

*[Rough unofficial translation by La'o Hamutuk. For the complete document in Portuguese, see <http://www.laohamutuk.org/econ/OGE15/ComCReportPt.pdf>.*

*For more information and analysis on the 2015 State Budget, in Tetum and English, see <http://www.laohamutuk.org/econ/OGE15/14OGE15.htm>.]*

## **National Parliament RDTL**

### **Committee “C”: Public Finances**

#### **Report and Opinion on Proposed Law no 16/III/(3) – General State Budget for 2015**

**27 November 2014**

## **VI. RECOMMENDATIONS**

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### **(i) Committee on Public Finances**

In light of the above the Public Finance Committee issues the following recommendations to the Government and the National Parliament for the 2015 State Budget:

1. The Government, to register all revenues in accordance with the principles of budget unity and universality established in the Budget and Financial Management Law;
2. The Government to ensure greater control over the collection and recording of cash receipts by the entities that collect and utilize them without depositing them in an official bank account;
3. To transfer from the Timor-Leste Consolidated Fund to the two Special Funds the total amount of money withdrawn from the Petroleum Fund to meet the expenses of these Funds;
4. To all members of Government and heads of entities included in the scope of the budget, to submit to Parliament on a quarterly basis, regardless of any public hearings which may be convened, their Procurement Plan for each quarter and information on execution of the previous quarter's procurement plan, so that the Parliament can effectively enforce the State Budget Law, with reference to the special focus of policy enforcement on actual expenditure and to execution of the “Goods and Services” category;
5. To include in these presented financial statements information on the results achieved, in particular as regards the number of actions taken and paid internships under the Human Capital Development Fund;
6. That information on the non-financial debt of the state be included in the General State Accounts and, to this end, the Treasury to keep updated records of debts to suppliers of all public entities (this information is very relevant to the analysis of the State Budget proposal);
7. The Committee “C” repeats that it does not accept, for budgetary purposes, the insertion, with the subsequent, loss of autonomy, of “EDTL” in 2015. It strongly urges the government to study the possibility of creating its legal regime as a Public Company, since this service it is one of the great centers of costs and revenues for the State. The non-creation of an autonomous body leads to financial information concerning it being diluted, in the future, it will tend to reduce transparency in the budget of the Ministry Public Works. It is believed this loss of autonomy should be reviewed in order to more easily be able to understand the business accounts and implement the control required to receive revenue, and it is not acceptable, given its importance, to be treated as a directorate-general.
8. To establish control mechanisms and limit expenditure at the level of “items” for an entity to avoid distorting the budget and assure careful fiscal management;

9. The Government to urgently regulate the payment of the “Christmas subsidy” to state employees in order to clarify and legalize the award of this subsidy in a transparent manner.
10. The Government to promote the quarterly review of governmental action performance in order to correct detected deviations during the same year;
11. The Government to urgently undertake structural reforms, such as strengthening the legislative framework and the land law that still need to be completed.
12. To Parliament, that the amendments to the proposed 2015 State Budget law to focus on priority sectors for the country and strengthen in 2015 the resources allocated to education, agriculture, health and tourism, in line with the policy priorities of development written in the Strategic Development Plan (SDP), to ensure consistency between political objectives and concrete actions.
13. That the Ministry of Finance inscribe in the Consolidated Fund (FCTL) in “Appropriations for Whole of Government,” an appropriation of \$3 million next year to cover the costs of maintaining the infrastructure already completed, in particular roads, and that this be duly identified in relation to the purpose for which it is intended.
14. That Ministry of Finance review the quantity and quality of key performance indicators contained in the SDP matrix because this document is too long with about 300 indicators which impedes the Parliament and the general public from monitoring the performance of macroeconomic strategy (SDP) and budget execution. It is recommended therefore that only 5-10 key indicators per sector be chosen from the Matrix to pass to be the main matrix of the SDP performance.
15. The Ministry of State Administration to refine and consolidate the planning process and to optimize district coordination of the District Integrated Development Plan (PDID) to ensure that the investment reflects the policies for the sector and to avoid duplication.
16. The Government to rethink the current functions of the National Development Agency (ADN) and the line ministries and an alternative to the current coordination model in relation to the design, supervision and certification of projects since current skills and means at the disposal of the ADN engineers, in the districts, appear insufficient. On the other hand the review of project costs incurred by ADN Dili in some cases causes problems in their implementation.
17. That, until December 31 of this year, the Government transfers from the Petroleum Fund to the 2014 State Budget only what is needed to help meet the Treasury’s requirements as provided by law. About this recommendation Committee “C” supports and goes along with the concerns of the Central Bank, the World Bank, the European Union, the Petroleum Fund Consultative Council and the NGO La’o Hamutuk expressed during the public hearings as part of the initial assessment of the proposed 2015 state budget and of the Chamber of Accounts in its opinion on the 2013 Consolidated State Accounts on the danger of excessive withdrawals above the ESI, given the continued decline in oil prices and the negative impact that this situation has on the oil resources of TL;
18. That Parliament adjust the sources of financing set out in Annex I of the proposed 2015 State Budget, in order to incorporate the 2013 balances not incorporated into the Infrastructure Fund of GSB 2014 in the amount of \$178,761,000 and the FCTL transitional balance at the end of 2014.
19. The Government points out that the proposed 2015 state budget does not report as revenue the predictions of interest due as remuneration to the official bank accounts in the Treasury. Given the unavoidable need to urgently increase non-oil revenues and returns on bank deposits, it is strongly recommended that instructions be given by the Ministry of Finance to the Central Bank to make short-term financial investments, planning their maturity as not to compromise the Government’s liquidity needs during the year.

20. The situation remains unchanged in terms of fees to be charged by Timor-Leste Embassies abroad and thus their budgeted revenue for 2015 remains zero. Committee “C” does not understand why the Executive does not charge the users of the services provided by the Embassies and Consulates, for their costs and so repeats its recommendation from last year;
21. Based on what is mentioned above, the Committee C intends that the Government should provide legislation to allow other public services, where there is a direct and clear consideration to the majority of residents in Timor-Leste, national and foreign, to tax and charge the same elements. Instead of our institutions continuing to provide free services to those who contribute little to the nation, allowing for greater justice in the redistribution of charges for the population and contributing to further rationalization of public funds.
22. For two years the current \$5 million limit for the placing of public contracts to prior approval has been in effect, and it is no longer justified, according to improved technical capacity invoked by the Court of Appeal, and it is inadvisable to recommend that the Parliament should to reduce the amount to 2 million. We believe therefore that the Government should take before the nation’s commitment for greater rigor and transparency of public accounts, thus ensuring greater efficiency and effectiveness in the use of public funds, which prior approval is also guarantees.
23. The all entities that are part of the scope of the State Budget should avoid concentrating the execution of their expenditure in the last three months of the year and should develop internal expenditure control mechanisms in order to anticipate their realization.
24. Modernizing the methods of budgetary and financial execution is a major challenge with the goal of promoting sustainable economic growth. For which the following budget execution methods need to reflect the universally accepted principles for good management of public finances (transparency, responsibility, punctuality and financial balance). In this meaning Committee “C”, returning to congratulate the Executive for the inclusion of a provision of budget execution in its own proposed budget law, urges the National Parliament to only allow, through the 2015 State Budget law, the possibility of a 10% limit on “direct adjustments” to report to the allocation for each ministry in the category of “goods and services” and to eliminate from the proposed 2014 State Budget law the unlimited use of direct adjustments through the ministerial line “Whole of Government appropriations.”
25. To the Public Ministry (prosecutor) we urgently require the trial of cases of effective financial liability or the applications of fines from the Chamber of Accounts in relation to UNTL and APORTIL, following the financial infractions that were detected by the audits carried out by the Chamber of Accounts.
26. That are implemented by the Ministry of Public Works, with urgency, the recommendations of the Chamber of Accounts as a result of its audit of the EDTL;
27. That the Ministry of Finance create within itself a structure that has the necessary authority to administratively respond to requests for appeals by taxpayers.
28. That the Government urgently create the General Career Regime for the Public Service and implement financial incentives to public servants directly related to their individual productivity.
29. The constant use by the Ministry of Finance of outdated macroeconomic indicators and forecasts, especially for oil prices, can be partly attributed to the fact that they have to complete their budget proposal weeks before it is delivered. As an example see the forecasts of the IMF listed on page 11 of Book 1 that since their publication in April already had an “update” in June and new projections in October. To prevent this from occurring again Committee C proposes that future budget proposals are delivered in digital format only which, allowing for greater care on the part of the executive, also has cost-saving implications and modernizes the process.

**(ii) Recommendations from other Standing Committees**

**a) Committee "A"**

1. To the Government - Autonomize the budgeting of the Special Administrative Region of Oecussi (RAEOA), with assignment of its own entity code, so that the costs appear broken down by categories of expense and in accordance with the Chart of Accounts, for greater transparency and ease of monitoring and control of budget execution;
2. To the Government - Autonomize the budgeting of the of the Special Region of Social Market Economy (ZEESM), with assignment of own entity code, so that the costs appear broken down by categories and according to the Chart of Accounts, for greater transparency and ease of monitoring and control of budget execution;
3. To the Government to complete the ZEESM legal and regulatory framework;
4. To the Government to implement the financial autonomy of Radio and Television of Timor-Leste (RTTL, EP) to allow the opening of own bank account and the direct use of its revenues;
5. To RTTL, EP to accelerate its transition to a public company, in particular by creating a statute for personnel, careers and its own pay scales.
6. To Parliament to approve the request for additional funds for the Prosecutor-General's Office, Provedor for Human Rights and Justice and Anti-Corruption Commission in accordance with the request made by them and the documentary evidence listed in Committee A's report in the table itself.
7. Promote the review of the powers of the Public Service Commission for recruitment, retaining only supervisory responsibility of recruitment, which would then be made directly by the interested entities.

**b) Committee "B"**

1. The transfer from 2014 to the 2015 State Budget of money to acquire weapons, with the expectation that it will be approved in the rule in Article 3 of PPL n. 16/III/3 2015 State Budget, which provides for the suspension of payment of 200% charge for such goods, does not exhibit good practice and legislative technique. As such, the corresponding contract must be executed as approved and paid according to the rates in the 2014 State Budget.
2. It is suggested and recommended to create a public company or a public institution intended only for the purchase of equipment, weapons, uniforms and all military and security equipment for the Defence Forces and Security Services, as this measure may allow greater gain effectiveness and efficiency, greater control and political , technical and administrative oversight.
3. It is recommended to end the duplication of structures to study and monitoring of the definition of boundaries between the Foreign Ministry and the Prime Minister's Office, so as not to disperse resources and knowledge, even if the separation of structures is based on land and sea borders ;
4. It is recommended that the Foreign Ministry provide for more and better connections with other Ministries and with the Department of Statistics of the Ministry of Finance in order to provide data and most current information to international organizations to prevent making studies and publications which do not match truth;
5. That all payments relating to Attachés located in Timor-Leste embassies are allocated to the category of "Salaries and Wages" and under "allowances";

6. That the payments to contract employees, which appear charged to the category of goods and services as “technical assistance” be shifted to the category of Salaries and Wages, because they are wages, not for provision of services;

**c) Committee “D”**

1. That a more realistic ceiling for spending is adopted, no more than \$1.2 billion, to allow close to 100% budget execution.
2. That the Government envisage ways to significantly increase non-oil domestic revenues through some higher taxes and fees such as customs duties, regulation of fees charged by embassies and consulates abroad, court fees, scales for income taxation, and the creation of others, such as a green tax related to the environmental issue.
3. We urge the Government to proceed with updating the calculation of the Estimated Sustainable Income (ESI) to include the effect of the continuing negative projected trend for international oil prices;
4. That the 2015 and following budgets provide a more balanced equilibrium between spending on infrastructure and education and health, paying for the latter two an increasing percentage of national resources;
5. That the benefit of the good management practices, is limited in the Public Financial Management (PFM) system of the Ministry of Finance, already in 2015, the possibility of public entities included in the direct State administration can exceed 100% of the allocation written under the headings of the various expense categories.
6. That the State make a standardization of prices, horizontal to all ministries, and to help identify more correct values, fairer, for goods and services payable by the State for public works, making use of its power over market prices, as the only buyer of such services and thus avoiding the over profit situation of some companies;
7. That the Government avoid the discretionary decision of the highest authorities of state institutions in relation to “public concessions”, forcing the beneficiaries of these transfers to fulfill some agreed criteria with the state, such as in the areas of production and employment created.
8. That “foreign travel” is strongly constrained to avoid unnecessary waste of public money by limiting the amount originally budgeted for this item in each ministerial line, so that in no case can be strengthened and implemented by more than 20%, to prevent resources essential to other state activities from being diverted to this purpose. This standard should be exempted for bodies which externally represent the State, in particular, the Presidency of the Republic, the Presidency of the Council of Ministers and the Ministry of Foreign Affairs;
9. That in 2015 the Government has to increase salaries of civil servants in different ways and according to their level of wages, with the goal of recovering their purchasing power, given that the salary table of Civil Service has not changed since 2008;
10. Given that the tourism sector is presented as more promising for the development of national economy and employment and that the cultural component is essential to any tourism development effort, for a strengthened budget for the Ministry of Tourism for 2015;
11. That the Ministry of Finance lead a process of identification, in coordination with other ministries and especially with the Secretary of State for the Support and Promotion of the Private Sector, the productive sectors whose businesses could apply for subsidized interest rates, with the aim of encouraging the development of certain productive sectors, focusing their efforts in helping the emergence of businesses with greater financial capacity, important for the “import substitution”;

12. That the Ministry of Agriculture and Fisheries investigate the rice economy in Timor-Leste and adopt measures to ensure the reduction of imports of this cereal and increased domestic production to ensure food sovereignty of the country;
13. It is reiterated again to the Government that the National Development Agency should suspend construction work of “villages” provided under “Housing” of the Infrastructure Fund until there is a scientifically valid study available on the model of urbanization and the use of building materials with a smaller imported component, in particular focusing on cement blocks;

**d) Committee “E”**

1. That Government strengthen the technical team of the Ministry of Public Works (MPW) and ADN with qualified human resources in the field of design, verification of designs and detailed design for the projects in the area of supervision, monitoring and verification of projects on the ground, to minimize deviations from the quality of the work, as the SDP directs;
2. That MPW develop good management in the use of IGE to attend to emergencies in the protection and normalization of the situation on the ground, leaving time for public works technicians to survey data, designs and detailed designs, prepare BOQ to plan their budgets and funding through the current contingency Fund, or include as a priority project in the state budget for next year;
3. That CAFI promote appropriate administration and coordination between members and “project owners” for better implementation of multi-year projects and following stipulated calendars (projects funded by the Infrastructure Fund (FI));
4. That the Ministry of Finance make payments to physical projects on time, harmonizing payment with physical progress on the ground, complying with transparency and accounting principles (FI).
5. That the Ministry of Transport and Communications develop and improve port services and infrastructure facilities and at Nicolau Lobato International Airport ensuring conditions for passengers and improved security preventing the entry of illegal products to Timor-Leste.
6. In order to ensure that the PDID be more viable and transparent, it is recommended that the corresponding financing become the responsibility of the MAE, the ministry that manages its implementation, to ensure better monitoring of projects.
7. That the Government through the relevant ministries make available to Parliament a list of all ongoing physical projects indicating the budget allocated to their completion.

**e) Committee “F”**

1. Ask to intensify and promote gender-sensitive policies from the national to the base level.
2. Ask government to give attention to policy for educating disabled people.
3. Ask the Ministry of Education to make a plan, in coordination with line ministries, to guarantee access to basic sanitation, including clean water, to all schools throughout Timor-Leste.
4. Need to disseminate information about HIV/AIDS to students in pre-secondary, secondary and higher education.