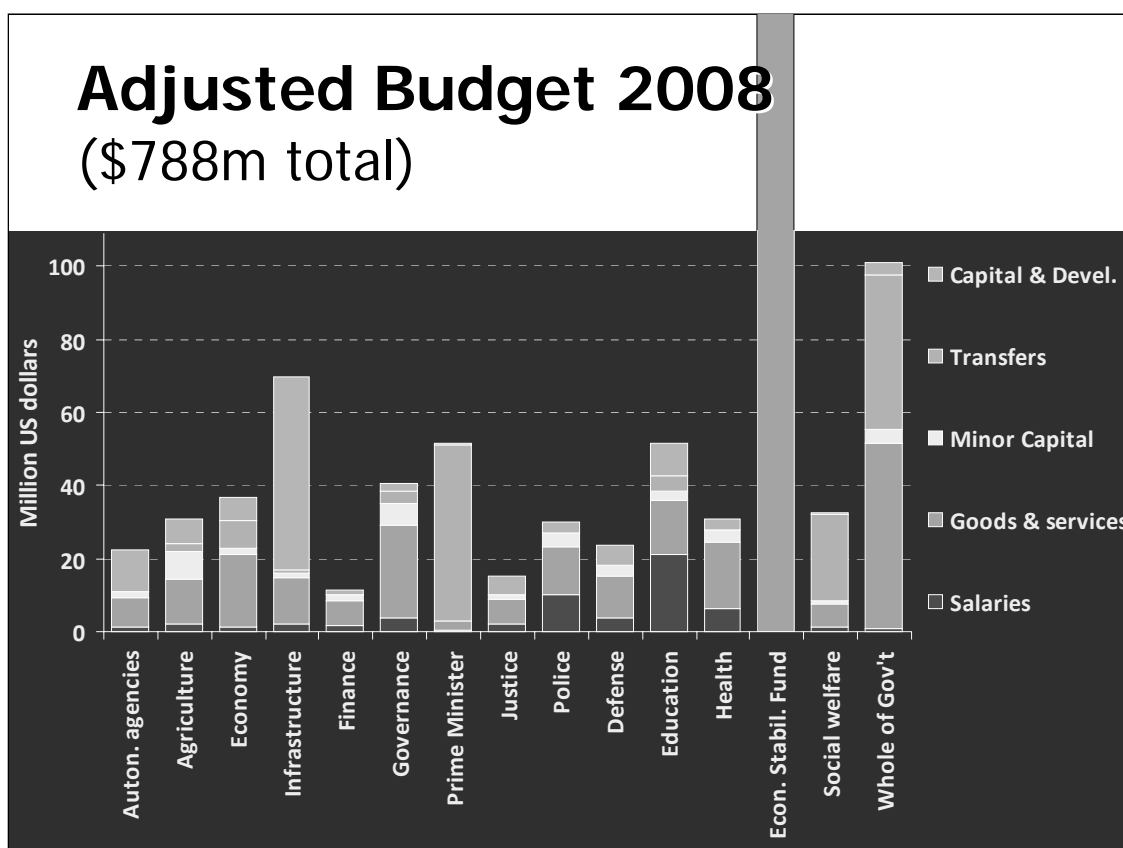
Transfers are direct cash payments to individuals – pensions, re-settlement, etc. This year they go to IDPs, petitioners, veterans, widows, orphans, former office-holders, etc.

## Mid-Year Adjusted Budget 2008

Total expenditure: USD \$788.3 million



ESF is listed as goods and services in the budget documents, only for 2008. We separated it out to make it clearer.



Economic Stabilization Fund -- \$240 million, higher than the entire national GDP during the period July-Dec 2008. For comparison, Timor-Leste's total volume of imports (excluding re-exports) is under \$200 million per year.

Transfers:

PM originally \$5m for church, \$15m IDPs, \$5m petitioners. MYBU added \$20m more for IDPs, \$3m for petitioners.

Whole of Gov't: \$16m veterans, \$0.5m former office-holders, MYBU added \$4.5m veterans. Parliament added \$20m more for veterans.

Social: Old age pension \$6.1m, \$2.5 children & vulnerable groups. MYBU added \$10.8m for old age pensions.



## 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)

“Rice” sales may include construction materials and fuel, as they’re not listed elsewhere in the budget. The “user fees” are paid by one branch (ESF) of government to another (ETRS) instead of import taxes.

Donors have stopped directly supporting the RDTL State Budget since 2006-2007, preferring to give money for specific projects.

Before this budget cycle, the Ministry of Finance also published a “Combined Sources Budget” which listed donor projects and assistance which was coordinated with the Government, as shown on the next slide. But for this mid-year update, the Ministry of Finance has not made such information available.

## From original 2008 budget Combined Sources Financing

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

	2006-07	2007	2008	2009	2010	2011	Total
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	4 Years
<b>Revenue</b>	<b>59.3</b>	<b>115.5</b>	<b>181.7</b>	<b>140.8</b>	<b>102.0</b>	<b>144.3</b>	<b>568.8</b>
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
<b>Expenses</b>	<b>161.9</b>	<b>213.4</b>	<b>502.5</b>	<b>397.2</b>	<b>346.8</b>	<b>325.1</b>	<b>1,571.5</b>
Recurrent Expenditure	160.2	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
<b>Expenses</b>							
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)

This is last December's Combined Sources Budget; the Government did not produce one for the Rectification.

Gov't omitted donor funding for 2006-7, but there was some.

2007 is only six months.

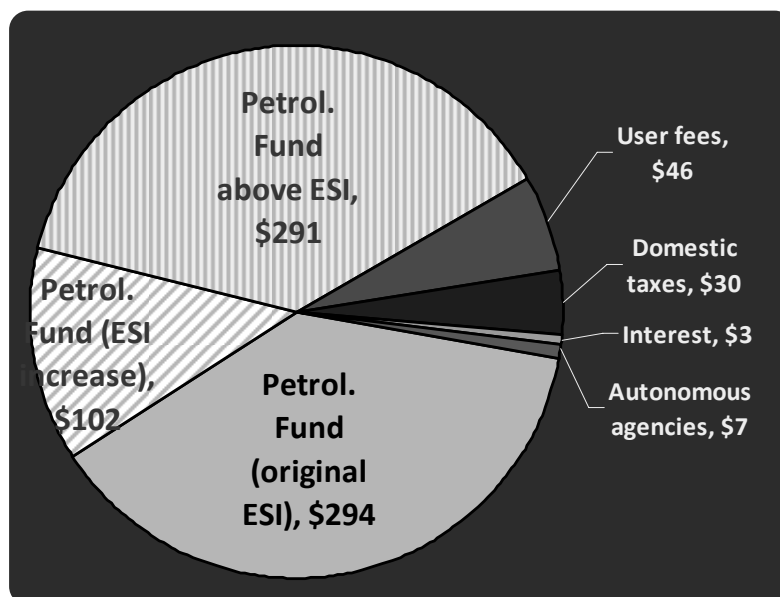
Direct Budget Support used to come from Portugal; but is not done any more.

Domestic Revenue was estimated at \$182m for 2008, but after tax reform is about \$79m.

## Budget Adjustment 2008

Total revenues: USD \$773.3 million

(\$15 million is carryover from 2007.)



**Domestic taxes** will drop from \$30 million in 2008 to about \$18 million per year in future years, because of the new Tax Reform law. (The new tax reform law goes into effect on 1 January 2008 for annual taxes and 1 July 2008 for indirect taxes., but the MYBU does not assume it until 2009, as far as we can tell.)

Of the \$30.3 million domestic taxes in 2008, \$12.8 is business income (\$9.5) and wage (\$3.3) tax , and \$17.5 is indirect tax, mostly import duties and excise tax.

In past years, **user fees** have been less than \$5 million/year. In 2008 and for the next four years, they are projected at about \$50 million/year, almost all from selling rice. There is no other income listed from selling subsidized goods.

Parliament added \$15 million to the expenditure side of the budget, but did not increase the income (i.e. the amount to be taken from the Petroleum Fund). Therefore, the \$15 million deficit is to be financed with money that was appropriated but not spent during 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**

The new National Petroleum Authority (ANP/NPA) is not included, even for future years. It appears to be funded off-budget, except for an initial \$1.249 million to establish it this year.

## **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.**

The IMF just made these new estimates last week. However, BPA estimates of inflation in TL are significantly higher.

Financial crisis could make U.S. dollar very unstable in the future.

## 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.

This is important to understand when projecting the impact of the budget into the future.

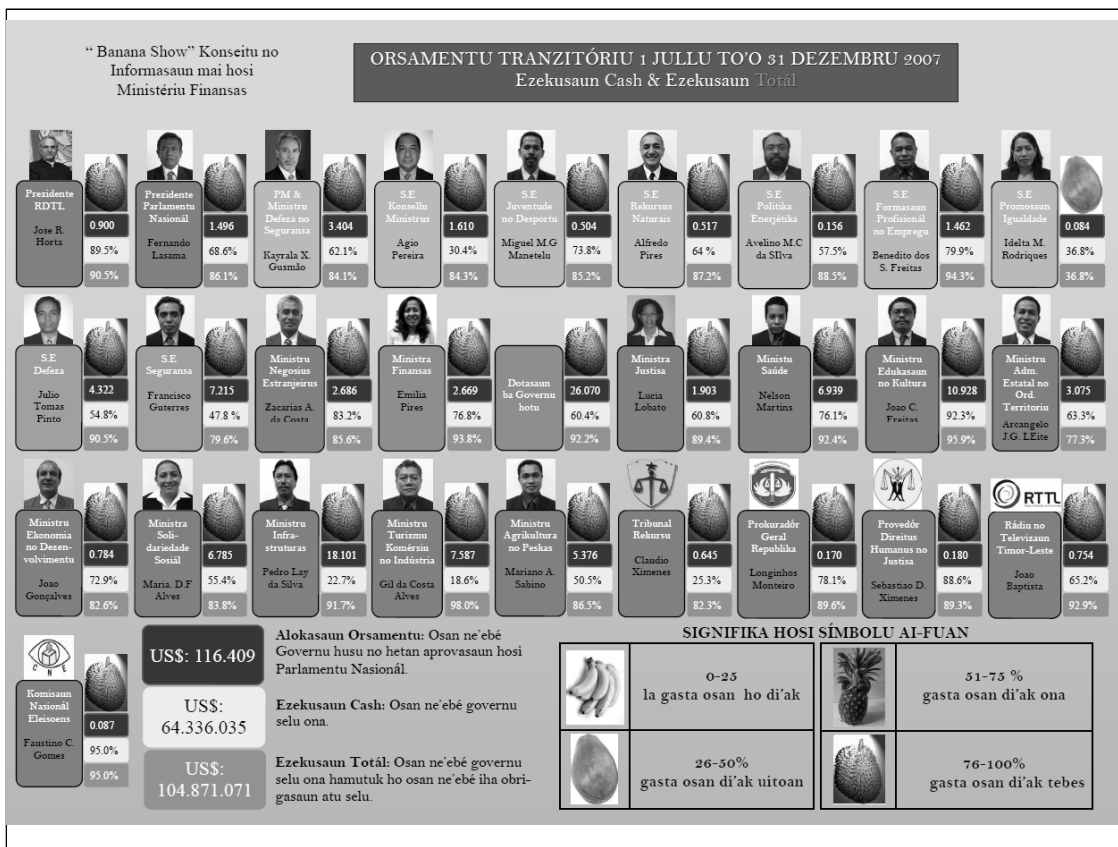
The ESF is budgeted as a one-time cost, but is this realistic? Other countries have experienced civil unrest when they try to reduce or end subsidies.

## 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.

TL will be better off if the 2008 mid-year budget is not executed – if it is the following years will require borrowing.

Budget execution is only a measure of spending money, not whether anything useful is done with the money. Program performance is much more meaningful. It's quite possible to spend (or lose) a lot of money without any benefit for the people.



Fruit for executioners! Is it better to be a banana or a durian?



# Budget Execution

First six months of 2008

<b>Budget Execution during first half of 2008, in thousands of U.S. dollars</b>					
	Current Appropriation	Actual Payments	Outstanding Commitments / Obligations	Total Expenditure	% to Current Appropriation
Salaries & Wages	46,783	21,862	-	21,862	46.7%
Goods & Services	137,614	58,583	18,731	77,314	56.2%
Minor Capital	24,228	3,406	12,903	16,309	67.2%
Capital & Development	60,866	4,233	36,895	41,128	67.6%
Transfers	63,913	19,622	20,116	39,738	62.2%
<b>Total</b>	<b>333,404</b>	<b>107,705</b>	<b>88,645</b>	<b>196,350</b>	<b>58.8%</b>

This is based on the original 2008 budget, before the rectification. Capital is almost all "obligations," not actual payments.

Note that cash ("actual") payments are much less than "total expenditures." The "total" includes commitments and obligations – that is, contracts which have been signed but not yet carried out. Many of these never happen, and are never paid for. And the ones which are might be counted twice – once as commitments, and later as cash. So "Cash Payments" is the only meaningful measure of execution, as that's the only indication that the actual government activity took place. After all, the gov't's purpose is not to spend money, but to provide services.

## **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.

Introduction to next session

## 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

The first page number is the Tetum, hard-copy version of the promulgated MYBU, the second in the English PDF.

An annotated version of the English budget document goes with this PowerPoint, at <http://www.laohamutuk.org/econ/MYBU08/AnnotatedBudgetDocument.pdf>, with comments on particular items.

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.

The first page number is the Tetum, hard-copy version of the promulgated MYBU, the second in the English PDF.

Note that budget law (Item #12) in English version is incorrect, not having been updated with Parliament's changes.

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

The first page number is the Tetum, hard-copy version of the promulgated MYBU, the second in the English PDF.

## **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

Introduction to next session

## 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?

Once subsidies start, they are very hard to stop.

Government budgets to receive \$39.4 million this year from selling rice, and \$49.4m/year over the next three years; how does this relate to ESF?

The Government has also added \$4.6 million to the Whole of Government expense budget for “taxes on rice imports” to cover the

Government's “legal obligation to pay tax when it imports rice and other commodities.”

The money all goes overseas, to pay for imports, and do nothing to develop the local economy.

Total imports of everything to TL are now about \$200 m/year, so ESF is larger than all other imports put together.

In addition to hurting local agriculture in the short term, it will change people's buying habits and hurt food security in the long term.

See also Core Group analysis of ESF, at

<http://www.laohamutuk.org/econ/MYBU08/CGT-ESF23Jul08En.pdf>

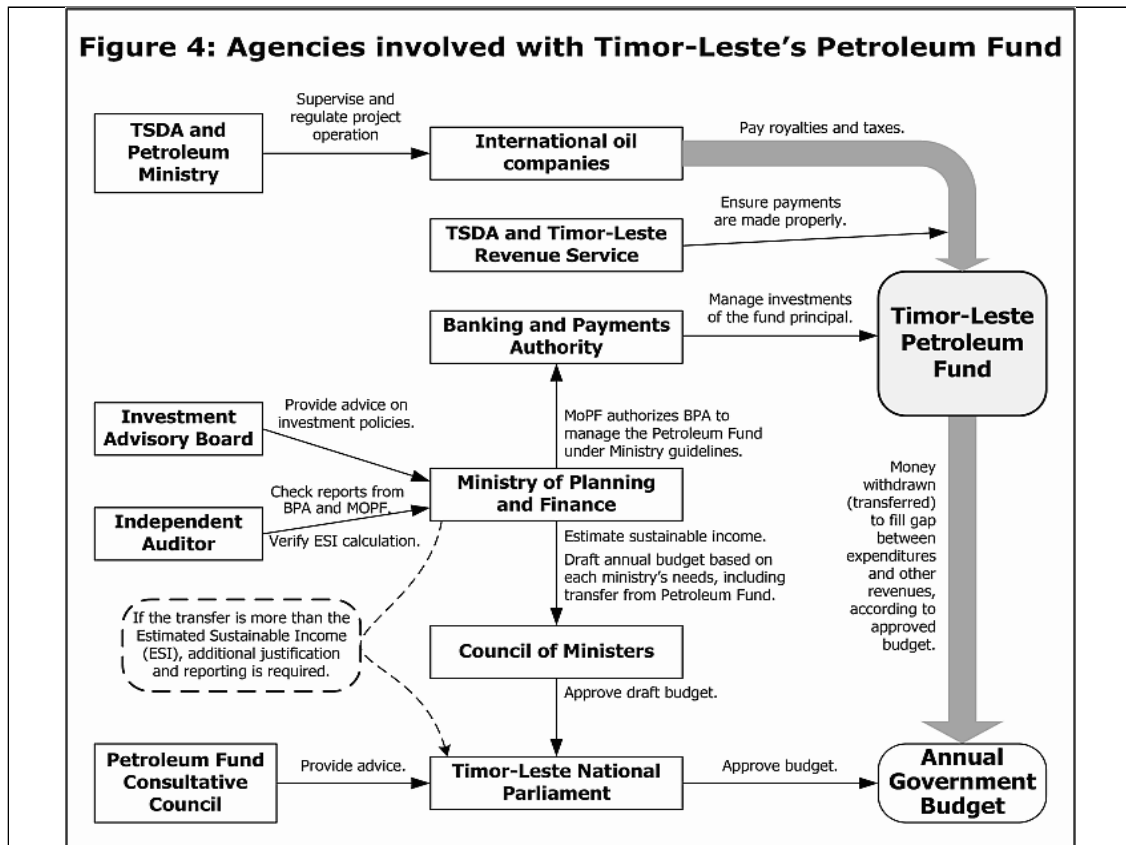
## Petroleum Fund objectives

- 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

Constant inflation-corrected dollar income from ESI isn't "sustainable" when TL's population doubles every 20 years, a 3.5% annual increase.

Oil prices have fallen 50% since the budget was enacted!





The TSDA has now been replaced by the NPA, but it has the same functions.

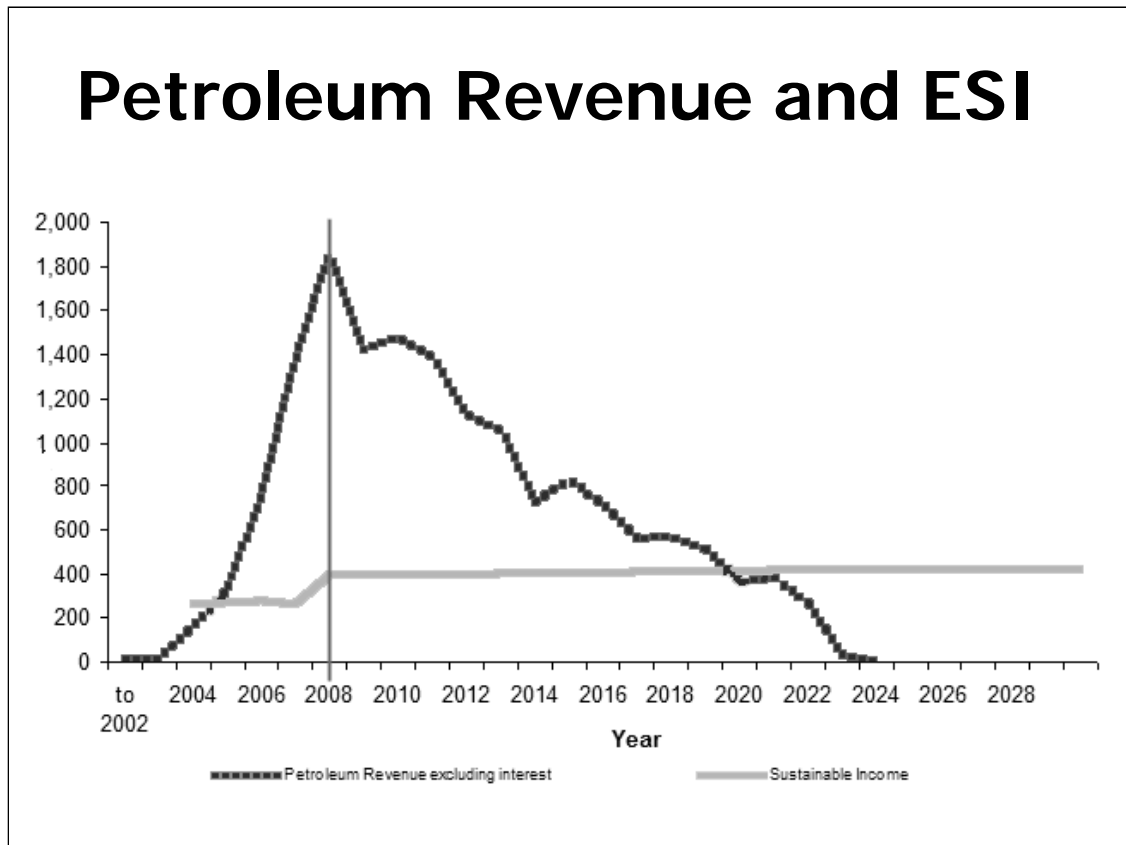
This is the decision-making process for withdrawing money from the Petroleum Fund.

It should normally be done only once each year, but the major “rectification” has caused an extra cycle, as did the shift of fiscal year in 2007.

The new Government has been in office less than a year, and is in its third budget cycle!



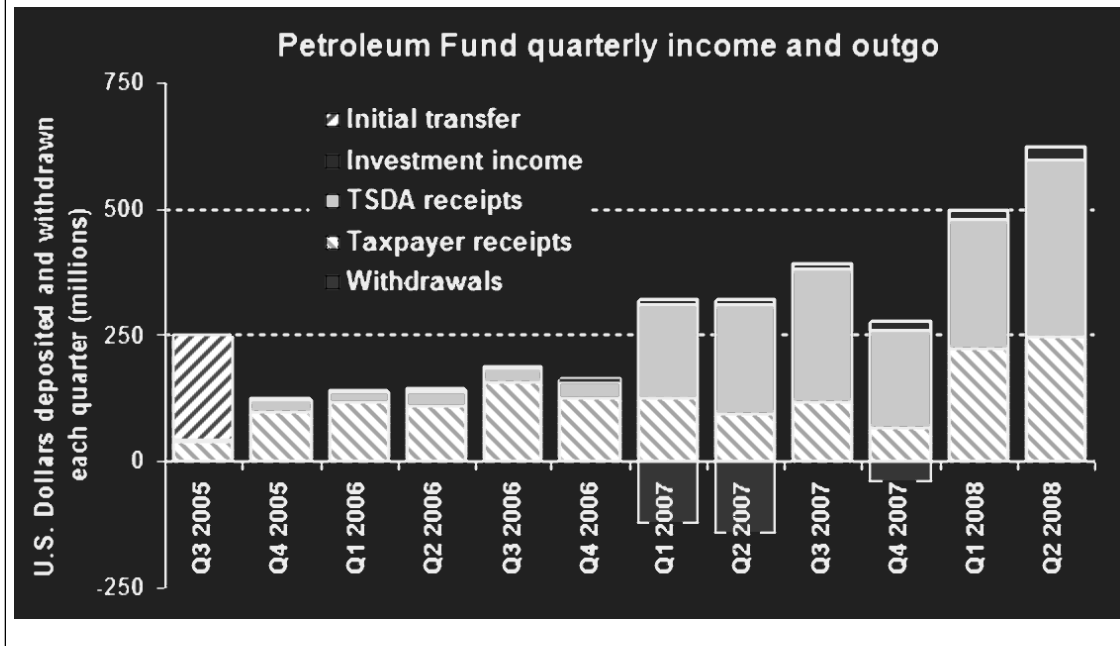
The budget was passed when oil prices were at the highest ever, based on a revised ESI which increased the assumed price by \$18/barrel over the calculation done last December. Since July, they have fallen 50%, back to September 2007 levels, and the decline may well continue.



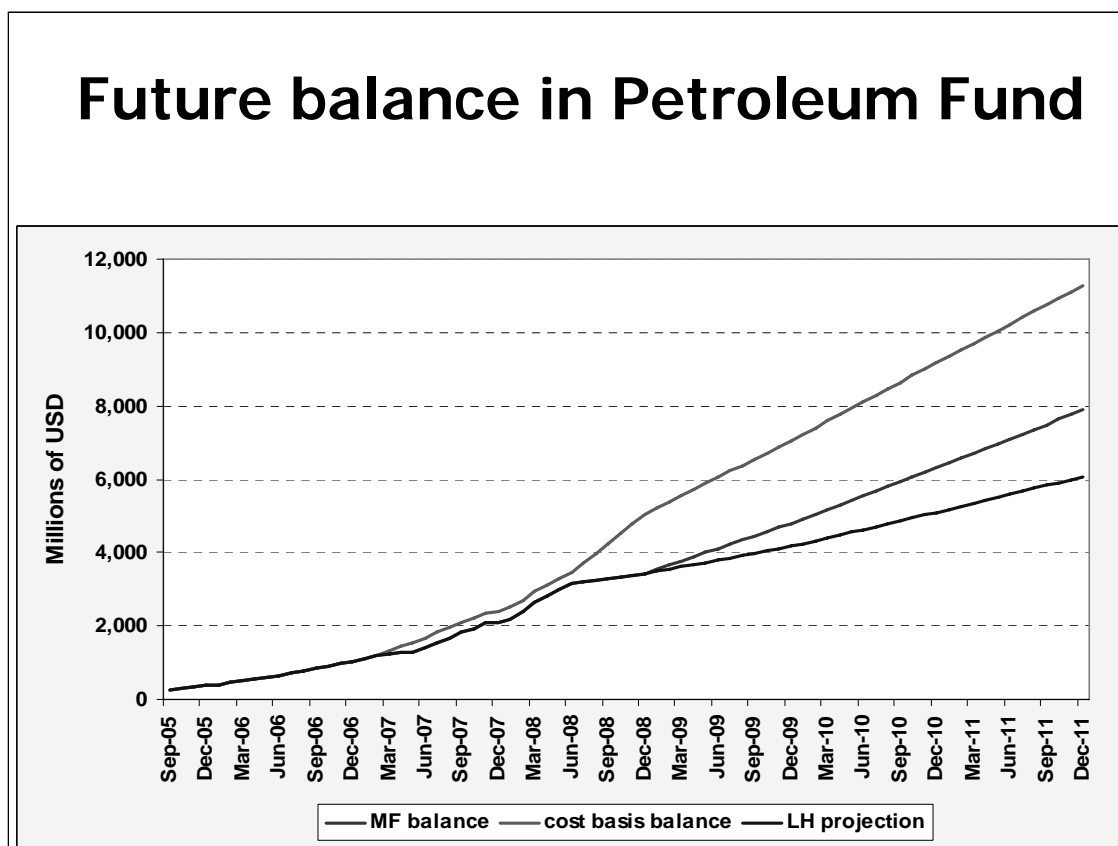
Blue vertical line is today. Note that we are at the peak of oil income, and that production from Bayu-Undan will decline pretty rapidly as the field is used up. Income will be less than half of current levels in just five years!

The step in ESI (green line) just before now is the gov't re-calculation based on higher assumed oil prices. But there's no reason to expect them to stay as high as they were in late June.

# Petroleum Fund



History of deposits and withdrawals in Petroleum Fund. There have not been any withdrawals so far in 2008. At the end of June, the balance was \$3,203,073,000.



Green line is what the monthly balance in the PF would be if no money was withdrawn, just looking over the next three years.

Red is balance if gov't keeps to plan to go over ESI in this year only,

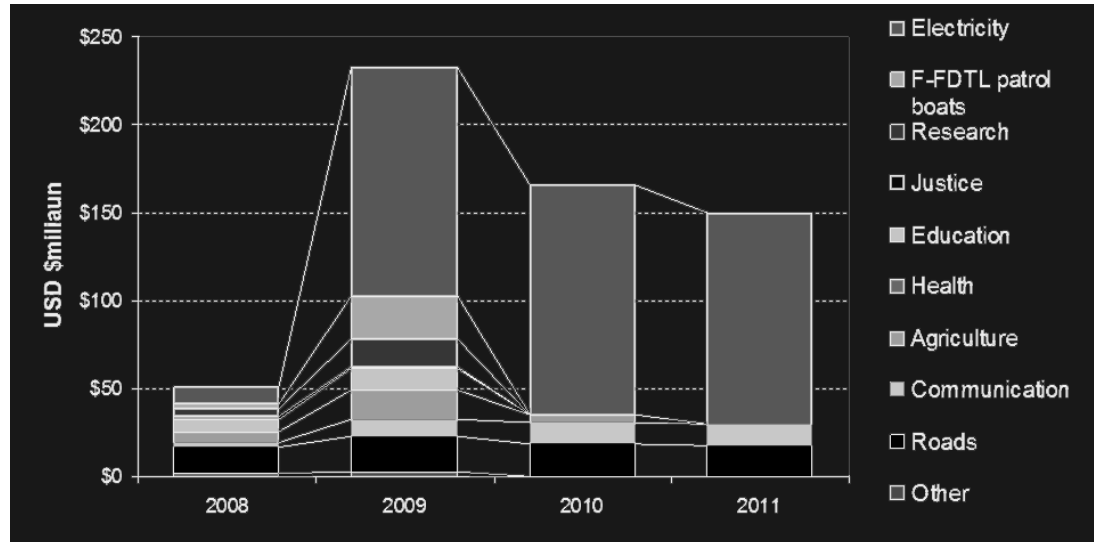
Blue is LH's projection that gov't will have to go over ESI every year, even more than this year.

Assumes 5% interest, **not** correcting for inflation.

Taking \$291 million above the ESI this year alone reduces the future ESI by about \$9 million each year. After 32 years, TL will have lost more money than it gained from going over this year, and will continue to pay "debt service" of \$9 million each year forever.

## Multi-year projects

Total: \$548m in 2009-2011

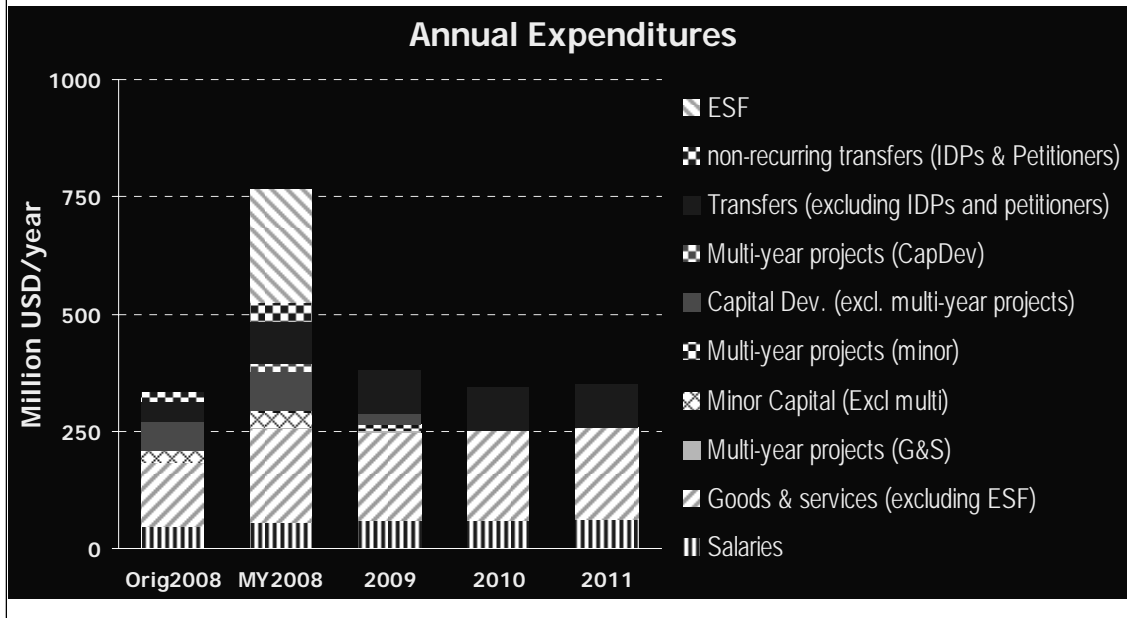


This is a new feature of this budget. The biggest one is the electric generating plant, but several others are front-loaded, so that they look like lower costs in 2008, but more in future years. This will make the 2009 budget at least \$100 million more than the 2008 one.

When the gov't presented the budget to Parliament, these items were included in the 2009-2011 projections. But they have been removed in the final budget, as promulgated, causing it to be misleading about the future.

# Government projections

From the promulgated, rectified budget.

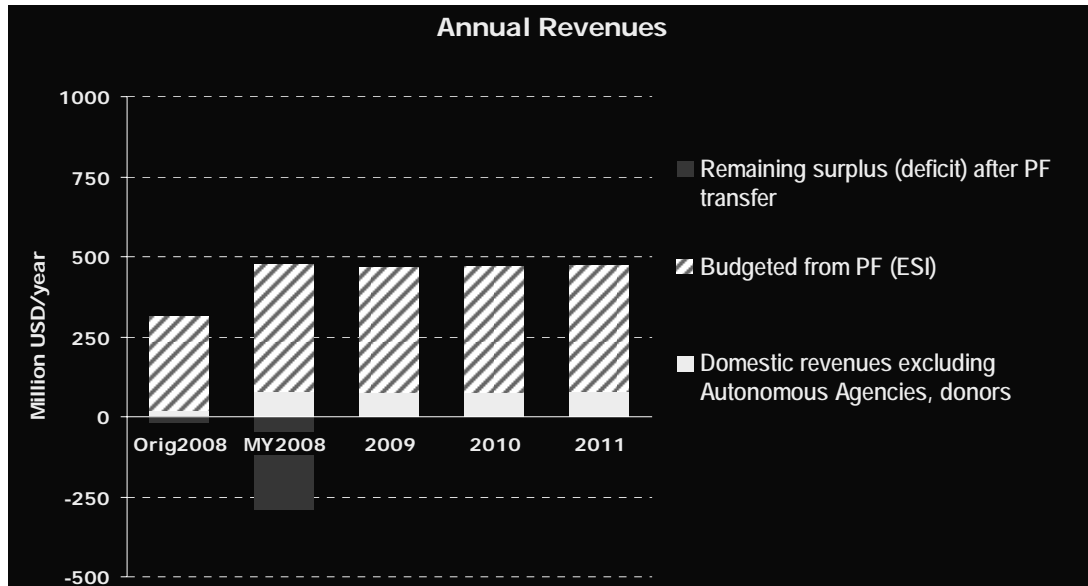


Very unrealistic, incomplete and misleading.

- Ignores population growth and inflation.
- Omits multi-year projects.
- Omits minor capital.
- Assumes big declines in one-year capital projects after 2008.
- Assume Economic Stabilization Fund ends in December.

## Government projections

From the promulgated, rectified budget.



Based on unrealistic expenditure projections in the previous slide, which leave out many items..

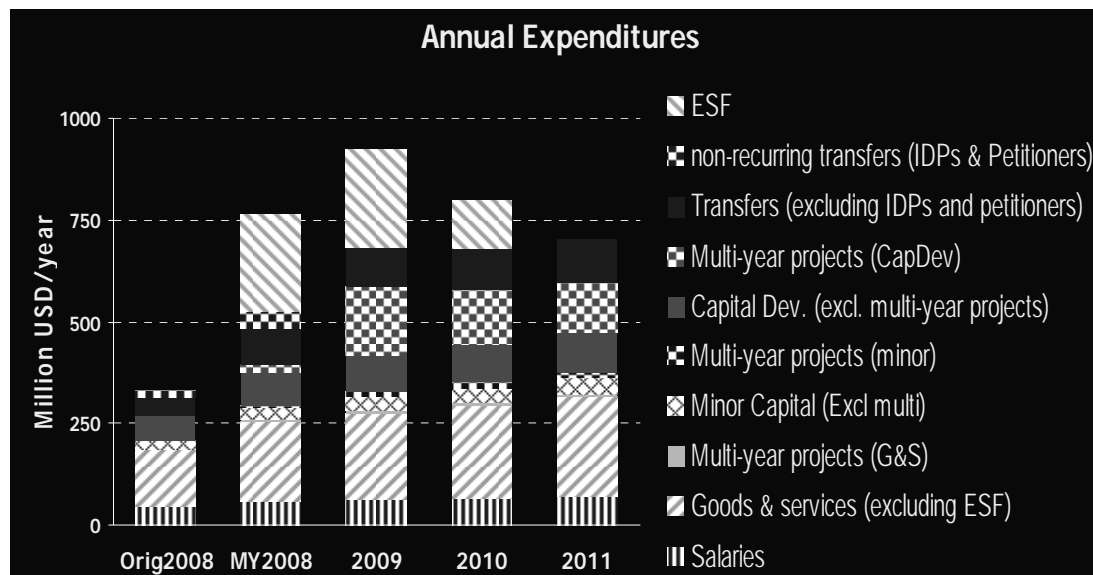
The Government says it will only have to go over the ESI in 2009 by \$291 million, but will stay within in for 2009-2011.

La'o Hamutuk's calculations demonstrate that this is impossible.



# La'o Hamutuk projections

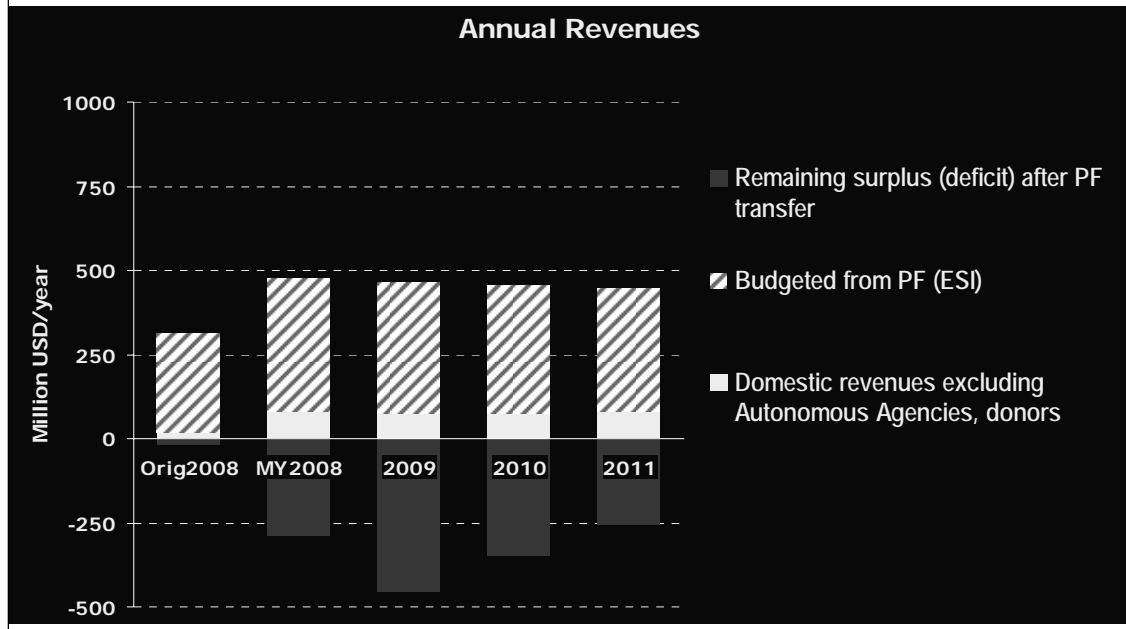
Continue current programs, phase out ESI



This is after making reasonable extrapolations. The Gov't projections omit multi-year capital projects entirely, even though they are included in the budget law.

# La'o Hamutuk projections

A billion dollars more than ESI in 2009-2011



This is after making reasonable extrapolations. The 2008 midyear budget deficit is covered by going over the Petroleum Fund ESI, but how will the 2009-2011 deficits be covered?

In total, they will put TL more than a billion dollars into debt, or overdrawn from the Petroleum Fund, in addition to the \$291 million this year.

Part of the problem is that the future ESI shrinks every time

# Obrigado barak

Preguntas no komentariu?

