THE CASE OF TIMOR-LESTE

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BACKGROUND

Why Timor-Leste?

It has substantial resources at its disposal…

- GDP has grown from US$ 731 million in 2002, to US$ 4,818 million in 2012, in real terms, fuelled by oil and gas revenues;

- In 2015, it had in its Petroleum Fund, US$ 16.2 Billion:
  - About 11 years worth of 2014's government budget;
  - About US$ 13,700 per capita;
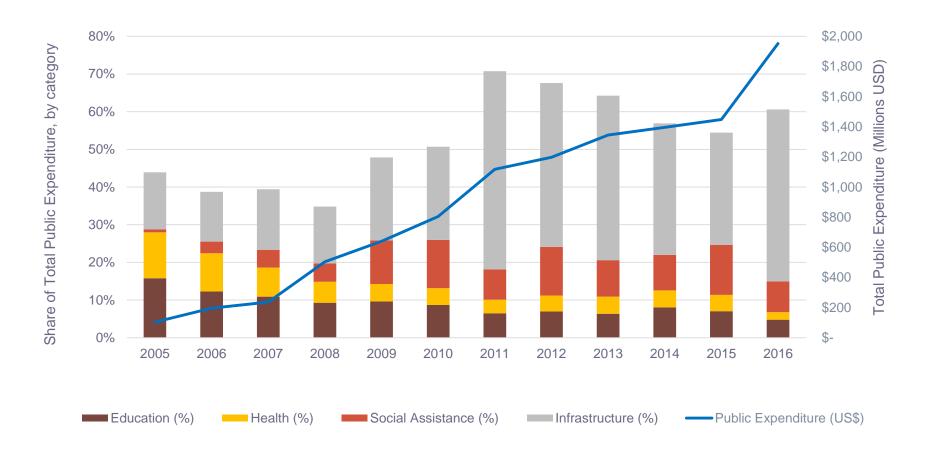 - It supplied about 90% of the Government's budget in 2016;

BACKGROUND

And substantial development needs!

- GDP per capita (2014) = USD 3,566
- Average per capita income (2011) = US$ 745.44
- Median per capita income (2011) = US$ 480.00

- 41.8 % of population living in poverty
- 4 out of 5 Timorese workers is in the agricultural sector
- 1 out of 4 Timorese in the working age lives of subsistence agriculture
- 50.2 % of children under 5 are malnourished

The existing Social Protection System

The existing Social Protection System

Social Transfers

Programme	Coverage	Costs
Bolsa da Mãe	- 154,857 children (24.9 % of target group)	US$ 8.5 Million (0.6 % of Non-Oil GDP)
School Feeding	- 334,911 children (89.6 % of target group)	US$ 6.4 Million (0.5 % of Non-Oil GDP)
Social Security	- 688 persons	US$ 1.3 Million (0.09 % of Non-Oil GDP)
Rural Employment	- 6,572 persons (33.0 % of unemployed)	US$ 5 Million (0.03 % of Non-Oil GDP)
SAII	- 86,974 persons (90 % elderly) - 7,313 persons (19.2 % PWD)	US$ 30.6 Million (2.1 % of Non-Oil GDP)
Veterans' Pensions	- 31,445 persons (2.6 % of total population)	US$ 119.7 Million (8.5 % of Non-Oil GDP)
Other Social Assistance	- From 28 to 600 persons	US$ 0.26 Million (> 0.01 % of Non-Oil GDP)

Total Social Transfers (2015) = US$ 171.7 Million – 11.9 % Gov. Expenditure

The existing Social Protection System

Health	Education	Other Services
Public, Universal, Free • Supply and demand problems; • Investing in human resources, infrastructure, and outreach.	Public, Universal, Free • Low Pre-Primary and Secondary enrolment rates; • Lack of schools and qualified teachers.	Water & Sanitation = 60 % HH with access Electricity = 72% HH with access Heavy Investments
Budget 2015 = 62.5 Million 4.3 % Gov. Expenditure	**Budget 2015 =** 102.2 Million 7.0 % Gov. Expenditure	**Budget 2014-18 =** About 56.4 Million per year

Reaching the Social Protection SDGs

- **What are the biggest challenges?**

- Widespread poverty - few good jobs; low agricultural productivity and lack of access to markets;

- Difficulties to access health services, but also lack of demand;

- Malnutrition – Affects more than half of children under 5; Estimated to hinder economic growth by 1 to 2 percentage points, per year;

- Severe lack of pre-primary and secondary education supply - schools and teachers;

- Other services = reaching isolated communities with reliable services;

Reaching the Social Protection SDGs

Scenario 1: Lower Costs Estimates

- Same as the general methodology – poverty gap, after transfers.

Scenario 2: Standard Upper Cost Estimate

- Same as the general methodology - assumes that the existing social transfers do not exist anymore, thus on contrary to Scenario 1, their costs are subtracted from the total as budget allocated to them would be freed.

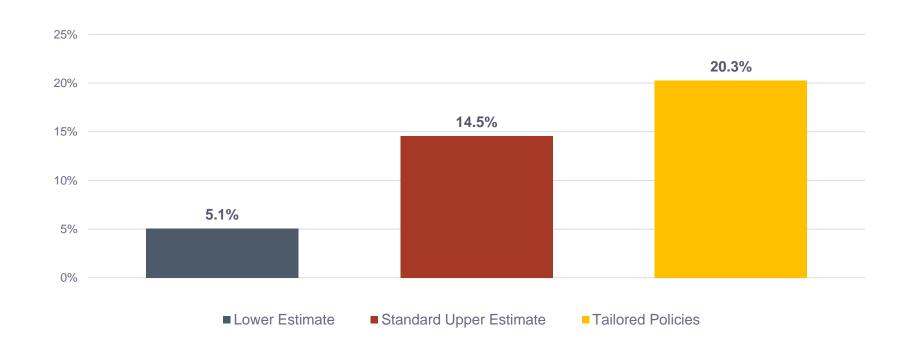**Scenario 3: Tailored Polices Set**

- This model introduces a Universal ECD Child grant, starting from the pregnancy; introduces a Guaranteed Crops Purchase programme targeted at subsistence agriculture workers, and adjusts the benefits of *Bolsa da Mãe*, School Feeding, *SAII*, Rural Employment and the Maternity scheme. Assumes the existing programmes only exist in their adapter form, thus their current status costs are subtracted from the total.

The current programmes, *SAII*, *Bolsa da Mãe*, School Feeding and Rural Employment, when projected to 2030, result in a cost of 4.6 percent of GDP in the stationary state.
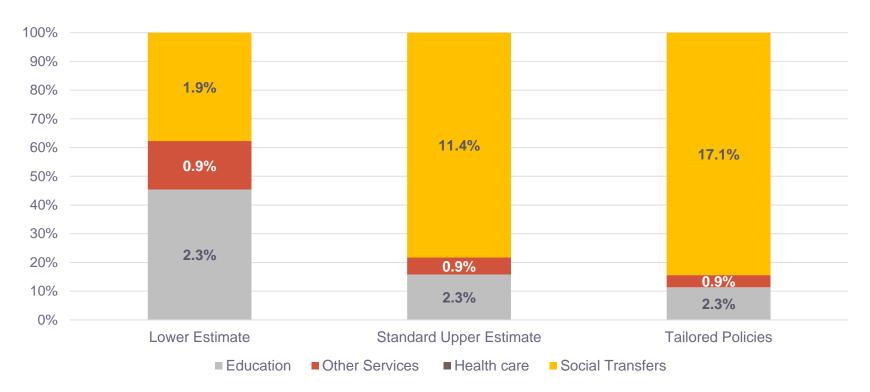
The Resources Gaps

Total estimated costs to close the social SDG gap in % GDP - Projections for 2030
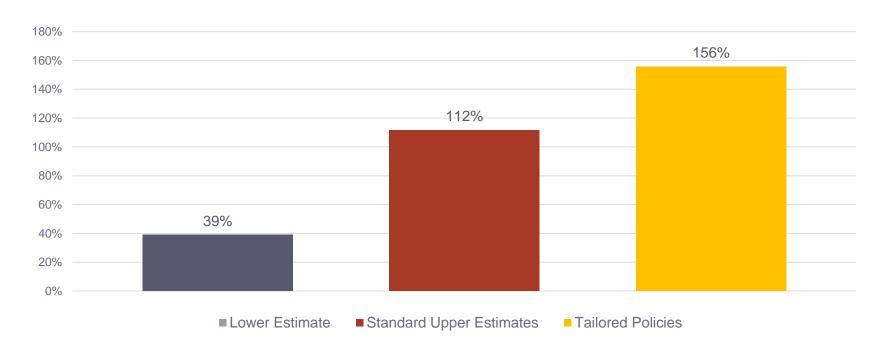
The Resources Gaps

Composition of social SDG Gaps, shares by Type and in % GDP - Projections for 2030

The Resources Gaps

Required Additional Resources to close the social SDG gap in % Government Revenues - Projections for 2030

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?

Conclusions

- Timor-Leste will face an enormous challenge to finance the social protection SDG agenda – but not only the social protection agenda;

- Education and Other Services targets will require resources, but the social transfers gap is likely the greatest finance challenge;

  # Improving effectiveness of existing programmes and investing in those that address fundamental issues, such as malnutrition and agriculture productivity, should have priority;

- The PF can play an important part in achieving the SDGs, however it's investments must be better balanced between infrastructure and human development;

- Nonetheless, other options will have to be pursued, specially those that increase recurring revenues, if sustainable solutions are to be developed.