



DEMOCRATIC REPUBLIC OF TIMOR-LESTE

ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE OCCASION OF THE PRESENTATION OF
THE DRAFT 2011 STATE GENERAL BUDGET

NATIONAL PARLIAMENT

12 JANUARY 2011

Your Excellency the Speaker of Parliament

Your Excellencies the Representatives of Civil Society and the Press

Honourable Members of Parliament

Government Colleagues

Ladies and Gentlemen,

I would like to seize this opportunity to, once again, convey to the office holders of the nation's Bodies of Sovereignty, the honourable Representatives of the People in this Great House, and indeed all the People, the sincere wishes of my Government that 2011 will be the year in which we spread the values of political morality and promote professional ethical standards. We must consolidate democratic tolerance to allow People to have hope in the future, and in doing so strengthen social harmony.

One would also do well to recall that this transition process, in which we are recovering our sovereignty, has only had one decade so far. It began with UNTAET in 2000, but two years later, in December 2002, we started to have small skirmishes, which included the burning of some houses. In February 2004, in Lospalos, our Military went to the streets, firing shots, arresting police officers and scaring the population. In April 2005, there were 19 days of demonstrations in Dili that, while not causing major damage, led to a general feeling of anxiety and frustration.

In March 2006, in Baucau, the Military started to rise, and was joined by others. This caused tremendous damage to the State. And then in February 2008, we had the failed attack on the holders of office of two Bodies of Sovereignty, which resulted in significant national and international political repercussions.

It appeared that Timor-Leste and its People were doomed to a cycle of fire and violence, to be repeated every two years.

It was in view of this that in 2009, on the tenth anniversary of the Referendum, my Government issued a message to all the People: Goodbye Conflict, Welcome Development! On 31 December we said farewell to 2010 in a festive atmosphere, as throughout the year we could see our children play in the streets, alongside mothers with their babies, as they all shared in a sense of collective joy. This is because we are truly

becoming a society of friendship and solidarity and, most of all, a society that is tolerant and peaceful.

I also wish to convey my heartfelt thanks to the Bodies of Sovereignty, to all political parties, to all Religions, to the International Community, to the UN and to the ISF, to Civil Society and to our Youth, and especially to the People of Timor-Leste, for the efforts that each and every one made to ensure the Country's political stability.

May 2011 be the Year of Greater Peace and Stability, so that the decade up to 2020 may show us the path to social and political progress and to economic development. Timor-Leste needs and deserves this outcome after 24 years of struggle for independence and 10 years of laying the foundations of our young State.

Your Excellencies

Ladies and Gentlemen,

Since we are reminiscing about the first ten years that brought us to this point, I would also like to remind the People and the honourable Members of Parliament that 2011 will see the continuation of a 3 and a half year effort to fulfil the program of the IV Constitutional Government.

The central concerns that founded our 5-year Program, which was presented here in Parliament in early September 2007, were the following:

- the need of the People to regain confidence in State agencies. We strongly believe that we have succeeded in this objective, and that we have managed to instil this confidence, this spirit. If one of the causes of the 2006 crisis was the collapse of the discipline and professional ethics of our Defence and Security Forces, today, while there is still much to be done in these two agencies, we cannot but appreciate the ongoing and committed effort by the F-FDTL and the PNLT leadership in correcting and improving our soldiers and our police officers. Undoubtedly this is contributing a great deal to the environment of trust and stability that we enjoy today.

- the creation of conditions for dynamic and progressive growth that is able to combat unemployment. We have also succeeded in this goal. Although growth may be pronounced in Dili, no one in good faith can look at the Country and deny that there is today a boom of economic activity, which is the only way to generate sustainable

employment. We have also worked to establish decentralised mechanisms in the rural and regional areas so as to enable the private sector to operate, grow and create local employment.

- the need for proper support to the private sector, that is real and determined support, to enable the private sector to develop its competence, professional honesty and technical capability. We believe that we have done our best in this area, and that the clearer definition of the partnership between Government and private sector has been most useful in this vital period in terms of State building.

- the fundamental principle of good governance has required a gradual reform process involving the modernisation of Public Administration. Efforts have been made to set up the foundations of a governance system, with medium term objectives, by way of the establishment of the Civil Service Commission. The short term goal is to rehabilitate the image and the role of public service. We remain committed to improving the professionalism of civil servants and to instil in them ethics, honesty, discipline and team spirit.

- we have also given importance to the need to valorise human resources. Some initiatives have already been carried out, which should be continued in the medium and long term. Our Country needs skilled officers and specialists in several areas, so that we can be freed from the subservience of high salaries, as is the currently the case with many workers (both Timorese and foreign) that obey the organisations that pay them, and in doing so inverting the spirit of service to People and Country.

- in regard to social policy, we have begun paying veterans, the elderly and the disabled. We have also provided assistance to people requiring medical treatment abroad. My Government continues to examine and develop a Social Security System that is appropriate to the current and future circumstances of Timor-Leste and that is sustainable, as in the near future we will have thousands of civil servants who should be retiring.

Therefore, and as I said to Parliament in September 2007, my Government rejects the philosophy of ‘a country that is poor with people who live in misery, but proud to have lots of money in the banks of rich countries’. We all know that most of the money in the Petroleum Fund is in US Treasury Bonds, and I believe that all those who have been

looking at the world economic recession are aware of the great fragility of the American economy, suggesting to us that the real value of our wealth, which is in American dollars, is below its assumed face value.

Thus, my Government declared to Parliament that, starting in September 2007, it seeks to ‘use the wealth from natural and mineral resources in a controlled and efficient manner’. The estimated total value of the Petroleum Fund at that time was:

- for 2007..... 1.940 billion American dollars
- for 2008..... 2.906 billion American dollars
- and for 2011..... 5.550 billion American dollars.

On 31 December 2010, the balance of the Petroleum Fund was 6.9 billion dollars, which exceeds by 1.4 billion dollars the estimate made in September 2007 to be held at the end of 2011. In 2002, with the assistance of the International Monetary Fund, the value of the Petroleum Fund in 2021, which is the year when the Bayu Undan field should close, was estimated to be 1.8-3.2 billion dollars.

I wanted to give you these figures so that we do not waste our energy discussing the Petroleum Fund as if my Government does not understand the issue, as if my Government does not know what the ‘Norwegian virus’ and the ‘Dutch disease’ are.

Petroleum revenues have boomed in 2010. Timor-Leste recorded a 38% increase in relation to 2009 levels, with petroleum revenues reaching a record **\$2.172 billion**.

It is estimated that Petroleum Revenues will continue to be high in 2011 and 2012, due mostly to the demand from emerging economies and the damage caused by climatic changes, which are affecting the entire world. Therefore, the estimated petroleum revenues for 2011 and 2012 are respectively **\$2.2 billion and \$2.4 billion**.

The Estimated Sustainable Income (ESI) is calculated at **\$734 million** in 2011, representing an increase of **\$232 million** from 2010. This increase is due primarily to a change to the methodology for calculating the ESI. Prior to this change, the ESI was calculated according to the WTI (West Texas Intermediate) forecast, using the low case estimate for oil prices provided by the Energy Information Administration (EIA) in its annual report. This practice is now considered to be exceedingly cautious.

The 2011 ESI calculation uses the average of the EIA low case and reference case forecast as the WTI oil benchmarks. The average of the two EIA cases lies well within the 68 percent confidence interval and significantly below the average of futures prices. Our Petroleum Fund Independent Auditor has certified these calculations and confirmed that they are in accordance with the requirements of the Petroleum Fund Law.

The estimated oil price according to WTI is 68 dollars per barrel in 2011 and 71 dollars in 2012, increasing to 110 dollars per barrel by 2024. This review of the methodology proves the competence of the Ministry of Finance, which after 5 years of existence of the ESI carried out a critical analysis of the entire process and concluded that exceedingly prudent forecasts may jeopardize the credibility of the ESI calculations.

Any opinion defending exceedingly prudent forecasts suffers from the Norwegian virus, forgetting that Norway itself took dozens of years to adopt its approach after already becoming economically and socially developed, and without having to worry about mothers, the elderly and disabled, insufficient numbers of teachers and midwives, malaria and tuberculosis, the lack of tables and chairs in schools, water and sanitation, power, subsistence farming, an incipient private sector and many other challenges that Timor-Leste still has to face.

While not ceasing to be a prudent calculation, or jeopardising future revenues of the Fund, the ESI is now more appropriate to actual circumstances. It is this Government's policy that these funds be used **now** and **in the future**, investing strongly in our Nation and in our People.

It is this Government's policy to serve the best interests of the People and to not become dependant in the face of new challenges, even if they require many hours of study and reflection. As such, we have had the courage, after careful consideration throughout the past three years, to gradually develop an investment strategy for the Petroleum Fund that is more advantageous to Timor-Leste.

We want to diversify the investment portfolio into an array of assets, regions and currencies, so as to reduce risks and increase expected income. Since 2009 the investment portfolio has contained a proportion of bonds from foreign governments and bonds issued by supranational organisations. In October 2010, the Fund began to invest in

global equities – all of this, as is obvious, while in full compliance with the Petroleum Fund Law.

Your Excellency the Speaker of Parliament

Honourable Members of Parliament

Ladies and Gentlemen,

For all this we can see that the 2011 State General Budget covers the positive achievements so far and that which can still be implemented so as to deliver the Program of the IV Government.

The reform policies implemented by this Government have already led to remarkable economic and social outcomes in 2010, which are acknowledged internationally and which enabled us to overcome the cycle of crisis we had been recording since 2002.

Timor-Leste is currently an increasingly stable Nation that is making steady progress in the fight against poverty. Around 96,000 people have been lifted from a life of extreme poverty, as a result of the 1.4 billion dollars of public expenditure invested, which has enabled a 9% reduction in poverty. As such, the trend of increasing absolute poverty, which reached its peak of 50% in 2007, has finally been reversed.

Unemployment, which is a plight not only in Timor-Leste, but also in many of today's developed societies, has also been reduced. Recent statistics show that an average of 95% of men aged 30-49, and approximately two in every three women aged 15-49, are classified as being currently employed.

In 2007, 85% of all Timorese were employed in agriculture. Today, only 67% of employed men and 61% of employed women are working in agriculture. The sector of sales and services is currently employing 22% of women and 14% of men, which shows a progressive diversification and modernisation of the Timorese economy.

The Millennium Development Indicators were reached in regard to child and under-5 mortality rates. Health indicators are improving rapidly, with 78% of children being treated today for basic diseases and 86% of mothers receiving pre-birth care, which is an increase of 41%.

We are also proud to see Timor-Leste record an economic growth rate of 13% in 2009. This gives us great hope for the future, as we are experiencing one of the highest growth rates in the region and one of the ten highest in the world in 2008 and 2009.

Reforms in regard to Public Finance Management have been vital for this growth. To give an example, the reforms to the tax system resulted in Timor-Leste improving from 75th to 19th place in this area, with the overall Doing Business ratings improving 7 places. Although these are yet small successes, they mean that we are clearly going forward.

Further, the United Nations 2010 Human Development Index shows that Timor-Leste has improved 11 places since 2005, with the Country currently positioned in the category of medium human development. The recent 2010 Corruption Perceptions Index, from Transparency International, also had Timor-Leste improving 19 places within the last 12 months.

Timor-Leste was the third country in the entire world to be granted full compliance status with the Extractive Industries Transparency Initiative. In 2010, the Revenue Watch Institute and Transparency International classified Timor-Leste as being in the group of the countries that are the most transparent in terms of revenues.

In view of all of this, we cannot start 2011 without feeling encouraged. My Government wants nothing more than to continue contributing towards the advancement of our Nation.

Your Excellency the Speaker of Parliament
Honourable Members of Parliament,

The 2011 budget policy was designed to consolidate the steps we have already taken in the last few years towards economic growth and development.

For this, we can rely on the commitment by an increasingly efficient Civil Service, which is now able to manage a more robust administrative and financial establishment, as well as on the improvements in the performance of the Public Finance Management System which have enabled once again very satisfactory budget execution rates in 2010.

As such, on 31 December 2010 the Government's overall cash expense was **\$687.78 million**, which represents a budget execution rate of **82.1%**.

It is important to highlight the following:

1. This budget execution rate will be higher still, because according to the applicable international standards the closing of accounts is only fully recorded two months after the end of the fiscal year in question.

2. The Government no longer includes commitments in the financial execution reports. I should clarify that there are differences between obligations and commitments.

3. All funds not used revert to the State at the end of the year, in a transparent manner.

4. Expenditure is monitored through the FreeBalance system, in view of the expenditure approved by Parliament, thus ensuring greater transparency and real time adjustment to the contingencies of the Country, making public spending more efficient.

5. Finally, it should be underlined that we have executed **73.8%** of our capital development. This is a remarkable achievement, since this year we have faced some institutional constraints that made our procurement processes more difficult. We also had a very long wet season, which we can describe as atypical.

Your Excellency the Speaker of Parliament

Your Excellencies,

The total expenditure of the State of Timor-Leste in 2011 is estimated at **\$985 million**, with the total non-petroleum revenues being estimated at **\$110 million**. This means that the non-petroleum tax deficit is **\$875 million**, which will be paid from the Petroleum Fund (**\$734 million**) and from the Consolidated Fund for Timor-Leste (**\$141 million**).

Ladies and Gentlemen, the main message of this budget is along the same lines as the messages of previous budgets: **Investing in the area of infrastructure and human capital development is increasingly vital for Timor-Leste** if we want to diversify the economy that is primarily based on oil into a non-petroleum economy!

This is not a new concept. All economies (and economists) in the world share this vision. The challenge here is how to achieve this goal.

Let the 'G20' or 'G8' rich countries do the necessary rebalancing to enable the gradual recovery their economies, while we Timorese focus our attention on this complex process of the ten years of State building and Nation building. It would be folly to compare GDP, inflation rates and current accounts with countries like Singapore or Australia, not to mention Indonesia, with over 250 million people, or China, with over a billion people.

My Government is mainly guided by the principle of never losing sight of the reality of the Country, the development situation of State agencies and the capacity of its human capital. My Government also has the principle of not accepting everything from abroad without first adjusting it to the Timorese reality.

As such, and taking into consideration the specific reality and difficulties of Timor-Leste, the Government decided to create two Special Funds that will ensure better coordination of investment and development projects, as well as their gradual and multiyear realisation and monitoring.

This is the strategy that is the most coherent and that can be applied in our Country with the greatest efficiency. We have chosen to create these special funds to enable better management, organisation and technical and financial control, while freeing Ministries, departments and other relevant authorities from more bureaucratic processes, so that they can dedicate their efforts to delivering services to the People, instead of having to worry about the realisation of their capital projects. There is a pressing need to improve the synergy between activities, so that we do not have a situation such as a school or a clinic being constructed but unable to operate due to lack of water because the water supply is dependent upon another body.

This is not a matter of centralising funding, but rather of rationalising it and making it more efficient, so as to ensure greater transparency in regard to the design, the unit cost of materials and the effectiveness of monitoring and payment processes.

Thus, from the total budget of **\$895 million** in 2011, **\$317.306 million** is allocated to the Infrastructure Fund and **\$25 million** is allocated to the Human Capital Development Fund.

The Infrastructure Fund covers multiyear projects and other large projects over one million dollars.

The Infrastructure Fund will also enable the continuation of the national project for generating and distributing electrical power at the plants of Hera and Betano. We have allocated only \$166 million, although we are aware that we would need more money to accelerate the project. This relatively small amount is necessary to meet the various needs and the major challenges of the country within these first few years.

This Fund also seeks to continue investing in roads, bridges, public buildings, schools and hospitals, in addition to the required investment in integrated financial systems, with over **\$7.7 million** designated for the development of procurement and financial monitoring hardware and software.

The Infrastructure Fund will also enable us to start developing the southern coast. We have large projects to be undertaken in Tasi Mane, which will cost, during this first stage, over **\$30 million**.

These large projects of unquestionable national interest will include:

- The Suai Development Package, including the Multitask Port (**\$2.5 million**); the Supply Base (**\$11.5 million**); and the Refurbishing of the Airport (**\$6.5 million**).
- The study, design and detailed supervision of the development site for the southern coast in Beaçó (**\$5.8 million**).
- The development of infrastructure in the southern coast to study the path of the pipeline (**\$3.5 million**), as well as the necessary environmental studies (**\$2.8 million**).

- And the design and studies on the development of the maritime port of Dili (**\$2 million**). The Dili wharf can no longer provide an efficient response, both in terms of space and operational capability, to the requirements of the increasingly larger volume of commercial traffic.

Your Excellency the Speaker of Parliament

Honourable Members of Parliament,

In September 2000 the Millennium Assembly took place in New York. Timor-Leste had the privilege of participating as an observer, since we had not yet regained full sovereignty. This Assembly set the Millennium Goals and, in 2015, Timor-Leste will also have to report on what it did and did not do during these fifteen years.

In September 2010, our President of the Republic, Dr José Ramos-Horta, announced at the General Assembly of the United Nations that Timor-Leste was committed to improving the housing conditions of our population.

Hence the MDG-Suco program, which seeks to provide housing, solar power, water and sanitation, in addition to other small social development works. This program also foresees the construction of 5 houses in each village, which means that in 2011 we will be providing housing to over 11,000 families. The ultimate purpose of this is to improve the living conditions of over 55,000 families in rural areas by the end of 2015.

Your Excellencies

Ladies and Gentlemen,

We know that to invest only in infrastructure, without at the same time investing in human capital, will only lead us to a “dead end”. Unless we want to depend forever on international advisors, officers or even companies, we must accelerate immediately the strategy for developing our human resources.

As such, the development of human resources cannot be postponed, but cannot also be rushed, in order to obtain results in the short term. Furthermore, while it cannot absorb all the financial means of the Nation, which are required for other important sectors, it will still require substantial investment. I would like to remind you that if there

was an easy solution to this dilemma, we probably would not have underdeveloped societies in the 21st century!

Funding multiyear projects for training and building the technical and professional capacity of the Timorese in sectors such as justice, health, education, agriculture, natural resources, tourism, financial management and, evidently, infrastructure, fulfils the goal of investing in our economic growth and of greater competitiveness within the scope of regional development, and also involves investing in national sovereignty.

As such, the Human Capital Development Fund, with around **\$25 million** allocated for 2011, will mostly be used to ensure professional and technical training and to issue scholarships, as well as in other training methods, seeking to improve qualified national technical staff.

This Government initiative will include in 2011 the investment of:

- **\$7.7 million** for scholarships under the Ministry of Education.
- **\$2.4 million** for technical training in regard to Higher and Polytechnic Education in Suai and Lospalos.
- **\$2.1 million** for scholarships in the area of public finance and computers.
- **\$2.5 million** for scholarships in the area of the petroleum sector.
- **\$2.6 million** for professional training under SEFOPE.
- **\$2.4 million** for training in health and medicine.
- **\$1.9 million** for professional training in the area of justice, namely for registry officers, auditors, judges, notaries, attorneys, translators and inspectors.
- **\$1 million** for technical training in Public Administration and for scholarships under INAP.
- And **\$548 thousand** for training of F-FD'TL and PN'TL officers abroad.

Your Excellency the Speaker of Parliament
Honourable Members of Parliament,

One might think that we are presenting three separate budgets, but that is not the case, as all applications of public monies, including monies allocated to the Funds, are integrated in this 2011 State General Budget. The difference is only the modality through which the money is managed. We did not allocate to the Funds the full amount for each project, but rather the annual parcel pertaining to each. The process in terms of annual reports and audits follows Chapter VI of the Budget and Financial Management Law.

When my Government came to office, we had to bear the weight of the carry-overs, which went as far back as 2002/2003 and added up to \$119 million. We started an account closing process, which was completed on 31 December 2009. However, in this account closing process, we saw that particularly in the area of capital projects, the constraints that we all know exist in our Country prevented fast and effective implementation within the financial year for which we allocated the amounts. And what we have been doing is to re-budget all unexecuted monies, thereby reducing our budget capacity to propose more sums as capital development.

And these funds, taking into account once more the existing constraints in our Country, with eight years of age as a State, will be an enormous assistance in terms of responding to eventual difficulties caused by weather and guiding execution so as to ensure quality.

In addition to the creation of these special funds designed to improve basic infrastructure and to develop human capital, which are also catalysing aspects of private investment, the 2011 budget estimates have benefitted from other innovative criteria that have enabled us to guide the forecasting of expenses with greater efficiency.

The Government is debating the format in which to present the Budget, which, it should be said, comes from the UNTAET period. The budget of a UN mission does not have the complexity of a budget belonging to a Government of an independent State, as this Government must evidently respond to the social, economic and political requirements that arise from its status as an independent State body.

The Government sought to redraft the Budget into two major divisions: recurring expenses and development expenses. However, at the State building and Nation building stage, both types of expenses cannot be handled with the simple arithmetic of relatively fixed figures. Still, this is what we often hear described as international budget standards... but if that is so, then how can it be that so many developed countries cannot prevent falling into bankruptcy, having to resort to China to purchase their debt?

In order to prevent the various State agencies from falling into the practice of exaggerating figures concerning each subsequent year so as to ensure better budget outcomes, when drafting the 2011 SGB we set criteria under which increases are accepted, thereby reducing the possibility of uncontrolled problems in the various services. The criteria that regulated increases in current expenses were:

First – the inflation rate, which for 2011 is calculated at 4%.

Second – a normal rate of increase, from 1 to 10%, in relation to the previous budget.

Third – the attribution of an increase, from 1 to 50%, should a program be identified as a national priority.

Also, within an innovative approach towards the achievement and implementation of the plans I mentioned, the National Development Agency (NDA) will be created under the Office of the Prime Minister in order to review, monitor and supervise projects, namely those of the Special Funds, and to ensure efficient procurement and greater quality control.

We are aware that the Strategic Development Plan can only be implemented if approved by Parliament. However, none of us can stop thinking about the future, none of us can stop thinking that we have already gone past the ten year mark of State building and that we will now be entering a new decade, which will be a decisive one for Timor-Leste. With or without the Strategic Development Plan, there are policies that deserve to be continued in 2011, and therefore I can say that the NDA may ultimately be seen as the precursor of the agency that will one day implement the Strategic Development Plan, when the latter is approved.

I will now summarise, Ladies and Gentlemen, the main programs that the Government is responsible for implementing in 2011. **Minor Capital** was reduced to **\$28.3 million**. The main expenses in this category are the following:

- Around **\$12 million** for purchasing two patrol boats for the Security and Defence of the Country, as well as ambulances, movable banks and means of transportation for monitoring school education in rural areas and for assisting in the preparation of local and general elections.
- Around **\$700 thousand** for assisting the transfer of responsibility from UNPOL to the PNTL.
- And around **\$1.1 million** for equipment for technical and professional schools and laboratories for the Ministry of Education.

Within the policy to build the capacity of the national private sector, we have begun in 2009 an innovative program, called the Referendum Package, seeking to decentralise the private sector and therefore break the trend of all companies setting up in Dili, winning tenders and then subcontracting local companies lacking sufficient means for their own development.

In 2010 we continued with the program called PDD, through which we began transferring to District Administrators the responsibility for conducting the entire process of tenders and verification, although the latter continued to receive permanent attention by the Government.

Therefore, in regard to **Capital Development**, with a total of \$405.9 million (of which \$317.3 million is allocated to the Infrastructure Fund), the Government will continue to improve service delivery to the People at local, sub-district and district level, particularly through programs acknowledged as successful in 2010, such as the Decentralized Development Program (PDD). The main measures in this category include:

- **\$65 million** for MDGs concerning sucos, homes, water and sanitation.
- **\$15.5 million** for the PDD at village, suco and sub-district level.

- **\$28.8 million** for the PDD at district level.
- **\$166 million** for continuing to build the power plant and the power lines.
- Over **\$30 million** for the development program of Tasi Mane.

I would like to inform everyone that we have indeed received the suco development plans, commonly called PDL. The truth is that we did not have enough time to conduct a more detailed study and to integrate in a plan all proposals received from the 425 sucos, as there were many disparities in terms of actual goals.

In 2011 the Ministry of State Administration will have enough time to draft an integrated action plan that will respond to the priorities presented by each suco. This will enable the People to see their wishes reflected in future State General Budgets.

Your Excellencies

Ladies and Gentlemen,

In relation to recurrent expenses, and compared with 2010, we also have a reduction of expenses for **Public Transfers**, which will add up to **\$164.4 million**. This will be focused on the more vulnerable groups, with the dual goal of improving the living conditions of the Timorese who gave all they had for their Nation, as is the case with the elderly, the disabled and the veterans, and also to make these People part of the development of the Independent Nation. These expenses include:

- **\$7.5 million** for demobilising the FALINTIL.
- **\$1.1 million** for the Council of Veterans.
- **\$800 thousand** for transferring the mortal remains of our victims.
- **\$58.8 million** for paying pensions to Veterans.
- **\$30.2 million** for other vulnerable groups.

Also within the category of transfers, there are initiatives that seek to continue providing assistance in areas central to pursuit of the public interest, such as:

- **\$3.4 million** for the greater capitalisation of the IMFTL under the Ministry of Economy and Development.
- **\$3.5 million** for operations and subsidies to build the capacity of local administration.
- **\$3 million** for medical treatment abroad, under the Ministry of Health.
- **\$1.5 million** towards receiving the medical students from Cuba.
- **\$2.5 million** for the capitalisation of the National Oil Company of Timor-Leste.
- **\$1 million** for responding to natural disasters.
- **\$11 million** for continuing the PDD.

The overall budget for the category of **Goods and Services** is **\$270 million**, including the Human Capital Development Fund I mentioned before. The main expenses in this category will therefore be:

- **\$32 million** for professional and technical assistance services in the areas of law, education, petroleum and financial management, procurement, foreign affairs, tourism, conflict prevention and quality control.
- **\$46 million** for fuel, including the EDTL.
- **\$1.2 million** for supporting the F-FDTL in terms of provision of operational materials.
- **\$3.4 million** for the F-FDTL Operational Package and for maintaining patrol boats.
- **\$2 million** for reducing maternal mortality and for supporting specialists in the Baucau and Suai Hospitals.

- **\$1.6 million** for providing school textbooks and **\$1.5 million** for school meals to be provided by the Ministry of Education.

Finally, the main items for 2011 in the category of **Salaries and Wages** amount to a total of **\$115.9 million**, including:

- **\$65 thousand** for recruiting PNTL and F-FDTL staff.
- **\$7 million** for salaries for education professionals, reflecting the new teacher career regime.
- **\$9 million** for representation subsidies for all missions and diplomatic representations in the world, within the scope of the Ministry of Foreign Affairs.
- The increase of the investment on Salaries and Wages will also cover the conversion of temporary civil servants into permanent ones, according to the Reform of the Civil Service.

Finally, I must also mention a substantial increase in the amount for the Contingency Fund, although I cannot guarantee that it will turn out to be sufficient.

Last year we witnessed natural disasters causing incalculable damages throughout the world. In our Country, we could not respond efficiently to the damage caused by rains. The harvest of the 2nd season was destroyed by rain and the production of the 1st season, which is essentially corn, was almost non-existent.

No one can give us a weather estimate for the entire year of 2011. In our region, precisely at this start of the year, we are seeing a disproportional increase of rain and flood waters in Queensland, devastating fires in the forests near Perth, floods in Thailand, Malaysia, the Philippines and Bangladesh, not to mention Indonesia, with its earthquakes and volcanoes.

The Contingency Fund may seem large, but in fact it may even turn out to be insufficient should we have a year of hard rain or of serious draught. God alone knows the exact amount that we will need.

Meanwhile, the Government vows to regulate properly the use of this Contingency Fund, so that it may deal effectively with situations of extreme need resulting from climatic changes.

Your Excellency the Speaker of Parliament

Honourable Members of Parliament

Ladies and Gentlemen

People of Timor-Leste,

We are at the dawn of a decade that can be historical for Timor-Leste in economic terms. Success in consolidating Timor-Leste and in moving to a medium-high income economy depends mostly of the following factors:

First – continued maintenance of National Stability. Here I have full confidence in our People and in our Defence and Security Forces which will remain united and motivated towards the good of the Country.

Second – improved service delivery, particularly to underprivileged sectors of society, accelerating social assistance and improving our systems for surveying and monitoring beneficiaries and payment procedures.

Third – continuation of our institutional reforms, from the improvement of financial administration and management systems and processes to the better coordination and communication between State services and offices, thereby ensuring greater cooperation and transparency, as well as good governance of the Agencies.

Fourth – continued promotion of civic education, helping people understand that rights also come with responsibilities, and that State building requires changing ways of thinking as well as new ideas.

Fifth – promotion of the capacity of the private sector as a partner of Government, so that in time it may assume the role that is now fully played by the State, i.e. driving the economy towards sustainable development.

Sixth – efficient implementation of the development strategy in regard to human capital development and infrastructure programs, so as to diversify the economy, to

create surpluses from other productive sectors and to reduce dependency on our petroleum sector.

Finally, Ladies and Gentlemen, all these efforts will be wasted if we cannot maintain **political harmony and maturity**, if we do not respect the **value of dialogue** and the **right to have different, although constructive, opinions**.

This is a responsibility that must be carried out here in this Great House, by Government Members and the Members of Parliament, between the AMP parties and the opposition parties, between the new generation and the old generation. This is an example that can and should be expanded to the entire Timorese society.

If from 2000 to 2010 we have discovered the true concept of Independence and its resulting challenges, this new decade, from 2011 to 2020, will mark a new start for Timor-Leste, where we will work towards the consolidation of political and social stability and achieve real long term growth and development. We can go as far as saying that we will be working to create “the region’s new economic miracle”!

All recent economic and social indicators have supported this “wave of change” for our People and our Nation. Rather than being a failed State, as many said Timor-Leste would become, we are now in the top 10 fastest growing economies in the world!

Obviously these indicators are only of value if the Timorese are able to feel a difference in their daily lives, but they nevertheless provide unquestionable evidence that our efforts so far have been successful. And although fruit needs time before it can be plucked from a tree, in the case of Timor-Leste, a fertile land of people who have suffered, it would be well if these fruits could start being plucked as soon as possible.

We are thus creating opportunities so that all people can participate in the construction of the Nation. The People of Timor-Leste enabled the progress made last year to occur through their active, positive and hopeful participation!

This is not the time to be pessimistic. This is the time for hope and change. Only by believing, as we did ten years ago, can our Nation move forward and grow.

Thank you very much!

Kay Rala Xanana Gusmão

12 January 2011