



COMMITTEE ON PUBLIC FINANCES edited by LA'O HAMUTUK

La'o Hamutuk has translated and edited the legalistic Portuguese in the original to make it clearer and easier to read. We have tried to keep the facts and intent as the Committee reported.

VI. CONCLUSIONS AND RECOMMENDATIONS ON THE PROPOSED 2014 STATE BUDGET

6.1. Conclusions

The Government's efforts to adapt public spending to our people's real needs and the Ministries' capacities, and to control inflation, are becoming more visible. The proposed 2014 General State Budget (GSB) follows this trend of limiting spending, reducing appropriations by \$147.5 million.

We appreciate the Government's acceptance of Parliamentary suggestions, which encourages implementers to justify increased spending through better planning, especially as it is obvious that oil revenues will end in a few years. We must manage expenditures better and prioritize non-oil revenues, increasing and diversifying import duties and charges for public services. We should also earn more interest by carefully investing money while it is in the Treasury's operating account.

Transferring more than the Estimated Sustainable Income (ESI) from the Petroleum Fund every year is unsustainable. The budget should be revised based on recent budget execution and the impending low or zero oil revenues. It should have a longer-term vision which protects the financial base of the Petroleum Fund for the legitimate expectations of future generations.

Even without complex poverty indicators, anyone can see that people in the districts struggle daily with severe food shortages, lack of sanitation, and inadequate, low-quality health and education. In Dili, by contrast, ministerial buildings proliferate, each trying to have more stories than the next, with redundant luxury equipment. We built a house for VIP Government guests next to Motael Church, and every Ministry's foreign travel budget is out of control.

Some of the Ministers and Secretaries of State who appeared before Parliamentary committees are ignorant of the budget's legal framework and how it is managed. We urge ministries and their subsidiaries to develop capacity to do daily or weekly internal audits of their financial situation, deviations and possible corrections.

Committee C does not agree that EDTL should lose its autonomy and be merged into the Ministry of Public Works. The Government should consider creating a state-owned company, as this is a large part of state expenses and revenues. If EDTL is no longer autonomous, financial information about it will be harder to get, and transparency will weaken.

Reviewing the 2012 state accounts is important when Parliament discusses the 2014 budget, but the Audit Court only sent its Opinion to Parliament on 25 November. We didn't have time to fully review it before writing this report, but urge the Government to include information on money owed by Ministries and their subsidiaries in the proposed budget, and to keep better records of what each public entity owes to suppliers.



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6.2. Recommendations

The 2013 budget entered into force only nine months ago, so we have limited information about budget execution and how the Ministries implemented the duodecimal system before March.

Regarding the proposed State Budget for 2014, after conducting hearings and analyzing reports from the other Committees, Committee C recommends to the plenary as follows:

1. The Government should submit the budget to Parliament by 15 October, as required by article 30.2 of Law 13/2009.
2. To ensure national financial sustainability and reduce short-term inflation, the Government should only withdraw from the Petroleum Fund what is strictly necessary. Parliament should not approve a 2014 budget which includes excess withdrawals above the “sustainable income.”
3. During the remainder of 2013, only the amount needed to execute the 2013 State Budget should be withdrawn from the Petroleum Fund, as the 2013 budget law specifies.
4. Budget execution rates have been around 80%. The main problem is that drafted budgets are larger than the capacity to execute them, not the execution process itself. The process of preparing budgets should be reviewed, so that their appropriations are more realistic, in line with what can actually be executed.
5. As most Infrastructure Fund projects have low execution rates, its budget for 2014 should be more realistic.
6. In 2014, the Infrastructure Fund budget again includes construction of many government office buildings, which will be unaffordable in the next few years. This is not a priority for now, and the Government should focus on other equipment and infrastructure which serves people's needs.
7. The 2014 budget allocates \$24.7 million for the “Contingency Reserve,” \$5.3 million more than in 2013. Although this is less than the legal 3% ceiling, it is too high. The Government should enforce budgetary discipline to avoid excessive use of contingency funds.
8. The Government should find ways to make reliable projections, using well-grounded economic indicators and studies by reputable and independent national and international institutions, so that economic policy is based on real and timely data.
9. As inflation has been high for years, the Government should, within six months, look into raising civil service salaries to compensate for their reduced purchasing power.
10. Radio and Television of Timor-Leste (RTTL)'s new strategic plan is essential to developing the company and improving its services. RTTL should gradually implement financial autonomy as its management capacity increases. It should define its own personnel rules, which will be different from the Civil Service.



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11. As the Oecusse Special Zone still has no legal status, legislation should be enacted to cover all aspects of its existence and operation, and its appropriation should be conditional on this law.
12. The Government should move faster to complete the legislative package on Decentralization and Local Power and transmit it to Parliament.
13. Many agencies want large “public grant” appropriations to be used at the discretion of their leaders. Although some money is required for needs which were unforeseeable when the budget was prepared, much of this is for predictable expenses which should be identified in their budgets to improve transparency and good management.
14. Spending for overseas travel should be curtailed in all ministries except those which represent the State abroad: The Presidency, the Prime Minister and the Ministry of Foreign Affairs. Parliament has already reduced its own foreign travel budget for 2014.
15. Due to declining oil revenues and the need to increase domestic revenues, the government should look for ways to increase tax revenues, reviewing rates and exemptions in current law. They should give special attention to tobacco and alcohol taxes, which can have a dual benefit.
16. The Government should increase import duties. A few years ago, they were reduced to attract foreign investment, but this has not worked. Tariffs should be increased to 15% or more. This will help reduce our current unsustainable level of imports (given the expected cessation of oil income) and raise non-oil revenues.
17. Certain items, especially food and house-building materials (such as cement) which are used by poorer people should have lower duties. Economies of scale make some items difficult to produce in Timor-Leste, so “import substitution” is less effective.
18. During 2013, the Treasury Accounts are expected to earn only \$200,000 in interest, and in 2014 this is still low, up to \$300,000. Given the unavoidable urgent need to increase non-oil revenues, the Government should tell the Central Bank to invest the Treasury in short-term instruments with higher return than the current low-risk investments, provided that they can be redeemed to meet payment commitments.
19. As in the past, no revenue is budgeted from fees charged by Timor Leste embassies and consulates in other countries. Users of their services should pay for their inherent costs.
20. The Ministry of Agriculture estimates that only about one-third of the land which can grow rice is being used; the rest is abandoned because Timor-Leste spent \$30 million in 2012 and \$40 million in 2013 to import rice. The Ministry should study our “rice economy” and take steps to reverse this situation, sharply reducing grain imports while increasing domestic production, as well as increasing industrial-scale production of some crops. This would be part of a national strategy to link agriculture and industry, developing agro-industry and increasing domestic agriculture, forestry and livestock production.



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21. The Ministry of Finance should review how it pays state debts and train various ministries about procurement and finance procedures. This can help reduce the delay between receiving invoices and making payments, which suppliers use to justify higher prices.
22. The Central Bank of Timor-Leste was late in asking the Prime Minister for \$30 million in 2014, part of a plan to increase its capital from the current \$20 million to \$100 million by 2017. It was therefore not included in the budget. However this is justified and should be included in the 2014 budget.
23. The MDG-suco public housing program does not address our reality and is inconsistent with community needs. The materials and designs are not appropriate for how people live. Most of the money goes for imports, rather than using less expensive local methods and materials. The Government should suspend MDG-suco construction until it has conducted a scientific study of how people interact with those buildings, exploring urbanization and use of mainly local construction materials, such as cement blocks.
24. The power plants in Hera and Betano should shift from diesel fuel to heavy oil, since in the future they will run on natural gas. This will reduce costs by 30% to 50%.
25. The Government should create a regulatory body for the public housing sector, to help people achieve their right to adequate housing. This could lower costs in housing and infrastructure, while stimulating new institutional practices and new models of urban and territorial management. This requires in-depth studies of urban organization, including cultural details.
26. The total 2014 appropriation for Oe-cusse, including the Special Zone, is much more than for the other twelve districts. The government should ensure a fair distribution of money.
27. Government is working harder to attract foreign investment, partly to address concerns of increased unemployment after the UN mission ended. Therefore, the Foreign Ministry should effectively inform embassies about Timor-Leste's macroeconomics, potential, business creation laws, administrative procedures and tax regime. They should work with the Ministry of Trade, Industry and Environment and other state agencies.
28. Although the Government wants to develop tourism, taxi fares are not listed or consistent. The Government should regulate this sector, considering metering and international quality standards.
29. Parliament's current facilities are inadequate and the new Parliamentary complex is not yet built. Therefore, Parliament should temporarily use the current Ministry of Finance facilities after that Ministry moves to its new building.