The 2010 National Priorities, Poverty Reduction and MDGs and the Proposed Budget 2010

Presentation to the Commission C

22 October 2009
Linkages between MDGs and 2010 Timor-Leste’s National Priorities

2010 National Priorities

NP1: Infrastructure (water & roads)

NP2: Food Security (agric productivity)

NP3: Human Resources Training

NP4: Access to Justice

NP5: Social Services & Decentralization

NP6: Good Governance

NP7: Public Security

Millennium Development Goals

1. Eradicating Extreme Poverty and Hunger
2. Achieving Universal Primary Education
3. Promoting Gender Equality and Empowerment of Women
4. Reducing Child Mortality
5. Improving Maternal Health
6. Combating HIV/AIDS, Malaria, and Other Diseases
7. Ensuring Environmental Sustainability
8. Building Strong Institutions and Improving Governance
Recent economic developments:

- Economy has been growing rapidly over the last two years
- Direct impact of the global crisis has been minimal
- Inflation has declined along with international food prices
- Petroleum revenues have increased → surplus to about four times non-oil GDP in 2008
Non-oil economy dangerously small & heavy reliance on oil/gas revenues

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 Proj</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas revenues</td>
<td>10</td>
<td>14</td>
<td>46</td>
<td>107</td>
<td>195</td>
<td>330</td>
<td>481</td>
<td>271</td>
</tr>
<tr>
<td>Domestic revenues</td>
<td>7</td>
<td>10</td>
<td>10</td>
<td>11</td>
<td>10</td>
<td>11</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Expenditure</td>
<td>23</td>
<td>21</td>
<td>20</td>
<td>26</td>
<td>32</td>
<td>59</td>
<td>106</td>
<td>103</td>
</tr>
<tr>
<td>Non-oil fiscal balance</td>
<td>-5</td>
<td>0</td>
<td>1</td>
<td>-5</td>
<td>-21</td>
<td>-46</td>
<td>-97</td>
<td>-91</td>
</tr>
<tr>
<td>Overall balance</td>
<td>5</td>
<td>14</td>
<td>46</td>
<td>102</td>
<td>174</td>
<td>284</td>
<td>384</td>
<td>178</td>
</tr>
</tbody>
</table>

Domestic revenues have remained on average 8% of non-oil economy.

Source: Timor-Leste Ministry of Finance, Directorate of Treasury and 2009 Budget. Estimates for 2005-07 are based on averages for the overlapping fiscal years. Carryovers for 2002-07 were not disaggregated by expenditure type.
Timor-Leste’s rank in Ease of Doing Business
Growth Elasticity of Poverty in selected countries:
• China 1980s
• Malaysia 1970s
• Indonesia 1970s
• Thailand 1970s
• LDCs (e.g. Bhutan) recently

The target can be attained with a moderate-to-high elasticity of 1.5

Percentage of Population Below the National Poverty Lines ($0.55 and $0.88), 1996-2020

[Graph showing percentage of population below the poverty line from 1996 to 2020, with data points for different years and countries, indicating a general decrease in poverty over time.]
<table>
<thead>
<tr>
<th>Life expectancy at birth (years)</th>
<th>Adult literacy rate (% aged 15 and above)</th>
<th>Combined gross enrolment ratio in education (%)</th>
<th>GDP per capita (2007 PPP US$)</th>
<th>HDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980* 34.7</td>
<td>.. .. .. ..</td>
<td>1985* 41.8 .. .. .. ..</td>
<td>1990* 45.8 .. .. .. ..</td>
<td>1995* 51.3 .. .. .. ..</td>
</tr>
<tr>
<td>2000* 56.2</td>
<td>71.8 968 .. .. .. ..</td>
<td>2005* 59.7 50.1 63.2 768 0.488</td>
<td>2006* 60.2 50.1 63.2 686 0.484</td>
<td>2007 60.7 50.1 63.2 717 0.489</td>
</tr>
</tbody>
</table>

*Please note that the figures for these years do not necessarily match those published previously by the HDRO.
Table C: HDI indicators for 2006 relative to selected countries and regions
### General Budget of the State (US$ 000)

#### Total Expenditure by Appropriation Category

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>687,060</td>
<td>636,809</td>
<td>560,234</td>
<td>440,910</td>
<td>629,303</td>
</tr>
<tr>
<td>Salary &amp; Wages</td>
<td>93,648</td>
<td>97,658</td>
<td>89,973</td>
<td>92,578</td>
<td>98,210</td>
</tr>
<tr>
<td>Goods &amp; Services</td>
<td>253,629</td>
<td>207,630</td>
<td>172,938</td>
<td>178,403</td>
<td>184,122</td>
</tr>
<tr>
<td>Minor Capital</td>
<td>38,047</td>
<td>28,809</td>
<td>18,115</td>
<td>16,168</td>
<td>23,690</td>
</tr>
<tr>
<td>Capital &amp; Development</td>
<td>205,371</td>
<td>216,808</td>
<td>146,820</td>
<td>12,538</td>
<td>2,514</td>
</tr>
<tr>
<td>Transfers</td>
<td>96,365</td>
<td>85,904</td>
<td>132,388</td>
<td>141,223</td>
<td>320,767</td>
</tr>
</tbody>
</table>

Source: GSB 2010, p. 42.
Sectoral allocations without donor funds

2010 State Budget by Sector

- Infrastructure: 29%
- Education: 10%
- Health: 6%
- Social Solidarity: 8%
- Defence: 7%
- Commerce & Industry: 6%
- Agriculture & Rural Development: 2%
- Parliament: 2%
- Justice: 3%
- Autonomous Agencies: 5%
- Appropriations: 9%
- Others: 13%
Sectoral allocations with donor funds

2010 Combined Sources by Sector

- Infrastructure: 27%
- Education: 11%
- Health: 7%
- Social Solidarity: 7%
- Defence: 9%
- Commerce & Industry: 5%
- Agriculture & Rural Development: 4%
- Appropriations: 6%
- Parliament: 2%
- Justice: 4%
- Autonomous Agencies: 3%
- Others: 15%
Allocations for the National Priorities

Allocation to National Priorities and Other Sectors, 2010

- National Priorities: 228.7 (36%)
- Other Sectors: 408.3 (64%)
Allocations for the National Priorities

Allocation to National Priorities 2010 (Total US$228.7 millions)

- Infrastructure: 96.1 million (42%)
- Food Security: 12.5 million (5%)
- Human Resources Training: 11.1 million (5%)
- Access to Justice: 15.7 million (7%)
- Social Services & Decentralization: 49.5 million (22%)
- Good Governance: 6.2 million (3%)
- Public Security: 37.6 million (16%)
- Food Security: 12.5 million (5%)

Total: 228.7 million
Few Remarks

• Congratulate the government for restraining expenditure

• Withdrawal of US$502 millions from the Petroleum Fund is still within the limits of the ESI

• Agriculture contribution to GDP growth has been experiencing a declining trend on average -2.3% per annum between 2002 and 2008

• The widening gap between the rich and the poor as measured by the Gini index currently stands at 39.5

• Registration of property, contract enforcement and closing of business hamper Private Sector development
Few Remarks (cont’d)

• The domestic economy can only absorb 13% of the total labor force (355,000)

• Domestic revenues have remained 8% of non-oil GDP since 2002

• Prevalent social economic crisis in the country characterized by high poverty and illiteracy levels, high infant and maternal mortality rates, dilapidated infrastructure and food insecurity

• 66% of households live in temporary houses, and 81% of these houses are classified as mediocre or severely damaged (TLSLS2007)