Briefing about
Proposed 2014 General State Budget and related topics

29 October 2013

By La’o Hamutuk
Timor-Leste Institute for Development Monitoring and Analysis
Rua Martires da Patria, Bebora, Dili, Timor-Leste
Tel: +670 332 1040 email: info@laohamutuk.org
Website: www.laohamutuk.org laohamutuk.blogspot.com

Topics to discuss

• Proposed 2014 General State Budget
• Execution of 2013 GSB
• Sustainability when the oil runs out
• Macroeconomics
• Tasi Mane Project in 2014 GSB
### Allocation of 2014 GSB: $1,500 million

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$167m</td>
</tr>
<tr>
<td>Goods and Services (including HCDF)</td>
<td>$476m</td>
</tr>
<tr>
<td>Minor Capital</td>
<td>$40m</td>
</tr>
<tr>
<td>Public Transfers (to people or organizations)</td>
<td>$292m</td>
</tr>
<tr>
<td>Development Capital (including Infra. Fund)</td>
<td>$526m</td>
</tr>
<tr>
<td>Donor projects &amp; assistance</td>
<td>$178m</td>
</tr>
<tr>
<td><strong>Consolidated Fund (CFTL)</strong></td>
<td>$1,035m</td>
</tr>
<tr>
<td><strong>Infrastructure Fund</strong> (including carry-over &amp; loans)</td>
<td>$425m</td>
</tr>
<tr>
<td><strong>Human Capital Development Fund</strong></td>
<td>$40m</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,500m</strong></td>
</tr>
</tbody>
</table>

### Grafiku ne'e husi La'o Hamutuk bazioa ba dadas no projeksaun hirak Ministiri Finansas RDTL, 26 Outubru 2013.
Allocation of the 2014 Budget

Allocation of the proposed 2014 State Budget (US $1,500 million)

Last year’s budget (2013)
• Most people live by subsistence farming.

• Most good farmland is on the South Coast.

• The Government only allocates $34 million (2% of GSB 2014) for agriculture, less than $35m in GSB 2013.

**Inadequate spending to develop human resources**

• GSB 2014 allocates 5.1% for health, less than half of global norms (increased from 4.2% in GSB 2013).

• GSB 2014 allocates 11.4% for education; other developing countries allocate 20% (increased from 8.5% in GSB 2013).

• Nations on track to achieve the MDGs spend 28% of their budgets on education and health. TL will spend only 16.5%.

What will Timor-Leste’s future be if students can’t study, have their futures crippled by malnutrition, or die because of inadequate health care?
State Revenues and Expenditures (including auton. agencies)

The narrow bars show revenues from various sources.
The yellow and red striped area is loans which must be repaid in the future.
The blue part shows unspent money carried over from the previous year to be spent this year.
The green part is non-oil revenue from taxes, fees and autonomous agencies.
Most financing is from the Petroleum Fund (pink and purple), with the darker purple showing the Estimated Sustainable Income (ESI).

Graph by La'o Hamutuk based on RDTL Ministry of Finance data and projections. 26 October 2013

Sources of Revenues in GSB 2014
$1,500 million total

Above ESI from P.F. 18%
ESI from Petroleum Fund 42%
Cash balance 12%
Taxes 8%
User fees & Aut. agencies 3%
Carryover in Special Funds 14%
Borrowing 3%
Donor support is dropping
Percentage of Donor Support in Combined Sources Budget

Balance in RDTL Treasury Account at the end of each quarter

Graph by La'o Hamutuk based on data from the Central Bank of Timor-Leste
Execution of the 2013 State Budget

Budget Execution in cash by month (through 28 Oct. 2013)

Graph by La'o Hamutuk from RDTL Budget Transparency Portal. 28 October 2013

Execution of 2013 State Budget through 2 October 2013

Total execution to date: 34% spent, 13% committed, 18% obligated, leaving a balance of 36%.

Graph by La'o Hamutuk from RDTL Budget Transparency Portal. 02 October 2013
Is money from oil sustainable?


- Petroleum Fund investments return 5.0% per year nominal. Data up to 2012 the fund earned 3.18% per year. Domestic revenues increased 10.0% per year and 14.2% per year after 2008. During 2009-2012, these revenues (without EDF) or taxes from the state) increased 7.4% per year. EDFL recovers 11% of fuel cost from users. It currently recovers 12%.

- Expenditures 2013-14 per GDF 2013, then calculated from 1H model. Spending goes up 22% per year now and 8% per year after 2019. In 2009-2012, recurrent spending (excl. EDF) went up 16% per year.

- Annual maintenance costs 8% of installed capital.

- Includes $600m for the Tasi Mane project, $600m for Dili airport and $520m for all other.

- Nominal dollars-of-the-day


- TL becomes a net debtor in 2028. Austerity starts in 2028, cutting 85% from planned outlays in 2029-2032.
Oil revenues expected in GSB 2014

If Sunrise doesn’t go ahead...
81% of GDP is from oil and gas

What makes up Timor-Leste’s GDP?

Each year is shown with two bars. The one on the right is a 5x magnification of the non-oil GDP shown in the lower (yellow) part of the left bar, showing major sectors.

Graph by La'o Hamutuk based on RDTL GDS National Accounts 2000-2011. June 2013

We must escape from petroleum dependency to sustainable development.

• Timor-Leste is the second most petroleum-export-dependent country on the planet.

• Our GDP in 2011 was $5.8 billion, of which 81% came from oil and gas extraction.

• The non-oil GDP was only about $1.1 billion.

• About half of the “non-oil” GDP came from state spending, of which about 94% is oil revenues.
What do 600,000 working-age Timorese do for work?

- Farmers, fishers, other informal or unemployed: 71%
- Private businesses: 9%
- Petroleum sector: 0.1%
- Public employees: 7%
- UN, embassies, int'l agencies: 0.7%
- $3/day labor for gov't: 6%
- Local & int'l NGOs: 0.3%
- Self-employed (taxi, market, kios): 8%

Import dependency

In 2012, non-oil exports were only 1/24 as much as imports.
Timor-Leste is struggling to find jobs for 15,000 people who will enter the work force in 2013.

In 2024, it will be around 30,000 each year, and the oil will be gone. Today’s youth will have children of their own.

Many children will become youth

Population by age
(According to 2010 Census)

Unjust Distribution of Resources

• Most of our economy is from exporting oil and gas wealth which belongs to all Timor-Leste citizens.

• A small, upper-class group gets most of the benefits.

• The richest 10% receive 14 times as much income than the poorest 10%, (including subsistence farming and barter).

• About half of the population gets by on less than $1.33 per day.
We have a few rich, but many poor.

The richest 10% receive 14 times as much as the poorest 10%.

The black line shows the amount withdrawn from the Petroleum Fund in 2011, if it were shared equally by every Timor-Leste citizen.

Tasi Mane petroleum infrastructure project

- TL began working on the Tasi Mane petroleum corridor in 2010
- It’s a key part of the Strategic Development Plan 2010-2030

“To bring petroleum development to dry land to provide direct economic benefits from the petroleum industry ...”

(SDP)
Suai Supply Base

Refinery and Petrochemical Industry in Betano

- Will take up more than 200 hectares of land.
- Studies are done, but not public.
- It will only create a few, high-skill, jobs.
- Risks damaging the environment
- Further increases TL’s dependency on petroleum
- How can TL sell the cheapest fuel in the region?
La’o Hamutuk thinks

• The Tasi Mane Project makes TL more dependent on the petroleum sector.

• It neglects sustainable sectors (agriculture, tourism, small industry, etc.).

• Nearly all of the money will go to foreign companies, providing very few jobs.

• It will create social problems, take up land, evictions, worsen health and threaten and damage the environment.

• It will cost more than it will return.

If Sunrise doesn’t come to TL, what good is this project?
La'o Hamutuk briefing kona-ba Orsamentu
Estadu 2013

How much will the Tasi Mane Project cost?

- Build Suai multifunction port (cancelled)
- Build Suai-Beaçu highway
- Build Suai Supply Base
- Rehabilitate Suai airport
- Environmental studies
- Analyze gas pipeline route
- Design Beaçu infrastructure
- Detailed survey for Beaçu infrastructure
- Survey for Betano Petrochemical

Budget for Fiscal Year

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013 passed</th>
<th>2013 final</th>
<th>2014 proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$0</td>
<td>$250</td>
<td>$750</td>
<td>$1,250</td>
<td>$1,500</td>
</tr>
</tbody>
</table>

Graph by La'o Hamutuk based on State Budget documents. October 2013

Suai Supply Base (including airport)
appropriations in recent state budgets

- 2014 proposed budget (total for SSB more than $374m)
- 2013 final published budget (total for SSB more than $683m)
- 2013 enacted budget (total for SSB more than $781m)
- 2012 rectified budget (total for SSB $327m)
- 2011 final budget (total for SSB $63m)

Annual expenditure on SSB (million USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$0</td>
<td>$50</td>
<td>$100</td>
<td>$150</td>
<td>$200</td>
<td>$250</td>
<td>$300</td>
<td>$350</td>
</tr>
</tbody>
</table>

Planned expenditure on the Suai Supply Base during each year
La'o Hamutuk briefing kona-ba Orsamentu
Estadu 2013

Year-on-year inflation in TL

Dili is very different from the districts.

From Timor-Leste Demographic and Health Survey 2009-2010

<table>
<thead>
<tr>
<th>Residence/region</th>
<th>Wealth quintile</th>
<th>Total</th>
<th>Number of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>4.5</td>
<td>22.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Rural</td>
<td>24.6</td>
<td>19.2</td>
<td>100.0</td>
</tr>
<tr>
<td>District</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aileu</td>
<td>20.6</td>
<td>18.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Atauro</td>
<td>30.9</td>
<td>12.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Baucau</td>
<td>26.9</td>
<td>13.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Bobonaro</td>
<td>15.2</td>
<td>27.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Covalima</td>
<td>17.2</td>
<td>16.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Dili</td>
<td>0.4</td>
<td>20.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Ermera</td>
<td>9.8</td>
<td>21.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Lautem</td>
<td>28.0</td>
<td>24.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Liquepã</td>
<td>15.7</td>
<td>13.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Manatuto</td>
<td>22.2</td>
<td>27.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Manufahi</td>
<td>28.3</td>
<td>16.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Oecussi</td>
<td>46.6</td>
<td>14.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Viqueque</td>
<td>35.3</td>
<td>13.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>19.9</td>
<td>19.9</td>
<td>66,985</td>
</tr>
</tbody>
</table>

More than 70% of Dili’s population are among the wealthiest 20% of Timorese, while only 2% are below the poverty line.

More than half of families outside Dili live in poverty.
Six books from Finance Ministry

1. Overview / summary
   Objectives, strategy, economy, revenues, spending financing, Petroleum Fund, new initiatives
2. Annual Action Plans
   From each ministry
3. Districts
   Programs in each district, subdistrict and suco
4. Budget items (two volumes)
   To the level of directorates and agencies
5. Development Partners
   From each donor, for each agency, project and district
6. Special Funds
   List of projects in the Infra. & Human Capital funds for 5 years.

All can be found on La’o Hamutuk’s website.

Sources of budget information

- **La’o Hamutuk’s website**
  http://www.laohamutuk.org/econ/OGE14/13OJE14.htm

- **Budget Law in Jornál da Repúblika**
  http://www.jornal.gov.tl/

- **Finance Ministry reports about execution**

- **General State Accounts (2011); 2012 pending**

- **Transparency Portal**
  http://www.transparency.gov.tl/tetum.html

- **Google translate**
  http://translate.google.com/
Thank you.

Get more and updated information from

• La’o Hamutuk’s website
  http://www.laohamutuk.org

• La’o Hamutuk’s blog
  http://laohamutuk.blogspot.com/

• Reference DVD-ROM from La’o Hamutuk next month.

Timor-Leste Institute for Development Monitoring and Analysis
Rua Martires do Patria, Bebora, Dili, Timor-Leste
Mailing address: P.O. Box 340, Dili, Timor-Leste
Telephone: +670 7723 4330 (mobile)  +670 332 1040 (landline)
Email: info@laohamutuk.org