



## **Committee on Economy, Finance and Anti-Corruption**

### **REPORT AND OPINION PROPOSED LAW No. 42/II THE STATE BUDGET FOR 2011**

**11 January 2011**

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## I. INTRODUCTION

1. The Draft Law No. 42/II “General Budget of the State for 2011” was received in the National Parliament on 15 November 2010, having been announced in plenary on 16 November 2010 and submitted to the Specialized Permanent Committees for Public hearings and drafting opinions.
2. The government presented this draft law under paragraphs d) and e) of Article 95.3 and paragraph c) of Article 97.1 and Article 145.1 of the Constitution of the Democratic Republic of Timor-Leste, and articles and the following of the Rules of the National Parliament.
3. Appreciating the Bill, in light of the formal requirements to be complied with, it appears that it satisfies the requirements of Article 98.1 of Parliament’s rules. The Draft Law is written in Portuguese. It is presented in the form of articles, containing a title that reflects its central subject. It is accompanied by an explanatory memorandum. It thus fulfills the formal requirements in the regulations.
4. The Committee conducted a series of public hearings:
  - 4.a - On the Consolidated Fund for Timor-Leste (FCTL)
    - Minister of Finance;
    - Secretary of State for Natural Resources;
    - Minister of Economy and Development;
    - Minister of State Administration, accompanied by some District Administrators;
    - Chamber of Commerce and Industry (CCI);
    - Timorese National Consortium (CNT);
    - National Union of Small Businesses (UNPETL);
    - Banking and Payments Authority (BPA/ABP);
    - Consultative Council of the Petroleum Fund (CCFP);
    - NGOs: FONGTIL; La’o Hamutuk and Luta Hamutuk
  - Together with the Committee A:
    - Minister of Finance;
    - Minister of Justice;
    - Court of Appeal.
  - 4.b - On the Special Funds - Fund of Infrastructure and Development Fund of Human Capital:
    - Minister of Finance;
    - Minister of Infrastructure;
    - Minister of Tourism, Trade and Industry;
    - Minister of Education;
    - Minister of Social Solidarity;
    - Secretary of State for Natural Resources;
    - Secretary of State for Electricity, Water and Urbanization.
5. Under paragraph Article 164.1 of The National Parliamentary Rules of Procedure, the Specialized Permanent Committees delivered their opinions and recommendations to the Committee of Economy, Finance and Anti-Corruption before 16 of December 2010, which are annexed to this report.
6. Mrs Maria Teresa Viegas (CNRT) was appointed rapporteur

## II. 2010 BUDGET EXECUTION

The 2010 Budget was approved on December 23, 2009 with an initial allocation of \$659,996,000, which was subsequently rectified in July 2010 with an appropriation of \$177,985,000. Thus, the State Budget for 2010 totaled 837.981 million dollars.

For this appropriation of \$837.981 million, \$811 million was authorized to be transferred from the Petroleum Fund.

The execution until November 30 was about 76% in receipts and expenditures of 90.7%. Expenses paid in cash were 60.5% and 30.2% in obligations and commitments,

Table 1-Budget Execution on November 30, 2010 (thousands)

	Final 2010 Appropriations	Execution in November 2010	% Execution 2010
	D	E	F = E / D
<b>Receipts</b>			
<b>1. Domestic Revenue (2+3)</b>	<b>94,700</b>	<b>84,426</b>	<b>89.15</b>
2. Tax Revenues	47,600	42,023	88.28
3. Non-Tax revenue	47,100	42,403	90.03
4. Petroleum Fund withdrawals	811,000	600,000	73.98
5. Total Receipts (1+4)	905,700	684,426	75.57
<b>Expenditure</b>			
<b>6. Recurrent Expenditure (7+8+9+10)</b>	<b>585,198</b>	<b>411,481</b>	<b>70.31</b>
7. Wages and salaries	99,099	72,866	73.53
8. Goods and services	266,998	191,801	71.84
9. Minor capital	34,469	12,968	37.62
10. Transfers	184,632	133,846	72.49
<b>11. Capital and development</b>	<b>252,783</b>	<b>96,493</b>	<b>38.17</b>
<b>12. Total expenditure (8+11)</b>	<b>837,981</b>	<b>507,974</b>	<b>60.62</b>

Source: Ministry of Finance

- In terms of revenue:

Non-oil revenues showed a recovery rate of around 89%. Oil revenue was transferred totaling \$600 million of the \$811 million authorized, representing an execution rate of 74%.

- Regarding the execution of expenditure:

Expenditure actually paid in cash are now the order of 60.5% of the execution. This means that 39.5% of the total budget is not yet actually executed.

Thus, to achieve a higher performance there was a marked acceleration in the pace of execution last month.

In terms of ministries, it was noted that 10 show execution rates of total spending above the default value for November 30 (91.66%), some of which also have the highest rates of obligations and commitments.

There is curious that the Ministry of Finance is the head of the list of ministries that have the lowest execution rates of expenses paid in cash.

Table 2 - Expenses Paid, Obligations and Commitments values in%

Ministries	% Execution	Expenses paid	Obligations and Commitments	Expenses paid + Obligations + Commitments
Ministry of Finance		39	54.2	93.2
Ministry of State Adm.		43.9	52.4	96.4
Ministry of Infrastructure		44.8	49.2	93.9
Ministry of Tourism		55.7	40.9	96.6
Ministry of Solidarity		83.2	15.1	98.3
Office of the Prime Minister and President of the Council of Ministers		81.5	7	88.5
Appropriations for Whole of Government		80.5	14.3	94.9
Ministry of Foreign Affairs		79.8	4.2	83.9

In terms of expenses paid in cash by category, wages and salaries presents an execution rate of 73.5%, transfers 72.5%, goods and services 71.8%, the lowest 37.6% minor capital, and capital and development 38.2%.

The latter two categories have high rates of obligations and commitments.

The budget process in Timor-Leste continues to be characterized by a lack of financial planning and management capacity in the appropriate timing of their budget cycle: planning, preparation / approval, execution and control.



**Projected Cash Flow - CFTL FCTL-  
1 January to 31 December 2011  
(U.S. \$)**

<b>Beginning cash, 1 January 2011</b>	<b>335,612,000</b>
<b>Add: Estimated cash receipts during 2011</b>	
(i) domestic revenues	91,200,000
(ii) autonomous agencies' revenue	18,900,000
(iii) transfer from Petroleum Fund	<u>734,000,000</u>
<b>Total Estimated cash available for use</b>	<b>1,179,712,000</b>
<b>Less: Infrastructure Fund</b>	<b>(317,300,000)</b>
<b>Human Capital Development Fund</b>	<b><u>(25,000,000)</u></b>
<b>Total Estimated cash available for use - CFTL-FCTL</b>	<b>837,412,000</b>
<b>Less: Estimated cash payments during 2011</b>	
(i) Obligations charged to Budget 2010 and paid for in Jan and Feb 2011 (modified cash basis) –note 1	(50,000,000)
(ii) cash payments, Budget 2011, Jan to Dec 2011 - cash basis	<u>(642,700,000)</u>
<b>Total Estimated Cash Payments</b>	<b>692,700,000</b>
<b>Projected Ending Cash Balance, 31 December 2011</b>	<b>144,712,000</b>

Note 1: Delivered goods as of 31 December 2010 and paid for in January and February 2011.

Note 2: Reserved for Commitments as of 31 December 2010 to Be paid up to 28 February 2011 total \$ 105,706,000.

Source: Ministry of Finance

1. Is the amount of \$105,706,000 dollars set aside for payment of commitments until December 31, 2010 to be paid by February 28, 2011. The Budget and Financial Management Law provides "obligations." Are these commitments obligations?
2. It is understood that the above amount has been deducted from the Cash in the FreeBalance System and includes payments until February 28, 2011.
3. There is a wide discrepancy in the cash payments in respect of obligations on December 31, 2010 payable until February 28, 2011, as follows:
  - The second page of the Minister of Finance's letter mentions an amount of \$105.706 million of these commitments (payments);
  - However, the table with a projection of cash movements between January 1 and December 31, 2011 shows an amount of \$50 million.

This discrepancy needs to be explained as they affect the projection of the balance of cash at December 31, 2011.

4. The estimated cash balance for December 31, 2011, amounting to \$144,712,000, which needs confirmation, should be in the Treasury Account by December 31, 2011. Any proposal to spend this cash balance should be made known to the Parliament.

### III. PROPOSED 2011 GENERAL STATE BUDGET

#### GENERAL FRAMEWORK

##### Structure and Content

The Government has prepared the State Budget in view of the following political strategy.

“The expense budget is built on the framework of the National Strategic Development Plan. The PEDN has two main objectives:

Timor-Leste to jump from being a low-income country to a medium-high income country by 2030, and;  
Reducing the dependency of Timor-Leste on petroleum.

Public investment will be an important engine of growth in the immediate phase of this plan and will be a catalyst for private investment, which could outweigh government expenditures. Two special funds shall be established, the Infrastructure Fund (FI) and the Human Capital Development Fund (FDCH), to manage PEDN spending, under the leadership of Prime Minister and the relevant Ministers. The ministries and institutions will implement the projects under the special funds.

The Government will create the National Development Agency (ADN) to provide technical assistance to implement the PEDN. Additionally a Procurement Committee of Supply will manage procurement.

The centralization of decision making on projects of special funds will ensure better coordination between and integration of these with the PEDN.

With the Budget Proposal for 2011 the Government intends to go further in the process of boosting the economy with a view to creating conditions for sustained development and improvement of living conditions of populations. To that end, he resorted to Article 32 of Law no. No 13/2009 of 21 October, Budget and Financial Management, creating two special funds:

Infrastructure Fund,  
Human Capital Development Fund of.

To this end, the Government presents a proposal for the State Budget - State Budget, as follows:

• <b>Consolidated Fund Timor-Leste (CFTL)</b>		<b>642.7 million</b>
• <b>Special Funds</b>		<b><u>342.3 million</u></b>
○ Fund for Infrastructure	317.3	
○ Human Capital Development Fund	25	
<b><u>State Budget 2011-Total</u></b>		<b>985 million</b>
• <b>Development Partners</b>		<b><u>195 million</u></b>
<b>Combined Sources Budget</b>		<b>Total: 1,180 million</b>

The Consolidated Fund FCTL Timor-Leste, as the operating budget, includes operating expenses - recurring, salaries, goods and services and transfers and capital expenditure, minor capital and development capital.

##### **In FCTL:**

Budget expenditure is to be achieved;

Budget revenues are to be charged to cover expenses;

It elaborates a cash budget useful for scheduling payments and receipts.

**Special Funds** as the investment budget, based on the continuation of the rule of structural objectives, policies may be achieved in the medium and long term strategies and with horizons that extend for several years – multi-annual.

The Consolidated Fund (FCTL) provides details of the action plans, the funding and execution (Books 2, 3 and 4 and Appendix 2A).

Regarding the Special Funds, the Government's intentions in the sense of moving the country's economy and development forward are known, but need clarification in terms of their planning, execution, cost, performance and control (Explanatory Memorandum, Book 1 and 6 and Annexes 2B and 2C).

The purposes of growth and development are structural policies that require strong need for public investment, infrastructure and production of goods and services.

As for help from development partners, only mentions the total contributions, not being described the programs and projects to be developed (Book 5).

The GSB is characterized by the Parliamentary authorization and control of revenue, the gross expenditure and the management of public funds.

The GSB is unique - in each fiscal year, the State must draw up a single budget, a single legal document, to avoid multiple budgets that make it easy to avoid the political commitment that the state budget should be, or which impede the clarity required for such authorization is granted;

It should include all state agencies and all its revenues and expenses;

It should specify all items of income and expenditure.

It should comply with the constitutional requirement in article 145 of the Constitution.

### **Scenario of the World Economy**

The global economic recovery is proceeding slowly as expected but risks remain high. Almost all developed economies and emerging economies and developing countries still face major adjustments. The low levels of consumption and investment, together with a weak improvement in exports, will not allow the healthy and sustained growth of world economy. Unemployment is high and no prospects to reduce it, which places social challenges for governments.

Although financial conditions show some signs of normalization, institutions and the markets remain fragile. Banks remain undercapitalized and credit demand is constrained in some segments. In general, financial volatility, currency and commodity markets remain high, leading to the breakdown of investor confidence. As a result private investment is weak.

So last year the economic recovery was based on the use of accumulated reserves before the crisis and the fiscal stimulus (expenditure). But reserves are running out and the expansionary fiscal policy cannot be maintained because of the balance of public accounts.

According to IMF October 2010 forecasts, the business world had overall growth rates of 4.8% for 2010 and 4.2% for 2011. For emerging and developing economies these values were 7.1% and 6.4% respectively for 2010 and 2011.

In the first half of 2010 promised recovery, with global activity indices of 5.25%, above the predicted value. In emerging economies the expansion has reached nearly 8%. However, there seems to be some breaks in the developed economies in the second half of 2010, being made more modest forecasts for these economies to 2.7% and 2.2% respectively for 2010 and 2011.

According to the IMF:

The average exchange rates will remain stable;

The average price of oil will be located at around \$70 (\$76.2 in 2010 and \$78.75 in 2011) without appreciable variation in the medium term;

Interest rates (LIBOR) for dollar deposits to 6 months is 0.6% and 0.8% for 2010 and 2011. Interest rates of long-term will be about 1.9% in 2010 and 2.5% in 2011;

Inflation in developed economies will go at 1.4% in 2010 and 1.3% in 2011 respectively. In emerging and developing countries it will be between 6.2% in 2010 and 5% in 2011.

### **National Priorities**

The Government has determined the following priorities for spending:

PN1 - Infrastructure (electricity, roads and bridges, water and sanitation)

PN2 - Rural Development;  
NP3 - Human resource development;  
PN4 - Access to justice;  
PN5 - Provision of public service;  
PN6 - Good governance;  
PN7 - Public security and stability.

To take the PEDN forward, the Government intends that public investment is an engine of growth in the first phase of the plan and which is also a catalyst for private investment may come to outweigh the costs of government.

### **Financing**

The Government estimates that global revenues from Timor-Leste in 2011 hit about \$2,398 million, of which \$2,288 million will be oil revenues.

The value of \$2,288 million, as estimated oil revenues resulting from the new methodology and calculation of Estimated Sustainable Income (ESI).

Among the three scenarios formulated by the Energy Information Administration (EIA: the low case, intermediate case and high case ("reference case"), the Government opted for the intermediate price of a barrel of oil.

Based on this new methodology, the Government proposes to limit approved transfers to the GSB of \$734 million in 2011, which corresponds to the 3% limit, under Article 9 of Law 9/2005 of 3 August (*Petroleum fund Law*).

But the law requires that the Petroleum Fund should follow a more conservative ESI calculation (low price case). If the government followed the methodology of low price, the value of 3% ESI would be less than \$734 million.

Thus, the Government came around to the requirement of art. 9(c) of the Petroleum Fund Law.

Non-oil revenues for 2011 are estimated at \$110 million by the Government.

To finance the state budget of 2011, totaling 985 million, the Government states that it will use:

734 million of ESI;

110 million of non-oil revenues.

141 million of cash balance, which results from the total transfer of \$811 million from the Petroleum Fund which was unused during the year 2010.

Parliament authorized the government to transfer a higher value than the ESI from the Petroleum Fund on the grounds that it would be of the long term interest to Timor-Leste, in light of Law No. 9/2005 (Petroleum Fund), art. 9 thereof, namely to invest in strategic projects.

However, the Government at the time of submission of the Proposal of Budget Law for 2011, 15 November 2010, had withdrawn only 450 of the 811 million that was authorized. There is, therefore, the question of the legitimacy of government power to withdraw unused funds after 15 November and allocate them to finance the budget of the next year.

It seems that you are subverting the spirit of the exception to the principle of withdrawing more than the ESI from the Petroleum Fund. That is, it makes no sense to withdraw more than the ESI if it is not applied to investment in the public interest in the years for which it was authorized. If it is not illegal, at least it's a bad practice that should be avoided, even to caution against future unjustified withdrawals.

Also to date the Government has not presented formally to the National Parliament the total cash payments until December 31, 2010 and the value of the obligations and commitments to be paid until February 28, 2011.

However, the cash balance on January 1, 2011, is 335, 612 million that the Government intends to re-budget for the 2011 State Budget.

The government raises the future possibilities of external borrowing and the use of Public Private Partnerships (PPP), if necessary.



Regarding the possibility of borrowing money:

Under Article 20.1 of Law no. 13/2009 of 21 October (Budget and Financial Management), “The Government must, on the annual estimates of public revenue and expenditure submitted to Parliament, specify the amount that is expected through grants and loans during the financial year to fund state spending;”

Under Article 20.8, “The Government must, on the annual revenues and expenditures estimates submitted to Parliament, specify the amount to cover the cost of operation of all loans, according to this law, either the amortization or the payment of interest or other fees, compared to the loan during the financial year to which these estimates relate.”

Until now the Parliament has no information on the amounts expected to get through loans and grants during fiscal 2011 to finance state expenditures. So the government is legally prevented from taking out loans in fiscal 2011.

Contracts for Public Private Partnerships imply that the costs and risks to be transferred to future generations. These means of financing can lead to excessive risk if not taken with careful consideration of public interests.

## ECONOMIC SCENARIO OF TIMOR

### Growth and Economic Development

The non-oil economy of Timor-Leste continued to expand during 2010 led mainly by public sector expenditure. Public spending spurred both the demand and supply. Demand was stimulated by the transfer of funds that the government made to social protection schemes: the elderly, vulnerable population, veterans’ pensions. Public investment through projects such as the Referendum Package and Decentralized Development Plan contributed greatly to the growth of national income. The increased government spending on goods and services, in principle, adds to the nominal income, if the supply capacity is enough. But there really is no supply capacity, so the double-digit economic growth does not contribute to a real improvement, but rather to a general increase in prices.

Thus, even if the Government would maintain economic growth at around 12%, inflation will hardly be below 4%, and it is difficult to create about 100,000 jobs, even with the execution of special funds.

**Table 3 – GDP (PIB), Inflation and Current Account**

Países	Produto Interno Bruto %			Taxa de Inflação %			Balança Corrente % PIB			
	Anos	2009	2010	2011	2009	2010	2011	2009	2010	2011
Austrália		1.2	3.0	3.5	1.8	3.0	3.0	-4.4	-2.4	-2.3
China		9.1	10.5	9.6	-0.7	3.5	2.7	6.0	4.7	5.1
Indonésia		4.5	6.0	6.2	4.8	5.1	5.5	2.0	0.9	0.1
Singapura		-1.3	15.0	4.5	0.6	2.8	2.4	17.8	20.5	18.4
Tailândia		-2.2	7.5	4.0	3.5	1.0	1.0	7.7	3.6	2.5
Vietname		5.3	6.5	6.8	6.5	8.0	7.1	-8.0	-8.3	-8.1
Timor		11.6	7.9	8.2	2.0	4.0	4.0	245.3	223.8	188.4

Source: IMF, World Economic Outlook, October 2010. The values of 2010 and 2011 are projections

### Inflation

Inflation in 2010 was higher than in 2009 but lower than that seen in 2007 and 2008.

The price of food reached 6.7% in the same period. Grain prices increased rapidly in the first half of 2010 (14% annually in June) in line with international prices, leading the government to increase provisions for subsidies for rice in the rectification budget. The costs of housing, in particular their construction, grew 8.6% in the period mentioned above.

At a hearing in the Banking and Payments Authority noted that inflation in September 2010 would be around 7.8%.

Therefore, it is difficult to understand the inflation figures for 2010 presented by the Government but also by the IMF. Especially since at the end of the year the pressure on prices is higher by increased demand.

It would therefore be appropriate to revise the methodology for calculating the consumer price index, including the updating of the indicators that make up the basket that serves as the basis for calculation.

For 2011, the scenario is no better. High inflation is expected in the construction sector with the Government emphasis on the priority in building infrastructure. Given the weak domestic production, imports of goods, particularly construction materials, will be a factor in raising prices.

### **Balance of payments**

The structure of trade in Timor-Leste reflects the level of development of the country. The non-oil economy is a sector of subsistence agriculture (about 30% of GDP) in the construction sector heavily dependent on imports (10-12% of GDP), some small-scale manufacturing activity (up to 4% of GDP) and a large service sector (56% of GDP), which is dominated by the public sector.

The diversification of production and productivity, especially in agriculture, is essential for economic growth, employment and poverty reduction.

The trade deficit has been growing since 2006. In 2009, this deficit was about 46.5% of GDP. Construction materials accounted for 51.1% of imports. Imports of rice went up by 12.5%, still representing 6% of GDP.

Indonesia is the largest trading partner with 32.6% of imports, then and Singapore and Australia. These three countries account for 68.2% of total imports.

The general balance of payments, however, remains strong due to oil revenues.

### **Employment**

The changes in employment levels, together with other indicators, show how a country is going in terms of its domestic production and the potential for poverty reduction and redistribution of wealth. In addition, a greater the number of people employed enables more people to pass above the poverty line and raise their income, helping to reduce income disparities.

There are no reliable data on employment / unemployment in Timor-Leste.

The study "The Labour Force Survey" of the State Secretariat for Vocational Training and Employment-SEFOPE, estimates that the workforce is about 378,000 - population aged 24-64 years, although formal employment can include people 15 years or older.

According to data that can be drawn from the records of the state budget, you can determine the number of employees in the public sector, although not totally reliable, since there are inconsistencies between data from different tables.

As for the private sector, the situation is more difficult to determine since there is no official data base.

### **Public Sector**

According to the data in the final GSB for 2010, provided by the Civil Service Commission, 29,829 people are currently employed. This represents about 8.4% of the workforce, and includes 270 political appointees.

### **Private Sector**

The SEFOPE study, presented on December 10, provides the latest data on employment in the private sector.

SEFOPE also published the "National Strategy for Employment" for 2010-2015, which addresses the problem of the employment market, identifies some obstacles and constraints to demand and labor supply, and presents strategies for its development.

"Peace Dividend Trust" (PDT) examined a sample of 2,459 businesses that employ 24,892 workers. As a sample, this does not give a complete picture of labor framework of Timor-Leste. Despite these limitations, it

gives some indication. Thus, for example, 73% of total employment is located in Dili, 5% in Lautem, 4% in Baucau and Liquiçá, 2% in Bobonaro, Oecusse, Viqueque and Manatuto, and 1% in other districts.

The PDT study categorized jobs in 26 sectors. The 6 most important are: construction -15%, goods and services-11%, household goods -8%, office furniture and food and beverages, each with 7%, and automotive -6%.

The sex distribution is 73% men and 27% women. Only in Lautem District are women a majority with 54%. In terms of sectors, women are a majority of 58% only in the restaurant and catering sector; and in associations, unions and NGOs 54%.

Of the total employment of 24,892, only 2,413 (9.7%) are non-Timorese, of which 570 are women. 96.3% of foreigners work in Dili.

Professionals employed by international organizations like the UN, World Bank etc. are not counted here

The SEFOPE study estimates that the Timorese population is approximately 1,086,000, of whom 627,000 are 15 years old or older. Of these, 262,000 are active and 366,000 inactive. Of the active ones, 176,000 have precarious jobs and 76,000 have permanent jobs.

The data show that unemployment in cities (6.9%) is much higher than in the districts (2.2%). The precarious employment is almost double in districts at 80.3% compared to cities 42.1%. Women are employed twice as often in informal sectors than men. Women are also 72.2% more precarious employment. Unemployment rates of 4.6% and 72.2% of inactive women are much higher than men's 3.1% and 43% respectively.

### **Private Investment**

It is desirable that the private sector take the lead in economic growth. But for this it is necessary to promote a favorable environment for business. The Government should encourage the training of national entrepreneurs to do joint ventures with foreign companies interested in investing in the country.

According to the World Bank "Diagnostic [Trade] Integration Study", loans to the private sector are stagnant. Interest rates on loans are very high and the deposits are very low. This constrains private sector investment. The credit rose 0.8% on average in the first six months of 2009, reaching 105 million.

In early 2008, loans for construction fell more than 50%, a decline that only stopped with the increase of government expenditures in construction.

It appears that defaults on loans are alarmingly high, so there is an urgent need to clean up the Timorese financial system. We must find a way to resolve the high credit fees and create confidence for investors, especially foreign ones.

Besides the weak capacity of the private sector, the absence of a land registration system has not allowed its use as collateral for loans.

In 2010 Timor-Leste has risen in the rankings of the International Finance Corporation, in its "Doing Business Report", report on the ease of starting businesses. However, overall it remains in a modest position: ranking 164 out of 173. That report identifies the main constraints, such as: registration of land ownership, access to credit and starting a business.

The weak private sector is marked by the persistent lack of competitive and high-quality enterprises, and is highly dependent on revenues from government projects. Add to this the poor state of infrastructure (roads, ports, power supply and telecommunications) and lack of competitiveness in markets and dependence on imports, leading to high production costs. Weak legal protection, any breach of contract and lack of prompt resolution of conflicts are other constraints. To this add the geographical disadvantage of being far from major markets with purchasing power, high transport costs and weak human resource capacity.

According to the Banking and Payments Authority, ABP, the economy has momentum, especially in financial terms: increasing the volume and velocity of money in circulation. The demand is great but the products are almost all imported, so there is no fixed capital in the country. There is no private investment. There is also no savings under the Commercial Banking. Therefore, all income goes to consumption, leaving no productive benefit agents, brokers and importers.

## ANALYSIS OF EXPENDITURE

### A - Consolidated Fund-FCTL (CFTL)

Following the establishment of special funds, the FCTL is 642.7 million. In terms of its distribution by categories of expenditure, it appears that only the category of personnel expenses (salaries and wages) goes up, all the others down, as shown in the following table:

Table 4 - GSB 2011

Unit: USD million

CATEGORIAS	ANOS	2010	2011
<b>Despesa Recorrente</b>		<b>544,3</b>	<b>525,9</b>
Salários e Vencimentos		99,3	115,9
Bens e Serviços		260,6	245,5
Transferências		184,4	164,5
<b>Capital</b>		<b>293,6</b>	<b>116,8</b>
Capital Menor		39,9	28,2
Capital de Desenvolvimento		253,7	88,6
<b>Total FCTL</b>		<b>837,9</b>	<b>642,7</b>
<b>Fundo de Infra-estruturas</b>		-	<b>317,3</b>
<b>Fundo Desenvolvimento Capital Humano</b>		-	<b>25,0</b>
<b>Total do Orçamento Geral do Estado</b>		<b>837,9</b>	<b>985,0</b>

Source: State Budget Proposal for 2011

Regarding salaries, the increase is due to the integration of temporary workers and the revaluation of the career regime of teachers. As for goods and services, minor capital and transfers, the decrease is due either to the reduction of the activity or the rationalization of spending as the government suggests. As for capital development, the decrease is due to the creation of the infrastructure fund.

Total wages and transfers is 280.4 million and represents 43.6% of FCTL.

The total allocation for goods and services is of 245.5 million and represents 38.2% of FCTL, not including the 25 million to the Human Capital Development Fund (FDCH).

The Minor Capital is 28.3 million in 2011, a reduction of 11.6 million compared to 2010.

The total recurrent expenditure is 529.9 million, representing 82.4% of FCTL. Decreased by 24.8 million compared to 2010, if we do not consider the value of FDCH.

The expenditure on Capital Development is only 88.6 million due to the establishment of the infrastructure fund. For if we consider the money from the special fund for infrastructure, the total capital and development grows from 253.7 to 405.9 million (+58%).

### **Allocation FCTL by Sovereign Bodies and Ministries**

President of the Republic – 6.271 million;

National Parliament – 12.447 million;

Prime Minister and Presidency of the Council of Ministers – 72.038 million;

Prime Minister and Presidency of the Council of Ministers (sic)– 49.459 million;

SE Council of Ministers - 3.459 million;

SE Youth and Sport - 6.221 million;

SE Natural Resources – 6.655 million;

SE Energy Policy - 2.741 million;

SE Training and Employment - 2.534 million;

SE Promotion of Equality - 969 thousand dollars;

Ministry of Defense and Security - 51.073 million;

SE Defense - 1.053 million;

Falintil-Defense Forces of Timor-Leste – 21.519 million;

SE Security -5.752 million;

PNTL National Police of Timor-Leste – 18.003 million;

Ministry of Foreign Affairs - 18.420 million  
Ministry of Finance – 13.851 million;  
Appropriations for whole of government – 42.641 million;  
Ministry of Justice– 7.869 million;  
Ministry of Health – 37.914 million;  
Ministry of Education and Culture – 70.139 million;  
Ministry of State Administration and Planning – 47.027 million;  
Ministry of Economy and Development – 8.644 million;  
Ministry of Infrastructure, including autonomous agencies – 92.138 million;  
    Ministry of Infrastructure – 41.879 million;  
    (Autonomous Agencies – 50.259 million;)  
Ministry of Tourism, Trade and Tourism (sic) – 27.209 million;  
Ministry of Agriculture and Fisheries – 12.909 million;  
Courts - 2556 million;  
Prosecutor-General's Office – 5.427 million;  
Provedor for Human Rights and Justice – 1.148 million;  
Public Service Broadcasting, Television of Timor-Leste - 2.782  
National Elections Commission - 2.538 million  
Anti-Corruption Commission - 1.649 million  
Civil Service Commission - 1.506 million

The proposed budget for 2011 focuses attention on infrastructure and human resource development. It allocates fewer funds to important sectors such as agriculture, food security, industry, especially agro-food industry and value-added products and tourism.

**The Ministry of Agriculture and Fisheries** receives a total allocation of 14.7 million (12.9 million FCTL and 1.8 million Infrastructure Fund) of the total 985 million from the state budget, which represents only 1.49% when 80% of the population depends on agriculture. Compared to countries with similar situation to see that these allocations for agriculture are usually about 10% of the total budget.

Investment is needed to improve the capacity and quality of production but also for storage and distribution and also infrastructure support - roads, water, electricity, telecommunications and markets, on the one hand to improve the quality of production but also reduce the losses between production and consumption or export, those losses coming to represent 50% of production.

**The Ministry of Economy and Development** has a total budget of just over 8.6 million, representing 0.087% (sic) of the total state budget. It is too little for a ministry that should lead the Government's policy in terms of investment and development of national economy.

This overall budget of 8.6 million, 3.985 million is for salaries, goods and services and minor capital, or for operating expenses.

**The Ministry of Tourism, Trade and Industry** has a total budget of 28.4 million (27.2 FCTL and 1.2 IF), representing 2.76% of the GSB. The overall budget of the Ministry declined about 50% compared to 2010.

In terms of distribution by categories, it appears that the goods and services have the largest share at 22.4 million, 13.5 million of these are responsible for food security and 5 million for the Domestic Trade Directorate. Transfers and capital development are next with 1.6 million each.

We are concerned that the allocations for three of the most important ministries for the sustained development of the country have been drastically cut.

Moreover, the Office of the Prime Minister and the Presidency of the Council of Ministers sees its endowment to more than double 131%, from 21.4 to 49.5 million.

### **B-Special Funds:**

The Government presents the budget proposal for 2011 two special funds:

Fund for Infrastructure, with an allocation of 317.3 million;

Development Fund of Human Capital, with a budget of 25 million.

These funds are a multi-annual budget stabilization policies involving medium to long term planning and policies, planning for programs and projects.

Pursuing structural purposes by the State requires the performance of policies over the medium to long term horizons and strategies that span several years.

The Government intends the institution of these two funds to start a new model of public management, with the introduction of program budgets.

The programs are articulated with actions or projects to produce results. They allow greater articulation with a global planning and budgeting system. The special funds are created to support the PEDN.

The PEDN must be approved by Parliament. It is therefore premature to include in the GSB special funds without prior approval of the PEDN;

The National Development Agency - ADN and Procurement Commission should also be established by law prior to the establishment of funds.

Under the budget and financial management law such funds can be established only when authorized by law.

The proposed funds lacks information on the timetable for the design, construction and completion of projects and their economic, social and environmental impacts. Rules must be established to ensure that projects are executed in accordance with the approval and establishment of the corresponding procurement system. Many projects being considered now will last beyond the current legislative term, constraining the government which wins the next election.

### **Infrastructure Fund**

This special fund is divided into Multi-Year Projects and Major Projects program and the MDG – Sucos (MDG-Millennium Development Goals).

We first note that it is unclear why there is a division between multi-year projects and major projects, for both include multi-year projects over \$1 million.

The multi-year projects will have an allocation of \$212.3 million, major projects \$40 million; and MDG \$65 million.

Annex 2B provides a summary of the values of projects by sector and book 6 presents an exhaustive list of programs and investment plans for the next five years.

Referring only the most important, we have:

- System of production and transmission of electrical energy - Hera power station and National Grid, 166.401 million;
- Tasi Mane - development projects on the south coast, 31.100 million;
- Transportation - projects relating to roads, airports and ports, 22.813 million.

Although the projects have their merits, the timing of their presentation, the design and funding lead us to make the following observations:

In relation to programs / projects already started, like the project of the Hera Power Plant and National Grid, Parliament asks the Government for detailed information about the degree of execution, costs already and to be incurred and social and environmental impact. In particular, the Government shall inform about the impact on the initially approved budget of the substitution of used generators by new generators. Moreover, there are conflicts with the local community and the jobs created fell far short of promises. This project is likely to become the first “white elephant” of Timor-Leste.

The “Tasi Mane” project, with an overall budget of 36 million, in addition to the shortcomings pointed out to other projects, requires a feasibility study and a financial plan, which analyze the cost of investment, economic and social benefits, sustainability and environmental impact.

The program MDG - Suco, with a budget of 65 million, may be a good government initiative to reduce poverty by providing housing, clean water, energy, health and education to the neediest people. However, it is unclear how the program will be implemented or who will manage and monitor it. Therefore, we fear that its execution will not produce the desired results.

### **Human Capital Development Fund**

This multi-annual special fund worth 25 million aims to develop human resources, improving their skills. Annex 2C of the proposed budget provides the funding for the four groups of actions:

- training - 4.810 million;
- technical training - 3.371 million;
- scholarships – 12.952 million;
- other types of training - 3.867 million.

It seems that this particular fund is tapped to train public servants. This fund needs more specification and expenditure breakdown of each program.

### **ANALYSIS OF REVENUE**

#### **Non-oil revenues**

The non-oil revenue for 2011 is estimated at 110 million, including revenues from autonomous bodies.

To reduce the dependence of Timor-Leste on petroleum, the Government needs to diversify revenue sources and develop a strategy for mobilizing non-oil resources. This strategy involves: an effective collection of user fees for public services (energy, water, port charges); measures to improve compliance of taxpayers and reduce tax evasion; create a flexible tax base through policies and investments that attract and support to private sector activity.

#### **Oil Revenue-Petroleum Fund**

Since the beginning of the Petroleum Fund in 2005, revenues and state budget has grown enormously, especially since 2006/07. It is expected that the accumulated capital of the fund will exceed 7 billion by December 31, 2010.

In the estimates for the State Budget, the Government assumes that at the beginning of 2011 the total oil wealth, which includes the balance of the Fund plus the net present value (NPV) of future oil revenues (in January 2011 estimated at 17.85 billion), will be around 24.5 billion dollars. This represents an increase in the oil wealth of 7.8 billion compared with the estimate for the 2010 State Budget, which was 16.7 billion (+46.4%). Based on this value, which results from the new calculation methodology, the government obtains a value of 734 million for ESI (24.47 billion times 3%).

#### **Oil Production**

According to estimates in the State Budget 2010, the remaining reserve at the end of 2010 will be about 570 million barrels of oil. However, the estimates in the State Budget 2011 the Government presents a reserve estimate of 647 million barrels of oil, 77 million more than before (Book 1, Table 5.7, pg. 41). The Kitan project adds production between 23 and 35 million barrels.

Therefore, it is not clear why the Government provides figures with a jump of 570 million barrels to 647 million barrels.

Moreover, between 2004/05 and 2010 the average annual production was 57.3 million barrels, while the next six years (2011-2016) is the expected annual of 59.5 million barrels.

#### **Oil Price**

The price of global oil fluctuates every day. No one can predict with certainty what will be the prices in the next six months, much less the next 10 years. During 2008 the price of crude peaked at \$145 in the second quarter and suffered a sharp fall to \$30 late in the third quarter.

By 2010 the forecasts of oil revenues for the calculation of ESI used as the reference price of West Texas Intermediate (WTI) and the low price scenario supplied by the Energy Information Administration (EIA), a specialist U.S. agency that estimates and forecasts the price of energy. These assumptions led us to consider the price of \$62/barrel for the 2010 State Budget.



Given the evolution of oil prices in 2010 and predictions for 2011 and 2012 made by the EIA, to \$68 and \$71, the Government believes that the scenario of low prices used until now is too conservative. Therefore, for 2011, they adopted a scenario to evolve a reference oil price of WTI halfway between the EIA low price case and the higher-priced EIA reference case. So in 2011 the price of oil considered to calculate the ESI was \$68, \$6 more than in 2010.

With all respect that is due to the EIA and understanding the expectations of the Government, we believe that it should have kept the price used in 2010. This is because recovery in developed economies has been weak and hesitant in the past year and we see no signs of relevant positive developments.

As a direct consequence, emerging and developing economies will see their growth rates also suffer slowdowns because of the fall in exports to developed countries. Therefore oil demand will also tend to slow down.

It is recommended therefore that the Government takes, on the one hand, more conservative values for the oil price, because the world economy is unlikely to soon have high average levels of growth, and the introduction of new technologies will tend to stabilize demand, as well as prices in the short to medium term.

### Discount Rate

In previous budgets the discount rate used to calculate the receipts that influences the determination of ESI has been 3%. For 2011, the government uses the discount rate of 4% to enhance the return on all investments made with the fund - government bonds of various countries: USA, Australia, Japan, EU, UK, as well as securities issued by supranational organizations such as the European Investment Bank and World Bank.

To get the discount rate of 4%, the government says it has considered (1) the historical average 10-year bond yields for each maturity date, (2) a more refined calculation of the average discount rate. However, in spite of not presenting the data series with the yields, nor explaining the calculation of the refined average discount rate, said that in 2010 the discount rate achieved was up by 2.6%.

It seems, therefore, unwarranted rise in the discount rate, which measures the return on investments made with the fund and is used to calculate the ESI. Indeed, there seems a contradiction, or at least a weak formulation of the question, when you say that because the fund is highly dependent on government bonds it represents a financial risk exposure associated with potential increases in U.S. interest (p. 43). What risk are we talking about? When interest rates rise, it is natural that the return on bonds also rises.

In short, the enormous need to develop domestic supply as well as the relatively low return on the fund's current investments - as the U.S. bonds, suggests that investing in some sectors in the country could bring medium-term higher returns. These arguments should be considered in the context of long term economic sustainability of the country, because nobody can argue against the need to invest more in productive sectors to replace the oil industry where mineral resources are exhausted.

However, there are two considerations that must be considered. First, the need to reduce the dependence on oil revenues, which have come to represent over 90% of revenues, must be consistent with the objectives of macroeconomic stability. Second, the rapid increase in expenditure without providing a set of mechanisms to ensure proper use of funds. Ignoring these considerations leads to medium to long-term inefficiency and inefficient use of resources.

There is increasing pressure to increase the amount of withdrawals from the petroleum fund. However, it is premature while the budget execution rates remain low and capacity to control execution and accountability remains weak. Improvement is needed in terms of clarity, rules, definition of objectives, plans, procurement, skilled personnel, and equipment and management tools of financial reporting, auditing and performance evaluation. There must be rigorous mechanisms for ensuring good governance, transparency and accountability.

## **IV. LEGAL ASSESSMENT**

1. The submission and approval of the State Budget must be made in accordance with the provisions of Article 115.1(d) and 145.1 of the Constitution of the Democratic Republic of Timor-Leste. Another important element of the Constitution is the provision that establishes rules to be followed in preparing the Proposed Law on State Budget, namely the forecasting of revenues and expenses based on principles of efficiency and



effectiveness, a breakdown of revenues and expenditure and the prohibition of the existence of secret appropriations and funds.

2. In terms of substantive law, the budget system as well as framed by the Constitution, is also regulated by Law No. 13/2009 of 21 October on the Budget and Financial Management.

3. Also satisfied are the formal requirements for the submission of bills in accordance with Articles 98 and following, 105 and 162 of the Rules of the National Parliament.

#### Special Funds

The new feature of this State Budget there is to forecast the creation of two funds in under Article 9 of the Proposed Law: "Infrastructure Fund and Human Capital Development Fund," Annex 2-B and Annex 2-C - Appropriations.

The Government intends the institution of these two funds to start a new model of public management, call management objectives based on public budget, or program-based budgeting.

Special Funds may be defined as a grouping of certain revenues that by law, are bound to achieve certain goals and objectives. In other words, it is Administration entities that manage "financial resources provided but not their own resources, but from regular budget appropriations." That is, "the integration of public funds in the state budget is due to its dependence on the same."

The government asks Parliament, through this Bill, to approve transfers for the aforementioned funds, based on Article 32 of Law no 13/2009 of 21 October (the Law of Budget and Financial Management).

Thus, it remains to consider if these funds are in agreement or not with the Constitution and law.

With regard to the Constitution, it says:

#### **Section 145 (State Budget)**

1. The State Budget shall be prepared by the Government and approved by the National Parliament.
2. The Budget law shall provide, based on efficiency and effectiveness, a breakdown of the revenues and expenditures of the State, as well as preclude the existence of secret appropriations and funds.
3. The execution of the Budget shall be monitored by the High Administrative, Tax and Audit Court and by the National Parliament.

Compliance with Article 145.1 has always been the practice in Timor-Leste. The creation of the funds will be discussed and voted by the National Parliament.

Article 145.2 requires reporting of revenue and expenses by requiring that all revenues and all public expenditure remain under state budget.

The law allows the creation of funds is Article 32 of Law No. 13/200, which says:

#### **"Article 32 Special funds**

1 – Whenever authorized by law, the Minister of Finance may establish special funds that are not part of the Consolidated Fund.

2 - The revenues, earnings and income from these funds are not transferred to the Consolidated Fund at the end of the year, being instead retained by the funds to serve the purposes for which they were established.

3 – The Minister of Finance is responsible for managing and controlling the funds established under the present article.

4 – Any legislative instrument drafted according to the present article shall:

- a) Indicate the purposes for which the fund was established;
- b) Identify the entity responsible for its operations.

5 – All expenses done through the funds require an authorization by the Minister of Finance addressed to the responsible entity.

6 – The authorization indicated in the previous paragraph can only be issued if the Parliament is presented estimates for the revenue and expenditure of the special fund within that financial year, drafted according to instructions issued and approved by the Minister of Finance.

7 – Should a special fund lack the money and there be no legal provision to place any further sums in that fund, or if it is in the public interest to close the special fund, the Minister of Finance may dissolve the fund.

8 – The remaining amount or other resources belonging to the dissolved fund shall be transferred to the Consolidated Fund.

9 – In the case of the special funds under the jurisdiction of other Government members, the Minister of Finance will only dissolve the funds after consulting with the responsible Government member.

The purpose of the funds in Annexes 2B and 2C is not broken down in relation to revenue and expenditure, as required by article 145.2 of the Constitution. Neither were estimates of revenue and expenditure of special funds for fiscal year 2011 submitted to Parliament, as required by article 32.6 of Law No. 13/2009.

## **VI. RECOMMENDATIONS OF STANDING SPECIAL COMMITTEES**

### **COMMITTEE A -**

Based on sectoral economic analysis of the proposed budget amendment and in the public hearings, the Committee recommends the following:

- 1 - The revision of Law 13/2009 in order to clarify the requirements that must be met in order to be properly comply with the constitutional and statutory specification of the revenue expenditure, within budgetary control
- 2 - The urgent adoption of the Official Plan of Public Accounts (Article 10 of Law no. 13/2009 of 21 October);
- 3 - The legal definition of the system of state financial administration, including clarification of the contents of the administrative and budgetary autonomy of the various agencies and entities for the purposes of its budget execution;
- 4 - The revision of the legal regime of contracting and procurement to establish mechanisms to ensure transparency in public procurement.
- 5 - The opening of official bank accounts for independent entities, under the law of financial management, including the Provedor for Human Rights and Justice, gradually abandoning the current centralized system of payments under the Ministry of Finance;
- 6 - We recommend that the Government organize training courses to capacitate employees of the independent organizations to execute their budgets;
- 7 - We recommend to Government to urgently implement a social safety net provided with an updated, reliable database;
- 8 - We recommend to the Government the urgent execution of the civil system of citizen's identification (identity card);
- 9 – To provide funds needed for the installation of the accounting section of the Court of Appeal as well as recruitment and training of judges and technicians for the Court, to ensure the exercise of its constitutional powers, including oversight of budget execution either concurrently or retrospectively from the point of view of technical accounting;
- 10 – Request from the Government detailed information about the commitments and obligations for which payment will be made until February 28, 2011, including their amounts and specific projects to which they are attached;
- 11 - Whereas the revenue related to social and recreational games us not, according to information given in the public hearing by Her Excellency the Minister of Finance, included in the General State Budget, the Government should provide detailed information about the revenue collected by the Agency for the Management of Participation in Games (AGPJ) and the ends entities which have been applied, for the years 2009 and 2010;

12 - Request from the Government information on the bank account(s) of the Agency for the Management of Participation in the Games and their movements;

13 - We recommend to Parliament, under its legislative powers, to assess the qualifications of legal framework of the activity of the game with a view to possible amendment / repeal;

14 - We recommend that the Government conduct the transition of “temporary government employees” to permanent employees is made in accordance with the Civil Service Statute and the needs of the Timorese State;

15 - Considering the high amount of \$ 50,000 expended technical advice, urges the Government to legislate on recruitment for technical services (advisory), including the minimum technical requirements for admission and the recruitment process;

16 - Given the recent approval by the Council of Ministers of the Decree-law approving the creation of the Criminal Investigation Police, recommends the creation of legal framework for the organs of criminal investigation, to ensure the necessary exchange of information and cooperation in fighting crime;

17 - We recommend approval of the legislation necessary to enable the effective performance of the Public Prosecutor, including staffing;

18 - The adoption of measures for the effective enforcement of legal rules on the use of official vehicles, as well as recommendation of the Provedor for Human Rights and Justice to the Government in December 2009;

19 - We recommend that the government control and limit of funds for operating costs of the Ministries, particularly in the funds for the purchase of vehicles;

20 - We recommend that you give the Anti-Corruption Commission a budget for the purchase of vehicles, and that is guaranteed to use the Memory Hall building as headquarters for an interim period until permanent premises are constructed;

21 - The adoption of environmental legislation, especially in protected areas to prevent abusive and damaging use of land, especially land located along the coast;

22 - The adoption of measures to ensure efficient management of goods belonging to the State by ensuring that they are used by public agencies, and avoiding recourse to the leasing of private properties;

23 - We recommend the Government to cancel the amount allocated to the Office of the Prime Minister for implementing programs to combat poverty by the President of the Republic;

24 - We recommend that the President does not continue to run government programs to combat poverty;

25- We recommend a stronger allocation for the Provedor for Human Rights and Justice to ensure the hiring of legal counsel;

26 - We recommend a reallocation in the budget of the Provedor for Human Rights and Justice an amount of \$50,000 to construct the headquarters building;

27 - Carrying out an audit of the Radio and Television of Timor-Leste, EP, including income earned and expenses;

28 - The assignment of an allocation for Radio and Television of Timor-Leste for the execution of its strategic plan, as established by law;

29 - Allocation for Radio and Television of Timor-Leste of a budget for security, for maintaining the website, and to build a stage for the production of entertainment and education as well as a budget for the hiring of staff necessary to carry out its activities;

30 - The adoption of measures and the allocation of funds necessary for the effective execution of the Law against Domestic Violence, as was also recommended by the Provedor for Human Rights and Justice;

31 - We recommend that the CAVR Commissioners who have not yet returned the vehicles they were previously allocated, proceed to deliver them to the Post CAVR Technical Secretariat, and to enable the Secretariat to carry out its information dissemination functions;

32 - We recommend to clarify the involvement of villages and sucos in implementing the PDD Program 1.

## **COMMITTEE B -**

### **2.1 Secretary of State for Security**

2.1.1 Following the recent visit of the Committee to Portugal and the National Guard School, we found the total willingness to accept Timorese students, leaving only to Timor-Leste the travel of cadets. Thus, the Committee recommends to the Government and PNTL to explore this form of cooperation with the GNR, so that we can take this opportunity to quality education.

2.1.2 The PNTL has the means to acquire Maritime Unit, however it is not yet clear what the limits of his jurisdiction. It is essential that the Government clarify this limitation as soon as possible, to avoid conflicts between the Naval Component of the F-FDTL and PNTL Maritime Unit. Timor-Leste chose to take the Armed Forces, which are actually an expression of their sovereignty, and as such should be defined in a clear and unambiguous terms what their mandates at sea are. There can be no room to exploit vulnerabilities between the defense forces and security forces, from lack of clarity about the roles of each force. In this sense, the Committee considers it urgent to legislate for the establishment of the Maritime Authority to definitively regulate the limits of jurisdiction of each force and its form of action at sea.

2.1.3 The Committee was informed that there have been numerous police officers who ask for permission to continue their studies. The PNTL can and should benefit from improving the skills of its men, but only from training that can benefit in the future. As regards training that PNTL does not recognize as a priority, it should not be allowed during working hours.

2.1.4 With a view to a better and more effective fight against drug trafficking, the Committee recommends to start the process of creating a canine unit in the PNTL.

2.1.5 The conditions of the PNTL Public Order Brigade are far short of what they should be. For example, the still use the tarps left by GNR in 2000, with the major difference that no longer have air conditioning, no mattresses, no pillows. The Committee therefore recommends that create the minimum conditions necessary for the police who are part of the Public Order Brigade. Also on this brigade, it is essential to have appropriate vehicles to its mission, to enable police, so they when they get to the scene they can, leave the cars safely and quickly enough to react. These vehicles must also be appropriate to the Timorese reality and must be large enough to enable moving in problematic neighborhoods.

2.1.6 One way of preventing crime is related to the visibility of security forces, where the patrol stands out as the best way to ensure that visibility. Thus, the Committee recommends that PNTL promote a different way of patrolling, taking the foot patrol instead of patrolling in vehicles.

### **2.2 Secretary of State for Defense**

2.2.1 The Committee was informed that there have been numerous soldiers asking permission to continue their studies. The F-FDTL can and should benefit from improving the skills of its men, but only from training that can benefit in the future. Training that F-FDTL does not recognize as a priority should not be allowed during working hours.

2.2.2 The cadets and officers who are trained abroad require more logistical and financial support to cover their daily needs. They need a military computer, uniforms and a financial incentive. In this regard, the Committee recommends that the Government increase the amount to cover the needs of military personnel being trained abroad.

### **2.3 National Intelligence Service (SNI)**

2.3.1 For a country the size of Timor-Leste, a reliable information service, well endowed with intelligence officers and technical equipment is essential in order to anticipate threats as they arise. It is also essential to maintain a network of collaborating with the neighboring countries and the CPLP, but for this to be effective it is necessary that the SNI is ready to collaborate and receive help at the same level. The Committee therefore recommends preparing an enlarged, continuous training plan, which is not held in the region, to ensure the training of intelligence officers of the SNI. It is also important to provide this service with technical means to pursue its mission.

2.3.2 The Organic Law of the NIS includes the formation of an Audit Board, whose members are appointed by Parliament and the Presidency. In this sense, it is very important to establish this Board so that the activity of SNI is supervised and monitored in terms of the mechanisms foreseen by the Act.

2.3.3 The SNI has 17 permanent employees, making it very difficult to work. Thus, the Committee recommends increasing the funding for the SNI so that they can hire more employees, to ensure their presence in all districts.

## **2.4 Civil Protection**

2.4.1 According to the most elementary standards of safety in public buildings, it is essential that water pumps are able to be used immediately in the event of fire. The Committee recommends allocating a budget in order to install fire pumps at the main public buildings.

2.4.2 The salaries of section commanders of fire brigades are not being paid according to rank and hierarchy of the corporation. They are paid under the earlier career regime, and there is no distinction between wage of a newly-recruited firefighter and a Section Commander. In order to regularize this situation, the Committee recommends that the Government take steps to rectify this wage.

## **2.5 Ministry of Foreign Affairs (MNE)**

2.5.1 Decree Law No. 23/2008 which regulates Overseas Travel Allowances has not been updated since it was published. In this sense, in order to correct the mismatch between assistance and the normally rising cost of living, we recommend to update the amounts of assistance when traveling abroad.

2.5.2 The opening and maintenance of embassies in Luanda, Pretoria, Singapore and the Consulate General in Manchester has imposed a significant increase of expenses of the MNE.

2.5.3 Purchase, installation and operation of a secure communications system based on Internet, voice and data between headquarters and missions of the MNE, so that the confidential information and instructions can be preserved.

2.5.4 Need to enable the recruitment of more staff to ensure minimum human resources at headquarters and missions and also to increase the \$624,000 in salaries and wages line to cover the needs of local staff salaries in overseas missions.

2.5.5 The Committee also recommends inscribing \$ 300,000 to pay health insurance of diplomats and their families placed in missions so that they can access health care abroad. The money needed to fix this line may be obtained from the appropriation of \$700,000 that the Ministry of Finance has allocated for the purchase of goods from the UNMIT Mission, who has said that the material which will stay in Timor-Leste after the closure of the mission in 2013, will be offered.

## **COMMITTEE D - Agriculture**

From the public hearings with various entities, the Committee has the following recommendations

### **For the Prime Minister**

Development Capital should be decentralized, according to sectoral policies to respect the principle of decentralization and give value to the relevant ministry.

Accelerate the process of creating the Central Bank and Commercial Bank to guarantee

### **For the Government:**

Should clearly define the roles of the Forestry Directorate and the State Secretariat for Environment.

Should clearly define the roles of the Agriculture Ministry, MTCI, an MED to avoid overlapping jurisdiction.

Should create conditions for the Ministry of Infrastructure, especially Public Works, to have the capacity to make decisions to ensure that construction projects in the country can have quality.

The Ministry of Agriculture, Ministry of Justice, MTCI and MED should work together to look for a solution for the land titling problem, so that the Government can implement physical construction projects. Examples slaughterhouse, markets and agricultural materials. Because there are conflicts of interest.

*[Committee D's recommendations are in Tetum, the remaining as follows:]*

Atu intensifica kontrolu ba zona protezidas no dezenvolve ambiente saudavel iha komunidadade Tenke desidi ka foti ona medidas konaba sertifikasaun ba exportasaun. Tenke dezenvolve produto nasional

Ba Governu, liu husi Ministeriu Agrikultura atu fo atensaun ba irigasaun nebe kiik iha zona rural no identifica lolos

Ba governu liu-liu Sekretariu Estadu Formasaun Profisional e Empregu atu fo prioridade ba programa \$3 hodi defini mekanizmu permanente no periodikamente ba aktividade iha rural Governu tenke sustenta apoio logistiku no transporte ba extensionista sira

Governu tenke identifika didiak asuntu hotu-hotu konaba rai ninian antes asina kontratu ho kompanhia atu labele hamosu violasaun ba direitu de propriedade

Governu atu hari'i kondisaun hodi promove no dezenvolve rekursus natural atu aumenta reseitas domestikas. Hodi labele depende deit ba reseitas nebe mai husi mina rai

Ba Governu tomak, atu reduz numerus ba asesor internasional sira hodi fo oportunidade ba funcionarios nasional sira atu kapasita-aan atu labele hamosu dependencia intelectual

### **Ba Ministério Agrikultura:**

Atu dezenvolve politika ida hodi dezenvolve no produz hahan nebe laos fos ou mai husi hare no tenke halo kampanye ba dependencia fos nian

Atu dezenvolve rai kritiku ba rai nebe produtivu no substitui adubu nebe laos organiku ba adubu organiku hodi intensifika agrikultura iha rai kritiku

Atu kria kondisaun diak ba ambiente eskola agrícolas, liu-liu assegura apoio logistiku no bem estar ba profesores sira

Ministeriu Agrikultura tenke iha relasaun diak no koopera ho akademiku sira UNTL ninian konaba peskizas hodi kapasita pesquisadores nacionais hodi identifika didiak setores potenciais zona agrikultura ninian ba desenvolvimentu agríkola

Atu tetu didiak asuntu viabilidade no anggariasaun ba porto de peskas iha Hera

### **Ba Sekretariu Estadu Politika Energética,**

urgente atu hare verba ida ba 25 mil famílias nebe husu elektrifikasaun rural, maibe tenke verifika didiak dados no veracidade ba kazu ida-idak, no tenke ezejuta lolos.

## **COMMITTEE E - Poverty Elimination, Regional and Rural Development and Gender Equality**

### **Ministry of Social Solidarity**

The Committee recommends that the Government finish the FALINTIL demobilization process by July 2011. The Committee recommends that in the discussion on the specialty of the 2011 State Budget the Government details for the Members the budgetary costs this demobilization.

The Committee urges the Government to draw up an execution plan for translation of the remains of the Martyrs of National Liberation to the Heroes Cemetery in Metinaro.

The Committee recommends a reconsideration of the criteria for awarding scholarships to the Veterans of National Liberation. Access to these scholarships should be as easy as possible, accompanied by an effective evaluation of their use.

The Committee recommends increasing the amount allocated to the line for subsidies relating to losses due to natural disasters, bearing in mind that these disasters tend to increase annually as a result of climate change now underway.

Committee E continues to receive complaints from citizens continuously, former IDPs, arguing they have not yet received the compensation that is their right. The Committee requests the Government to send us copies of all payments made in order to better be prepared to respond to these complaints.

The Committee requests the Ministry of Social Solidarity, in a definitive manner, to find residence solutions for IDPs currently residing in temporary residential centers in Tasi Tolu and Becora / Unital.

The Committee recommends to the Ministry of Social Solidarity to implement the Law on Domestic Violence, in particular to make the regulations and create effective support to victims of domestic violence.

The Committee also underlines the importance of solving problems concerning the database for pensions for the elderly, as explained in the Report on the 2009 Accounts issued by the Court of Appeal.

### **Ministry of Tourism, Trade and Industry**

Although the Committee has asked the government for data on the amount of revenue from the sales of MTCI brand Rice during 2010, such data never reached the Committee. The Committee recommends that such data be provided during the discussion on specifics of the Proposed State Budget Law for 2011.

The Committee believes that spending on the participation of Timor-Leste in the Shanghai International Expo was excessive given the quality of the pavilion of our country. The Committee requests the Government to send to the National Parliament a detailed report on the participation of Timor-Leste at this Expo, and on what role this Expo has for the future development of Timor-Leste.

The Committee requests the Government to send to the National Parliament amounts received under the Social Contribution of the Games, predicted on the DL 6/2009 of 21 October, as well as the costs incurred.

### **Ministry of Economy and Development**

The Committee requests the Government to provide National Parliament with an Economic Feasibility Study on the conversion of the Micro-credit Institution in a Commercial Bank.

The Committee recommends to the Ministry of Economy and Development, together with the Ministry of Social Solidarity to create environmental programs in order to prevent future natural disasters.

### **Ministry of State Administration and Territorial Management**

The Committee questions why the Local Development Program and the Decentralized Development Program exist separately. The Committee recommends that the two programs be merged into one.

### **Secretary of State for the Promotion of Equality**

The Committee calls on Secretary of State to assume a coordinating role among all agencies with responsibility for execution and socialization of the Law on Domestic Violence.

Finally, the Committee regrets that once again the Government has not presented a gender budget, as requested by Resolution 12/2010 of the National Parliament.

## **COMMITTEE F - HEALTH, EDUCATION AND CULTURE**

### **For both Ministries**

The Committee on Health, Education and Culture, taking into account the philosophy present in this draft law, which is the Infrastructure Fund, and taking into account past experience in implementing the Referendum Package and Decentralized Development Package, the Committee recommends to the Ministries of Health and Education not to alienate the execution of works that relate to their areas. Each Ministry is responsible for ensuring that these works are in accordance with their needs.

#### **a) Ministry of Health**

- The Committee regrets that the State Budget has not already provided for the creation of the Civil Service Career regime in particular to health professionals, as has been repeatedly recommended by the committee.
- The Committee regrets the delay in constructing the referral hospital in Baucau. The Committee hopes it will begin during 2011.
- The Committee is concerned about the increase in the number of registered cases of HIV / AIDS in Timor-Leste.

Knowing that this disease causes economic and social consequences that go beyond the strict mandate of the Ministry of Health, the Committee reiterates its recommendation to the Government to prepare a comprehensive plan against HIV / AIDS, which includes programs of prevention and information on this disease, as well as medical and social support to those infected by HIV.

- The Committee reiterates its recommendation to the Ministry of Health, in conjunction with the Ministry of Education, to implement School Health in all schools of basic education in Timor-Leste.
- Committee F reminds the Government of the need to develop a plan that guarantees the existence of minimum levels of medical support to the population, i.e. at least one nurse and one midwife in each health center and a physician in each sub-district.
- The Committee recommends that the current SAMES be transformed into a public company with enough capital to ensure effective distribution of medicines.
- The Committee is aware that the hospitals and health clinics sometimes have problems running because they are financially dependent on the Ministry of Health and even the Ministry of Finance itself. The Committee therefore recommends the granting of the financial autonomy to these entities so that they can tackle the most pressing problems of the daily management of these institutions. Just as an example, repair and maintenance of vehicles should be under the purview of these institutions.
- The Committee had news that a group of 84 medical students in Cuba currently wish to stay in that country there to finish the internship and specialty. The Committee considers that these human resources are essential in Timor-Leste and recommends that the Government does not accept this postponement of the return of students. The Committee considers that the internship should be conducted in Timor-Leste because that is the only way students can know the medical reality of Timor-Leste in practice.
- The Committee doubts that the amount allocated to the Ministry of Health will be sufficient to meet the needs of the year. Thus the Committee recommends that part of the money is transferred from the Contingency Fund to the Ministry of Health
- The Committee recommends retaining the year of 2011 the program of purchases of multi-function cars to the level of one car per sub-district. However, the Committee continues to support the purchase of ambulances during fiscal 2011, aiming to replace old ones.
- The Committee recommends that the Government create a joint plan for training of health professionals to ensure a competent, courteous and urban Health System for users.
- The Committee recommends that the Government ensures that the dispensation of the drugs most relevant to users in pharmacies in hospitals.
- The Committee was informed, through the various views of inspections carried out by the country, that several medical and laboratory examinations are not performed because of the mere fact of the necessary chemical reagents are not available. The Committee urges the Government to ensure an effective distribution of these reagents in all hospitals of Timor-Leste.
- The Committee was informed that there has not been enough attention to the maintenance of electric generators either in the National Hospital or in the Referral Hospitals. The Committee urges the Government to initiate a program of maintenance / replacement of these generators.
- The Committee had the opportunity to watch the end of the last congress of the Association of Nurses of Timor-Leste, which has called for several improvements in living conditions and work of these professionals. The Committee recommends that the Government initiate a dialogue with the Association in order to, as permitted by the budget, comply with those requests.

#### **b) Ministry of Education**

- The Committee has since 2008 been asking the government to create an effective program of school meals that is, to ensure a universal distribution, and nutritionally adequate for all children and young people who attend the basic system of education. Unfortunately, the Committee regrets that once again we must ask the Government to take urgent action in regards to this matter.
- The Committee calls on the Government to draw up a multi-ministerial plan to ensure access to basic sanitation in all health facilities and education in Timor-Leste.
- Committee F recommends again to the Ministry of Education, in conjunction with the Ministry of Health, School Health to implement in all schools of basic education in Timor-Leste.
- The Committee urges the Government to conduct as soon as possible a survey of needs for adequate housing for teachers living in rural areas, and to draw up a plan to start construction at the earliest opportunity.



- The Committee commends the Government for finally, after several reminders from the Committee, approving a special career regime for teaching staff, to come into force in January 2011, but reminds the Government of the need to take special care with living conditions and work of teachers working in remote areas of the country.
- The Committee recommends that the Ministry of Education pay more attention to the special training of teachers of elementary and secondary education levels in all areas of knowledge and, especially, in Portuguese. Indeed, the Committee learned that sometimes the training provided did not meet the realities of schools.
- The Committee also reminds the Ministry of Education of the need to adequately support teachers during their training. This allocation should take into account the costs of accommodation, meals and transportation.
- The Committee also requires that transfers of funds to schools, under the law, should henceforth be made on time, which, unfortunately, has not been happening.
- The Committee asked the Ministry to draw up the map of the school facilities which have been and will be built to ensure access for all children and young people of Timor-Leste to school. The Committee also suggests that in cases where it proves impossible, appropriate facilities are created that allow the housing of students.
- Committee F reminds the Government that, with the approval of the Basic Law of Education, private schools that provide a public service need to be subsidized.
- The Committee stresses the importance of the Government of the plan do defend culture, which on the one hand, to divulge and disseminate cultural and traditional values among the younger population and, secondly, to create a plan aimed at conservation historical heritage of Timor-Leste.
- The Committee recommends that future recruitment for vacancies of teachers and principals would be done in accordance with the Law, and that these take place in time, i.e. until the end of this year.
- The Committee reminds the Government that from 2012 higher education should be taught in Portuguese. The Committee urges the Government to draw up an action plan to ensure this aim.
- The Committee regrets that the Government continues to utilize volunteer teachers, despite this Committee's repeated recommendations against this. These teachers, instead of having been declining in recent years, have increased.
- The shortage and delays in distributing books and school supplies, in particular school desks, remain a reality in Timorese schools. The Committee insists that at the beginning of next school year, the Government will have definitively resolved this problem.
- The Committee reminds the Government that in the next year, the third year of secondary school should already be taught in Portuguese. However, it still has not prepared adequate educational material. The Committee urges the Government to settle this issue in time.
- The Committee welcomes the results obtained with the adult literacy program. However, it stresses that an effort should be made to continue to monitor the people who have been trained.
- The Committee recommends that the government should focus efforts to maximize partnerships and scholarships to universities in the Lusophone countries. The Committee notes that in the recent visit to Mozambique, the government of that country is available to receive Timorese students. The Committee recommends that the Government of Timor-Leste open negotiations with the Government of the Republic of Mozambique.
- The Committee also recommends that the Government ensure the existence of multidisciplinary school laboratories in the design and construction of schools for secondary education.
- Finally, Committee F considers it urgent to stress that Timor-Leste, as a developing country, in relative terms, spends less on education. Committee F calls on the government to make an effort to, albeit slowly, increase the percentage of the state budget for the education, to values around to the other countries of Southeast Asia.

## COMMITTEE G - INFRASTRUCTURE

### 2.1 Ministry of Infrastructure

2.1.1 The Committee recognizes the importance and value of the creation of the Human Capital Fund, which has as main objective the empowerment and training of Timorese. However, there seems to be balanced with the wage level practiced by NGOs and companies operating in Timor-Leste, as the market and the state itself provides global salaries higher than those proposed by the Government in this Fund. Thus, the Committee recommends that the Government increasing wages, a subsidy so as to equalize the total amount of salary to market rates, so that the training effort of the Government will be repaid into the state, ensuring that these people are absorbed by the technical departments of the State.

2.1.2 The Committee has shown great concern with the analysis of the quality of construction projects. It is essential to plan accurately, to undertake data collection, make an appropriate architectural design and supervise the work during its execution. The Ministry of Infrastructure has no technical resources to accomplish these tasks with the efficiency needed to ensure the quality of projects. For this reason, the Committee recommends the recruitment of new employees in areas of public works, including roads, bridges and flood control. Only in this way we can ensure a better execution of projects.

2.1.3 The condition of the ship Berlin-Nakroman is worrisome because it is not in a position to continue its mission. It is essential to undergo general maintenance in Surabaya, Indonesia, to avoid more serious problems in future. We stress that this ship is essential to ensure the connection to Oecussi and Atauro and for this reason we recommend that while the Berlin-Nakroman is being serviced to rent another boat in order to replace its operation. In case it is not possible to temporarily replace the Berlin-Nakroman, the Committee urges the Government to negotiate with Indonesia for temporary opening of the border Montaaïn-Oecussi to ensure land access to this district. Another more costly solution could be to begin planning the purchase of another vessel to supplement the service provided by the Berlin-Nakroman.

2.1.4 With regard to the purchase of new generators to support the EDTL Comoro generating station, the Committee does not consider it a priority, since in November 2011 the Comoro station will work with the transmission line from the new Hera station, which will supply electricity to Dili, the north coast and Viqueque. If the agreement is signed in December 2010, the purchase of new generators will need at least six months to start operation leading to its mobilization from Indonesia to Timor-Leste only after June 2011, still ignoring that the installation will take some time. In this sense, the Committee urges the Government to end the contract for the purchase of these generators, if the Hera station will start operating in November 2011, it makes no sense to spend a huge amount of money that will be discontinued after a few months. The Committee also recommends that during this period, the rental of generators instead of purchase, as would a lot cheaper than your purchase of \$36 million.

2.1.5 In order to better organize the national road network, the Committee recommends the drafting of legislation to the classification of national, district, urban and rural roads.

2.1.6 To ensure the quality of materials and equipment used in construction work, the Committee recommends strengthening the department's research and development. It also recommends the drafting of legislation that supports this activity.

2.1.7 In order to keep the prices of construction materials at an appropriate level, the Committee urges the Government to prepare a thorough study on the cost of materials so that when the State acquires a certain type of services or materials they buy at international market prices.

### 2.2 Radio Television of Timor-Leste

2.2.1 According to the hearing with the division of RTTL, the Committee was informed that the RTTL will be a public institution, which implies a set of investments to ensure its operation. At present, the minimum infrastructure is not guaranteed to meet basic needs, and when it becomes a public company it will be even more difficult to meet their objectives. The President is interim, the equipment is much reduced, no monitoring, no qualified human resources and many other key equipment. In this regard, the Committee urges caution in taking this decision because to transform RTTL into a public company as early as January may cause serious problems, so the Committee recommends that the Government that before transformation of RTTL into a public company, the Government guarantees the following conditions:

- Appointment of a permanent President;
- Purchase of equipment essential to its smooth functioning;

- Operational material;
- Centralization of financial management.

2.2.2 The rectified budget for 2010 budgeted for the construction of an auditorium for TVTL worth \$600,000, however due to delays in procurement. The Government decided not to include this money again and TVTL considers this investment as fundamental to its operation. In this sense, the Committee recommends to re-enroll this fund in the 2011 State Budget, to initiate as soon as possible, the construction of the auditorium.

### **2.3 Secretary of State for Energy Policy**

2.3.1 Under the plan for the construction of EDTL's new power plant in Hera, the beginning of the power supply to the population should take place from November 2011 along the coast north to Viqueque, which will result in access for many households to electricity, most especially the people close to the road. This will cause some discontent among the people living in remote and rural areas, for not having access to energy. In accordance with the provisions of the 2010 State Budget the Government has allocated an amount of \$4,688,000 for the purchase of solar panels, to distribute some 6,000 families. The 2011 state budget reduces this amount to \$1,000,000, which concerns the Committee, which recommends to increase this funding and thus contribute decisively to the improvement of living conditions of populations in remote and rural areas.

### **2.4 Secretary of State for Transport, Equipment and Telecommunications**

2.4.1 With regard to the policy of liberalization of telecommunications, the committee re-emphasized the importance of the role of the existence of a regulatory authority. It only makes sense to talk about liberalization, if there is an entity that regulates and supervises the sector. If this agency is better, we will have more quality telecommunications in the country, and will be better served. In this regard the Committee strongly recommends strengthening the capacity of ARCOM and its employees, as well as creating an appropriate legal framework to carry on its business.

2.4.2 In the Committee's recent visit to Portugal and ANACOM, the chairman stressed the availability of ANACOM to assist if necessary, and without charge, the Government of Timor-Leste. ANACOM is one of the most advanced regulatory authorities in Europe and is an essential reference in the European telecommunications sector. In this regard, the Committee recommends opening negotiations with ANACOM Government to conclude a cooperation agreement aimed at giving the necessary support to the consolidation of ARCOM as a true regulator.

2.4.3 Timor Telecom has a contract to supply telecommunications services with Timor-Leste which provides for their exclusive operation until 2017. TT is also required to ensure the public service, regardless of the areas or very sparsely populated, with a tendency to cover the entire country. On the other hand, at the expiration of TT's exclusive contract, the state will receive all equipment amortized to date, which may be a large part of the telecommunications network in the country. However, if the option is to liberalize the market before 2017, the State obviously will not receive anything by the end of the contract, and will waste a unique opportunity to acquire infrastructure of great value as the telecommunications network in the country. Therefore the Committee recommends the Government to examine in depth the concession contract with TT and truly evaluate the advantages and disadvantages of market liberalization before 2017.

## **COMMITTEE H**

The Committee provides the following recommendations:

- 1 - Considering the amounts foreseen in the PPL GSB/2011 for training in human resources, recommends that the Government adopt a ministerial plan to ensure adequacy of the training needs of the labor market and development of the Timorese economy;
- 2 - Recommends to the Government that measures be taken to ensure that citizens and officials involved in training undertaken abroad return to Timor-Leste to apply knowledge acquired during training;
- 3 - Recommends to the Government that measures be taken to ensure that the training received abroad take effect in the country, particularly through the creation of jobs for graduates;
- 4 - Recommends that the Government adopt a strategic plan that ensures the creation of stable jobs, not just temporary or precarious work;

5 - Recommends to the Government that measures be taken to ensure the training of young people about the different sports, particularly in schools and communities;

6 - Recommended the Government to adopt measures that in carrying out the procedure for increasing the young population and existing sports facilities at the level of suco and villages, enhancing the sports facilities available in communities throughout the country and not just in the city of Dili.

## VII. GMPTL - Timor-Leste Parliamentary Women's Group

*[GMPTL's recommendations are in Tetum, as follows:]*

Rezumu badak HOSI GMPTL kona ba Orsamento State 2011

### Secretaria Estado Promosaun Igualdade (SEPI)

Tuir Lei Kontra Violencia Domestica, SEPI mak sai nudar institusaun governo nebe sei lidera Ministerio relevantes hodi halo koordensaun hodi fo garantia ba implementasaun Lei Kontra Violencia Domestica. SEPI nia knar atu halo kordensaun no socializasaun kona ba lei ne'e no halao edukasaun civika ba sidadaun Timor tomak.

SEPI persiza orsamento ida nebe adekuadu.

Klarifikasaun:

Alokasaun orsamento ba koordensaun servisu no mos knar seluk nebe lei estipula.

Alokasaun orsamento ba socializasaun no formasaun tuir artigu 9 Lei Violencia Domestika.

Rekomendasaun:

SEPI nudar instituisaun xavi hodi dezenvolve informasaun no fornese treinamentu ba institusaun seluk, asegura implementasaun lei ne'e.

Persiza estrategia prioridade ho orsamentu spesifiku hodi responde ba kordensaun no nesesidades atividade no mos asegura akauntabilidade.

Persiza monta sistema hodi bele implementa lei violencia domestica.

Tenki iha ona relasaun de servisu entre ministeriu competentes hodi bele kordena di-diak servisu atendentu ba vitimas violencia dometika.

### Ministeriu Solidariedade Sosial (MSS)

Iha planu orsamentu 2011 relasiona ho Lei kontra Violencia Domestika:

MSS iha responsabilidade hodi fornese uma mahon ba vitima violencia domestika, ne'ebé hakerek ona iha artigu 15 Lei violencia Domestika.

Inklui mos jestaun hosi uma mahon, protesau social no mos presiza suporta bakonselhu ne servi hanesan fatin nebe seguru ba vitima.

Klarifikasaun klean kona ba orsamentu 2011:

MSS presiza klarifika klean kona ba alokasaun orsamentu nebe suficiente ba uma mahon ne'e:

1. Atendentu diak ba vitima; 2. suporta MSS hodi halao operasaun iha distritu sira.

Rekomendasaun ba MSS:

Establese sentru resepsaun hodi bele simu kazu sira violencia domestica no halo koperasaun ho sosiadade sivil.

Fornese formasaun kona ba jestaun uma mahon.

Vitima sira tenki hetan assistensia psikologika no seluk tan tuir artigu 16 no 17 Lei contra violencia domestika.

Tenki kria padraun no giaun ba implementasaun lei Violencia Domestika. Nune'e presiza aloka orsamentu adekuadu.

Tenki defini planu stratejia ho klaru hodi permite halo fiskalizaun no mos avaliasaun iha futuru.

### Ministeriu Saude (MS)

Artigu 22 Lei kontra violencia domestika Ministeriu Saude iha kordensaun ho MSS atu responsavel ba fornese servisu mediku ba vitima violencia domestika.

Servi mediku hirak ne'e sei inklui eseminaun forensika no tratamentu medical nebe nesesariu.

Ministeriu Saude presiza atu kordena ho instituisaun seluk hodi fornese legal, konselhu no servi uma mahon.

Rekomendasaun ba Ministeriu Saude:

Ministeriu Saude tenki garante katak asistensia medika ba Vitima Violensia Domestika (VVD) sira hetan servisu, tratamentu mediku no teste forensika iha sentru sira hotu iha distritu

Tenki garante orsamentu nebe adekuaudu hodi implementa programa atendentu ba VVD

Ministeriu Saude mos presiza hare fila fali apoiu finanseiru no jestaun SISCA.

Hasae kapasidade ajente profesional saude hodi responde ba atendentu VVD.

Atu implementa resolusaun hosi konferensia nasional Saude reproduktivu, Edukasaun Sexual no planeamentu familiar nebe realiza iha fulan Julhu tinan ne'e nian.

### **Secretariu Estadu Seguransa (SES)**

Secretariu Estadu Seguransa iha responsabilidade importante atu garante no proteje vitima violensia domestika liu hosi protesau ba PNTL spesifikamente VPU.

Nune'e mos hanesan ita hatene durante ne'e VPU servisu iha rekursu humanu no fisikal nebe limitadu.

SES iha ona planu atu rekruta tan ema nain 500 iha tinan 2011 hodi dezenvolve rekursus humanus PNTL.

Rekomendasaun ba SES:

SES tenki hametin VPU nia pesoal tuir planu rekrutamentu. Tenki rekruta pesoal feto no mane ba VPU.

Diseminaun kona ba Lei kontra violensia domestika tenki sai nudar parte importante hosi formasaun polisia VPU sira hodi atende vitima Violensia Domestika.

Garante fornimentu transporte, komunikasaun no lojistika ba VPU sira hodi halao sira nia servisu ho efetivu importante tebes.

SES iha necessidade aloka osan montante ruma ba sosa facilidades hodi suporta PNTL iha servisu VPU.

Tenki hasae kontrola iha servisu PNTL ba fatin-fatin prostituisaun, liu-liu ba ema nebe organiza no suporta aktividade prostituisaun.

### **Ministeru Justica (MJ)**

apresiasaun ba planu Ministeriu Justica hodi aseguru asistensia judusial nebe adekuaudu nune'e permite sidadaun Timor oan hotu nebe vulneravel bele asesu ba justisa.

Rekomendasaun:

Ministeriu Justisa atu inklui iha nia planu hodi fornese asistensia advogado defensoria publiku ba kasu violensia domestika.

Ministeriu Justisa atu organiza surumutuk/workshop iha nivel distritais hodi sensibiliza sidadaun kona ba lei violensia domestika atu sidadaun sira bele defende sira nia direitu liu-liu feto sira no asesu ba justisa.

Diseminaun lei violensia domestika

Fo prioridade no aselera prosesu julgamentu ba kasu Violensia Domestika.

### **Ministeriu Edukasaun (ME)**

Rekomenda ba Ministeriu Edukasaun atu konsidera asaun afirmativa hosi konferensia nasional kona ba Saude Reprodutiva, Edukasaun Sexual no Planeamentu Familiar.

Hatama materia Igualdade jeneru ho edukasaun sexual iha curriculo eskolar.

Rekomenda ba Ministeriu Edukasaun atu konsidera asaun afirmativa kona ba konferensia nasional kona ba Saude Reprodutiva, Edukasaun Sexual no Planeamentu Familiar.

Fo mos oportunidade ba feto atu tur iha nivel xefi.

### **Ministeriu Agricultura e Floresta**

Iha programa dezenvolvimentu agricultura tenki konsidera mos feto sira ne'ebé sai hanesan chefe de familia.

Atu iha ekelibriu jeneru iha atendentu proposta hosi grupo agrikultor.

Rekomenda hodi fo mos oportunidade ba feto iha kargo xefia iha instituisaun Ministeriu Agrikultura.

### **Programa Pakote Dezenvolvimento Dezentralizasaun**

Rekomenda ba Ministeriu Estatal atu aselera, resonsabliza, no monitoriza programa PDD, espesialmente iha projetus Ministeriu Edukasaun, Ministeriu Saude no Ministeriu Infrastrutura atu feto ho labarik sira hetan asesu ba saude, edukasaun no hasae nivel ekonomia (liu hosi asesu ba merkadu).

## **VIII. Recommendations of the Committee on Economy, Finance and Anti-Corruption**

### **1. Autonomous Funds and Services:**

To provide a certain set of services to the public, the state has created a set of autonomous entities, which depending on each one, have varying degrees of autonomy, we considered those public companies that have greater autonomy in relation the structure of public administration. However, for these entities to work, it is essential that, at first, these entities have a clear legal framework enabling them to define their goals and financial means and so they can pursue their aims. In addition, policies must be set to operate based on merit and efficiency of its services, and when possible, a management designed to generate its own self-sufficiency, and in some cases profit. Thus, the Commission recommends the following:

- Review the legal framework for autonomous agencies of the state adapting it to the Timorese reality;
- Introduce management by objectives which are based on merit and efficiency;
- Create conditions for the management of these entities is monitored periodically and according to criteria of transparency.

### **2. Public - Private Partnerships:**

Public Private Partnerships in the State transfers to a private partner an obligation to construct a public work or provide a public service, leaving the private partner with the right to charge or be paid for providing these services should be provided by users or taxpayers.

The agreements of public-private partnerships are guided by the limitations of public funds to cover the necessary investments, but also efforts to increase quality and efficiency of public services.

Experience, however, has shown that the government often pays more than it would lend itself directly to the services or build the infrastructure, because the value chain of a PPP is usually an endless number of entities, from the bank to the implementer service, which naturally intend to generate profit in jail. It was also noted that normally the service quality was the same as practiced by the state and they cost much more than if they did so directly, even though the state had to finance the bank. In this sense, and given the complexity of the options that often underlie PPP contracts, it is recommended that the Government should:

Develop a legal framework, adopted in the National Parliament, to enshrine the PPP, as exists in countries that have adopted this development system;

Before the establishment of a PPP assess the ability to provide these services or infrastructure by the State;

### **3. Private management of State services:**

There is evidence that in some types of services the state has a tendency to not be efficient, given its size and complex web of bureaucracy. Thus, it is recommended that the Government considers the provision of certain services by their small size and lack of strategic interest of the state, consider delivering them through a concession contract for private management.

### **4. Reduction of poverty through the provision of agriculture:**

In terms of investment, the allocation to agriculture should be approximately \$ 38 million to reduce poverty by 5-7% in rural areas. Special attention should be given to the creation of additional opportunities in order to create proper work. Improve support for self-employment of women and granting rights to land and other assets that are important to the country's economic development.

### **5. Envelopes for poverty reduction:**

The draft law of the State Budget of 2011 assigns one set of funds for poverty reduction to be used by the President. The powers of the President are clearly enshrined in the Constitution and do not foresee any jurisdiction in the matter because only the Government has this mandate, the Ministry of Social Solidarity. It is undesirable to maintain this situation. Thus, it is recommended to eliminate the amount allocated to poverty reduction included in the Office of the Prime Minister, but intended for use by the President.

### **6. Reliable and quality socio-economic information:**

Given the fact that Timor-Leste has problems relating to inadequate, unreliable and poor quality socio-economic information, and in line with recommendations made recently by the IMF in its Article IV to

improve the national accounts, which are a basis for better macroeconomic projections, it will be crucial for the government to conduct several support investigations to complement the information and data, as follows:

1. **Household savings and investment survey** to obtain data on domestic transactions and monitor create and manage their savings and their investment.
2. **Input-Output** survey to obtain basic information about the structure of input (costs), availability of goods and distribution of products for certain economic activities, employment structure, indicators of production, prices and other supporting information.
3. **Trade and services sector survey** needed to improve the coverage, methodology, quality of production and price indicators, and revision of GDP (annual and quarterly).
4. **Review the market basket**, so that the calculation of inflation is more reliable and credible;
5. **Conduct a survey of living standards** in 2011 to investigate the impact of fiscal policy on poverty and inequality;
6. **Collection of statistical data on domestic production;**

It is very important that the state provide the National Directorate of Statistics with the means to achieve the above studies. It is not desirable for the state to base its policies on data supplied by third party sources. The knowledge of the country should be, first, from the state itself and not from consultants or international institutions. For this reason, we recommend the appropriation of funds and human resources aimed at strengthening the Directorate of Statistics with the capacity to meet the State's needs for economic and social information.

#### **7. Revision of the Civil Service Commission:**

The high ratio of temporary positions, perhaps, lies in the lack of a functional Civil Service Commission responsible for providing a policy framework for the recruitment, composition of staff, capacity building of human resources working in the ministries. The nature of temporary positions may vary from the regular hiring unskilled labor to the relatively long contracts to one year for mean qualifying positions.

Therefore, it is recommended to review the status of the Civil Service Commission so as to suit the system of public administration of Timor-Leste.

#### **8. Simplification of licensing procedures and granting of permits for small businesses:**

It is important to develop measures to improve access to capital to facilitate the generation of employment through self-employment schemes in small businesses. The investment climate must be improved through, for example, simplification of procedures for issuing business licenses and business registration, provision of credit, in particular small entrepreneurs and farmers and for basic infrastructure.

#### **9. Substantial difference between the Resolution of the National Parliament and the Proposed 2011 State Budget Law:**

The private budget of the National Parliament provided for in the Draft Law is different from the Resolution of the National Parliament, highlighting a difference of \$20 million. In this sense, the discussion should be reopened in the specialty, and reviewed during the debate.

#### **10. Hera Power Station:**

The cost of the Hera Power Plant is rising very rapidly and is expected to climb to around \$600 million. The draft 2011 State Budget law only allocates \$166.7 million, which is not sufficient for completion of the Station. The Committee considers it essential to know how construction of the Station will be financed, because the National Parliament will always be the one to authorize the expenditure. Thus, it is recommended that the Government report to Parliament on how it will pay for the construction of the Hera power station.

#### **11. Calculating the price of oil:**

To have a proper perspective of the evolution of wealth in Timor-Leste, it is crucial to have stability in the way it calculates the price of oil and not change from year to year. This way, unwise, to evaluate the price of oil can give some proper perspective on the financial status of Timor-Leste and on the amounts to be withdrawn from the Petroleum Fund. Therefore, it is recommended that the Government prepare a

comparative study of how countries that have SWFs that originate in natural resources calculate the price of oil, and to definitively adopt a method to perform this calculation with more prudence.

## **12. Establishment of Special Funds**

This appears to follow the Law of Financial Management, Article 32, that the establishment of funds should be by law. However, despite the Financial Management Law stating that the funds should be “authorized by law,” only the Constitution has jurisdiction to define what are the matters which may be adopted by the Government through a legislative authorization issued by the National Parliament. Through this analysis there seems to be no place for the establishment of funds by decree law, and only by law, following the rules of ordinary legislative procedure provided for in the Constitution and the Parliament. It is recommended that the government should review the form of constitution of Special Funds and to submit it to the Parliament.

## **13. Special Funds:**

Parliament should not approve the special funds of the Government without first receiving all the information that will enable it to take a reasoned decision. The approval should be dependent on the legally established commitment that funds in the documents submitted to the Parliament of the State Budget will actually perform as expected unless the Parliament approves the reallocation of funds.

## **14. Financial resources of the Infrastructure Fund:**

Given the weak implementation capacity that the government has shown in relation to infrastructure, this raises questions about the realism of the budget of this fund. Is it worth giving the fund an amount so high that the Administration has demonstrated a total inability to hire, supervise and execute budgets for construction projects?

## **15. Transfer of Balances:**

On November 15, 2010, withdrawals from the Petroleum Fund totaled \$450 million. After the presentation of the proposed state budget for 2011 it was required to transfer the remainder of which was \$361 million totaling \$811 million.

It is understood that this initiative translates into a bad practice, taking into account the spirit in which it was established the Petroleum Fund Law, Article 9. If the government lacks the capacity to execute that amount, it should not have transferred.

Parliament authorized the transfer of that amount in the prospect that the Government would execute it. The absence of this capability means that the remainder should have stayed in the Petroleum Fund, and would require new authorization.

## **16. Drug Administration and Health Equipment Service - SAMES:**

With a view to structuring of health policy in Timor-Leste, in 2003 the Government established the SAMES, a public company for import, storage and distribution of medicines and medical equipment. However, it was found that this company has its appropriation in the Ministry of Health

Thus, it is recommended that the Government provide SAMES with its own budget.

## **17. National Petroleum Agency (sic):**

During its activity the National Petroleum Agency has a number of receipts from companies that exploited the natural resources in Timor-Leste and the Joint Development Area. Strangely, the revenue from this activity is not reflected in the 2011 State Budget. Under budget rules all revenues and expenses have to be enshrined in the OGE. Notably, the report mentions ANP revenues of about \$5.7 million. Thus, it is recommended that the Government includes a breakdown of revenues and expenses of the ANP in Annexes I and III.

## **18. Recreational games:**

The Inspector-General of the Games is responsible for supervising and monitoring the activity of legal gambling in Timor-Leste. However, according to Government Decree No 2/2009 of March 25, the management of non-tax revenues of the game are administered by the Agency for the Management of Participation in Games. The agency has technical and administrative autonomy, under the Ministry of Tourism, Commerce and Industry and is funded by the State Budget and Social Contribution (charge). Now, it



happens though, that being a public entity, all expenses and income must necessarily be contained in the State Budget, which does not happen.

Also, according to the Constitution, all taxes and contributions must be created by law, which is not the case here.

So, we ask the Government to discriminate and include in the 2011 state budget all revenues collected by gaming activities.

### 19. Investment in the Education sector:

The allocation of state budget for the education sector has been declining since 2008. Given that investment in education is important for the consolidation of Timorese identity, critical to poverty reduction and the attainment of the Millennium Goals, it is recommended to review the allocation for this sector, in addition to the appropriation of Special Fund for Human Capital Development.

### 20. Investment in the Health sector:

There has been a substantial reduction in the allocation of state budget for the Health sector. As we all recognize, this sector is central to poverty reduction and for ensuring the quality of life. To improve the medical, hospital, paramedical staff, and access to health care in rural areas, it is essential to strengthen the Government's investment in this area. In this sense, it is recommended that the Government review the funding for this sector.

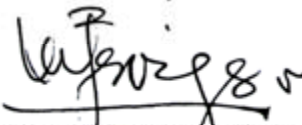
## IX. OPINION

The Commission is therefore of the opinion that Proposed Law 42/II "2011 General State Budget" meets the constitutional, legal and procedural requirements and is therefore able to move to the plenary for discussion and vote in general and specific, under the constitution and applicable rules.

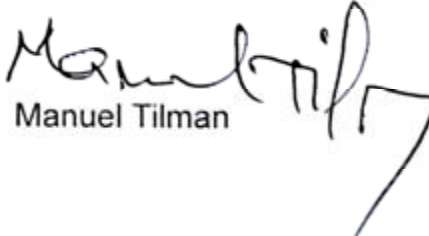
## X. ADOPTION OF THE REPORT

This report was discussed and approved on January 11, 2011, and the same was approved with six votes in favor, 0 votes against and 4 abstentions.

A Relatora,

  
Maria Teresinha Viegas

O Presidente da Comissão

  
Manuel Tilman

*[LH note: the FRETILIN members of the committee abstained from voting on this report. In the Plenary vote on general approval of the budget on 14 January, FRETILIN voted against the budget and Manuel Tilman (KOTA) abstained.]*