NATIONAL PARLIAMENT
Democratic Republic of Timor-Leste

BUDGET AND FINANCE COMMITTEE

Report and Opinion

Reporters :
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Proposed Law No. 46/V (5a) - General State Budget for 2023

Approved on October 26, 2022

Table of Contents

1. PRELIMINARY CONSIDERATIONS

Admission of the Bill

The Proposed Law No. 46/V (5^a) - General State Budget (GSB) for 2023 (PPL 46/V (5^a) or PPL GSB 2023) was submitted to the National Parliament on October 3, 2022 (because October 1 fell on a Saturday), pursuant to Article 52.1 of the new Budgetary Framework Law - LEO, i.e., Framework of the General State Budget and Public Financial Management (Law No. 2/2022, February 10) and under the provisions of Article 97.1(c) and Article 145.1 of the Constitution of the Democratic Republic of Timor Leste (CRDTL).

The Law Proposal has as its object the approval of the General State Budget (GSB) for the year 2023, having been prepared under the terms of articles 115.l(d) and 145 of the Constitution.

The Government has, in accordance with the constitutional provisions indicated in the Draft, exclusive competence to propose the legislative initiative under consideration and the National Parliament has exclusive competence to approve it (articles 95.3(d) and 145 of the Constitution).

After entering the National Parliament, the Bill was immediately forwarded to the Division of Support to the Plenary (DIPLEN) for registration, numbering and preparation of Technical Note, under the provisions of Article 4 f) and i) of the Regulation of Competencies of the Divisions of the General Secretariat of the National Parliament.

Technical Note No. 104/2022/DIPLEN, dated October 3, 2022, verified compliance with the formal constitutional, legal and regimental requirements (Constitution, Law on the Publication of Acts and Rules of Procedure of the National Parliament) necessary for the admission of Bill No. 46/V (5a), and concluded that the legislative initiative under consideration met the necessary requirements to be admitted.

On 4 October 2022 the present PPL was admitted and referred (downloaded) to the Permanent Specialized Committee on Public Finance (Public Finance Committee or Committee C) for issuance of Report/Opinion and to the other Permanent Specialized Committees for issuance of sectorial opinion, as provided for in Article 163 of the Rules of Procedure of the National Parliament. Under the terms of the admission order, the regimental deadline applicable to the issuance of the report and opinions began running on October 4, with a deadline of 15 days.

(i) Proceedings of the Proposed Law

Under the combined terms of articles 97.1(c), 115.1(d) and 145.1 of the Constitution and article 52.1 of LEO, the proposal for the State Budget for the following economic year must be presented to the National Parliament, in the form of a Law Proposal, by October 1 of the year prior to the respective year.

The Rules of Procedure of the National Parliament (RPN) regulate the special process of presentation, discussion and approval of the State Budget by Parliament, in articles 162 to 180 of the RPN, determining that after admission of the initiative, it is referred to all specialized standing committees (article 163.2) - with particular focus on the Committee on Public Finance (Committee C - to issue reports and opinions. PPL no. 46/V(5a) was referred to committees on the same day of its admission, on October 4, 2022.

(ii) Public Finance Committee

Due to the matter, the Public Finance Committee is the competent committee to consider this legislative initiative, under the Deliberation of the National Parliament 2/2018, of June 26 and Article 3 of its Rules of Procedure, which assigned to it, among others, powers in budgetary matters and, by virtue of Article 164 paragraphs 1 and 2 of the Rules of Procedure of the National Parliament, it falls to the Public Finance Committee to prepare a report and reasoned opinion, which must take into account the sectoral opinions of the other Specialized Standing Committees.

It was based on the draft law and respective explanatory memorandum, the technical note dated October 4, 2022, the supporting documents submitted by the Government with the draft law and the information obtained from the entities heard that this analysis was developed and supported the conclusions and recommendations contained in this report and opinion.

It is recommended to read the sectorial opinions of the other specialized permanent committees consulted and of the Petroleum Fund Consultative Council (CCFP). Whenever referred to, these opinions have informed the present report and opinion.

In the preparation of this report and opinion, the provisions of Article 34 of the Rules of Procedure of the National Parliament were observed, with the necessary adaptations.

(iii) Reporters

The following were appointed rapporteurs: Maria Angelina Lopes Sarmento (PLP) and António Maria Nobre Amaral Tilman (KHUNTO)

(iv) Public hearings

As part of the initial consideration of the PPL of the State Budget 2023, the Public Finance Committee (Committee C), observing the provisions of Article 80 of the Rules of Procedure, conducted public hearings with various entities of the Public Administrative Sector, banks, NGOs and others. The public hearings were held between October 10 and October 18, 2022, and were attended by a number of different entities from the Public Administrative Sector, banks, NGOs, and others. The public hearings were held between October 10 and 18, 2022, at the premises of the National Parliament and according to the following schedule:

In the course of the hearings, the entities heard had the opportunity to clarify the doubts of the honorable Members and to convey their opinions and recommendations on the budgetary proposal. All documents provided to the Committee during the hearings are attached to this Report and Opinion. It should be noted that the Ministry of Social Solidarity and Inclusion and the National Institute of Social Solidarity did not attend the call of the National Parliament on October 11, 2022. Committee C invited the Timor-Leste NGO Forum by sending a letter in which it referred the request for the presence of the NGO La'o Hamutuk jointly. Unfortunately, La'o Hamutuk was not invited by the NGO FONGTIL and therefore attended the hearing. (sic)

During the period of public hearings, the ANAPMA team responsible for the Development and Management of the Computer System for Planning, Monitoring and Evaluation *Dalan Ba Futuru Timor-Leste*, took the initiative to meet with the Bureau of Committee C and technicians from the service of support to the Plenary in order to explain the usefulness of creating a new module in the application for the insertion of amendment proposals that allows updating, in real time, and inform its subscribers of the effect that each budget amendment has on all the amended tables, since the GRP system managed by the Ministry of Finance does not have the capacity to automatically correlate all the tables of the GSB. Committee C understood the practical usefulness of the proposed solution and asked it to urgently produce a demo for demonstration and testing.

The Ministry of Finance appeared on October 18 in the Plenary Room for its hearing before the Deputies. The Vice-Minister was asked to send to the Public Finance Committee documentation requested by the Committee together with written answers to some questions that were asked during the hearing. These documents and the written answers were not delivered in time, at least until the day before the reading and approval of the Report and Opinion of the Public Finance Committee on the Draft State Budget Law for 2023.

II. CONSTITUTIONAL, REGIMENTAL, AND LEGAL FRAMEWORK

Under the Constitution, the National Parliament, in addition to its primary representative and legislative functions, is responsible for monitoring and supervising the Executive's activity, holding the Government accountable, particularly in financial and budgetary matters (article 92 of the Constitution).

The Government has, in accordance with the constitutional provisions, exclusive competence to propose the legislative initiative under consideration, and the National Parliament has exclusive competence to approve it (Article 95.3(d) and Article 145 of the Constitution).

Under the combined terms of articles 97.1(c), 115.1(d) and 145.1 of the Constitution and 52.1 of the LEO, the proposal for the State Budget for the following economic year must be presented to the

National Parliament, in the form of a Law Proposal, by October 1st of the year prior to the year to which it relates.

The Rules of the National Parliament (RPN) regulate the special process of presentation, discussion and approval of the GSB by the Parliament, in articles 162 to 180 of the RPN.

Given that the new budget framework law, Law No. 2/2022, already enshrines in its more than 120 articles, the new legal regime to which the State Budget is subject and the rules governing budget execution and public financial management, which prior to the approval of this new diploma had to be provided annually in each draft law on the State Budget.

Also on the Major Planning Options and in the area of budget planning, under Article 44 of LEO, the proposals for the Laws of the "Major Planning Options" and the General State Budget reflect the financial component of national priorities, according to an objective criterion of multi-year budget programming. However, it is important to emphasize that in relation to the criterion under reference, under the terms of Article 47.5 of LEO, the limit on total expenditure of the Public Administrative Sector is binding for the following budget year and indicative for the following four years, thus setting an important budgetary framework for the respective legal correlation of the GSB with the Major Planning Options.

To this extent, Law No. 8/2022 of June 15, "Major Planning Options for 2023" (GOP), in paragraph 3 of Article 4, states that the draft law of the General State Budget for 2023 to be submitted by the Government must respect the value of the overall expenditure of the Public Administrative Sector for 2023 provided in the multiannual budget programming, amounting to $3,155,715,306 dollars (Three thousand one hundred fifty-five million seven hundred fifteen thousand three hundred six dollars) The GOP presents the main annual and multi-annual options in terms of planning with an impact on the 2023 State Budget, in materialization of the:

- Strategic Development Plan 2011-2030;
- of the Government Program;
- and of the medium-term plans and annual plans of the services and entities of the Public Administrative Sector.

In terms of the articles of the draft law, the Public Finance Committee sees no use in the Government replicating in the PPL of the State Budget for 2023 some of the articles already provided for in the LEO, specifically article 7 on the Transfer of Social Security balances (see Article 16.2 of LEO), and article 9 on Parliamentary Control (see Article 110.4 of LEO), considering that because it is redundant, both articles should be removed from the draft law, by the National Parliament.

In addition, the Committee considers that Article 8 of the PPL of the State Budget for 2023, which authorizes the Government, through the member responsible for finance, to make changes in the next year to the budget appropriations of any budget titles and the three subsectors of the General State Budget, whenever organic changes occur in the structure of the Public Administrative Sector, is a command not provided for by the new LEO approved in February this year, which violates the exclusive powers of the National Parliament, and this prerogative may be used arbitrarily by that leader, even outside the Council of Ministers, so Article 8 should be deleted from the PPL.

<u>Structure of the State Budget Bill (GSB)</u>

In terms of applicable law, in addition to being framed by the Constitution, as briefly described above, the budget system is also regulated by Law 2/2022 of February 10 - the new Budgetary Framework Law (LEO).

Under this LEO, the budget bill has the structure and formal content defined in articles 37 to 39 and 40 to 43 of the same,

Regarding its **formal configuration**, as a unitary and universal normative act or instrument (Article 3 of LEO), it should first be noted that the PPL GSB 2023 respects the formal requirements that must generally obey the draft laws for their admissibility, in accordance with the provisions of Articles 91, 96.2 and 98 of the Rules of Procedure of the National Parliament, including being written in Portuguese, in the form of articles, containing a title that translates its main object and being accompanied by an explanatory statement. It is also in accordance with the provisions of Law 1/2002 of August 7 (Law of Publication of Acts). The law proposal obeys the general norms of formal legistics.

As for the conformity of the GSB 2023 PPL with the legal rules applicable to the structure and formal content of budget bills, in particular those arising from articles 37 to 43 of LEO, the GSB law is composed of the articles and the budget tables, and the GSB 2023 PPL must include the Report, the Budgetary Developments and the Informative Elements.

Article 38 provides the elements that must be included in the pleading, and Article 39 establishes the tables that must be presented.

According to article 40.1 of LEO, the draft GSB has a structure and content identical to the GSB law.

Under the terms of paragraph 2 of this article, the draft law on the State Budget is accompanied by the report (article 41), the budgetary developments (article 42) and the informative elements (article 43).

The 2023 GSB proposal contains an articulate text with 10 articles and an Annex consisting of 12 budgetary tables, duly numbered and referenced in the proposal's articulate text as an integral part of the law, in accordance with the rules applicable to the formal content and structure of the Budget law, foreseen in articles 37 and following of LEO. The tables are identified below:

- Table I - Revenues of the Public Administrative Sector, by subsectors;
- Table II - Expenditure of the Public Administrative Sector, by subsectors;
- Table III - Expenditure of the Public Administrative Sector, by functional classification;
- Table IV - revenue of the Central Government sub-sector, by economic classification;
- Table V - Expenditure of the Central Administration sub-sector, by organic classification and structured by programs;
- Table VI - Expenditure of the Central Administration sub-sector, by economic classification;
- Table VII - Social Security sub-sector revenue, by economic classification, total and by regime and administration;
- Table VIII - Expenditure of the Social Security sub-sector, by organic classification and structured by programs;
- Table IX - Expenditure of the Social Security sub-sector, by economic classification, total and by regime and administration;
- Table X - revenue of the subsector of the Special Administrative Region of Oe-Cusse Ambeno, by economic classification;
- Table XI - Expenditure of the subsector of the Special Administrative Region of Oe-Cusse Ambeno, by organic classification and structured by programs;
- Table XII - expenditure of the subsector of the Special Administrative Region of Oe-Cusse Ambeno, by economic classification.

In turn, under the terms of article 40.2, of LEO, the draft law of the State Budget is accompanied by the report, the budgetary developments and the informative elements.

According to article 41.1 of the LEO, the report of the draft law on the State Budget contains the presentation and justification of the proposed budgetary policy, as well as the analysis of the elements referred to in paragraph 2 of the same article (macroeconomic projections, budgetary execution, PF, fiscal policy …).

Article 42 provides the budgetary developments to be presented, namely,

- a) The development of revenues and expenses of the services and entities of the Central Government sub-sector;
- (b) the development of revenue and expenditure of the Social Security sub-sector; and,
- (c) the development of revenue and expenditure of the subsector of the Special Administrative Region of Oe-Cusse Ambeno.

Under paragraph 2, the revenues and expenses of each service and entity are specified up to the maximum levels of disaggregation, according to the structure by programs and the organic and economic classifications.

Finally, Article 43 lists the informative elements that accompany the bill.

The content of the **report** is delimited by article 41 of LEO and contains, in essence, the information previously provided by the Government in Budget Book no. 1.

The now called **budget developments**, correspond in essence to the previous Budget Books 2 to 6. On the budget developments, the paragraph 2 of the same Article 42 prescribes that the revenues and expenses of each service and entity are specified up to the maximum levels of disaggregation, according to the structure by programs and the organic and economic classifications.

Finally, article 43, paragraphs 1 to 4, list the **informative elements** that also accompany the bill. These are:

- Financial situation and assets of the State and of the services and entities of the Public Administrative Sector;
- Status of treasury operations and accounts of the Treasury and the services and entities of the Public Administrative Sector;
- Information on budget programs, including performance evaluation indicators;
- Information on program performance in the previous budget year;
- Budget statement and financial statement of the Petroleum Fund of Timor-Leste;
- Estimated Sustainable Income Estimated for the budget year itself and the previous budget year;
- Independent auditor's report certifying the amount of the Estimated Sustainable Income referred to in the previous paragraph;
- Estimated reduction of the Estimated Sustainable Income in subsequent fiscal years, due to transfer from the Petroleum Fund of an amount greater than the Estimated Sustainable Income, if this is provided for in the draft law of the GSB;
- Independent auditor's report certifying the estimates of reduction of the Estimated Sustainable Income referred to in the previous paragraph;
- Number of workers in the Public Administrative Sector, by service and entity and by type of contract;
- Annual plans of the services and entities of the Public Administrative Sector;
- Multi-year commitments of the services and entities of the Public Administrative Sector;
- External Binding and Mandatory Expenditures of the services and entities of the Public Administrative Sector;
- Public debt situation and treasury operations of the Treasury and the services and entities of the Public Administrative Sector, with identification of the loans contracted, the specific conditions, and the payments of interest and amortizations made on account of each loan;
- Individualized information about spending on public-private partnerships;
- Individualized information about credits and guarantees granted by the State;
- Financial and patrimonial situation of the companies, foundations and associations public or with State participation;
- Forecast of tax revenue and foregone tax revenue, per tax;
- Prediction of credits of the modified or extinct services or entities;
- Other information deemed necessary by the Government.
- Forecast of the contributory revenue, which allows the amount of gross revenue and the transfer to the FRSS to be verified;

- Situation of treasury operations and accounts of the Social Security sub-sector;
- Composition of annual expenditure by scheme and by benefit;
- Updated long-term projection containing deferred benefit charges and employee and employer contributions.
- Special Development Fund of the Oe-Cusse Ambeno Special Administrative Region and its investments.

• Whenever the State Budget proposal proposes authorization for transfer from the Petroleum Fund above the Estimated Sustainable Income, the proposal must also be accompanied by the justification provided for in Article 9(d) of Law No. 9/2005 of August 3, republished by Law No. 12/2011 of September 28.

They are the corresponding Appendices:

Annex I - Financial Situation and Assets of the State and the Services and Entities of the Public Administrative Sector;

Annex II - Situation of treasury operations and accounts of the Treasury and the services and entities of the Public Administrative Sector;

Annex III - Information on budget programs, including performance assessment indicators;

Annex IV - Information on program performance the previous budget year;

Annex V - Budgetary and financial statement of the Petroleum Fund of Timor-Leste;

Annex VI - Estimated Sustainable Income for the budget year itself and the previous budget year;

Annex VII - Independent auditor's report certifying the amounts of the Sustainable Income estimates;

Annex VII - Estimated reduction of the Estimated Sustainable Income in subsequent fiscal years, due

to transfers from the Petroleum Fund of amounts greater than the Estimated Sustainable Income;

Annex IX - Independent auditor's report certifying the Estimated Sustainable Income reduction estimates;

Annex X - Number of workers in the Public Administrative Sector, by service and entity and by type of contract;

Annex XI - Annual plans of the services and entities of the Public Administrative Sector;

Annex XII - Multiannual commitments of the services and entities of the Public Administrative Sector;

Annex XIII - External Binding and Mandatory Expenditures of the Services and Entities of the Public Administrative Sector;

Annex XV - Individualized information on expenditure on public-private partnerships;

Annex XVII - Financial situation and assets of public companies, foundations and associations or with State participation;

Annex XVIII - Forecast of Outgoing Tax Revenue by Tax;

Annex XX. Other information deemed necessary by the Government:

1. Infrastructure Fund;
2. Human Capital Development Fund;
3. Development of Municipalities;
4. Citizenship Budget;
5. Development Partners
6. Information about Great Options of the Plan (GOP) and markers.
   i. Annex XXI - Forecast of the contributory revenue, which allows us to verify the amount of gross revenue and the transfer to the FRSS;
   ii. Annex XXII - Situation of treasury operations and accounts of the Social Security sub-sector;

iii. Annex XXIII - Composition of annual expenditure by scheme and by benefit;

iv. Annex XXIV - Updated long term projection containing deferred benefits charges and worker and employer contributions;

v. Annex XXV - Information on the Special Development Fund of the Special Administrative Region of Oe-Cusse Ambeno and its investments;

vi. Annex XXVI - Justification foreseen in paragraph d) of article 9 of Law nr. 9/2005, of August 3rd, republished by Law nr. 12/2011, of September 28th.

Having analyzed the documents presented, it is concluded that the documents foreseen in articles 40 to 43 of LEO were presented.

a) Budget Report;

b) Summary of the State Budget 2023;

c) Budget developments;

d) Information elements;

As for the **material content of the budget**, regulated by Article 44 - Budget Planning and following of the LEO, it should be noted that, as it stipulates, "the proposals for the Laws of the Major Planning Options and the GSB reflect the financial component of the national priorities defined on the basis of the National Development Plan, the Government Program, the medium-term plans and the annual plans of the services and entities of the Public Administrative Sector, as well as any other political and strategic documents of the Government."

On the other hand, article 10 of the LEO consecrates Budgeting by Programs in the following terms:

1. The GSB is structured in programs.
2. Program Budgeting is a structured approach to budget preparation, which links the inclusion of appropriations in the State Budget to their relationship with the programs, sub-programs, and activities foreseen in the annual plan and medium-term plan of the respective service or entity of the Public Administrative Sector.
3. The structure by programs consists of grouping expenses by programs, which are general objectives aimed at producing results, and dividing them into subprograms, which are specific objectives aimed at producing results, and within these, activities, which are a set of actions that contribute to the production of results.
4. The programs are linked to the existing national development plan and the Government Program, and define general objectives to be achieved.
5. Subprograms are linked to a program and define specific goals to be achieved.
6. Activities are linked to a subprogram and detail the processes or tasks that must be performed to produce results.
7. Each program, sub-program, and activity is accompanied by performance measurement indicators that directly measure the performance of the key processes or tasks that make up the program, sub-program, or activity.
8. The structure of the budget programs is organic based.
9. The regulation of the structure of budgetary programs is approved by Government decree

This methodology (Budgeting by Programs) as a means of preparing and organizing the GSB aims to *"bring the budget closer to the best international budgeting practices, improving the conceptual quality of the State Budget, harmonizing the presentation of information and increasing its transparency"* is the presentation of expenses by programs, with a new economic classification (Decree Law 19/2022, on Budget Classifiers) and functional/organic (the administrative entity authoring the expense, responsible for it, as required by the aforementioned DL).

Thus, article 10.1 of LEO determines the structure of the GSB by Programs, and the first and second paragraphs of article 11 establish the obligation of the GSB to specify the revenues and expenses it contains, by organic-functional and economic classification.

It is undoubtedly a very positive step in the direction announced, but also (and perhaps above all) a decisive step in the accountability of public entities for budget execution, no longer simply in terms of how much money they spend (by expenditure category) but now, and rightly so, in terms of efficiency in spending public money, in view not only of how much they spend, but how, in achieving the goals of the programs with the various budget allocations. From now on, control - parliamentary control, of course - of budget execution will be able to more easily ascertain whether a certain amount of public money is being spent without the respective public policy objectives being achieved, or achieved satisfactorily, and to draw consequences from this, namely by urging the executive to rethink the program and/or its officers to ensure that the objective is achieved or to rethink the public policy objective itself.

According to the explanatory memorandum that accompanies the proposed GSB 2023, "The proposed State Budget Law for 2023 presents a fair and equitable distribution of national resources to improve service delivery and economic recovery and resilience, promote sustainable and inclusive economic growth in the medium term, and to ensure that Timor-Leste can become an upper-middle-income country by 2030, under the motto "*Productive Investment and Inclusive Growth for Future Generations.*"

The explanatory memorandum states that "The structure of the 2023 State Budget Proposal follows the new rules in the State Budget and Public Financial Management Framework Law," referring also that the proposal was "simplified compared to previous years," since part of its content, "such as definitions, financial schemes, and budget classifications," are now in the State Budget and Public Financial Management Framework Law and subsequent regulations.

It also said that the new economic and functional classifications "represent a considerable advance towards a more transparent and efficient budget", by allowing "a detailed organization of revenues and expenses by type and function, following the best international practices".

On this point, the functional classification is also highlighted, "based on the classification of the functions of government (COFOG), developed by the Organization for Economic Cooperation and Development and published by the United Nations Statistical Division as a standard classification of government activities, ensuring the comparability of Timor-Leste's accounts with those of other countries.

In addition to identifying the appropriations for some of the main measures contained in the 2023 GSB Proposal, the explanatory memorandum highlights the measures introduced at the revenue level, namely "the change in the import customs duty rate from the current 2.5% to 5%, which will contribute to increase domestic revenues and will put Timor-Leste in line with the global average of customs rates", as well as changes in excise rates, "specifically, the increase of the rate on tobacco from $50 per kilo to $100 per kilo, rates of 10%, 20% and 30% for passenger cars with values above $10.000, $25,000, and $50,000, a $1 per kilogram tax on sugar, and a $3 per liter tax on sugary drinks."

1) Conformity with the Major Planning Options Law for 2023

According to the provisions of Article 47.5 of LEO, with regard to the multi-year budget programming contained in the Major Planning Options Law, the limit on total expenditure of the Public Administrative Sector for the following budget year is binding.

In accordance with this normative, Article 4.5 of Law 8/2022, of June 15, the Great Options for the Plan for 2023, determines that the draft State Budget law for 2023 to be presented by the Government must respect the value of the overall expenditure of the Public Administrative Sector for 2023 foreseen in the multi-year budget programming.

Having verified the values in the tables that are part of the Draft Law, they are in accordance with the multi-year budget programming contained in the Major Planning Options Law for 2023, lacking the breakdown of the allocation of the General State Budget of 2023 by the 28 national results that the Major Planning Options for 2023 aim to contribute, so the Plenary of the National Parliament will have serious difficulties in approving the budget proposal for 2023, in the incomplete form in which it is presented.

2) Petroleum Fund Law

2.1 Proposed law

The proposed law proposes a transfer from the Petroleum Fund in the amount of $1,346,090,000, of which $490,146,398 million corresponds to the Estimated Sustainable Income (ESI) and $855,943,602 is relative to the transfer in excess of the ESI.

2.2 Legal requirements

The Budgetary Framework Law establishes a Special Regime in Article 24 and defines the Petroleum Fund as a public fund of the State, without legal personality.

The LEO also establishes that, without prejudice to its nature, the Petroleum Fund of Timor-Leste is not part of the GSB, and its budget and accountability are regulated by special legislation. However, each GSB must submit, for information purposes, all budgetary and financial information relating to the Petroleum Fund of Timor-Leste, as well as the financial flows between it and the GSB.

Under Article 8 of Law No. 9/2005 of August 3, the Petroleum Fund Law, as amended by Law No. 12/2011 of September 28, and most recently amended by Law No. 2/2022 of February 10, transfers from the Petroleum Fund cannot be made, in each financial year, without the Government presenting to the National Parliament:

i) Report with the estimated sustainable income for the fiscal year in which the transfer is made and for the previous fiscal year;

ii) Independent auditor's report certifying the amount of the sustainable yield estimate.

Similarly, under Article 9, transfers cannot be made from the Petroleum Fund in excess of the Estimated Sustainable Income without the Government first presenting the following to the National Parliament:

i) Report with the estimated sustainable income for the fiscal year in which the transfer is made and for the previous fiscal year;

ii) Independent Auditor's Report regarding the calculation of the Estimated Sustainable Income;

iii) Report with the estimated reduction in the Estimated Sustainable Income for subsequent fiscal years as a result of the transfer from the Petroleum Fund of an amount greater than the ESI;

iv) Independent Auditor's report certifying the estimated reduction in Estimated Sustainable Income for subsequent fiscal years;

v) Justification as to why it is in Timor-Leste's long-term interest to transfer more than the Estimated Sustainable Income.

2.3 Documents presented by the Government

The Government has delivered to the National Parliament the following documents relating to the transfer of the Petroleum Fund:

i) Report regarding the calculation of estimated sustainable income for fiscal year 2023 and the previous year (2022);

ii) Independent Auditor's Report regarding the calculation of the Estimated Sustainable Income;

iii) Report regarding the estimated reduction in Estimated Sustainable Income for fiscal years 2024 onwards:

iv) Independent Auditor's Report regarding the estimated reduction in Estimated Sustainable Income;

v) Document signed by the Prime Minister justifying the transfer from the Petroleum Fund above the Estimated Sustainable Income.

After reviewing the documents, we conclude that the Government has delivered the documents that must be submitted to the National Parliament for the purposes of transfers from the Petroleum Fund, in accordance with the provisions of Articles 8 and 9 of the Petroleum Fund Law.

III. STRUCTURAL CHANGES IN THE GENERAL STATE BUDGET FOR 2023

As mentioned before, the year 2022 was extremely productive in terms of legislation with an impact on the preparation and structure of the State Budget, with the approval of the LEO and the Major Planning Options for 2023 which generated significant changes in the budget structure, such as:

1. The focus of Budget presentations is based on services and functions, not on settlement categories;
2. The budget books meet the requirements of LEO and are now called Appendices;
3. Five Budget Markers have been introduced to improve transparency (Gender, Children, Nutrition, Climate Budget, and Value Chain):
4. By 2023 the number of Programs will increase to 50

Table 1 - Budget of each Program for 2023

5. The budget classifications have been revised and expanded to include 19 expenditure categories and 17 revenue categories in place of the six economic categories previously used,

Table 2 - Budget distribution across the new appropriation categories,

6. Government function classifications (COFOG) are applied, allowing comparison with other countries
7. The State Budget for 2023 will be grouped into four economic sectors (Social Capital, Economic, Infrastructure and Institutional), which are disaggregated into subsectors

Table 3 - Budget Allocation by Sectors (excluding FCLN)

IV. ECONOMIC OUTLOOK FOR 2023

The International Monetary Fund (IMF) forecasts in October 2021 predicted an upward growth of the world economy in the year 2021 and that the year 2022 would maintain the same growth line. This year the IMF report predicted that the world economy would decelerate from 6% in 2021 to 3.2% in 2022 and put forward an estimate of 2.9% in 2023, the lowest since 2001. However, economic growth in 2023 will be constrained by the effects of Russia's military special operation against Ukraine and the COVID-19 pandemic.

At present, at a time when inflation levels are quite high, the highest observed in recent decades, and the situation of financial crises plaguing various regions around the world, largely caused by the armed conflict between Russia and Ukraine and the resilience of the COVID-19 Pandemic, have a very high weight in predicting the direction of the economy in the nearest future.

The normalization of monetary and fiscal policies that provided unprecedented support during the pandemic is beginning to lose impact in terms of demand as policy makers aim to reduce inflation levels back to values sustainable for the growth of the economy.

Table 4 - Growth indicators between 2020 and 2023, in percentage

If on the one hand the world economy is in a generalized process of economic slowdown, there is a downward revision of growth forecasts for 2022 and 2023 by the IMF and the Ministry of Finance for the economy of Timor-Leste, which is facing a similar situation of low growth.

Timor-Leste has a clear increase in price inflation in 2022, registering a rate of 7.2%, according to the forecast of the Ministry of Finance. Timor-Leste has a very high dependence on imports of food and fuel, which causes a very sharp impact in relation to the prices of products.

On May 10, 2022 the Government presented the proposed Major Planning Options Law for 2023. In Annex I of this proposal (referred to in Article 3.3 of the proposal) the Government presents a macroeconomic scenario with economic indicators in a time frame where forecasts are calculated up to the year 2027.

The data presented is dated April 2022 and focuses on various economic indicators, such as real GDP, consumer price index (CPI) inflation, real GDP growth rate, household income, etc. All these data have been calculated taking into account a macroeconomic scenario calculated on the basis of a series of economic forecasts and dynamic factors, but the global economy has been facing a series of turbulent challenges which, according to all developments, implies that an increasing share of economies are either slowing down in growth or contracting absolutely.

In October 2022 the Government readjusted the macroeconomic data that it presented to the National Parliament, together with the draft law on the State Budget for 2023. The model tables are identical, but the data differ, including the forecasts for 2020 and beyond, as a result of the economic changes that have emerged in the meantime during this time interval, from April to October 2022. The table below highlights the differences presented by the government in relation to the macroeconomic projections it presented in May and October of this year.

Table 5 - Economic Indicators 2020-2027: GOP 2023 and PPL GSB 2023

The values presented indicate that the Government adjusted the values of the indexes on the one hand positively, in the case of the percentage of real GDP, but on the other hand, the adjustment resulted in a worsening of the trend of the inflation rate, in which the values constantly increase since 2022. In turn, the IMF has a more conservative projection regarding the percentage of real GDP defending a lower value than that presented by the Ministry of Finance, except in 2023, where the percentage is slightly higher.

Table 6 - GDP growth forecasts from different institutions

One of the consequences of all this financial instability is reflected in the increased risk to Petroleum Fund income from volatility in the financial markets. The falls in equities and bonds this year - investment income for the year to June was negative $1.9 billion - demonstrate the market risk in the Fund's investment portfolio, and if the period of poor investment performance continues this could have even more serious consequences for the expected life of the Fund.

With the worsening of the Petroleum Fund's income with the current unstable world economic situation, and appreciating the risks that the Government describes in the Report on Financial Sustainability, the Statement of Budgetary Risks and Contingent Liabilities and the Methodological Annex, Members are recommended to read these documents carefully, and ask the government to plan consistent expenditures that are in line with the financial reality of Timor-Leste.

V. PLAN AND PRIORITIES FOR 2023

The Major Planning Options Law for 2023, promulgated on June 10, 2022, approved the budgetary policy for the year 2023 and for the four subsequent years, directed towards the consolidation of economic growth and the improvement of the population's income and social conditions, seeking to safeguard the preservation of Timor-Leste's petroleum wealth. Under the provisions of Article 47.5 of the LEO, which concerns multi-annual budget programming, the limit of total expenditure of the Public Administrative Sector approved by the Law of Major Planning Options for the following budget year is binding on the Government. In accordance with this normative, Article 4.3 of Law 8/2022 of 15 June, determines that the draft law on the State Budget for 2023 to be presented by the Government must respect the value of the overall expenditure of the Public Administrative Sector for 2023 provided in the multi-year budget programming.

The Major Planning Options for 2023 aim to contribute to the 28 national results that are defined in paragraph 1 of article 3 of Law 8/2022 and are organized around 16 strategic areas, according to paragraph 2 of the same article.

For fiscal year 2023, the Government elects the following priorities:

- Mobilizing domestic revenues and introducing new tax initiatives.
- Use of more and more alternative sources of financing, such as concessional and commercial loans and government bonds.
- Focusing public spending on quality rather than quantity, abandoning traditional line-item budgeting and improving annual and medium-term program budgeting, which now focuses on impact rather than execution.

The Government allocates $600 million to fund the Government's 275 key measures, organized into sixteen (16) strategic areas that align with the subsectors of the National Strategic Plan (SDP). Having verified the values in the tables that are part of the Draft Law, they are in conformity with the multi-year budget programming that appears in the annexed Major Planning Options Law for 2023.

The Major Planning Options Law for 2023 presents in Annex II the correlation between the 28 national results and the strategic areas of the Great Options of the Plan, however, the Law of the GSB of 2023 and all the documents that were delivered attached do not contain any information about the disaggregation of the proposed budget by the 28 national results.

VI. EXECUTION OF THE GENERAL STATE BUDGET 2022 AND ANALYSIS OF THE DRAFT GENERAL STATE BUDGET 2023

The General state Budget for 2022 was approved by Law no. 1/2022, of January 3, having subsequently been amended by Law no. 6/2022, of May 18, as the Government considered it necessary to counter, through a Rectified Budget, the negative impact caused by international economic and political instability and to urgently control the escalating domestic inflation rate. This Rectified Budget of 2022 approved a set of additional measures to mitigate the negative economic impact on the country, also creating a fund, the National Liberation Combatants Fund, to ensure adequate funding of support programs for National Liberation Combatants, particularly in the areas of social support, education, health, employment, access to credit and income generating activities.

The 2022 Rectified GSB raised the Public Administrative Sector expenditure ceiling for the current year from $2,106.2 million to $3.347.4 million, keeping the Social Security expenditure budget unchanged, with an allocation of $388 million (or $229.3 million if inter-scheme transfers are discounted) and the RAEOA Budget also unchanged, with an allocation of $89.6 million.

With regard to revenue, the 2022 Rectified Budget approved a forecast of $2,106.8 million for all Central Government bodies and services, $90.2 million for the RAEOA and $229.3 million for Social Security (discounting transfers between regimes).

Table 7 - State Budget Execution on September 30, 2022

By September 30, 2022, taking into account the six categories of economic classification in effect only until the end of this year, the execution of expenditure reached $1,082.3 million, corresponding to an execution rate of 33.6%. The table above includes only the accumulated payments, not accounting for the obligations assumed in the period. The budget category of Transfers is the one that weighs most in the Rectified Budget and shows at the end of the 3rd Quarter of 2022 an execution level that is still very modest, due to the fact that the transfer to the title to be created for the National Liberation Combatants Fund, in the amount of $1,000 million, has not yet been made by the Ministry of Finance.

Also noteworthy for their poor performance are the Minor Capital and Development Capital expenditure categories, reflecting execution rates of 13.2% and 16.4% respectively. Only the expenditures under the category of Salaries and Wages are in line with the time execution of the fiscal year, with a rate of 67%.

The following table identifies entities that on September 30 2022 still had an execution rate below 50%

Table 8 - Entities with a budget execution below 50% on September 30th 2022

As of September 30, at a time when three-quarters of 2022 had already passed, 32 entities still reflected rates ranging from 49.7% to 0.1%.

Also, the RAEOA, with an execution rate of 29.5% of its annual expenditure allocation of $89.6 million, the COVID-19 Fund, reflecting an execution rate of 27.0% of its annual allocation of $56.4 million, and the Infrastructure Fund with only 17.6% executed of its annual allocation of $332.4 million.

For its part, the budget title Appropriations for the Whole of Government reached only 13% of its annual allocation of $1,272 million, the Ministry of Social Solidarity and Inclusion with an execution level of 9.9% of its $91.3 million allocation, the Ministry of Tourism, Commerce and Industry with 9.5% executed of its $106 million allocation, and the Secretary of State for Cooperatives reflecting only 9.0% payments of its $44.6 million annual allocation.

In the hearings it held with the Government this month, Committee C was very concerned about the execution of certain government programs that reported very low execution results on September 30, namely the Basic Basket program and the *Fasilidade* Garantia Crédito Suave program, and felt that this matter should be duly deepened in the debate of the bill in Plenary, to ascertain the causes of the slowness in implementing these programs, the reasons that prevent the support from reaching its recipients and to seek together with the Government, to find solutions to minimize the negative impact of such delays in the budget execution of these programs, by the end of this year.

Looking ahead to next year, it should be noted that the draft State Budget for 2023 will be the first to be presented according to the new rules approved by Law 2/2022. of February 10, 2022, on the Framework for the State Budget and Public Financial Management (LEO), the law which replaced Law 13/2009, on Budget and Financial Management. This new law enshrines program budgeting as a means of preparing and organizing the State Budget, implements a new economic classification and adopts a functional classification, based on the Classification of Functions of Government (COFOG), which allows for a detailed organization of revenues and expenditures by type and function.

In turn, the Annex of the draft law will include, starting in 2023, three tables for the revenues and expenses of the Public Administrative Sector, including the functional classification, and three tables each for the revenues and expenses of the Central Administration, Social Security and the RAEOA, including the programmatic structure and the organic and economic classification.

In 2023, the State Budget will also give priority to the quality of public expenditure rather than its quantity, abandoning the traditional budgeting structured by headings and improving the annual and medium-term budgeting of programs, which will focus on the impact of programs rather than their execution rate. Unfortunately, the new structure of the State Budget does not allow comparisons to be made between the execution of the current year's Budget and what is proposed for next year, given that the methods of evaluation have changed radically, as a result of the introduction of a new budget classifier, and not enough information has been made available by the Government.

Revenue Execution

The proceeds of oil and non-oil revenue collections as of October 9, 2022 amounted to $965.6 million dollars, with the largest contributor to the GSB revenue being transfers from the Petroleum Fund, as shown in the table below:

Table 9 - Government Collected Revenues up to October 9, 2022

The largest volume of revenue was collected by the Ministry of Finance, encompassing transfers from the Petroleum Fund and tax and non-tax revenues. The Ministry of Finance is thus the entity responsible for collecting 99.2% of all revenue collected by the state until October 9, 2022, totaling $958 million dollars, while the remaining 0.8% corresponds to the revenue collected by the other 51 entities that collect revenue for the state, totaling $7.52 million.

As a result of the approval of the first amendment to the Law of the GSB for 2022, the Government was authorized to make transfers from the Petroleum Fund up to $2,552 million dollars, having so far transferred only $854 million, equivalent to 33.5% of the total annual authorized amount. In the Budget Transparency Portal, Committee C confirmed that the Ministry of Finance has not entered for the year 2022 the amount to be transferred from the Petroleum Fund to the GSB, which undermines any analysis that is intended to make on the budget execution of revenue and also contributing to revenue misbudgeting.

In the table above we can also see that there are 23 entities that have not budgeted revenues, but in fact as a whole have already shown revenues collected in the amount of $952.4 thousand dollars, and there are also eight entities that have budgeted revenues for 2022, but to date remain at zero.

It should also be noted that the SENAI Training Center presents in 2022 a revenue budget in the negative amount of $(-14,734) US dollars, a situation that does not make any sense. Also, the National Hospital Guido Valadares (HNGV) presents a negative revenue budget of $(-308.3) thousand and with a revenue collection of $75 thousand, which does not make sense.

Excluding the transfers from the Petroleum fund, the following situation is obtained for the collection of non-oil revenues, accumulated up to October 9:

Table 4 - Revenues collected by the Government up to October 9, 2022, excluding transfers from the Petroleum Fund

<u>FUNDS</u>

At present the GSB directly finances seven funds. These are the Infrastructure Fund (FI), the Human Capital Development Fund (FDCH), the COVID-19 Fund, the Ataúro Special Development Fund (FEDA), the National Liberation Combatants Fund (FCLN), the Special Development Fund (FED) and the Social Security Reserve Fund (FRSS), with the first five falling under the scope of the Central Administration sub-sector, the FED under the scope of the RAEOA and the FRSS under Social Security.

- Atauro Special Development Fund (FEDA)

The Ataúro Special Development Fund (FEDA) is part of the Central Administration subsector of the State, as mentioned above, and was created by Article 15 of Law No. 1/2022 of 3 January. It is a legal person under public law with legal personality and extended administrative, financial and patrimonial autonomy, and is intended to finance programs and projects, annual and multi-annual, of a socio-economic and environmentally sustainable nature, aimed at the development of the territory and population of the municipality of Ataúro, specifically infrastructures necessary for the development of the municipality, human resources training and scholarship programs and training and qualification of professionals in strategic sectors for the development of the municipality of Ataúro.

The law which approved the 2022 GSB and established the FEDA in January of this year gave it an initial allocation of $13 million and authorized the Minister of Finance to create a budget title later in the year to accommodate the monies in the fund and to transfer to this new budget title the allocation which was intended for it and was originally entered in the category "Public Transfers" under the heading "Whole of Government Appropriations". However, as of the end of September 2022, the Minister of Finance had still not complied with this legal command, failing to create the budget title and still keeping the entire $13 million FEDA appropriation under "Whole of Government Appropriations" without any execution.

In the State Budget Plan for 2023 the Government is proposing a reinforcement of the FEDA by an additional $13.4 million, to be distributed among 10 budget programs, which does not seem very reasonable, given the situation described.

- Covid-19 Fund

As for the Covid-19 Fund, which is also part of the Central State Administration subsector, it was established by Law no. 2/2020 of April 6 with the nature of an autonomous fund and endowed with administrative and financial autonomy to finance expenses related to the prevention and fight against the COVID-19 disease and to the acquisition of medicines, drugs, and medical equipment used to prevent and combat the SARS-Covid-19 virus and the COVID-19 disease, including contracting air transport services, the installation and maintenance of places for quarantine and isolation, training and operationalization of professionals involved in preventing and combating SARS-Cov-2 and COVID-19, the purchase and supply of essential goods, social protection for victims of SARS-Cov-2 and COVID-19 and other expenses related to these purposes described.

The budget execution of this fund on September 30th of this year reached only 27% of the annual appropriation allocated to it by the State Budget for 2022, i.e. of the $37.6 million dollars allocated to it, $15.2 million dollars had been paid by the end of the 3rd quarter of the year. For the year 2023 the Government proposes an allocation to the COVID-19 Fund of $18.3 million dollars, which seems to be excessive observing its performance this year.

- Human Capital Development Fund (FDCH)

The Human Capital Development Fund (FDCH) is also part of the Central Administration subsector of the State, having been created by article 9 of Law no. 1/2011, of February 14, with financial autonomy and designed to finance programs and multi-year projects for Human Resource training, namely programs to increase the training of Timorese professionals in strategic development sectors such as justice, health, education, infrastructure, agriculture, tourism, petroleum management and financial management, among others, which include activities and actions to be carried out in Timor-Leste and the participation of Timorese citizens in training outside the country, including scholarships for university and post-graduate courses.

No. 2 of Decree Law no. 13/2020, of April 15, which operated its regulation, confirms that this Fund was constituted as a public financial management instrument without legal personality, which does not seem to be in line with the broad management competences that are attributed by the same diploma to its Board of Directors, in article 6.

By the end of the 3rd quarter of 2022, of the $12.4 million annual appropriation that the Rectified GSB allocated to it for this year, only $6.9 million, corresponding to 55%, had been paid out by the FDCH.

The budget appropriation allocated to it by the Government in the 2023 GSB bill is $17.8 million to be divided among four programs, with the Government assigning the "Scholarships" program the largest share of funding, with $12.4 million, or 70% of the total. The "Vocational Training" program will benefit the least from the 2023 GSB, receiving only $874,000, or 5% of the total FDCH allocation.

- The Infrastructure Fund (IF)

The Infrastructure Fund (IF) is also part of the Central State Administration subsector, having been established in 2011 as a special fund to finance central infrastructure and capital development projects. With Law no. 1/2016, of January 14, the IF was converted into an autonomous fund, with legal personality and administrative, financial and patrimonial autonomy and its own revenues, and intended to ensure the financing of public investments in infrastructure, including their maintenance and rehabilitation. In 2022 the portfolio of this fund was restructured, and next year the IF will accommodate 26 programs, and 70 sub-programs, having been allocated a budget allocation of $201.7 million dollars, including external loans. As of September 30 of this year it had managed to execute about $247 million (47.8%) of the $516 million allocated to it by the 2022 Rectified budget law.

Next year the IF "Roads and Bridges" program will absorb 52% of the fund's global budget allocation, while the "Agriculture" program will only have 4%. This is the information provided by the Government on page 3 of Annex II of the GSB 2023.

- National Liberation Fighters Fund (FCLN)

The National Liberation Combatants Fund (FCLN) is also part of the Central Administration sub-sector of the State, and was established by Law 6/2022 of May 18th, with an initial allocation of $1 billion. It has the nature of an autonomous fund, with administrative, financial, and asset autonomy, and its purpose is to finance support programs for National Liberation Combatants, namely in the areas of social support, education, health, employment, access to credit, and income generating activities; the fund's financial investments, expenses for the deposit of values and other documented charges directly related to the management and maintenance of its assets, the fees, charges and other taxes due to it, and the fund's administration expenses, namely expenses with remunerations and payments made in the scope of its operational management.

The 2022 Rectified Budget law, discussed and passed by the National Parliament as a matter of priority and urgency at the government's request, authorized the Minister of Finance to create a budget title to accommodate the new FCLN later this year and to transfer from the Government-wide Appropriations budget title to this new title the $1,000 million dollars allocated to it by the GSB law, with the initial endowment of the fund to be secured by an additional transfer from the Petroleum Fund in an equal amount.

As indicated above, by October 15 of this year, five months after the approval of the law of the Rectified Budget by the National Parliament as a matter of priority and urgency, neither the new budget title had yet been created by the Minister of Finance, nor had the amount allocated to it by that law been transferred from the Petroleum Fund to the Budget. This is confirmed by the fact that as of October 15 transfers from the Petroleum Fund to the GSB add up to only $854 million dollars.

For 2023, the Government is asking the National Parliament to authorize the integration of the entire management balance of the Fund as revenue, amounting to $1,000 million dollars to make expenditures in the same amount next year. The re-budgeting of this amount will only make sense to Committee C if by the end of this year the fund is not finally entered as a new budget title as it should be, and the transfer of the Petroleum Fund of $1 billion dollars has already occurred in 2022, because otherwise, the re-budgeting of this large sum will inflate unnecessarily and incomprehensibly the revenues and expenses of the State Budget for next year by almost 30%.

This Committee draws the Government's attention to the fact that, given that the public accounting system used in Timor-Leste is still based to this day on the modified cash basis system and not on patrimonial or analytical accounting, the financial assets and liabilities of investment funds that are intended for capitalization can only be accounted for in the State Budget as revenue and as expenses, in the year of their constitution and/or extinction and/or in the year(s) in which they receive budgetary reinforcements or at the time of their sale, whenever the result of this sale is used as a source of funding for the State Budget. From the moment that the Fund is constituted by the State Budget and invested in a separate and distinct investment account, its implementation is done outside of it, although in a support table the Government can and should inform the National Parliament of its performance, as it already does in relation to the Petroleum Fund.

This is not just a matter of common sense. Committee C had the opportunity to confirm this understanding in meetings held this year in Portugal with its counterpart in the Assembly of the Republic (AR), the Technical Unit for Budgetary Support (UTAO) and the Public Finance Council (CFP).

- Special Development Fund (FED)

The Special Development Fund (FED) is part of the RAEOA sub-sector and was established by Decree-Law No. 1/2015, of January 14, as a public development institute and endowed with legal personality and administrative, financial and patrimonial autonomy, with the objective of financing the implementation of strategic multi-annual social and economic projects and development plans in the Special Administrative Region of Oe-Cusse Ambeno and the Special Social Economy Market Zone of Oe-Cusse Ambeno and Ataúro, ensuring public investment in infrastructure and human resources training, including programs and scholarships aimed at increasing the training of professionals from the Region in strategic development sectors.

In the year 2023 the FED will become part of the State financial management system, and will register its data in the GRP system managed by the Ministry of Finance and the *Dalan ba Futuru* system managed by ANAPMA, for which reason in 2022 its budget execution is not available making any comparisons impossible.

For the coming year, the draft 2023 GSB allocates the FED an expenditure appropriation of $36 million and the Fund expects to collect, among other revenues, $69.24 thousand in lease revenue (Annex XXII, p. 30). However, this revenue is not reflected in Table V of the Annex of the 2023 GSB PPL. On the other hand, the FED, being a fund intended exclusively to finance capital expenditures is called by the RAEOA in 2023 to pay for personnel expenses and current goods, such as clothing and fuel, security, cleaning, which is not allowed under the law that established it.

- Social Security Reserve Fund (FRSS)

The Social Security Reserve Fund (FRSS) is part of the Social Security sub-sector and was established by Decree-Law No. 55/2020 of 28 October, with the nature of a collective person of public law endowed with legal personality, administrative, financial and patrimonial autonomy, being supervised by the member of the Government responsible for the area of social security and intended to ensure and be exclusively allocated to the financial stabilization and sustainability of the contributory scheme of Social Security, and the amounts allocated to it are not considered public money under Article 3.2 of that law.

As they are not public money, but money belonging to the beneficiaries of Social Security, the assets existing in this fund should no longer be accounted as revenues of the GSB, from the moment the GSB proceeds to its constitution. During its visit to Portugal in June this year, Committee C confirmed this with the institution that manages the Social Security investment funds.

The Government presented to the National Parliament a set of Annexes containing "Other information considered necessary by the Government", among them the book on Social Security.

By Article 16 of the Law of the State Budget 2022, the COVID-19 Fund and the FI were authorized to carry over their balances from the budget year 202 (sic) and to integrate this balance in the budget year 2023 and apply it in expenditure. However, the Budget Book "Report" (formerly Book 1), makes no reference whatsoever to the estimated balances of the IF and COVID-19 Fund at the end of 2022, nor does the Annex to the PPL of the 2023 GSB acknowledge the incorporation of such balances in next year's revenue budget. As the new Budgetary Framework Law authorizes the Government to increase the overall allocation for the 2023 GSB *a posteriori*, after approval by the National Parliament - without needing to resubmit a budget amendment to the National Parliament - when this increase results from the incorporation of the unexpended balances, it would be important for the Government to inform us in the budget tables or just in the books, whether or not the GSB PPL for next year includes the unexpended balances carried over from both funds, and what their value is.

MUNICIPALITIES

Article 5 of the Constitution establishes the Principle of Decentralization as a commitment of the State, to be enforced by law. This law has already been approved in order to institutionalize the Local Authorities, but they have not yet been installed.

In turn, Article 23 of LEO states that "municipalities are the collective territorial persons endowed with representative bodies that constitute local power, whose budgetary regime is defined in the law that implements them."

The draft GSB for 2023 does not allocate funds to municipalities until the local authorities[1] are concretely established in Timor-Leste. Until then, budget allocations for municipal authorities and administrations are enshrined in the GSB.

The budget information provided by the Government regarding Municipalities is compiled in the Annex this year numbered XX - "Other information considered necessary by the Government. On page 11 of that document, it is indicated that the budgetary allocation of expenditure to be distributed in 2023 among all 14 municipalities, including the RAEOA, totals $81.1 million, not including the allocation to the Special Development Fund of Ataúro (FEDA), and is divided among 16 budgetary programs created within the Central Administration subsector and transversal to all the Authorities and Municipal Administrations.

Then, on page 12 of this Annex XX, another table is reproduced, with data broken down by municipality and by municipal development programs, namely, the PDIM (Municipal Integrated Development Program), the PMOPA (Administrative Post Manpower Program), the PNDS (National Sucos Development Program), the PMOHA (*Hafoum* Village Movement Program) and the UKL (*Uma kbi'it*

[1] Which are not to be confused with the elective structures of the sucos and villages, customary root structures that do not belong to the formal administrative structure of the state -cfr. Law 9/2016, of July 8, in the scope of article 2.4 of the Constitution.

laek). Adding up the appropriations allocated to each of these municipal development programs in the coming year, the total expenditure allocation for the municipalities reaches $179.8 million dollars.

Given that Table V of the GSB PPL for 2023 - Expenditure of the Central Government sub-sector, by organic classification and structured by programs, presents expenditure figures per municipality, very different from those indicated on pages 11 and 12 of the book Annex XX, Committee C could not go further in its analysis.

And because municipal programs and policies concern matters that cut across all sectoral parliamentary committees according to each subject, Committee C is not responsible for pronouncing on the reasonableness of the funds proposed for each municipal program of national or municipal scope in the coming year, but only for identifying them properly, so that the National Parliament, in possession of all the budgetary and financial information, can judge their fiscal sustainability and equitable distribution.

The expenditure executed by the municipalities by September 30, 2022, as reported by the GRP (Free Balance) system corresponded globally to 61.9%, as shown in the following table, expressed in dollars):

Table 11 – Budget Execution of Municipalities through 30 September 2022

Excluding the Ataúro Municipality, which was created very recently, all other municipalities report budget execution above 50%. Among the Municipalities, Dili is the one that reports the worst budget execution in 2022, with 53.7%.

BUDGET TITLES INCLUDED UNDER COMMITTEE C: MINISTRY OF FINANCE AND GENERAL STATE APPROPRIATIONS

- Ministry of Finance

In terms of Program Budgeting, for FY 2022 the Ministry of Finance has an allocation of $29.9 million to fund 2 programs, 8 sub-programs and 39 activities. The Ministry of Finance's Budget did not change with the approval of the Rectified GSB that occurred in April 2022. The table below reflects the execution of the Ministry of Finance's Programs up to October 17;

Table 12 - Execution of the Ministry of Finance's programs (in US dollars)

In terms of economic categories of expenditure, the Ministry of Finance divides its annual budget into four categories in 2022, with the Goods and Services category benefiting the most, with an allocation of $19.9 million. Its execution reached almost 63% as of 17 October 2022.

Table 13 - Ministry of Finance's budget execution by category (USD)

The Salaries and Wages category reflects an execution rate of 62.8% when neither the salaries corresponding to the last three months of the year nor the extraordinary payment of an additional month's salary at Christmas time have yet been paid, the latter if the Government approves in the Council of Ministers its attribution this year. Additionally, over the past few years, the Ministry of Finance has also authorized a supplementary payment to the ministry's employees assigned to the process of preparing the State Budget and closing the State Account.

Table 14 - Ministry of Finance Execution - Category Goods and Services

The Category of Goods and Services presents an execution rate of 39% of payments, increasing the execution to 67% if we add to it the assumed obligations. The item with the largest allocation is Professional Services, with an allocated amount of $11.1 million dollars. This item includes payments related to the *Asycuda* system, *Sigtas*, the Bloomberg X-ray machines maintenance service, cleaning services, security services and Technical Advisory, with the sum of payments plus obligations under this last item totaling $7.4 million. The technical advisory staff in this Ministry is made up of 90 national and international advisors, with a salary scale that in the case of the international advisors, reaches $18,277 per month.

Table 15 - Execution Ministry of Finance Minor Capital Category

Also as of October 17, 2022, the Minor Capital Category has an execution rate of 13.9% in terms of payments and a rate of 14.5% when adding up the obligations already incurred. The payments made refer to the acquisition of IT equipment, installation of the CCTV circuit in the Ministry of Finance Tower and the acquisition of a storage system for the EMC *PowerStore*, etc. The Other Miscellaneous equipment item with a budget of $2 million still has an execution rate of 0.0%. As for the Capital Development category, with a budget of $827.7 thousand dollars for this year, it shows an execution rate of 27.1% in terms of payments and an 82.5% rate when adding up the obligations. Works were carried out to improve a parking lot, and a dormitory, bathrooms and pedestrian protection were built at the Batugade border post.

For 2023 the proposed budget for the Ministry of Finance has been reduced to $26.4 million dollars, which is intended to fund two programs, 10 sub-programs and 42 activities.

Table 16 - Budget Allocation by Programs 2023 ($) - Ministry of Finance

Regarding the economic categories, the Ministry of Finance keeps the same four economic classification categories as in 2022.

- General State Appropriation

The General State Appropriation Title, is the service of the Directorate General of the Treasury responsible for the payment of public expenditure and Treasury operations, as well as for the management and execution of the Whole of Government Appropriations, which is managed by the Ministry of Finance. This Title replaces the Whole of Government Appropriations Title, as it was previously called until this year, 2022.

For Fiscal Year 2022, the Whole of Government Appropriations have a Budget of $1,268 million dollars, spread across 8 programs as shown in the table below:

Table 17 - Execution of the Title Whole of Government Appropriations by October 17, 2022

Program AA7 was introduced in May, with the approval of the First alteration of the 2023 State Budget, and it is in this program that the budget for the National Liberation Combatants Fund is allocated, to the amount of $1,000 million. The Rural Development Program presents an execution of zero given that there were still no transfers to the Special Development Fund of Ataúro.

The Program 983 Investment and Economic Diversification, has already executed 98% of its budget, due to the transfers to the BNCTL and BCTL ($70 million already transferred) and to the Creation of the credit line for Higher Education and Quality ($2.5 million still in Obligation).

Program 023 Public Finance Management presents a good execution rate, 80.3% due to the payment of loans to Development Partners, ADB, WB and JICA, amortization and interest on loans.

Program 400 Foreign Policy for East Timor, with an execution rate of 14.2%, is responsible for paying for trips abroad and respective per diems for members of the Government, with special emphasis on the Ministry of Foreign Affairs.

Regarding the allocation of the FY 2022 Budget by economic categories, the heading Government-wide Appropriations the budget allocation is spread across four categories.

Table 18 - Budget Execution of the Title Appropriations for the Whole of Government

The title Whole of Government Appropriations saw its original budget having some changes in its categories being the present scenario as of October 17, where it shows an execution rate of 13.41%, payments and obligations included. This low execution at this time of the year is linked to the $1 billion transfer to the National Liberation Fighters Fund, which has not yet been made.

The Salaries and Wages category has not yet had any use, the Goods and Services category has a 23% execution rate, with payments made of $8.6 million, of which about $5 million was for the payment of the Proteus Project Trust Fund to the DLA PIPER company.

In terms of the Minor Capital Category, payments made so far are mostly for the purchase of Tablet PCs to support the Population Sensus and the purchase of a digital camera.

In terms of execution, the Public Transfers category presents an execution rate of 13% with payments and obligations assumed, mainly for payment of the 6% State contribution to the Social Security Institution, INSS, RAEOA, Timorese Bishops' Conference, Asian Development Bank, World Bank, G7+, BCTL, BNCTL, etc. The 1,000 million from the National Liberation Combatants Fund is still to be transferred. The Draft Law for the 2023 GSB allocates for the General State Appropriation Title (replaces the name Appropriations for the Whole of Government), a budget of $261.4 million to finance a programmatic structure that will have 8 programs, 18 sub-programs and 29 activities.

Table 19 - Budget Allocation by Programs and Categories2023 - General State Appropriation

As far as economic categories are concerned, the General State Appropriation Title will have the budget distributed over nine categories, in accordance with the implementation of the new Budget Classifier with, the categories of Acquisition of current goods and Current Transfers are those with the largest budgets, about 79% of all the budgets attributed to this title of expense.

RAEOA and ZEESM

The Special Administrative Region of Oe-Cusse Ambeno (RAEOA) is one of the three subsectors of the Public Administrative Sector that make up the GSB. The budget allocation for it in the 2023 Major Planning Options Law for revenues and expenditures was $121.2 million dollars and $120 million dollars, respectively.

Its expenditure forecast for next year corresponds to 4% of the global allocation of the GSB for 2023. However, because from June 2022 to this part, the domestic and international macroeconomic context has changed, it may be justified an adjustment of these appropriations of the RAEOA for more or less, by the National Parliament.

None of the 10 articles in the PPL GSB 2023 specifically concerns the Region, only tables X, XI and XII of the Annex to the draft law concern it. The explanatory memorandum of the draft GSB law explains that the content which was previously contained in the GSB law has now been greatly simplified, with the definitions, financial regimes and budget classifications now contained in the new GSB and public financial management framework law, the LEO.

Table X of the Annex to the draft law, presents the distribution of the revenue of the RAEOA for 2023 by economic classification, while Table XI distributes the expenditure of this subsector by organic classification and structure by programs and, finally, Table XII displays the expenditure of the RAEOA by economic classification.

Table X indicates that no transfer of funds from the Central Government subsector budget to the RAEOA budget is planned for next year, and also that all of the revenue to finance its expenses will come from the accumulated management balance to the end of 2022 ($118.7 million) and from fee collections in the year 2023 ($2.5 million).

The same Table X shows that in 2023 the RAEOA does not anticipate obtaining any income or collecting any revenue from the sale of current goods and services, which contradicts the revenue collection forecasts that the RAEOA indicates on pages 27 to 30 of Annex XXII of the Informative Elements to the PPL of the State Budget 2023. In fact, much of the table on pages 27 to 30 of Annex XXII, where the forecast revenue collection of the RAEOA is recorded, needs to be properly explained during the debate of the budget of this subsector in Plenary.

The Region's 2022 balance to be incorporated in 2023, amounting to approximately $119 million dollars, originates from demand and term deposits of the RAEOA, of which $36 million dollars comes from the RAEOA Special Development Fund (FED), this is the only conclusion that can be drawn from the information provided in Table XII. The Region's Authority is therefore urged to disaggregate in the future, in line 16 of budget table X, desirably already in the proposal of the State Budget for 2024, the origin of the balance that it intends to incorporate in the following year, substantially improving the budget information it currently provides to the National Parliament.

As for Table XI of the Annex to the draft law, it reveals that the RAEOA enrolls 21 programs for the year 2023, with 12 programs being allocated to the Authority and the remaining nine to its Special Development Fund (FED). The largest share of the RAEOA budget goes to the Development and Strengthening of Areas with Special Administrative and Economic Treatment Program, which will benefit from approximately $49.0 million, or 41% of the $120 million globally proposed for the Region.

The great majority of the programs of the RAEOA are also common to the Central Administration, as is the case of the Health Program, Education and Training, Agriculture, and Access to Justice, among many others, meaning that all the specialized standing committees of the National Parliament should address them in the respective sectorial opinions, according to their respective areas of competence.

For its part, Table XII reports that in the coming year, the RAEOA will allocate 46% of its budget to current expenditure (formerly called recurrent expenditure) and that 14% of the Region's overall allocation is intended to support personnel expenditure ($16.4 million). The same Table XII foresees, in the Authority's investment expenditure grouping, the purchase of real estate for the amount of $57.6 million and new vehicles totaling $157.2 million.

The RAEOA does not reflect in Table XII its net worth (financial assets and liabilities), but it would not have to do so either, since the non-business accounting of the State is still based on the modified cash basis model. This is no justification, however, for the Region to omit its assets and liabilities to the National Parliament, a situation that could be provided in an autonomous indicative table, since there is no other way to make the National Parliament aware of the Region's obligations to third parties and the positive or negative profitability expected from the capitalization of the Special Development Fund (FED). Regardless of this issue, Committee C applauds the Region's Authority for indicating in Table XII of the PPL, the expenditure of $36 million from the FED. It is, however, strange that the FED can legally finance current expenses such as personnel, clothing, cleaning and security, printing, etc., when the nature of this Fund restricts it to investment in multi-year strategic social and economic projects of the Region such as road infrastructure including roads, bridges and airports, hospitals, schools and universities, infrastructure to prevent natural disasters, etc.

On page 55 of Annex XXII of the Information Elements dedicated to the FED, there is a summary of the budget allocation of the RAEOA budget distributed by the National Outcomes and Strategies that have been approved by the Major Planning Options Law. This information is useful, but incomplete, as it does not link these national outcomes and strategies to the programs that will deliver them in 2023.

The Annual Action Plans of RAEOA and the FED for 2023, containing their programs, sub-programs, activities and associated expenses, as well as the directorates/divisions responsible for their implementation, have also been included in the same Annex XXII, pages 58 to 129.

On page 124 of Annex XXII, we read that an activity is planned for 2023, allocated to the FED with an allocation of $32,000, to pay for crew training for the vessel "*Haksolok*". Does this mean that the RAEOA Authority expects to complete the lengthy construction of the ferry and finally receive the vessel in the course of next year? To date, the National Parliament still does not know the total investment of the Region in the construction of the ferry "*Haksolok*", as well as the real financial situation of this project, since the budget books of 2023 do not clarify it.

Further on, on page 128 of the same Annex XXII, a new activity, identified with the code 1301, reveals that the FED intends to materialize in 2023 its social and financial participation in companies, consortiums, foundations, associations, enterprises and projects, reserving for this purpose an amount of $2.7 million dollars, without giving more details on the subject, namely on the risk of these investments, the business areas, the nationality of the entities receiving them, or studies on the rates of return required for such investments.

On 5 October, the Council of Ministers approved a set of amendments to the status of RAEOA, which include adjustments to its organizational structure and powers, aimed at strengthening the Region's relevance and providing greater flexibility in its management, with a view to correcting regional asymmetries. As the statute has not yet been published at the time of this report and opinion, Committee C is unaware of its detailed content.

Where is the RAEOA income reflected; such as interest, etc. referred to in the book, but not in the corresponding PPL revenue table?

As of September 30 of this year, the RAEOA Authority had recorded a particularly modest expenditure execution of 29.5%, i.e., payments of just over $26.4 million dollars, of the total appropriation of $89.6 million allocated to it by the 2022 GSB law, which remained unchanged with the approval of the 2022 Rectified GSB.

For the year 2022 the State Budget approved a transfer from the Central Administration sub-sector to the RAEOA. However, consultation of the Budget Transparency Portal as of September 30, 2022 does not evidence this transfer, amounting to approximately $5.6 million. The Transparency Portal also does not evidence the collection of revenue by the RAEOA Authority throughout the year.

The RAEOA has not yet provided the National Parliament with any information on the cash flows of the various bank accounts opened in the name of the Authority and the FED, nor has it disclosed its debts to creditors, thus limiting the information that Parliament has at its disposal to make an informed decision on the Region's budget proposal.

SOCIAL SECURITY

With the entry into force of LEO, the articles of the draft budget law were substantially shortened, from more than 20 articles (GSB 2021) to the current 10 articles. The reason is simple: to avoid repeating in the GSB bill the commands that the LEO already provides.

Chapter III of the GSB 2023 is dedicated to the Social Security Budget proposal, consisting of a single article, Article 7 - Transfers of Social Security balances. Because the content of this article already appears in Article 16.1 and 2 of LEO, Committee C believes that this article of the PPL of the 2023 GSB is redundant, and should be expurgated from the draft law.

The Social Security subsector is represented by two state institutions, the National Institute of Social Security (INSS) and the Social Security Reserve Fund (FRSS),

The projection of revenues and expenses for the Social Security sub-sector for next year is identical, standing at $235,715,306, or $284,972,957, when excluding the effect of the internal transfer between Social Security regimes, in the amount of $49,257,651. This budget ceiling was proposed by the Government and approved by the National Parliament in May of this year, and is included in the law of the Major Planning Options (GOP).

The revenue and expenditure budget for Security is distributed by tables VII, VIII and IX of the Annex to the GOP 2023.

Excluding the $1 billion that is allocated to the National Liberation Fighters Fund, the government allocates 26% of the 2023 GSB expenditure to social capital, which encompasses health, education and social protection.

It is based on the "Report" that accompanies the PPL of the State Budget for 2023, on the Budgetary Developments, on the Informative Elements on Social Security compiled in Annex XXI - Social Security and on the sectorial opinion of Committee F that Committee C makes the following considerations about the sub-sector of Social Security.

Budget execution of Social Security: similarly to the other two State sub-sectors that make up the State Budget, Social Security is also obliged, by article 110 of the LEO, to regularly provide, on a quarterly basis, information on its budget and programmatic execution to the National Parliament, so as to enable the political control incumbent upon that sovereign body. However, only in October of this year, at the time of the presentation of the proposal of the State Budget for 2023 to the National Parliament, did Social Security come to report its budgetary and physical execution (by programs) until July 2022, in violation of the law.

The physical and budgetary execution of Social Security is reported on pages 59 to 71 of Annex XXI of the informative elements of Social Security to the PPL of the State Budget for 2023. According to the information provided therein, Social Security executed in the first seven months of this year, only 15.6% of its expenditure budget, a remarkable deviation whose reasons will be important to the National Parliament to ascertain and correct.

In September 2019 and later in June of this year, Committee C met in Portugal with the Institute for the Management of Capitalization Funds of the Social Security, I.P., having learned that the management system of the Social Security of Timor-Leste under development for several years with the support of Portugal is far from completion, and the responsibility is attributable to the Timorese Social Security, which is still without selecting the two Timorese employees who will receive training in Portugal.

Another situation that has been dragging on for years and with no resolution in sight has to do with the incorrect accounting, by the Social Security, of its financial assets as expenses, despite the various repairs of the Committee C. Such accounting not only distorts the Social Security Budget but also its execution, substantially inflating the annual expenses of this sub-sector. Because this is a matter that should be resolved as soon as possible, Committee C returns to clarify to the INSS that the balances of the implementation of Social Security are transferred at the end of each year to the Reserve Fund of Social Security to be applied, and should at the time of their transfer be accounted for as expenses of Social Security (cash outflow), and never as financial assets under the GSB.

Also in their recent working visit to Portugal in June 2022, the members of Committee C questioned the Portuguese government (Ministry of Finance and Social Security) and the Assembly (UTAO) on the reading that the Government and Social Security have had on this issue, having been explained that it was not the most appropriate, given that the Timorese public accounting is based solely on the modified cash basis system and does not yet have patrimonial accounting for the non-corporate sector of the State. Given this explanation, Social Security should seek to correct the incorrect procedure of several years.

Furthermore, from the moment the surplus of the Social Security Budget is transferred to the FRSS, these monies are no longer automatically considered public monies, but the monies of the citizens who benefit from the Social Security system, and can in no way be confused with State monies.

Social Security expects to collect approximately $2.8 million dollars in revenue next year as a result of the capitalization of the FRSS. <u>The capitalization of the FRSS</u> is undoubtedly good news that has been awaited for several years, and is to be applauded, because the non-investment of the fund represents large annual losses for the fund.

Another novelty that the Social Security Budget presents us with for next year, and that Committee C applauds, is the rapid adoption of the recently approved single expenditure and revenue classifier for the Public Administrative Sector, which will finally make it possible to standardize all public accounting for the non-business sector of the State, and also to make the accounts of the various subsectors of the State comparable.

The Social Security Plan is described on pages 34 to 37 of Annex XXI of the GSB 2023. It is divided into 4 programs and 7 subprograms and is described on pages 97 and 98.

The INSS Plan for 2023 includes 3 programs, the Contributory Social Security Scheme Program, with a programmed expenditure of approximately $10.7 million dollars, the Non-Contributory Scheme Program, with a forecast expenditure of $57.7 million dollars, and the Social Security Administration Program, corresponding to the operating expenses of the INSS, with $5.4 million dollars, while the FRSS Plan for next year enrolls only one program, the Contributory Capitalization Program, with a forecast expenditure of around $162.0 million dollars.

The Social Security sub-sector is an area that falls under the remit of Committee "F", so the analysis of sectoral policy and priorities of Social Security is dealt with in the sectoral opinion of that Committee.

<u>FUNDING SOURCES</u>

Transfers from the Petroleum Fund

Article 4 of the draft law of the GSB for 2023 authorizes the Government to make withdrawals from the Petroleum Fund to finance the GSB, up to the amount of $1,346 million, of which $490.1 million corresponds to the Estimated Sustainable Income (ESI). The Government will be required by law to notify the National Parliament prior to the transfer of each tranche of the Petroleum Fund, in accordance with the provisions of paragraph 8 of Law No. 9/2005 Petroleum Fund Law of August 3.

The ESI is 3% of the net petroleum wealth accumulated in the sovereign wealth fund, and is taken as the benchmark for all sustainability calculations of the Petroleum Fund. Given that Bayu-Undan is currently the only operational oil field, all government calculations of future oil production are based solely on the proceeds of this field.

The investment strategy of the Sovereign Wealth Fund of Timor-Leste currently includes a liquidity portfolio in addition to the growth and profitability portfolio, after the Segmentation of the Petroleum Fund was ordered by the Government in July 2021 on the recommendation of the Minister of Finance. The investments in the financial markets were then separated into two portfolios, the Liquidity Portfolio which is a low-risk portfolio of cash and low-maturity securities and holds no equity investments, is intended to finance the withdrawals to fund the GSB for the next three years. As for the composition of the Growth Portfolio (aimed at long-term returns), it is 35% composed of equities, with the remaining wealth accumulated in the Fund invested in US government bonds. The risk in the growth portfolio is higher than that of the liquidity portfolio. The current structure of the Fund is shown in Figure 1, together with its holdings in other investments such as its investment in petroleum exploration through the state-owned Timor Gap company:

Figure 1: Petroleum Fund holdings as of June 2022

The 2022 GSB law authorized the Government to transfer up to $2,552 million from the Petroleum Fund to the GSB this year.

By October 15 withdrawals were made at four different times, totaling $854 million. The next table indicates the months in which each of these withdrawals took place:

Table 6- Petroleum Fund withdrawals in 2022

In Table 6 above, extracted from the Budget Transparency Portal, it is confirmed that the Government once again failed to record this year, in the integrated financial management system managed by the Ministry of Finance, the forecast of annual withdrawals from the Petroleum Fund approved by the law of the GSB. It is unknown why it still persists in doing so, despite repeated calls from Committee C for the situation to be corrected, given the deviation that it causes. We therefore renew our appeal to the Ministry of Finance to include this information in the GRP integrated financial management system by 2023.

The book "Report" that accompanies the draft law of the GSB 2023 provides in tables 6 and 7 the Government's projections for withdrawals from the Petroleum Fund up to and including the year 2027, withdrawals that at first glance, appear to be unaffordable given the budgetary precipice that the Government predicts. These data are transcribed in the following table:

Table 7 - Contribution of the PF to the financing of the GSB from 2021 to 2027 (million dollars)

The proposed withdrawals for 2023 make up the significant amount of $1,346 million, but looking at the evolution of the next four years, the picture becomes even more worrying. In just five years, from 2023 to 2027, the Government intends to extract up to $7.3 billion from the Petroleum Fund to finance the budget deficit.

Returning to the analysis in the book Report, Table 6 reproduced below, shows the government projections for the growth in the Petroleum Fund's wealth until the year 2027, taking into account its current forecast of revenues to be collected by the Fund until that year.

Table 8- Cash flow from the Petroleum Fund until 2027 (millions of dollars)

The government projections indicated above, which do not take into account inflation or other macroeconomic variables beyond the expected withdrawals for previous years, indicate that, by the end of 2027, the balance of accumulated wealth of the Petroleum Fund will have reduced to $11.5 billion, as a result of the exhaustion of revenues from oil production already from 2024 and the excessive withdrawals of previous years, always exceeding, by a large margin, the revenues received. In addition, the total performance of the Fund through June 30 of this year, had a negative return of 9.1%, with negative investment income reported this year of $1,938 million.

Reported investment income through the end of June 2022 includes the accounting for a loss of $85.65 million associated with loans made to Timor Gap E.P. in December 2020. The annual return on the Fund's financial investment for the year 2022 is estimated to be negative, reaching (-7.9%), which translates into an annual loss of $1,418.5 million, as a result of the great volatility of the world capital market behavior, resulting from global political and economic instability.

According to information obtained from the book Report, estimated oil revenues in 2022 are revised upward from $45.6 million in the 2022 GSB to $631.1 million, based on actual collections through June of $582.5 million and an estimated revenue of $48.6 million for the rest of the year.

Based on its fiscal sustainability analysis, the government estimates that the decline in FP wealth will worsen in subsequent years until it is completely exhausted by the end of 2034, if new oil revenues do not arise in the meantime, and fiscal policy remains unchanged.

The Book Report again highlights that in 2019, the Government decided to lend $650 from the Petroleum Fund to Timor Gap, E.P. and its subsidiaries to finance the acquisition of interests in the Greater Sunrise development project, a loan whose repayments were tied to Timor Gap, E.P.'s revenues from the petroleum project, meaning that the Fund is exposed to the success or failure of that project.

Domestic Revenue

According to data provided by the Government in the book Report, at the end of August 2022 the total domestic revenues collected and deposited in the Timor-Leste Consolidated Fund (FCTL) and in other accounts of the Central Bank of Timor-Leste was $107.2 million (64%) of the total inscribed in the GSB for the year 2022 of $166.8 million.

Domestic revenues consist of tax revenues, customs duties, fees and charges, sales of goods and services, income (leases, interest, dividends and stocks), sales of capital goods, fines and other penalties.

For the year 2023, the Government expects domestic revenue to grow to $174.9 million compared to the previous year, when the GSB budgeted it at $153.7 million, based on the assumption that domestic revenue will benefit from a combination of increased import customs duties and the introduction of new excise tax rates, contemplated by the Government in the draft law for the 2023 GSB; for example, it is proposed that import customs duties will increase from the current 2.5% to 5% next year.

The domestic revenue product suffered a large decline in 2021, especially due to the transformation of Electricity of Timor-Leste (EDTL) and *Bee* Timor-Leste into public companies, which meant their exclusion from the perimeter of the State Budget and a 74% reduction in Fees and Charges collected that year.

The draft GSB proposes the introduction of new excise tax rates in 2023, focusing on passenger cars, tobacco, sugar, and sugary drinks, which is expected to contribute to domestic revenue growth next year. In addition, tax revenues are also expected to be boosted by reforms in tax collection systems, in particular the move to SIGTAS, the Standard Integrated Tax Administration System, which aims to increase the capacity of the Tax Authority to ensure greater tax compliance.

Tax revenues may, however, increase beyond expectations as a result of the passage of a new tax law and a new tax procedure code next year, which aims to incorporate progressivity in tax rates and broaden the tax base, as well as review and harmonize income and payroll taxes.

The government also anticipates that tax revenues may increase with the implementation of Value Added Tax (VAT) in the country.

Loans

As the total expenditure budgeted for 2023 will be greater than the domestic revenue to be collected, the Government proposes to the National Parliament, to finance this deficit through various sources, including loans. The lack of sufficient current revenue to pay for all expenses forces the Public Administrative Sector to finance the deficit with capital revenue, through loans (public debt).

Analyzing the information on the evolution and sustainability of public debt provided by the Government on page 59 and following of the budget book "Report", it is possible to make the following points:

In recent years, the Government has expanded the number of investments financed by public debt, in the area of social infrastructure, including health, education, housing and water and sanitation, at present the accumulated value of public debt contracted by the State, consisting of external borrowings, totaled $852.6 million dollars in August 2022, while disbursements measured at the same time stood at $265.8 million dollars, a very low execution compared to the subscribed debt, in the words of the Government itself, which justifies the situation with the fact that several projects associated with significant loans are relatively new programs or are about to start their implementation phase, including the Dili and Baucau Water Supply projects, the Presidente Nicolau Lobato International Airport development project, and the Basic Education System Improvement project.

What the Government for the first time does not indicate in the current budget book "Report", formerly Book 1, is that in relation to the international financial institutions with which it has already contracted loans, the State has so far accumulated a public debt of $852.6 million dollars, nor the interest rates to which these loans are subject or their grace periods, which in the opinion of this Committee substantially reduces transparency in this matter.

Only in Annex XX concerning the Infrastructure Fund, it is possible to collect very inexpensively some data on the loans in progress and the amounts subscribed, already executed and yet to be executed. They are as follows:

Water and Sanitation Project in Viqueque, Lautém and Same - Loan contracted with ADB for $47 million, with no execution planned until the end of 2022. The expected disbursement in 2023 is only $249 thousand;

Dili Water Supply Project - $60.5 million loan contracted also with Asian Development Bank - ADB, with no execution so far. The expected disbursement in 2023 is also $249 thousand.

Baucau Water and Sanitation Project - A loan in the amount of $28.9 million contracted from the World Bank (WB) and with a budget allocation for 2022 of $3.0 million. The expected disbursement for 2023 is $449 thousand.

Dili Water Supply Project - $60.5 million loan from the World Bank (WB), with no execution to date and an allocation for 2023 of $249 thousand.

Affordable Housing Project - Loan yet to be signed with the World Bank (WB) for the amount of $50,000 to be executed in full in 2023.

Basic Education Supply and Transformation Project - $20.0 million loan already contracted with the World Bank (WB), execution scheduled for 2022 but not to materialize is $2.6 million and a planned allocation for 2023 of $2.0 million.

Power Distribution Modernization Project - $3.5 million loan, entered into with ADB, with a planned 2022 budget allocation of the full loan amount, but which will not materialize by the end of this year, and a planned 2023 allocation of $1.5 million.

Dili Airport runway extension project - $135.0 million loan, entered into with ADB, with a 2022 budget allocation of $2.9 million that will not materialize by year end, and an expected 2023 allocation of $5.0 million.

From the information given above, it appears that there are currently two loans taken out for the same amount, for Water Supply in Dili, from different banks.

According to Annex I of the IF budget by program and projects (Annex XX to the PPL) there are yet another **30 road construction and supervision projects** throughout the country, contracted by the Government with ADB, WB and JICA, many of which have not yet been executed. The overall amount contracted by the state with these 3 banks totals $427.2 million, and the expected execution by 2023 will be $20.5 million.

The Government's analysis of the sustainability of the public debt, taking into account the weight of the loans already subscribed compared to the country's capacity to generate wealth, measured by the Gross Domestic Product (GDP), still remains reasonably below the 30% to 40% limit recommended by the IMF for low-income countries such as Timor-Leste, and the debt should remain at sustainable levels for another 3 to 4 years, in the words of the Government.

Borrowing has so far enjoyed an average interest rate of around 1.21%, and the Government maintains that the cost of financing the state through borrowing will remain more competitive than using the accumulated wealth in the Petroleum Fund to finance the GSB, and that there is still room to increase debt financing and continue borrowing at sustainable levels if the loans are used for long-term investments.

For the coming year the government adopts as a priority the "use of increasingly alternative sources of financing, such as concessional and commercial loans and Treasury bonds" (Page 7 of the budget book "Report").

The Government's proposed loan disbursement for the year 2023 is $74.1 million, with a tendency to increase in the coming years, and in article 5 of the PPL of GSB 2023, the Government asks the National Parliament to authorize it to sign new loans (issue new public debt) up to a maximum of $200 million, to be amortized over 40 years.

Next year, the Government plans to once again regulate and issue the first treasury bonds directed to national entities and funds, which will provide it with a new source of revenue and reduce the cost of financing the State Budget. This is a promise of the Government for several years that remains unfulfilled, but it is the understanding of this Committee that the issue of finding complementary alternatives for financing the state becomes increasingly pressing, even to be able to extend the life of the Petroleum Fund for a few more years.

Committee C alerts to the possibility that from 2023, inclusive, all sub-sectors of the state will be authorized to subscribe to public debt in the short, medium and long term, including outside the GSB and the National Parliament in certain situations, such as during the duodecimal period, under Article 28.1(g) and Article 75 of LEO, this being a relatively "gray" area about which nothing more can be ascertained in the budget proposal for next year. Because the Government does not mention it, the ceiling of $200 million of public debt to be subscribed by the State next year may be destined for the Central Administration or another sub-sector.

Direct Budget Support

Direct Budget Support (DBS) is considered as a funding to the State Budget 2023, because it uses the Government's public finance system (the money is deposited in a Treasury sub-account) and is executed within the Budget, following the rules of budget execution. The funds from the DBS are delivered directly to the Government without prior allocation to a particular expenditure.

In 2023 the European Union will fund $3.3 million of DBS through two programs, the Nutrition Program ($2.2 million) and Budget Support for Deconcentration and Decentralization ($1.1 million). The Government of Australia, for its part, will fund $8.2 million over the next two years for two programs as well, the National Juice Development Program and the Bolsa de Mãe Program. The Government, in the book Report, provides only information of the funding of $1.6 million for the Bolsa de Mãe Program for 2023. However, Australia intends to increase the amount of its financial support for three government programs next year, the two previously mentioned programs and also the Labor Mobility and Capacity Building Program. This additional support has an estimated budget of $12.7 million, but the specific agreements for these supports have not yet been finalized.

Public-Private Partnerships

Timor-Leste currently has six projects in its portfolio to be developed under the Public-Private Partnership (PPP) financing model, one of these projects is in the Implementation and Operation Phase, the Tibar Bay Port PPP, and one is in the Procurement and Negotiation Phase in the area of Medical Diagnostics, while others are in the Feasibility Assessment Phase (Affordable Housing, Cristo Rei, Dili Port and Presidente Nicolau Lobato International Airport in Dili), the latter currently already in the procurement phase, for phase one of the runway extension. The Dili Airport Development Project is being developed in the Hybrid PPP modality, a blended finance arrangement, in which some components of the airport infrastructure are funded by public investments to be financed by state loans, grants and financing, while other components are funded by private sector investments. The amount of the loan that will be taken out for this project is $165 million.

The Cristo-Rei Tourism PPP is in the preparation of the Feasibility Study phase, and the Government estimates that the project will cost $3.115 million, including the plan to move the parking lot to the Areia

Branca site. The Infrastructure Fund has allocated $300,000 in the 2023 State Budget for the Affordable Housing Program, $667,000 for Financial Advisory for the Medical Diagnostics and Cristo-Rei Tourism Project.

The Budget Book Report reports that the escrow account established by the Government of Timor-Leste for financing the Tibar Port PPP Project has been earning interest since its inception, accruing interest until August 31, 2022, $8.829 million. The target completion date for this PPP project at Tibar is November 30, 2022, and the interest accrued on the account in Singapore should then be returned to the state coffers. The documents presented by the Government do not explain if this interest is already being foreseen as non-oil revenue in the 2023 State Budget.

Management Balances

As per information obtained from the 2021 General state Account, the Treasury and RAEOA Management Balance at the end of that year amounted to $455.043 million, of which $330.7 million was carried over as Treasury Management Balance with the approval of the 2022 General state Budget.

At the end of August 2022, the Government counted a total cash balance of $535.3 million, encompassing the total deposited in the Central Government and RAEOA accounts. The balance of the Treasury account to be integrated in next year's budget in the Central Government is $200 million, a figure that also already appeared in the Major Planning Options Law, as an estimated value.

In the case of the Oe-Cusse Ambeno Special Administrative Region, the management balance for 2023 entered in the 2023 GSB Bill is $118.7 million.

In the case of Social Security, the situation is different, because the balances determined at the end of each year must revert to the Social Security Reserve Fund, and are intended for capitalization.

Income

The 2023 GSB Bill contemplates in Table IV the revenues from income, in the total amount of $5.526 million, originating from three headings: Income ($3.890 million), Dividends and participations ($1.635 million) and Interest ($1.471 million).

VII CONCLUSIONS

1. The proposal for the State Budget for 2023 was submitted by the Government to the National Parliament for consideration and approval on October 3, 2022, beyond the deadline set by Article 52.1 of Law 2/2022 of February 10 (LEO). By law, the legislative initiative must be submitted by October 1.
2. Based on the technical note prepared by the services at the request of the President of the National Parliament, the draft law on the State Budget for 2023 was admitted, and referred to all the specialized standing committees for their opinions.
3. The draft law is under the theme "Productive Investment and Inclusive Growth", and includes the Articulation composed of 10 articles and an Annex with 12 budgetary tables, and, compared to 2022, undergoes significant changes as a result of the application for the first time of the new rules introduced by the new Framework Law for the State Budget and Public Financial Management (LEO). The changes are so profound that they have made comparative analysis with previous years an almost impossible task for Committee C, which is not in favor of budgetary transparency.
4. There is also concern that the government has decided to introduce so suddenly a new expenditure and revenue classifier and new codes for budget programs and titles, without first ensuring that the entities responsible for entering budget data into the system have been properly trained and that the necessary tests have been conducted to avoid serious errors in the classification of revenues and expenditures in 2023.
5. The Ministry of Finance's failure to meet the legal deadlines for the publication of the 2022 State Accounts and budget execution reports, starting in January 2022, also undermines budgetary transparency. Committee C strongly criticizes the situation and the NGO La'o Hamutuk also regrets this in its analysis of the budget proposal submitted to Committee C.

6. For 2023, the Government has allocated $600 million dollars to finance 275 key measures, grouped around 16 strategic areas and aligned with the sub-sectors of the National Strategic Plan (SDP), which the National Parliament approved in May this year as part of the law on the Great Options Plan (GOP).[2] With the approval of the GOP, the Government also committed itself to achieve next year 28 national results; however, in the budget proposal that it presented to the National Parliament for 2023, it makes no reference to these results or to the financial resources that it allocated to them, a situation that will have to be clarified with the Prime Minister and regularized through an addendum proposal.
7. It is a constitutional requirement that the State Budget should contain a global forecast of all revenues and expenditures of the services and entities of the Public Administrative Sector, disaggregated for each of its three subsectors, the Direct State Administration subsector, the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) subsector, and the Social Security subsector. The draft State Budget law for 2023 meets these requirements.
8. By setting total revenue for the Public Administrative Sector at $3.157 billion and total expenditure at $3.156 billion, the 2023 budget proposal is presented by the Government as being in surplus, when factually it is not, as the "budget surplus" is built up at the expense of further unnecessary excess withdrawals from the Petroleum Fund.[3] Compared to the 2022 GSB, the 2023 budget proposal translates into an overall reduction in state spending of $264 million dollars.
9. The government proposal for Central Government revenues equals the one for expenditures, setting it at $2.8 billion, while also capping the Social Security revenue and expenditure ceiling at $235.7 million and the RAEOA revenue ceiling at $121.2 million, which exceeds the Region's expenditure estimated at $120 million.
10. In the Explanatory Memorandum to the draft State Budget law, the Government states that in 2023 the greatest budgetary weight will be given to Social Capital, but the numbers contradict this. In fact, the Social Capital will consume 33% of the total budget allocation, but the Institutional sector will consume 38%.
11. Both the value of overall revenue and overall expenditure of the GSB, as well as the budget allocations of the three subsectors of the Public Administrative Sector, coincide with the budget limits already set by the National Parliament in May this year and approved in the law of the Major Planning Options (GOP).
12. The law of the GOP fixed binding on the Government, the ceilings of expenditure and revenue for the next year, however this limitation does not apply to the National Parliament, which retains the power to amend the budget proposal up or down if it so wishes, if it considers that the macroeconomic assumptions that justified the approval of the GOP in May have changed since then, or because it considers it necessary to adjust the budget allocation to the historical budget execution capacity of the Government, in order to increase the useful life of the Petroleum Fund currently estimated at 12 years.
13. The Government usually shows modest capacity for budget execution, asking the National Parliament to approve overly ambitious budgets, which unnecessarily squander Timor-Leste's sovereign wealth fund and, above all, give the wrong signals to the economy. In 2023, with the Legislative Elections to be held, a major slowdown in the execution of the GSB is again anticipated.
14. Overall, the accumulated execution of expenses of the State Budget 2022 until September 30, was 33.6% in relation to programmed payments, but individually, many services and entities of the Public Administrative Sector did not even reach 30%, as is the case of the COVID-19 Fund (with 27%), the Infrastructure Fund (with 17.6%), the Special Development Fund Ataúro - FEDA (with 0.1%), the Secretary of State for Cooperatives (with 9%), the Ministry of Social Solidarity and Inclusion (with

[2] See: Annex XX: Distribution of the State Budget by Measures of the Major Planning Options (GOP)
[3] The revenue and expenditure proposed for the 2023 State Budget should be equal. When the Government presents a bill in which the value of revenue is greater than the expenditure, it means in practice that the Government intends to take more from the Petroleum Fund than it really needs to finance its expenses next year. A surplus budget is justified when revenue collection exceeds expenditures, which is not the case at all, and gives a false picture about the real economic performance of the country.

9.9%), the Ministry of Tourism, Trade and Industry (with 9.5%) or the heading of Whole of Government Appropriations (with 13%).

15. To finance the expenses of next year the Government is requesting, under Article 4 of the draft budget law, the authorization of the National Parliament to transfer from the Petroleum Fund up to $1.346 billion dollars, an amount that exceeds by $856 million dollars the value of the Estimated Sustainable Income, calculated at $491 million dollars for the year 2023.
16. The Government estimates that the accumulated balance in the Petroleum Fund at the end of 2022, which will also correspond to the opening balance of the Fund on January 1, 2023, will be only $16.23 billion. In order to increase non-oil revenue, the Government proposes to increase the tax burden next year by raising tax rates and introducing new taxes.
17. In the 2023 budget proposal and the GRP and *Dalan ba Futuru* Timor-Leste system, 11 new budget titles were introduced for the first time compared to the 2022 GSB, including the Special Development Fund (FED) of the RAEOA, the National Agency for Planning, Monitoring and Evaluation (ANAPMA) the National Liberation Fighters Fund (FCLN), the National Institute of Social Security (INSS), the Social Security Reserve Fund (FRSS), and the National Petroleum and Minerals Authority (ANPM), which Committee C welcomes as one of its recommendations for several years.
18. The RAEOA proposes for 2023 to use the accumulated balance in its FED (Special Development Fund) to finance a large part of its current expenses, when this fund by law is intended exclusively for investment projects.
19. The Government will rebudget again in the year 2023 the National Liberation Fighters Fund (FCLN), for the initial amount of $1 billion allocated to it by the 2022 GSB. The full reinstatement of the balance carried forward that will not be used in a single year not only unnecessarily inflates the overall appropriation of the GSB, but is also not acceptable in a public accounting system that exclusively uses the modified cash basis system, as it is a financial asset that can only be accounted for in on-balance sheet accounting. A similar situation applies to the FRSS (Fundo de Reserva da Segurança Social), in which the situation is even more unacceptable because the monies accumulated in the SS fund, according to the legal diploma that created it, are not even considered public monies, and are not therefore state expenditures.
20. In April of this year, the government submitted a proposal for a Rectified State Budget to the National Parliament, with a request for priority and urgency in its consideration, where it contemplated the creation of the National Liberation Combatants Fund with an allocation of one billion dollars, a fund that to this day, five months later, continues to report zero budget execution.

VIII. RECOMMENDATIONS

TO THE NATIONAL PARLIAMENT

1. We recommend careful reading of the sectoral opinions produced by the other specialized permanent committees and the written opinions of the Petroleum Fund Consultative Council (CCFP), the GMPTL, and the NGO La 'o Hamutuk, as they make important considerations and concerns regarding the draft law on the State Budget for 2023 presented by the government.
2. It is recommended to His Excellency the President of the National Parliament that, as a way to definitively overcome the divergences in interpretation that have been made by the Ministry of Finance and the Public Finance Committee on the accounting of financial and non-financial assets and liabilities in the current modified cash-based accounting system used by the Public Administrative Sector, he request, if possible by the end of this month, an opinion on the matter from the International Accounting Standards Board (IASB), the independent international organization responsible for developing the International Accounting Standards (IAS).
3. Since the Government does not see the point in replicating in the draft law of the 2023 State Budget the articles already provided for in the new Budgetary Framework Law (LEO), specifically article 7 on Transfers of the Social Security balances (see article 16.2 of the LEO) and article 9 on

Parliamentary Control (see article 110.4 of the LEO), it is recommended that these be eliminated from the articles of the draft law as they are considered redundant.

4. Committee C follows and reinforces the recommendation of Committee B, so that the Plenary Session discusses with the depth that the matter deserves, the legal implications of Article 8 - "Organic amendments" of the draft law, with special emphasis on the continuity and legal guarantee of the current terms provided in the LEO, specifically, the budgetary amendments under the competence of the National Parliament and budgetary amendments under the competence of the Government, and consider a possible proposal for elimination of this article.
5. Because the information is missing, it is recommended that the Plenary session determine that the Government deliver, by the end of the first day of general discussion of the draft law on the State Budget for 2023, the budgetary quantification of each of the 28 national results to which it committed itself before Parliament and which were approved by the Major Planning Options Law for 2023.
6. It is recommended that the budget allocation of the Special Development Fund (FED) of the RAEOA be reviewed in the Plenary Session of the National Parliament, given that the budget proposal for 2023, as it now stands, authorizes this fund to finance current expenses, contrary to the provisions of the law that created it.

TO GOVERNMENT

1. It is recommended that His Excellency the Prime Minister instruct ANAPMA to finalize the National Integrated Medium Term Planning Framework and submit it to the Council of Ministers for approval so that the Government can approve its National Medium Term Plan in time to inform the draft Major Planning Options Law for 2024, ensuring the alignment of all services and entities of the Public Administrative Sector with the State's priorities, during the appreciation phase of the Major Planning Options for 2024, in May 2023.
2. For the sake of legality, transparency and the supervisory power of the organs of sovereignty and civil society over the Government's budget execution, it is recommended that the Ministry of Finance comply with the LEO with regard to its reporting obligations, meeting the legal deadlines for the publication on its official website, of the quarterly and semi-annual budget execution reports, of the CGE, as well as the annual reports on the Petroleum Fund, and ensure due monitoring of the publication of the annual financial reports of public companies.
3. The modest budget execution observed in a large number of State agencies by the end of September, shows the great difficulties they continue to have in implementing their programs, sub-programs and activities, and they should be held politically responsible for their poor performance and the budget allocations proposed for next year should be adjusted by the members of the National Parliament.
4. The Government is once again recommended to urgently proceed with the regulation of Law 13/2011 which approved the Public Debt Regime, to regulate once and for all, this area of special complexity, but currently quite permissive for the State, at a time when the Government increasingly proposes to use this method of financing the State and it is necessary to safeguard the sustainability of public finances for future generations.
5. It is again recommended that Social Security speed up the completion of the Social Security management computer system, which has been under development for years with the support of the Portuguese government, in order to finally start investing and monetizing the surpluses deposited in the Social Security Reserve Fund account, with the aim of safeguarding its sustainability for its current and future beneficiaries.
6. Consultation of the Budget Transparency Portal confirms that the Government still does not proceed to register the estimated annual withdrawals from the Petroleum Fund approved by the law of the GSB, in the integrated financial management system managed by the Ministry of Finance (GRP). It is unknown why it continues to omit this data and contribute to the distortion of the information that is provided on the budget execution of the revenue of the GSB, contributing to an increase in off-budget spending. It is therefore recommended that the Ministry of Finance should do so immediately.
7. ANAPMA should try to conclude in due time in the Government's Planning, Monitoring and Evaluation system, the new module it is developing, with the endorsement of Committee C, with a

view to automating the proposed changes to the tables of the draft law on the State Budget, so that it can be tested, presented to the Bureau of the National Parliament and to all the specialized standing committees, and implemented still in time for the State Budget for 2023.

8. To the Ministry of Finance, with ANAPMA's collaboration, to ensure a complete training to all the entities of the Public Administrative Sector, about all the changes and the new budget rules introduced by the new LEO, until the end of this year.
9. To the Ministry of Finance to determine all services of the Direct and Indirect Administration that actually generate revenue for the State coffers and to include in the budget proposal the estimated revenue to be collected by each of them, in order to promote greater accountability of public managers, to enable a more effective control by the National Parliament over budget execution and to ensure the accurate recording of all relevant financial information.
10. The Petroleum Fund law provides that all withdrawals above the ESI (Estimated Sustainable Income) are used to finance capital investment expenditures for the development of strategic infrastructure of the country, but these monies continue to be freely used by the Government to finance current expenses, despite successive warnings from Committee C. Greater prudence and common sense is recommended in withdrawals from the Fund, especially since it is projected to be depleted within the next 12 years.
11. To the Ministry of Petroleum and Minerals to promote and implement the projects it has in its portfolio in the area of renewable energy, with the support of Development Partners, in order to reduce the country's energy bill and make energy available to the whole country.
12. That it creates active employment policies and solutions that contribute to the retention of young people in the country.
13. Committee C follows and endorses the recommendation of Committee A addressed to the Ministry of Finance, to proceed with the reconfiguration of the Budget Transparency Portal, and insert in its information on budget execution rates, not only by subprograms, but also by programs.
14. Committee C follows and endorses Committee G's recommendation that the Government make public all financial and physical data on Uma Lulik.
15. Committee C follows and subscribes to the recommendation of Committee F to strengthen the support to *Uma Mahon*, so that victims of gender-based violence can be supported and so that the National Action Plan - Gender-Based Violence, is implemented.
16. Committee C follows and endorses the recommendation of Committee F for the Government to settle the payment of debts to the Iheal Medical Center clinic in Malaysia.
17. Committee C follows and endorses the recommendation of Committee E that the Government conduct a careful and rigorous evaluation in the creation of new public companies, with special focus on the capacity to generate revenue, as well as in the definition of a remuneration package adjusted to the achievement of results.
18. Committee C follows and endorses the recommendation contained in the opinion presented by the NGO La'o Hamutuk on the draft State Budget for 2023, that the Government provide the estimated costs of each program for the next four years, so that the National Parliament can consider and evaluate the proposed allocations based on their overall cost.
19. Committee C follows and endorses the recommendations of Committee D for BNCTL, currently with comfortable financial liquidity, to make more investments to expand in municipalities, improve its service, work harder to socialize its product and interest rates in order to attract more customers, and simplify the process of accessing Soft Credit, because small businesses do not know how to apply for access.
20. To the Ministry of Finance to complete and to the Government to approve the regulation of the public consultation system to be carried out within the scope of the budget planning process, so that it may cover consultation with citizens, with sovereign bodies and with the services and entities of the Public Administrative Sector, thereby complying, albeit belatedly, with the provisions of paragraph 2 of article 45 of the LEO.

21. To the Ministry of Finance to continue to ensure the publication in digital format, on its website, of all the budget books and annexes to the GSB draft law in Tetum and English, as in the past, so that the information becomes accessible to the entire Public Administration, the Population, the Development Partners and friendly nations, contributing to maintain the level of budget transparency that has existed until now.
22. To all the ministries, that they respect the authority of this sovereign body and attend the hearings whenever they are summoned, and that if they are unable to do so, they justify their absence in advance and with reasons, so as not to prejudice the legislative and political oversight work on the activity of the Government, which the Constitution attributes to the National Parliament.
23. To the ministries responsible for implementing the Basic Food Basket and *Fasilidade* Garantia Crédito Suave programs, that they provide to the National Parliament during the debate on the General State Budget proposal for 2023 in Plenary, justification for their modest execution and present a solution to speed up procedures and for the funding to effectively reach the recipients targeted by these supports.

IX. OPINION

It is the opinion of this Committee that, with regard to its formal configuration, PPL no. 46/V (5ª) - General State Budget for 2023 complies in general with the essential rules of formal legistics, fulfilling the formal requirements for the presentation of draft laws, in accordance with the Constitution and the Rules of Procedure, and is therefore in a position to be considered in Plenary.

X. VOTING ON THE REPORT / OPINION

This Report and Opinion was discussed and approved on October 26, 2022, with ten votes in favor, zero votes against, and zero abstentions.

Dili, National Parliament, October 26, 2022

The Reporting Deputies,
/s/
Deputy Maria Angelina Lopes Sarmento (PLP)
/s/
Deputy António Maria Nobre Amaral Tilman (KHUNTO)

The President of the Committee,
/s/
Deputy Maria Angelica Rangel da Cruz dos Reis

XI. ANNEXES

- Sectorial Opinions from Committees A, B, D, E, F and G
- GMPTL Opinion
- Written contributions received from external entities
- Opinion of the CCFP

NATIONAL PARLIAMENT
Democratic Republic of Timor-Leste

PUBLIC FINANCE COMMITTEE

Your Excellency,

President of the National Parliament

Dr. Aniceto Longuinhos Guterres Lopes

Date : October 27, 2022

No. Ref : 09/V/5a /Com. C

Subject: Sending the Report and Opinion on the PPL n. 46/V (5ª) - General State Budget for 2023.

Mr. President,

The Public Finance Committee has the honor of sending you the Report and Opinion on the PPL n. e 46/V (5a) - General state Budget for 2023, as well as the sectorial opinions of the other Committees, GMPTL and the other contributions.

Please accept, Your Excellency, the assurance of my highest esteem.

The President of the Committee,

/s/

Deputy Maria Angélica R. da C. dos Reis