

**REPORT OF NATIONAL PARLIAMENT COMMITTEE D ON PROPOSED GSB 2022**

*Rough unofficial translation by La'o Hamutuk. More information on the 2020 State Budget is at <http://www.laohamutuk.org/econ/OGE22/21OGE22.htm>*

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**NATIONAL PARLIAMENT**

**Committee on Economy and Development**

Excellency,  
President of the Public Finance Committee  
**Mrs. Maria Angelica Rangel da Cruz dos Reis**

Date: 22 November 2021

Ref. No. 27/4th/V/Com. D

Subject: Submit the report and sectorial opinion of PPL 35/V/4th of the GSB for 2022.

Madam President,

The Economy and Development Committee is honored to forward to Your Excellency the report and sectorial opinion of PPL no. 35/V/4th of the General State Budget (GSB) for 2022, which was approved at the extraordinary meeting of the aforementioned Committee, held on Monday 22 November 2021, with 7 votes in favor, 0 votes against and 2 abstentions.

On behalf of the Committee, I subscribe with high esteem and consideration.

The President of the Committee,

/s/

**Deputy Antoninho Bianco**

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## **I. Introduction**

### **I.1- announcement of the entry of the Proposed Law**

The Law Proposal (PPL) no 35/V (4th) -- **GENERAL STATE BUDGET FOR 2022** was entered on the table of the Presidency of the National Parliament on 15 October 2021 and, by order of His Excellency the President of the PN of the day itself was sent to DIPLN for the preparation of the Technical Note.

The proposal was subsequently sent to Committee C to prepare the report and opinion and to the other specialized Committees to prepare a specialized technical opinion, to be sent to Committee C to be considered in the preparation of its Report.

This Note has the number No. /2021/DIPLN and is dated 18 October 2021.

The Bill is written in one of the official languages, in this case the Portuguese language, is presented in the form of 24 (twenty-four) articles distributed in five chapters, contains a title that translates its main object and is accompanied by a “ Explanatory Memorandum”.

The PPL is accompanied by an annex with the following budget tables:

#### **Annex - Budget tables**

- Table I - Revenues and Expenses of the Administrative Public Sector;
- Table II -- Revenues from Central Administration bodies and services;
- Table III -- Expenses of Central Administration bodies and services;
- Table IV and Revenues of the Special Administrative Region of Oe-Cusse Ambeno;
- Table V and Expenses of the Special Administrative Region of Oe-Cusse Ambeno;
- Table VI - Social Security Revenue;
- Table VII - Social Security Expenses.

As stated in the Technical Note of DIPLN of this National Parliament,

#### ***“Conclusion***

*For these reasons, the formal constitutional, legal and regimental requirements are lengthy, whereby the legislative initiative can be admitted and download the Public Finance **Committee (Committee C)** and the other **permanent specialized committees**, for initial consideration.*

*The initiative must be processed in accordance with the rules established in Articles 162. or 169. of the Rules of Procedure of the National Parliament.”*

### **I.2 - Competence of the permanent specialized committees**

Pursuant to Articles 79 and 80 of the PN Rules, the specialized permanent committees are responsible for holding public hearings with the participation of public entities and civil society to discuss the legislative matter under consideration and with a view to preparing the report and/or opinion to which refers to Art. 103 of the NP Regulation.

## **II. The Work of the Committee**

After receiving the text of the PPL in Committee D, the President of the same asked the economic adviser of the National Parliament to the Committee to prepare a proposal for an opinion to be submitted to the appreciation of the Committee members on November 22, 2021.

It was decided to carry out public hearings on the initiative of the Committee, which are shown in the table below. In addition, Committee D joins Committee C in some of the hearings scheduled by the latter.

The program of the Committee D’s initiative hearings was as follows:

*The report includes many tables and graphs which are not reproduced here. They are available, in Portuguese, at <http://www.laohamutuk.org/econ/OGE22/211122RelComDPPLJE2022pt.pdf>*

### III. ANALYSIS OF THE CONTENT OF THE PROPOSED LAW

1. Introduction: What is a budget for?
2. overview; and
3. main issues raised and suggestions for improving the diploma

#### 1) INTRODUCTION: What is a budget for?

A State budget (actually the Central Administration Budget) forms, together with the Social Security Budget (OSS) that of the RAEOA, the General State Budget (GSB).

In this report and opinion, only the first one is in question, that of Social Security is the object of a specialized analysis by another specific Committee of the National Parliament, Committee F.

A Budget (from now on the term refers only to the “Central Administration Budget” or “State Budget”) provides a set of State revenues and expenditures within the framework -- and as a form of execution -- of a given economic policy (in the broad sense). The Budget **IS, THEREFORE, NOT AN END IN ITSELF**, but rather an instrument for implementing the aforementioned economic policy.

This, in turn, aims to correct certain problems in the functioning of the national economy, whether they are more conjunctural, in the short term, or more structural, in the long term.

this requires the identification of both (the **objectives** of economic policy) and, in a first phase, the definition of **priorities** in “attacking” them.

In the case of the GSB22, we have the following declaration by the Council of Ministers (Communiqué from the CoM of 6 October 2021) establishing, although not in a rigid and hierarchical manner, the priorities of economic policy and the budget:

- “The VIII Constitutional Government defined six national priorities for the 2022 State Budget:*
- 1) development of human capital (education, professional training and health);*
  - 2) housing and social inclusion;*
  - 3) productive sectors (agriculture and tourism), environment and connectivity;*
  - 4) private sector development;*
  - 5) rural development; and the*
  - 6) good governance.”*

These priorities are, to a large extent, an “inheritance” from those defined in the Economic Recovery Program (PRE) approved in mid-2020 (August) and which, for this very reason, it was not possible to fully translate into the GSB21, which was being prepared at the time.

This is not the case of the GSB22, which was fully prepared under that PRE.

One of the main aspects of our work in this report is, therefore, to analyze the Government’s budget proposal for the next year against the backdrop of that PRE because, as we said, this was the Government’s orientation for the preparation of the GSB22. We have, therefore, to verify that the revenues and, mainly, the proposed expenses are supported by the PRE and will allow it to be executed.

This, of course, if we assume, AS WE STARTED, that that program correctly identified the main problems in the functioning of our economy and, in general, of our society.

Let us remember that he, who owes much of his inspiration to the concept of human development, defined some priority areas for future action (heads of the ‘chapters’ of the PRE):

1. Agriculture (and small agri-food industry)
2. Tourism
3. Housing
4. education
5. Health
6. Social protection
7. Institutional aspects [good governance]
8. Fiber Optic Installation
9. Renewable, sustainable and alternative energies

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This listing, NOT being in itself a list ordered by relative importance, coincides rather with the priorities identified above as those of GSB22. If we wanted to summarize the **thinking behind the State Budget and the PRE we would say that the main objective seems to be the improvement of the human development of Timor-Leste, namely (but not only), the significant improvement of food (due, in particular, to its consequences on the health of the Timorese), of education and of the health of the Timorese.**

In the tables below we can see information about the economic and social situation of our country compared to others in Southeast Asia. As a result, **Timor-Leste compares poorly with almost all other countries in the region,** and the figures released are a **reminder of how much more needs to be done to improve the standard of living of the Timorese** - which requires the allocation of significant resources in many of the areas mentioned both in the priorities mentioned above and in the indicators below. We will see if so and in GSB2022.

*[many graphs and images omitted]*

“*Stunting*” can be defined as the delay in growth (in height) of children under 5 years of age mainly due to nutritional deficiencies.

“*Wasting*” can be defined as the existence of a child’s weight below what would be normal (thinness) due to poor nutrition.

In both cases what is at issue is therefore the malnourishment of children.

By the way, look at the **situation in the short term** resulting from the deficiencies of our economic structure but also associated with the COVID-19 pandemic and other factors according to Book 1 of the GSB22, pg. 12:

*[more excerpts and boxes]*

Note in the graph above that GDP per person in Timor-Leste is, in the group of Southeast Asian countries, almost always the lowest (along with that of Myanmar). This indicator, together with other factors, is reflected in the other extremely low indicators for the country mentioned above.

*[more excerpts and boxes]*

From what is illustrated in the tables above, it is concluded that the country is faced with the need to correct both its many structural deficiencies (namely in terms of its level of human development and its human capital as identified in the PRE, for example) and cyclical imbalances associated with the COVID-19 pandemic but also the result of the political instability that has set in among us mainly since 2017.

**The allocation of resources in the GSB22 will have to respond to all -- or, at least, to a good part of them -- these structural and conjunctural needs.** This is what we will try to verify in the rest of the text, in order to assess the “goodness” of the proposed budget and its capacity to respond to the problems identified.

For various reasons, budgets in recent years have known a somewhat unstable “history”. Perhaps the most “normal” year in budget terms was 2015. That year, the government sectors (line ministries and programs in the areas of the Infrastructure Fund) most relevant to human development (education, health and agriculture) in the country represented about 14.8% of the total GSB for that year, which was about 1.6 billion USD.

**In GSB22 the same sectors/ministries represent about 11.3% of a proposed total of almost \$1.7 billion USD. This is a percentage that seems small to us in relation to the scale of the task ahead of the country.** Budgeted expenditures of the three ministries in 2015 and 2022: 233 and 190 million, respectively! There appears to be a setback in the allocation of resources to “human development”.

Compare these values with the one corresponding to approximately 30% (rule of thumb without any irrefutable scientific value...) that those ministries should (?) have in order to be able to effectively

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**correct the great deficit of human development in the country, which would correspond to at around 450-500 million/year** (goal to achieve?).

**Three “exceptions”** to the above about the link between those ministries and human development:

1. Your expenses will include many -- and wastes from their use... -- that will not be reflected, even indirectly -- in that type of development;
2. The effect of the now existing Social Security regime, an important element of human development (namely for the most disadvantaged), is not mentioned/included, for several reasons including
  - a. the fact that it did not exist in 2015 and, therefore, its inclusion now (2022) would reduce comparability between years; and
  - b. A significant part of the SS expenses is made from the contributions of its beneficiaries, the State contribution being reduced except for some pensions (ex: SIII).
3. Expenses borne by the municipalities are also not mentioned, for example, related to charges for the supply of drinking water or other services that have a positive impact on the quality of life of citizens, namely their health.

From what is said, the indicator we calculated is, we recognize, something “gross” but we believe that it is still possible to have an approximate image of what we want to underline:

**the effort to improve the level of human development in Timor-Leste, one of the most important objectives of the PRE -- and of any effort to improve the living conditions of the population -- must be much greater in quantitative and qualitative terms -- and, as such, reflected in the annual Budgets, including for 2022.**

A more appropriate indicator would require a “finer” analysis that is not suitable for this work.

Further on, on page 10 of this text, there is more data on the subject in the calculations of the GSB22 proposal as presented by the Government. It does not seem to us, however, that they deny the core of the above conclusion about the dimension of the problem and, therefore, of the effort to be made.

## 2. Overview

### Key Budget Proposal Data

The main sources for the following are the Ministry of Finance’s preparatory publication for the GSB22 entitled “Pre-Budget Statement 2022 Including the 2021 Mid-Year Report”, the GSB22 Law and the books (1 to 5) that accompany the latter.

Book 1 of the GSB contains the following table that summarizes the main values of the Budget for the next year:

*[table omitted]*

As can be seen, the estimated government expenditures are \$1,675 million, to which almost \$170 million should be added under the responsibility of development partners. The overall value is lower than that of GSB21, the highest ever, but that one was “out of line” with those of the past due to the need to face the impact of COVID-19 and the floods of last April.

*[table 3 omitted]*

The graph below illustrates the monthly inflation rate in Timor-Leste in the year between Sep20 and Aug21. Note the behavior of the price of rice, the main food, conditioning the behavior of inflation in general. The price (somewhat speculative) of rice was influenced by the public purchase campaign for the “basic basket” distributed to the population as part of the fight against the effects of the COVID-19 pandemic.

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These monthly rates translated into an annual rate, in the same period, of 3.9%. This figure far exceeded the annual rates of August 2020 and 2019, which were 0.6% and 0.9%, respectively.

The government estimates that the annual rate of inflation will stand at 2.7% for the whole year of 2021 and at 2% in 2022. We estimate that the annual rate of inflation in 2022 will be lower than forecast by the government, eventually returning to values in the range of 0.8% to 1%. The current situation in relation to the crude market and other price determinants -- ex. prices of maritime freight and cereals, evolution of the USD exchange rate -- should, we believe, evolve favorably to that decrease in the annual inflation rate in 2022, even if currently this does not seem evident.

One consequence of inflation among us being lower than in our Southeast Asian neighbors would, in normal circumstances, be an increase in Timor-Leste's external competitiveness, increasing our exports. Unfortunately, however, our productive fabric -- particularly the industrial one -- is very weak and the country will therefore not be able to benefit from this greater competitiveness.

### **“Commercial and Credit Interest Rates**

The amount and cost of credit to the private sector is an important indicator for private sector development. In August 2021, loans to the private sector had an average interest rate of 11.13%, which represents an increase of 0.4% compared to the same period of 2020. Rates have been decreasing over the last 18 months, which is good for companies that want to borrow to expand their business. (...) the information from the Central Bank indicates that more and more loans are being granted to individuals and not to companies.”

From the quarterly balance sheets published by the banks in the press, it can be deduced that the percentage of interest charged on the volume of credit granted last September was around 9%.

Many companies complain about the difficulty of accessing credit and that the fees are relatively high. Furthermore, the rates are very insensitive to the fluctuations of the economic and financial situation and particularly to the fluctuations in interest rates in the international financial market. One -- perhaps the principal one -- of the reasons invoked by the banking system for this behavior and the almost no sensitivity to the variation of international rates is the way the financial market works in our country, with relatively small real guarantees and, therefore, with a high risk rate -- leading to high active rates (on average about 11-12%) and not matched by exceptionally low passive rates -- about 1% at most. This generates a very high cost of money and an equally high rate of financial intermediation.

Lower active rates require the existence of real guarantees that reduce the risk of the banking business -- of loans. However, these guarantees are only possible in the context of the implementation of the Land Law, for example, which allows buildings and land to be used, contrary to what happens now, as collateral for loans. Without this, active interest rates will always be high, making investment difficult -- namely for national businesspeople but also for foreigners.

In order to facilitate and increase investment, it is essential, therefore, that **all laws “associated” with the Land Law** are published and effectively **implemented**, which has not been possible to do until now under the responsibility of the Government but also of the National Parliament.

Information provided by senior officials of some banks leads us to believe that the possibility of using real guarantees based on the Land Law and related legislation could be reflected in a decrease in lending rates of around 3-4 percentage points bringing them down from the current around 11-12 to around 7-8%. In this situation, these economic policy instruments, such as State guarantees and/or rate subsidies would be almost (!) unnecessary.

This would have a very large impact on private investment and, in the long run, on the country's economic situation, as the urgency and importance of legislative reforms relating to real guarantees is more than demonstrated. Without them, apparently no Private Investment Law can help Timor-Leste. To attention of the Government and the National Parliament.

The result of the nonexistence of this legislation is the almost nonexistence of productive investment and the continuation of the accumulation of resources in the banks, which they are obliged to make profitable by investing them abroad instead of in Timor-Leste. The issuance of Treasury bonds managed by the



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Central Bank will, in part, transfer the problem of finding profitability from commercial banks to the State and BCTL.

In September of this year the ratio between bank credits and bank deposits (which are the main source of credit financing) was only around 22%, giving an idea of the enormous liquidity of the banking system and the consequent great capacity to grant more loans -- which does not happen for the reasons mentioned above and because of the difficulty for businesspeople to present to the banks well-structured investment projects (including reliable accounting) and with secure profitability.

*“Trends in employment over time*

*[...] informal sector represents around two thirds of employment in Timor-Leste. In 2020 it is estimated that formal employment has fallen by around 13% and informal employment has fallen by around 8%. Over time employment in public administration, other formal industries (e.g. construction, banking and insurance) and agriculture has remained relatively unchanged. The remaining informal employment (mainly in services such as retail and taxis) has been the main factor determining the changes in employment vectors.”*

One of Timor-Leste's fundamental problems is the lack of decent jobs, namely in terms of their stability, working conditions and salary levels – in sufficient numbers. This is one of the main reasons for the great pressure -- especially from young people to emigrate to countries like England and Ireland, Australia and South Korea.

The departure of Great Britain from the EU and the COVID-19 pandemic have profoundly changed these flows. It is now much more difficult to emigrate, which, together with the economic difficulties of our country, is generating strong pressure on our market for work -- which requires special attention from our authorities, namely SEFOPE and the Ministry of Foreign Affairs (MNEC), in an attempt to unblock the constraints imposed by immigration countries (the recipients of our emigrants), normally associated with pandemic controls.

In a preparatory document for the GSB22, from last July/August, prepared by the Ministry of Finance it says at one point:

*“Economic Perspectives*

*The Ministry of Finance forecasts non-oil GDP growth of 1.9% for 2021. [...] Despite the large budget for 2021, the expected growth was revised to 1.9% due to the covid-19 confinement, the recent floods and poor execution of the large State budget until the 2nd quarter of 2021. The very low execution of the State Budget for 2021 indicates that Timor-Leste does not have the absorptive capacity to spend such a large budget.”*

In the corresponding point of Book 1 now released, the text reads as follows:

*“The Ministry of Finance predicts that non-oil GDP will grow by 1.6% in 2021. Although the 2021 budget is voluminous, it has nevertheless been revised downwards due to the impact of the COVID-19 community transmission discovery and associated containment, recent floods and poor execution of government expenditure.”*

In these two texts, it is important to highlight the following:

- The difference of 0.3 percentage points between the two estimates separated by about 3-4 months is absolutely natural, deriving from a “fine-tuning” of the estimates as a result of the collection of more updated information (national and international) on the evolution of the economic situation. Corrections of this type are common in all documents of this type, as is well illustrated by the variations in estimates of the evolution of GDP in the World Economic Outlook reports of the International Monetary Fund;
- Also noteworthy is the call for attention to “the poor execution of the large State budget through the 2nd quarter of 2021. The very low execution of the State Budget for 2021 indicates that Timor-Leste does not have the absorptive capacity to spend such a large budget This recognition of the limitations of the Government -- or, better, the State! -- is important because it is an

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essential step towards overcoming the situation. An important step will be the implementation of the new legislation on the elaboration and management of the General State Budget and other complementary legislation.

In addition, it is recalled here that between 2011 and 2020 the average of the “actual execution” (effective payments) will have been around 1.2 billion USD annually and the minimum and maximum levels were between 1100 and 1300 million (with the exception of 2016, an exceptional year). The new LEO, its complementary legislation -- including that relating to procurement and public procurement -- and the effective capacity of the bureaucratic apparatus to execute the Budgets are essential for moving decisively towards a situation in which effectively spend the budgeted amount instead of getting, strangely, a bit of “vanity” for the “accomplished” mission, for an execution rate of around 90% or less. The budgeted amount for 2022 seems to already have this improvement in budgeting process implementing the shadow of the new LEO, which brings responsibilities to both the Government and Parliament;

- The above helps to explain the decision not to present a higher budget in an economic and social situation that clearly “invites” to spend more money to ensure a faster economic recovery and improvement in the social situation (improvement of capital human from the country):

*“In 2022, we expect a small reduction in GDP growth due to a reduction in the state budget compared to the previous year, as we move towards a more sustainable base, in order to preserve the country’s Petroleum Fund, which will benefit future generations and it will also be a positive signal for investors. In the medium term, the Ministry of Finance expects a return to positive and sustainable growth based on political stability and private sector investment [...] continued investments in human capital and education to attract investors and thereby create jobs internally.”*

It seems to have been understood (finally) that, contrary to what many thought but in line with what has been said for a long time in reports of this Committee similar to this one, the **problem** -- at least initially -- is (has been ...) more on the side of excessive budgeting than on the side of insufficient execution of each annual budget.

*[figure 8 omitted]*

### **Government Expenditure, Domestic Revenue and GDP Growth**

From page 26 of Book 1 of GSB22 has a point with the title above. We draw your attention to some of the aspects mentioned in this point. The text of Book 1 is full but here we highlight some of its parts, numbering them as below:

1. “Government revenues can affect the economy through changes in fiscal policy to influence investment, consumption, savings and employment decisions.”

A very correct statement, the change in fiscal policy has been promised for several years without ever materializing. Let us recall here the work developed several years ago (created in 2015) by the then Tax Reform Commission led by Fernanda Borges. Unfortunately its work was suspended without any significant changes having been made to the tax system. It is expected that it will be possible to resume the tax reform process within a short time, believing that some changes can be introduced in the relatively short term, such as the creation of 3 or 4 levels in income taxes, namely on the people. It is a proposal that has been included in the reports of this Committee for several years without, unfortunately, having aroused the Government’s interest. It is regretted that in the GSB22 currently under discussion the matter has been forgotten once again, and we encourage the Government to seriously rethink the situation in the GSB23.

2. “As with government spending priorities, contributing to economic growth requires government tax reform to promote private sector investment, promote job creation, and help diversify the economy.”

Nothing truer. We draw your attention to this point -- promoting private sector investment -- because it is clear that the national private sector is VERY underdeveloped, incipient, and the country’s underdevelopment is a reflection, to a large extent, of this incipient national private sector. Unfortunately, the economic policies implemented so far have been moving more towards strengthening the public



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sector rather than the private sector. It is logical that it must be urgently reversed through the approval of appropriate legislative measures -- some with budgetary consequences -- that create a “friendly” economic, social and political environment for the private sector, including, eventually and in one case or another, some partnership between private and public capital.

3. “In Timor-Leste government revenues have been low, and currently it is necessary to improve tax collection to [sustain] the state budget.”

Correct. But it should be noted that this improvement (increase) can and should be obtained either with the gradual introduction of reforms in the tax system that increase its revenue (e.g. the introduction of tiers in income taxes, particularly for individuals as mentioned above) either with the improvement of tax settlement and collection processes that limit the injustice that is seen today of many potential taxpayers “passing through the meshes of the tax authorities” due to its inability to “capture” them properly. TO correct quickly.

“Beyond the government expenditure ceiling, there are also other important factors influencing GDP growth:

- **Political stability:** Political stability encourages the private sector and foreign direct investment and facilitates development projects. (...)

- **Private sector activity:** The private sector plays an important role in reducing poverty, promoting economic growth and diversifying the economy away from dependence on oil. To achieve this the government will have to provide a better business environment, especially in productive sectors such as agriculture, tourism and other manufacturing industries. Improving the business environment means improving laws and regulations in order to reduce bureaucracy and optimize business, as well as improving the skills and health of the workforce in general. (...)

This is truly a government program -- not this one but any Government’s! -- which is expected to be implemented for the benefit of Timorese society. Namely in GSB22.

- **Composition and budget allocation:** Fiscal policy is vital to foster economic growth. The *type* of government spending affects economic growth when the . budget allocation is higher in productive sectors.

Investing in vital infrastructure such as roads and machinery, as well as in research and development, can encourage the private sector to invest. “ (GSB22, book 1, pg. 27)

Yes, but... That is, and judging by the experience of our country, this policy did not generate the expected results because it should have been complemented with many others, such as those mentioned above.

**Committee D encourages the Government to carry out a thorough assessment of the so-called “front loading” policy, as it seems to be at the base of many unfortunate decisions -- namely regarding errors in the scale of many investments, with the consequent waste of resources .**

Reference should also be made to what is said in the World Bank’s work on Timor-Leste’s finances in recent years which was released this November/21 (*Timor-Leste Public Expenditure Review* (PER)

“The fundamental challenge facing the country is to transform its oil wealth into prosperity for the entire population. Large public expenditures have failed to sustain economic growth and significantly improve living standards. Its impact on human capital accumulation has also been The justification for making public spending “up front” (“*frontloading*”) is therefore increasingly unsustainable.”

“**Investment in social capital, such as spending on health and education**, may not have an instantaneous impact on GDP, but it **is essential for the country’s growth and prospects in the medium to long term.**” (GSB22, book 1, pg. 27)

This is an **essential conclusion** and one that underlies the Economic Recovery Program and **must be in the spirit and practice of the GSB22 and of those that will succeed it for many years to come.** Unfortunately, however, several indicators point to the fact that the current Budget proposal does not reflect the importance of this type of investment recognized here, but seems to be “more of the same” in relation to the past, which is reflected in a poor quality of life of our fellow citizens and which places Timor-Leste, in almost every domain, at the bottom of the group of its neighbors in ASEAN -- which, we fear, could eventually have negative consequences for the effort to join this organization. See the following [(point iii)] data on this aspect.

This weak (very weak...) quality of life for most citizens ends up being reflected in the low productivity and competitiveness of citizens and of the country in general and, it is good not to forget, in the ability to attract productive investments that improve the level of development economic and human development of Timor-Leste. This, combined with the small size of the internal market (few population with low incomes), are powerful DISINCENTIVES to invest in Timor-Leste.

It is essential not to think that (human) development will result “naturally” from economic growth. The causal relationship is, it has been known for a long time in economic science, the opposite: if we want economic growth, we must invest first in human development. Which, we recognize, takes time to show its effects. Which makes us recall the saying “slowly, I’m in a hurry”!

### III) Main Issues Raised and Suggestions for Improving the Diploma

The table below presents the main data in relation to the GSB22 revenues:

*[Table II omitted]*

Three most relevant values stand out:

- a) That of the transfers to be carried out from the Petroleum Fund (a little over USD 1 billion), namely exceeding the Estimated Sustainable Income of almost USD 500 million (about half of the total transfers);
- b) Tax revenues will be \$132 million, with indirect taxes yielding more than direct ones, as is characteristic of developing countries; and
- c) A Treasury Account balance of around 330 million derived from a budget execution rate that is expected to be relatively low (around 75%?) -- on 18 Oct 21 it was almost 55% (compare with 47% at the end of September 21).

The main expenditure figures for GSB22 are summarized in the table below.

*[Table omitted]*

First findings of the above table: between 2021 and 2022 the Government significantly reduced the budgeted amount (from about 2000 million to about 1600 million, i.e., down about 20%) for several reasons:

- The realization of the difficulty for the State apparatus, as it is organized, annually to spend more than about 1200-1300 million USD);
- The fact that, if the current situation of relative international and national control of the COVID-19 pandemic is maintained, it will not become necessary to devote significant resources -- as in 2020 and 2021 -- to fight the pandemic and its effects on both health and the economy itself;
- The possible alternative of forecasting expenditures for a possible worsening of the situation -- always possible -- would obligate increased financing of these expenditures with Petroleum Fund resources, which is clearly intended, if one wants to avoid it, removing from it the “minimum” deemed necessary. Naturally, the recourse (which is neither desired nor foreseen) to a supplementary budget is always open.

*[Tables omitted]*

The budgeted amounts for 2020 and 2021 were around 340 million each year. This means that in 2022 the budget will be a little smaller in recognition of the difficulty of implementing several projects in the current context of an international pandemic.

The most important thing is that spending on roads continues to be at the center of this Fund’s activity. Spending on infrastructure for “human development” remains a small fraction of this Fund’s spending. This means that the effects will tend to be the same... Those international country statistics that put Timor-Leste at the rear of Southeast Asian countries.

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From this it can be concluded that what was budgeted for the Infrastructure Fund in 2022 is, in practice, “more of the same” compared to previous years, not only in quantitative terms but also in terms of the type of investments, which privilege communication infrastructures (mainly roads) and investments to address the needs of “human development” are allocated a small percentage (only about 11%).

*[Tables omitted]*

### **Analysis of the budgets of Ministries and similar monitored by Committee D**

One of our main sources of information on the execution of annual Budgets is the Ministry of Finance’s Budget Transparency Portal. See below the information collected on 20 Nov. 2021:

*[Tables omitted]*

The category with the highest execution rate (86%) is, as usual and due to its characteristics, transfers -- as soon as they “fall” into the accounts of the ministries, many of them are “executed” financially with transfers to various entities -- and the one with the lowest execution is “capital and development” (20%). Almost \$400 million was earmarked for it, of which less than \$50 million was spent, in particular, due to the usual difficulties in planning and executing projects and the effect of the COVID-19 pandemic and associated confinements.

We do not have exact figures but we believe, looking at the above figures, particularly “salaries and benefits”, “goods and services” and “transfers” (242 million + 616 + 704 = 1500 million), we assume that probably around 1100 to 1200 million is “fixed” expenses or, at least, highly “rigid”, which creates difficulties for flexible management of the GSB and its “easy” adaptation to current needs.

A lesson to be drawn from these values is that the Government should seek to reduce this level of rigidity in public spending in order to make its management more flexible in accordance with the economic and structural needs of the economy.

## **MAIN MEASURES FOR 2022 ACCORDING TO BOOK 2 OF THE GSB2022:**

### **A - APPROPRIATIONS FOR THE WHOLE GOVERNMENT**

Of all the budget lines, we address here the BNCTL request to make, within the framework of the GSB22, a capitalization of 40 million USD.

It should be noted that this is done in the context of a situation in the bank’s Balance Sheet in which (data from last September) it has (then had) around 169 million USD in “Cash and Cash at Central Banks” to which there are 118 million in “investments in credit institutions” (deposits in other banks), for a total of almost 300 million USD, it can be concluded that it presented good levels of liquidity.

The bank’s capital shown on its balance sheet is USD 35 million, fully subscribed by the Timorese State.

Considering the commercial activity that the balance sheet consolidates, the bank also presents a structure of its own funds (capital + retained earnings + reserves) which is quite solid and in line with the levels of risk and credit that it has been applying, the small size of “bad” loans -- i.e., whose obligations are not being fulfilled in due time by the beneficiaries of the credit.

Unfortunately, due to the available documentation, it was not possible to know exactly what is intended to be done with the 40 million USD:

- if the expression “capitalization” refers to an increase in share capital as recorded in the balance sheet -- going from 35 to approximately 75 million USD -- to reinforce the bank’s solidity and guarantees to its depositors; or
- if it goes in the sense that the 40 million are intended, in whole or in part, to be used by the BNCTL to grant credit at subsidized interest rates to companies (its customers) in financial difficulties due, in particular, to the effects of the crisis caused by the COVID-19 pandemic.

It is, therefore, essential to clarify (in the BNCTL hearing on the GSB22 discussion) what the Bank intends to do with the aforementioned 40 million:

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- in the case of capitalization, which balance sheet account will it be taken to -- it can only be the capital account -- and what form will such capitalization take; and if there is (and which) any highest banking authority in the country -- the BCTL -- or the opinion of the auditor of the accounts that requires/recommends the standard capital increase of the BNCTL, namely to ensure better protection for depositors. It should also be clarified now, by BNCTL and/or by our Central Bank, in what form the amount of 40 million will be applied (deposit with the Central Bank or otherwise). In view of the values of the “Net Position” (USD 56.5 million), the “Credit to Customers” (147.1 million) and the “Debits owed to customers [deposits of these]” (366.4 million) the BNCTL does not need to reinforce its capital;
- if the money is intended to help finance a policy of “cheap money” to finance companies facing special financial difficulties as a result, namely, of the economic crisis that has been felt since the beginning of the COVID-19 pandemic. In this case the amount is part of the credit “offer”, and must be clarified if there is a “demand” for it, what are the guarantees that they will be paid to the bank and whether or not this offer will depend on criteria to be defined by the “owner” of the bank, the Timorese State through the Government. Furthermore, there is an example in the Timorese banking system that the significant reduction in the requirements of a bank in terms of the indebtedness of its customers resulted in a significant increase in bad debt and subsequent need for a high volume of forgiveness of bad debt, what are the guarantees that this will not happen in the case of excessive expansion of credit by BNCTL due to a reduction in its requirements.

*[Table omitted]*

**In fact, in “mature” banking systems any facilities -- namely credit (“cheaper money”) -- that are granted, either to individuals or companies, must be included in the Government’s economic policy conducted by the MCAE and the MF, should he be the one to indicate the sectorial priorities of investment or credit facilities through, for example, subsidized credit lines, extension of amortization terms and other forms of support to be financed by the GSB -- for example the 40 million provided for in this program -- and accessible to client companies of any bank operating in the country.** In the case of Timor-Leste, the beneficiaries should preferably be productive investments and not consumption.

Remember that the main mission of a bank is to use its customers’ deposits -- and not its owner’s capital -- to lend to those who need resources to finance their productive activity. Hence, banks must first use deposits to extend credit.

Allow us to recall here the comments of the Committee in the report on the GSB21 regarding the request then made by the BNCTL:

“As for the transfer to BNCTL, there seems to be some uncertainty about the destination of the estimated 5 (five) million USD: capital reinforcement (for example to reinforce the bank’s solidity ratios?), increased availability for granting loans, or another?”

Recalling that the BNCTL has benefited in recent years from transfers from the Government and that in 2020 the GSB will only be able to be applied for about two months, Committee D recommends:

- i) that the possibility of the sum in question being considered to reinforce that which will be used to grant subsidized credits to small and medium-sized companies operating in our country through the banking system in general (lower interest rate than usual in the market, periods extended grace periods, etc.); and
- ii) that an audit be carried out on the BNCTL to be carried out by the BCTL and a specialized foreign entity that aims not only for the usual in these audits but also, in a pedagogical way, an assessment of the business and management models in order to ensure the sustainability of the BNCTL without systematic recourse to funds from the State Budget -- a situation that should not continue any longer.”

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### **B - Coordinating Minister of Economic Affairs (MCAE)**

*[reprints of role budget allocation by program omitted]*

Comment:

The MCAE is responsible for carrying out coordination functions for bodies in the economic area of the Government's activities, particularly within the framework of the Economic Recovery Plan.

It is expected that the ministry will be able to implement the measures foreseen in an efficient and balanced way in the various regions of the country so that none (namely the rural areas) are harmed in relation to the urban areas, where the implementation of the measures should be easier .

The question remains whether the existence of a Minister without a Ministry is the most adequate solution for the complexity of the task assigned to him. We fear not.

Examples of expected MCAE actions: *[table omitted]*

### **C - SEFOPE**

Main sectoral measures for 2022

- Define professional training strategies and reinforce the commitment to professional training for the preparation of qualified labor with access to employment and economic development;
- Increase the number of young and adult participants in professional training, focusing on internship programs for graduates;
- Promote institutional strengthening of the professional training center;
- Foster employment through job creation abroad, temporary employment and graduate self-employment;
- Promote decent work and decent conditions in the workplace;
- Promote equality and inclusion.

Allocation and role (*omitted*)

Comment:

The role of SEFOPE in the labor market is diversified and of great importance. It ranges from professional training, to the establishment of international agreements for the placement of Timorese temporary workers (mainly in South Korea and Australia) and, for example, to intervention when there are disputes between the parties when there are labor conflicts.

In addition to it being essential that there is professional training adequate to the needs of the country's labor market, given its small size, it is essential, particularly for the youngest, that the possibility of emigration to those countries remain open. In the current context of great control of international migration to control the pandemic, SEFOPE, in coordination with the MNEC, has an important role in maintaining access to some labor markets for Timorese citizens, as in the case of Australia.

In a context of great disruption to the functioning of the economy and companies, SEFOPE needs to be especially alert to the following situations:

- Strict compliance with labor and immigration legislation (imports of labor) in order to control the phenomenon of inordinate and unjustifiable use of foreign labor when there is an unemployed national labor force due to the economic crisis that the country is going through; and
- conflict situations (layoffs) that may arise and try to resolve them as equitably as possible, but paying special attention to the weakest link: usually the workers.

### **D - Secretary of State for Cooperative Development**

Main sectoral measures

- Involve communities in order to be members of integrated cooperatives;

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- Helping new SAI centers and integrated cooperatives through training to increase production and processing of honey and bakery products;
- Implement the Cooperative Policy;
- Facilitate access to bank credit in integrated Cooperative Centers;
- Strengthen good governance and institutional management in all services dependent on SECOOP and in Cooperatives, through the training of members of integrated cooperatives.

Allocation and role (*omitted*)

Comment:

The Timorese State has provided a lot of support to the cooperative sector. We believe, however, that this support has not yet managed to generate a strong sector, namely with sufficient technical capacity and human resources.

The evolution of the national economy in the context of the COVID-19 pandemic has had negative effects on the performance of cooperatives in general, and it is hoped that this can be corrected in the next year (2022). It is insisted that special concern must be given to the transfer of technical knowledge and management capacity to cooperatives.

### **E - Secretary of State for the Environment**

Main sectoral measures

- Promote initiatives for environmental protection and conservation, biodiversity, climate change and international cooperation services;
- Mitigate the environmental impact resulting from poor air circulation and environmental hygiene among the public, such as the consequences of the extension of the dry season in Timor-Leste;
- Provide competent personnel to carry out the functions and tasks entrusted by SEA according to existing needs;
- Promote good governance and institutional management in all services dependent on SEA, investing in the development of Human Resources.

Comment:

In a country like Timor-Leste, where the consequences of climate change and the challenges that the climate poses to the country and its citizens are clear, the fundamental importance of protecting the environment and the policies and practices aimed at it is evident.

The floods that occurred last 4 April and those that occurred in previous years demonstrate the need to deeply reflect on the natural environment of Timor-Leste and the need to adapt many of the State's actions, namely the construction of the most diverse infrastructures -- to this environmental situation. Special attention demands everything when it comes to ordering the territory with respect for the environment and adapting to its requirements.

Furthermore, in a country in an embryonic stage of its industrialization and use of its natural resources (Mining Code), it is essential that the environmental control services are technically prepared (in materials and human resources) to fully perform their function.

The direction that has been followed to develop the production of crude oil and its derivatives must be rethought in light of its environmental consequences and the most recent trends to accelerate the decarbonization of economies by reducing the consumption of crude oil derivatives. The conclusions that come to be approved at the conference on climate change in Glasgow (COP26) must be followed carefully, and the consequences must be drawn.

Committee D expresses doubts about SEA's ability to effectively perform its highly specialized functions and calls on the Government to strengthen its preparation (in equipment and technical personnel) for this purpose.



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### **F - Ministry of Tourism, Trade and Industry**

Main sectoral measures

- Develop and promote Timor-Leste as an attractive and favorite tourist destination in the Asia-Pacific, promoting the legal framework of the tourism sector; developing tourist infrastructure; and facilitating the training of Tourism Operators;
- Development, regularization and promotion of commercial activities, defining the Commercial Policy and the legal framework in the area of commerce; strengthening international trade cooperation at bilateral, regional and multilateral levels (bilateral, regional and global cooperation); strengthening cooperation and partnerships with economic agents;
- Promote Timor-Leste's National Policy for Industrial Development and develop and promote national industries for import substitution; and
- Promote good governance and institutional management in the Ministry and in all services that depend on it, strengthening institutions and raising the capacity of human resources.

Comment:

This is, in terms of guiding and monitoring the national economy -- particularly the private sector --, perhaps the main ministry of the governing structure. It must, therefore, be a "strong" ministry in terms of its capacity to intervene in the economic fabric and, in terms of the governing structure, the main potential "ally" -- but also the "armed branch" of the MCAE, the Minister of Coordination of Economic Affairs.

The MTCI, namely in its area of monitoring industrial development, must have the capacity to intervene in order to dynamize this sector through, namely, a well-structured policy articulated with the private business sector of partial substitution of imports. It should, in particular, facilitate possible understandings between national and foreign entrepreneurs. The possibility that relations between national banks and private entrepreneurs with the support of the State should not be excluded.

### **G - Ministry of Agriculture and Fisheries (MAP)**

Main sectoral measures

- Promote the sustainable increase in production and productivity with diversification of agricultural production;
- Contribute to improving market access and added values;
- Ensure the management and preservation of natural resources;
- Implement the Gender Policy;
- Promote good governance and institutional management in the Ministry and in all services that depend on it, strengthening institutions and raising the capacity of human resources.

Comment:

The MAP is in charge of guiding and developing one of the most important sectors of the national economy due, in particular, to the relevance it has in the lives of an important part of our fellow citizens. According to the Economic Recovery Plan, it has a very important role in establishing the conditions for the development of food production (with important consequences on the quantity and quality of available food and consequent impact on the health of our population) and income production (namely but not only coffee and other exportable crops).

The MAP should focus its attention either on increasing family production -- with a consequent increase in income and food quality for rural populations and beyond -- or on increasing the quantity and quality of "marketable" (exportable) production from rice, coffee and better quality wood.

As for rice, it is essential to develop policies that promote the re-entry into production of much land that has been abandoned and that will allow the country to be almost self-sufficient in that cereal, increasing the "food independence" of our country.

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Alongside this policy must be one that aims to adapt the use of mechanical means to the characteristics of the country. In particular, the policy adopted in relation to tractors and motor cultivators and the financing of the country's mechanical park with adequate amounts of money should be reviewed.

With regard to coffee, it is essential to adopt a "coffee policy" that allows for an increase in its quantity and, above all, its quality in order to increase the income of coffee growers and the country through exports.

As for wood, it is a matter of implementing the "Forest Law" approved a few years ago and which recognizes the great predisposition of soils in our country for forest production.

There are two other areas under the responsibility of the MAP that are of enormous importance for the feeding of the Timorese people (quantity and quality; diversity): livestock and fisheries, including aquaculture. The MAP has planned several programs in these areas for the next year.

Committee D attaches special importance to all the programs of this ministry -- of which some examples are given above -- and will seek to follow them closely throughout their execution.

### **H - Ministry of Petroleum and Minerals (with ANPM, IPG and Timor Gap)**

The MPM is responsible for one of the most critical areas of economic activity in Timor-Leste in the coming years. We realize that at this time it is not yet completely clear which path will be followed by the country in managing its petroleum wealth, as there are still some doubts about its size, namely in the onshore gas and oil sector but also in terms of mineral wealth (non-combustible minerals).

Comment

The MPM plays a key role within the framework of the development strategy that has been implemented for several years and which has privileged the growth of the oil sector (gas, oil and fuels). This guideline appears, however, to be undergoing modification and therefore it is premature to make any comment other than underlining the need to pay attention to:

- the structural characteristics of the country -- namely the low complexity of the economic fabric, particularly the industrial one,
- the situation of the international fuel market -- namely the announced "decarbonization and consequent reduction in the use of petroleum fuels (is there any study of the consequences of this trend for Timor-Leste and its Petroleum Fund?); and
- Timor-Leste's borrowing needs about 10 years from now given the dwindling funds available in the Petroleum Fund.

This deadline is related to estimates -- which we believe are too pessimistic -- that the Petroleum Fund will be exhausted in about 15 years (2033-34). Naturally, this perspective puts great pressure on the political and economic authorities of the country in relation to the options to be taken, namely in relation to possible future understandings with the oil companies involved in Greater Sunrise (exploration and transformation of crude products: gas and oil).

What are the Ministry's comments in relation to these aspects? What alternatives are on the horizon regarding the start of the exploitation of Greater Sunrise?

In the context of hearings related to GSB22, the request for doubling the amount allocated in the Budget proposal was acknowledged. Allow us to start by wondering about this situation, we believe to be unique at world level, of a Ministry requesting the doubling of the amount allocated to it in the context of Government decisions of which the Ministry is a part and looking for the National Parliament to get involved in a "war" with the Government over the amount allocated to it.

Furthermore, it is strange that the request for an increase in funding is not accompanied by suggestions about possible sources of funding. Apparently, one and/or other of two solutions may be at stake: the increase in the global value of the GSB22 which impacts the sustainability of public finances -- which seems to be, well, an important objective of the Government and the Ministry of Finance -- and/or a

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redistribution of funds with a reduction of those allocated to other unidentified State bodies whose rationality is not in sight.

For what is immediately above, but also because of the warnings made regarding the possible evolution of the fuel market following decisions on climate change and the decarbonization of the global economy, it seems to us that the request to change the budget attributed to the MPM and dependent bodies is a weighty consideration.

### **I - Institutes with autonomy but dependent on the above ministries**

#### **Institute for Support to Business Development (IADE)**

##### **Investment and Export Promotion Agency, IP (TradeInvest)**

How has the Covid-related economic crisis of the past two years been reflected in requests from international investors to invest in Timor-Leste? What are the prospects for the future? What are investors' reactions to the private investment law passed in 2017? Are there any suggestions for modifying it? Which?

##### **Business Registration and Verification Service (SERVE)**

What has been the evolution of company registrations in the last 3 years and how has SERVE been updated with these registrations?

##### **Bamboo Research, Development, Training and Promotion Institute, IP.**

##### **National Center for Professional Training in Becora (SENAI-Becora)**

##### **National Logistics Center (CLN)**

##### **Research and Inspection Agency for Economic, Sanitary and Food Activities**

##### **National Center for Professional Training and Employment in Tibar (CNFPE - Tibar)**

##### **National Institute for Labor Development (INDMO)**

### **ELEMENTS COLLECTED IN THE PUBLIC HEARINGS**

#### **MINISTRY OF PETROLEUM AND MINERALS and institutions dependent on it, including public companies in the oil sector**

The MPM presented itself at its hearing with the Committee on November 4, 2021 with a proposal for a budget review that practically doubles the amount allocated to it by the Government's decision and which is contained in the PPL of the GSB22.

Summarizing the Minister's intervention:

- The USD 44.2 million allocated to this Ministry and dependent bodies is not enough money to develop the planned work program. The initial request was for 86.5 million, but the Government reduced it to about half alleging non-compliance with the GSB21;
- The MPM is asking for another USD 45.8 million -- which means it is asking the National Parliament for what the Government refused it;
- The ministry cannot function because this budget cut will cripple most projects;
- He predicts growth in the Petroleum Fund in 2022, but the cut will compromise that increase -- which is not true because the PF currently depends almost entirely on the return on its investments and not on petroleum production;
- The extra money requested is for
  - Construction of the institution's future facilities;
  - Develop Greater Sunrise oil fields;
  - Travel abroad for work reasons;
  - 18 new research areas susceptible to onshore and offshore exploration;

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### **President of ANPM:**

- In 2021 the budget was 9.5 million USD;
- In 2022 the budget is 9 million;
- He is asking for an additional 3.5 million to support various activities;
- Continue to promote TL's petroleum and mineral resources;
- Carry out more drilling activities in Suai and Manufahi;
- The 45 million reduction will have a huge negative impact.

### **President of Timor GAP:**

- Timor Gap needs to have activities so that the country can grow and develop more;
- The budget for 2021 was 62.5 million. 47% of this amount has been spent so far but it will be able to spend up to 90% by the end of the year;
- It is asking for \$34.7 million more than it has been allocated for various drilling projects, to continue providing fuel to the Government and paying taxes owed to the Government.

### **Minister of Petroleum and Minerals:**

UPMA and the Ministry of Finance did not give him the opportunity to explain why more money is needed in the Ministry's 2022 Budget, considering that such deep budget cuts (almost 50% of what was requested by the MPM) are an attempt to paralyze the Institution and its affiliates.

Following these interventions, the deputies took the floor to comment on what was presented by the MPM. From their interventions, we highlight the following:

- why didn't the Minister defend his budget at the time it was reviewed by the Government;
- why didn't Timor Gap pay taxes owed to the Ministry of Finance
- what are the revenues of the public company?

The President of TG replied that it had only made two investments: two second-hand helicopters whose operation yielded only USD 197,000 and a fuel station in Suai that sells fuel at higher prices than those charged by the private sector and therefore has no profits. Note: Timor Gap's strategy of competing with private companies selling fuel and subjecting them to being a "victim" of their commercial strategies is not understood, as seems to be the case.

- The request made by the MPM is very high and deputies can propose to transfer funds from one item to another, but they cannot propose an increase in the total amount of the budget, so it will be impossible to make the requested amount available. Therefore, it will be very difficult for the National Parliament to respond positively to the MPM's request.
- One reason the Government did not make available the funds initially requested by the MPM (approximately USD 90 million) was that it did not receive sufficient or appropriate justification for the expenditures, revenues and profits of the MPM and "its" companies .
- Timor Gap, in particular, is a public company and must depend on itself to survive and not expect the Government, through the GSB, to sustain it year after year. In particular, it needs to take into account that the Government's strategy is to diversify its investments and sources of income to other areas, such as agriculture, fishing, tourism and small and medium industry. Timor-Leste cannot rely on oil and gas alone to support us as a country.
- The minister had an obligation to defend his budget during the process in which it was presented to the Budget Review Committee. Now we are at the stage of parliamentary hearings, a time in which it is not possible to introduce changes in the global amount of the GSB, but only (usually small) transfers of funds from one item to another. The only alternative the Minister has is to appeal to the plenary of the Council of Ministers if he wants to change the GSB22 in the amount referred to in his documentation presented to the PN.
- Parliament cannot change Government programs or policies, but can only decide on small changes. And what the MPM is doing is proposing a significant change in the global amount of the GSB and/or its structure and distribution by policies, programs and institutions.
- Changing the Bolsa da Mãe budget to transfer part of its value to the MPM budget cannot be done.

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- The Minister has no alternative but to return to this issue within the Government of which he is a Minister.
- What policies and measures are in force (or planned) to develop renewable energies, since most countries, namely for environmental reasons, are already planning to abandon or significantly reduce the use of fossil fuels. What does this mean for Timor-Leste if we increase our dependence on oil and gas?
- Timor-Leste is considered one of the 10 countries in the world most at risk of falling victim to natural disasters caused by climate change and global warming but the MPM continues to plan to spend millions of dollars on research and well drilling in search of possible but uncertain new deposits at an expected time of declining demand for fossil fuels. What is the expected return on these investments?

The Minister of Petroleum and Minerals replied to these last questions, saying that the Ministry has already begun to reflect on the matter and has started talks with SANTOS about the sequestration of residues and carbon dioxide. This is a long process and more information will be provided on other occasions.

### CONCLUSION

Given the amount requested by the MPM to complement what was made available in the PPL on the GSB22 and the rule that prohibits deputies from making proposals to increase the budget amount as proposed by the Government, it seems evident that the National Parliament alone, does not have the power to satisfy the request made to almost double the budget foreseen for the MPM in the GSB22.

Therefore, it is EXCLUSIVELY up to that same MPM and the Government to take the decisions they see fit on the matter, but the Committee recommends that, as far as possible, an effort is made to strengthen the budget of the MPM and affiliated institutions to allow them to have a better knowledge of the country's wealth in order to prepare its economic exploitation.

The deputies and their respective benches are, however, free to make the proposals they deem appropriate, provided that, of course, they comply with the applicable legislation, namely that relating to respect for the global value proposed by the government in the PPL of the GSB22.

The possible use of funds currently earmarked for other types of expenditure needs to take into account their importance; namely, the expenses that allow the increase of human capital are, as is clear from what has been said elsewhere, totally impossible to be reduced, but rather must be expanded.

### Secretary of State for Cooperatives (SECOOP)

The Secretary of State's hearing took place on 5 November in the morning in the room of Committee D.

Taking the floor at the invitation of the President of the Committee, the government official informed about the progress of compliance with the GSB21 (41% real). SECOOP will not execute the entire budget allocated for this year because it has support from several international organizations (UNDP, OXFAM, World Vision, etc.).

GSB22 allocated a budget 21% less than last year: 4.6 million USD for GSB22.

In 2021 SECOOP implemented training programs for 75 teams, training almost 6,000 people. It established 53 Credit Cooperatives in 53 Administrative Posts and 214 sucos. In addition, it trained 260 young people on the formation of cooperatives and organized and promoted 243 horticultural cooperatives to supply Dili's markets.

SECOOP had to face several constraints on its activity: sanitary fences and mandatory confinements, floods in Dili and fire in the Comoro market.

Established cooperatives: 110 credit, with 18 thousand members, and 81 production, with 46 thousand members.

Following Mr SECOOP's statements, the deputies made some remarks. Here are some of them:

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- What is the fate of young people who have already graduated from SECOOP? Are the functions they can now perform permanent or temporary?
- Is there enough production by the cooperatives to support the food subsidies for public servants that are thought to be instituted?
- Does SECOOP provide technical assistance to cooperativists trained by it?
- Do you feel any movement of some cooperative members bringing other members to the cooperatives?
- The Basic Basket generated a rise in the price of rice. Can you confirm?
- Irrigation is a big problem; the phenomenon “La Niña” is expected to contribute to the destruction of several areas of agricultural production. How is SECOOP planning to help cooperatives facing this problem?
- It is necessary to teach cooperatives to cultivate several varieties of some products in order to diversify production and face competition from several farmers.

SECOOP answered these questions as follows:

- Credit unions are for their members only and training is just for them.
- Cooperatives work by themselves; SECOOP only gives them initial support to get started with their activity,
- After initial help to some cooperatives and after they are working, SECOOP directs its support to other cooperatives.
- SECOOP was one of the entities that helped to implement the Basic Basket program, having received 666 rejections that were forwarded to the MCAE, responsible for implementing the program.
- SECOOP is responsible for training the human resources of cooperatives.
- The Secretary of State can work with the Community Tourism area to sell local food items to restaurants and hotels, for example.
- There are also “tais” cooperatives, made up of women.
- Of 110 cooperatives, 36 have already been institutionalized.
- SECOOP signed a “memorandum of understanding” with the European Union to establish the Digital Market in order to sell products online, and a website is under construction to provide information about cooperatives and their products as a way to improve information about these and their products.

### **MTCI MINISTRY OF TOURISM, COMMERCE AND INDUSTRY**

The hearing of the MTCI-Ministry of Tourism, Commerce and Industry began at 9:30 am on 10 November, as foreseen in the calendar approved by Committee D and which has been fulfilled.

The objective of the hearing was to present the execution, to date, of the GSB21 and present the program foreseen in the GSB22. As for the GSB21, the Minister informed that its actual execution rate is, so far, 51.6% of the Budget of 11.2 million USD. Therefore, around 5.8 million of the 11.2 million planned were spent. The balance not yet spent is therefore around 5.4 million -- of which only a small part will be spent by the end of the year. The last quarter is traditionally the one in which you pay a lot of bills that are late.

MTCI was one of the ministries involved in the “Basic Basket” program for which approximately USD 30.5 million has been spent so far. The operating cost of MTCI with this program was \$827,100.

Expenditure on Expo Dubai was \$887 thousand from the 1 million dollar budget.

The MTCI’s GSB22 is 13.6 million USD, plus 2.4 million USD, equivalent to an additional 21% of GSB21. Of that amount, 3.5 million is for the Good Governance and Institutional Management program, 2.7 for the Tourism program and 7.4 for the Investment and Economic Diversification program.



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The allocation of resources from GSB22 for the Economic Recovery Plan is USD 6.8 million for Tourism, Trade and Industry.

The budget for operational services includes grants for a new CCB, consultant contracts for design and BOQ for community game localization and building for the Gaming Inspector-General. It also includes a central Contract for the Industrial Training and Policy Center for Medium and Small Enterprises and the realization of cooperation with UNTL to develop a machine to produce Fiber optic.

After the presentation of the above by MTCI, the Messrs. Deputies asked the following questions and comments:

- Does MTCI plan to allocate part of its budget for the construction of gaming centers?
- The Budget Review Committee (CRO) certainly took into account, in its decision on the GSB22 for the MTCI, the fact that it has so far spent only about 52% of the GSB21.
- Questions were asked about the Government's capacity, namely through the MTCI, to carry out the food subsidy program for civil servants.
- What is the model of training in hospitality in a situation where there is COVID-19 and many hotels and others are closed.

The MTCI responded to the questions raised by the Honorable Members with the following information:

- MTCI's proposal to establish an autonomous institute was not accepted by the Budget Review Committee.
- The proposals regarding the games and tourism authority met the same fate: their rejection by the CRO.
- Regarding the food subsidy for civil servants, this was done to encourage and guarantee government policy, such as the implementation of the Basic Basket and the payment subsidy (cash).
- The government established People's Shops (Loja do Povo) to guarantee supplies to the population at moderate prices.
- The mechanism to improve hospitality needs to be done through SEFOPE to improve the plan for an Excellent Training Center.
- We have the hospitality, customer service, culinary and tour guide training plan to improve hospitality in the municipalities, but unfortunately this plan has not been proven by the CRO.

### MTCI SUPPLEMENTARY REQUESTS TO CHANGE ITS GSB22:

1. MTCI asked Committee D to readjust (redistribute) the GSB22 in the amount of 5 million USD provided for the Directorate of Industry in order to redistribute them as follows:
  - +2.5 million for the Tourism sector;
  - +2.0 million for the Industry sector;
  - +0.5 million for the Commerce sector.
2. MTCI is also requesting \$2.7 million in additional funds for the improvement of the Community Tourism sector.

If these requests are satisfied, the GSB22 of the MTCI will be  $13.5 + 2.7 = 16.2$  million USD, which should be compared with the 11.2 of the GSB21 (i.e., 20% more than the 13.5 % already foreseen for the GSB22 and 45% more than the GSB21, of which 5.8 million have been spent so far).

The meeting ended around 12:30 pm.

### SEFOPE -- SECRETARY OF STATE FOR TRAINING AND EMPLOYMENT

The SEFOPE hearing took place on the morning of November 9th.

At the meeting, the Secretary of State informed that of the \$5.9 million of the GSB21, 68% were spent, corresponding to 4 million. With the commitments made, the percentage of execution reaches 78%.

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As for the GSB22, the values are as follows:

TOTAL: 4.8 million (1.1 million less than in 2021) of which 2 million is for salaries and benefits, 1.8 for goods and services and 1 million for public transfers.

The low execution rate in 2021 is due, in particular, to restrictions on internal and international travel due to health controls associated with the fight against COVID-19.

Considering the “cut” that was made in its Budget for this year, a limitation to carrying out part of its program of activities, SEFOPE asks for an increase in the budget provided for in the PPL of the GSB22 by 1.09 million, which corresponds, in practice, to replacing the value of GSB21.

This amount will be distributed as follows:

- \$250,000 for the 3 USD/day rural employment program (corresponding to around 80,000 men/day of work and around 400 men/year with an average of 200 days/man of work/year);
- \$200,000 for the construction of “KOBÉ houses” at the SEFOPE headquarters in Dili;
- \$260,000 for the construction of the office in Bobonaro;
- \$300,000 to support Timorese workers in Korea and Australia by paying their quarantine charges when they arrive in their respective countries and repatriating bodies of the deceased;
- \$80,000 for minor capital (motorcycles, tables, chairs, etc.) to replace the equivalent damaged in the floods of last 4 April.

SEFOPE has already trained 2,500 young people since January 2021 and will train another 8,400 (?!?) by the end of the year; more than 200 trained workers were sent to Australia and Korea in 2021.

After the presentation of these data by SEFOPE, the Messrs. Deputies asked the following questions:

- The \$25,000 allocation for 2022 in Human Capital is too small. Will it be enough to do the job of training hundreds of people?
- How many work disputes does SEFOPE have in process and how many were resolved this year?
- Is it true that SEFOPE has 15 trainers and is paying 14,000 monthly salary for international trainers and 1,200 monthly for national ones?
- Does SEFOPE have data on the number of workers trained and employed so far? How many are in the public sector and how many are in the private sector and how many are self-employed?
- And about the situation of the training centers. Why do they need an Excellent Training Center? There are already 25 training centers and INDIMO already provides certification. They don't think there's no need to build another one just to waste more money. Must not duplicate the work.
- Funds for quarantine and transport costs for deceased workers should come from the Ministry of Finance's contingency fund and funds for medical examination costs from the Ministry of Health.

SEFOPE answered these questions as follows:

In relation to Human Capital:

SEFOPE wants to comply with the government's policy of fighting unemployment. The request for funds that we present is correct and in accordance with our real needs. We had planned to build more training centers and especially one for horticulture and hospitality in Flexa, Ainaro. In 2021, we asked for three million in our proposal for training, but we only received about 650,000. This year, we asked for approximately 500,000, but we received almost nothing. The government does not take the unemployment issue seriously.

Regarding Labor Disputes:

We have over 138 cases pending. This happened because when the government changed, so did the members of the National Labor Arbitration Council. The council ended in 2020 and the new members were only appointed two weeks ago, in October 2021. The law was changed and the resolution of labor conflicts became the responsibility of the MCAE. We are also awaiting the

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approval of the Procedural Regime of the National Labor Arbitration Council. Even the IGT responsible for labor inspection was transferred to the MCAE. Now, INDIMO does the assessments.

In relation to the salary of 14,000 USD:

The legal value has been determined by the Court of Auditors in relation to the trainers for South Korea. The terms of the contract have been changed to individual terms and has a defined value. We only have 1 international trainer and this amount of 14 thousand includes accommodation, transport, etc. Timorese teachers were trained to teach Korean to Timorese people.

In relation to working abroad:

We already have people appointed as Auxiliary Work Attachés, but the MNEC does not allow them to travel. This makes the process difficult, as we only have one Attaché per country. Australia and South Korea are huge countries. A single attaché cannot travel the entire country, alone, to visit the Timorese workers scattered throughout the entire territory.

In relation to training centers

There are 3 Excellent Training Centers: 1) Becora for languages; 2) Tibar which is smaller and mainly for hospitality; 3) Metinaro which is large and has built-in training; 4) A new one will be built mainly to train workers to enter the international market.

These 4 centers are needed to allow for more specialized and targeted training, as well as to avoid duplication.

### **MCAE -- Coordinating Minister for Economic Affairs**

The hearing of MCAE and entities subject to its coordination took place on the morning of 15 November.

At this hearing, the following information was provided:

#### **MCAE**

GSB22 = 1.65 million USD;

GSB21 = 2 million. There was, therefore, a decrease of 350 thousand USD, part of which will correspond to the expenses of the Basic Basket. The current execution rate is 55.8%.

#### **TRADE INVEST**

The GSB21 of the Direction of Trade Invest was 1.4 thousand USD. 15 investment proposals were received and only 8 were approved and implemented (agriculture, tourism 1 industry).

COVID-19 prevented the implementation of the planned activities.

#### **SERVE**

The approved GSB21 was USD 2 million of which 70% was executed. For 2022 the budget is 1.6 million. There are SERVE facilities in all municipalities except 3 (Manatuto, Ermera and Liquiça).

The number of registered national companies increased from 31 thousand to 35.4 thousand during the year 2021. International companies increased from 100 to 115. These were unable to work due to the airport closure and confinement.

#### **IADE**

IADE executed 64% of its GSB21 (1.28 million) and in 2022 it will have a budget of 1.1 million.

#### **CLN - National Logistics Center**

It executed 72.1% of its 2021 budget (2.4 million).

#### **Training Centers (Becora, Beaçu and Tibar)**

The centers expect to execute about 87-90% of their 2021 budgets.

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### **INDIMU**

It is the regulatory agency that defines competence, awards certificates and provides operational labor services. It also certifies trainers and advisors.

### **AIFESA - inspection of economic activities**

In 2021 it had an GSB of 1.6 million and in 2022 it is expected to have 1 million to develop its activities.

### **ADDITIONAL REQUEST**

They intend to present a proposal to be able to install the 3 SERVE centers that are missing in the municipalities identified above.

### **QUESTIONS AND ANSWERS**

Given the information given by the MCAE that the execution rate of the GSB21 would be 86% at the end of the year, a deputy asked about the real capacity to do so. MCAE did not respond.

Asked by a deputy about the treatment being given by SERVE to a mining company that intends to invest USD 20 million in Timor-Leste -- it will not be well received by SERVE --, the Minister replied that “we have to be careful with the number of companies we receive and for whom they issue licenses as there are many illegal entities in TL.”

SERVE is paying the rent of an office for 1800 USD monthly and does not owe any money.

Another deputy suggested that the CLN buy (only) local products.

On the other hand, regarding the action of SEFOPE, the MCAE emphasized that it complies with the law by interfering with its activity.

### **MAP - MINISTRY OF AGRICULTURE AND FISHERIES**

The MAP hearing was held on 15 Nov. 2021 at 9 am.

On that occasion, the Minister distributed written information on the activities of the MAP in 2021 and the schedule of activities for 2022 included in the PPL of the GSB22.

As for GSB21, its global amount is 29.5 million USD, of which 14 million are for Goods and Services and 8.2 for Minor Capital.

On 29 October, the actual execution rate (payments made) was 37%, amounting to USD 19.9 million. To this amount, 19% of obligations and 28% of commitments are added, which may or may not materialize.

The MAP document further informs that its GSB22 proposal was as follows:

Total=21.4 million (compare with 29.5 million in 2021; decrease of 8.1 million; minus 27.5%), of which 5 million is for salaries and benefits (4.3 million in 2021; up 16% in 2022), 10.4 million for goods and services (14.1 in 2021), 3.9 million for minor capital, 1.7 million for development capital and 0.4 million for public transfers.

The identified development capital is mainly intended to restore into operation several irrigation systems that are inoperative, namely following the floods of last April.

Of the 3.9 million in minor capital, 3.7 million are destined for the “construction of 1 industrial fishing vessel/boat”. Note that despite the large amount involved and being considered “capital”, it is considered, somewhat incomprehensibly, “minor capital” since the remaining minor capital items are, at most, around 100,000 USD, with even one of 403 dollars. A sum of this amount is clearly an investment; however, all its treatment by the MAP is done as if it were an expense equal to so many other “goods and services”. Now, when it comes to “capital” it is, in reality, an investment in development capital.

To help with your assessment and interest in the Honorable Members, it would be expected that the MAP would accompany this proposal with the necessary feasibility studies for the investment, namely amortization plan, expected associated expenses (insurance, maintenance and others), estimated revenues

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(product from the sale of fish and how to market it), what are the estimated profits, other operating costs, form of acquisition of the boat (direct adjustment, international tender, other?), structure of onboard and onshore personnel associated with the operation of the boat, indication of the professional training of the staff and all other relevant information to judge the interest of the investment. It would also be convenient to indicate which operational structure the boat would be connected to: a public company to be created or another. What is the status of employees? Equated to civil servants?

Unfortunately, the MAP did not provide any of these elements and thus the Committee is not in a position to assess the economic interest, for the country, of the proposed investment.

A more useful application of part of this money would be to finance a pilot program to renew the coffee plantations in Timor-Leste (starting, for example, with the Municipalities of Aileu and Ermera) through rehabilitation pruning with payment of compensatory subsidies to growers (1000 to 2000 families with at least 2000 m<sup>2</sup> of coffee per family; 200 to 400 hectares of coffee plantations rehabilitated) during the period when the plants did not produce (about 2-3 years?).

### SECRETARY OF STATE FOR THE ENVIRONMENT (SEA)

At the hearing with the SEA, the Secretary of State presented a request for additional funding to what is provided for in the PPL of the GSB22, which is 2433 thousand US dollars. The supplementary order is USD 1146 thousand (almost 50% more than the amount already budgeted) detailed in the tables below. SEA's GSB22 would increase from 2.4 million to almost 3.6 million.

*[table omitted]*

### BCTL – Central Bank of Timor-Leste

*[graphs omitted]*

Note from the above graph that since 2017 the Petroleum Fund withdrawals to the Treasury account have been around USD 1 billion or a little less. It is not understood, therefore, that in the scenarios below there is not one with this value and that several scenarios appear with incredible values that have never occurred nor, in all probability, will be verified by decision of the Government and the National Parliament in the name of the sustainability of the public accounts. This is the case with values of 1.4 billion and above.

We took the initiative of adding to the graph a hypothesis of withdrawal of one billion/year (1 billion) as this is, under current circumstances, the most likely figure for annual withdrawals.

The only minimally realistic scenario in the original chart seems to be the annual withdrawal of 1.2 billion which, in keeping with the current situation regarding the Fund's income, suggests a useful life of the Fund until 2040, at least. If the average of withdrawals closer to 1000 million/year -- why is this hypothesis not studied in the graph, which is much more realistic than those of 1400 million and more? --, the life of the FP could (?) extend to around 2045 -- even not counting the income to be received from the exploration of Greater Sunrise.

Note that any of these dates is later than predicted by the Ministry of Finance and that it is 2033 -- within about 10-12 years, which seems to us a somewhat pessimistic scenario which, according to the graph, corresponds to an annual withdrawal rate of about 1.7-1.8 billion/year, an unrealistic value, namely, assuming highly inflated budgets, predictably of more than 2 billion/year permanently and not, as in 2021, punctually for well-known reasons (pandemic and floods). Whichever scenario is closest to reality, something seems evident: citing our report on GSB21,

“Given that PF cash inflows from the Timor Sea will end in a few years (2024), this will put pressure on the national authorities to find a solution for the exploitation of the Greater Sunrise area. Unfortunately the current economic and oil crisis made the situation even more difficult, but we believe that the country has about 10 years (until 2030?) to find a profitable solution for the exploration of that area in negotiations with partner oil companies in that area and with Australia.”

Given the natural complexity of any negotiations, it is urgent to start right now on the necessary path.

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The country has to make difficult decisions in a context: in which the process of decarbonizing economic activity tends to accelerate to protect the environment. The recent Glasgow COP26 conference reinforced this idea.

By decarbonizing the economy we mean

“the search for the reduction and, in the long term, **elimination of the emission of greenhouse gases, especially carbon dioxide, generated in the burning of fossil fuels.** This is possible when there are changes to replace polluting patterns with more efficient technologies and renewable energies. “

*[graphs omitted]*

One of BCTL's functions was to manage the credit moratorium created by the government to help individuals and businesses that found themselves in financial difficulties due to the effects of the COVID-19 pandemic on the national economy. The tables below provide a synthetic overview of the evolution of the program.

*[tables omitted]*

As of 4 November, only about 45% of the funds earmarked to finance the program (\$2 million) had been used. The loans involved totaled \$40.88 million and the support provided (60% of interest) totaled \$222,000.

Of the loans supported, 31.2 million were loans to individuals and 9.6 million to companies. This gives an idea of the fragility of the country's business and financial system as it would be more interesting if more companies benefited from the moratoria.

An interesting fact is that 17.2 million in loans (55.5%) were made to women and the rest to men, which gives an idea of the great importance of the so-called “weaker sex” in our country's economy.

From another perspective, note the great importance of two microcredit institutions that involve many members, particularly SMRF-Servisu Financeira Moris Rasik.

In his statements at the hearing at the Committee, the Governor expressed the opinion that the GSB22, organized by programs, is a good budget, easier to assess. The execution must be at a higher level than it has been until now, where it rarely reaches 90%.

BCTL considers that our financial situation is not favorable.

Two weeks ago, the World Bank published a document analyzing our public finances saying exactly this, which is what we have been saying since 2009. In the discussions of the 2021 State Budget, the government said that we could not continue to spend at such a high rate or there will not be money left over. We don't have a choice. Internal revenue is not enough. We studied the previous 5 years. Even accumulated, the income from the previous 5 years is not enough to support one year's budget. We are in a crucial situation where we must manage our money better. Spend only on priority options: support for micro, small and medium-sized companies.

GSBs are not dependent on income from within the country: we are dependent on the investment income of the Petroleum Fund. We need to know when and if Greater Sunrise will start to generate revenue.

What the Ministry of Finance is doing is very good, although many Ministries are facing cuts in their annual GSB. What is presented in the GSB22 regarding the Timor Gap is correct and we support each other.

Our banking system is doing well even during the pandemic we've been experiencing since 2020.

We must all make great efforts to control our budget properly. The PN approves the budget annually, but nothing is done with at least 20% of it, the part which is not executed. BCTL expresses very deep concerns about this policy.



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A credit moratorium is a government program in which the government pays 60% of the interest that should be paid by credit holders and they pay only 40% of the interest payable. The government has been paying about \$222,000/Month.

### Questions and Answers from and to Members

How is BNCTL in granting credit? Other banks are lending at high interest rates: what are your recommendations on this matter?

“Can you please help the BNCTL more? Please give them more money and better terms.”

There are companies that say they have more than 10-20 billion USD to invest in TL that come to our Committee: check if their money is legal.

Is the Ministry of Solidarity investing money from the Social Security Reserve Fund with BCTL?

### Answers

The BNCTL interests all of us because it is an instrument of the Government. Must be revised every 5 to 10 years. They can't just think about credits. They have to do more as a bank. Any institution can provide credit. BNCTL cannot compete in the market. It takes more than \$50 million to do this.

It must invest government money in sectors such as tourism and agriculture. It is good that the BNCTL can give credit to many people. However, granting only individual credit is not a good enough reason to approve your request. BCTL wants BNCTL to be a real bank. The main function of a bank is to be an intermediary. They also need to look for big clients and big investment programs.

Start by looking at your human resources. Are they sufficient and capable of taking the BNCTL where it should go?

BCTL is concerned about accountability and feasibility. We need to put people in who can manage these banks. This is crucial. BNCTL's human resources and management should be reviewed based on its investment model. Parliament is forcing the BNCTL to open in every aldeia. This is a huge risk. Can BNCTL invest such high funds in the cost of installation and operation and will it be able to get enough clients to cover the costs? That pressure will kill the BNCTL. Development is not done that way. My preference is to review and clean up the BNCTL management. BNCTL cannot act as if it were the Ministry of Solidarity.

Please, listen to your Finance Minister. A government without a Finance minister will fail at all levels. Allow the Minister of Finance to manage financial and fiscal policies. The Minister of Finance was hired in 2020 to implement reforms and put the country's economy back in good shape. That's exactly what he's been doing.

BNCTL is working together with the Ministry of Solidarity. They deposited \$96 million with BCTL. That amount is growing daily.

### BNCTL – National Credit Bank of Timor-Leste

*[tables omitted]*

In the table below, notice the value of the total value (stock) of credit planned for 2021: it was 273 million in December but last September it was only 147 million according to the bank's balance sheet for that month. In June it was 138 million, so it seems unlikely that next December it will be higher than around 155 million, far below the planned level. This raises serious doubts about the capacity for credit expansion in the near future. It should also be noted that between September 2020 and the same month of 2021, the BNCTL granted, according to its quarterly balance sheets, 38 million USD in credit and not the approximately 70 foreseen (DEC20 to DEC21).

These values must be compared with the 286 million available in “cash and available at Central Banks” and in “applications in other credit institutions”, the resources immediately available for the bank to use (partially) in new credits.

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All these values mean that the simple “offer” of capital for granting credit is not a “necessary and sufficient condition” for it to be granted. Difficulties felt by the banking system as a whole in using available money (namely customer deposits) to provide credit (last September this was 21% of customer deposits) means that the main blockage in the credit market is on the “demand” side and not the “supply”, with “demand” being conditioned by a wide range of factors, from the lack of adequate legislation on granting real guarantees for loans, to the country’s weak economic situation due to the pandemic and the confinement to which the country it has been subject, to the poor quality of the projects presented for financing to the banks, to the deficiencies of the economic structure of the country and to the clear lack of capacity of the Timorese businessmen, to which the lack of quality of the human capital in the country is not strange.

From the presentation made by the administration of BNCTL at the Bank’s public hearing:

“Capital is like an insurer, so the depositor’s money cannot be lost.”

“BNCTL continues to want capital because it wants to finance the Private Sector quickly and efficiently. 40% will be construction loans. It intends to give credit to small, medium and large companies. The highest interest rates will be 10% and the lowest 4%. All loans provide loan insurance for anyone who wants it.” [questions: with these interest rates, will you be able to maintain the 8% profitability announced as having been verified until now? These guidelines correspond to the Government’s economic policy options and as such should be theirs and not a commercial bank even if the Timorese State],

“BNCTL belongs to the government and therefore needs strong capital so that people can trust and invest in it. Loans cannot come from 100% from credit money. A certain percentage must come from capital. It also needs strong capital to establish partnerships with other banks. Need large capital to get a AAA rating.”

“BNCTL can be a partner in various government projects. If the BNCTL does not give credit, it will lose its credibility. Many say that the BNCTL does not have the capacity, but the BNCTL survived 20 years.” [once again it appears that the bank is seeking to replace the government’s functions].

“BNCTL belongs to the State, created in TL and managed by Timorese. We have to guarantee its survival.”

“The money from the deposits is invested in TL and not in other countries.” [A question about the approximately 120 million applications in credit institutions that appear in the balance sheet are invested in which banks and in which countries?]

“Although BNCTL expanded its credit, it never reached more than 5% in bad debt.” [who are BNCTL’s typical clients? There is, apparently, an appreciable group of civil servants and the Bank deducts from their salaries the payments due to them. The bank’s risk appears to be reduced].

“BNCTL has built 4 new buildings. It has also increased the capacity of its staff. BNCTL is the main bank that collects government revenues.”

“BNCTL has 74% liquidity. Must have capital to balance this. The government’s investment in BNCTL has been very secure and successful so far.”

“BNCTL is the government bank. Must be the main bank to control interest rates “

“Three years ago, BNCTL requested \$150 million from the government. It received a \$5 million injection and will receive another \$40 million allocated for the 2022 State Budget. **Therefore, BNCTL is requesting another \$105 million to be paid in phases.**” [How many phases/years? The need for this amount remains to be technically demonstrated, which, if satisfied, will inevitably conflict with other, possibly more important, economic policy objectives such as the sustainability of public finances, the increase in human capital, the increase in physical capital in infrastructure, etc.]

“The government has over 19 billion of the Petroleum Fund invested in foreign countries. The return of the Petroleum Fund is 4%. The money drives the economy of another country.

BNCTL is only asking for a fraction of the Petroleum Fund money. The 105 million would be used within TL, generating jobs, strengthening the economy and developing small, medium and large national companies.” [This argument holds for the 105 million but also for all the 19 billion. “*The BNCTL is asking for a fraction of the Petroleum Fund*” such as schools, hospitals, roads and ports, irrigation systems, etc. If it is not possible to satisfy all these requests, how can you choose? What is the hierarchy of priorities?]

“BNCTL has achieved and continues to get an 8% return on its investment. BNCTL made a profit of \$22 million on an investment of \$35 million. BNCTL can make even more profit with an investment of \$150 million.”

#### **Questions/Comments**

After listening to the explanation of the BNCTL leaders, the deputies agreed that the Government should allocate a further \$105 million to BNCTL, paid in 3 phases.

#### **IV. Conclusions and opinion**

A budget -- in this case the Central Administration Budget -- is not an end in itself, but rather an instrument of a particular economic policy. This is defined to respond to problems in the functioning of an economy, problems that can be essentially cyclical (short-term) or structural (long-term) in nature.

On the other hand, a budget can be analyzed from the point of view of its global value and from the point of view of its distribution to face the aforementioned problems.

In relation to the overall value, it is necessary to take into account, namely, what is thought to be the capacity of the State to collect revenue and effectively spend the money destined for expenses.

The overall amount of GSB22 appears to be more or less appropriate to the State’s capacity to effectively spend the money it has.

Our doubt, which is actually a certainty, is whether the distribution of money is the most appropriate for the pursuit of the objectives that we believe should be those of economic policy in view of the problems of our economy.

At stake, in particular, is the correction of the many structural problems of our economy and our society. At stake is everything that concerns the many and enormous failures of the country’s “human development” -- at the heart of the Economic Recovery Plan (PRE) approved in 2020 and which are reflected in the great options approved by the Council of Ministers for the GSB22 - - which makes it almost always last in this domain in the context of Southeast Asian countries.

Not that the country is in a kind of race with the other neighbors to see who is in the top places or who is more behind in the “race”, but rather because of what this means of insufficient living standards for our fellow citizens!

Correcting long-term deficiencies is a difficult, time-consuming and resource-intensive task that is behind our current situation. That’s why we think that the later it starts, the worse for the Timorese. Now, the present budget proposal seems to be insufficient for a decisive start in the correction of the structural deficiencies of the country and that are at the heart of the PRE, which are not sufficiently reflected in the document under analysis. This is, rather, a first step. Short...

Therefore, an appeal is made to the Government and also to fellow deputies that, during the discussion in the plenary of the GSB22, some changes may be introduced (redistribution of funds) that allow for a more decisive start to correct the defects in our country’s human development, particularly in its three fundamental axes of **food** (family agricultural production), (quality of) **education** and (quantity and quality of) **health**.

In these three areas, we particularly draw attention to:

**Agriculture and food:**

The MAP must focus its attention either on increasing family agricultural production -- with a consequent increase in income and food quality for rural populations and beyond -- or on increasing the quantity and quality of “marketable” (exportable) production of rice, coffee and better quality wood.

As for rice, it is essential to develop policies that promote the re-entry into production of many fields that have been abandoned and that will allow the country to be almost self-sufficient in that grain, increasing the “food independence” of our country. The MAP must, together with the MTCI and the Government in general, consider the possibility of establishing some type of customs protection for national production that protects producers from the invasion of the national market by imported rice, which, due to its price, ends up “ejecting” many rice producers from production.

With regard to coffee, it is essential to adopt a “coffee policy” that allows for an increase in the quantity and, above all, its quality in order to increase the income of coffee growers and the country through exports. This needs to be significantly improved as it is not sustainable to “live in the shadow” of the idea of the high quality of Timor-Leste coffee raised in the distant past.

As for wood, it is about implementing the “Forest Law” approved a few years ago and which recognizes the great predisposition of soils in our country for forest production. Well, it doesn't seem to us that the MAP is doing enough to make the Timorese forest more dynamic in its various uses.

**Education and vocational training (SEFOPE):**

Not being an area within the competence of Committee D, its consequences in terms of the qualification of national human capital are at the center of our concerns. Hence, we consider that we have something to say on the subject. In fact, it is necessary to significantly improve the quality of schools and equipment for primary education, which makes room for the activity of small and medium-sized private sector civil construction companies --, to improve teacher training to improve the quality of education and ensure greater coverage of the national territory with quality secondary schools, such as the existing CAFÉ ones.

All of this is fundamental to, in the long term, significantly improving the level of our human capital. Otherwise we will not be able to compete in the increasingly global economy in which we move; not only will we not be competitive enough to impose ourselves in foreign markets, but we will also be increasingly victims of competition from others in the domestic market, relegating our fellow citizens to a “poor and vile sadness” of life.

At issue is not only formal education at the various levels of education that improves human capital, but also the reinforcement of professional training through, in particular, the reinforcement of the quantity and quality of training provided by vocational training centers dependent on SEFOPE in order to improve the technical skills of Timorese workers destined for the domestic market as well as workers who may find jobs abroad.

We will be able to include in this training effort the empowerment of entrepreneurs, since the Timorese business fabric is very weak both in terms of financial capacity and in terms of technical capacity (management, accounting, marketing, etc.).

**Health:**

Our concern with this area is based on the same reasons as our concern with education: the need to introduce improvements in our human capital that allow a better life for all Timorese people.

Improve the quantity and quality of health facilities -- which will have positive effects on the construction industry -- and ensure the correct use of its equipment, which opens the market for the existence of private maintenance companies -- including cleaning installations.

The Government should also study the possibility of opening the health care sector to qualified foreign investors in order, if possible, to allow various diseases to be treated in the country, avoiding expensive travel abroad for treatment.

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In addition, staff training must be improved so that they start treating users in a more humane way, an area particularly neglected in many hospitals and health centers.

### Other areas:

#### MTCI

Generally speaking, work must be done in the production areas in order to make viable the national production of goods that have been imported until now, promoting the (partial) substitution of imports and even some exportable production.

This “exportable production” includes various agricultural products (coffee, wood and others) or industrial and services. Of these, we highlight the need to take advantage of the current low situation in the tourism sector (accommodation and catering) to prepare for its recovery as soon as the sanitary conditions make it possible to alleviate the country’s international connections. This return should form part of “community tourism” and it should now be prepared, namely in terms of hospitality, for future growth.

It is essential to ensure full implementation of the Land Law and complementary legislation to facilitate private investment. Without this, the legal regulations regarding investment are ineffective.

It is equally essential that the Government review the practice of “front loading” as it has been responsible for major mismatches between the real needs of some investments in infrastructure and what is being carried out, with a high waste of national resources .

After a large period of excessive investment) in physical capital -- physical communication infrastructure (namely roads, ports, airports) and electricity, many of them oversized and of questionable quality -- with the consequent cost of underinvestment in human capital and strong delaying this, it is essential to redirect many resources towards the development of human capital to improve the productivity of our workforce and improve our competitiveness, including in our own country.

#### MCAE

Two controversial points of the PPL and of the hearings with the ministries are the forecast of transfer of 40 million USD to the so-called “capitalization” of BNCTL and the request by the MPM to increase its budget by around 45 million USD, doubling the amount provided for in the PPL.

As for the first, given the data available on the bank’s balance sheet, it seems that, even without the required “capitalization”, it has the capacity to increase its financing of the economy if there is a **demand** for financing on the part of the latter (individuals and companies); in fact, in the banking business under Timor-Leste conditions and the “demand” for credit the main determinant of it since the “supply” of it is virtually unlimited, so large are the resources of the banking system, huge volume of liquidity that obliges banks to, due to the lack of investments in the country -- there is also no interbank market --, resort to application abroad. Such demand depends more on structural (including legal) conditions of the economy than on the possible lack of resources in the banking system in general or in a particular bank.

It is suggested that a credit line be created to facilitate the recovery of the financial health of companies in difficulties due to the situation related to the pandemic.

In relation to BNCTL, the government must take into account the bank’s needs in terms of guaranteeing its solidity and the security of its customers’ deposits, which must take into account BNCTL and international requirements in this area, as well as the opinions of auditors qualified.

#### MPM

As for the MPM’s request, the amount requested goes far beyond what is within the reach of the National Parliament to decide. Only the Government will be able to meet the request by reviewing the budget amount allocated to the Ministry of Petroleum and Minerals and associated institutions so that it can have a better knowledge of the country’s wealth and subsequently organize its economic exploitation for the benefit of the Timorese.

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### COOPERATIVES

The Timorese State has sought to support the cooperative sector a lot. We believe, however, that this support has not yet managed to generate a strong sector, namely with sufficient technical capacity and human resources. Therefore, it is suggested that this technical capacity and training of human resources in cooperatives be reinforced in terms of quantity and quality.

### ENVIRONMENT

Committee D expresses doubts about SEA's ability to effectively perform its highly specialized functions and calls on the Government to strengthen its preparation (in equipment and technical personnel) for this purpose.

Taking into account all of the above in this report, Committee D considers that the total budgeted amount -- about 1.6 billion dollars -- is relatively appropriate.

- what to do in 2022 (type of expenses),
- to the capacity to execute the budgets that the State apparatus has demonstrated for some years now and
- to the sustainability of public finances in the framework of a financial situation characterized by the reduction of cash inflows into the Petroleum Fund until revenues from the exploitation of Greater Sunrise begin to come in.

This does not prevent us from considering that it is necessary to organize public finances so that, with the contribution of the new Budget Framework Law (LEO), they seek to make the best possible use of every dollar spent.

If, in relation to the budgeted QUANTITY, what remains in the two previous paragraphs is a satisfactory summary, in relation to the QUALITY (structure) of expenses, the Committee regrets that it was not possible, in the GSB22 proposal, to go deeper into the increase in expenses that allow the improvement of the country's human capital and the well-being of the Timorese, areas in which we are significantly behind in relation to what is necessary and to our neighbors, which decisively compromises our future. After many years of betting on increasing the **physical capital** of Timor-Leste, it is high time to bet on increasing **human capital**, as the reduced level of this is clearly limiting the economic and social development of our country and improving the level of life of our fellow citizens.

This will be easier if the Government reduces the level of rigidity in public spending (namely for goods and services and public transfers, in a total of about 1300 million USD in the GSB22), to make its management more flexible in accordance with current needs and the structure of the economy.

According to the results of the hearings, the requirements of institutions and ministries, Committee D identifies the following additional proposals:

1. BNCTL: \$105 million distributed over 3 phases, in addition to the \$40 million provided for "funding";
2. MPM: \$45.8 million to reinforce the \$44.2 million allocated to it.  
Amount to be made with the following breakdown;
  - \$34.7 million for Timor GAP;
  - \$2 million for IPG;
  - \$6 million for ANPM;
  - \$0.3 million to the National Mining Company;
  - \$1.25 million for the MPM itself.



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3. MTCI: \$2.7 million to improve community tourism.  
Plus, the \$5 million change already allocated to MTCI (General Department of Trade) with the following breakdown:
  - \$2.5 million to the General Directorate of Tourism.
  - \$500,000 to the General Directorate of Commerce.
  - \$2 million for the General Directorate of Industry.
4. SEFOPE: \$1.09 million with the following breakdown:
  - \$250,000 for the rural employment program;
  - \$200,000 to KOBE Houses at Headquarters;
  - \$260,000 for Bobonaro office;
  - \$300,000 to support migrants in Australia and Korea;
  - \$80,000 for minor capital.
5. State Secretariat for the Environment: \$1.146 million for the construction of Oil Treatment Centers in Betano and Tibar and for various environmental support services.

Sum of the amounts above: **\$ 155.736 million dollars.**

In addition, Committee D suggests to the VIII Government the following considerations:

1. Strengthen the existing 75 Training Centers, including the Business Training Center (increase the number of trainers and modern equipment).
2. The continuation of the Food Basket program but only for the most needy.

The additional proposals mentioned above may be considered by the VIII Government, depending on the financial capacity of the General State Budget.

In conclusion, the GSB22 and this opinion of Committee D fulfill the legal requirements and therefore the latter is in a condition to be sent to the Public Finance Committee to be taken into consideration in its own report on the GSB to be considered in the plenary of the National Parliament.

## V. VOTE

This report was discussed and approved at the meeting of Committee D held on November 22, 2021 at 10 am OTL. The vote was as follows: 7 (seven) votes in favor; 0 (zero) votes against; and 2 (two) abstentions.

/s/

The President of the Committee, Antoninho Bianco

/s/

The reporting Deputy, Alexandrino Cardoso da Cruz