

**Excerpts from 75-page Portuguese Report and Opinion on the proposed
2016 General State Budget submitted to Parliament on 26 November 2015
by its Committee on Public Finance.**

Rough unofficial translation by La' o Hamutuk.

For more documents and information, including the complete Portuguese original, see
<http://www.laohamutuk.org/econ/OGE16/15OGE16.htm>

V. CONCLUSIONS AND OPINION

This document produced by Committee “C” primarily makes a general analysis of the Draft General State Budget Law (GSB) submitted by the Government for 2016, which takes as its starting point the fulfillment of the Government’s Strategic Development Plan.

Upon the completion of the public hearings with members of Government and the heads of the various relevant areas of public administration, as well as with national and international entities, and attentive to the Opinions of the other Specialized Standing Committees, written contributions received by the Committee and analyses and submissions produced by the technical services, the Committee conducted a general discussion, which resulted in this report and formulation of competent opinion in procedural terms, which concluded that the following conclusions of this Report and its annexes should be considered, in place of review of the proposal by the Government.

- a) Are the provisions on monitoring and supervision of budget execution on behalf of Parliament (Article 7 of the proposed law);
- b) Keep the same standards with regard to authorization limits for carrying out public spending through exceptional mechanisms of direct award;
- c) The proposed 2016 State Budget makes no reference to levels of compliance with the 2011-2030 National Strategic Development Plan, not considering that the end of this year will be the end of the first of three cycles of this Strategic Plan (2011-2015; 2015-2020; 2020-2030) or new measures that address the integration and coordination of the various planning and management systems;
- d) The draft 2016 State Budget does not consider, as in previous years, the “non-financial debt” (State debts to suppliers of goods and services), with no references to the values and amounts of these obligations, as does not include information relating to payments to suppliers and providers of goods and services to the state.
- e) There are no new measures to improve or control in the register of cash income or initiatives to regulate payments of expenditures, in particular through the use of its execution by electronic banking - thus avoiding fraud, misuse of funds and allowing greater control of budget execution.
- f) The draft 2016 state budget provides for an overall expenditure of \$1,562,233,000, to be financed by revenues of the same amount. It estimates a level of almost the same expense as the current 2015 Budget, with a slight reduction of about \$8 million. The total amounts of expenditure remain well in line with the 2015 State Budget, so it does not appear that there is a gradual approach in the level of spending toward initial projections advanced in the 2016 State Budget “Jornadas Orçamentais”, or in the joint March 2015 report from the Ministry of Finance and the World Bank on “Public Expenditure Review on Infrastructure”;
- g) Although the expectations were to reduce the next budget, the Government maintains a frontloading policy to achieve its long-term goal of becoming a medium-high income country by 2030, and it announced that it would give priority to expenditures in infrastructure and key economic sectors including tourism, agriculture and petroleum, and promote investment in the social sectors of health and education.

- h) The new Government strives to reduce non-essential expenses and this is visible in “cuts” to “Travel abroad” and the category of goods and services (-8.8%) and Minor Capital (-46.5%), regardless of a prediction by Committee “C” that the ministries will come back, as usual, distorting their budgets and exceeding allocation limits the items to be monitored, jeopardizing the execution of others that have been programmed.
- i) In general the budgets of line ministries have been reduced to increase the budget of ZEESM (+63%) which now represents 13% of the 2016 State Budget in which the main component is infrastructure, and infrastructure investment through the Infrastructure Fund (IF) (+18.7%).
- j) The economic and social sectors will be greatly penalized by the next State Budget, with “cuts” of 26.3% and 15.2% respectively.
- k) Revenues that must finance this spending are petroleum (82.2%) and non-oil (17.8%), but the activity of the Government of Timor-Leste and the country’s economy continues to rely excessively on oil revenues, at a time which the oil and gas production is declining faster. The total exhaustion of oil production is announced for 2021. At the end of the 3rd quarter of 2015, the capital of the Petroleum Fund was lower than in the previous quarter.
- l) The 2016 State Budget proposal includes a request for Parliament to authorize withdrawals from the Petroleum Fund above the Estimated Sustainable Income (ESI), translated in Article 4 of the proposed law approving the state budget of 2016. The budget calculates ESI for 2016 at \$544.8 million, but, the government still asks the National Parliament for permission to transfer \$1,284 million from the Petroleum Fund by the end of next year.
- m) Public debt is expected to contribute \$107 million to finance development capital expenditures, conforming to agreements with international financiers for multilateral programs through the Infrastructure Fund.
- n) Article 5 of the proposed 2016 State Budget Law sets new limits on borrowing, with concessional debt authorization changed to \$850 million in respect of costs of concessions (PPP), with a term of 40 years. This debt value neither harms no conflicts with the loans of \$170 million reported in the previous paragraph.
- o) The amounts in previous years’ state budgets were limited to \$500 million, although the first Public-Private Partnership (PPP) contract, related to the construction and management of Tibar Port, had not yet been concluded. Since this burden represents more than double the estimated costs of the Tibar Port PPP, we expect that the government, which is already preparing to make new PPP commitments next year, and the Government’s budget proposal is included in “Appropriations for whole of government,” a provision of \$1.487 million for Public-Private Partnerships and Loans.
- p) The Executive does not intend to carry over the Treasury cash balances (CFET) and Special Funds (IF and HCDF) to finance expenditures of the 2016 State Budget, explaining that they have no expression. The low level of budget execution in 2015 contradicts the statements of the Government.
- q) Recurring expenses should absorb \$1,130 million (72% of GSB) while capital expenses will absorb \$435.94 million (28% of GSB).
- r) The proposed State Budget submitted by Government to Parliament keeps the budget structure in place and organizes the budget in line with changes to the organizational structure of the VI Government, following the approved 2015 rectification budget. The Committee’s support services identified inconsistencies in the description of certain integrated services in line ministries in relation to the respective organic laws passed by the Sixth Constitutional Government and they should be standardized by the National Parliament during the specialty consideration phase in plenary.
- s) Increased investment in Oecusse region, by transferring funds to the Region and ZEESM, amounts to a total of \$217.9 million;

- t) The increase in budgetary allocations for the Infrastructure Fund of \$275.869 million (IF execution estimated in 2015) to \$376.709m in 2016 (including loans), representing an increase of 26.76%;
- u) The importance and the amounts involved in the Tasi Mane Program suggest the need for a comprehensive and strategic evaluation of its various projects, without which it will be hard to understand all the investment in associated infrastructure, which are also included in this program, particularly to allow an actual knowledge of the main projects which model the Program (LNG Plant and Supply Base);
- v) The 2016 State Budget proposal provides for a significant increase in resource allocation to the Oecusse/Ataúro Regional Authority (RAEOA), predicting an overall budget of \$217.9389 million (compared to \$133.429 million in the 2015 State Budget), corresponding to an increase of 63.3% (of which \$23 million should be withdrawn from Development and Contingency Funds).
- w) Revenues from RAEOA include taxes on income (wages), raising the question of whether there is already a legal basis to do so, given that the collection and tax collection is up to the Government of RDTL, recommending a clarification on this situation.
- x) Aware of the conclusions of the Technical Note no. 27/2015/DIPLN, the Committee on Public Finance considers that draft Law no. 33/III (4a) approving the State Budget for 2016 legally qualifies to ascend to the Plenary of the National Parliament for consideration in generality.

VI. RECOMMENDATIONS FROM COMMITTEE C

To the Government:

1. The draft 2016 State Budget does not consider, as in previous years, the “non-financial debt” (State debts to suppliers of goods and services), with no references to the values and amounts of these obligations, as does not include information relating to payments to suppliers and providers of goods and services to the state.
2. The importance and the amounts involved in the Tasi Mane Program suggest the need for a comprehensive and strategic evaluation of its various projects, without which it will be hard to understand all the investment in associated infrastructure, which are also included in this program, particularly to allow an actual knowledge of the main components of the project;
3. Revenues from RAEOA include taxes on income (wages), raising the question of whether there is already a legal basis to do so, given that the collection and tax collection is up to the Government of RDTL. To rectify the situation we recommend that the Regional Authority urgently adopt its own tax regime as provided by paragraph 11.1(b) of Law no. 3/2014 of 18 June.
4. The Executive does not intend to carry over the Treasury cash balances (CFET) and Special Funds (IF and HCDF) to finance expenditures of the 2016 State Budget, explaining that they have no expression. The low level of budget execution in 2015 contradicts the statements of the Government. It is recommended that the Government provide current information to Parliament during the generality plenary debate of the budget proposal.
5. The names of some ministries and services also appear in the FreeBalance system and the Ministry of Finance Transparency Portal - in English, creating additional reading difficulties for Members and the general public. It is recommended that the Ministry of Finance attend to this situation.
6. That in future international tendering procedures, The National Procurement Commission (CNA) use stricter selection criteria in order to avoid the recurrence of situations like the recent one caused by hiring a Korean company for a South Coast project, and welcomes the recommendations of the Audit Chamber of the Court of Appeal.
7. That the process of drawing up State Budgets be reviewed, so that the spending the define begins to be more in line with the actual execution capacity and begins to respect the fiscal envelope set

in May of each year in “Jornadas Orsamentais” (Yellow Road), avoiding the waste of increasingly scarce petroleum resources.

8. To review the current legal standard that allows the free transfer of funds between expenditure items in the same category as a way to prevent the subsequent distortion of the state budget approved by National Parliament. This recommendation has been successively taken into account in earlier reports and opinions of the Committees “C” and “D”.
9. The Government has been focusing on investments in various productive sectors, including petrochemical, agriculture and tourism. The Committee strongly recommends that the Government also addresses the need for support to micro and small businesses.
10. That future budget proposals match the allocation of resources to the priorities set out in the program and seek to invest more actively in human capital, rebalancing the investment in “people” and in infrastructure.
11. That an “Integrated Gender Approach” is applied, introducing a budgeting approach to greater transparency in the budget process and planning at the highest level of planning and coordination of the Government to ensure that all ministries and institutions the State have adequate capacity on gender equality and that the Government can monitor their commitment to gender equality, with the greatest possible efficiency.
12. The Ministry of Education continue efforts to consolidate teaching in Tetum and Portuguese in place of unofficial languages in Timor-Leste’s education system, through ongoing training and capacitation of primary and secondary school teachers.
13. The Committee notes with concern a reduction of 22% in the 2016 budget allocated to Socio-economic Promotion of Women. It recommends more effort to increase the success rate and overall impact of the activities of SEAPSEM adopting the strengthening of monitoring mechanisms and monitoring of ongoing projects, rather than the mere award of funds and transfers. The projects cannot summarize the distribution of monetary support and entrepreneurship without rigor that in many cases are abandoned by the beneficiary, for lack of monitoring of the promoted entity.
14. The general system of social security and pensions is not yet a reality for the people of Timor-Leste; the Committee recommends the implementation and presentation in 2016 of the plan and proposed law for a universal and contributory social security system to ensure the economic sustainability of pensions for the elderly and other disadvantaged groups for future generations.
15. Reiterates the Ministry of Finance to register in CFET in “Appropriations for the entire government,” a budget next year to cover the costs of maintaining the infrastructure already completed, particularly roads, and this is acknowledged in relation the purpose for which it is intended.
16. Take the necessary steps to publish the Decree-law governing the Autonomous Service SNI;
17. Take steps to accelerate the approval of the Statute of the Diplomatic Career and respective Remuneration Statute.
18. That the Office to Support the Activities of the Presidential Spouse present a report of activities and a report of budget execution. This Committee would like to highlight the fact that, according to the Organic Law of the Presidency of the Republic, Article 7, and the budget allocation for this office is only intended for secretarial support and protocol representation and cannot be used for another purpose.
19. That the President of the Republic cease carrying out budgetary expenditures to finance activities in the fights against poverty, hunger and malnutrition, as these areas of activity are reserved to the executive. In this regard, the Court of Appeal ruled last on the unconstitutionality of the financing of such activities when carried out by the President.

20. The Government must determine the intended purpose for grants awarded to the Church through the Office of Support for Civil Society integrated in the Prime Minister's Office, linking the use of these financial resources with the social and educational activity of the Church.
21. In the face of what appears to be a practice that contradicts the legislation and the potential risk of creating organic dysfunctions, should be clarified as soon as possible, in strict compliance with applicable law, the hierarchical and functional subordination of civil servants and directors of the various ministries and other public institutions of government in service of RAEOA.
22. That it approve the career and pay scale of the employees of Radio and Television of Timor-Leste (RTTL, EP) under Article 8 of the Statute of Radio and Television of Timor-Leste and that the company produces multiannual plans and financial activity, as provided for in Article 22 of the Statute of RTTL, approved by Decree-Law No. 42/2008, of 26 November. This strategic document is the basis for planning the necessary funding to the institutional development of the company. The existence of this plan to be drawn up in accordance imposed by Decree-Law above, should be a prerequisite for funding from the state budget.
23. That the Ministry of Petroleum and Mineral Resources (MPRM) and the Institute of Petroleum Geology give attention to the situation that happened with the employees of the latter of which have been recently laid off without justification, and create mechanisms to prevent future leakage and the dismissal of qualified employees whose high training costs have been borne by the State.
24. Some accredited higher education institutions in TL do not deliver proper quality education. For this reason, their accredited graduates cannot be absorbed by the labor market. It is recommended to the Ministry of Education to urgently reformulate the education system so that the HR training provided by these institutions answers the staff needs of the labor market.
25. Despite extensive spending on school infrastructure construction in recent years, the Committee notes that there continues to be poor quality of some projects, often carried out in non-integrated form and requiring second and third interventions to construct facilities and basic access (Water, Electricity, Fences, Landscaping, access roads, etc.) that were not foreseen in the initial designs. In this context it is recommended that the Ministry of Education give greater concern to quality and accuracy of new and ongoing projects, especially in the Designs and Terms of Reference of the various forms of projects ensuring the inclusion of all essential facilities for the immediate operation of the new school installations.
26. That each ministry identifies its concrete strategy and goals in its plan of action to achieve the commitments to gender equality and ensuring proper budget execution for all commitments made by the Prime Minister in the Maubisse Statement on October 15, 2015.
27. That the investments scheduled for the Special Region of Oecusse and Special Zone of Social Market Economy of Oecusse-Ambeno and Ataúro, as set out in its own program, begin to be included in the IF program, although in a separate subprogram;
28. The power plants of the country have been using only diesel fuel instead of replacing this fuel with heavy oil or gas to reduce the energy bill of the country and consumers. There is an old commitment of the Government to carry out such replacement, and generators are now even adapted to this solution. It is therefore recommended that the Government implement this step to a most economical solution, if proven safe for health.
29. The Government acquired in 2015, 5,000 prepaid electricity meters that have been installed. However revenue from electricity sales continues to be very much less than the costs of production. It is important that the Government increase surveillance on illegal consumers and purchase and install more prepaid meters to increase non-oil domestic revenues.
30. Vehicles from Timor-Leste which cross the border to Indonesia have to pay a visa, but the same does not apply to vehicles from Indonesia entering this country. It is recommended that the Government urgently regulate the situation.

31. As economic diversification is considered strategic by the Government, it is important to balance, for example, diversification of petroleum investment, with other financial instruments, such as the capitalization of state-owned businesses, as is the case with Timor Telecom, to increase its profitability and ensure returns for the state.
32. Given that there is still an obvious lack of qualified human resources in the country and that the government only allocates 2% of the state budget next year to the Human Capital Development Fund (HCDF) (34 million dollars), it is recommended that the Government strengthen this Special Fund in fiscal year 2017, given that the qualification of human resources is still a major challenge for the country, despite being one of the priorities of the Sixth Constitutional Government.
33. The vast majority of public companies, such as TIMOR GAP, EDTL or RTTL, receiving almost all of their budgets annually through the state budget, continue after several years without increasing their creativity to be able to produce services and be profitable, so that they can gradually become self-financing in the medium term. The problem may be related to the lack of training of their employees, but the Government has to give urgent attention to this situation and limit financing this “lost money” from the State Budget.
34. The execution of Special Funds benefits from some flexibility in terms of management. However this broad flexibility could jeopardize the implementation of projects which are listed and whose budgets have been approved by the PN. It is necessary that the respective Board of Directors safeguard the flexibility of IF and HCDF, but with due caution.
35. Severe global climate change has also affected the agricultural production of Timor-Leste and the continuing drought is proof of that. Although the development of the agricultural sector is a priority for the VI Government, it is recommended that the Government legislate urgently on the management of water, like Brazil and others who suffer from similar problems have already done.
36. The total amounts of expenditure remain in line with the 2015 State Budget, so we do not see a gradual approach to the level of state budget expenditure, the fiscal envelope, recommended by the Government in the “Jornadas Orçamentais 2016” (of \$1.3 billion), as well as in the March 2015 Joint Review of the Ministry of Finance and the World Bank on “Public Expenditure on Infrastructure”, exceeding the earlier fiscal envelope by \$262 million. It is recommended that in the future, the Government be more consistent in its decisions.
37. That ensures a strong increase in resources allocated to the Department of Decentralized Procurement of the Ministry of Health, to ensure the performance and adequacy of procedures for procurement of essential materials and services for the National Health System in a timely manner during the budget execution cycles. The Committee notes with concern the substantial reduction in the budget for Health (-24.9%). Some of the reductions are related to poor execution of the budget in 2015, justified by difficulties in the supply of goods and technically complex equipment which require International Tenders.

To the National Parliament

38. The Government did not provide the National Parliament with data on social and economic benefits that reverted to the people of Timor-Leste and especially for state institutions, from investment in human resources since the creation of this special fund, success rates, weaknesses and challenges of the respective management and further recommendations for the future. These issues should be taken into consideration by the National Parliament when approving the proposed budget allocation for the HCDF.
39. The Committee’s support services identified nonconformities in the description of certain integrated services in line ministries in relation to the respective organic laws passed by the Sixth Constitutional Government, which should be made uniform by the National Parliament in the plenary consideration by the specialty.
40. BCTL is in a capitalization phase that will take its share capital from the current \$50 million to \$100 million expected in 2017. Recognizing as valid the reasons given by the Central Bank of

Timor-Leste for the increase in its capital, Committee endorses Committee's "D" concerns and strongly suggests reinforcing the capital of its Central Bank, not the five million in the 2016 State Budget, but to the \$10 million that was committed earlier.

41. That there is an urgent need to strengthen the legislative framework and the law of the land that still need to be completed and that are essential to the economic development of the country.
42. The Committee reiterates its recommendation to the National Parliament to review and articulate in the 2016 State Budget Law a 10% limit of "direct awards" so that it will report exclusively to the budget that each ministry has the category of FCTL "goods and services" and remove from the bill the possibility of unlimited use of direct awards through the ministerial line "Appropriations for Whole of Government."

COMMITTEE D RECOMMENDATIONS

1. "It has been the subject of much criticism the fact that the rate of State Budget execution is normally well below 100% [...]. The repetition of this fact over the years the main problem refers more to the **DRAFTING** of GSBs --- which causes them to be systematically oversized [**big** budgets] relative to the capacity for execution --- than for the **EXECUTION** process itself [**little** execution]. **It is recommended, therefore, that the drafting process of the State Budget be reviewed so that the amounts contained therein are more in keeping with the actual capacity for execution.** There are, for example, many cases where state agencies, while having a low execution rate, continue to be appropriated high amounts relative to the last budget execution."
2. The Government, when drawing up the fiscal envelope for this year in the 2106 "yellow road" pointed to an expense in 2016 of \$1,300 million and in 2017 about \$1,200 million. Committee "D", considering the current and future available resources and in the near future due to the expected developments in the country's petroleum revenues and the Petroleum Fund, regrets that this amount indicated for 2016 has been exceeded and reiterates its suggestion to the Government (and the Plenary of the National Parliament) to try to reorganize the state budget to a maximum of about \$1200-1300 million, if not in GSB 2016 at least in the GSB 2017. This must be seen as part of a medium-term strategy to transition to a time when public spending should be further reduced to comply with the financial resources that the country will have in the coming years, until revenues from Greater Sunrise begin to enter the Petroleum Fund --- which is an uncertain date at this point, which can only occur in an extended time horizon.
3. An integral part of a strategy of gradual correction of the amount of GSB appropriated --- and we encourage the government to do it with the urgency required --- that an essential step is to **review the budgeting process** which will avoid, we are certain, many resource wastes that currently occur. A component of the review of the budget preparation process and its execution should be, we believe the revision of the current rule which allows funds from free transfer between lines in the same category and the same, albeit with restrictions, from one expense category to another. What we consider to be "excessive" freedom of money transfer discourages the accuracy of budgeting which is then echoed in its execution. Note that this "freedom" of transfer of resources ends up often detracting from the State Budget as approved by the National Parliament, making the Deputies adopt one budget and the government then performs "another", which does not seem to be the best solution in the relationship between sovereign bodies which respects their specific mandates.
4. Without questioning the need to correct the virtual abandonment that has historically been inflicted on the development and inhabitants of Oecusse and the Tasi Mane development effort and the capital region of the country, Committee D recommends to the Government and to the Plenary of the National Parliament that the allocation of resources in GSB 2016 and future budgets should take into account the **need to ensure a better balance in regional development of our country**, not "leaving behind" areas such as the municipalities of Manatuto up to Jaco and also Aileu, Ermera, Ainaro and Bobonaro. The recovery of postponing development of these vast areas will inevitably be more difficult than a more harmonious development process from the very beginning of the country's development process.

5. Allow us to finish with two interrelated comments relating specifically to GSB16. The first to point out that the **actual allocation of resources does not correspond, in reality, with the priorities stated as government policy.** In fact and contrary to what is stated in the text of Budget which refers to as priority not only physical infrastructure but also sectors such as education, health, tourism and agriculture, the respective Ministries and allocations for these sectors in current expenditure and the Infrastructure Fund dropped, in some cases very significantly, from GSB15 to GSB16. The Committee on Economy and Development of the National Parliament and with it, Committee C, strongly suggest that government which proposed the budget consider changes which aim to match the proclaimed options with the resource allocation in the State Budget;
6. The second point which refers to a broader view of the previous point is that the Government **will seek to invest more in the “people,” in the human capital of Timor-Leste --- i.e., the Timorese --- and a little less on “things”, looking for a rebalancing between these and other investments** that will improve human development of our country and reduce the gap that exists between it and the neighboring ASEAN countries that we have the right to belong to.