



**P R I M E
M I N I S T E R**

**SPEECH BY HIS EXCELLENCY THE PRIME MINISTER OF THE
DEMOCRATIC REPUBLIC OF TIMOR-LESTE,
DR RUI MARIA DE ARAÚJO,
AT THE PRESENTATION OF THE
2016 DRAFT GENERAL STATE BUDGET**

**National Parliament
1 December 2015**

Your Excellency
President of the National Parliament

Your Excellencies
Vice-Presidents of the National Parliament

Your Excellencies
Honourable Members of Parliament

Fellow Members of Government
Ladies and Gentlemen
People of Timor-Leste,

It is a great honour and privilege to address Your Excellency the Speaker of Parliament and the illustrious Members of Parliament in this Great House to present the 2016 General State Budget.

This Proposal that I will be presenting and advocating today represents the financial, economic and social programmes and policies that are essential for the Sixth Constitutional Government to lead the country to improve the living situation of our people. In order to do so, it will be vital to manage public monies efficiently, to carry out the Government's Programme and to comply with the Strategic Development Programme 2011-2030.

Last April I stood for the second time before this illustrious audience with the responsibility of presenting the 2015 Rectification Budget, which was a continuity budget. It is with the same feeling that I now submit for discussion at the highest level the first General State Budget of the Sixth Constitutional Government.

Budgeting is never easy or quick. On the contrary, deciding on policies and priorities and their budgeting, to set a better course for the country and for the people, requires tremendous responsibility, detail and accuracy, particularly since it is also necessary to monitor and to assess previous budgeting acts to see if they achieved the expected outcomes or failed to do so.

The members of the Sixth Constitutional Government strived at every stage, assessing and reassessing the means to reach the goals to which they have committed themselves, while also taking into account the ability by each member to achieve their goals in previous budgets. We were demanding and focused on providing better services to the people and on eliminating superfluous expenditure, while not neglecting the economic and social growth and development of the country and the people.

The new Government structure enabled everyone to be aware of the commitments, programmes, activities and goals to be achieved in every ministry, making the necessary readjustments to prevent waste. This reorganization allowed us to focus our efforts to better understand what could and should be corrected, and to identify needs requiring new dynamics and priorities.

Consequently the 2016 draft State General Budget totals \$1,562.233 million, including loans. This covers the various budget categories, namely:

- **Salaries and Wages:** \$181.529 million;
- **Goods and Services (including HCDF):** \$468.988 million;
- **Public Transfers:** \$475.775 million;
- **Minor Capital:** \$17.565 million;
- **Capital Development (including IF):** \$418.376 million;

The amount we are proposing represents a slight reduction against the previous Budget and results from a realistic and thorough review of needs and priorities, taking into consideration the global situation and the low price of oil, which naturally effect the world's economy, without losing sight of the need to keep investing in areas that enable us to continue to diversify and grow our economy in a sustainable manner.

In order for Timor-Leste to become a medium-high income country by 2030 we need strong and quality growth in the non-petroleum economy. Between 2007 and 2012 the Government implemented economic policies that led to high growth rates, with the non-petroleum GDP growing an average of 10.6% a year.

These growth rates are due to quality investments in major infrastructure projects foreseen in the SDP and in the development of human capital, to create the necessary foundations for sustainable long-term development.

In the medium term it is estimated that the non-petroleum GDP will grow between 4.1% and 7.5%. This strong growth is based on the implementation of infrastructure projects and on a balanced mix between investments by the State, the private sector and households.

The outlook for Timorese consumers in the medium term is also positive. It is estimated that the level of consumption will grow steadily, while annual inflation will remain around 2%. This is lower than the Government's budget target of 4% to 6% between 2015 and 2018.

As for domestic revenues, we are estimating a very slight increase in 2016, with more significant results in 2017 as ongoing tax and economic reforms result in better performance of government services through higher collection and the increase of the number of people and companies paying taxes and fees.

Your Excellencies,

We acknowledge that the total Budget we are proposing today exceeds that which we initially set as the "fiscal ceiling".

When the Government promoted the "Budget Journeys", we did it with the goal of instilling greater fiscal discipline, reducing superfluous expenditure and setting the National Priorities for 2016. At that time we set a "fiscal envelope" of \$1.3 billion and determined that education, health, agriculture and basic infrastructure would be the key areas for investment.

However, those are not the figures that we are presenting here today. Additionally, the bulk of investment is in major infrastructure foreseen in the Infrastructure Fund, namely the Tasi Mane project, roads, ports and airports and sanitation, in economic and social development projects and programmes such as the Special Administrative Region of Oe-Cusse Ambeno, the Special Zone of Social Market Economy of Oe-Cusse Ambeno and Ataúro, in the pensions for veterans, the elderly and the disabled, in support to victims of natural disasters and through the Bolsa da Mãe programme.

Consequently we must now explain to the people of Timor-Leste, represented by the National Parliament, the reasons that led the Political Review Committee to make this decision.

The high investment in infrastructure was acknowledged as an essential stage of the national development strategy. As such, we drafted projects in accordance with the needs identified and started investing and building. Evidently, the multiyear nature of these projects require difficult planning and budgeting exercises, since the commitments made and the associated funding needs require us to take on responsibilities that must be shared as they result from national interest initiatives.

And that is exactly why we are committed to continuing the countless infrastructure projects started by successive Governments. These are major projects that have vital and crosscutting importance for the development of several sectors and of the country. We cannot slow down investment in these projects, lest we would compromise the sustainability, investment and commitments achieved so far. As such, while we did not achieve our goal in terms of meeting the budget ceiling, that exercise nevertheless contributed to even stronger discipline and reviews.

It is also important that we are humble enough to recognise that a realistic ceiling cannot be determined without precise knowledge of the cost of the implementation of programmes, policies and projects – in other words, the financial and budgeting needs of the sectors in each programme. This applies both when budgeting the implementation costs of an education policy setting criteria to ensure quality education, as well as when budgeting the costs of the infrastructure in which we are investing, since these are long term investments requiring complete rigour and assessment, lest we compromise the fiscal sustainability we have been advocating as being essential.

The planning exercise of which I speak is therefore vital, not only for this Government but also for the future Governments, so that they can determine fiscal envelopes that are more in tune with the actual needs and obligations of the State, without ignoring the budget sustainability of our young country.

Our commitment has always sought to achieve better service delivery for our people, particularly in the priority areas we have identified, and to make surgical cuts in unnecessary expenditure that does not deliver benefits improve the living situation of the people.

While drafting the State General Budget we also verified that better service delivery does not necessarily entail a nominal or proportional budget increase. The link between services and performance relates much more strongly to their implementation and to

management ability. This has led us to conclude that it is crucial to assess the actual needs and priorities of every ministry, not just at the level of their activities but also and more importantly at the level of their budgeting and implementation.

In view of this, we have considered it essential to create implementation mechanisms enabling better management through good planning and good budgeting, to show us actual costs. It was here we realised that while we may be lowering the budget, partly due to excessive budgeting of programmes and to an overestimation of the capacity for implementation, we are not neglecting our political priority to ensure the quality of service delivery.

One of the steps we considered to be crucial in this process is giving greater autonomy to agencies, institutions and ministries. The goal here is clear: as we give greater autonomy, we also demand greater responsibility! Good management and implementation ability, together with rigorous monitoring, will inform us of the outcomes so that a budget can be allocated. Indeed, we require evidence confirming the achievement of the desired outcomes.

Giving greater autonomy is part of the path we need to travel in order to have the State provide quality services, always under the ultimate responsibility of its leaders, who define sector policies and implementation strategies. We believe that in order to demand results we must give greater autonomy and provide proper working conditions, while ensuring that the respective leaders are held accountable.

As such, we want the finance system to change from the current ex-ante control to an ex-post control. In other words, the Ministry of Finance will no longer be required to approve each and every expense, since this responsibility will be progressively transferred to the Bodies and Ministries. This will be accompanied by human resource training and mobilization, in accordance with the requirements and the different capacities in the various State agencies.

However, this does not mean that leaders will no longer be subject to control and rigour and that they will not be held accountable. On the contrary, control will be carried out prior to the approval of a State internal control regulatory framework, to enable the transition from ex-ante control to ex-post control. In this way there will be different responsibilities between sector inspections and audits and the Inspectorate-General of the State when conducting systematic audits and holding leaders accountable.

Another measure to be consistently introduced in national development planning, particularly concerning infrastructure, is the creation of an Operation and Maintenance policy. We believe that this policy will contribute to make current investments sustainable, which is a justified concern of many illustrious Members of Parliament, and to boost long term job creation throughout the nation.

Your Excellencies,

The Sixth Government began an internal reorganization in order to ensure a link between the plan and the budget. Here we adopted a principle: one plan, one budget, one system!

We want to establish a Planning, Monitoring and Evaluation Unit in every government body, so as to create the structure and capacity to implement this process. The annual plans, performance reports and procurement plans and reports are planning, monitoring and implementation tools that, if used in a coordinated manner, will result in greater transparency and accountability regarding a ministry's performance in responding to the commitments made.

The illustrious Members of Parliament have already had the opportunity to receive and review the outcome of this effort when they received Budget Book 2. This Book shows that, for the first time ever, the annual plan is budgeted.

This exercise is the result of demanding work connecting the plan and the budget, done through a rigorous and discerning assessment of the activity plan. We have sought to use the same rigour in allocating it a budget. The goal here, in addition to adjusting the programmes and activities, is to allocate them a budget so there is a better link between them, and to have better connection between public expenditure and services provided.

This is the first attempt, carried out in a very short time, and should continue to be developed in 2017 and in the years after that, through a rigorous definition of programmes for each sector, integrating the plan, budget, implementation and verification of outcomes in an integrated manner in one system. The definition of programmes and their implementation costs, within a multiyear perspective, will prevent us from having to start from scratch when drafting the annual plan and the budget. Additionally it will prevent us from planning activities for which no budget is available.

Thus we will have new management tools in 2016, such as the expenditure activity implementation plan and the procurement plan. These will require government bodies to further detail and schedule the acquisition of goods, services and works, in order to have greater accountability in the physical and financial implementation of programmes.

Along with planning and budgeting we will also be regulating monitoring and evaluation. Monitoring the plan and budget and evaluating the impact and the resulting benefits for the people mean guaranteeing efficient, effective and fair service delivery, with tangible benefits in the lives of all.

With the start of this procedure, Your Excellencies can scrutinise and verify more easily the specific annual goals that we identified in the plans. This will make the operation of the Executive increasingly transparent and accountable.

Additionally, this mechanism created by the Government will also require closer collaboration between the persons responsible for the various areas. This will improve outcomes and more importantly enable the timely identification of constraints to implementation, allowing us to take due measures and precautions to ensure programme efficiency and effectiveness.

And because better service delivery requires trained human resources, we will continue providing professional training, technical training and scholarships through the Human Capital Development Fund. In 2016, as a result of the reallocation of funds from programmes of Technical Assistance to the Judiciary and Tertiary Sectors, the Fund will focus mostly on general training programmes that will benefit every sector.

In order for its use to be even more precise, starting in the first quarter of 2016 we will have the outcomes of the “National Mapping of Human Resources in the Public and Private Sectors by municipality” and the “Assessment of the Outcomes of HCDF Programmes in 2011-2014”. These studies will enable a better evaluation of the outcomes achieved so far and a better understanding of needs, helping us to identify the areas requiring more investment to train and build the capacity of our human resources to enable them to be competitive in the job market.

Your Excellencies,

Timor-Leste should continue stimulating investment and building an attractive investment environment. Consequently we are committed to reforming the public sector. This entails the implementation of strategic reforms, which will take place over a few years and should enable Timor-Leste to be successful in the path towards sustainable national development.

Legislative and Justice Sector Reform will improve the capacity of the legislative and judicial sectors, which in turn will ensure and protect the rights of the people, particularly in access to justice.

Tax Reform, which covers revenue and expenditure policies, public finance management systems, tax and customs administration, State management and outcome monitoring, with a special focus on service delivery and human resources, will enable us to, among other things, increase State revenue, improve service delivery and improve budget quality.

Public Administration Reform, which includes the diagnostic evaluation of human resources, the establishment of competency standards, the revision of the payroll table and the identification of the organisational structure, will create conditions for making the State more efficient, effective and accountable. This also entails giving public administration the conditions to be able to implement its competences for serving the public interest, while providing staff with the conditions to perform their tasks adequately. Indeed, we can only demand rigour, ethics and professionalism if people are duly trained and placed in the right positions for performing their tasks.

These are the measures that we believe will create the conditions for generating the investment and economic diversification that are so essential for the country, and which must be accompanied by a strategy that focuses on people and infrastructure and that seeks to create conditions to nurture private investment.

This is why the Government has approved the implementation of an Economic Reform and Promotion programme that, in a strong relationship with the Tax Reform Programme, will create measures to develop, strengthen and support the private sector,

which in turn will generate sustainable employment and diversify our economy. We want to improve the atmosphere in the private sector, and in order to do so we are aware that we must regulate land and properties, develop economic infrastructure, focus on the training of human resources and the development of the workforce, create a business-friendly environment and nurture private investment and development.

We also want to strengthen our banking institutions. This will include capitalising the Central Bank of Timor-Leste (BCTL) and the National Commerce Bank of Timor-Leste (BNCTL), so that the latter creates conditions facilitating access to credit and investment in sustainable and employment-generating projects, particularly in rural areas. We are hoping that this will result in the emancipation of the private sector in commercial and investment areas, so that the State can cease to play the leading role in those areas and can concentrate further on safeguarding social issues.

Your Excellencies,

2016 will be the year in which we will be implementing all these mechanisms and instruments, which will help us to have responsible, efficient and sustainable management, so that public monies can be spent properly, creating conditions for generating investment and diversifying the economy.

We also believe that the present draft General State Budget will have a clear impact on the next Government. The 2016 draft Budget by the Sixth Constitutional Government includes an amount for paying debts. We believe that the Government to be elected in 2017 should have the best possible conditions, which is why it is essential to settle debts responsibly, while at the same time safeguarding the integrity of the State and the confidence placed in it.

This is an attitude that will enable the next Government to have its own development programme and to continue assuming the implementation of the Sustainable Development Goals already approved by the Council of Ministers and Parliament. We believe that this will lead to the sustainable growth and development of Timor-Leste, making it a prosperous country and improving the quality of life of our people.

And it is precisely within this perspective of “aligning planning and budgeting instruments and systems with the Sustainable Development Goals”, suggested by Your Excellencies to the Government, that we acknowledge the importance of getting everyone involved.

With the preliminary results of the Census 2015, in which we see that our population has increased to 1,167,242, we are committed to continuing to promote and ensure an atmosphere of safety, peace and stability – a goal in which Timor-Leste is recognised to have had an active participation. At the same time, we will continue focusing on such fundamental policies as gender equality, which has already been strengthened through the recent signing of the Maubisse Declaration, and the protection of disabled and vulnerable persons.

Since most of our population is made up of young people, we want to continue stimulating the quality of academic and professional training and promoting employment opportunities, so as to enable those young people to lead dignified, active and inclusive lives, and to take part in the development of the nation. Because they are

the future leaders of the country we must also make them aware of issues concerning climate change and natural disasters, which must be taken very seriously since they can greatly affect the sustainable development of the country and the society.

In relation to this, allow me to state that we have already created a working group to implement the Sustainable Development Goals. This working group will carry out crosscutting actions to ensure that Timor-Leste meets its commitments under the 2030 Agenda for Sustainable Development.

The fight for full sovereignty is a vital and priority action that can only be achieved with the definitive demarcation of our maritime boundaries. We are conducting this process with full perseverance, since the rights of the Timorese cannot be relegated to the background of the priorities of the State.

Our external action plays an important role here. As such, we continue striving to strengthen our position in the international forums. The membership in ASEAN and the leadership of the CPLP, in which we hold the pro tempore presidency up until the middle of next year, also position us in a hub leveraging economic growth. We will also continue honouring our commitments to supporting fragile countries through the g7+ group and the Timor-Leste Cooperation Agency, to help the development of countries that are so close to our hearts.

Your Excellencies,

We have just finished celebrating the fortieth anniversary of the Proclamation of our Independence and 500 years of contact between the Timorese people and the Portuguese people, which has contributed significantly to the forging and affirming of our identity.

This year we are also celebrating thirteen years as an independent Nation. We benefit from a stable environment with peace and security. This has enabled us to draft a consensus policy on the best strategy for the country, with national interests coming before individual interests. We can all take great pride in this.

I would like to conclude by urging everyone to have an honest and constructive debate, as the illustrious Members of Parliament are known to do, so that we can strengthen our democratic system. Let the discussions concern the policies and their respective budgets, in order to serve the most important interest of ensuring the quality and relevance of the State budget for 2016. For the good of the Nation!

Thank you very much.

Dr Rui Maria de Araújo
1 December 2015