

## PART 4. EXPENDITURE

### 1. Introduction

This part covers expenditures from all funds controlled by the Government: the Consolidated Fund of Timor-Leste (CFTL) and the new Special Funds. It also covers expenditures from the Government's own source of revenues as well as development partners in the combined source budget. In addition, key expenditure objectives are outlined in this budget.

Table 4.1 provides Combined Source Budget of \$1.18 billion for 2011 with General State Budget at \$985 million and \$195 million from Development Partners.

*Table 4.1: Combined Source Budget, 2011 - 2015 (\$ million, preliminary)*

Budget	2010	2011	2012	2013	2014	2015
CFTL	837.9	642.7	653.4	679.6	706.7	734.9
Infrastructure Fund	-	317.3	597.0	620.9	645.8	671.6
HCDF		25	30	35	40	45
<b>General State Budget</b>	<b>837.9</b>	<b>985.0</b>	<b>1,280.4</b>	<b>1,335.5</b>	<b>1,392.5</b>	<b>1,451.5</b>
Development Partners	256.8	195.0	112.7	75.2	32.7	0
<b>Combined State Budget</b>	<b>1,094.7</b>	<b>1,180.0</b>	<b>1,393.1</b>	<b>1,410.7</b>	<b>1,425.2</b>	<b>1,451.5</b>

Source: Budget Directorate, Ministry of Finance, 2010.

Table 4.2 outlines the medium term fiscal envelope.

*Table 4.2. Expenditures and Fiscal Envelope, 2010 - 2015 (\$ million)*

No	Description	2010	2011	2012	2013	2014	2015
1	Expenditures	838	985	1,280.4	1,335.5	1,392.5	1,451.5
2	Fiscal Envelope	597	844	862.4	881.7	903.5	925.4
3	1. Domestic Revenues	95	110	121.4	133.7	148.5	163.4
	2. ESI	502	734	741	748	755	762
	3. Excess withdrawal of PF	309	0	418	453.8	489	526.1

Note: Domestic Revenues, projected as of November 2010

Source: Budget and Macroeconomic directorates, Ministry of Finance, 2010.

*La'o Hamutuk note: the ESI values in table 4.2, which were copied from tables 5.8 or 5.9 in the Expenditures part of this book, are not correct. Those tables were based on the assumption that the Government would not withdraw more than the ESI in future years. Since table 4.2 shows that it plans to do so, La'o Hamutuk has recalculated the ESI values and excess withdrawals required to meet these expenditure levels, as follows:*

*Revised Table 4.2. Expenditures and Fiscal Envelope, 2010 - 2015 (\$ million) (green shaded cells have changed)*

No	Description	2010	2011	2012	2013	2014	2015
1	Expenditures	838	985	1,280.4	1,335.5	1,392.5	1,451.5
2	Fiscal Envelope	597	844	862.4	868.7	876.5	882.4
3	1. Domestic Revenues	95	110	121.4	133.7	148.5	163.4
	2. ESI	502	734	741	735	728	719
	3. Excess withdrawal of PF	309	0	418	466.8	516.0	569.1

Source: La'o Hamutuk

Table 4.3 outlines the economic targets from 2011 to 2015.

**Table 4.3: Economic Targets, 2011- 2015**

No	Description	2010	2011	2012	2013	2014	2015
1	Real Economic Growth (%)	9.5	11.2	11.7	13.0	12.3	10.6
2	Domestic Revenues (\$ mil)	95	110	119	134	148	163
3	Petroleum Revenues (\$ bil)	2.0	2.3	2.4	2.2	15	2.4
4	Pet. Fund Balance (\$ bil)	6.6	8.2	9.8	11.2	12.9	14.6
5	Inflation (y-o-y, %)	4	4	4	4	4	4

Source Budget, Macroeconomic, and Petroleum Fund directorates, Ministry of Finance 2010.

## 2. Expenditure reviews

This year's Budget Review Committee, led by the Prime Minister reviewed the budget submissions based on a careful assessment of prior years budgets and redirected savings to national priorities identified in the Strategic Development Plan process.

The focus of the review was to improve quality of expenditure and reduce inefficiencies in planning and execution. The outcome of this review resulted in the creation of Special Funds targeted to improving basic infrastructure and human capital as a catalyst to attract private investment.

Budget estimates for 2011 were drawn based on the following criteria:

1. Increases due to inflation rate of 4%,
2. 1 to 10% normal increases of the ongoing budget, and
3. Greater weighting (between 1 to 50%) to programs of identified national priorities.

As part of the Strategic Development Plan (SDP) formulation the Prime Minister held wide ranging consultations with the People of Timor-Leste over five months visiting all 65 sub-districts. The SDP is in the stage of finalisation, however inputs from these extensive consultations are incorporated in Budget 2011.

## 3. Major initiatives proposed for 2011

To finance the above plans, the Government will establish two Special Funds in accordance with the Budget and Financial Management Law. This is described in detail in Part 6 of this Book. The purposes of the funds are to finance large-scale (more than one million dollars), multi-year capital investments in infrastructure and human development projects respectively.

The special funds will be known as:

1. Infrastructure Fund (FI) - This fund will be used to finance wide range infrastructure projects above \$1 million.
2. Human Capital Development Fund (HCDF) - This fund will be used to finance training programs to increase skills and knowledge of Timor-Leste people.

The Special Funds are not included in the Consolidated Fund of Timor-Leste (CFTL) and hence will be reported on in accordance with Budget and Financial Management Law.

Aside from Special Funds, the Government will launch the MDG-Suco Program to target poverty reduction with provision of housing including solar energy, water, and sanitation. The program envisages the building of 5 houses in each of the 2,228 aldeias; the equivalent of 11,140 houses in 2011, or 55,700 houses over five years.

To implement these programs, the Government will create the National Development Agency (ADN) in 2011, with competence to evaluate, monitor, and supervise projects, validate progress reports, and undertake quality control. The ADN will report to the Council of Ministers and the National Parliament.

ADN is the precursor of the Economic Planning and Investment Agency (EPIA) to be created in 2012. It is anticipated that EPIA will have broader powers than ADN in planning, implementation, and evaluation.

The ADN oversees implementation of projects financed by the Special Funds, whilst the Ministries/Agencies will manage the recurrent expenditures, as well as the annual Capital and Development and Minor Capital expenditures. In addition, a Procurement Commission will manage the procurement process.

### CFTL Expenditures

The annual budget is operated from the Consolidated Fund of Timor-Leste (CFTL) comprising five categories as indicated in Table 4.4.

**Table 4.4: CFTL, by Category, 2011 - 2015 (\$ million)**

Budget	2010	2011	2012	2013	2014	2015
<b>Recurrent</b>						
Salary and Wages	99.3	115.9	120.6	125.4	130.4	135.6
Goods and Services	260.6	245.5	255.3	265.5	276.1	287.1
Public Transfers	184.4	164.5	171.0	177.9	184.9	192.4
<b>Capital</b>						
Minor Capital	39.9	28.2	29.3	30.6	31.8	33.0
Capital & Development	253.7	88.6	77.2	80.2	83.5	86.8
<b>CFTL</b>	<b>837.9</b>	<b>642.7</b>	<b>653.4</b>	<b>679.6</b>	<b>706.7</b>	<b>734.9</b>

Source: Budget Directorate, Ministry of Finance, 2010.

#### *Salaries and Wages*

Key policy decisions in Salaries and Wages include:

- Transforming temporary civil servants to permanent staff in 2011.
- Freezing new recruitment across all Ministries/Agencies except Civil Service Commission, PNTL (Police) and F-FDTL (Armed Forces) according to their needs.
- \$9 million of allowances reallocate from Goods and Services to Salary and Wages.
- \$7 million for the provision of Career Regime for teachers in Ministry of Education.

#### *Goods and Services*

The total budget for this category is \$270.5 million including \$25 million for the Human Capital Development Fund. The main expenditures in this category include (amounts are rounded):

- \$1.2 million to support F-FDTL in Material and Operational Provisions in Ministry of Defence and Security.
- \$3.4 million for F-FDTL Operational Readiness Package and maintenance of patrol boats.
- \$0.5 million for LDC - g7+ in the Ministry of Finance.
- \$2.0 million to target MDG 5 (Maternal Mortality) and support of Specialists in Referral Hospitals of Baucau and Suai.
- \$1.6 million for the provision of textbooks in Ministry of Education.
- \$1.5 million for school lunch program in Ministry of Education.
- \$0.15 million for National Institute of Linguistics in the National University of Timor Lorosae (UNTL).
- \$30 million to \$48 million for fuel including EDTL in the Ministry of Infrastructure.

- \$32 Million for professionals service and technical assistance in the areas of Petroleum, Justice, Education, Health, Management Banking and Financing, Foreign Affairs. Tourism, Conflict prevention, and quality control.
- \$1.0 million dollars for peace initiative in Sudan.

Despite new initiatives in this category the budget for 2011 is lower than 2010 as a result of the expenditure review.

#### *Public Transfers*

Public Transfers expenditures will also decrease in 2011 compared to 2010. The government aims to properly target public transfers to vulnerable groups and deliver it more efficiently. The government will scale up payments to elderly, veterans, and scholarships. This will also include programs of conditional cash transfers and cash for work. Major initiatives in this category include:

- \$1.1 million for contribution to: Western Sahara (\$0.8 million), and Guinea-Bissau Office in New York (\$0.3 million), in Ministry of Foreign Affairs.
- \$3.5 million for capacity building in local administration.
- \$1 million for the Land Compensation in Ministry of Justice.
- \$3.0 million for overseas medical treatment in Ministry of Health.
- \$1.5 million for returning of Medical students from Cuba in Ministry of Health.
- \$6 million for capital transfers in Ministry of State Administration and Territorial Planning.
- \$3.4 million for further capitalisation of IMFTL in the Ministry of Economy and Development.
- \$7.5 million for demobilizing ex-FALINTIL from 1975 – 2000 (Aileu).
- \$0.8 million for Mortuary (Restus Mortals).
- \$1.1 million for the Council of Veterans (Concelho Veteranus).
- \$1.0 million for natural disaster response in Ministry of Social Solidarity.
- \$11 million allocated to Local Development Programs (PDD1) for retention (\$3 million) and re-budgeting (\$8 million).

#### *Minor Capital*

Minor Capital expenditures also reduced in 2011 to \$28.3 million compared to \$39.9 million in 2010. The principle expenditures in this category are:

- \$12 million for the purchase of multi-purpose vehicles for Ministry of Health, mobile banking, education monitoring, and preparation and monitoring of local and national elections, and patrol boats in Ministry of Defense and Security.
- \$0.7 million for the handover Package of UNMIT to Timor-Leste of equipments.
- \$1.1 million for equipment for the Techno-Professional Schools and laboratory in Ministry of Education.

#### *CFTL Capital and Development*

The Government continued to improve service delivery to the people by increased delivery at district, subdistrict, and suco level, by use of public transfers with specific purposes, together with accountability mechanisms. This reflects increased confidence in regional delivery mechanisms.

Table 4.5 shows Capital and Development expenditures of CFTL. The government will continue to develop successful programs, such as Local Development Programs (PDD1) and Decentralized Development Programs

(PDD2). The Government will improve the quality and execution of these programs. CFTL Capital and Development expenditures comprise:

- PDD1 - that will be diversified into:
  - Aldeias (with project values up to \$15,000),
  - Sucos (up to \$75,000), and
  - Sub-Districts (up to \$150,000).
- PDD2 - with projects with value from \$150,001 to \$500,000.

Ministries/Agencies - with annual Capital and Development expenditures below \$1 million.

*Table 4.5: CFTL Capital and Development, 2011 - 2015 (\$ million)*

Capital and Development	2011	2012	2013	2014	2015
PDD1 - Aldeia, Saco, & Sub-District	15.5	16.2	16.8	17.5	18.2
PDD2 - District	28.8	30.0	31.2	32.4	33.7
Ministries/Agencies	44.3	31.0	32.2	33.6	34.9
<b>Total</b>	<b>88.6</b>	<b>77.2</b>	<b>80.2</b>	<b>83.5</b>	<b>86.8</b>

Source: Budget Directorate, Ministry of Finance, 2010.

#### 4. Infrastructure Fund

The Infrastructure Fund covers Multi-annual and Large Projects above \$1 million, and MDG. These projects will span a timeline that may be more than one year depending on size and timeframe of implementation.

The single major expenditure item for the Infrastructure Fund is Central Electric, to establish a National electricity generation and transmission grid. This project is costed at \$166 million and will provide reliable access to electricity across the country, with capacity to support industry, particularly in the northern coast from Batugade to Tutuala.

The Government will increase its investment in roads and bridges, and buildings, offices, hospital, and schools. The Government continues its investment in integrated financial systems by a further \$7.7 million in developing procurement and financial monitoring software and hardware capacity.

*Table 4.6: Special Funds, 2011-2015 \$ million)*

Capital & Development	2011	2012	2013	2014	2015
Multi-Annual Projects	212.3	348.0	294.9	264.8	230.6
Large Projects	40	184	261	316	376
MDGs	65	65	65	65	65
<b>Sub-Total</b>	<b>317.3</b>	<b>597.0</b>	<b>620.9</b>	<b>645.8</b>	<b>671.6</b>
Human Capital Dev. Fund	25	30	35	40	45
<b>Total</b>	<b>342.3</b>	<b>627.0</b>	<b>655.9</b>	<b>685.8</b>	<b>716.6</b>

Source: Budget Directorate, Ministry of Finance, 2010.

Large Projects will start with Tasi Mane projects that will cost approximately \$36 million. mostly for the development of the Southern Coast, including the following projects:

- Development package of Suai, which includes multi-purpose port (\$2.5 million), Supply Base (\$10 million), and Rehabilitation of Airport (\$5 million),
- Detail site survey, design, and supervision of southern cost development of Beaco (\$5.8 million),
- Southern coast infrastructure development for pipeline route analysis (\$3.5 million), environmental studies (\$2.8 million), and

- Design and studies on Seaport Development in Dili (\$2.0 million)

## **5. Human Capital Development Fund**

This multi-annual Special Fund of \$25 million is aimed at developing human capital by up-scaling Timorese skills through:

- Professional Training.
- Scholarships.
- Technical Training, and
- Other Training.

Initiatives will include:

- \$7.7 million for the Ministry of Education,
- \$2.1 million for the Ministry of Finance,
- \$2.5 million for Secretary of State for Natural Resources (SERN),
- \$2.6 million for Secretary of State of Professional Training and Employment (SEFOPE),
- \$2.4 million for training for health personnel for Ministry of Health,
- \$1.9 million for Ministry of Justice,
- \$0.6 million for scholarships and training in the Institute of Public Administration, and
- Training abroad for F-FDTL Officers in Japan, Australia, Philippines, and Malaysia.

## **6. Development Partners**

Development Partners will provide a total of \$194.8 million to the Timor-Leste in 2011 to the total Combined Sources Budget of \$1.18 billion. The details of the expenditure these contributions are contained in Book 5.