

# FINANCIAL CHALLENGES OF MEETING SDGS IN TIMOR-LESTE

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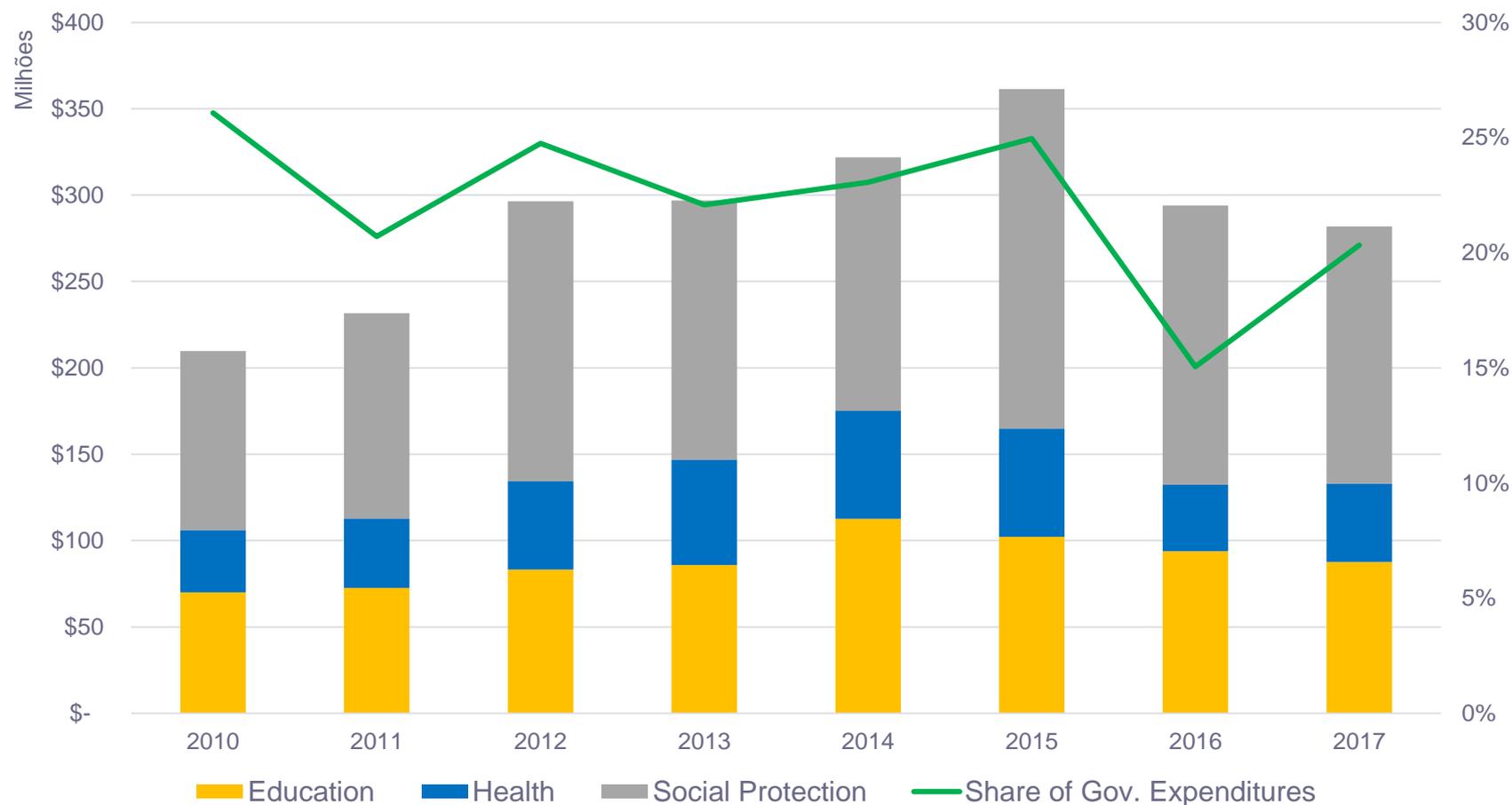
ADB-ADBI Regional Inception Workshop: Strategies for Financing Social Protection to Achieve SDGs in DMCs

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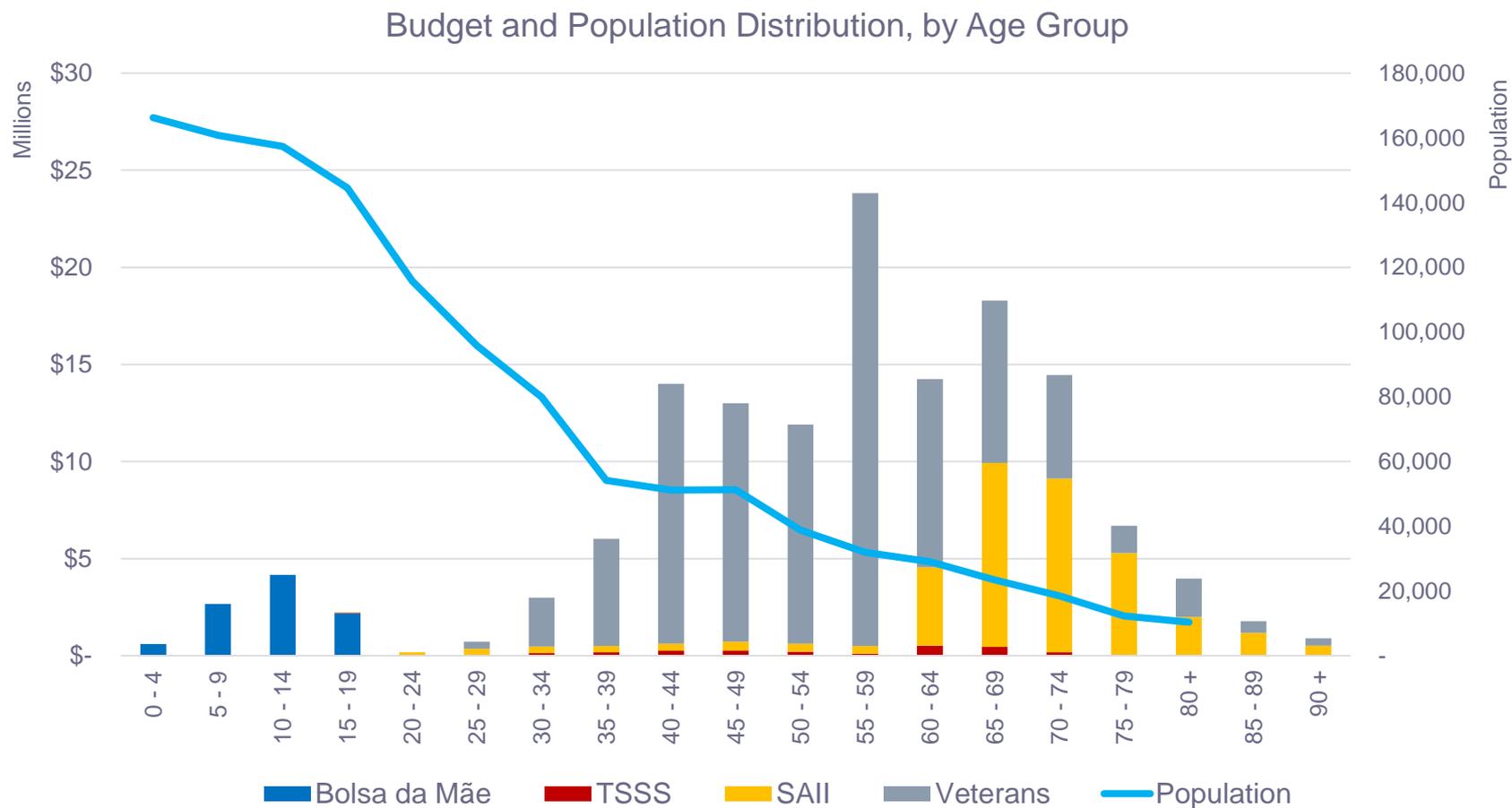
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# Current Social Protection Expenditure

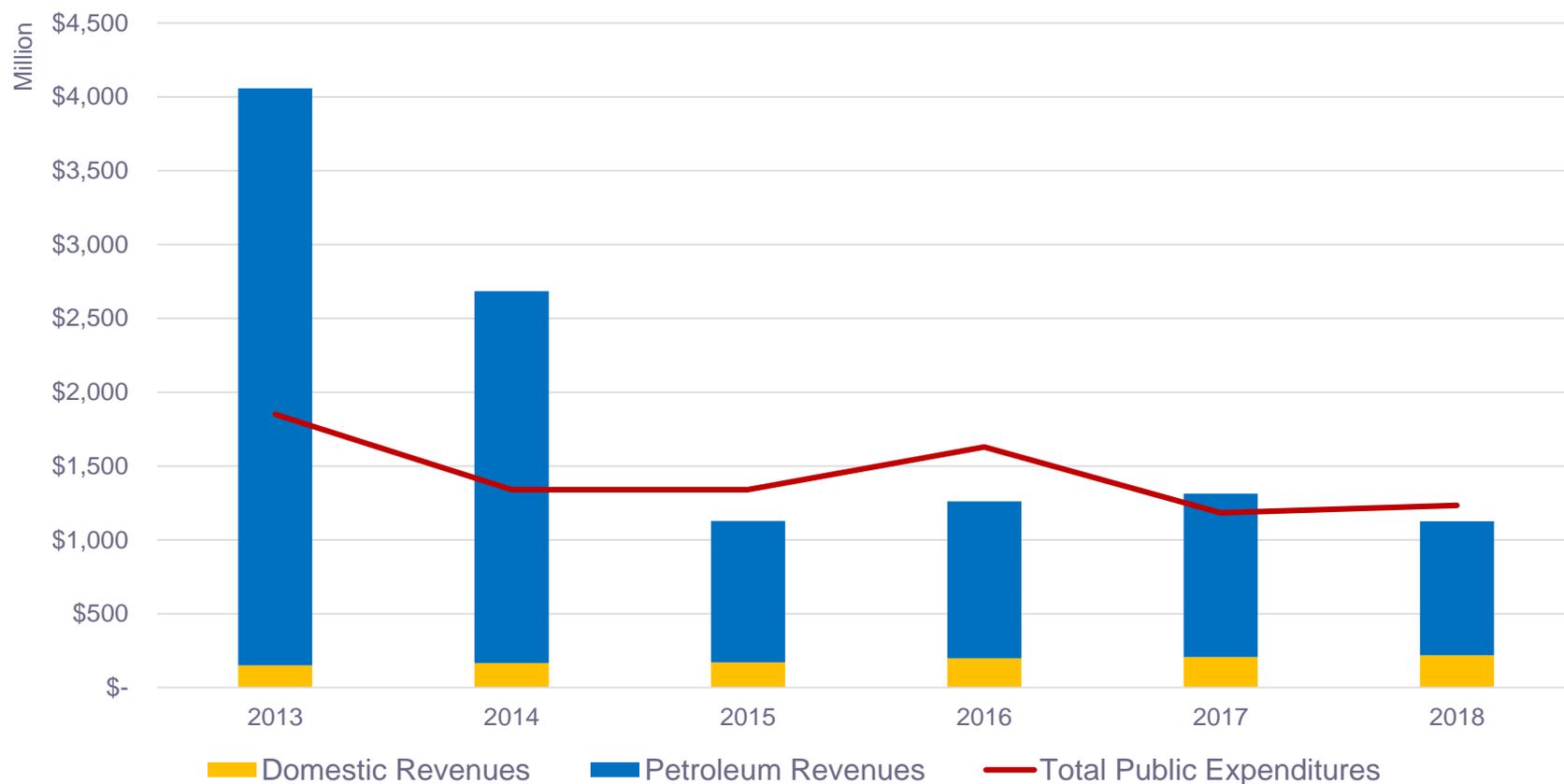


# Current Social Transfers Expenditure



# Public Revenues

Public Revenues, by Source, and Public Expenditure (in US\$)



# Timor-Leste's Options

## **Lobby for ODA**

- Could help reduce expenditures in infrastructure and equipment;
- If it funds recurring budget, it is an uncertainty;

## **Expanding contributory social security**

- It is being developed, thus it might take some years to have significant effects
  - However, it has potential to reduce the number of dependents on non-contributory programmes;

## **Borrowing**

- Can help reduce frontloading infrastructure investments, thus conserve the Petroleum Fund;

# Timor-Leste's Options

## **Increasing tax revenues**

- Improving collecting and compliance mechanisms;
- Creation of additional taxes, such as property and excise taxes;

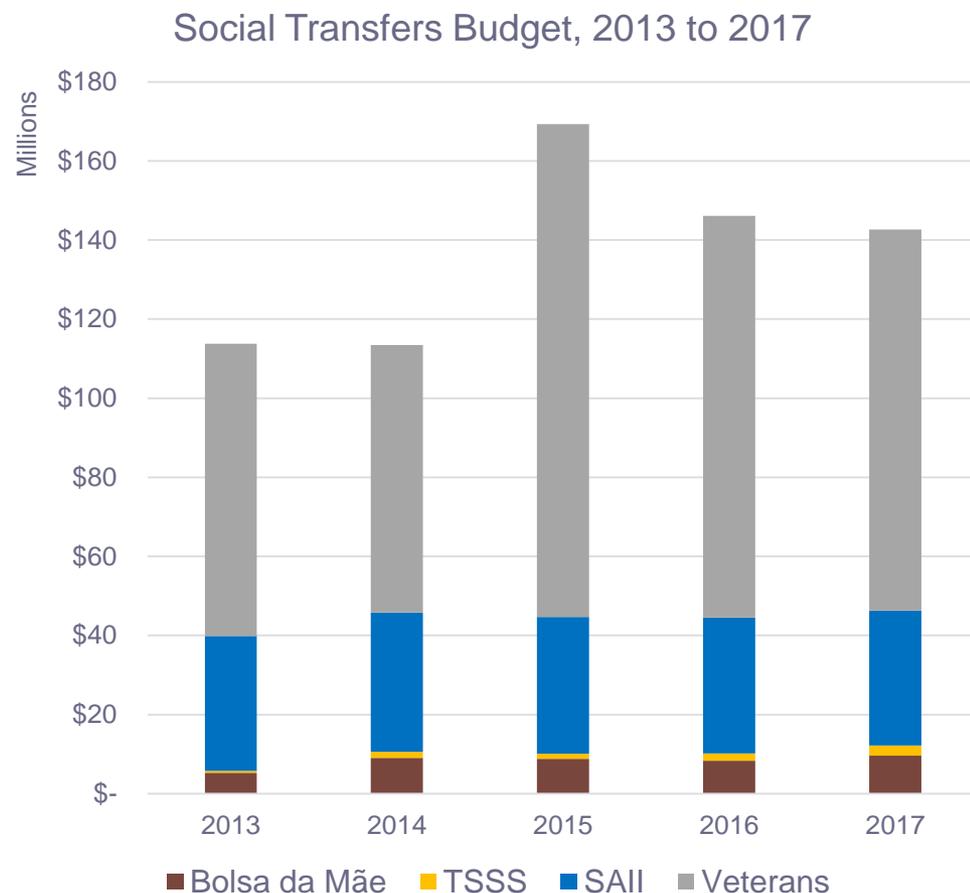
## **Re-allocating public expenditures**

- Redirecting budget of inefficient and shrinking programmes;
- Improving the efficiency of existing framework;
- Reducing the pace which physical assets are built, and turning into human capital investments;

## **Use of Fiscal Reserves**

- The PF can finance all of the Social Protection SDG agenda – but should it?

# Re-allocations within the SP Envelope



## Coverage:

- **Bolsa da Mãe:** 183,265 Children.
- **TSSS:** 1,242 Elderly, Invalid and Survivors.
- **SAI:** 95,299 Elderly and Invalid.
- **Veterans:** 31,445 Veterans and Survivors.

# Re-allocations within the SP Envelope

Total Budget	Bolsa da Mãe	TSSS	SAII	Veterans
	\$ 9,640,326.55	\$ 2,522,201.53	\$ 34,131,568.87	\$ 96,370,520.35
Salary & Wages	1.4%	8.7%	0.3%	0.2%
Operations & Invest.	5.5%	3.2%	0.8%	1.9%
Transfers	93.0%	88.2%	98.9%	97.9%

# Contributory Social Security

- It is a new scheme – Started August 2017.
- The young population favours the PAYG system;
- Despite the high informality and low labour market participation rates, it reached more than 80,000 workers registered and contributing by January 2018.
- If mechanisms to facilitate the participation of informal and own-account workers are deployed, it has great potential to close the protection gap of the working age population.

# Increase Tax Revenues

## Total Tax Revenue 2015 – 2021, (Million US\$)

	2015 Actual	2016 Projection	2017 Projection	2018	2019	2020	2021
<b>Total Tax</b>	<b>119.8</b>	<b>140.6</b>	<b>145.7</b>	<b>155.5</b>	<b>165.9</b>	<b>177.0</b>	<b>188.7</b>
<b>Direct Taxes</b>	<b>53.3</b>	<b>61.1</b>	<b>65.0</b>	<b>69.1</b>	<b>73.5</b>	<b>78.1</b>	<b>82.9</b>
Income Tax	17.5	18.7	19.6	20.5	21.5	22.4	23.4
<i>Individual Income</i>	5.4	9.8	10.2	10.7	11.2	11.7	12.2
<i>Individual Inc Other</i>	12.1	8.9	9.3	9.8	10.3	10.7	11.2
Corporate Tax	8.5	9.6	10.3	11.0	11.8	12.6	13.5
Withholding Tax	27.3	32.8	35.1	37.6	40.2	43.1	46.1
<b>Indirect Taxes</b>	<b>66.2</b>	<b>79.0</b>	<b>80.2</b>	<b>85.9</b>	<b>91.9</b>	<b>98.3</b>	<b>105.2</b>
Service Tax	3.1	3.0	3.2	3.4	3.7	3.9	4.2
Sales Tax	13.1	15.0	16.0	17.1	18.3	19.6	21.0
Excise Tax	37.9	43.3	46.3	49.5	53.0	56.7	60.7
Import Duties	12.1	17.8	14.8	15.8	16.9	18.1	19.3
<b>Other Tax Revenue</b>	<b>0.2</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>

Source: National Directorate of Economic Policy, Ministry of Finance, 2016

# Possible Ways Forward

- Despite the prospect of new petroleum revenues beyond the current sources, Timor-Leste should strive to move towards a diversified revenue base as fast as possible;
- The total SP envelop is already sizable, but it's efficiency and impact can be improved by a better distribution of resources;
- Contributory Social Security can be a long-term pillar for the protection of all Timorese – but it implies investing today in it's implementation and to increase coverage;
- And lastly, increasing Tax revenues is vital to non-oil fiscal balance, and the only viable long-term solution for fiscal sustainability.

THANK YOU!

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