

# Guidelines For the Preparation of the Budgeting Proposals 2020-2023

of His Excellency, the Prime Minister,

Mr Taur Matan Ruak

June 07<sup>th</sup> 2019

## Introduction

Over the past 17 years, successive governments have succeeded in consolidating peace and social stability, which are fundamental conditions for economic development and for building the rule of law and for a modern and prosperous country, which we all desire.

However, there are two endemic issues that remain almost unchanged and which need to be answered, in accordance with our Government priorities and the commitments made with our People in the National Strategic Development Plan (NSDP) and the Roadmap for Implementing the Sustainable Development Goals (SDG), namely the need to “*fight hunger and poverty*”.

There are two fundamental factors that contribute negatively to the extension of this problem:

The first factor is **the negligence of the Rural Area**, where there is still a lack of purchasing power, relying on the subsistence agriculture and lack the knowledge related to the best techniques and methods, modern and advanced, which could stimulate its progress.

Excessive rural depopulation of affluent leaderships and nonconformist young people, due to the lack of opportunities and access to public services, has contributed to the worsening of this situation.

The poorest households are apparently left behind, forgotten and abandoned, vulnerable and disadvantaged, isolating themselves from the outside world due to the lack of interaction, communication and dialogue with organizations and authorities of the State.

This disinvestment in the rural potential of the country is harmful and threatens social and territorial cohesiveness, placing most of our population in the limbo of stagnation and existential regression.

The second factor, the **uncontrolled pressure of the Urban Area**, without planning and preparation for a proper welcoming of the massive migration that comes daily toward to the centrifugal urban core of the municipal headquarters, specifically of the capital Dili, threaten to perpetuate the unwanted social gap, displace the poorest families and most of our young people, from the benefits of national progress and development.

We are witnessing a growing dissatisfaction, stemmed from those who, come to Dili in search of the right well-being and employment opportunities, are facing inadequate public services to the excessive demographic pressure and lack of opportunities to develop social, academic or professional lives, useful and productive.

The Government has made an unyielding commitment to deal with these realities, recovering the necessary social and territorial balances.

We know that we cannot be successful in this challenging mission, without the

participation and contribution of all citizens, without exception. Having said that, we must do more and better in the management of the country's true wealth, the social capital, investing more in its welfare, in the workplace culture and in the effort to increase income in a balanced and sustained way.

If we couldn't respond, in time, to the reasonable demands of the citizens, we will face the risk of exacerbating the abandonment of the Rural Area and of proliferating the slums in the Urban Area, which would clearly bring about negative consequences such as the increase of violence, crime, juvenile delinquency and risks to social harmony.

Prepare well and ensuring citizens' participation, including their families, groups and communities into the national development, remains the only sensible solution to achieve results in solving the main challenges of our country.

Aiming at integrating the country into the regional and international markets it is also the key to our commonality as People and as Nation.

Reflecting on this perspective, we present some points related to goals, priorities and guidelines, which should guide all members of the VIII Constitutional Government in future planning and budgeting activities, in accordance with the following details presented:

## **I – Goals and Priorities**

### **• – Primary Goals of the Government:**

There are 3 (three) primary goals for the upcoming General State Budgeting (GSB 2020):

1. Maintain an annual growth rate above 7%;
2. To minimize the poverty rate (ODS 1) by 10%;
3. To reduce the unemployment rate, in compliance with the Government's program which forecasts the creation of 60,000 jobs per year, with an expected 300,000 jobs created by the end of the mandate, in 2023.

### **• – Implementation of the National Strategic Development Plan (NSDP):**

To accomplish the goals and major strategic objectives defined by the National Strategic Development Plan (NSDP) and the Roadmap for the Implementation of Sustainable Development Goals (SDG), the Government should focus its investment in 3 (three) sectors or key areas:

1. Social Capital Development;
2. Economic Development; and
3. Basic Infrastructures

### **• – Priorities for the preparation of the Budget proposals:**

When drafting budget proposals, the principle of integrated planning and modelling development are proposed, based in 5 (five) major areas of intervention, namely:

#### **1. Social Welfare, Social Protection and Citizenship:**

- **Social Welfare:** – it is a need to optimize multisectorial and crosscutting areas of effective collaboration to achieve health, education and environmental goals, an essential condition for fight hunger and poverty or for increasing employment opportunities, productivity and growth of the country, namely:
- Potable Water and Basic Sanitation – to improve quality of life, prevent diseases, prevent mortality and enable healthy growth of citizens;
- Housing –with an adequate size, hygiene and comfort, with access to public services, like water and electricity;
- Education and Training – of quality, integrated, inclusive, tailored to the needs of the labour market and lifelong opportunities;
- Health – qualified medical and health care, as closely as possible to the citizens, and

- capable to meet the development needs of the country (domestic and international);
- Culture, Heritage, Youth and Sport – to promote the development of organized, disciplined, capable and productive citizens, through public interest activities.
- **Inclusion, Protection and Social Solidarity**
- Women and Children – with support to the female empowerment, to equal opportunities and to the poorest households (conditional grant Fellowship of the Mother or *Bolsa da Mãe*);
- Elderly, Disabled and Vulnerable Groups – subsidies for the elderly and people with disabilities, support for victims, ex-prisoners, people with HIV/AIDS, drug addicts and other at-risk groups;
- Combatants of National Liberation – special protection for the mutilated, orphans and other dependents.
- **Citizenship**
- Participation – encouraging citizens to contribute with clear ideas in the decision-making processes and in the changing activities, creating a positive sense of civic involvement;
- Patriotism – encouraging a feeling of love, dedication and pride for the national symbols and stimulating the will to participate in favour of the country's development;
- Nationalism – encouraging national unity and the valorisation of our ethnic, cultural and linguistic identity and diversity, as a potential for our autonomy and competitiveness at regional and international level.

## 2. **To Invest in the Economy and Public Finances of the Country**

Promote sustained income growth, stimulating private initiative, economic diversification and the successful use of different development opportunities.

- **Economic Base:**

The organization of the economy must be based on the terms that was established in Article 138 of the Constitution, in the combination of (3) three factors:

- Communitarian forms;
- Freedom of initiative; and
- Business management.

- **Coexistence of 3 sectors:**

The economy is developed in 3 (three) sectors of organization of ownership of the means of production:

- Public sector;
- Private sector; and
- Cooperative and social sector.

- **Productive Sectors:**

The State assumes a central role in promoting economic development, stimulating investment in three (3) productive sectors, namely:

1. Primary sector, focusing not only on agriculture, but also on transport, distribution, packaging and storage of agricultural, farming, fishing or forestry products (ODS 13, 14 and 15);
2. Secondary Sector, encouraging the emergence of Public-Private Partnerships, for the development of a modern, resilient and inclusive Petroleum, Extractive and Manufacturing Industry (ODS 9);
3. Tertiary sector, encouraging the diversification of services provided to citizens, especially tourism support services and access to financial operations.

- **Public Finance:**

- Macroeconomic Policy – for high, inclusive and sustainable growth in the diversification of the economy;
- Financial Sector – a financial industry that contributes to the good business environment, facilitating commercial activities and insurance (banks, microcredit, credit unions, monetary policy);
- Public Finance – to improve transparency, accountability, efficiency and sustainability by implementing Program Budgeting and a contributory social security scheme.

### 3. **Improve National Connectivity**

Investing in three (3) key areas, namely:

1. Infrastructures (construction of ports, airports, rural or urban roads and bridges);
  2. Logistics (stocks, maritime, air and terrestrial transports and order processing); and
  3. Telecommunications (maritime and terrestrial optical fibre networks), considered as fundamental mechanisms to support economic diversification.
4. **Consolidation and Strengthening of Defence, Security and External Relations:**
5. Institutions of Defence and Security – transparent, efficient, competent and professional, more active in the prevention of crime and situations that put at risk stability and social peace;
  6. External Relations – based on strong bilateral and multilateral friendship relations that promote the country's regional and international integration and facilitate the access of people, companies and organizations to the international system and markets, contributing to the overall national development effort.
  7. **Consolidation and Strengthening of Justice, Democracy and Human Rights:**
  8. Promoting a more peaceful and inclusive society (ODS 16);
  9. Promoting the Rule of Law, equal access, speed and efficiency, proximity of the services and the coexistence of formal and informal (traditional) mechanisms of justice, as crucial factors of confidence and attraction of investments.

## II – Various

### • – **Infrastructure Development:**

In the planning of basic and fundamental infrastructures, special attention should be given to five (5) fundamental points:

1. Job creation, giving priority to those that help promote inclusive work opportunities for men, women and people with disabilities;
2. The private sector, giving priority to those that contribute to encourage the emergence of small and medium-sized enterprises;
3. The valorisation of local products, giving priority to initiatives that contribute to the diversification of supply and to the sustainable growth of the economy (ODS 8);
4. Capacity-building and institutional strengthening, prioritizing initiatives that value the citizen, not only in technical or scientific knowledge, but also those of moral, ethical and disciplinary character;
5. Balanced territorial development, giving priority to initiatives that contribute to social cohesion and reduce asymmetries between urban centres and rural areas.

We will also promote ***decentralization in the approval of new projects***, implementing a new delegation of responsibilities, according to the following formula:

- Projects valued up to USD \$ 300,000 – with approval at Communitarian level;
- Projects valued below USD \$ 5 Million – with approval at the Municipalities and Ministries level; and
- Projects valued above USD \$ 5 Million – with approval reserved for CAFI (Infrastructural Fund Administration Council);

### • – **Sources of Funding:**

### **1. Petroleum Fund:**

Government keeps his commitment to ensure the balance of the Petroleum Fund, in order to guarantee its sustainability for future generations, gradually reducing the pressure exerted in recent years, regarding the values of withdrawals above the Estimated Sustainable Income (ESI).

### **2. Loans:**

We will, therefore, increase the level of public indebtedness, in a weighted and balanced way, to meet the investment needs in infrastructures and strategic sectors of our development.

### **3. Public Debt:**

We will use public debt instruments, in accordance with international best practices, without ever forgetting the requirement to maintain Timor-Leste fulfilment rating in high quality levels, namely:

1. Issuance of Government Debt Securities; and
2. Participation of Citizens.

### **4. Fiscal Revenues**

Regulation of existing potential revenues, by improving the efficiency and transparency in collecting fees, while avoiding harming investment efforts with duplication or excessive taxation.

### **5. Donor Support**

Continue bilateral and multilateral strategic partnerships, joining new mechanisms to finance our investment needs.

### **6. Public-Private Partnerships:**

We will give priority to this source to finance large projects, by promoting a business environment that is more favourable and attractive to private investments.

#### **• – Improve Business Environment:**

##### **1. Improve procedures for new investments approval**

By intervening in 10 (ten) fundamental points, namely:

1. In the establishment and registration of new companies;
2. In the concession of title deeds and issuance of permits or construction licenses;
3. In the fast access to essential public services: of electricity, water or connectivity;
4. In granting of visas to entrepreneurs or specialized workers, experts, trainers, whose technical or scientific competence constitutes an added value to the realization of the projects;
5. In issuing needed documents to obtain credit;
6. In the companies establishing process and in the contracts legal certainty;
7. In developing a fiscal policy with appropriate incentives (reasonable taxes and exemptions) that enhance the productivity and competitiveness of enterprises operating in Timor-Leste;
8. In the connectivity and access to International Markets, with fast, effective and efficient services, as well as competitive costs, capable of facilitating exports and reducing the level of dependence on imported products;
9. In the compliance with the contracts and commitments assumed, paying particular attention to the deadlines, quality and specifications previously defined;
10. In the fast resolution of insolvency proceedings.

##### **2. Create a favourable environment for tourism:**

3. Accessibility – encourage the diversification and improvement of services provided

- in the transport sector (air, sea and road), enhancing the investments made in infrastructures (airports, ports, terminals and roads);
4. **Security** – consolidate and strengthen the sense of public security and trust in security forces and services, promoting the “*Timor-Leste destination*” as “*safe and friendly to the visitor*”;
  5. **Simplifying the licensing of tourism projects** – removing excessive or unnecessary obstacles, bureaucracies, duplications or excessive taxes, in accordance with international best practices;
  6. **Tax incentives** – taking into account the regional and international business environment, to implement attractive and competitive solutions;
  7. **Tourism promotion** – using embassies, consular posts, Timorese communities (in abroad) and Timorese participation in international events as real opportunities / information and promotion centres of the “*destination and products made in Timor-Leste*”;
  8. **Requalification and revitalization of historic centres** – implementing a policy of commercial concessions to the private sector, generating revenues capable of preserving, maintaining and rehabilitating historical centres and monuments, and taking advantage of those spaces;
  9. **Visa policy** – implement a policy facilitating access to visas and visa exemptions for genuine passengers, accompanied by measures to strengthen the control of suspected or high-risk passengers.

### **3. Create a favourable environment for Communitarian Projects:**

The State intends to promote a better understanding of the concept of communitarian initiative project, acting in three (3) fundamental points:

1. In **the elaboration of proposals**: supporting the problems identification, the priorities selection, the activities planning and the communitarian planned and participated projects implementation;
2. In **strengthening the sense of belonging**: by encouraging the use of local means and resources, in order to raise local capacities and ambition level, as well to guarantee their autonomy, facilitating the monitoring of communities and promoting their integration into the process of national development;
3. In **the mind-sets changing**: by promoting a greater participation and interest in relation to issues of local and communitarian interest, in order to overcome excessive reliance on municipal or national initiatives and to achieve the mind-sets change necessary for the implementation of the new decentralization policy in the approval of community projects.

#### **• – Improve Redistribution and Performance Evaluation:**

1. **Improve the State redistribution functions:**
  2. **Allocation function** – giving high priority to the most deprived or backward sectors of the country, implementing the policy defined in the NSDP to “*leave no one behind*”;
  3. **Distributive function** – promoting a balanced growth of the country, with social and territorial cohesion;
  4. **Stabilizing function** – employment, price stability and growth.
- #### **2. Improve performance evaluation**

The State also plays a key role in promoting a more favourable business environment through ***financial reforms and in the evaluation of governance performance***, with the following measures:

1. **Implementing a set of reforms**, in the areas: Administrative, Fiscal (Tax and Customs) and Legislative, creating more attractive conditions for national and international investment, safer and more competitive.
2. **Completing Program Budgeting**: combined with the appointment of a coordinator responsible for each program and managers for each project, in order to ensure a better evaluation of the performance of Government members and the execution of programs and projects under their authority; and

3. Implementing a sanctioning system: consisting of warnings and possible penalties imposed on coordinators and managers who infringed or failed.

**Final Notes:**

- These guidelines constitute a working document;
- They aim to guide planning and budgeting procedures; and
- To ensure a modelling integration of different cross-ministerial efforts at the cross-cutting level;
- They aim to recall the true purpose of the Government's program and subprograms, which are aimed at "*solving the immediate problems of citizens, ensuring a sense of belonging and gaining popular support in defence of their strategic interests.*"