



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

A Citizen's Guide to the  
**2012 State Budget**  
of the Democratic Republic  
of Timor-Leste

**“Goodbye Conflict, Welcome Development “**



## ***A Citizen's Guide to the 2012 State Budget of Timor-Leste***



### **Preface**

The Organic Law of the Ministry of Finance specifies the responsibility of the National Directorate of Budget to collect and manage financial information relating to the public sector and to publish the statistical results.

In accordance with this provision and to raise the transparency of the public finances, the Ministry of Finance is publishing this “A Citizen’s Guide to the 2012 State Budget of Timor-Leste”.

This document present the key information contained in the 2012 State Budget as clearly and concisely as possible and avoids the use of complex financial terms.

Once people fully understand the 2012 State Budget they will be able to hold the Government to account and we can all move forward together and say “Goodbye Conflict, Welcome Development”.

**Emília Pires**  
Minister of Finance



## What is this A Citizen's Guide to the 2012 State Budget About?

The Government wants every citizen in Timor-Leste to understand the State Budget. This guide explains the 2012 State Budget. Once you understand the State Budget you will be able to hold the Government to account and we can all move forward together and say "Goodbye Conflict, Welcome Development".

## Why Should You Care About the State Budget?

You should care about the State Budget because it affects you, your family and your country. The State Budget shows how much the Government will spend on healthcare, which will partly determine the number of doctors and nurses employed at your local healthcare clinic and the quality of treatment you receive. Spending on education in the State Budget will affect the quality of teaching your children receive. Government spending in your district will affect local infrastructure, employment and development.

## What is the 2012 State Budget?

The 2012 State Budget is the Government's financial plan. It shows how much money the Government plans to spend on different ministries, policies and projects in 2012. It also shows how the Government will pay for this spending.

The Government spends money to implement its policies and achieve its goals. In a good State Budget spending is in line with the Government's policies.

## What are the Government's Main Policies?

The Government recently published the Strategic Development Plan. This plan describes a twenty year vision that reflects the aspirations of the Timorese people to create a prosperous and strong nation. Its main goal is to transform Timor-Leste into an upper-middle income country with a healthy, well educated and safe population by 2030.

The Strategic Development Plan describes policies in the areas of social capital, infrastructure development and economic development. It also outlines a cross-cutting institutional framework.

- **Social capital** includes policies to improve education, health, social inclusion, the environment and culture and heritage
- **Infrastructure development** means building, repairing and maintaining roads and bridges, water and sanitation, electricity, ports and telecommunications
- **Economic development** includes policies to boost rural development, the petroleum industry, tourism and private sector investment

The cross-cutting institutional framework includes justice, security and defense, foreign policy, public financial management and good governance.

## How was the 2012 State Budget Drafted?

Line Ministries (such as education and health) draft their own budgets. The Budget Review

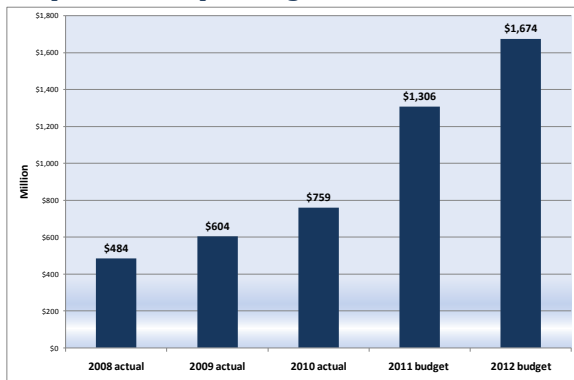


Committee chaired by the Prime Minister and assisted by the Ministry of Finance reviews and amends these budgets. The Ministry of Finance then collates all these budgets and presents the State Budget to Parliament. Members of Parliament discuss the State Budget and decide whether or not to approve it. Only if a majority of Members of Parliament vote for the State Budget and it is signed by the Prime Minister does it become law and the Government's financial plan for the next year. This is democratic. The State Budget has to be approved by elected Members of Parliament who represents the needs, wishes and aspirations of the Timorese people. Each year there is a new State Budget. The 2013 State Budget will be discussed by Parliament in late 2012.

### How Much is the Government Planning to Spend in 2012?

The Government plans to spend \$1,674 million in 2012. Graph 1 shows spending since 2008. There has been a large increase in spending over the last five years. The Government considers that increased spending was needed to build infrastructure, improve service deliver and reduce poverty.

Graph 1 Total Spending 2008 to 2012



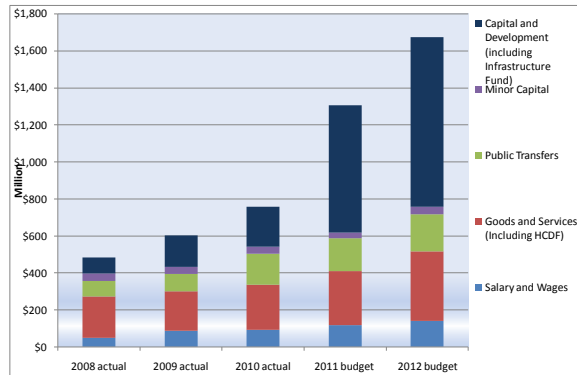
### What does the Government Spend Money on?

The Government spends money on five categories (Salaries and Wages, Goods and Services, Transfers, Minor Capital and Capital and Development).

- **Salaries and Wages** show spending on the pay of civil servants. This includes salaries of doctors, teachers, policemen and FFDTL who provide essential services to citizens
- **Goods and Services** show expenditure on things the Government needs to regularly buy to provide services. It includes fuel which is needed for electricity generation, medicines for healthcare and office supplies. It also includes the school feeding and food security programs and maintenance of infrastructure. The celebration of national holidays and costs of democratic elections are also included under Goods and Services
- **Transfers** are payments the Government makes to needy or deserving groups. This category includes payments to war veterans and their children. It also includes payments to those over 60 with a proven inability to work. Labor intensive capital works projects to create jobs and the PDL program which builds infrastructure in districts are also paid for under transfers. Projects to help citizens after natural disasters and grants to NGOs are also included under transfers
- **Minor Capital** shows money used to buy goods such as vehicles and furniture which the Government may use for many years

- **Capital and Development** mainly shows spending on large scale projects to construct infrastructure such as electricity generation, roads, bridges, buildings and sanitation

**Graph 2 Spending by Category 2008 to 2012**



Graph 2 shows that:

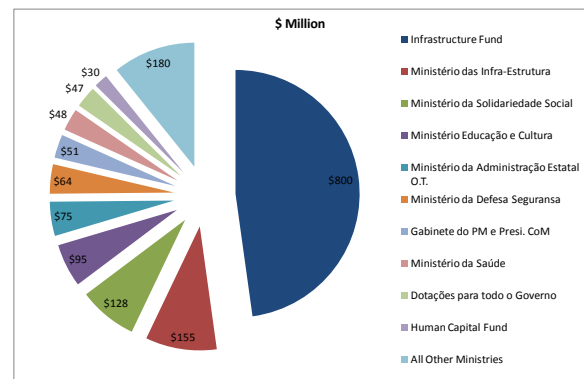
- The biggest increase in spending since 2008 has been on Capital and Development. This has mainly been on large scale infrastructure projects and is in line with Government policy
- Goods and Services and Salaries and Wages spending has increased since 2008. This spending should have improved service delivery
- Spending on public transfers to needy and deserving groups has increased since 2008. This spending has helped reduce poverty
- Minor Capital spending is only a small part of total spending and has hardly increased since 2008

### How much do Different Ministries and Funds Spend?

Graph three shows how much the Government plans to spend in the largest ministries and in the Human Capital and Development Fund and Infrastructure Fund. It demonstrates that:

- The Government is planning to spend a lot in the Infrastructure Fund and Ministry of Infrastructure. This is in line with the Government's policy of constructing essential infrastructure to boost economic growth
- A lot of spending is planned for in the Ministry of Social Solidarity. This is mainly on transfers to the needy and deserving and should contribute to reducing poverty
- The Government plans to spend \$95 million in the Ministry of Education. Such spending is in line with the Government's goal of ensuring Timor-Leste has a well educated population by 2030

**Graph 3 Spending by Ministries and Funds in 2012**



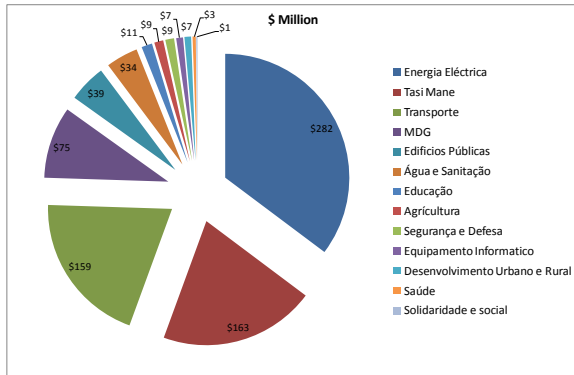
Graph 4 shows spending on Infrastructure Fund programs in 2012. The Energia Electrica program is by far the biggest. The Government

plans to spend \$282 million on this program to improve electricity generation, transmission and distribution.

The second biggest program is Tasi Mane. The Government plans to spend \$163 million on this program in 2012. The Tasi mane program will develop three industrial clusters on the South Coast which will form the backbone of Timor-Leste's petroleum industry. Tasi Mane includes the Suai Supply Base cluster, the Betano Refinery and Petrochemical Industry cluster, and the Beaço LNG-Plant cluster.

Transport is the third biggest program. The Government plans to spend \$159 million on this program in 2012. Roads, bridges and ports will all be constructed under this program.

**Graph 4: Spending by Program in the Infrastructure Fund for 2012**



### What is the Government Doing to Develop Districts?

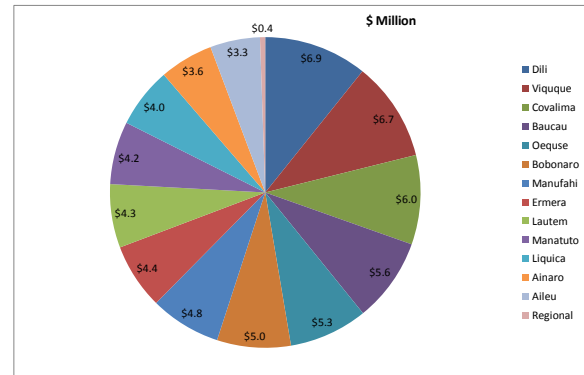
The Government is committed to developing all districts throughout Timor-Leste. The Government has three main programs to develop districts these are PDL, PDD1 and PDD2. All three programs pay for the construction and rehabilitation of infrastructure by local companies. These programs should

build infrastructure, boost economic growth and increase employment in districts.

- PDL provides small scale grants
- PDD1 pays for projects with a value of up to \$150,000
- PDD2 pays for projects with a value of up to \$500,000

The Government plans to spend a total of \$64.5 million on PDD1 and PDD2 in 2012. Graph 5 shows spending by district on PDD1 and PDD2.

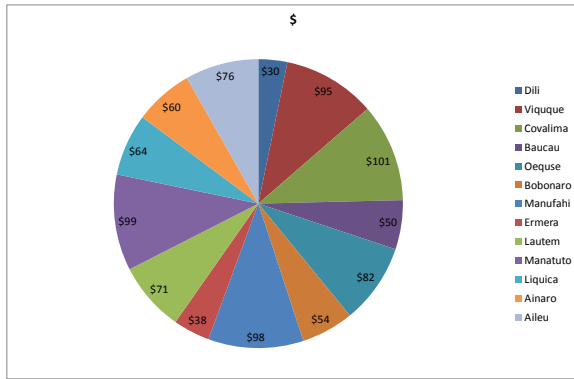
**Graph 5: PDD1 and PDD2 Spending by District**



Spending should not necessarily be the same in every district. The Government considers the population, poverty rate and infrastructure needs of each district when deciding the PDD1 and PDD2 budgets. Suco Chiefs and communities also help in choosing projects. Graph 6 shows the PDD1 and PDD2 budget per person for each district (the PDD1 and PDD2 budget for each district divided by its population).

Covalima has the largest PDD1 and PDD2 budget per person of any district in 2012 at \$101.

**Graph 6: PDD1 and PDD2 Spending Per Person**



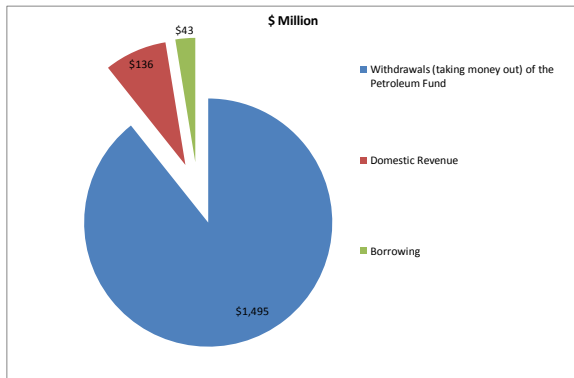
**How will the Government Pay for the Spending in the 2012 Budget?**

Spending has to be paid for. The spending in the 2012 State Budget will be paid for by:

- collecting domestic revenue from people and companies in Timor-Leste
- taking money out of the petroleum fund
- borrowing money from international organizations

Graph 7 shows that the Petroleum Fund pays for most spending. Only a small proportion of spending is paid for by domestic revenue or borrowing.

**Graph 7: Paying for Spending in 2012**



**What is the Petroleum Fund?**

There are oil fields of the south coast of Timor-Leste. Private companies pay taxes to the Government when they mine and profit from this oil. The Government saves the money from oil taxes in the Petroleum Fund. These savings are then invested, mainly in USA Treasuries. By purchasing USA Treasuries Timor-Leste is lending money to the American Government. The American Government pays this money back in the future with interest. That is in the future the American Government will pay Timor-Leste more money than we originally lent to them. USA Treasuries are a very safe investment because the USA is the world's largest economy and it has a long history of paying its debts.

Saving money from oil taxes instead of immediately spending it is good for two main reasons:

- it delinks expenditure from short term changes in the international oil price. If international oil prices fell by 25% next year the Government would not have to cut expenditure by 25% because it could use savings from the Petroleum Fund
- One day oil and oil revenue will run out. It would be unfair if we used up all the money from oil and did not leave any for future generations. The Government is saving money in the Petroleum Fund for our children, grandchildren and great grandchildren

## How Much can the Government Take Out From the Petroleum Fund?

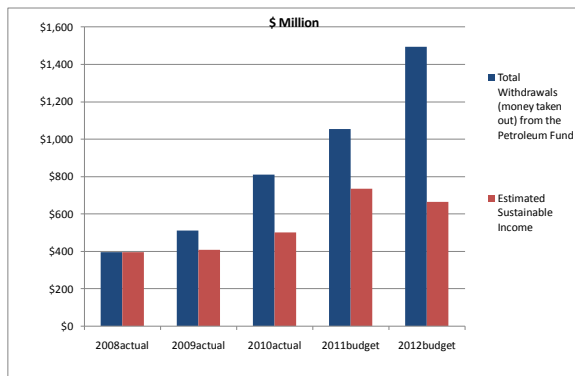
If the Government takes out too much money from the Petroleum Fund then it will run out of money. The Government therefore calculates the Estimated Sustainable Income. This is the amount the Government can take out of the Petroleum Fund each year, forever without the fund ever running out of money.

The Government analyses in detail the following when calculating the Estimated Sustainable Income:

- the current amount of money in the fund
- likely future oil revenue
- likely returns on investments

Graph 8 shows withdrawals from the Petroleum Fund and the Estimated Sustainable Income from 2008 to 2012. In all years apart from 2008 the Government either has or plans to take out more than the Estimated Sustainable Income from the Petroleum Fund.

**Graph 8: Estimated Sustainable Income and Total Withdrawals**



The Government believes that these withdrawals above the Estimated Sustainable Income are necessary to pay for frontloaded infrastructure spending. This spending should lead to increased economic growth and domestic revenue collections. A detailed analysis by the Government has shown that in the long term, as infrastructure spending declines and domestic revenue increases, the amount of money taken out of the petroleum fund could again be equal to or less than the Estimated Sustainable Income. Achieving this goal is, however, dependent on prudent growth in recurrent expenditure and increased domestic revenue.

## What Economic Impact will the State Budget Have?

The 2012 State Budget is consistent with high double digit economic growth. Increased infrastructure spending should remove bottlenecks in the economy and boost economic growth. High economic growth should increase the amount of money citizens' have and improve their standard of living.

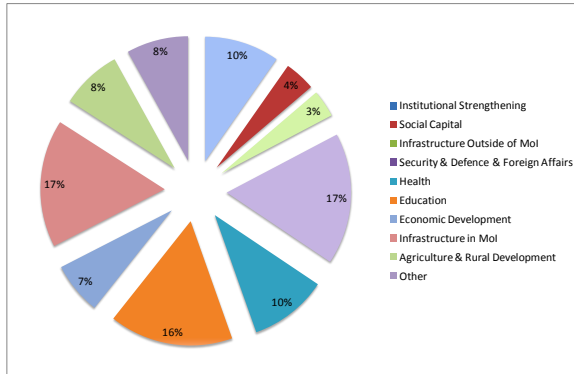
Inflation (the prices of all the things citizens buy) has recently increased. Inflation from December 2010 to December 2011 in Timor-Leste was 15.4%. The Government is concerned about this high inflation. High inflation can increase poverty, reduce growth and limit non-oil exports. Analysis shows increases in the price of imports have contributed to inflation. This is outside the Government's control. The Ministry of Finance is currently analyzing the impact of Government policies on inflation.



### What about Aid?

Donors pay for some projects in Timor-Leste. This is called aid. The money spent on donor projects is additional to Government spending. Total planned aid spending in 2012 is \$189 million. Graph 9 breaks down donor spending by Sector.

Graph 9: Donor Project Spending by Sector



Similar to the Government's development priorities, it is clear that aid is mainly focused on the infrastructure, agriculture, education and health. In 2012 the Government will launch an online portal through which all citizens can learn more about the aid that Timor-Leste receives. This information will be broken down by District so that citizens can see how their District is benefiting from international assistance.

### Where Can Citizens Get More Information on the Budget?

The Government of Timor-Leste is strongly committed to improving transparency. Lots of information on the 2012 State Budget is currently available to the public. If you want more information on the 2012 State Budget then you could:

- Read the 2012 State Budget Book 1 which provides a detailed overview of the whole budget, available @ <http://www.mof.gov.tl>
- Read the 2012 State Budget Books 2 to 6 which provide details of the Government's goals and spending by Ministry, fund and district as well as donor projects, available @ <http://www.mof.gov.tl>
- Look at spending through the transparency portal or procurement in its portal both of which are available @ <http://www.transparency.gov.tl>
- Look through information on the aid Timor-Leste receives by going to the online aid information portal @ [amp.mof.gov.tl](http://amp.mof.gov.tl)

Inquiries relating to this publication or other budget documentation should be directed to the National Director of Budget, Mr Agostinho Castro on email [acastro@mof.gov.tl](mailto:acastro@mof.gov.tl) or telephone +670 333 9520.

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