TIMOR-LESTE
PUBLIC EXPENDITURE REVIEW
Changing Course: Towards Better and More Sustainable Spending

Main Findings: Revenue and Expenditure

Alief A. Rezza,
Senior Country Economist,
World Bank Timor-Leste
Contents

- Public Expenditure Review: Output and Structure
- Macroeconomic Performance
- Domestic Revenue
- Public Expenditure
Why a Public Expenditure Review for Timor-Leste?

**Sustainability and Adequacy**
Is the level of Timor-Leste public spending sustainable and adequate to address the country’s development challenges?

**Efficiency**
Have public resources been used effectively in delivering public services?

**Effectiveness**
Have public resources been used effectively to achieve Timor-Leste development objective?
Public Expenditure Review Output

- **Productive collaboration** between WBG and Government (e.g., MoF).
- **Missions** comprising education, health, and governance experts.
- **BOOST** database developed to facilitate future analytical work.
- Geospatial **tool** piloted to support planning and budgeting.
- Informal **guidance** provided to improve budget preparation.
- **Training** to ensure the sustainability of the PER process.

Diagram:
- BOOST (fiscal database)
- Geospatial Tool (online platform)
- Report (analysis)
- Training (workshop)
- Budget Guidance (checklists)
Public Expenditure Review Structure

- Report comprises several **chapters** framed as interconnected building blocks (e.g., modules).
- Chapters on **macroeconomic** trends, **expenditure**, and **revenue**.
- Thematic chapters on **health** and **education**.
- **Digital** chapter introducing the Geospatial (GBP) tool.
Macroeconomic Performance

- Economic Growth
- Living Standard
- Growth Drivers
Economic Growth and Living Standard

GDP growth (%)

GDP and consumption per capita (constant USD)
Growth Drivers

Expenditure contributions to growth (percentage points)

Sectoral contributions to growth (percentage points)
Domestic Revenue

Composition

Tax Collection

Tax Potential
Composition

Government revenue (USD million)

Tax collection (% GDP)
Tax Collection

Tax revenue (% GDP)

Income tax rates (%)

GDP per capita (USD, log scale)

Corporate tax rate

Individual tax rate

TLS
Tax Potential

Table 1. Various tax and administrative reforms (compiled from different sources)

<table>
<thead>
<tr>
<th>Country</th>
<th>Reform Period</th>
<th>Before (% of GDP)</th>
<th>After (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>2002-2008</td>
<td>18.0</td>
<td>23.8</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>2009-2013</td>
<td>11.9</td>
<td>16.8</td>
</tr>
<tr>
<td>Colombia</td>
<td>1999-2009</td>
<td>11.3</td>
<td>15.8</td>
</tr>
<tr>
<td>Georgia</td>
<td>2011-2015</td>
<td>13.2</td>
<td>17.6</td>
</tr>
<tr>
<td>Maldives</td>
<td>2011-2017</td>
<td>8.8</td>
<td>20.9</td>
</tr>
<tr>
<td>Mauritania</td>
<td>2010-2014</td>
<td>11.1</td>
<td>17.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>2002-2008 (2013-2014)</td>
<td>14.2</td>
<td>16.6</td>
</tr>
<tr>
<td>Rwanda</td>
<td>2010-2015</td>
<td>11.9</td>
<td>15.6</td>
</tr>
<tr>
<td>Senegal</td>
<td>2010-2017</td>
<td>18.0</td>
<td>20.9</td>
</tr>
<tr>
<td>Uganda</td>
<td>2013-2017</td>
<td>10.5</td>
<td>14.0</td>
</tr>
</tbody>
</table>
Public Expenditure

- Levels and Execution
- Composition and Rigidity
- Efficiency and Effectiveness
- Sustainability
Spending Levels and Execution

Public spending (% GDP, avg. 2014-19)

Budgeted and actual expenditure (USD million)

GDP per capita (USD) - log scale

Budgeted and actual expenditure (USD million)

- Actual
- Budget (initial)
Spending Composition and Rigidity

Public spending (USD million)

- Salary & wages
- Goods & services
- Minor capital
- Capital & develop.
- Transfers
- Contigency

Rigidity of public spending (USD million)

- High
- Medium-High
- Medium
- Low
Spending Efficiency and Effectiveness

Spending by functional category (USD million)

Fiscal multiplier (public investment)
Spending Sustainability

The fiscal outlook raises several concerns from a **sustainability** perspective.

High spending levels will gradually deplete the Petroleum Fund, leading to a **strong adjustment**.

Petroleum Fund (PF) could be **exhausted** in about 10 years, under planned spending patterns.

Prudent management of the PF is key to ensure that future generations benefit from savings.
## Policy Recommendations

<table>
<thead>
<tr>
<th>Reform Area</th>
<th>Action</th>
<th>Timeline</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic Framework</td>
<td>Binding commitment to ESI.</td>
<td>2-5 years</td>
<td>Very high</td>
</tr>
<tr>
<td></td>
<td>Coherent medium-term economic strategy.</td>
<td>1-2 years</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Medium-term debt management strategy.</td>
<td>1-2 years</td>
<td>Moderate</td>
</tr>
<tr>
<td>Domestic Revenue</td>
<td>Introduce a value-added tax (VAT).</td>
<td>1-2 years</td>
<td>Very high</td>
</tr>
<tr>
<td></td>
<td>Raise outdated excise tax rates (e.g., on alcohol and tobacco) and introduce a sugar tax.</td>
<td>1-2 years</td>
<td>Very high</td>
</tr>
<tr>
<td></td>
<td>Assess the potential of a property tax.</td>
<td>1-2 years</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Streamline income tax rates.</td>
<td>1-2 years</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Improve revenue administration.</td>
<td>2-5 years</td>
<td>High</td>
</tr>
<tr>
<td>Public Expenditure</td>
<td>Undertake critical public investment management reforms.</td>
<td>1-2 years</td>
<td>Very high</td>
</tr>
<tr>
<td></td>
<td>Enhance the selectivity and transparency of public grants and reform the social protection system.</td>
<td>1-2 years</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Develop pay and employment policies for the civil service and improve human resource planning.</td>
<td>1-2 years</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Curb the budget for goods &amp; services and initiate a procurement reform.</td>
<td>1-2 years</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>Pursue critical public financial management reforms – with a focus on service delivery.</td>
<td>1-2 years</td>
<td>Very high</td>
</tr>
</tbody>
</table>
THANK YOU

Questions?
Please email: arezza@worldbank.org