



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

## **Report and Opinion**

### **Rapporteurs:**

Deputy Maria Angelina Lopes Sarmento  
(PLP)

Deputy António da Conceição (PD)

Deputy Antonio Maria Nobre Tilman  
(KHUNTO)

---

## **Draft Law No. 23/V (3rd) - General State Budget for 2021**

**Approved in the meeting of 30 November 2020**



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

## **PUBLIC FINANCE COMMITTEE**

### **Contents**

I. PRIOR CONSIDERATIONS .....	4
(i) Admission of Proposal .....	4
(ii) Public Finance Committee .....	5
(iii) Rapporteurs .....	5
(iv) Public hearings .....	6
II. LEGAL FRAMEWORK .....	8
(i) Structure and Formal and Material Content .....	9
A. General considerations .....	9
B. The autonomy of the RAEOA Budget .....	12
C. Program budgeting .....	13
(ii) Object, scope and associated terminology .....	14
(iii) Legal issues regarding revenue and expenditure forecasts .....	16
A. Central Administration Budget .....	18
B. The RAEOA Budget .....	19
C. The Social Security Budget .....	20
(iv) Legal issues regarding budget execution in general .....	21
III. ECONOMIC AND FISCAL OUTLOOK FOR 2021 .....	27
(i) World Economy .....	27
(ii) Budget Planning .....	28
(iii) Timor-Leste economic outlook .....	29
(iv) Structural indicators .....	31
(v) Inflation .....	32
(vi) Oil Price .....	32
(vii) Sustainability analysis .....	33
IV. PLAN AND PRIORITIES FOR 2021 .....	33
V. STATE REVENUE AND EXPENDITURE FOR 2021 .....	36
(i) Sources of financing and revenue for the State Budget for 2021 .....	36
A. Transfers from the Petroleum Fund .....	38
B. Import Revenues (customs duties) .....	41
C. Other Tax and Non-Tax Revenue .....	42
D. Donations from Development Partners .....	42
E. Public (financial) debt .....	43
F. Public-Private Partnerships .....	44
G. Management Balances .....	44
H. Revenues .....	45
(ii) Expenses from the Central Administration Budget for 2021 .....	45
A. Consolidated Fund for Timor-Leste .....	45



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

1. Municipalities .....	49
2. COVID-19 Fund and Economic Recovery Plan.....	52
3. Infrastructure Fund.....	57
B. Human Capital Development Fund .....	68
VI. RAEOA BUDGET.....	70
(i) Revenue .....	70
(ii) Expenses .....	72
VII. SOCIAL SECURITY BUDGET .....	75
(i) Introductory considerations .....	75
A. Priorities and Governance Measures for 2021 .....	76
B. Contribution rate.....	77
C. Public Transfers .....	77
D. National Social Security Institute .....	78
E. Social Security Reserve Fund.....	78
(ii) OSS Structural Assessment.....	79
A. Revenue .....	83
B. Expense.....	84
C. Execution analysis.....	86
VIII. CONCLUSIONS.....	88
IX. RECOMMENDATIONS.....	93
TO THE NATIONAL PARLIAMENT .....	93
TO GOVERNMENT .....	94
TO RAEOA.....	96
X. OPINION.....	96
XI. APPROVAL OF THE REPORT AND OPINION.....	96
ANNEX 1 - Comparative table of allocations for Central Administration and RAEOA 2020-2021, with indication of funds allocated to economic recovery measures.....	97
ANNEX 2 - Sectorial Opinions of Committees A, B, D, E, F and G and opinions of CCFP and GMPTL.....	100
NOTES.....	100



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### I. PRIOR CONSIDERATIONS

#### (i) Admission of Proposal

The Draft Law no 23/V (3rd) - State Budget for 2021 (PPL 23/V (3rd) or PPL GSB 2021) was admitted to the National Parliament the 15 October 2020, under the provisions of Article 97.1(c) and Article 145.1 of the Constitution.

The purpose of the proposed law is to approve the General State Budget (GSB) for the year 2021, having been drafted under the terms of articles 115.1(d) and 145 of the Constitution.

After being submitted to the National Parliament, the bill in question was immediately sent to the Plenary Support Division (DIPLN) for registration, numbering and preparation of a technical note, under the provisions of article 4, paragraphs f) and i) of the Powers of the Divisions of the General Secretariat of the National Parliament. However, since the proposal was not immediately accompanied by supporting budget books, its admission was deferred to October 26, 2020, with that date being sent to the Permanent Specialized Public Finance Committee (Public Finance Committee or Committee C) for issuing a Report/Opinion and the other permanent specialized omissions for issuing a sectoral opinion, as provided for in article 163 of the National Parliament's Rules of Procedure. Under the terms of the admission order, the statutory deadline applicable to the issuance of the report and opinions began to count only on October 30, inclusive, attentive to the receipt of budget books on October 29.

The Government has, in accordance with the constitutional provisions indicated in the draft law, 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).

PPL 23/V (3rd) includes, for the period between January 1 and December 31 of 2021, the majority (albeit with important exceptions) of projections of revenues and expenses of the entities of the Public Administrative Sector [1], including, in addition to Central Administration [2], also the Oe-Cusse Ambeno Special Administrative Region (RAEOA) [3] and the Social Security sector [4], with their own budgets; excluding the Petroleum Fund income and expenditure projections [5] (entity of the Central Direct Administration of the State [6]), presented only as a source of funding for the GSB, the Central Bank of Timor-Leste BCTL, as an independent body [7], and also, temporarily, the Petroleum and Geology Institute (IPG) and of the National Petroleum Authority and Minerals (ANPM), as the entities of indirect administration of the State [8].

It should be noted that, in addition to these organic exclusions, the GSB excludes important revenue and expenditure forecasts of the entities it includes in its scope because, once again, donations from development partners known on this date to finance expenditure in the year 2021 omitted from the draft law (except for the European Union's donation of "direct budget support") [9].



## **PUBLIC FINANCE COMMITTEE**

The PPL GSB 2021 contains an article composed of 22 articles and their attached budget tables, namely:

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

### **(ii) Public Finance Committee**

In view of the matter, the Public Finance Committee considers itself competent to consider the present legislative initiative, under the Resolution of the National Parliament 2/2018, of June 26 and of article 3 of its Regulations, which attributed to it, among others, competences in matters of the General State Budget.

By virtue of article 164, paragraphs 1 and 2 of the National Parliament's Rules of Procedure, the Public Finance Committee is responsible for preparing a report and a reasoned opinion, which must take into account the sectoral opinions of the other Permanent Specialized Committees.

During the preparatory work carried out for the production of this report and opinion, the Public Finance Committee, Committee C, heard and received written contributions from the various entities. It was based on PPL GSB 21 and the respective explanatory memorandum, audit estimates of the estimated sustainable income (ESI) of the Petroleum Fund and the Government's justification for raising it above the ESI, in the technical note of 10/19/2020 (received on 26 October), in the budget books received on 29 October 2020 [10] (errata targeting proposed law received on 29 October and 23 November, the latter having also corrected the books) and in the information collected from these contributing entities that Committee C developed its analysis and supported the conclusions and recommendations that it poured into this report and opinion.

The sectoral opinions of the other permanent specialized Committees, the Petroleum Fund Consultative Council (CCFP) and the Group of Women Parliamentarians of Timor-Leste (GMP TL), which Committee C received in time until November 23, 2021, follow attached to this report and opinion. As mentioned, such opinions (and occasionally the other written contributions received [11]) formed the present report and opinion.

### **(iii) Rapporteurs**

Were designated as rapporteurs Deputy Maria Angelina Lopes Sarmento, of the PLP Parliamentary Bench, Deputy António da Conceição of the PD Parliamentary Bench, and Deputy António Maria Nobre Amaral Tilman, of the KHUNTO Parliamentary Bench.



## **PUBLIC FINANCE COMMITTEE**

In the preparation of this report and opinion observed, *mutatis mutandis*, the provisions of Article 34 of the Rules of Procedure of the National Parliament.

### **(iv) Public hearings**

Under the initial assessment of proposed the State Budget Law for 2021, the Committee on Public Finance (Committee C ), in partnership with the Program “Partnership for improving the delivery of services by strengthening management and Oversight of Public Finances in Timor-Leste (PMFO)” funded by the European Union and co-funded and managed by Camões, conducted a preparatory budgetary consideration seminar by Parliament called “2021 Budget Overview”, on November 4 and 5, 2020 at the Hotel Novo Turismo, in Dili. The initiative with the participation of all members of Committee “C”, and representatives of the Board of the National Parliament, the party benches and all other specialized standing committees and in Parliament and the Women’s Parliamentary Group Table (GMPTL). The Seminar was a space for discussion of ideas and debate that preceded the formal start of public hearings on the Government’s budget proposal for next year, whose opening and closing ceremony was in charge of the Vice President of the National Parliament, Deputy Angelina Sarmento.

The Seminar was attended by a number of prestigious speakers, namely: the Ambassadors of the European Union and Portugal to Timor-Leste, the interim Minister of Finance, the Coordinating Minister for Economic Affairs, the Minister of Planning, the Minister of Petroleum and Minerals accompanied by the National Petroleum and Minerals Authority, Institute of Petroleum and Geology and Timor Gap EP, public entities under its supervision, the UPMA Coordinator, the Minister for Social Solidarity and Inclusion, the Governor of the Central Bank of Timor-Leste, President of the Court of Appeal accompanied by the Chamber of Auditors and representatives of the World Bank and the Asian Development Bank.

Under the terms of article 164.3 of the National Parliament’s Rules of Procedure and in accordance with the previously approved calendar, the following public hearings were held, convened by Committee C for November 06 to 17, 2020:

- On November 6, the interim Minister of Finance was heard, accompanied by the National Procurement Commission and the Monitoring and Evaluation Planning Unit (UPMA);
- On November 9, the Minister for Economic Affairs (MCAE) and President of the Chamber of Commerce and Industry (CCI) were heard;
- On November 10, the President of the Authority of the RAEOA and Special Zone of Social Market Economy (ZEESM) was heard, accompanied by the Regional Secretaries and the Minister of Social Solidarity and Inclusion (MSSI). The Civil Society Support Office of the Prime Minister’s Office did not appear for the hearing convened nor did he present any justification for his absence;
- On November 11, the Minister for Planning and Planning, Minister for Public Works and Minister for Transport and Communications were heard;



## **PUBLIC FINANCE COMMITTEE**

- On November 13, Committee C heard the Boards of Directors of the Infrastructure Fund, the Human Capital Development Fund (FDCH) and the COVID-19 Fund;
- On 16 November, the joint hearing of the Governor of the Central Bank of Timor-Leste, President of the National Bank of Commerce of Timor-Leste (BNCTL) and the Petroleum Fund Consultative Council (CCFP), followed by the hearing of the National Defense Institute;
- Finally, on 17 November, the hearing of the Minister of Petroleum and Minerals took place, which was accompanied by the National Petroleum and Minerals Authority (ANPM), Institute of Petroleum and Geology (IPG) and Timor GAP EP, public entities by itself tutored.

The Committee C keeps a copy of all written documents delivered in the seminar “Budget Overview for 2021” and in the hearings in the assessment of the proposed State Budget Law for 2021. These documents, which are listed below, also serve as references for writing this report and opinion and will be available for consultation of Deputies who request them. They are:

- ✓ Responses from the Ministry of Finance, RAE OA, FDCH, the Ministry of Transport and Communications, BNCTL, MCAE, the Ministry of Planning and Planning and the Ministry of Social Solidarity and Inclusion to the written questions delivered following the hearings;
- ✓ Circular No. 122/VIII/GM/2020-09; Preparasaun Orsamentu Jerál Estadu 2021 from the MF, received by the PN on 07 Sep 2021
- ✓ Economic Recovery Plan, approved by the Council of Ministers in August 2020;
- ✓ written answers the questions asked by the UPMA Committee C in the seminar “Budget Overview 2021”, undated;
- ✓ Presentation of the IDN for your hearing on 16 Nov. 2020;
- ✓ Opinion of La'ó Hamutuk on PPL GSB 2021;
- ✓ BNCTL presentation at the “Budget Panorama for 2021” Seminar, dated 5.11.2020;
- ✓ Budget Execution Report - Third Quarter of 2020, from the Ministry of Finance;
- ✓ RAE OA-ZEESM TL Activity Report: January to September 2020, dated 10/30/2020;
- ✓ Presentation of BNCTL for the hearing with Committee C of 16 November 2020, delivered on 11 Nov. 2020;
- ✓ Intervention by the Court of Appeal at the Budget Panorama Seminar for 2021, delivered on 5 Nov. 2020;
- ✓ ANPM budget proposal for 2020, DOT report and 2020 Financial Statements Report;
- ✓ ANPM budget proposal for 2021, audited Report and Income Statement and schedule for 2021, delivered at the hearing of 17 Nov. 2020;
- ✓ IPG Activities Plan and Budget for 2021, delivered at the hearing of 17 Nov. 2020;
- ✓ Timor GAP Annual Report and Accounts - year 2019;





## **PUBLIC FINANCE COMMITTEE**

- ✓ budget proposal Timor GAP in 2021, delivered to the hearing 17 Nov. 2020;
- ✓ budget proposal for 2020 Timor Gap, and budget execution in 2019 and execution DOT - January to August 2020;
- ✓ Recommendations of the Social Audit Report 2019;
- ✓ World Economic Outlook, October 2020, IMF.

Committee C did not, however, receive responses to written questions sent, following the hearings, to the Central Bank of Timor-Leste, Petroleum Fund Advisory Council, Infrastructure Fund Board of Directors, Covid-19 Fund, National Defense Institute, Chamber of Commerce and Industry, Planning, Monitoring and Evaluation Unit, Ministry of Petroleum and Minerals, Institute of Petroleum and Geology, National Petroleum and Minerals Authority, Timor GAP, Ministry of Public Works and Ministry of Transport and Communications.

## **II. LEGAL FRAMEWORK**

The National Parliament, under the terms of the Constitution, is responsible, in addition to the primary functions of representing the People and legislative, to monitor and supervise the activity of the Executive, holding the Government responsible, namely in financial and budgetary matters.

The Government has, in accordance with the constitutional provisions, exclusive competence to propose the legislative initiative under consideration, with the National Parliament having 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 Article 30.1 of the Budget and Financial Management Law (LOGF), the proposal for the General State Budget for the next economic year must be submitted to the National Parliament, in the form of a proposed law, by October 15 of the year preceding the one in which case, in this case the GSB proposal for 2021 must be submitted by October 15, 2020.

As noted above, this bill (PPL 23/V (3rd) or PPL GSB 2021) gave entry into the National Parliament on 15 October 2020, with the respective memorandum, an audited estimate of estimated sustainable Income (ESI) of the Petroleum Fund and justification for raising above the Estimated Sustainable Income (ESI). It was, therefore, the proposal received in time, even if unaccompanied by the support budget books, received only on October 29, 2020. Since the budget books are not part of the proposed law itself, there is no violation of article 30.1 LOGF, which stipulates the deadline for submission of the proposal; even so, considering that article 22 LOGF requires the presentation of supporting information, and bearing in mind the principle of interinstitutional cooperation [12], contemporary sending of budget books to the proposed law should always be ensured, in order to allow an adequate assessment of the Budget by Parliament. The adequacy of the consideration by Parliament was, however, properly





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

safeguarded by the President of Parliament when given in default of regimental term count to report the issue and opinions by s specialized standing committees for the day after the receipt of support books like referred to above.

### (i) Structure and Formal and Material Content

#### A. General considerations

In terms of substantive law, the budgetary regime, in addition to being framed by the Constitution as explained briefly above, is also regulated by the Budget and Financial Management Law (LOGF). Under this LOGF, the proposed budget law has the structure and formal content defined in articles 24 to 29 of the LOGF and the State Budget itself has the content defined in articles 22 and 23 of the same LOGF.

Regarding its **formal configuration**, as a normative act or instrument, it should be noted first of all that the PPL GSB 2021 respects the formal requirements to which the proposals of law for its admissibility must generally comply, in harmony with the provisions of articles 91, 96.2 and 98 of the Rules of Procedure of the National Parliament, namely being written in Portuguese, in the form of articles, containing a title that translates its main object and accompanied by an explanation of reasons. It is also in compliance with the provisions of Law 1/2002, of 7 August (Law of Publication of Acts). The draft law thus obeys the general rules of formal legislation.

As for the conformity of PPL GSB 2021 with the legal rules applicable to the structure and formal content of the budgetary proposed laws in particular, which result from articles 24 to 29 of the LOGF, the proposed law presents some deviations, some adequate and even necessary, others questionable and to be corrected.

Obviously, there is no provision for funds allocated to **local authorities** (see Article 25(d) LOGF), as local authorities have not yet been established in concrete [13] in Timor-Leste [14].

On the other hand, since an administrative region, the **Oe-Cusse-Ambeno Special Administrative Region (RAEOA)** is already established under article 5.3 of the Constitution, the draft law includes tables with the income and expenses of the region[15] and makes the RAEOA budget autonomous from the Central Administration Budget, which we will treat below[16].

Another structural change compared to previous years, undoubtedly the most striking of all, is the presentation and specification of the expenses of all the Budgets that make up the GSB (of the Central Administration, the RAEOA and Social Security) as programs - due to their importance and impact, also from this change we will heal in more detail below[17].

The Government also decided with this proposal for a budget law, for the first time in several years, not to present a table on “**Autonomous Funds and Services**” (SFA), a category of



## PUBLIC FINANCE COMMITTEE

administrative entities, which, moreover, disappears entirely from the proposal of law, merged with the former category of “Autonomous Organs Without Own Revenue” (OASRP). Let say, from now on, that it seems useful to introduce a single category for all entities with financial autonomy, even if it differs from the letter of the LOGF law, in order to avoid distinctions based on theoretical and often unclear considerations. “Own revenues” - terminological choices that we will talk about below [18]. However, it should be noted that, regardless of terminological reconfigurations, article 27 LOGF imposes, as part of the draft law on the State Budget, the specification, for each SFA, of its global income and expenditure, something that is missing from the PPL GSB 2021 - although it can identify the SFA (by reading their organic laws or previous years’ budgets) among the ones listed in Table III of the proposal, and thus identify the overall costs of each of them, it is certain that global revenues each SFA does not result for any given constant PPL GSB 2021 [19], so it will be important to add this data to the proposed law, preferably in a separate table [20]. The opportunity should be taken to correct the practice of previous years of presenting the amounts of transfers from the line ministries to the SFA, following for the first time the international accounting rules for the proper consolidation of the amounts within the Central Administration Budget - something, in fact, inevitable in this budget, which follows, well, those same rules of consolidation in the social security budget and in the (new) table of revenues and expenses for the entire Public Administrative Sector.

It should be noted and applauded, moreover, for the inclusion, for the first time in Timor-Leste, of a table (Table I in PPL GSB 2021) with the revenues and expenses of the entire Public Administrative Sector, for, as referred to explanatory memorandum, *«to be [ in] perceptible [is] all public monies registered in the State Budget. »*

On the other hand, are noticeable **deviations are occasions is the nomenclature LOGF constant** caused by inconsistency of this embodiment own law. As already said in previous years, in LOGF the (same) budget is sometimes called “State Budget”, sometimes “General State Budget”, having chosen the Government in its proposal to follow the term “General State Budget” to designate the budgets of the Central Administration, the RAEAO and the Social Security sector [21], without using the concept of “State Budget”. It is a simplifying option that is applauded [22].

In fact, it must be said, as has been repeated in recent years in reports of this Committee, that, due to these and other failures of the LOGF [23], it is urgent that the Government promotes the approval of a new Budgetary Framework Law that collects them - something all the more urgent as the Government decided, we think that from now on, structure the Budget in programs, and LOGF, despite refer to programs, it was primarily designed for a budget structured or on merely one organic classification (detailed).

It should be noted that, unlike the budget of the Central Administration and RAEAO Sectors, the budget of **the Social Security Sector** does not yet have norms framed by the Timorese legal system, a shortcoming that would have to be addressed soon [24], except for some references in



## PUBLIC FINANCE COMMITTEE

the law that created the contributory social security regime, Law 12/2016, of November 14<sup>[25]</sup>, and in DL 55/2020, of 28 October, which constituted the Social Security Reserve Fund<sup>[26]</sup>. Therefore, the structure and formal and material content of the Social Security Budget (OSS) presented by the present proposal does not present an irregularity defect and seems, moreover, adequate.

Still, note that the OSS tables (tables VI and VII of PPL GSB 2021) lack detail. In the presentation of expenses the reference to the various social security programs already structures the information in order to facilitate consulting more details from the Social Security book that accompanies the proposed law, although it is recommended, for the future, to include, at least, tables referring to the expenses of the two public institutes, the National Institute of Social Security INSS and the Social Security Reserve Fund FRSS, especially now that this fund is already constituted and in order to put the level and detail of the information on these institutes alongside the other public bodies within the budgetary scope. As for the presentation of revenues, as set out in Table VI of PPL GSB 2021, the omission of the various schemes in that table (pay-as-you-go contribution, capitalization contribution, non-contributory and social security administration) makes the information too simplified, difficult to scrutinize which revenues fund exactly which regimes. It will be important to replace the Table in question with one that provides this information, which we believe is essential.

Finally, with regard to the normative content, in this particular concerning the criteria for the **use of the resources of the Petroleum Fund (PF)**, it appears that under the terms of article 7.2 of the proposed law, the amount of Estimated Sustainable Income (ESI) referred to therein is duly certified by an independent auditor, as required by article 8 of Law 9/2005, of 3 August, as amended and republished by Law 12/2011, of 28 September (Petroleum Fund Law PFL). Any transfers from the PF that exceed the ESI are subject to the requirements set out in Article 9 of the PFL. Since the Government asks the National Parliament for authorization to make a transfer above the ESI<sup>[27]</sup>, under the terms of articles 7.3 and 7.4 of the draft law, it appears that it has complied, with regard to the information to be provided to Parliament, the reports and justification (in a formal sense<sup>[28]</sup>) referred to in Article 9, points a), b), c) and d) of the PFL. Regrettably, perhaps, deleting the table, by reference, with table II, detailing the Petroleum Fund receipts which, as already noted above<sup>[29]</sup>, are all in years excluded from the budget perimeter (excluding this year, let say, resulting in less clarity from reading Article 1.5 of the bill) <sup>[30]</sup>.

As for the **material content of the budget**, governed by articles 22 and 23 LOGF, it should be noted that, as in previous years, information on assets does not include State assets and information on liabilities does not include guarantees given to third parties or the non-financial debt, in contravention of article 22.1(c) of LOGF. Also lucky, the proposal does not have the estimated cost of previous revenue not collected as a result of tax exemptions and customs benefits or the estimates of earnings lost as a result of tax breaks and due to non-financial benefits, in contravention of Article 23.3 points m), n) and o) LOGF. Asked about this lack during the hearings, the Ministry of Finance clarified that “*Until now, no PPL of the GSB has*



## PUBLIC FINANCE COMMITTEE

*presented the projection of loss of revenue, even though LOGF foresees its presentation, being presented only in the [General State Account] the actual information of the revenue not collected. The [Ministry of Finance] is proceeding to improve the revenue projection analysis procedures that will allow the calculation of revenue loss, so the [Ministry of Finance] intends to include the 2022 Revenue Loss projection in the 2022 proposed GSB law.” It is recommended that it be so effectively.*

Even so, it is concluded, as a consequence of the above and in strictly legal terms, that nothing seems to hinder the appreciation and voting in the Plenary of the draft law of the State Budget for 2020, under the terms of articles 166 and following of the Rules of Procedure of the National Parliament.

### B. The autonomy of the RAEOA Budget

As mentioned, PPL GSB 2021 autonomizes, for the first time in Timor-Leste, the budget of the RAEOA outside of the Budget of the Central Administration.

Since the creation of the Region, the forecast of its revenues and expenses, initially limited to transfers from the Central Administration Budget and the fulfillment of minimum management functions, respectively, has grown in importance and diversity. With the increasing implementation of the Region’s autonomy, under the terms of its organic law (Law 3/2014, of 18 June, amended by Law 3/2019, of 15 August), it is today a legal person of public law, at least in theory, with the highest level of administrative, financial and asset autonomy in Timor-Leste. Considering this status and their public collective personal nature of population and territory, unique in Timor-Leste beyond the state itself, it is clear the appropriateness of the budgetary autonomy of the Region; in the words of the explanatory memorandum of the bill, “*methodological changes that aim to bring the budget of the best international budget practices, improving the conceptual quality of the state budget, harmonizing the presentation of information and increasing transparency.*”. A step that the LOGF, although silent, undoubtedly allows, but which should be legally expressed in the future Budgetary Framework Law, which is expected soon.

It is important, however, that the quality of RAEOA budgeting and its execution and reporting move forward in the same direction, otherwise a well-intentioned autonomy may become the opportunity for counterproductive opacity. It is a positive step, no doubt, for RAEOA to use the computer system of financial management of the Central Administration, in early 2021, confirmed at the hearings, which is more important to enable better oversight than Parliament and the Chamber of Accounts have had for regional budget execution. However, we will not fail to point out below, in the proper place<sup>[31]</sup>, serious concerns about the (lack of) legal and economic-financial quality and rigor in the Region’s revenue and expenditure forecasts in this PPL GSB 2021.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### C. Program budgeting

Another methodological change that, in the words of the explanatory memorandum, intends to “bring the budget closer to the best international budgetary practices, improving the conceptual quality of the General State Budget, harmonizing the presentation of information and increasing its transparency” is the presentation of expenses (although not yet revenues) by programs, maintaining the economic classification (categories of expenditure<sup>[32]</sup>) and organic (the administrative entity responsible for the expense, responsible for it as required by article 23.1 of the LOGF).

It is undoubtedly a very positive step in the sense announced, but also (and perhaps above all) a decisive step in holding public bodies accountable for budget execution, no longer simply in terms of how much money they spend (by category of expenditure) but henceforth, and well, in terms of efficiency in spending public money, given not only how much they spend but how, in achieving the program goals with the various budget allocations. Henceforth, control, from the start of parliamentary control, of budgetary execution will be able to ascertain more easily<sup>[33]</sup> if a certain amount of public money is being spent without the respective public policy objectives being achieved, or achieved satisfactorily, and from there draw consequences, namely by urging the executive to rethink the program and/or those responsible to ensure the achievement of the objective or to rethink the public policy objective itself. For this reason, moreover, this Committee has been recommending program budgeting in recent years, following the work of the Planning, Monitoring and Evaluation Unit (UPMA).

This is not to say, as will be feared by some, that the opportunity to hold the various departments/directions of each entity responsible for the expenditure of money previously allocated to them is lost - the allocation of appropriations to departments/directions within an entity is a presentation largely illustrative, since the budget execution rules (article 38.5 LOGF) allow transfers by the Government to 100% within each ministry, between departments/directorates. The presentation of the tentatively allocated funds to each department/ directorate, which cannot be included in structured tables in programs by the enormous extent and repetitiveness of budget lines that would arise, moreover, still included in the budget books<sup>[34]</sup> which detail the classification of expenditure down to the level of the item, so the information is not lost.

Still, getting tables with allocations from Central Administration, detailing the organic ranking in terms of direction (as it has been presented so far in all the proposed budget laws) is, we believe, essential in this year of transition, to better understand and compare budget developments from 2020 to 2021<sup>[35]</sup>. Inclusion will even be considered, except in a year of transition <sup>[36]</sup>, by reference<sup>[37]</sup> in the budgetary law itself of such tables with Central Administration allocations, detailing the organic classification at the management level. Note that expenditure increases this year considerably in year-on-year terms and a more detailed comparison of budgetary developments from 2020 to 2021 will be of the utmost importance.





## PUBLIC FINANCE COMMITTEE

Finally, it should be noted that, although LOGF is not unrelated to program budgeting, first listing the basic rules of this structure in its article 3, paragraphs 3 to 5, many of the budget structuring rules in this framing law focus on mostly organic budgeting, of which the terminology of articles 26 and 38.5 of LOGF is notorious<sup>[38]</sup> - in order to clarify the transition, it is recommended to clarify that, in a program budget, the chapters will identify the programs and no longer the ministries' directorates, in the context of Article 3.3 of PPL GSB 2021.

### (ii) Object, scope and associated terminology

The object of the proposed law is the approval of the “General State Budget” which, as already mentioned and in order to achieve greater clarity and conceptual stability, the Government proposes this year, and rightly, as a designation for all the budgetary components of the entire Public Administrative Sector, which, with the autonomy of the RAEOA budget, become three components, alongside the Central Administration Budget and the Social Security Budget.

As for the scope, article 145.2 of the Constitution and, above all, article 4, LOGF point out that they must be subject to budgetary discipline (that is, they must belong to the budgetary perimeter) tending to all entities of the State<sup>[39]</sup>, with obvious (tacit) exclusion from the associative and business or quasi-business sector, that is, the GSB should cover the “Public Administrative Sector”.

In another step to praise, the Government decided this year to abandon “budget perimeter” as a basic concept defining the scope of the proposed law, a concept without a basis in generic Timorese legislation (since LOGF<sup>[40]</sup> left undefined in the PPL GSB 2021<sup>[41]</sup>, and to explain the scope of the PPL GSB in the concept of “Public Administrative Sector”, readily explained in articles 1 and 4(q), as we saw above, as the set of public bodies and services without form of company, foundation or association that ensures regular and continuous satisfaction of collective needs, composed of the Central Administration, Direct (Centralized and Decentralized) and Indirect, the Social Security Sector and the Special Administrative Region of Oe-Cusse Ambeno - an adjustment is proposed here of the definition in article 4(q) of the proposal to include reference to the two components of the Central Administration (Direct and Indirect), as well as, also in its article 1.2, the clarification that, somewhat counterintuitively, the Central Administration also includes the Decentralized, that is, the Municipal Authorities and Administrations. In fact, it is surprising that, in article 12 of the same proposal, the reference to “budget perimeter” is repeated, therefore, given its non-definition expressed in the proposed law and the focus of its scope on the concept of “Public Administrative Sector”, it proposes that such a reference be rectified.

However, it should be noted that if the Central Administration, as a concept, is thus properly defined, the **Central Administration Sector for the purposes of the budget law is a different**, particular and specific **concept** of this law, because the Central Administration (and thus the



## PUBLIC FINANCE COMMITTEE

Public Administrative Sector as a whole) covered by the scope of the proposed budget law excludes certain entities:

- the Petroleum Fund of Timor-Leste, which, although an integral part of the Direct Administration, is not part of the GSB, because its budget and provision and accounts are regulated by special law[42] ;
- the Central Bank of Timor-Leste, which, although an integral part of the Indirect Administration (or Independent Administration, if it is understood that such a sector of the Central Administration exists in Timor-Leste[43]), is not part of the GSB, because its budget and performance and accounts are regulated by special law[44];
- the National Social Security Institute (INSS) and the Social Security Reserve Fund (FRSS), the two public institutes that, despite being an integral part of the Indirect Administration, integrate a separate Sector in the GSB, the Social Security Sector;

exclusions that are understood by these reasons, to be added yet, and already temporarily fix the draft budget bill for 2022, as exclusions

- the Petroleum and Geology Institute (IPG) and the National Petroleum and Minerals Authority (ANPM), both entities of the Indirect State Administration[45] whose integration of income and expenses in the GSB is still in the operational phase.

This year, more clearly than in previous years, explicit exclusions in articles 1.4 and 5 and 15.2 of the bill, which are welcome.

Essential for the characterization of the public administrative entities that make up this Central Administration Sector, in the context of a budget law, it will always be the explanation of the **varied financial regimes** of its constituent parts[46], paying attention to the greater size and complexity of this sector compared to other budgetary sectors. This explanation is contained in article 2 of PPL GSB 2021, but, although with significant gains in clarity and completeness compared to previous years, it suffers from important clarifications:

- it is important to clarify at the outset that we speak of the “Central Administration Sector” that is part of the GSB, and not of the Central Administration as a whole;
- it is also important to clarify that only some of the bodies and services of the Direct Administration (that is, those that do not have a legal personality distinct from the State entity, as mentioned in article 1.2 of PPL GSB 2021) are included in the “Services Without Financial Autonomy”, since several Direct Administration bodies and services have financial autonomy - due to the frequent confusion that this distinction raises within Direct Administration, it is proposed to list the direct administration bodies with financial autonomy in article 2.4 of PPL GSB 2021[47], it should be noted that the Municipal Authorities and Administrations and the Inspector-General of the State derive





## **PUBLIC FINANCE COMMITTEE**

such autonomy only from the annual budgetary laws that are attributed to them, and not from the respective organic laws;

- in addition, mainly because LOGF (still) separately classifies Autonomous Funds and Services (SFA), it is advisable to maintain this classification of SFA (albeit residual) as equivalent, at least for the purposes of GSB 2021 [48], to the bodies and services of the Indirect Administration (that is, those that have a legal personality distinct from the legal entity State, as explained in article 1.2 of PPL GSB 2021) [49];
- Finally, we define “financial autonomy” as a basic concept of the whole construction of the financial system of the entities of the Central Administration, although a more generic definition [50] is recommended to safeguard the choices made in the forthcoming Budgetary Framework Law.

Do not think that, in attempting to maintain the subcategory of SFA in the budget law for 2021, one disagrees with the larger category of “autonomous bodies, services and funds” that PPL GSB 2021 introduces for the first time in the Timorese legal system, merging SFA with what were previously improperly called “Autonomous Bodies Without Own Revenue (OASRP)”. There is not recategorization but only simplification, as referred to in explanatory memorandum to the bill, but it has the great merit of avoiding distinctions based on the collection, to a greater or lesser extent, of “own revenues”, a theoretical exercise with little or no practical implementation, since several are always classified as SFA that do not collect any of their own revenues, in addition to OASRP which, year after year, collect their own revenues (although few and never subject to budgeting). In addition, there is a lack of general definition, in the Timorese legal system, of “own revenues”, which need to be addressed. The conceptual focus is now, and rightly so, to have financial autonomy, which really, in fact and in law, separates these entities (autonomous, there it is) from the other components of the Central Administration.

The new Budgetary Framework Law is expected to follow such simplifying and clarifying paths for the financial regime of Central Administration entities.

### **(iii) Legal issues regarding revenue and expenditure forecasts**

Part of the legal analysis it is up to the bill’s content intrinsically linked to its financial content consists of the respective Parts V (Income and State Expenditure for 2021), VI (RAEOA budget) and VII (Social Security Budget), together with the economic-financial analysis, for the sake of systematic and discursive clarity.

However, it is important to talk about some eminently legal issues right away, even if linked to more specific financial issues.

Still at the level of terminology, to welcome the correction, in view of previous budgets, of the definition of the category of expenditure “public transfers” in the budgets of the Central



## PUBLIC FINANCE COMMITTEE

Administration and the RAEOA, of the greatest importance in a now tripartite budget that will still use largest (and most complex) of this legal figure [51] and the consolidation of the associated totals. However, an important part of these public transfers, in the nature of subsidy, which reports especially (but not only) the transfers out of the public sector, needs increased attention because of greater difficulty in detecting the end use of money, carried out by entities outside the budget perimeter [52] - in order to highlight the existence of such transfers, clarifying their nature, it is recommended to introduce a definition of this concept of “public subsidy”, in the sense of Government Decree 4/2007, of 29 August, that regulates them [53].

With regard to **taxes, fees and customs duties**, it is important to make three brief considerations within the scope of Article 6 of the proposal:

- Article 6.4 of the PPL GSB 2021 once again enshrines exemptions (regarding arms and ammunition, medical assistance abroad and goods donated by legal entities of international law and by public legal persons from other States or international organizations) that are repeated annually - such exemptions, if in fact permanent, should be integrated into the Tax Law [54], for greater legal clarity, certainty and stability, something that the Government, in the context of the hearings, said it was considering for the draft amendment to that law, to be presented as early as 2021;
- to the contrary, Article 6.5 and 6.6 of the proposal, for the second consecutive time within three months [55], proposes to increase taxes on the consumption of alcoholic beverages, now also covering wine - if in fact the revision of the Tax Law will take place as early as 2021, it would be prudent, in the name of legal and fiscal stability and coherence, to defer discussion of such changes to the time of revision of the Tax Act as a whole [56];
- however, the very significant relief from the extremely high rates (from 200% to 10%) that currently apply to pistols for slaughtering animals, as provided for in Article 6.7 of the proposal, which, belatedly say, it aims to promote the defense of animal welfare and the national meat production industry, and perhaps, in order to ensure greater consistency in public health fiscal policies now, increase applicable tobacco taxes in GSB 2021, which were inconsistently excluded during the recent tax increases on alcoholic beverages.

In addition, it is necessary to **mention the financing agreements with donors** - regardless of the place where general rules governing such agreements are the future Budgetary Framework Law, it is always recommended that Article 9.2 of PPL GSB 2021 [57] mention the obligation to notify the member of the Government responsible for the area of finance of the agreements signed by the Presidency of the Republic or the National Parliament, an obligation resulting from interinstitutional cooperation between sovereign bodies [58].

Several of these financing agreements are those whose implementation is foreseeable before each budget year and which should be budgeted, in compliance with articles 145.2 of the



## PUBLIC FINANCE COMMITTEE

Constitution and article 4, LOGF. As mentioned above, it is a repeated practice in Timor-Leste to de-budget donations from previously known development partners (most of which, in fact, are part of long-term international aid programs) to finance expenditure in 2021, omitting not only the revenue but also the respective expense. Except for the donation from the European Union of “direct budget support”, contained in the PPL GSB 2021, these are missing from this proposal, according to the budget books, \$146 million in (other) donations from development partners previously known in detail - something that must be corrected without fail in 2022.

### A. Central Administration Budget

Specifically with regard to Central Administration Budget revenues and expenses, several other points of an eminently legal nature are necessary.

As regards the **categorization of revenues**, the proposal suffers from several problems and gaps.

A category of “**own revenues**” is included without defining what they are and without the Timorese legal system containing a generic definition - something that undoubtedly must be dealt with by the new Budgetary Framework Law without prejudice to, from now on, this lack and propose the addition in PPL GSB 2021 of a suitably broad and ductile definition to special laws: *“the revenue so designated by law or, in the absence of such a designation, the revenue collected by a specific entity with financial autonomy resulting from its specific activity or that arise from the administration and disposal of its assets or from the management of the assets that affect it, unless otherwise provided by law”*.

And without objecting to the inclusion of a generic category of own revenues in the budget tables, it should always be divided, for a detailed structuring, in its (likely<sup>[59]</sup>) component parts: fees, fines, penalties, exemptions, income (dividends, interest and rents), (other) prices (for services and disposal/encumbrance of assets that do not result in rents) and, in cases where special law so determines, also donations, inheritances and legacies. It is also surprising that, since the category of “own revenues” is so vast, its budgeting is limited to some Services and Autonomous Funds (as shown in table II of PPL GSB 2021), excluding all Autonomous Bodies of the Direct Administration, making believe that we are facing a phenomenon of disorientation undermining Articles 145.2 of the Constitution and article 4, LOGF.

It should be noted, on the other hand, that the categories of revenue, fees, income (dividends, interest and income), donations, inheritances and legacies are included separately in Central Administration revenues - understand, of course, whenever they do not search the nature own revenues, which will not always be clear. As for **fines, penalties, exemptions and prices** (for services and for the disposal/encumbrance of assets that do not result in rents), these are completely omitted categories in the general revenue forecast, and it is not credible that they do not exist at all in Timor-Leste – think, of the fines imposed by the National Police of Timor-



## PUBLIC FINANCE COMMITTEE

Leste and the fines collected by criminal courts. Another phenomenon of de-budgeting (here due to lack of adequate specification<sup>[60]</sup>) to be corrected as early as 2022.

As for **expenses**, it should be noted that the second errata to PPL GSB 2021 significantly changes the initial proposal regarding the budget of the National Parliament, redistributing all amounts by the programs (which maintain their designation), although maintaining the entity's totals. Since Parliament's budget was not approved in the program structure<sup>[61]</sup>, it is difficult to control the accuracy of the correction.

Finally, it should be noted that the same second errata fills a significant gap in the PPL GSB 2021, in its initial version - the forecast of appropriations from the National Institute for the Training of Teachers and Education Professionals (INFORDEPE), whose amounts were previously included in the various categories of the Ministry, Youth and Sport.

Such impactful use of the figure of the errata is to be regretted; by definition it aims to correct lapses in writing and clerical errors, and it cannot serve to produce significant changes in content.

### B. The RAEOA Budget

Specifically with regard to the revenue and expenditure of the RAEOA Budget, some legal notes are also required.

Once again, regarding the **categorization of revenues**, the proposal suffers from problems and gaps.

If in the context of the RAEOA, by virtue of article 11 of its organic law (Law 3/2014, of 18 June, amended by Law 3/2019, of 15 August), all the revenues shown in table III of PPL GSB 2021 are own revenues (including transfers from the Central Administration Budget and, we believe, the management balance), there are categories that are supposed to contain significant sums that are budgeted at zero: **taxes (direct and indirect) and interest**.

Questioned by the Region and the Ministry of Finance, the response of the Ministry of Finance regarding the interest category raised even more doubts: whether in fact, as reported, the transfer from Central Administration, in the amount of \$29.2 million, it is necessary because the unused balance in 2021 (which amounts to \$80.4 million) is invested, interest income cannot be zero, which again raises suspicions of de-budgeting. It is important for the Government to impose rigor on regional forecasts already in the 2022 financial year.

Regarding taxes, the Ministry of Finance clarified that it is the understanding of that Ministry, accepted by the RAEOA, that the rule that determines tax revenue as its own revenue depends on the entry into force of the Region's special tax regime, so, until that date, taxes collected in the Region are Central Government revenue; not so the fees because such revenues are



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

commonly own when collected by entities with financial autonomy. Even so, the opacity of PPL GSB 2021 in this matter is obvious.

The omission of revenue categories such as **loans, prices, fines, penalties and exemptions** is also **opaque** - even if all of them are executed at zero, these categories should be listed, along with several others that appear as zeros in the proposal.

Finally, with regard to **expenditure**, the **frank poverty of its structuring in programs** is to be regretted, divided, which is, quite simply, into administrative expenses (Good Governance and Institutional Management Program) and others (Special Zone Program for Social Market Economy). Bearing in mind the virtues of program budgeting, highlighted above, and most likely its legal imperative under the new Budgetary Framework Law that will be in force, it is expected, already for the year 2022, that the Region corresponds to real government action programs already in that budget year.

### C. The Social Security Budget

Finally, with regard to Social Security Budget income and expenses, some legal notes are also required.

With regard to the **categorization of income and expenses**, the Social Security Budget has a notoriously superior quality to that of the other sectors, providing a quite complete universe of concepts of both income and expenditure. However, even though many of these concepts are well defined, in article 4 of PPL GSB 2021, some concepts of expenditure (“interest and other charges”, “other current expenses” and “other capital expenses”) do not have their defined revenue side counterpoints (“income”, “other current income” and “other capital income” respectively), which should be corrected. But worse is the case with some concepts whose designation is exactly the same on the expenditure and revenue sides and which are defined in Article 4 of the proposal as if they existed only on the expenditure side, violating the basic rule of law as a concept, above all a defined concept, must keep its meaning constant throughout the same legislative diploma in which it is inserted. In relation to such concepts (“financial assets”, “financial liabilities”, “current transfers” and “capital transfers”), it is important to insert a definition that integrates their sense and significance on the revenue side, since they are also concepts used, *ipsis verbis*, on the revenue side.

In passing, it should be said that table VII should include, albeit as zeros, the two categories of “financial liabilities” and “other capital expenditures” which, perhaps by mistake, are not included in that table.

Certainly a lapse will have occurred (in articles 4(r) and 17.1, 17.4 and 17.5 of the proposal) in several references to “GSB” as a budget distinct from the Social Security Budget (OSS) which certainly were inherited from previous years - it will matter in these cases, replace “GSB” with “Budget of the Central Administration”, the obvious intended meaning, also proposing a



## PUBLIC FINANCE COMMITTEE

language adjustment in article 16, paragraphs 6 and 7, in the references that it makes to the GSB as a foreign element to the OSS (other than what is in PPL GSB 2021).

Still in the context of lapses inherited from previous budgets, it is important to eliminate or clarify the reference, in article 6.9 of the proposal, to the objective of supporting and encouraging adherence to the Social Security Contributory Regime as the sole objective of the policy of reductions and transitional layoffs. Employers' contribution rates, according to DL 51/2020, of October 14, which introduces the same policy (also) in the context of measures to combat the social impact of the COVID-19 pandemic.

It should be noted that the second errata presented by the Government corrects the program of State contributions, in the appropriations for the whole government for “021: State Contribution to Social Security”, related to the contributions of the employing State in relation to public sector workers, which before it had a cryptic designation, which was denounced at the Social Security hearings. Note however, strangely, the amount budgeted for such contributions (\$15.5 million) as an expense in the Central Administration Budget does not match the amount budgeted as revenue in the budget of the Social Security (\$19 million<sup>[62]</sup>).

Remember, also, the recommendations made above regarding the structure, regarding the desire for more detail in the Social Security tables.

Finally, *de lege ferenda* and because the Social Security Reserve Fund was finally constituted by the recent DL 55/2020, of 28 October, to recommend here again the development of the public debt regime, contained in title III of LOGF and of Law 13/2011, of September 28, attentive to the forecast, in that decree-law, of the composition of the FRSS asset portfolio in a minimum of 25% of public debt securities of Timor-Leste, as soon as possible.

### (iv) Legal issues regarding budget execution in general

Still regarding the legal framework of the proposal, finally, it is important to make some eminently legal considerations regarding the provisions of the proposed law regarding budget execution.

Relevant matter of budgetary execution is the attribution of powers to the executive to carry out **budgetary changes in expenditure** - essential that such assignment, taking into account the forecast nature of a budget and the ever changing reality, has such an executive prerogative that having clear and reasonable limits, in defense of the constitutional principle of the approval of the budget of the Public Administrative Sector by the Parliament (articles 95.3(d) and 145 of the Constitution).

LOGF, in this aspect as well as in several others, is laconic, regulating only the changes to the budgets of non-autonomous services of the Central Administration, in its article 38 - more with a focus on budgeting by mere organic classification, without structuring expenditure by programs. In response to this fact, the Government has proposed, in the PPL GSB 2021, article 11, in





## PUBLIC FINANCE COMMITTEE

which it clarifies that the changes between programs within the sphere of competence of the Government have a limit of 20% in terms of the transfer amount.

However, it should be clarified that such changes may operate within a Ministry or Secretariat of State or between Ministries or Secretaries of State, since an organic classification persists in the GSB proposal for 2021, and that, *to the contrary*, within the same program of the same Ministry or Secretariat of State budget changes are also the responsibility of the Government, without that percentage limit.

Budgetary changes by the executive in the autonomous entities of Central Administration and in RAEOA have been governed by budget execution regulation - this practice must cease, since it should be up to Parliament, as an exception to its prerogative to approve the Budget, to determine the rules basis for budgetary changes by the executive. Thus, it is necessary to add to article 11 of the draft law the rules of budgetary change, by the executives of the autonomous entities of the Central Administration and of the RAEOA, in the model (coherently) that governs the changes in the non-autonomous administration: 20% limit between programs, without a quantitative limit within the same program.

It will also be important to clarify, as has been rarely done in law in previous years, that transfers of funds from “development capital” and “wages and salaries” are always prohibited, also by the autonomous entities of the Central Administration and by the RAEOA.

Budgetary changes in the Social Security Sector, on the other hand, deserve more attention - as contained in article 18.11 of PPL GSB 2021, the Government allows all changes that do not involve an increase in total expenditure, with only the (necessary) exception of the increase in expenses related to the financial investments of the amounts integrated in the FRSS. Such a blank check is manifestly excessive and there is no practical reason to suggest such a grant of executive power. And it is not even well calibrated, since there are (other) expenses that increase the expenditure ceiling that should be of executive prerogative, namely the increase in expenses related to social benefits due by the beneficiaries of the contributory and non-contributory pension scheme. social security that have a counterpart in the increase in revenue for its financing as well as the integration of the balance and its application in expenditure, except for the balance related to the amount transferred by the Central Administration Budget<sup>[63]</sup>.

On the other hand, it is important to safeguard Parliament’s power to approve budgetary changes between programs - with the obvious exception of transferring funds from the pay-as-you-go scheme to the contribution-funded scheme in the FRSS (taking into account the current capitalization model), and also the convenient exception of transferring funds between the “Contributory Distribution Scheme” programs, with respect to the funds for financing the transitional regime, and “Non-Contributory Scheme”, for the financing of statutory social benefits due to the beneficiaries of the concerned schemes in question, taking into account the materially contributory nature of the transitional regime.





## PUBLIC FINANCE COMMITTEE

In another aspect of budget execution, it should be noted that budget executions of some public institutes will continue in 2021, under the terms of article 15.1 of the proposed law<sup>[64]</sup>, autonomous entities of the indirect administration, within the scope of the budget of the Ministry of Guardianship - announced its full financial autonomy for the GSB of 2022, it is delayed.

As for **the quarterly debates on budget execution**, the usual provision in the budget laws and for 2021 contained in article 20 of the proposal, to welcome the correction this year of the legal gap in article 44 LOGF (pending the approval of the already new Budgetary Framework Law has been announced), which does not refer to a budget execution report for the 12th month despite the fact that this report is included in article 171 of the National Parliament's Rules of Procedure.

Regarding the other ever-present and also important issue of budgetary laws, that of **responsibility for budgetary execution**, here too, there are new developments in the face of previous years that should be highlighted:

- the generic reference to financial, civil and criminal responsibility disappeared in the exercise of functions of budgetary execution, including reporting and reconciliation, (limited to the management of entities with administrative autonomy from the Central Administration and the managers who govern Social Security funds) - what applauds because it not only lacked useful content increased in the face of other legislation in force as it could be interpreted by the reader more unwary, as having, *a contrario*, that the responsibilities of these bodies would be substantially different from the responsibilities of the other officers who execute budgets for the Public Administrative Sector;
- on the other hand, rightly, article 21.3 of the proposal adds to the customary reference the financial responsibility for undue payments by the holders of political offices, reference to the governing bodies and the holders of senior positions in the bodies and services of the Central Administration, the Special Oecusse Administrative region and Social Security, whose omission in fact, be understood and once again could lead to more unsuspecting interpretations as of such bodies and officials without express reference, would imply substantially different responsibility for individual payments. It should only be noted that, in this number, the reference to "conduct" that constitutes undue payment is too general, so it should be fine-tuned to "making payments without prior commitment and budget appropriation", since "making commitments without budget appropriateness," even if it constitutes illicit activity, certainly does not in itself constitute a payment.

Still regarding the matter of responsibility, to reiterate (as in relation to the GSB 2020) that, while criminal, financial and disciplinary responsibility operates by classifying illicit acts, political and civil responsibility has assumptions and terms of accountability, which should be clarified in the wording of article 21.1 of PPL GSB 2021.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

End these legal discourses regarding the provisions of PPL GSB 2021 on budget execution with a brief approach to the determination of **unconstitutionality of the proposed law** by the Permanent Specialized Committee of Parliament in charge of Constitutional Affairs and Justice (Committee A), constant of its sectoral opinion received in this Committee C. It is of importance the matter in question, but cannot stop specific consideration.

The opinion of Committee A points to PPL GSB 2021 four violations of the Constitution, succinctly:

- a) Article 14.1 of the draft law, on the transfer of funds from the budgetary reserve “Contingency Reserve”, by allowing transfers to any body or service of the Central Administration<sup>[65]</sup> (and not only to a Ministry or Secretariat of State) allegedly violated the provisions of article 37 of the LOGF, which regulates contingency expenses - with the proposed combination of indirect unconstitutionality, for violation of a hierarchically superior law (LOGF);
- b) Article 14.2 of the draft law, on budgetary changes resulting from the use of “Contingency Reserve”, when referring to the non-application of the limits (quantitative and by category) contained in article 38 of the LOGF, which regulates the budgetary changes of Central Administration entities without financial autonomy, allegedly would violate this article 38 of the LOGF - here also with the proposed combination of indirect unconstitutionality, for violation of a hierarchically superior law (the LOGF);
- c) Article 21.3 of the proposed law, on the realization of financial responsibility, by (allegedly) saying who are the holders of political posts allegedly would violate the provisions of Article 46 of the LOGF, which regulates responsibility (also of the holders of political posts) for budget execution - here again with the proposed combination of indirect unconstitutionality, for violation of a hierarchically superior law (LOGF);
- d) finally, the same article 21.3 of the draft law, on the realization of financial responsibility, if approved as such a proposal would allegedly violate the provisions of article 95.2(k) of the Constitution, which it reserves exclusively to Parliament to legislate on the statute of the holders of the organs of the State, with reference to the qualified majority of confirmation after presidential veto, in the terms of the article 88.3 of the Constitution - here, therefore, with the proposed combination of (direct) unconstitutionality.

Let it be said, immediately and without further ado, that, except for the due respect to Committee A’s opinion, the opinion does not seem to support the allegation that article 21.3 of the proposed law says who are the holders of political posts, allegedly in violation of the provisions of article 46 of the LOGF - first of all because article 21.3 of the proposed law simply does not, under any circumstances, determine who are the holders of political offices. Presumed to have occurred in this instance a lapse of reading and/or in writing.



## PUBLIC FINANCE COMMITTEE

As for the other allegations of unconstitutionality, and because two of them refer to the so-called indirect unconstitutionality, that is, the violation of a hierarchically superior law that is not (directly, *hoc sensu*) in the Constitution, it is important to briefly and previously discuss the existence in Timor-Leste of laws (other than the Fundamental Law) hierarchically superior to legislation in general. At this point, and always with due respect, we believe that we have the opinion, in fact, of Committee A working on the equivalence between the doctrinal category of “laws of reinforced value” in a broad sense and the constitutional and jurisprudentially positive category of “Laws of reinforced value” in the strict sense, that is, hierarchically superior laws whose violation determines a declaration of illegality (or indirect unconstitutionality in the words of the opinion of Committee A) by constitutional justice.

There is no doubt for a moment that LOGF, like all other framing, grassroots, general regime and general policy laws[66], is a law that aims, as its object and scope, regular and so shape the content of other laws (in the case of LOGF, annual law approving the state budget) and therefore classified by many and scholarly doctrine[67] of “reinforced value law” in a broad sense. In fact, in various instances of this and other (many) opinions of this Committee C, it refers to, repeats, and analyzes the duty of budgetary laws (and their proposals) to comply with the provisions of the LOGF. But what cannot be done is to equate this reality with the determination that, if a budget law violates the LOGF, it is the first illegal or, as is often wedged, unconstitutional indirectly. For a law to be declared illegal (or indirectly unconstitutional), it is naturally essential that in the legal system in question there is a substantive and procedural figure of declaration of illegality of laws - and the existence of such a figure in Timor-Leste is very uncertain.

Although the Constitution indicates, at a procedural level, the possibility of hierarchically superior laws whose violation determines a declaration of illegality by constitutional justice, in Article 126.1(a) and (b)[68] such procedural evidence is not accompanied, in the text of the Constitution of Timor-Leste, by any reference of a substantive nature [69] - constitutional reference, express and substantial, consensually required by the best doctrine for the existence of the figure of law of reinforced value with illegality combination[70]. And to that we will have to enforce the already uniform jurisprudence of the Court of Appeal that comes, with few and old exceptions[71], repeating at every step that the question is raised (and even expressly regarding LOGF itself[72]) that there is no hierarchically superior law in the Timorese legal system whose violation determines a declaration of illegality (or indirect unconstitutionality) by constitutional justice[73][74]. It thus seems to conclude that, at the current stage of development of Timorese law, there are no hierarchically superior laws whose violation could determine a declaration of illegality by constitutional justice.

So in what sense is there value of conforming with some laws in Timor-Leste on others, such as the LOGF on budget laws? The political-legislative sense of coining a certain general dispositive meaning in a certain area of law, with the objective (moreover, sometimes constitutionally imposed) of giving a structured orientation and systematic coherence to a certain area of law, when approving a law, has already taken place, as framing, grassroots, general regime or general policy. But something remains certain: if at each step the legislator authoring the other framed



## PUBLIC FINANCE COMMITTEE

legislation, including the Government within its legislative competence, decides to depart or derogate, in a certain instance, from the framing law, such framed legislation will not be illegal or (indirectly) unconstitutional, but (eventually) politically and doctrinally objectionable, due to the circumstantial deviation of large previously<sup>[75]</sup> and for the systemic inconsistency that is thus introduced in the legal system; of course, the framed law may be unconstitutional, but only and only for violation (direct, *hoc sensu*) of the Constitution<sup>[76]</sup>.

From what has been said, it is concluded that, although without possible (indirect) unconstitutionality, it will be necessary to understand whether article 14.1 and .2, in regulating the contingency reserve, violates articles 37 and 38 of the LOGF as stated the opinion of Committee A, in order to be able to avoid such incongruity in the context of parliamentary approval.

There does not appear to be any violation of the LOGF, with due respect:

- a) Article 14.1 of the draft law, on the transfer of funds from the budgetary reserve “Contingency Reserve”, by allowing transfers to any body and service of the Central Administration (and not only to a Ministry or Secretariat of State), limits to go beyond what Article 37 of the LOGF provides, and this Article of the LOGF does not contain an interpretation that any transfer other than those expressly provided for is prohibited - it would be bad if a law as gap-filled and maladjusted as the LOGF was generically interpreted as prohibiting everything that is not expressly provided, in which case almost all (or all) budgets would violate the LOGF repeatedly;
- b) Article 14.2 of the draft law, on budgetary changes resulting from the use of “Contingency Reserve”, when referring to the non-application of the limits (quantitative and by category) contained in article 38 of the LOGF is limited to clarify what is already clear from reading the LOGF itself - by the very definition and nature of a contingency reserve, it aims to meet urgent and unforeseen needs, whether they are quantitatively greater than 20% of the amounts in question or not and whether they are relative “development capital” and “wages and salaries” or not.

Finally, it is important not to forget, points out the other opinion of Committee A to article 21.3 of the proposed law, on the realization of financial responsibility, unconstitutionality (direct) for violation of article 95.2(k) of the Constitution, which reserves exclusively for Parliament to legislate on the status of holders of State bodies. Nor is it possible here, except for due respect, to accompany the Committee on Constitutional Affairs and Justice.

First of all, because legislating about financial responsibility<sup>[77]</sup> in general, as does the proposed article in question<sup>[78]</sup>, without curing the special condition of a holder of political office in the face of the other “accountables”<sup>[79]</sup>, it is not, except in a better opinion, to legislate on the statute of these politicians, holders of State organs, but rather to legislate on definitions/types of illicit, their penalties and assumptions, that is, it is a matter of relative legislative reserve by article 96.1(a) of the Constitution, moreover interpreted extensively to



## PUBLIC FINANCE COMMITTEE

include r financial responsibility [80], and not an absolute legislative reserve under Article 95.2(k) of the Constitution. But even if it were to legislate on the status of politicians, there would still be no violation of Parliament's legislative reserve (in this case absolute), since the budget law is approved by Parliament (in fact, the budget law itself is subject, it but clearly, the absolute legislative reserves by articles 95.3(d) and 145 of the Constitution, as was already mentioned several times).

As for the qualified majority for confirmation of the budget law in the event of a presidential veto, invoked by Committee A when invoking article 88.3 of the Constitution, its relevance for the appreciation of the proposed law in this legislative phase is not revealed; even if such a confirmation majority were applied (which is not believed, because the proposed article 21.3 on "status of holders of sovereign bodies" does not have, as explained above), such a majority would then apply when the confirmation of the budget law after a presidential veto, if and when such a veto would occur - as Committee A withdraws from here a conclusion of unconstitutionality of PPL GSB 2021 (be it formal unconstitutionality, as Committee A points out, or any other) is something that cannot be achieved. In any case it is noted beforehand and again that, although this veto will occur, it will require a qualified majority to confirm the budget law containing the Article 21.3 as is proposed by the Government because, repeat, this article is not about the status of holders of sovereign bodies but about definitions/types of (financial) offenses, their penalties and assumptions.

Concludes this Committee does not accept the Committee on Constitutional Affairs and Justice in its 2021 State Budget of PPL qualifications as unconstitutional in any capacity.

## III. ECONOMIC AND FISCAL OUTLOOK FOR 2021

### (i) World Economy

In October, the International Monetary Fund updated its growth forecasts for the world economy and advanced economies for 2020, namely the world economy is expected to decrease 4.4% and advanced economies are expected to fall 5.2% in 2020 (-4, 9% and -8%, respectively, in June forecasts), resuming growth in 2021 at a rate of 5.2% and 3.8%, respectively.

Additionally, it has foreseen economic growth in emerging and developing Asian economies down from -0.8% to -1.7% in 2020 and up in 2021 from 7.4% to 8%. Also, in China it sees a growth forecast for 2020 increasing from 1% to 1.9%, with an expected growth of 8.2% for 2021. The forecasts for the growth of emerging and developing Asian economies recorded in the Budget Books are those defined in the *World Economic Outlook June 2020 update* from the International Monetary Fund [81]. It appears, therefore, that these are one of the bases for the growth projections of Timor-Leste by the Ministry of Finance. If so, the Ministry of Finance's forecasts for economic growth may be out of date.



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 01 - Growth rates of Gross Domestic Product (%)**

	OGE/2021				FMI			
	Real		Previsão		Real		Previsão	
	2018	2019	2020	2021	2018	2019	2020	2021
Mundo	3.6%	2.9%	-4.9%	5.4%	3,5%	2,8%	-4,4%	5,2%
Economias avançadas	2.2%	1.7%	-8.0%	4.8%	2,1%	2,0%	-5,2%	3,8%
Estados Unidos	2.9%	2.3%	-8.0%	4.5%	3,0%	2,3%	-3,6%	2,7%
Economias emergentes e em desenvolvimento	4.5%	3.7%	-3.0%	5.9%				
Economias emergentes e em desenvolvimento Asi	6.3%	5.5%	-0.8%	7.4%	6,3%	5,5%	-1,7%	8,0%
China	6.7%	6.1%	1.0%	8.2%	6,7%	6,1%	1,9%	8,2%

Sources: State Budget 2021; IMF World Economic Outlook October 2020.

**(ii) Budget Planning**

First, it should be noted that there are differences in economic projections presented in the explanatory memorandum, delivered s along with the proposal of the State Budget 2021 on 15 October, and the economic forecasts given in the Budget Books received at the Timor-Leste National Parliament on 29 October.

**Table 02 - Real non-oil GDP growth rates (%)**

	2018	2019	2020	2021
Proposta do OGE/2021 - Exposição de motivos	1578	1620	1523	1565
taxa de crescimento	-0,8	2,7	-6	2,8
Proposta do OGE/2021 - Livro 1	1578	1609	1513	1573
taxa de crescimento	-0,8	2	-6	3,9

Source: Ministry of Finance.

In particular, in the explanatory memorandum, the growth for 2021 is projected at 2.8% and, in 2022, at 2.0%, while in Book 1 these estimates were revised upwards, to 3.9% in 2021 and 2.5% in 2022, respectively. Given the significant difference in values, this variation cannot be considered as a mere typo. Additionally, there is a divergence in relation to the forecast for the year past 2019. In the explanatory memorandum, the forecast was for a growth of 2.7% to 2.0% in Budget Books. Projections for the economic outlook are still different from those included in the 2020 State Budget.

The problem resulting from the update of the growth projections is mainly related to the values presented in Table II - Revenue of the organs and services of the Central Administration (thousands of dollars) of the GSB proposal. If there has been a deliberate update of growth forecasts between 15 October (delivery of the GSB proposal) and 29 October, the figures for domestic revenues also need to be revised. This is due to the fact that domestic revenues for 2020 and 2021, namely direct and indirect taxes, depend on real non-oil GDP and its distribution among the various expenditure components, i.e. private consumption, public consumption, investment, exports and imports. In this sense, the forecast of real non-oil GDP and domestic





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

revenues has to occur simultaneously. Ultimately, the prediction of the value to Transfer greater than the Estimated Sustainable Income is also not correctly projected.

More generally, erroneous macroeconomic forecasts can significantly impair the effectiveness of budgetary planning and budgetary compliance.

In this sense, in order to increase transparency and allow its monitoring, the Ministry of Finance must make public the relevant methodologies, assumptions and parameters, underlying its macroeconomic and budgetary forecasts.

Also, if there are significant differences between the macroeconomic scenarios projected by the Ministry of Finance and those of another international institution, such as the IMF or the World Bank, or a national one, such as the Central Bank of Timor-Leste, these should be described and substantiated.

### (iii) Timor-Leste economic outlook

According to the latest projections from the Ministry of Finance, Timor-Leste's economic activity (non-oil GDP) grew 2.0% in 2019, a downward revision compared to forecasts at the GSB for 2020 of 2.7%, after two consecutive years of decline (-3.8% in 2017 and -0.8% in 2018). Additionally, the Ministry of Finance forecasts a significant decrease for 2020, of 6% and a "V" recovery in 2021 with a growth of 3.9%, which represents a revision upwards in relation to the projections registered in the GSB for 2020 of 3.2%.

**Table 03 - components of real non-oil GDP**

	2018	2019	2020	2021	2019	2020	2021
Consumo privado	1037	1044	945	1110	0,7%	-9,5%	17,5%
Consumo público	864	959	1047	969	11,0%	9,2%	-7,4%
Investimento privado	70	109	100	155	55,7%	-8,3%	55,0%
Investimento público	465	386	260	421	-17,0%	-32,6%	61,9%
Exportações	35	32	31	45	-8,6%	-3,1%	45,2%
Importações	916	933	875	1129	1,9%	-6,2%	29,0%
PIB	1578	1609	1513	1573	2,0%	-6,0%	3,9%

Source: Ministry of Finance.

The forecast of 3.9% growth for 2021 is justified by the Ministry of Finance by the projection of a significant growth in private consumption (17.5%), which more than compensates for the reduction in public consumption (-7.4%) due to the fall in tax expenditure on goods and services. In this case, it should be noted that the projection of a 17.5% growth in private consumption implies that the level of private consumption in 2021 supplants the pre-COVID-19 levels, which seems somewhat optimistic.





## PUBLIC FINANCE COMMITTEE

Public and private investment in 2021 should increase significantly to rates of 61.9% and 55%, respectively, in this case also exceeding the levels of 2019. The increase in public investment is justified by the expected increase in spending on Development Capital at GSB 2021, thus being dependent on budget execution.

Due to the increase in national expenditure (sum of consumption and investment) from \$2,357 million to \$2,657 million, a significant increase in imports (29%) is expected from \$875 million to \$1,129 million. In this sense, net external demand (excluding gas and oil) is expected to make a negative contribution.

**Table 04 - Growth rates of real non-oil GDP (%)**

	2018	2019	2020	2021
OGE/2021	-0,8	2	-6	3,9
OGE/2020	-0,8	2,7	-6	3,2
BCTL	-	-	-4,5	3,9
WEO_FMI/oct	-0,8	3,1	-6,8	4
Banco Mundial	-	3,4	-6,8	3,1

Source: Ministry of Finance; WEO IMF October 2020; Central Bank of Timor-Leste; Timor Leste Economic Recovery World Bank October 2020.

**Table 05 - Growth rates of real non-oil GDP (%)**

	MF		Banco Mundial	
	2020	2021	2020	2021
Consumo privado	-9,5%	17,5%	-4,3%	2,9%
Consumo público	9,2%	-7,4%	-11,0%	2,9%
Investimento	-27,3%	60,0%	-27,1%	14,4%
Exportações	-3,1%	45,2%	-51,8%	4,6%
Importações	-6,2%	29,0%	-20,3%	8,7%
PIB	-6,0%	3,9%	-6,8%	3,1%

Source: Ministry of Finance; World Bank.

According to the latest IMF projections, published as early as October<sup>[82]</sup>, Timor-Leste's economy is expected to decline by 6.8% in 2020 and the same projections are made by the World Bank. On the other hand, the IMF expects growth of 3.8% in 2021, while the World Bank projects a lesser recovery with an increase in economic activity of 3.1%. In this sense, the Ministry of Finance foresees a smaller fall in 2020 and a greater growth in 2021 when compared with international institutions. On the other hand, the updated projections of the Central Bank of Timor-Leste indicate a drop of 4.5% in 2020 and a growth of 3.9% in 2021.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

Furthermore, when the World Bank's forecasts are compared with those of the Ministry of Finance, the behavior of the expenditure components of real non-oil GDP shows significant differences, namely in terms of public and private investment, as well as in private consumption.

If, on the one hand, these differences do not necessarily imply changes in the forecast for real non-oil GDP growth, since the variation in imports is in line with the variation in national expenditure, the differences in components have implications for domestic revenue. In particular, an increase in private consumption and an increase in imports, leads to an increase in indirect taxes, through consumption tax and import duties. In this context, revenues from indirect taxes may be overvalued if the economy's behavior in 2021 approaches that predicted by the World Bank.

In short, economic activity is expected to be driven mainly by public expenditure. The Ministry of Finance projects that public consumption and public investment will represent about 88% of real non-oil GDP and 52% of total national expenditure. Private consumption is expected to be around 41% of national expenditure, however, largely justified by self-consumption and government payments, such as salaries for civil servants and social transfers. Private investment levels are expected to total only 6% of national spending in 2021. Finally, consumption will be made mostly on imported goods. Therefore, without a more dynamic private sector, Timor-Leste's potential economic growth will remain incipient and well below the 7% growth objective described in the Strategic Development Plan as necessary to make Timor-Leste a medium-high income country by 2030.

Finally, the economic projections for 2021 present significant risks, which are immediately due to the uncertainty that remains about the size and duration of the pandemic situation.

### (iv) Structural indicators

On the supply side, Timor-Leste's low level of private investment is justified in the "*Doing Business 2020*" Index<sup>[83]</sup> released by the World Bank. In this, Timor-Leste is one of the 10 most difficult countries in the world to do business, occupying the 181<sup>st</sup> position of 190 countries listed. According to the World Bank, it is necessary to focus on measures for the protection of minority investors, to facilitate the registration of ownership, which ensures that contracts will be faithfully executed by the parties - time and cost for the resolution of commercial disputes - and make it easier to obtain credit.

There are several mechanisms that allow the reduction of the interest rate and the difficulty in obtaining credit, namely bank guarantees, the existence of markets that allow companies to diversify their sources of finance and reduce the duration and cost of credit procedures, insolvency, as well as the robustness of the legal regime applicable to company liquidation and reorganization processes.



## **PUBLIC FINANCE COMMITTEE**

In addition, the World Bank in its October report<sup>[84]</sup>, in the context of structural indicators (supply side), states that “increasing the efficiency and effectiveness of public expenditure is essential to improve the impact of fiscal policy. Capital and development spending has been dominated by large-scale investment projects. However, low economic and social returns raise concerns about efficiency and effectiveness. Strengthening institutional capacities, while simplifying institutional roles and responsibilities, can significantly improve the impact of public investment.” In addition, “digital technologies can help improve planning and budgeting processes, which can generate significant socio-economic benefits.”

According to the Asian Development Bank<sup>[85]</sup>, Timor-Leste’s medium and long-term economic growth will be around 4%. For this institution, the increase in potential economic growth is dependent on: (i) structural reforms that increase labor productivity, that is, improve the quality and access to education and health, reduce qualification gaps, stimulate the formation of companies and promote private investment; (ii) development of the financial sector through a strong and effective regulatory and supervisory framework to channel economies and improve access to commercial credit, and (iii) public finance reform to promote good governance.

### **(v) Inflation**

Regarding inflation, the Ministry of Finance predicts that inflation in 2020 will be 0.7%, which represents a downward revision compared to the projected in the 2020 State Budget (0.9%). On the other hand, in 2021, an inflation rate of 2.1% is projected. In 2021, Thai rice, the benchmark for Timor-Leste, is expected to increase by 2%, which represents a significant slowdown compared to the expected increase of 8% between 2019 and 2020. On the other hand, coffee prices, after a fall in 2020, are expected to increase again between 2020 and 2021.

### **(vi) Oil Price**

The reduction in global demand for oil due to the COVID-19 pandemic led to a reduction in the international price of a barrel of oil (*Brent*). After a low of \$17.6/barrel on April 17, the price of oil has stabilized at approximately \$42.0 since early June. The Ministry of Finance expects the average price in 2020 to remain above \$40.0 per barrel, which represents a 33% decrease compared to 2019. It also predicts that the price will rise to \$50.0 per barrel in 2021. This forecast differs from that of the IMF, which estimates a price per barrel at \$46.7.

The outbreak of COVID-19 on the demand side, contributed drastically to the reduction of oil prices, as a consequence of travel restrictions in the first half of 2020. Additionally, the oil storage capacity was exhausted, preventing the supply of oil from being controlled.

As a result, the reduction in the price of oil in 2020 led to the closure of several petroleum companies, which resulted in a decrease in drilling activity and an increase in bankruptcy filings. Consequently, there was a drop in crude oil production. In this sense, the expectation of containing the pandemic in 2021, as well as the cuts in upstream petroleum investments,



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

associated with an increase in the number of bankruptcies in the energy sector, should lead to an increase in the price of oil in 2021.

The biggest risk for the decline in oil prices is a further slowdown in the economy, so oil storage capacity remains a concern.

### (vii) Sustainability analysis

The budget books presented a fiscal sustainability analysis. It assumes a 4% growth in expenditure in the medium term. According to the assumptions considered, the model projects that the Petroleum Fund will run out in 2033. After that period, domestic revenue will become the only source of revenue in the State Budget.

On the other hand, the Central Bank of Timor-Leste also makes projections regarding the Petroleum Fund. If the Petroleum Fund's annual withdrawal is similar to Estimated Sustainable Yield (ESI) the Fund's value will be \$20,763 million in 2033. If, on the other hand, withdrawals reach \$1.2 billion per year, the Fund will run out will be in 2042.

In addition, the Central Bank estimates that if domestic revenues increase at a rate of 10.6% (expected growth rate for 2021), domestic revenue would reach \$1,060 million in 2033. However, obviously, this evolution is dependent on the similar behavior of economic activity in the medium term, so it is essential to use the Petroleum Fund withdrawals productively.

## IV. PLAN AND PRIORITIES FOR 2021

The Government's policy and priorities for 2021 are based on the **Strategic Development Plan 2011-2030**<sup>[86]</sup> and includes four pillars: Institutional Framework, Social Capital, Economy and Infrastructure Development.

The proposed budget allocations for each ministerial line under each of these four pillars are indicated in Book 1, p. 51 (Portuguese edition). The allocation of expenses to be allocated to each pillar in the year 2021 by the set of ministerial lines, is estimated, in round numbers:

- Economic Development: \$145 million (8%)
- Infrastructure Development: \$277 million (15%)
- Social capital: \$477 million (18%)
- Institutional Framework: \$316 million (27%)

The priorities for the coming year are briefly described in sub-chapter 2.3.1 of budget book 1, pages 21 to 24 (of the Portuguese edition). In the Government's words, the proposed allocations reflect such priorities. There are six areas of priority intervention proposed, the first focusing on Social Capital Development, followed by Economic Development, Development of Basic Infrastructures, Development and Protection of the Environment, Institutional Development and Reform of Institutional Pillars.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### ***Priority 1: Social Sector Development:***

- Health: Continue to prepare the health sector in terms of quality and service delivery, especially in response to the COVID-19 pandemic;
- Education: Create education opportunities that are of good quality and inclusive and that respond to the needs of the economy.
- Sanitation: Improve drinking water and sanitation infrastructure, in order to guarantee quality of life, as well as to prevent diseases.

The first priority is fully replicated for the next financial year, introducing nothing new. The 2020 GSB law allocated 32% of its total endowment to the social sector, that is, \$277.0 million (book 1, GSB 2020, p. 45). The results achieved so far with this large endowment are unknown.

### ***Priority 2: Economic Development:***

- Private sector: Facilitating investment in the private sector, giving priority to small and medium-sized enterprises;
- Employment and Productivity: Creating employment options to increase national productivity and opportunities for all.
- Diversification and economic growth: in an inclusive and sustainable manner, following the Government's priorities;
- Economic recovery after the decline caused by the impact of COVID-19 in 2020.

### ***Priority 3: Basic Infrastructure Development:***

- Development of ports, airports and urban and rural roads and development of logistical capacity on land, waterways and air;

### ***Priority 4: Development and Protection of the Environment:***

- Promotion of sustainable environmental behaviors and emphasis on the principle of reduction, reuse and recycling;

### ***Priority 5: Institutional Development:***

- Consolidation of defense institutions and foreign business;

### ***Priority 6: Reform of the Essential Pillars:***

- Improvements in the Public Administration, Judicial Reform, Fiscal Reform and Public Finance Management sectors

On pages 43 to 47 (Portuguese edition), budget book No. 1 lists the main measures for 2021 within the scope of the Consolidated Fund of Timor-Leste (FCTL), as well as the associated costs, by category of expenditure, which we reproduce:



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 06 - Main government measures for 2021 under the FCTL, including RAEOA and ZEESM**

		(Milhões USD)
Salários e vencimentos	Instituição pública	Valor
Recrutamento F-FDTL	F-FDTL	1,3
Progressões na Administração Pública		0,6
<b>Total Salários e Vencimentos</b>		<b>1,9</b>
<b>Bens e Serviços</b>		
Fundo do Covid-19	M. saúde	23,9
Manutenção das Estradas e controlo de cheias	MOP	13,8
Formação prof. Técnica e bolsa de estudos	FDCH	13,0
Fundo de contrapartidas e aquisição do ferry Nakroma II	DTG (MdF)	8,5
Serviços jurídicos	DTG (MdF)	8,1
Aquisição de medicamentos	SAMES	8,0
Manutenção de equipamentos e edifícios	MOP	7,0
Pago de quotas internacional g7+	Dot para Todo o Governo (DTG)	3,4
Financiamento dos censos dos Uma Kain	DTG	3,1
Manutenção e combustível Nakroma	APORTIL	2,5
Assistência médica e habitação para membros do governo	Ministério da Presidência do Cons. Ministros	1,2
Prevenção de desastres naturais	Ministério do Interior	1
financiar actividades a Adesão de Timor-Leste à ASEAN	DTG	0,5
Apoio actividades a comunidades dos países da Língua Portuguesa	DTG	0,5
<b>Total Bens e Serviços</b>		<b>94,5</b>
<b>Transferências Públicas</b>		
Manutenção de equipamentos, Centrais de Hera e Betano ECTL+BETL	MOP	194,5
ANPM, TIMOR GAP E IPG	Ministério do Petróleo e Minerais	83,6
Pensões e construção de habitações para veteranos	Ministério Assuntos Combatentes da Lib. Nacional	93,6
Custos adm. e regime contributivo da responsabilidade do Estado	MSSI	48,8
Recapitalização do BNCTL	DTG	40
C.A.F.E.	Ministério da Educação, Juventude e Desporto	22,8
Atividades da Igreja Católica em Timor-Leste- Conferência Episcopal	DTG	15
Amortização de empréstimos	DTG	12,5
Investimento na área da saúde	Ministério da Saúde	11,6
Recapitalização do BCTL	DTG	10
Pensões vitalícias ex-titulares e ex-membros de órgãos de soberania	DTG	6
Apoio a Construção da Igreja e NGO	Gabinete do Primeiro Ministro	5,9
Cooperativas	Secretaria de Estado de Cooperativas	4,4
Credito para as Universidades privadas	DTG	2,5
Apoio financeiro internacional	DTG	2,5
PPP na área do diagnóstico de saúde	DTG	2
RRTL-Rádio e Televisão de Timor - Leste, E.P.	Ministério dos Assuntos Parlamentares	1,8
ANTL, E.P.	Ministério dos Transportes e Comunicações	1,6
<b>Total Transferências Públicas</b>		<b>559,1</b>
<b>Capital Menor</b>		
Aquisição de equipamento médico e farmácia	SAMES	0,3
<b>Total Capital Menor</b>		<b>0,3</b>
<b>Capital Desenvolvimento</b>		
Obras públicas	Fundo das Infraestruturas	338,5
Projetos de infraestruturas	Diferentes ministérios	64,8
Programa Desenvolvimento Integrado Municipal (PDIM)	MOP	10,7
Manutenção de hospitais, clínicas e laboratórios	Fundo Covid-19	3,6
<b>Total Capital de Desenvolvimento</b>		<b>417,6</b>
<b>Total global</b>		<b>1 073,10</b>





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

In addition to these six priorities, also the **Economic Recovery Plan** approved by the Government on August 12, 2020<sup>[87]</sup> contemplates a set of measures to be implemented in the 2021-2023 triennium, which are intended to support the recovery of the economy which suffered severely from the effects of the Covid-19 pandemic. This package aimed at economic recovery, with estimated costs for the year 2021 in the order of \$123.96 million within the scope of the Central Administration, will be implemented directly by 12 municipalities and 17 other State institutions, including ministries and autonomous fund services listed on p. 23 of book 1. There are four areas targeted by the Economic Recovery Plan in 2021 (economic development, social capital, institutional framework and infrastructure development) and the economic recovery measures package has the following three objectives:

- Ensuring productive and decent jobs;
- Consolidate the social investment program (education, health, housing and social protection);
- Prioritize productive sectors and promote areas that can contribute to economic growth.

In implementing some of the economic recovery measures, the Government will count on the support of Development Partners, as detailed in budget book 5 and in this report and the opinion is analyzed further below, in the proper place<sup>[88]</sup>.

The estimate of expenses of RAEOA and ZEESM with the implementation of economic recovery measures in 2021 is analyzed later in greater detail, in the chapter dedicated to the RAEOA Budget<sup>[89]</sup>.

## V. STATE REVENUE AND EXPENDITURE FOR 2021

Proposed law No. 23/V (3rd) - General State Budget for 2021 contains the forecast of expenses and the estimate of State revenues for the period between January 1 and December 31, 2021.

The General State Budget (GSB) comprises the Central Administration Budget (which includes the Consolidated Fund of Timor-Leste (FCTL) and the Human Capital Development Special Fund (FDCH)), the Budget of the Special Administration Region of Oe-cusse Ambeno (RAEOA and ZEESM) and the budget of the Social Security (OSS);

The proposed state expenditure and revenue for the next year, excluding the OSS, is \$1,895 million and \$2,030 million when OSS is included. The overall amount of OSS revenue and expenditure for 2021 is \$177.3 million.

### (i) Sources of financing and revenue for the State Budget for 2021

In order to finance the bodies and services of the Central Administration, the RAEOA and Social Security in the next year, the Government proposes to use different sources of financing, indicated in tables II, IV and VI of the proposed GSB law for 2021 that are summarized in the next three tables:





**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 07 - Central Administration Revenue (in thousands of dollars)**

**Receitas da Administração Central em 2021 (milhões de dólares)**

<b>Categoria de receitas</b>	<b>Valor</b>
<b>Receitas petrolíferas</b>	
RSE	547,873
Transferência de montante acima do RSE	829,695
<b>Total das Receitas Petrolíferas (1)</b>	<b>1 377,568</b>
<b>Receitas não petrolíferas</b>	
Receitas Tributárias	173,176
Receitas Própria	8,072
Doações, herança e legados (da UE)	9,100
Rendimentos	8,628
Saldo de Gerência (parcial)	150,000
Empréstimos	70,700
<b>Total das Receitas não Petrolíferas (2)</b>	<b>419,676</b>
<b>Total da Receita da Administração Central (1 + 2)</b>	<b>1 797,244</b>

Source: PPL GSB 2021 (adapted)

**Table 08 - Revenue from RAEOA and ZEESM for 2021 (in thousands of dollars)**

**Receitas da RAEOA e ZEESM em 2021 (milhões de dólares)**

<b>Categoria de Receitas</b>	<b>Valor</b>
Transferências do Orçamento da Administração Central	29,243
Receitas tributárias - impostos diretos	-
Receitas tributárias - impostos indiretos	-
Taxas	0,757
Doações, herança e legados	-
Rendimentos	-
Saldo de Gerência (parcial)	97,000
<b>Total da Receita da RAEOA e ZEESM</b>	<b>127,000</b>

Source: PPL GSB 2021 (adapted)



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 09 - Social Security revenue (in thousands of dollars)**

**Receitas da Segurança Social em 2021 (milhões de dólares)**

<b>Categoria de Receitas</b>	<b>Valor</b>
Contribuições do Regime Contributivo (inclui do Estado e dos privados )	39,175
Rendimentos	0,350
Transferências Correntes do Orçamento da Administração Central	42,754
Saldo de Gerência	95,000
<b>Total da Receita da Segurança Social (consolidada)</b>	<b>177,279</b>

Source: PPL GSB 2021 (adapted)

Timor-Leste continues to rely heavily on petroleum, which accounted for more than 80% of the country's total revenues in 2019, but the Government anticipates a continued positive growth in domestic non-oil revenues as of the year 2021 inclusive.

The projections developed on pages 25 to 41 of book 1 (Portuguese edition) point to an economic recovery after a period of recession and to a 10.6% growth in non-oil revenues in 2021, after a sharp fall in 2020 estimated as 10.1% when compared to 2019, which is due to the impact caused directly and indirectly by COVID-19 and the prolonged state of emergency in the country. The Government revised upwards its previous projection of growth of domestic non-oil revenues of 6.5% for the next year. Non-oil domestic income includes tax revenues (taxes) and non-tax (payments, interest, cash balances and own revenues are fees). Sustained growth in domestic non-oil revenues is projected until 2025, largely driven by the increase in tax revenues.

In turn, in the opposite direction, petroleum revenues will continue to decline as petroleum production in the active fields rapidly approaches depletion, foreseen on page 26 of book 1, for the year 2023 and for this reason the Government highlights as priorities fiscal reform and management of public finances, increase revenue collection, review tax policies, fiscal instruments and introduce new ones.

Petroleum revenues collected through September 2020 totaled \$290.4 million and the government estimates that they will reach \$306.1 million by the end of this year. A level of petroleum revenues for the next year is projected at \$68.1 million (taxes and royalties).

**A. Transfers from the Petroleum Fund**

In accordance with the provisions of articles 8 and 9 of Law 9/2005, of 3 August, the Petroleum Fund Law (amended by Law 12/2011, of 28 September), the Government submitted to the National Parliament the following documents relating to the transfer of the Petroleum Fund:

- i. Report on the calculation of Estimated Sustainable Income for fiscal years 2021 and 2020;



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

- ii. Independent Auditor's Report on the calculation of Estimated Sustainable Income;
- iii. Report on the estimated reduction in Estimated Sustainable Income for fiscal years after 2022;
- iv. Independent Auditor's Report certifying the estimated reduction in Estimated Sustainable Income;
- v. Document signed by the Prime Minister with the justification for carrying out a transfer from the Petroleum Fund above the Estimated Sustainable Income.

In addition to the aforementioned formal information, which was provided by the Government when the bill was submitted to the National Parliament, the information contained in budget book no. 1 and the institutional information collected from the Ministry of Finance and the Ministry of Petroleum and Minerals during the hearings that Committee C conducted in the context of the initial assessment of the GSB proposed law for 2021 and in the "Budgetary Overview" seminar and the contributions of the various specialized committees (sectoral opinions), in the writing of this chapter were also taken into account the contributions of the Court of Appeal, Central Bank of Timor-Leste, Petroleum Fund Consultative Council and NGOs FONGTIL, La'o Hamutuk and *Core Group Transparency-Timor-Leste*.

The Government presented its budget proposal for 2021 to the National Parliament, estimating a consolidated public expenditure of \$2,030 billion, which constitutes the largest state expenditure forecast ever.

The GSB proposal for 2021 also provides that the Government will resort to transfers from the Petroleum Fund up to a limit of \$1.38 billion to finance its expenses, of which \$547.9 million corresponds to the Estimated Sustainable Income (ESI) and, \$829.7 million to withdrawals above the ESI (excess withdrawals). Excess withdrawals from the Petroleum Fund should only be approved by the National Parliament if they prove to serve the interests of Timor-Leste in the long term (Article 9 of Law No. 9/2005 - Petroleum Fund Law in its current wording), given that excess withdrawals may jeopardize the sustainability of public finances in the country.

This year, the Petroleum Fund transfers proposed by the Government and approved by the National Parliament in the 2020 State Budget Law, represent 64% of the State's revenues, which at first glance could lead to an inaccurate conclusion that Timor-Leste is starting to be less dependent on this Fund, since the situation arises exclusively from the use in 2020 of accumulated balances in the Treasury and RAEOA accounts at the end of 2019, which balances also originated in Petroleum Fund transfers made in 2020, but perhaps due to inabilities to plan and executive management were not possible to use. The accumulated value in the Treasury and RAEOA accounts at the end of the year of 2019 totaled \$527 million, which, as is now concluded, should have remained in the Petroleum Fund, where they could have been invested and generated much needed income for the State's coffers.



## **PUBLIC FINANCE COMMITTEE**

In the coming year, the Petroleum Fund will remain the largest source of financing for the General State Budget ( $\pm 84\%$ ), given that Timor-Leste's domestic non-oil revenues, with an expected maximum growth of 10.6%, will only be able to finance state expenditures at \$199.0 million, 10.5% of total public expenditure. This is a concern of Committee C also shared by the Central Bank and the Court of Appeal. Timor-Leste's annual fiscal deficit is now approaching \$1.5 billion.

In the justification provided for excessive withdrawals from the Petroleum Fund, which in 2021 more than double the value of the ESI, the Government claims that “they do not aim to support current expenses related to the functioning of the State administration”, but “continue to finance the infrastructure development and human training program, as well as implementing measures of economic recovery as a result of the global crisis that broke out in 2020 as a result of the COVID-19 pandemic.”

Committee C carried out its own calculations to conclude that, of the budgetary allocation of \$1,895 million that the Government considers necessary to finance its expenses next year, not counting the Social Security Budget, only about \$500 million will finance capital expenditures and human resource training. It comes to the inevitable conclusion that, next year, transfers from the Petroleum Fund above ESI will mainly serve to pay recurrent operating expenses of ministries and others and not capital expenditures, contrary to the justification presented by the Government and, if not the law, its spirit, when Article 9(d) of the Petroleum Fund Law requires that transfers above ESI be in the long-term interest of Timor-Leste.

Notwithstanding the arguments used by the Government to justify the need to carry out withdrawals from the Petroleum Fund far beyond the ESI and the methodological change introduced in its last two budgetary proposals, similar to what happened with the GSB for 2020, the GSB proposed law for 2021 also says nothing about the estimated value of petroleum revenues to be collected by the state in the next year (taxes and royalties), nor about the expected returns on investments from the Petroleum Fund. The answer to these questions is now only possible to be found in budget book 1, which states that the estimate of petroleum revenues for the current year is \$306.1 million and for next year, only 68.1 million, the latter being the lowest since the creation of the Petroleum Fund in 2005.

We recall that the Fund's balance is determined at each moment by the inflow of petroleum revenues, withdrawals from government withdrawals and the return on the Fund's investments in shares (greater volatility) and bonds.

Practically concluded that in 2020, petroleum revenues, not counting the return on the Fund's investments, should not exceed \$32.7 million by the end of this year. In turn, withdrawals since the beginning of the year totaled \$536.3 million, according to information on the Budget Transparency Portal, which this year includes this type of information for the first time.



## PUBLIC FINANCE COMMITTEE

As the Petroleum Fund withdrawals continue to increase excessively beyond the safety limits of ESI, jeopardizing the sustainability of the Timor-Leste sovereign wealth fund and contributing greatly to reducing its useful life, and as petroleum revenues begin to accelerate their decline until the total depletion of production in the *Bayu-Udan* field, which is expected to occur as early as 2022 according to available information, after reaching its maximum peak in 2012, the exhaustion of the Petroleum Fund is imminent, and may occur in the next 15 to 20 years in the worst case scenario, if it is not possible to find, in a timely manner that is already scarce, a solid and sustainable alternative to the current state financing model.

In October 2020, the estimated value of the accumulated wealth in the Petroleum Fund reached \$18.5 billion, according to information provided by the Governor of the Central Bank of Timor-Leste (BCTL), with withdrawals from the Fund carried out between 2005 and August 2020, cumulatively reached \$12.0 billion, of which \$4.5 million is above the ESI.

In the opinion it issued on the 2021 GSB proposed law, the Petroleum Fund Consultative Council (CCFP) draws the attention of the National Parliament to the difficult economic reality that the country is going through and the need to ensure that investment is directed towards the sustainable non-oil productive sector, at a critical moment when the economic future of Timor-Leste is threatened, when the future exploration of the *Greater Sunrise* field is still uncertain, when the yield of the *Bayu Udan* field until its closure and eventual decommissioning in 2023, it is estimated to be just over \$209 million and at a time when the first steps are still being taken towards onshore petroleum exploration.

### B. Import Revenues (customs duties)

Revenue from taxes is divided into direct taxes (on income and wealth) and indirect taxes (on consumption) and includes those collected by the Central Administration and by the RAEAO on behalf of the State (pending approval of its special tax regime), consisting of largest source of domestic revenue in the country. In 2021 they are expected to represent 66.6% of the volume of all domestic revenues, after falling considerably in 2020 (-10.1%) compared to 2019, which is mainly due to the state of emergency and the effects of the global pandemic.

Indirect taxes on goods and services are most affected by this decline. Revenues from sales tax and import duties fell 12.8% and 10%, respectively, while the other categories of taxes even increased slightly.

It is therefore contradictory and reveals the Government's lack of economic sensitivity, the intention to increase the selective consumption tax in 2021, at a time when importers, wholesalers and retailers operating in Timor-Leste are still struggling with the strong negative impact on sales caused by the substantial drop in consumption this year, as indeed mentioned in the context of the legal analysis of the articles of the proposed law.

The 2021 forecasts point to a considerable increase in tax revenues compared to the estimates for 2020. Indirect taxes applied to goods and services have been the most affected, and are



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## **PUBLIC FINANCE COMMITTEE**

expected to increase from 60 to 69 million next year. The Government expects that in a more stable macroeconomic scenario and as a result of reforms in tax collection systems and an increase in the tax base, the coming years will bring increases in tax revenues. The projection of tax revenues for 2021, excluding RAEOA and ZEESM, is \$123.6 million.

### **C. Other Tax and Non-Tax Revenue**

Another source of domestic revenue from the state is tax-free (taxes) and non-tax, which includes revenue from the exploitation of non-petroleum natural resources and payments. According to table 13 in book 1, the product of fees and payments that the State estimates to collect in 2021 is \$54.3 million, 3 million less than in 2020. In the following years, it is expected that they will continue to grow, albeit slowly, until they reach \$65 million in 2025.

In turn, with the gradual increase in autonomous institutions in recent years, it is predicted that next year they will be able to contribute 4.6% to the total revenue of the GSB, with a global revenue of \$8.8 million after a 10% decrease in 2020, due to the drop in port and airport payments caused by restrictions imposed on the movement of goods and people during the prolonged period of the state of emergency and the drop in consumption. The projection of revenue of the Autonomous Institutions for the year 2025 continues to be extremely limited, not going beyond \$10.6 million. Committee C is anxious that at least public companies will finally be able to begin to give some return to the State after the colossal investments by the State in recent years.

### **D. Donations from Development Partners**

Budget book 5 is dedicated to the contributions of Development Partners to Timor-Leste.

Not counting the financing of public expenditure through the disbursement of concessional external loans, next year Development Partners are expected to finance up to \$155.1 million of the Combined Sources Budget. The five groups of donors to disburse higher funding amounts will be the Government of Australia with \$54.2 million (35.0% of total), Portugal including financing Instituto Camões, with \$18.2 million (11.8% of the total), European Union (EU), with \$13.7 million (8.9%), not including the \$9.1 million to be channeled by the EU directly to the Treasury through the modality of direct budget support, United Nations, with \$12.9 million (8.3%) and USA, with \$11.1 million (7.2%).

With the exception of \$9.1 million from direct EU support to the Timor-Leste Budget, the remaining \$146.0 million is intended to finance projects entirely outside the budget (de-budgeting), a situation that is expected to be overcome by the Government as early as 2022. This situation had already been reported by Committee C in previous reports and opinions, but it remains to be resolved.





## **PUBLIC FINANCE COMMITTEE**

The disbursement of the \$146 million from the Development Partners referred to above will finance projects anchored in the four pillars of the Strategic Development Plan.

Development Partners have been an important source of financing and technical support to respond to the COVID-19 pandemic, having reported a total of more than \$40 million in 2020, as referred to in book 5, p. 14 and 15.

### **E. Public (financial) debt**

In article 8.1 of the proposed GSB law for 2021, the Government asks the National Parliament to approve the contracting of new loans next year up to a maximum amount of \$420 million, which includes the eventual issuance of government bonds (sovereign bonds) up to the amount of \$20 million if the corresponding regulation is approved in a timely manner. It also proposes that the new external concessional loan package that will be subscribed by the State in 2021, to be repaid within 40 years.

In paragraph 2 of the same article of the proposed law, the Government also proposes to the National Parliament to authorize in 2021 the financing of public expenses with the use of external loans, up to the limit of \$70.7 million, which corresponds to an increase of 17.8% compared to the allocation registered in the 2020 GSB law.

According to book 1 [\[90\]](#) which accompanies the draft law, these loans are intended to finance road networks, energy, water and sanitation, housing and airports. The Committee was unable to ascertain in Book 1 which banks will finance them.

At the end of June 2020, book 1 mentions that the total volume of concessional loans signed by the State since 2012 has so far totaled \$474.57 million, of which \$5.92 million had already been repaid in 2017 and \$265.23 million are still available to use. So far, the country's financial debt continues to remain at sustainable levels and its risk is acceptable.

Loan debt service includes interest payments, amortization (in book 1 designated as principal) and other miscellaneous fees and charges and its value has increased significantly in recent years, not only because the Government has been undertaking new debt but because most grace periods for ongoing loans are nearing their end. The debt service in 2021 is estimated by the Government to be \$15.61 million, of which \$6.73 million corresponds to the payment of interest on loans. The government hopes to increase disbursements next year and contract new construction projects and roads recently funded by borrowing contracted with the World Bank.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### F. Public-Private Partnerships

Public-Private Partnerships (PPP) are another form of financing public expenditure that has been privileged by the Government. Timor-Leste started exploring PPPs as a means of implementing infrastructure projects a few years ago.

In 2021 new initiatives will be explored in various sectors, with the potential to be implemented by the Infrastructure Fund through the Public-Private Partnership (PPP) modality, in the energy, technical and professional education, transport and agriculture sectors, with the support of agencies of Development Partners, including IFC, USAID and the ADB<sup>[91]</sup>.

A PPP project related to the design, construction and operation of the Port of Tibar is currently in the implementation and operation phase, whose Concession Agreement, approved in 2016 and co-financed by both parties (the State as a lender and a private consortium to, Timor Port SA, as a concessionaire), is in force for a period of 30 years, with port operations due to begin in May 2022. The State's financial contribution to the project amounts to 45% of its total cost, with the Timorese State deposited in 2016, in an escrow account in Singapore, the total corresponding to their total disbursements. Interest on the escrow account totaled \$8.42 million as of 30 September 2020, and is deposited in the escrow account and interest can only be transferred to the government after the account's termination or termination of the Deposit Agreement.

There are other projects in the portfolio to be developed using a PPP model, one in the procurement and negotiation phase in the health sector (medical diagnosis) and others in the feasibility phase (accessible housing, Cristo Rei and President Nicolau Lobato International Airport). Since Tourism was defined in the Program of the VIII Government and in the National Tourism Policy as a co-pillar and engine of the long-term economic strategy, which today represents about 9.9% of global employment and 10.4% of GDP, it is in this perspective that the Dili International Airport has to be improved and to increase its installed capacity.

### G. Management Balances

In 2021, the State intends to finance \$150 million of Central Administration expenditure with a portion of the Treasury Balances accumulated in the Treasury accounts and to finance \$97 million of RAEOA's estimated expenses with accumulated treasury balances in its bank accounts. Tables I and IV of the proposed GSB law for 2021 include all information related to balances carried over in the accounts of these different budget groups.

Among the various sources of financing used by the State to finance public expenditures this year, there are part of the large treasury balances that were carried over from the previous year in the Treasury and RAEOA accounts of, respectively, \$214.1 and \$76 million, which proves the Government's inability to manage the revenues attributed to it each year under the GSB law.

Although the Committee praises the Government's intention to use a portion of the balances carried over in the Treasury and RAEOA accounts next year to finance public expenditure, it



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

argues that this contribution could be much higher and that the breakdown of the balances of the autonomous entities used, according to its origin, it should be maintained as in previous years, for the sake of budgetary transparency.

### H. Revenues

Revenues are one of the sources of the state budget financing which include dividends, interest and rent, as evidenced in Tables II and IV of the draft State Budget for 2021. In the Central Administration the state expects to get revenues next year in the order of \$8.6 million, while the RAEOA revenue budget records a zero earnings forecast, which is at least odd given the large balances it keeps in its bank accounts from one year to the next. The interest, which consists of the remuneration given by the commercial bank to bank deposits held by the State, constitutes a very small part in the financing of Central Administration expenses, and should not exceed \$585 thousand in the next year. High cash balances necessarily mean higher interest is offered.

In book 1, no information was presented by the Government on dividends and income expected for the next year.

### (ii) Expenses from the Central Administration Budget for 2021

The State expenditure proposed by the Government in PPL No. 23/V (3rd) for the year 2021 will be distributed by the Consolidated Fund of Timor-Leste (FCTL), by the Human Capital Development Special Fund (FDCH) and by RAEOA and ZEESM.

#### A. Consolidated Fund for Timor-Leste

In accordance with article 1.1 of the GSB Proposed law for 2021, the GSB comprises the budgets of the Central Administration, the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) and Social Security (OSS), all of them with different financial regimes, as referred to in article 2.5 of the proposed law. In turn, the Central Administration Budget includes the State's Direct and Indirect Administration, that is, the budgets of all entities that are part of the Consolidated Fund of Timor-Leste (FCTL), including the autonomous infrastructure and COVID-19 funds, all Ministries and State Departments, municipalities and other autonomous funds and services (SFA) and also as a special fund outside the FCTL, the Special Fund for Human Capital Development (FDCH).

The budget allocation proposed for the expenses of Central Administration bodies and services for the year 2021 is \$1,797 million, exceeding by approximately \$300 million the allocation allocated to it by the 2020 State Budget, in the amount of 1,498 thousand million dollars. That allocation of \$1,797 million includes the amounts of public subsidies to be transferred to the RAEOA and ZEESM Budget (\$29.243 million) and transfers from the State to the Social Security Budget (58.253 million).

Still regarding transfers, it should also be noted that:



## PUBLIC FINANCE COMMITTEE

- for the second year the State recapitalizes its National Commerce Bank of Timor-Leste in large amounts[92], which reach the value of \$15 million in 2021, without however reflecting (yet) in a relevant way the impact on the economy[93] of the underlying policy of easier credit and lower interest rates;
- housing support for veterans is foreseen in the form of direct subsidy (in the amount of \$40,000 each), some already to be implemented in 2020 under the GSB 2020[94] and scheduled to last until 2022, which, according to Government Decree 16/2020, of October 30, which regulates them, have veteran beneficiaries who already have housing, without measuring the quality (or lack thereof) housing, and the strange option for direct subsidies should also be noted when simultaneously preparing to launch a social housing program in Timor-Leste.

Table 10, produced with reference to official documents, allows the evolution of the Central Administration's budget, by categories of expenditure, from 2020 to 2021 to be monitored, as well as the corresponding budgetary execution until November 24, 2020:

**Table 10 - Evolution of the Central Administration Budget between 2020 and 2021, by categories of expenditure and budget execution up to 24 November 2020**

				(milhões dólares)	
Despesas da Administração Central do Estado	Dotação para 2020 (ajustada após virementes)	Execução até 24.11.2020 (pag + obrig)	Tx de Execução em 2020 (%)	Dotação da AC proposta para 2021	Variação 2020/2021
<b>DESPESAS DO FCTL</b>					
<b>Despesas Correntes</b>					
Salários e Vencimentos	207,53	175,15	84,4%	228,20	20,66
Bens e Serviços	560,23	313,53	56,0%	384,31	- 175,92
Transferências Públicas	495,39	292,38	59,0%	694,86	199,47
<b>FCTL - Total de Despesas Correntes</b>	<b>1 263,15</b>	<b>781,07</b>	<b>61,8%</b>	<b>1 307,36</b>	<b>44,21</b>
<b>Despesas de Capital</b>					
Capital Menor	9,70	4,05	41,7%	58,79	49,09
Capital de Desenvolvimento	213,40	113,15	53,0%	417,69	204,29
Despesas Contingenciais	0,60	2,84	473,7%		
<b>FCTL - Total de Despesas de Capital</b>	<b>223,70</b>	<b>120,04</b>	<b>53,66%</b>	<b>476,49</b>	<b>253,39</b>
<b>TOTAL DESPESAS FCTL</b>	<b>1 486,85</b>	<b>901,11</b>	<b>61%</b>	<b>1 783,85</b>	<b>297,60</b>
<b>FDCH</b>					
<b>Despesas Correntes</b>					
Bens e Serviços	10,73	7,54	70,3%	13,00	2,27
<b>TOTAL DESPESAS FDCH</b>	<b>10,73</b>	<b>7,54</b>	<b>70%</b>	<b>13,00</b>	<b>2,27</b>
<b>Total Despesas da Administração Central</b>	<b>1 497,58</b>	<b>908,65</b>	<b>60,7%</b>	<b>1 796,85</b>	<b>299,27</b>

Sources: GSB Law 2020, PPL GSB 2021 and Budget Transparency Portal



## **PUBLIC FINANCE COMMITTEE**

According to the table, the budget execution of the Central Administration (FCTL and FDCH) remains at \$908.7 million (60.7%), when the annual allocation to it for this year 2020 is \$1,497.6 million, and just over a month remains until the end of the year.

Budget execution through November 24 includes all payments (\$740 million) and obligations recorded in the Ministry of Finance's financial management system, in the amount of \$35 million.

With the exception of the costs of the category of "Salaries and Wages", fiscal performance is particularly modest in all other expense categories, keeping virtually all of them with execution levels below 60%.

On the other hand, the execution of expenditure included in the Contingency Expense category exceeds already 470%, not unfolding a logical reason for this, it is desirable that the Government urgently clarify the situation. With such low levels of global performance, the Government's limited capacity to manage budgets of such substantial value, a value largely financed by the Petroleum Fund, is once again proven.

It is true that 2020 is being an exceptional year at all levels due to the COVID-19 pandemic and its economic and social impacts, but with the 2020 GSB approved a little over two months ago, no credible justification is anticipated for the urgent and unpredictable need to make such intense use of the contingency reserve.

It is also true that up to now only \$536.3 million have been transferred from the Petroleum Fund to the Treasury, there is some doubt about the Government's real intentions in relation to the approved transfer of the remaining \$427.6 million, which to date, that is, one month before the end of the budget cycle, they still remain in the Petroleum Fund.

Public spending is projected to grow very substantially in the coming year. Central Government Current Expenses alone will absorb 73% of the budgetary resources available for 2021, while Capital Expenditures will increase by 3.6%, from the current \$1.275 billion to \$1.321 billion.

Table III of the State Budget bill for 2021 contains the estimated expenditure of the Central Administration for programs (but not disaggregated into sub-programs) combined with the classification organic and also economic, allocating the expenses to five categories: Salaries and Wages, Goods and Services, Public Transfers, Minor Capital and Development Capital.

Looking closely at each of the five expense categories, we highlight the volume of the appropriation proposed in "Salaries and Wages" for the next year, with a growth of 10% yet to be justified, of \$21 million. In fact, among the main measures identified by the Government for next year under this category, only two, which total \$1.9 million, are explained. The fate of the remaining \$19 million remained to be explained as of the date of approval of this opinion.

As for the "Public Transfers" category, the government proposal foresees a 38% increase for 2021, while for the "Minor Capital" category the increase is expected to be 540% and for "Development Capital" the proposed increase is 96%. For the next year, only the appropriation



## **PUBLIC FINANCE COMMITTEE**

allocated to the category “Goods and Services” will be lower than that approved for the current year (-29.4%).

Still within the scope of the Central Administration of the State, between 2020 and 2021 an increase of 26.6% in the operating expenses of the Municipalities and of 83.6% in the overall allocation of the Infrastructure Fund including concessional loans, a growth of 21.1% in the allocation of the FDCH and a reduction of 90.7% in the budgetary allocation of the COVID-19 Fund, which will no longer continue to foresee new measures of economic recovery in the next year to focus only on prevention, mitigation of the pandemic caused by the COVID-19, and the conclusion of the implementation of the short-term economic recovery measures pending 2020.

Committee C prepared a comparative table, annex 1 to this report and its opinion, which allows comparing, very quickly, the budget allocations of all public entities that comprise the Central Administration and the RAEOA, those approved for 2020 and the proposals by the Government for 2021, in addition to the funds to be directly allocated to each entity for the implementation of the economic recovery measures scheduled for next year.

The table detects budgetary growths reaching 2,516%, in the case of STAE, 725.6% in the case of the National Archives of Timor-Leste, 273.4% in the case of PCIC, 195.7% in MCAE, etc.

Only two entities will suffer budget cuts in the next year, they are the MSSJ (-66.4%) and the COVID-19 Fund (-90.7%).

Numerous divergences between the figures indicated in the budget tables and in books 2 and 4 have been detected by the Honorable Members. To remedy this situation, the Ministry of Finance presented two errata to Parliament, but still, many other values are still wrong in the books.

The expenses of Central Administration bodies and services are included in table III of PPL GSB 2021, a table for the first time presented to the National Parliament in the form of programs. The difficulty in interpreting the data in the face of this new methodology and the loss of important information that was once submitted to debate and voting by the National Parliament will put additional constraints on the discussion of this budget proposal.

Further back, in the section dedicated to the “Government Plan and Priorities for 2021”, a table was included that lists the main public expenditures projected next year, by category of expenditure and implementing entity. These expenses total \$1,073 million and in the case of Public Transfers, they total \$559 million. The three entities under the supervision of the Ministry of Petroleum and Minerals alone consume approximately \$83.6 million, much more than most of the ministries and departments of State, without any tangible return, completely outside the budget (debudgeting). The subsidy to the Church through appropriations for the Whole Government and the Office of Support to Civil Society of the Office of the Prime Minister add up to around \$18 million, but the fate of such a large amount is not clear enough even though the National Parliament had access to the execution reports for these public monies.





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

Committee C cannot help but question the funds involved in some mega projects and some of the main measures proposed by the Executive, when it is known how much the population in some areas of the country complain about the abandonment by the central government, when children in most schools do not have access to basic educational conditions and drinking water and electricity, when the Social Audit Report identifies many structural challenges of the country, when the future is increasingly uncertain and the country 's petroleum wealth is dangerously approaching depletion in the next 10 to 20 years.

### 1. Municipalities

The sectoral analysis related to the Municipalities' budget falls to Committee A, under the terms of National Parliament Resolution No. 2/2018. It is regrettable that the sectoral opinion of this Committee again omits, as in previous years, a matter so relevant in financial terms and in territorial administrative organization.

In budget book 3-B that the Government presents the plan and the budget proposal that it destines to the Municipalities for the next year. The national priorities to be considered when drafting the GSB proposed laws for the 2021-2023 triennium should be based on the principle of integrated planning and model development, based on five main investment areas, social welfare, protection and citizenship, investment in the economy and public finances, improvement of national connectivity, consolidation and strengthening of defense, security and external relations and consolidation and strengthening in the area of justice and democracy and human rights. And, in order to ensure development at the municipal level, the National Suco Development Program (PNDS) and the Integrated Municipal Development Plan (PDIM) will be continued.

In the Annex - Table III of the proposed GSB law for 2021 - "Expenses of Central Administration Bodies and Services" indicate the programs that each of the 12 municipalities are inscribed for the next year. Although most programs are transversal to all municipalities, there are slight differences between them.

The global budget for operating expenditure that the draft GSB law allocates to Municipal Authorities and Administrations for 2021 amounts to \$57.7 million, 32.8% more than in 2020. This amount will be distributed among the categories of Salaries and Wages, with \$14.97 million, Goods and Services, with \$13.057 million, Public Transfers, with \$22.09 million, Minor Capital, with \$1.62 million and Development Capital, with \$6.0 million. In the computation of the 12 municipalities, those that receive the largest budget share next year are Dili, with \$9.1 million, and Baucau, with \$5.7 million, as can be confirmed in the table below, taken from the book 3-B - Municipalities.



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 11 - Budget allocation of operating expenses of Municipalities in 2021: distribution by categories**

	SV	BS	KM	KD	TP	Total
G6: Autoridade Municipal de Baucau	1,445	1,149	246	655	2,208	<b>5,702</b>
G7: Autoridade Municipal de Bobonaro	1,426	890	158	549	2,310	<b>5,332</b>
G8: Autoridade Municipal de Dili	2,071	2,838	86	652	3,412	<b>9,059</b>
G9: Autoridade Municipal de Ermera	1,021	597	81	694	2,629	<b>5,022</b>
H1: Administração Municipal de Aileu	854	582	91	397	1,250	<b>3,173</b>
H2: Administração Municipal de Ainaro	1,082	824	97	441	1,227	<b>3,672</b>
H3: Administração Municipal de Covalima	1,284	1,105	267	442	1,582	<b>4,679</b>
H4: Administração Municipal de Lautém	1,253	1,341	81	431	1,309	<b>4,416</b>
H5: Administração Municipal de Liquiçá	1,015	707	53	450	1,376	<b>3,600</b>
H6: Administração Municipal de Manufahi	1,232	961	77	405	1,336	<b>4,010</b>
H7: Administração Municipal de Manatuto	1,052	1,193	274	383	1,665	<b>4,568</b>
H8: Administração Municipal de Viqueque	1,238	871	110	501	1,785	<b>4,507</b>
<b>Total</b>	<b>14,973</b>	<b>13,057</b>	<b>1,621</b>	<b>6,000</b>	<b>22,088</b>	<b>57,739</b>

For the implementation of the Economic Recovery Plan (PRE), the set of 12 Municipalities shall receive an additional allocation of \$6.0 million next year, as shown in the following table, with the three municipalities most benefited by the PRE are Ermera with \$694.3 thousand, Baucau with \$654.8 thousand and Dili with \$652.5 thousand.

The budgetary evolution of municipalities' operating expenses from 2019 onwards is visible and the allocation of funds under the PRE in the following table:

**Table 12 - Evolution of the budget allocation allocated by the GSB to each of the 12 Municipalities to cover their operating expenses and to implement PRE measures**

Municípios	OGE 2019	OGE 2020 (aprovado)	PPL OGE 2021	(milhares USD)		
				Variação 2020/2021	Variação (%)	Medidas PRE
AM Baucau	3 871	3 019	5 702	2 683	88,9%	655
AM Bobonaro	4 110	2 541	5 332	2 791	109,8%	549
AM Dili	6 229	5 153	9 059	3 906	75,8%	652
Adm. Mun. Ermera	3 296	2 269	5 022	2 753	121,3%	694
Adm. Mun. Aileu	2 341	1 829	3 173	1 344	73,5%	397
Adm. M. Ainaro	2 803	1 964	3 672	1 708	87,0%	441
Adm. Mun. Covalima	2 887	2 142	4 679	2 537	118,4%	442
Adm. Mun. Lautém	3 216	2 504	4 416	1 912	76,4%	431
Adm. Mun. Liquiçá	2 593	1 727	3 600	1 873	108,5%	450
Adm. Mun. Manufahi	3 000	2 052	4 010	1 958	95,4%	405
Adm. Mun. Manatuto	2 790	2 182	4 568	2 386	109,3%	383
Adm. Mun. Viqueque	3 070	2 194	4 507	2 313	105,4%	501
<b>TOTAL MUNICÍPIOS</b>	<b>40 206</b>	<b>29 576</b>	<b>57 740</b>	<b>28 164</b>	<b>95,2%</b>	<b>6 000</b>

Source: Book 3-B, p. 9

In addition, the proposed GSB law for 2021 distributes an annual subsidy of \$100,000 to each municipality, which is destined for the new Municipal Integrated Development Program (PDIM), to be implemented by the Administrative Posts.



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

In addition to the amounts already indicated, all Municipal Authorities and Administrations will also receive additional funds from the Ministry of State Administration, category of Public Transfers, for the implementation of national priorities in the municipalities, totaling \$111.4 million.<sup>[95]</sup> (page 9 of book 3-B), which will be divided between the Municipal Development Plan (PDIM), with \$6.0 million, the National Sucos Development Program (PNDS), with \$34.05 million, the self-employment program, to which the GSB proposal allocates \$1.8 million and to other projects, with \$64.8 million. The following table shows the breakdown:

**Table 13 - Distribution by Municipalities of funds destined for PNDS and PDIM in 2021**

Munisipius	Reapropria- saun 2021	PDIM Foun 2021	Total PDIM	PNDS Regular			PNDS - UKL				PNDS - Rehabilitasaun Faze II			Total
				Fiziku	Operasional	Total	Fiziku	Operasional	Fee BNCIL	Total	Fiziku	Operasional	Total	
Aileu	14,640	396,836	411,476	583,750	81,250	665,000	1,683,000	99,000	3,564	1,785,564	91,070	11,384	102,454	2,964,494
Ainaro	518,950	441,029	959,979	429,250	55,750	485,000	1,071,000	63,000	2,268	1,136,268	67,200	8,400	75,600	2,656,847
Baucau	111,968	654,847	766,815	1,147,250	152,750	1,300,000	3,009,000	177,000	6,372	3,192,372	137,970	17,246	155,216	5,414,404
Bobonaro	566,582	548,625	1,115,207	827,000	108,000	935,000	2,550,000	150,000	5,400	2,705,400	210,560	26,320	236,880	4,992,487
Covalima	240,450	442,008	682,458	506,750	68,250	575,000	1,530,000	90,000	3,240	1,623,240	97,860	12,233	110,093	2,990,790
Dili	649,666	652,458	1,302,124	867,500	137,500	1,005,000	408,000	24,000	864	432,864	-	-	-	2,739,988
Ermera	873,221	694,259	1,567,480	1,071,750	143,250	1,215,000	2,652,000	156,000	5,616	2,813,616	105,420	13,178	118,598	5,714,693
Lautem	109,448	430,907	540,355	855,000	115,000	970,000	1,734,000	102,000	3,672	1,839,672	73,920	9,240	83,160	3,433,187
Liquica	123,903	450,288	574,191	498,500	66,500	565,000	1,173,000	69,000	2,484	1,244,484	52,150	6,519	58,669	2,442,343
Manatuto	772,853	382,691	1,155,544	410,000	55,000	465,000	1,581,000	93,000	3,348	1,677,348	113,680	14,210	127,890	3,425,782
Manufahi	512,367	404,586	916,953	533,500	71,500	605,000	1,479,000	87,000	3,132	1,569,132	65,380	8,173	73,553	3,164,638
Oecusse	-	-	-	322,750	42,250	365,000	918,000	54,000	1,944	973,944	40,950	5,119	46,069	1,385,013
Viqueque	200,957	501,466	702,423	595,500	79,500	675,000	1,836,000	108,000	3,888	1,947,888	83,230	10,404	93,634	3,418,945
<b>Total</b>	<b>4,695,006</b>	<b>6,000,000</b>	<b>10,695,006</b>	<b>8,648,500</b>	<b>1,176,500</b>	<b>9,825,000</b>	<b>21,624,000</b>	<b>1,272,000</b>	<b>45,792</b>	<b>22,941,792</b>	<b>1,139,390</b>	<b>142,424</b>	<b>1,281,814</b>	<b>44,743,612</b>
Atividades Auto Emprego														1,800,000
Projetu LM														64,840,799
<b>Total Despesas</b>														<b>111,384,410</b>

*Fonte: Livro 3-B, pag. 9*

Referring to the NGO Forum FONGTIL in its opinion dated 19 November, the allocation of the State Budget for 2021 to PDIM and PNDS programs at the municipal level, amounting to \$111.4 million, is an increase in Capital Development expenses. That NGO also alerts the National Parliament to the possibility of doubling the funds allocated to municipalities in Development Capital, directly and through the ministry that oversees them (Ministry of State Administration), which can lead to an undesirable reduction in budget transparency.

The accumulated execution of the operating budget of the municipalities reached, on 11 November 2020, the value of \$21.2 million (71%), of which \$20.6 million corresponds to the amount of expenses paid and \$646,700 to expenses on unpaid bonds.

In addition to the financing they receive directly or through MAE transfers, the Municipalities also receive large amounts of financial support from development partners. Book 3-B refers to these large amounts of support, individually, in each of the treated municipalities.



## PUBLIC FINANCE COMMITTEE

Regarding the revenue forecast of the municipalities, budget book 1 says that the Government expects to collect next year through the Ministry of State Administration (MAE), since the municipalities do not yet have the competence to do so directly, a revenue of \$226,500, according to the following table:

**Table 14: Execution of Municipalities' revenue in 2019 and projection until 2025 (\$000)**

Municípios	Execução da receita em 2019	Projeção da receita para 2020	Projeção para 2021	2022 Proj	2023 Proj	2024 Proj	2025Proj
Dili - receitas de publicidade	123,8	148,0	172,5	175,3	189,0	197,7	206,8
Ainaro - receitas de publicidade	2,5	3,0	3,0	3,1	3,3	3,5	3,6
Covalima - receitas de publicidade	6,5	1,4	6,7	6,8	7,3	7,7	8,0
Baucau - receitas de publicidade	4,1	1,2	4,2	4,3	4,6	4,8	5,1
Emera - receitas de publicidade	4,5	8,9	5,7	5,8	6,2	6,5	6,8
Aileu - receitas de publicidade	1,1	1,4	1,1	1,2	1,3	1,3	1,4
Dili - receitas de taxas de estacionamento	22,2	21,9	30,7	31,2	33,6	35,2	36,8
<b>Total receitas arrecadadas p/ Municípios</b>	<b>164,7</b>	<b>185,8</b>	<b>223,9</b>	<b>227,7</b>	<b>245,3</b>	<b>256,7</b>	<b>268,5</b>

Source: Table adapted in book 1, p. 30-31

## 2. COVID-19 Fund and Economic Recovery Plan

The **COVID-19 Fund** was created by Law No. 2/2020, of April 6, with the purpose of financing expenses related to the prevention measures and the fight against COVID-19 disease. With an initial allocation of \$150 million, later reinforced through Law No. 5/2020, of June 30, its final allocation would be set at \$333.23 million for the year 2020, by the GSB Law.

The execution of the Fund until 20 November 2020, according to the Budget Transparency Portal, stood at 39.4%, with payments reaching \$129.2 million and obligations \$2.2 million, an extremely modest budget performance, which demonstrates great difficulties of the Government in managing this Fund and raises the suspicion that the last boost of \$113 million that Parliament assigned to it for the implementation of economic recovery measures, was not necessary.

The weak budget execution of the COVID-19 Fund in each expenditure category can be seen in the following table:



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 15 - Execution of the COVID-19 Fund by categories until 20 November 2020**

Gestão da Pandémia do COVID-19	Orçamento 2020	Compromissos	Obrigações	Pago	Saldo	Execução %
Bens e Serviços	\$153 083 395,00	\$5 310 537,73	\$1 882 604,22	\$41 348 711,31	\$104 541 541,74	28,2%
Capital Menor	\$4 050 000,00	\$1 730 000,00	\$3 868,50	\$888 731,50	\$1 427 400,00	22,0%
Capital e Desenvolvimento	\$10 160 000,00	\$6 725 135,62	\$354 488,30	\$394 200,24	\$2 686 175,84	7,4%
Transferências	\$165 954 605,00	\$4 065 600,00	\$,00	\$86 566 048,80	\$75 322 956,20	52,2%
<b>Total</b>	<b>\$333 248 000,00</b>	<b>\$17 831 273,35</b>	<b>\$2 240 961,02</b>	<b>\$129 197 691,85</b>	<b>\$183 978 073,78</b>	<b>39,4%</b>

Source: Transparency Portal (MoF)

The following table was taken from budget book 4 regarding the 2021 GSB. It is possible to know the allocation allocated to the COVID-19 Fund by the 2020 GSB and compare it with the Government's budget proposal for 2021, by category and rubric.

But the next table also offers the forecast of expenditures for that Fund until the year 2025, with average annual expenses exceeding \$30 million. It is not known what hard data allowed the Government to project COVID-19 prevention and mitigation expenses up to such a long time horizon.

With a budget allocation of \$3.0 million approved for the year 2020 and \$1.5 million proposed for 2021, the use of the "Professional Services" item is yet to be determined.

\$33 million was allocated by the 2020 State Budget to the item "Other Miscellaneous Services" and \$13 million is proposed by the Government for next year under this item. Committee C does not know what expenses it covers.





**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 16 - Budget allocation for the COVID-19 Fund for 2020 and 2021, by categories and lines**

Código Code	Rubrica de Despesas / Expense Item	2020	2021	2022	2023	2024	2025
	<b>Despesas / Expenses</b>	<b>333,248</b>	<b>31,000</b>	<b>32,240</b>	<b>33,530</b>	<b>34,871</b>	<b>36,266</b>
<b>01</b>	<b>Salários e Vencimentos / Salary &amp; Wages</b>	-	-	-	-	-	-
600	Salários / Salary	-	-	-	-	-	-
610	Horas Extraordinárias / Overtime	-	-	-	-	-	-
615	Abonos / Allowances	-	-	-	-	-	-
<b>02</b>	<b>Bens e Serviços / Goods &amp; Services</b>	<b>153,083</b>	<b>23,875</b>	<b>24,830</b>	<b>25,823</b>	<b>26,856</b>	<b>27,930</b>
620	Viagens Locais / Local Travel	1,137	694	722	751	781	812
625	Viagens ao Estrangeiro / Overseas Travel	-	-	-	-	-	-
630	Formação Profissional e Seminários / Training & Workshops	977	620	645	671	697	725
640	Encargos de Instalação / Utilities	8,433	16	17	18	18	19
645	Arrendamento de Propriedades / Rental of Property	1,262	150	156	162	169	175
650	Combustíveis Operações de Veículos / Vehicle Operation Fuel	1,456	250	260	270	281	292
651	Manutenção de Veículos / Vehicle Maintenance	325	283	294	306	318	330
652	Aluguer de Veículos, Seguros e Serviços / Vehicle Rental, Insurance & Service	947	-	-	-	-	-
660	Materiais e Fornecimentos de Escritório / Office Stationery & Supplies	151	100	104	108	112	117
670	Materiais de Fornecimento Operacionais / Operational material and supplies	21,546	1,440	1,498	1,558	1,620	1,685
680	Combustível para Geradores / Fuel for generators	-	-	-	-	-	-
690	Manutenção de Equipamentos e Edifícios / Maintenance of Equipment & Buildings	2,402	1,080	1,123	1,168	1,215	1,263
700	Despesas Operacionais / Operational Expenses	78,779	4,635	4,820	5,013	5,214	5,422
705	Serviços de Profissionais / Professional Services	2,945	1,520	1,581	1,644	1,710	1,778
706	Serviços de Tradução / Translation Services	-	-	-	-	-	-
710	Outros Serviços Diversos / Other miscellaneous services	32,724	13,087	13,611	14,155	14,722	15,310
715	Pagamentos de associados / Payment of memberships	-	-	-	-	-	-
780	Catering Services / Catering Services	-	-	-	-	-	-
<b>05</b>	<b>Transferências / Transfers</b>	<b>165,955</b>	<b>3,500</b>	<b>3,640</b>	<b>3,786</b>	<b>3,937</b>	<b>4,095</b>
721	Pagamentos Pessoais / Personal Benefit Payments	-	-	-	-	-	-
722	Concessões Públicas / Public Grants	165,955	3,500	3,640	3,786	3,937	4,095
723	Concessões Públicas Capital / Public Grant Capital	-	-	-	-	-	-
731	Loan Interest and Related Payments / Loan Interest and Related Payments	-	-	-	-	-	-
735	Loan Principal Repayments / Loan Principal Repayments	-	-	-	-	-	-
<b>03</b>	<b>Capital Menor / Minor Capital</b>	<b>4,050</b>	-	-	-	-	-
810	Compra de Veículos / Purchase of Vehicles	900	-	-	-	-	-
820	Equipamento de Informática / EDP Equipment	100	-	-	-	-	-
830	Equipamento de Segurança / Security Equipment	-	-	-	-	-	-
840	Equipamento de Comunicações / Communication Equipment	-	-	-	-	-	-
850	Outros Equipamentos Diversos / Other miscellaneous equipment	2,300	-	-	-	-	-
860	Mobiliário e Acessórios / Furniture & Fittings	400	-	-	-	-	-
870	Equipamento de Escritório / Office equipment	150	-	-	-	-	-
880	Geradores / Generators	-	-	-	-	-	-
890	Equipamento de Água / Water Equipment	200	-	-	-	-	-
<b>04</b>	<b>Capital Desenvolvimento / Capital &amp; Development</b>	<b>10,160</b>	<b>3,625</b>	<b>3,770</b>	<b>3,921</b>	<b>4,078</b>	<b>4,241</b>
800	Aquisição de Edifício / Acquisition of buildings	460	125	130	135	141	146
900	Activos de Infra-estruturas / Infrastructure Assets	9,700	3,500	3,640	3,786	3,937	4,095
910	Injecção de Capital / Injection of Capital	-	-	-	-	-	-
920	Equipamento de Capital Maior / Major Capital Equipment	-	-	-	-	-	-

Source: book 4-B GSB 2021, Budget lines, p. 813

Book 2 - Annual Action Plan for 2021, on page 9, highlights that the Government has defined three central objectives for the period 2020-2023, namely:

<b>Objetivos Centrais:</b>	
<b>1.</b>	<b>Manter uma taxa anual de crescimento acima dos 7%;</b>
<b>2.</b>	<b>Conseguir reduzir a taxa de pobreza (ODS 1) em menus 10%; e</b>
<b>3.</b>	<b>Conseguir reduzir a taxa de desemprego, no cumprimento do programa do Governo que prevê a criação de 60,000 empregos anuais</b>





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

In assuming the bold objective of generating 60,000 new jobs next year, the Government seems to be somewhat out of touch with reality, given the high degree of uncertainty regarding the real social and economic consequences of the COVID-19 Pandemic and the future behavior of demand and global supply.

In Book 2, the main measures to be implemented under the COVID-19 Fund for 2021 are the “acquisition of drugs to combat the SARS-Cov-2 virus and the COVID-19 disease, the contracting of air transport services and the installation and maintenance of places for quarantine and isolation and social protection”. The objectives of the Fund in all its dimensions, according to Committee C, remain very relevant to public health in the coming year.

The allocated budget allocation to COVID-19 background for the next year is \$31 million, which amounts to a very significant reduction in relation to the allocation that was awarded for 2020, amounting to \$333.2 million. Could the COVID-19 Pandemic Prevention and Mitigation Policy be at risk?

The following table, extracted from book 2, allows to conclude that, unlike this year, in 2021 the COVID-19 Fund will not receive funds for the execution of economic recovery measures. The budgetary allocation for the implementation of the same, which amounts to approximately \$123 million, will be distributed directly by the implementing entities, some Ministries, Autonomous Agencies and Municipalities, a sudden methodological change not justified by the Government.

**Table 17 - COVID-19 Fund Programs for the year 2021**

A Gestão da Pandemia do COVID-19 tem um Orçamento de US \$31,000,000 dólares para 2021.

### Alocação Orçamental por Programas

Instituição	Orçamento 2021					% Aloc	Total
	SV	BS	CM	CD	TP		
J8: Gestão da Pandemia do COVID-19							
Programa 508: Prevenção e Mitigação do COVID-19	-	23,875,000	-	3,625,000	3,500,000	100.0%	31,000,000
TOTAL Orçamento	-	23,875,000	-	3,625,000	3,500,000	100.0%	31,000,000

Source: Book 2 of 2021

On 12 August 2020, the Council of Ministers approved the **Economic Recovery Plan**, a program aimed at stimulating economic recovery in the post COVID-19 period, through the application of a set of measures to mitigate the economic and social impacts of the crisis in the short term (2020) in the medium and long term (horizon 2021 and 2022), divided by priority areas and sectors of intervention including agriculture, tourism, housing, human capital (education, health and social protection) and institutional reform.”

On pages 11 and 12 of Budget Book 2, the Government summarizes the Economic Recovery Plan (PRE), stressing that it is a set of temporary measures intended to protect jobs and guarantee income to families and troubled companies, seeking to minimize the stagnation of economic activities and services recorded from the start of the pandemic in the short term and structural measures to enable economic recovery in the medium/long term, since it cannot intend



## PUBLIC FINANCE COMMITTEE

only to respond to direct challenges and increased with the pandemic, with a range of 2-3 years from 2021. The Economic Recovery Plan identifies as target areas of the main medium and long term measures agriculture, tourism, housing, education, health, social protection, institutional aspects, the installation of optical fiber and renewable energy alternatives.

During the public hearings, it was confirmed that some of the short-term economic recovery measures will not be possible to finalize by the end of 2020, and their application should extend into at least the first two months of next year. It is important to emphasize the relevance of all measures for the economic revitalization of the country, but there must be a very serious commitment on the part of all the entities involved in its implementation to ensure that the objectives set are attainable.

Still with regard to the PRE, this Committee considered it useful to complete its analysis with what the sectoral opinion of Committee D refers to:

*[...] The policies to be adopted must have a double objective:*

- 1) sustaining the economy so as not to let the crisis deepen and defend the well-being of the people, on the one hand, and*
- 2) transforming the foundations of Timor-Leste's economy and society in order to make them more resilient to future shocks while correcting paths that had been taken and which, we believe, did not significantly improve the well-being of Timorese people."*

*The GSB21 (...) must be seen in the light of these two objectives set by the Government itself when approving the PRE and which more correctly should be called the Recovery and Economic Transformation Plan (PTRE). The PRE divides the future into two phases: the first, short term, was covered by GSB20 and the second, medium-long term, will be covered by this budget and (at least) for the next two years (2022 and 2023), this already in the next legislature with the "instability" that this causes because the options of the next government may be different from the current one):*

*"A second phase, with medium-term measures - many of which have long-term effects - aimed at economic recovery, in a 2-3 year horizon [2021-23], seeking to respond not only to the increased difficulties caused by the pandemic, but fundamentally to the pre-existing problems (conjunctural and structural) (namely the lack of jobs) of the national economy, under the risk that, without changing anything substantive in relation to the past, we will continue to be at the mercy of any new crisis that may arise - in addition to continuing "low level" development*

*In this phase, "from recovery to transformation", "there are three main objectives of the proposed public policies:*

- the creation of new productive and decent jobs;*
- the realization and consolidation of social programs of public investment (education, health, housing, social protection); and*



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

- *the change in the productive structure and the factors that contribute to economic growth.” [emphasis and underlines added]*

*Regarding the objective of improving the human capital of the country included in the PRE and which should be reflected in the GSB21, it is worth highlighting the opinion of Committee G of the National Parliament on the GSB20 when it says that, in relation to education (pages 5-6),*

*“The main problems raised during public hearings are, among others, the following:*

- 1. The lack of sufficient and quality school infrastructure to guarantee the good quality of teaching and learning that is desired;*
- 2. The need for more school equipment, namely, desks, tables, chairs as well as school manuals;*
- 3. The failure of the School Lunch Program, which did not adjust to the functioning of the duodecimal budget. The form of the distribution of funds in two tranches, one of 60% and the other of 40% does not fit the distribution of the DOT which is monthly and which, having not been used, has to be returned to the State Coffers.*
- 4. The high number of students in the classrooms, decreasing the quality of teaching” (emphasis added)*

*That is, one of the fundamental elements of “human capital”, education (the other is health) suffers, in our country, from significant deficiencies and GSB21 has to respond to them either through current expenses (more and better teachers to reduce the number of students per teacher, more textbooks, better school meals, etc.) or via school infrastructure (more schools better equipped to reduce the number of students per classroom/teacher).*

*Although the government’s policies are not limited to the PRE, the truth is that it emerged to frame the policies to be adopted and should, therefore, be understood as the main element of the assessment of what the Government intends to do in the coming years, namely in budgetary terms. It is against this background, therefore, that this GSB21 and its measures must be judged. We will do that.”*

### 3. Infrastructure Fund

This part of the report is based on the information available in the sectoral opinion of Committee E, the permanent specialized committee in the area of Infrastructure, whose full reading is recommended.

The Infrastructure Fund, hereinafter referred to as FI, is intended to finance strategic programs and projects for the acquisition, construction, development, maintenance and rehabilitation of: a) Road infrastructure, including roads, bridges, ports and airports; b) Infrastructures of a social nature, including hospitals, schools and universities; c) Infrastructure for protection against floods and landslides; d) Water treatment and sanitation facilities; e) Power generators and



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

distribution lines; f) Telecommunications; g) Logistics facilities, including storage infrastructures; h) Government buildings and public facilities; i) Other infrastructures that promote strategic development (Articles 2 and 4 of Decree-Law no. 13/2016, of 18 May).

Created, in 2011, as a Special Fund, under the terms of article 32 of Law no. 13/2009, of 2 October 2 (on Budget and Financial Management), and under the General State Budget for 2011 (Article 9 of Law no. 1/II, of 14 February 2011), the Infrastructure Fund is currently an autonomous fund, endowed with legal personality and administrative, financial and patrimonial autonomy, with its own revenues (Articles 4 and 9 of Decree-Law no. 13/2016, of 18 May).

The Board of Directors of the Infrastructure Fund (CAFI) is the entity responsible for the operations of the Infrastructure Fund, being composed of the Government member responsible for strategic planning and investment, who chairs, the Government member responsible for public works, transport and communications and by the Government member responsible for finance (Articles 4 and 9 of Decree-Law no. 13/2016, of 18 May).

The FI presents the **following sectoral measures** for the financial year 2021, namely:

- Continue to provide financial resources to finance strategic programs and projects;
- Proceed with the acquisition, construction, development, maintenance and rehabilitation of road infrastructures; social infrastructures; infrastructure for protection against floods and landslides; wastewater treatment and basic sanitation facilities; power generators and distribution lines; telecommunications; logistical facilities; government buildings and public facilities, as well as other infrastructures that promote strategic development;
- Promote good governance and institutional management, strengthening the capacity of human resources.

The table below summarizes the twenty-one Programs and Projects that make up the portfolio of the Infrastructure Fund, namely:



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 18: Portfolio of Infrastructure Fund Programs and Projects**

Programa	Concluído	Em curso	Não Arrancou	Novo	Pendente	Cancelado	Total
Agricultura e Pescas	17	4	5	2	0	2	30
Água e Saneamento	26	13	0	17	0	0	56
Desenvolvimento Urbano e Rural	2	2	3	7	0	0	14
Edifícios Públicos	21	5	46	10	2	0	84
Educação	17	1	8	2	0	0	28
Eletricidade	504	94	12	0	0	0	610
Informática	2	4	0	3	0	0	9
Saúde	6	4	4	0	0	0	14
Segurança e Defesa	53	11	28	8	0	2	102
Solidariedade Social	3	0	3	2	0	0	8
Tasi Mane	9	1	2	2	2	0	16
Aeroportos	6	4	8	0	0	0	18
Desenho e Supervisão	3	7	35	10	0	0	55
Estradas	218	160	69	35	0	6	488
Pontes	23	10	8	21	0	0	62
Portos	8	1	9	0	0	0	18
Turismo	10	1	1	3	9	1	25
Sistema Financeiro	10	1	5	0	0	0	16
Juventude e Desporto	6	4	6	0	0	1	17
Manutenção e Reabilitação	42	48	5	57	0	0	152
Empréstimos	2	22	0	10	0	0	34
<b>TOTAL</b>	<b>988</b>	<b>397</b>	<b>257</b>	<b>189</b>	<b>13</b>	<b>12</b>	<b>1.856</b>

The following, in summary form, the content of the framework programs presented above:

➤ **Agriculture Program**

The present program has 30 projects, mainly related to the irrigation sector. Irrigation schemes are seen as an important component for the development of agriculture, in order to achieve the goals of self-sufficiency in terms of essential food crops, namely rice and maize.

Currently, the portfolio has 4 projects underway and 17 projects completed since 2011. It is also worth mentioning the existence of 4 irrigation projects (Maukola, Beikala, Galata and Raibere) and the fishing port in Metinaro that has not yet started.

➤ **Water and Sanitation Program**

This program has 56 projects in its portfolio, including 13 in progress, 26 completed and 17 not yet started.



## **PUBLIC FINANCE COMMITTEE**

Among the projects in progress, the following stand out: (i) Continuation of the General Plan for the Flow of Dili, Phase II; (ii, iii) Feasibility and Pre-Feasibility Study for Water Supply in Dili; (iv) Consulting services of the PPP for Water Supply in Dili; (v) Study and design for the construction of the drinking water distribution line in zones 2-9 in Dili and Suai; (vi) drilling and installation of a water pump at HNGV and (vii) Development of water supply and sanitation infrastructure in 4 municipalities (Baucau, Lospalos, Same and Viqueque).

Also noteworthy is the completion of 26 projects in the period between 2011 and 2020.

### **➤ Urban and Rural Development Program**

This program has 14 projects, including 2 ongoing projects, namely: (1) LIDAR information system and (2) national space plan project.

It is also worth mentioning the completion of 2 projects since 2011 and the existence of 1 new proposal for the treatment of solid waste in the city of Dili.

### **➤ Electricity Program**

Under this program there are 610 projects, including operation and maintenance of power stations, substations and the electricity network. Currently, there are 94 ongoing projects, 504 completed projects, as well as 11 emergency projects.

Projects to be completed include central control systems, improved street lighting, as well as the operation and maintenance of the existing power generation system.

Also noteworthy is the existence of 12 new project proposals with an emergency character to start during the financial year 2021.

### **➤ Ports Program**

The present program has 18 projects, including 9 ongoing projects, of which the consultancy for the development of the port of Tibar stands out. Highlight for 8 projects that have been completed, including the rehabilitation of the port of Hera, Cargo Terminal in Tasi Tolu.

Also noteworthy for the project on the improvement of the facilities of the regional ports in Com, Ataúro, Oe-Cusse, Vemasse and Suai.

### **➤ Airports Program**

In total, the Airports Program has 18 projects, including the improvement of the Nicolau Lobato International Airport, in Dili and the regional airports in Maliana, Baucau Suai and Oe-Cusse.





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## **PUBLIC FINANCE COMMITTEE**

Currently, there are 4 projects in progress, 6 projects completed and 8 projects still without financing.

### **➤ Tasi Mane Program**

The program has 16 projects, including the design, construction and supervision of the Suai Logistics Base, the highway linking Suai to Betano and Beaçó, the water supply in Dato Rua To Tolu and resettlement.

Also noteworthy is the conclusion of 9 projects since 2011 and the existence of 2 new projects for the fiscal year 2021.

### **➤ Financial System and Supporting Infrastructure Program**

The Program's portfolio includes 16 projects, including 1 ongoing project - FreeBalance - and 10 completed projects, including the conceptual design, construction and supervision of the new Ministry of Finance building, the construction of the MF building, the supply, installation and supervision of a computer and data center for the MF, the equipment and design of the MF and DDE for the MF Customs and Tax Authority, among others.

Highlight also for 5 projects that have not yet started, including the SIGTAS - MF Backup System, the integrated stations in Oesilo and Tunubibi, the Batugade project and the construction and supervision of the MF Customs and Tax Authority building.

### **➤ Informatics Program**

With regard to the IT Program portfolio, there are 9 projects, including 4 ongoing projects, 1 completed project and 3 projects that have not yet started.

In 2014, 2 projects were initiated, namely the National Connectivity project, Phases III and V and the 20 Mbps satellite internet improvement project to 60/80Mbps 100/200.

There are also two other projects for the Office of His Excellency, the Prime Minister, namely, the expansion of the PCN II and the fiber optic network and the Data Center.

### **➤ Youth and Sports Program**

The Youth and Sport Program portfolio includes 17 projects that focus on the construction of national stadiums in four municipalities, including the construction of football stadiums in Baucau, Maliana, Manufahi and Ermera, as a prerequisite for the creation of national football leagues, as well as supporting the development of skills of the youngest who are willing.

There are currently 4 ongoing projects, 6 completed projects, 1 canceled project and 6 new projects that have not yet started.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### ➤ Health Program

The Health Program portfolio has 14 projects, including the Intensive Cardiac Care Unit (CCU) at HNGV; the Baucau Hospital; rehabilitation and construction of the old building of Hospital Dr. António Carvalho Hospital, CCU and SAMES, pediatric building project at HNGV and the construction project for the extension of HNGV, among others.

The portfolio has 5 ongoing projects, 6 completed projects and 4 projects yet to start.

### ➤ Tourism Program

The Tourism Program has 25 projects, including 1 ongoing project for consulting services for the master plan and DDE of ecotourism in Maubara.

It is worth noting the completion of 10 projects since 2011, including the design and supervision of the new construction of the marina square in Bidau, as well as 6 CPLP projects.

It is also worth mentioning the existence of 1 proposal under this program for the construction of the hotel training center building, which is still unfinished.

### ➤ Education Program

The Education Program consists of 28 projects, including 1 ongoing project, 17 completed, 2 new projects and 8 projects not yet started.

There are 10 projects without funding, namely the project for the construction of reference schools in Lospalos, Liquiça, Aileu, Ainaro and Covalima.

Some projects already have their respective DDEs completed, with only the construction budget missing, namely the buildings of the faculties of agriculture and engineering at UNTL, the polytechnics in Suai, Same and Lospalos and the fishing academy in Manatuto.

### ➤ Security and Defense Program

The Security and Defense Program comprises 2 subprograms, namely Security and Defense. The Security subprogram includes 53 projects, including 7 ongoing projects, 20 new projects, 1 canceled project and 25 projects that have already been completed.

The Defense subprogram has a total of 49 projects, including 4 projects in progress, 8 new projects and 8 projects not yet started. Also noteworthy is the completion of 28 projects related to this subprogram and 1 project that was canceled.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### ➤ **Bridges Program**

The Bridges Program has 62 projects, including 23 projects completed since 2011.

There are 10 ongoing projects, including Taroman, Baer, Bidau, Lawana in Ermera, the construction of the Comoro and Comoro III suspension bridge, the Ritabou bridge, the suspension bridge in Viqueque.

Also highlight the existence of 21 new projects and 8 projects that have not yet started.

### ➤ **Roads Program**

The Roads Program, currently with a total of 488 projects, including 160 ongoing projects, contains some emergency projects for 2020, as well as new proposals from the Ministry of Public Works to be considered for the financial year 2021.

The Roads Program also has 218 completed projects, 6 new projects, 69 projects without start and 6 projects canceled.

Highlight for the inclusion in the program of 35 new projects.

### ➤ **External Loan Program**

The External Loans Program was created in 2012 and currently has 34 projects, including 22 ongoing projects, 10 new and 2 projects completed in 2016, namely the Road Network Improvement Project (PMRR) between Tibar and Gleno and between Tibar and Liquiçá.

### ➤ **Public Buildings Program**

There are 84 projects under the Public Buildings Program, including 5 ongoing projects.

It currently has 21 completed projects and 46 projects that have not yet started.

Among the completed projects we highlight the Building of the MoJ, CFP, MSS, CNE, the construction of the Tabiessi market and the fish market in Manleuana, as well as the services and offices for the building of the National Commerce Bank of Timor-Leste.

There are also 2 pending projects and 10 new projects for the financial year 2021.

### ➤ **Social Solidarity Program**

The portfolio of the Social Solidarity Program currently has 8 projects, of which 3 have already been completed, namely 1 project in 2013, the Garden of Heroes and 5 statues for the Garden of



## PUBLIC FINANCE COMMITTEE

Heroes in Metinaro, and 1 project in 2016, the construction of the Monument-Rotunda of Nicolau Lobato Airport, in Comoro.

Also noteworthy is the existence of 2 new projects, as well as 3 projects that have yet to start.

### ➤ Preparation of Design and Supervision Services

The portfolio of the Drawings Preparation and Supervision Program currently has 55 projects. There are also 7 projects in progress, 3 completed and 35 projects to be started, as well as the inclusion of 10 new projects in the portfolio.

### ➤ Maintenance and Rehabilitation Program

The Maintenance and Rehabilitation Program currently has 152 projects, including 48 ongoing projects, 9 road projects and 5 projects not yet started.

Also noteworthy is the completion of 42 projects and the existence of 57 new projects in the portfolio.

The FI presents an allocation for the financial year of 2021 in the amount of \$339.605 million, an amount that constitutes an increase compared to the GSB 2020 of 83.64%.

For a better illustration, a comparative table between GSB 2020 and GSB 2021 is presented below, as well as the corresponding quantitative and percentage variation:

**Table 19: FI expenditure<sup>[96]</sup> by economic category |**

Categoria económica	OGE 2020	OGE 2021	Variação \$	Variação %
Salários e Vencimentos	29,0	32,0	3,0	10,3%
Bens e Serviços	833,0	1 040,0	207,0	24,8%
Transferências	0	0	-	-
Capital Menor	0	0	-	-
Capital de Desenvolvimento	184 068,0	338 533,0	154 465,0	83,9%
<b>Total</b>	<b>184 930,0</b>	<b>339 605,0</b>	<b>154 675,0</b>	<b>83,6 %</b>

Considering the table presented, it appears that the categories “Transfers” and “Minor Capital” do not undergo any variation, thus remaining without any allocated amount.

The “Development Capital” category has increased by 154.465 million dollars, resulting in a positive variation of 83.92%.

It is also worth mentioning the positive variations in the categories “Goods and Services” and “Salaries and Wages” of 24.85% and 10.34%, respectively.



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

The following is an illustration of the budget proposal for the financial year 2021<sup>[97][98]</sup>, distributed by the Programs to be implemented, duly compared with GSB 2020, as well as an indication of the respective quantitative and percentage variations:

**Table 20: Expenditure by Programs | FI**

Software	GSB 2020	GSB 2021	Variation \$	% Change
<b>Program 510:</b> Good Governance and Institutional Management	0	60	60	100%
<b>Program 797:</b> Agriculture	1,194	3,798	2,604	218%
<b>Program 798:</b> Water and Sanitation	2,637	3,449	812	30.8%
<b>Program 799:</b> Urban and Rural Development	2,300	6,190	3,890	169.1%
<b>Program 800:</b> Public Buildings	3,298	7,693	4,395	133.3%
<b>Program 801:</b> Education Buildings	68	4,843	4,775	7022%
<b>Program 802:</b> Electricity	4,269	18,321	14,052	329.2%
<b>Program 803:</b> Computer Equipment	2,589	41,588	38,999	1506.3%
<b>Program 805:</b> Health	211	4,844	4,633	2195.7%
<b>Program 806:</b> Security and Defense	3,808	13,884	10,076	264.6%
<b>Program 807:</b> Social Solidarity	600	1,000	400	66.7%
<b>Program 808:</b> Tasi Mane	2,000	8,500	6,500	325%
<b>Program 809:</b> Airports	3,981	19,843	15,862	398.4%
<b>Program 871:</b> Preparation of Drawings and Supervision of New Projects	3,629	9,441	5,812	160.2%
<b>Program 872:</b> Roads	80.0	105,215	25,215	31.6%
<b>Program 873:</b> Bridges	3,503	4,896	1,393	39.8%
<b>Program 874:</b> Ports	1,989	1,814	(175)	(8.8%)
<b>Program 912:</b> Tourism Sector	16	652	636	3975%
<b>Program 913:</b> Loans	60.0	70.7	10.7	17.8%
<b>Program 914:</b> Finance Sector	3,100	2,905	(195)	(6.29%)
<b>Program 915:</b> Secretariat of State for Youth and Sports	613	2,034	1,421	231.8%
<b>Program 976:</b> CAFI - FI	862	1,011	149	17.3%
<b>Program 977:</b> Maintenance and Rehabilitation	4,264	6,924	2,660	62.4%

It is also necessary to inform the data related to the budgetary execution in the financial year 2020, on 17 November, regarding the category of revenues, expenses and programs in force:



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 21: IF budget execution**

**Receitas**

Ano Fiscal 2020

Grupo Detalhes do orçamento

Total	\$172,347,890.00	\$0.00	\$0.00	\$685,843,275.60	-\$513,495,385.60	397.9%
Infrastructure Fund	\$0.00	\$0.00	\$0.00	\$188,334.47	-\$188,334.47	.0%
<b>Traduzir</b>	<b>Budget</b>	<b>Compromissos</b>	<b>Obrigações</b>	<b>Real</b>	<b>Saldo</b>	<b>Execução %</b>
Gabinete Direcção Geral Tesouro	\$0.00	\$0.00	\$0.00	\$323.00	-\$323.00	.0%
Direcção Nacional Contabilidade e Regulacao Financeira	\$0.00	\$0.00	\$0.00	\$8,266.29	-\$8,266.29	.0%
Direcção Nacional Impostos Domesticos	\$0.00	\$0.00	\$0.00	\$179,745.18	-\$179,745.18	.0%

Source: Budget Transparency Portal

**Table 22: Budget execution of the IF by Programs**

**Despesas**

Ano Fiscal 2020

Grupo Detalhes do orçamento

Total	\$1,497,042,620.00	\$53,364,992.90	\$71,066,593.87	\$741,604,051.11	\$630,991,608.87	54.3%
Comissão de Administração do Fundo Infraestrutura - FI	\$184,930,022.00	\$3,378,020.13	\$3,656,048.34	\$81,784,907.46	\$96,111,046.07	46.2%
<b>Traduzir</b>	<b>Budget</b>	<b>Compromissos</b>	<b>Obrigações</b>	<b>Real</b>	<b>Saldo</b>	<b>Execução %</b>
Irrigação	\$1,194,000.00	\$251,000.00	\$225,011.79	\$323,591.83	\$394,396.38	45.9%
Master plan	\$2,636,892.00	\$0.00	\$4,498.64	\$1,480,659.39	\$1,151,733.97	56.3%
Desenvolvimento Urbano e Rural	\$2,300,000.00	\$0.00	\$800,000.00	\$0.00	\$1,500,000.00	34.8%
Edifício Pública	\$3,297,540.00	\$0.00	\$0.00	\$2,198,153.87	\$1,099,386.13	66.7%
Escolas	\$67,720.00	\$0.00	\$0.00	\$0.00	\$67,720.00	.0%
Electrical Energy	\$4,268,629.00	\$0.00	\$0.00	\$1,521,773.63	\$2,746,855.37	35.6%
Computer Equipment	\$2,588,774.00	\$0.00	\$106,001.00	\$144,000.00	\$2,338,773.00	9.6%
Hospital / Clínica	\$210,960.00	\$0.00	\$440.39	\$9,559.61	\$200,960.00	4.7%
Sub Programa Seguranca	\$2,654,211.00	\$0.00	\$18,000.00	\$40,950.46	\$2,595,260.54	2.2%
Sub Programa Defesa	\$1,154,127.00	\$126,547.93	\$1,894.51	\$654,249.90	\$371,434.66	56.8%
Monumentos	\$600,000.00	\$0.00	\$0.00	\$0.00	\$600,000.00	.0%
Estrados e Pontes	\$1,250,000.00	\$0.00	\$68,146.11	\$681,853.90	\$499,999.99	60.0%
Petrolio e Gas	\$750,000.00	\$0.00	\$0.00	\$0.00	\$750,000.00	.0%
Aeroportos	\$3,981,341.00	\$0.00	\$546,061.76	\$554,771.12	\$2,880,508.12	27.6%
Roads	\$129,821,461.00	\$2,875,010.94	\$1,081,897.53	\$65,262,933.05	\$60,601,619.48	51.1%
Pontes	\$3,502,759.00	\$0.00	\$0.00	\$700,237.39	\$2,802,521.61	20.0%
Portos	\$1,988,548.00	\$0.00	\$130,762.64	\$235,364.04	\$1,622,421.32	18.4%
Preparation of Drawings and Supervision New Projects	\$3,629,494.00	\$0.00	\$536,909.00	\$30,666.00	\$3,061,919.00	15.6%
Programa do Sector Turismo	\$16,000.00	\$0.00	\$0.00	\$0.00	\$16,000.00	.0%
Programa de Empréstimos	\$9,107,701.00	\$0.00	\$0.00	\$4,120,764.71	\$4,986,936.29	45.2%
Loan Program ADB	\$1,070,838.00	\$0.00	\$0.00	\$0.00	\$1,070,838.00	.0%
Programa Sector das Finanças	\$3,100,000.00	\$0.00	\$60,052.67	\$2,371,175.99	\$668,771.34	78.4%
Programa do Sector Juventude e Desporto	\$613,467.00	\$0.00	\$0.00	\$0.00	\$613,467.00	.0%
Comissão de Administração do Fundo Infraestrutura - FI	\$861,923.00	\$125,461.26	\$900.48	\$663,642.32	\$71,918.94	77.1%
Programa de Manutenção e Reabilitação	\$4,263,637.00	\$0.00	\$75,471.82	\$790,560.25	\$3,397,604.93	20.3%

Source: Budget Transparency Portal





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

PUBLIC FINANCE COMMITTEE

Table 23: IF budget execution by expenditure category

Despesas

Ano Fiscal 2020

Grupo Detalhes do orçamento

Total	\$1,497,042,620.00	\$53,364,992.90	\$71,066,593.87	\$741,604,051.11	\$630,991,608.87	54.3%
Comissão de Administração do Fundo Infraestrutura - FI	\$184,930,022.00	\$3,378,020.13	\$3,656,048.34	\$81,784,907.46	\$96,111,046.07	46.2%
<b>Traduzir</b>	<b>Budget</b>	<b>Compromissos</b>	<b>Obrigações</b>	<b>Real</b>	<b>Saldo</b>	<b>Execução %</b>
Salary & Wages	\$28,630.00	\$0.00	\$0.00	\$22,130.00	\$6,500.00	77.3%
Goods & Services	\$833,293.00	\$125,461.26	\$900.48	\$641,512.32	\$65,418.94	77.1%
Capital & Development	\$184,068,099.00	\$3,252,558.87	\$3,655,147.86	\$81,121,265.14	\$96,039,127.13	46.0%

According to the tables below, the IF has, so far, a budget execution rate of 46.2%, a percentage that is considered to be below the desired level.

The Education Program, the Tasi Mane Program, the Tourism Program, as well as the Youth and Sport Program, which have a budget execution rate of 0%, are noteworthy.

The State Budget 2021 aims to meet the needs of the infrastructure sector, with special focus on Roads Program, Electricity Program and Airports Program, duly included in the Infrastructure Fund's portfolio;

The Water and Sanitation Program allocates only 1% of the total amount to the Infrastructure Fund, considered a value that is clearly too low for the needs of Timor-Leste;

In the distribution of the amounts of the 21 programs that make up the portfolio of the Infrastructure Fund, there is an allocation of appropriation to programs mainly aimed at the construction of basic infrastructures, but without the intended practical effect;

By way of example and with regard to the Water and Sanitation Program, there is a reduced amount allocated for the physical construction of projects when compared to a higher allocation allocated to consultancy services related to detailed engineering design, which is not desirable;

The funds allocated to the Roads Program, the Loan Program and the Informatics Program present the largest share of the Infrastructure Fund's budget, showing the percentages of 30.8%, 21%, 12.6% respectively. These allocations make up 64% of the total allocation, which demonstrates the priority for the Government in implementing these programs;

The budgetary execution regarding the expenditure of the Infrastructure Fund is deficient, reaching, on 17 November, only 46.2%, a percentage that is considered to be clearly reduced;

There is also a lack of human resources allocated to the monitoring and inspection activities of ongoing infrastructure projects, in order to ensure, effectively and efficiently, the quality control of ongoing projects.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### B. Human Capital Development Fund

The Human Capital Development Fund (FDCH) is a special fund, having been created by Law No. 1/2011, of 14 February, under Article 32 of the Budget and Financial Management Law (LOGF). Its main objective is to develop and train human resources in the strategic priority areas for the country, which should be aligned with the general lines of government policy.

The Fund was recently regulated by Decree-Law no. 13/2020, of April 15, and its management falls to its Board of Directors, which, under the terms of article 4, is currently composed of the Minister of Higher Education, Science and Culture, which is chaired by the Minister of Finance, the Minister of Justice, the Minister of Petroleum and Minerals and the Secretary of State for Vocational Training and Employment. In order to carry out its duties and powers, the Board of Directors is supported by the Technical Secretariat for Human Capital Development.

According to books 1, page 50 and 6, page 21, the budget allocation for this fund will be distributed next year over four programs, as in previous years: “vocational training”, “Technical training”, “scholarships” and “other types of training programs”. The special nature of the Fund allows it to finance multi-annual human resources training and development programs. In addition to the National Development Strategic Plan (PED) 2011-2030, which serves as a guiding document for strategic areas for development, also the document on the Analysis and Mapping of Human Resources in the Public Sector of Timor-Leste, prepared in coordination with the institutions enrolled in the FDCH and covered by the training plans of the State institutions, it identifies the priority areas of training and the number of individuals targeted by the training programs.

The proposed allocation for the FDCH for the year 2021 is \$13.0 million, representing a growth of more than 21.5% compared to the same period of the previous year.

The programs, activities and indicators proposed for the coming year are developed on pages 22-25 of budget book 6. The following table provides the weight of each program in the Fund’s overall allocation.

**Table 24 - Distribution of FDCH Program allocations in 2021**

(Milhoes usd)					
Programa	OGE 2020	Peso Relativo (%)	Proposta OGE 2021	Peso Relativo (%)	Crescimento 2020/2021
Formação Vocacional	785.0	7.3	1,078.0	8.3	37.3
Formação Técnica	1,309.8	12.2	3,146.0	24.2	140.2
Bolsa de Estudo	6,785.4	63.2	7,764.0	59.7	14.4
Outros tipos de Formação	1,852.0	17.3	1,007.0	7.7	-45.6
<b>Total FDCH</b>	<b>10,732.2</b>	<b>100.0</b>	<b>12,995.0</b>	<b>100.0</b>	<b>21.1</b>



## PUBLIC FINANCE COMMITTEE

It appears that the scholarship program has a preponderant weight in the budget projection, absorbing 60% of the global expenditure, being immediately followed by the technical training program, with 24%. The Fund's actual execution of expenditure measured on the basis of payments made up to 23 November 2020 reaches 67%. The breakdown by sub-programs is in budget book 6 and the Committee has chosen not to repeat in its opinion, as this is very voluminous information, covering pages 28 to 35 (Portuguese version).

In addition to expenditure maps, the Budget Transparency Portal provides the status of the collection of domestic non-petroleum and petroleum revenues. Until November 23 of this year, the revenue collected by the FDCH registered \$4,300. Committee C is unaware of its origin because no own revenue has been budgeted for the Fund for the year 2020. This is a situation that is repeated systematically and to which the Government should seek to pay attention. There are also balances carried over from 2019, amounting to \$284,700 and certainly, a substantial balance will also be carried over to the next year, given the humble performance to date of 68%. Considering only payments made until 24 November 2020, the budget execution rate drops to 60%. Current budget execution is shown in the following table:

**Table 25 - Execution of the FDCH up to November 24, 2020**

Execução do FDCH até 24 novembro 2020						
FDCH - Categorias de Despesa	Dotação 2020	Compromissos	Obrigações	Pago	Saldo	Execução %
Bens e Serviços	10 732 214	64 511	299 526	6 965 957	3 402 220	67,7%
<b>TOTAL FDCH</b>	<b>10 732 214</b>	<b>64 511</b>	<b>299 526</b>	<b>6 965 957</b>	<b>3 402 220</b>	<b>67,7%</b>

The Committee again recommends that Table II of the Annex to the proposed budget law be adjusted in the future, so that it starts to include, as one of the sources of GSB financing, the estimate of accumulated balances in the FDCH account that the 2019 State Financial Statements, not yet audited, evidence.

Committee G points out in its sectoral opinion on the draft GSB law for 2021 the following problems as a result of the public hearing it had with the Board of Directors of the FDCH:

- The need to assess progress for foreign trainers (AESAC).
- The need to present an activity plan for the training of teachers in General Secondary Education and its justification.
- The need to justify the study and inspection activity plan.
- Explanation about the requirements of the partial scholarship activity plan and its justification.
- The need to establish sanctioning and other mechanisms to guarantee the return of scholarship holders to the country, as well as the reimbursement to the State of the amounts received or abandonment of their job to go to another private job in international agencies.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### VI. RAEOA BUDGET

The contents of this chapter devoted to the analysis of the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) was adapted in part from the sectorial report of the Infrastructure Committee (Committee E). It is strange that Committee C returns to verify that despite the plan and the budget of matters in respect of RAEOA, which by nature cut across all other specialized standing Committees, among these only Committee E makes reference and carries out the respective budget analysis in its sectoral opinion.

RAEOA, a territorial legal person governed by public law, endowed with administrative, financial and patrimonial autonomy, was created by Law no. 3/2014, of 18 June, which also establishes the Special Zone of Social Market Economy (ZEESM), encompassing the territories of Oe-Cusse Ambeno and Ataúro Island, functioning in the Special Zone as a complementary development pole.

The priorities identified by RAEOA and ZEESM for next year are the prevention of the pandemic COVID-19, the population's access to drinking water, the recovery of the economy, institutional normalization and the further development of infrastructure.

The completion of the construction of the *Haksolok* ship determined by Government Resolution No. 23/2020, of 22 July, has motivated frequent criticisms, given that there is still an investigation process on this project. Yet the budget to allocate to this project in the next year is \$14.0 million under the FED.

In view of the countless social and economic challenges that the inhabitants of Ataúro are going through and which have been widely publicized by the media, among them the lack of electricity and drinking water, Committee C recommends special attention to the RAEOA for the development of this region encompassed in the Special Zone, as a complementary pole for the development of great tourist potential for the country.

#### (i) Revenue

As already above mentioned, 2021 will be the first year that the budget of the Special Administrative Region of Oecusse (RAEOA) is truly autonomized under the State Budget, consisting of tables IV (Revenue) and V (Expenses) of the proposed law.

The forecast for total revenues for that Special Administrative Region for the next year is \$207.4 million, 18.4% higher than the estimate for the year 2020. Part of this revenue, in the amount of \$127 million, intended to finance the expenses of the Region in 2021, while the remaining balance will be carried forward for the following budget year. Some deputies of Committee C criticized RAEOA for intending to resort to partial financing of their 2021 expenses by FCTL up to the amount of \$29.2 million, while at the same time reporting such high treasury balances.



## PUBLIC FINANCE COMMITTEE

The following table makes it possible to compare the RAEOA global revenue approved by the GSB law for the year 2020 and its distribution as stated in PPL GSB 2021:

**Table 26: RAEOA 2021-2022 revenue (millions of dollars)**

Categorias	OGE 2020	OGE 2021	Variação (USD)	Variação (%)
Transferências do Orç. Adm. Central	0	29,2	29,2	100%
Receitas Tributárias (Taxas)	0,67	0,76	0,09	13,4%
Saldo de Gerência	253,4	177,4	(76)	(30,0%)
i. financiamento da despesa	76,0	97,0	21	27,6%
ii. não serão utilizados	177,4	80,4	(97)	(54,7%)
<b>Total</b>	<b>254,1</b>	<b>207,4</b>	<b>(46,7)</b>	<b>(18,4%)</b>

Fonte: PPL OGE para 2021

The prediction of global receipts for RAEOA in 2021 above (\$207.4 million) is composed of \$29.2 million to be transferred from the Central Administration Budget (FCTL) for RAEOA by category Transfers public, by \$0.8 million corresponding to “Income Tax (Rates)” to raise, by \$177.4 million to make up the estimate of Cash Balanced to be carried over from 2020, of which \$97.0 million is intended to finance expenditures in the Region in 2021, while the surplus \$80.4 million will be carried over to the Region’s budget for the following year.

The following table, illustrates the RAEOA Revenue Budget for the next year, and respective sources of funding, totaling \$127.0 million:

**Table 27: RAEOA Budget Revenues (millions of dollars)**

Categorias	OGE 2020	OGE 2021	Variação \$	Variação %
Transferências do Orç. Adm. Central	0,0	29,2	29,2	100%
Receitas Tributárias (Taxas)	0,0	0,76	0,09	13,40%
Saldo de Gerência (parcial)	76,0	177,4	-76	-30,00%
<b>Total</b>	<b>76,0</b>	<b>207,4</b>	<b>-46,7</b>	<b>-18,40%</b>

Source: GSB Law 2020 and PPL GSB 2021



## PUBLIC FINANCE COMMITTEE

In view of the strangeness of Committee C regarding the very small forecast of domestic tax and non-tax revenues to be collected next year, the RAEAO Authority informed, as later confirmed by the Ministry of Finance, that these revenues are collected and deposited in the FCTL (Treasury) account until the Region has its own tax regime and that its value was estimated at \$2.8 million for the next year. It is a situation that has been going on for years and that is why Committee C encourages the Government to proceed with the missing diploma.

The state of play regarding the revenue collected so far has been presented by the Region in writing. At the end of October, concrete tax collections reached \$684,600 and other non-tax revenue, including interest on time deposits with a value of \$1.4 million, totaling \$2.4 million, confirming a significant fall in revenue this year.

### (ii) Expenses

The value of the Budgeted Expenditure proposed by RAEAO for next year equals its budget receipts, standing at \$127 million. The next chart compares each category of expenditure with the approved budget allocation for 2020, in the amount of \$76 million (Law on 2020 State Budget), with the proposed allocation of expenses of the Region for next year (PPL GSB 2021), which exceeds the first by \$51 million dollars (+67.1%).

**Table 28: RAEAO's Expense budget (millions of dollars)**

Category	GSB 2020	GSB 2021	Variation (value)	Variation (%)
Salaries and Wages	8.8	11.1	2.3	26.1%
Goods and services	18.5	23.8	5.3	28.6%
Public Transfers	4.8	4.3	(0.5)	(10.4)
Minor Capital	1.7	2.4	0.7	41.2%
Development Capital	42.2	85.5	43.3	102.6%
<b>Total</b>	<b>76.0</b>	<b>127.0</b>	<b>51.0</b>	<b>67.1 %</b>

While the expenses to be incurred under the “Public Transfers” category will decrease by 10.4% next year, all other expenditure categories will increase their allocation. Special mention the volume of expenditure proposed for the category “Development Capital” in 2021, of \$85.5 million, corresponding to a percentage increase of 102.6% relative to the same period.

The following table was produced by Committee E from budget book 3-C information, containing the distribution of the expenses of RAEAO to 2021, by Regional Secretariat:





**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 29: RAEOA expenditure | Regional Secretariat (dollars)**

Kategoria	TOTAL	GPA	SRF	SRA	SRAG	SRS	SREJSS	SRTP	SRCI
<b>TOTAL</b>	<b>127,000,000</b>	<b>76,477,021</b>	<b>4,690,542</b>	<b>1,482,881</b>	<b>1,103,493</b>	<b>4,785,442</b>	<b>7,055,519</b>	<b>1,736,869</b>	<b>424,921</b>
SV	11,072,049	1,385,455	746,426	374,134	773,109	2,368,142	4,793,981	363,563	267,239
BS	23,775,569	16,414,201	3,734,116	660,912	272,384	1,989,180	343,788	268,306	92,682
KM	2,360,470	1,015,600	210,000	61,000	58,000	428,120	417,750	105,000	65,000
CD	85,506,102	85,506,102	0	0	0	0	0	0	0
TP	4,285,810	1,398,975	0	386,835	0	0	1,500,000	1,000,000	0

Office of the President of the Authority ..... 76.5 million  
 Regional Secretariat for Finance ..... 4.7 million  
 Regional Administration Secretariat..... 1.5 million  
 Regional Secretariat for Agriculture and Fisheries..... 1.1 million  
 Regional Secretariat for Health ..... 4.8 million  
 Regional Secretariat for Education and Social Solidarity ..... 7.1 million  
 Regional Secretariat for Land and Property ..... 1.7 million  
 Regional Secretariat for Trade and Industry.....424.9 million

The following is a comparative table with information on expenditure executed between 2017 and 2019, and comparative breakdown on economic categories GSB 2020 and GSB 2021:

**Table 30: RAEOA expenditure: 2017 to 2021 | Breakdown of economic categories**

Despesas RAEOA /categorias	Execução 2017	Execução 2018	Execução 2019	Dotação 2020	Execução Jan/Out 2020	Proposta 2021
Salários e Vencimentos	6,6	6,9	8,8	8,8	5,9	11,1
Bens e Serviços	14,1	12,3	14,5	14,5	5,4	23,8
Capital Menor	1,6	0,6	1,7	1,7	0,06	2,4
Capital de Desenvolvimento	87,3	67,1	47,2	13,2	4,8	85,5
Transferências	2,1	1,0	2,8	4,8	1,0	4,3
Fundo Especial de Desenvolvimento	0,6	0,2	0,0	29,0	0,0	0,0
Fundo de Contingência	0,0	0,0	1,0	4,0	0,1	0
<b>TOTAL</b>	<b>112,3</b>	<b>88,1</b>	<b>76,0</b>	<b>76,0</b>	<b>17,3</b>	<b>127,1</b>

Sources: Book 3-C, p.120-121 and written responses from RAEOA to Committee C, dated 11.11.2020

The table shows that the Special Development Fund (FED) of the Region did not disburse any amount in the period between 2017 and 2020 (until October) and, according to the explanation



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

#### **PUBLIC FINANCE COMMITTEE**

provided by the President of the Authority, the appropriation allocated to it by the GSB for the year 2020 was \$29 million, added to the amount of previous capitalizations.

Considering that the RAEOA budget management system is in transition and will not be integrated into the integrated financial management system *Free Balance* by the end of 2020, the corresponding budget implementation by the end of October was requested by Committee C to RAEOA at the 10 November hearing, which was subsequently provided in writing. On the process of integration into the national financial management system, Committee C welcomes inter-institutional cooperation among the Authority RAEOA and ZEESM, the Ministry of Finance and UPMA, to develop a commitment to computerization and integration of financial management processes the region in the two automated systems of program budgeting and of national financial management, the *Free Balance* (FMIS) and *Dalan ba Futuru* Timor-Leste. This integration will improve much everyday management and at the same time it will allow greater monitoring of the region, by the supreme audit institutions, especially the National Parliament.

Another relevant issue that was raised at the hearing of the President of the RAEOA Authority and later clarified, concerns the Region's responsibility for preventing and combating COVID-19. Was to be known, the response received, the Ministry of Health transferred \$2.4 million to RAEOA on 13 October, to cover expenses and commitments in this area.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

PUBLIC FINANCE COMMITTEE

## VII. SOCIAL SECURITY BUDGET

### (i) Introductory considerations

The General State Budget (GSB) presents the budget forecasts of the bodies and services of the Public Administrative Sector, comprising the Budget of the Central Administration, the Budget of the Special Administrative Region of Oe-Cusse Ambeno and the Budget of Social Security.

Table 31

Quadro 5: Inscritos e Beneficiários do Sistema de Segurança Social 2017-2020

	2017	2018	2019	2020	
				Até Setembro	Meta
Beneficiários por regime					
Regime não contributivo	95 299	97 464	97 441	92 408	100 000
Idosos	87 001	89 467	89 060	84 247	90 000
Inválidos	8 298	7 997	8 381	8 161	10 000
Regime transitório – Pensões	1 242	1 449	1 663	1 704	1 800
Invalidez	7	4	6	6	6
Velhice	510	604	684	673	694
Sobrevivência	725	841	973	1 025	1 100
Regime geral contributivo	0	337	1 413	654	1 400
Subsídios	0	337	1 203	643	1 303
Maternidade	0	162	828	374	900
Paternidade	0	134	234	156	250
Morte	0	41	139	110	150
Interrupção gravidez	0	0	2	2	2
Risco Clínico	0	0	0	1	1
Pensões	0	0	210	11	97
Invalidez	0	0	1	0	0
Velhice	0	0	35	6	30
Sobrevivência	0	0	174	5	67
Registos no regime geral					
Trabalhadores	51 647	65 614	76 242	87 759	
Entidades Empregadoras	240	885	1 619	2 846	

The **Social Security Sector** in Timor-Leste is made up of:

- non-contributory social security regime;
- contributory social security regime (distribution and capitalization);
- Social Security Institutions: the National Social Security Institute (INSS) and the Social Security Reserve Fund (FRSS).



## **PUBLIC FINANCE COMMITTEE**

The Social Security Sector, (including the social security system and Social Security Institutions, INSS and FRSS), is managed through its own and autonomous budget - the Social Security Budget (OSS) - under the terms provided for in article 61 of Law No. 12/2016, of 14 November. The OSS integrates, within its perimeter, all income and expenses from the Social Security Sector, that is, from social security systems (non-contributory, contributory contribution and capitalization contributory) and administration (from INSS and FRSS). In short, the Social Security Budget is unitary, comprising all expenses and all revenues from the INSS and FRSS. The Social Security Budget includes:

- i. The INSS budget, which includes the budgets:
  - a. The Non-Contributory Social Security Regime that respects citizenship rights, with social benefits not dependent on previous contributions;
  - b. The Contributory Social Security Regime, which includes the components of the General Social Security Regime and the Transitional Social Security Regime;
  - c. Administration of the Social Security System.
- ii. The FRSS budget, which refers to the Social Security Contribution Scheme managed in Capitalization.

The revenues of the Social Security Budget are allocated to the financing of Social Security expenses and, in addition, the annual surpluses of the Social Security Contributory Scheme of distribution revert to the FRSS. To this extent, specifying, not being provided for in previous legislation, it proposes the proposed 2021 GSB Law, as it was proposed and approved for 2020, that up to a maximum of 5% of the estimated annual revenue from contributions may be allocated to the payment of expenses with the operational management of the FRSS itself.

Finally, it should be noted that the INSS prepares, within the same deadline set for the GSB, individual and consolidated reports of physical and financial execution, as well as the Social Security Account, which it delivers to the members of the Government responsible for the areas of finance and social security, and to the High Administrative and Tax Court.

### **A. Priorities and Governance Measures for 2021**

The Government pre-determines as a governmental priority, in matters of Social Security, the 'Social well-being, social protection and citizenship', in particular, the 'inclusion, protection and social solidarity', namely:

- women and children - with support for female emancipation, equal opportunities and the most deprived families (conditional grant from the mother's grant);
- 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 groups at risk.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

In this context, the Government, based on the priorities mentioned above, intends to apply the following measures, for the fiscal year 2021, in specific:

- Install and ensure good management and strengthening of the Integrated Social Protection System;
- Manage social assistance initiatives;
- Promote and protect the rights of the child;
- Contribute to the fight against HIV/AIDS;
- Promote Social Rehabilitation, Counseling and Recovery;
- Ensure quality service to citizens in situations of social vulnerability, through the implementation of social protection, social assistance, rehabilitation and social security policies and programs, at national and municipal levels;
- Promote reintegration and community inclusion initiatives;
- Implement the Gender Policy;
- Promote good governance and institutional management in the Ministry and in all services dependent on it, strengthening institutions and increasing the capacity of human resources.

### B. Contribution rate

During the year 2021, the contributory rate for Social Security is 10%, distributed as follows:

- i. 6% of the employer's responsibility;
- ii. 4% of the worker's responsibility.

Without prejudice to the aforementioned, employers in the private sector may benefit, under legal terms, from reductions and exemptions in the portion of the contributory rate for which they are responsible, for transitional periods, in order to support and encourage adherence to the Social Security Contributory Scheme.

### C. Public Transfers

Public Transfers comprise all the money that the Government spends on concessions and payroll deductions. The allocation for this category is \$669.1 million, which represents an increase of 22.9% compared to the State Budget for 2020. However, it only includes **\$42.7 million** in Appropriations for the Whole Government, destined to the Contributory Scheme and Non-Contributory Scheme, to be transferred to the National Social Security Institute.



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**D. National Social Security Institute**

The **INSS** was created in December 2016 (Decree-Law 47/2016 of 14 December), as a public institute, endowed with administrative and financial autonomy and its own assets, and is the central body of management and execution of the entire system social security and the entire associated process cycle, from customer service, data recording, contributions collection, analysis and payment of benefits, registration of contributory careers, normative application, management of physical and financial resources, preparation, management and budgetary and financial control of the Social Security Budget (OSS), and preparation of studies and technical proposals. In other words, the INSS is responsible for managing and executing the entire Social Security System and ensuring relations with taxpayers, beneficiaries and the general public.

In short, the INSS is the entity responsible for collecting revenue and incurring expenses from the social security system, assuming the sole Treasury functions of the social security system. In this context, for 2021, it presents the following proposal:

**Table 32**

INSS	OSS 2021	INSS	OSS 2021
RECEITA		DESPESA	
<b>Receitas Correntes</b>	<b>80 438 103,00</b>	<b>Despesas Correntes</b>	<b>43 951 469,00</b>
Contribuições para a Segurança Social	37 675 000,00	Despesas com pessoal	916 741,00
Regime Contributivo	37 675 000,00	Aquisição de bens e serviços	447 460,00
Sanções e outras penalidades	0,00	Juros e outros encargos	250 000,00
Rendimentos	50 000,00	Transferências Correntes	42 165 568,00
Transferências Correntes	42 713 103,00	Para o Estado (OE)	0,00
Do Estado (OE)	42 713 103,00	Ministério das Finanças	0,00
Ministério das Finanças	42 713 103,00	Para Famílias/Pessoais	42 165 568,00
Outros Ministérios	0,00	Regime não Contributivo	36 000 000,00
Outras transferências correntes	0,00	Regime Contributivo	6 165 568,00
		Outras prestações (despesas de outros Ministérios, cujo pagamento a SS assume)	0,00
Outras receitas correntes	0,00	Outras Despesas Correntes	171 700,00
		<b>Despesas Capital</b>	<b>131 486 634,00</b>
		Aquisição de bens de capital	189 875,00
		Capital menor	189 875,00
		Capital de desenvolvimento	0,00
		Outras despesas de capital	0,00
		Transferências de capital	131 296 759,00
		Para a Segurança Social	131 296 759,00
		Transferências para o Fundo de Reserva da Segurança Social (FRSS)	131 296 759,00
<b>Saldo de gestão do ano anterior</b>	<b>95 000 000,00</b>		
<b>TOTAL</b>	<b>175 438 103,00</b>	<b>TOTAL</b>	<b>175 438 103,00</b>

**E. Social Security Reserve Fund**

The **FRSS** is based on Law No. 12/2016, of November 14, which constitutes its management model. The funds accumulated in the FRSS result from contributions from beneficiaries and, therefore, do not belong to the State - they are not “public money”, under the terms usually





## PUBLIC FINANCE COMMITTEE

referred to and which are set out in article 12 of Law no. 13/2009, of 21 October, on Budget and Financial Management, - are funds allocated to the payment of the benefits of the Social Security contributory regime, acting as the “faithful depositary” and “manager” of these contributions.

In this sense, the Government approved that the FRSS be constituted, under the terms that already result from Law no. 12/2016, of 14 November, as an autonomous patrimony, being attached to a specific purpose: the structural stabilization of the financial regime of the social Security. Being an autonomous asset, and FRSS funds not being considered public money “, the Government approved that the FRSS has legal personality, in order to protect the Fund’s assets, ensuring that it does not respond/is not burdened with the obligations and responsibilities INSS or any other entity. In this context, it presents the following proposal:

Table 33

FRSS	OSS 2021	FRSS	OSS 2021
RECEITA		DESPESA	
Receitas Correntes	1 800 000,00	Despesas Correntes	1 540 450,00
Contribuições para a Segurança Social	1 500 000,00	Despesas com pessoal	34 450,00
Regime Contributivo	1 500 000,00	Aquisição de bens e serviços	6 000,00
Rendimentos de aplicações	300 000,00	Juros e outros encargos	0,00
Transferências Correntes	0,00	Outras despesas correntes	1 500 000,00
Outras receitas correntes	0,00		
Receitas de Capital	131 337 209,00	Despesas Capital	131 596 759,00
Transferências de capital	131 337 209,00	Ativos Financeiros	131 596 759,00
Do Estado (OE)	40 450,00	Passivos Financeiros	0,00
Transferências de capital do Estado - MF	40 450,00	Outras despesas de capital	0,00
Segurança Social	131 296 759,00		
Transferências de capital do Regime Contributivo - saldos anuais do Regime Contributivo	131 296 759,00		
Outras transferências de capital	0,00		
Ativos Financeiros	0,00		
Passivos Financeiros	0,00		
Outras receitas de capital	0,00		
Saldo de gerência do ano anterior	0,00		
<b>TOTAL</b>	<b>133 137 209,00</b>	<b>TOTAL</b>	<b>133 137 209,00</b>

### (ii) OSS Structural Assessment

The Social Security Plan, for the year 2021, **includes 4 major programs**, corresponding to the schemes/components of the social security system:

- i. Distribution Contribution Scheme;
- ii. Non-Contributory Scheme;
- iii. Administration of the Social Security System - management and execution;
- iv. Contribution Capitalization Scheme - Social Security Reserve Fund.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

The first two programs are executed by the INSS and are carried out by the central activities of the system, that is, by the management and payment of social benefits under the transitional, general and non-contributory contributory regimes.

The third program corresponds to the regular activities of institutional management and functioning of the bodies, services and units of the Institutions of the social security system - the INSS and the FRSS.

The fourth program concerns the management of the FRSS itself, that is, the management and investments of the FRSS asset portfolio in the capital markets. This function is the responsibility of the new FRSS Institution, without prejudice to concluding, as already mentioned, an Operational Management Agreement with a third party. Although the reference portfolio has yet to be built, an estimated profitability of 3% is expected now.

The National Institute of Social Security, IP (INSS) has a transfer from the State to the social security budget in the amount of \$42,753,553, to finance expenses with the Non-Contributory and Transitional Schemes, and \$15,500,000 to the social security budget - contributory regime, registered as expenses in the category “Public Transfers” through Whole of Government.

Table 34

### Anexo 02: Lista de Programas e Orçamento por Setor de Governação e Entidades

Código dos Programas	Programas	Dotações Orçamentais
Prioridade 01: Bem-Estar Social, Proteção Social e Cidadania		645,180,926
022	Transferência Orçamento Segurança Social	42,753,553



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

PUBLIC FINANCE COMMITTEE

Table 35

Tabela 1: Orçamento de Fontes Combinadas para 2019 a 2025, em milhões de dólares

	2019 concr.	2020 orçam.	2021 orçam.	2022 proj.	2023 proj.	2024 proj.	2025 proj.
Orçamento de Fontes Combinadas	1.405,6	1.681,0	2.050,1	2.499,9	2.382,7	2.044,5	2.167,7
Despesas governamentais por Fundos	1.243,8	1.497,0	1.895,0	2.433,4	2.370,7	2.035,7	2.159,0
FCTL (excl. empréstimos, inc. UE, inc. segurança social)	1.169,6	1.426,3	1.811,3	2.366,0	2.310,8	1.987,3	2.066,8
<i>Segurança Social</i>	35,1	41,5	42,7	44,4	46,2	48,0	50,0
União Europeia (Apoio Orçamental)	6,7	10,6	9,1	9,0	5,0	2,8	3,8
FDCH	17,8	10,7	13,0	13,5	14,1	14,6	15,2
Empréstimos (desembolsos)	49,8	60,0	70,7	53,9	45,9	33,8	77,0
Compromissos de Parceiros de Desenvolvimento	161,8	184,0	155,1	66,5	12,0	8,7	8,7

Fonte: Ministério das Finanças, 2020.

The OSS for the year 2021 integrates the budget of the two institutions of the social security system - INSS and FRSS - and all the systems/components of the system:

- i. INSS budget, including budgets:
  - a. the non-contributory regime;
  - b. the contributory distribution scheme (transitional and general arrangements);
  - c. and the INSS Administration.
- ii. FRSS budget, including budgets:
  - a. the contributory capitalization regime;
  - b. and the FRSS Administration.

In global terms, the OSS proposal **for the year 2021 totals \$177,278,553** (consolidated total), both on the side of expected global revenues and on the side of estimated global expenses.

The OSS proposal for 2021 shows a difference between the estimated effective revenues (\$82,278,553) and the estimated effective expenses (\$45,681,794) of \$36,596,759, related to the surplus budget balance that is expected in the contributory distribution scheme (\$36,296,759), plus an amount expected to be obtained from investment income in the FRSS (\$300,000).

This contributory budget balance, as well as the balance carried over from the previous year (estimated to be \$95,000,000) will be transferred to the FRSS, where it should be invested in the capital markets. Therefore, it is estimated that the value accumulated in the FRSS at the end of the year 2021 is \$131,596,759.79 - accounting for income in the FRSS only about \$300,000,



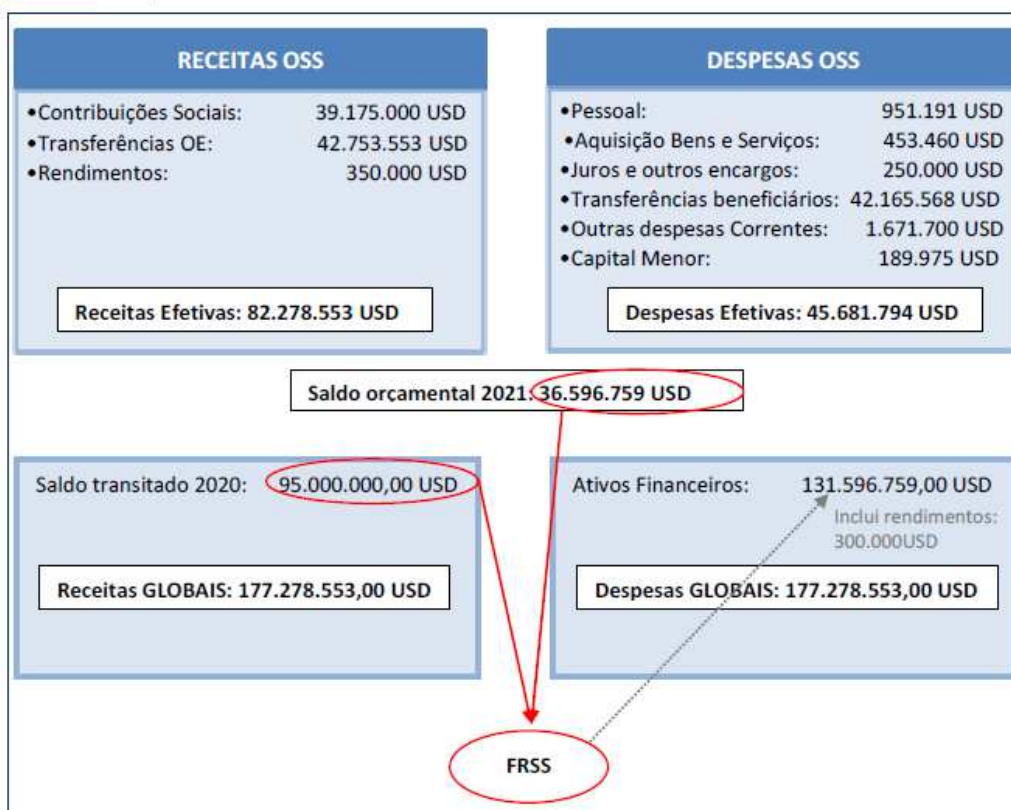
**PARLAMENTO NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

since the FRSS is not yet effectively constituted on this date, and it is therefore more difficult to make predictions in this area.

**Table 36**

**Figura 14: OSS para 2021 – Síntese**



Social Security revenues amount to \$308.6 million. However, eliminating the revenues that consist of transfers between regimes, in order not to count these revenues in duplicate, the revenue amounts to \$177.3 million, of which:

- \$39.2 million corresponds to Social Security contributions;
- \$0.4 million corresponds to income;
- \$42.8 million corresponds to current transfers; and
- \$95.0 million corresponds to the balance carried over from the previous fiscal year.

Social Security expenses amount to \$308.6 million. However, eliminating expenses that consist of transfers between regimes, in order not to account for these expenses in duplicate, the expense



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

amounts to \$177.3 million. The appropriations are divided as follows, according to the economic classification:

- \$1.1 million for Personnel Expenses;
- \$0.5 million for the acquisition of goods and services;
- \$0.3 million for interest and other charges;
- \$42.2 million for Current Transfers;
- \$1.7 million for Other Current Expenses;
- \$0.2 million for Capital Goods Acquisition;
- \$131.6 million for financial assets.

### A. Revenue

Global revenues include the estimated balance carried over from year 2020, in the amount of \$95,000,000, and the actual revenues expected to be collected during the year 2021, in the total amount of **\$82,278,553**. Actual revenues include:

- transfers from the State Central Administration** to finance the transitional and non-contributory regimes and the administration, in the amount of \$42,753,553;
- contributions from workers and employers**, in the amount of \$39,175,000, which represent 47.61% of the total effective income;
- income from financial investments and treasury surpluses**, in the amount of \$350,000 - of this amount, \$50,000 refers to interest arising from the application of treasury surpluses, in short-term and risk-free investments, from funds temporarily deposited in the accounts commercial bank accounts on behalf of the INSS; and \$300,000 refers to financial income obtained from investing FRSS assets in the capital markets.

Revenue from transfers from the State Central Administration rose 3.04%, essentially to finance the Administration expenses of the entire social security system (plus \$955,268), including personnel expenses (salaries and security) acquisition of goods and services.





**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 37**

**Quadro 8 – Receitas Globais do OSS 2021, por Programa e categoria orçamental**

Categoria / rubrica	Programas/Regimes					Peso relativo Categorias no total receitas efetivas (%)
	Regime Contributivo de Repartição	Regime não Contributivo	Administração da Segurança Social	Regime Contributivo de Capitalização	Total	
Contribuições para a Segurança Social	37.675.000,00		1.500.000,00		39.175.000,00	47,61%
Regime Contributivo	37.675.000,00		1.500.000,00		39.175.000,00	47,61%
Sanções e outras penalidades					0,00	0,00%
Rendimentos	50.000,00			300.000,00	350.000,00	0,43%
Transferências Correntes	4.737.327,00	36.000.000,00	2.016.226,00		42.753.553,00	51,96%
Transferências do Orçamento da Administração Central	4.737.327,00	36.000.000,00	2.016.226,00		42.753.553,00	51,96%
Outras receitas correntes					0,00	0,00%
Transferências de capital				131.296.759,00	131.296.759,00	
Segurança Social - Transferências de capital do Regime Repartição para FRSS				131.296.759,00	131.296.759,00	
Ativos Financeiros					0,00	
Passivos Financeiros					0,00	
Outras receitas de capital					0,00	0,00%
Saldo de gestão do ano anterior	95.000.000,00				95.000.000,00	
<b>TOTAL</b>	<b>137.462.327,00</b>	<b>36.000.000,00</b>	<b>3.516.226,00</b>	<b>131.596.759,00</b>	<b>308.575.312,00</b>	
<b>TOTAL CONSOLIDADO</b>	<b>137.462.327,00</b>	<b>36.000.000,00</b>	<b>3.516.226,00</b>	<b>300.000,00</b>	<b>177.278.553,00</b>	
<b>TOTAL EFETIVO CONSOLIDADO</b>	<b>42.462.327,00</b>	<b>36.000.000,00</b>	<b>3.516.226,00</b>	<b>300.000,00</b>	<b>82.278.553,00</b>	<b>100,00%</b>
Peso relativo Programas/regimes no total receitas efetivas (%)	51,61%	43,75%	4,27%	0,36%	100,00%	
Peso relativo Programas/regimes no total receitas (consolidado) (%)	77,54%	20,31%	1,98%	0,17%	100,00%	

The OSS proposal for 2021 foresees an 8.72% increase in effective revenue, compared to the OSS for the year 2020, mainly due to:

- the increase in earnings (by \$200,000, or 133.33%), is due to the fact that, in 2021, the effective accumulation of funds in the FRSS will begin, for the first time;
- and social contributions (at \$5,383,583, or 15.93%), is due to the foreseeable increase in the number of contributors to the social security system, as well as some debt recovery.

## B. Expense

The global expenses include the actual expenses expected to be made during the year 2021, in the **total** amount of **\$45,681,794**, and investments in financial assets, related to the investment in the capital markets of the amounts accumulated in the FRSS, in the amount of **\$131,596,759**.





**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 38**

**Quadro 10 – Despesas Globais do OSS 2021, por Programa e categoria orçamental**

Categoria / rubrica	Programas/Regimes					Peso relativo Categorias no total receitas efetivas (%)
	Regime Contributivo de Repartição	Regime não Contributivo	Administração da Segurança Social	Regime Contributivo de Capitalização	Total	
Despesas com Pessoal			951.191,00		951.191,00	2,08%
Remunerações			897.350,00		897.350,00	1,96%
Segurança Social (6% EE)			53.841,00		53.841,00	0,12%
Aquisição de bens e serviços			453.460,00		453.460,00	0,99%
Aquisição de bens			27.000,00		27.000,00	0,06%
Aquisição de serviços			426.460,00		426.460,00	0,93%
Juros e outros encargos			250.000,00		250.000,00	0,55%
Transferências Correntes	6.165.568,00	36.000.000,00	0,00		42.165.568,00	92,30%
Transferências para beneficiários	6.165.568,00	36.000.000,00	0,00		42.165.568,00	92,30%
Outras despesas Correntes			1.671.700,00		1.671.700,00	3,66%
Aquisição de bens de capital			189.875,00		189.875,00	0,42%
Capital Menor			189.875,00		189.875,00	0,42%
Capital Desenvolvimento			0,00		0,00	0,00%
Ativos Financeiros				131.596.759,00	131.596.759,00	
Transferências de capital	131.296.759,00		0,00		131.296.759,00	
Segurança Social - Transferências de capital do Regime Repartição para FRSS	131.296.759,00				131.296.759,00	
<b>TOTAL</b>	<b>137.462.327,00</b>	<b>36.000.000,00</b>	<b>3.516.226,00</b>	<b>131.596.759,00</b>	<b>308.575.312,00</b>	
<b>TOTAL CONSOLIDADO</b>	<b>6.165.568,00</b>	<b>36.000.000,00</b>	<b>3.516.226,00</b>	<b>131.596.759,00</b>	<b>177.278.553,00</b>	
<b>TOTAL EFETIVO CONSOLIDADO</b>	<b>6.165.568,00</b>	<b>36.000.000,00</b>	<b>3.516.226,00</b>	<b>0,00</b>	<b>45.681.794,00</b>	<b>100,00%</b>
Peso relativo Programas/regimes no total despesas efetivas (%)	13,50%	78,81%	7,70%	0,00%	100,00%	
Peso relativo Programas/regimes no total despesas (consolidado) (%)	3,48%	20,31%	1,98%	74,23%	100,00%	

Actual expenses include:

- personnel expenses, including salaries and salaries and the contribution of Social Security Institutions to the contributory regime as employers (6% of the declared remuneration of employees), in the amount of \$951,191, representing 2.08% of total expenses effective;
- acquisition of goods and services, in the amount of \$453,460, with a weight of only 0.99% in the total effective expenses for the year 2021. Most of this amount, \$300,000, is intended to hire specialized consultancy to continue the construction of the SISS --- the first phase, relating to the construction of the SIFSS, being financed by Portuguese Cooperation in 2020;
- interest and other financial charges, with an amount of \$250,000 and a weight of 0.55% in total effective expenses;
- current transfers to beneficiaries, in the amount of \$42,165,568, which represents the largest slice of OSS 2021, with a weight of 92.30% of total effective expenses. This



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

#### **PUBLIC FINANCE COMMITTEE**

involves the payment of social benefits entitled to the beneficiaries of all social security systems (non-contributory, transitional and general);

- v. other current expenses, in the amount of \$1,671,700 (3.66% of total effective expenses), of which \$1,500,000 is intended to pay the operational management of the FRSS to the third party (Central Bank of Timor-Leste) to whom it will be awarded the provision of this service;
- vi. acquisition of capital goods, in the amount of \$189,875, for the acquisition of a new server to accommodate the new computer system, and filing cabinets.

The OSS proposal for 2021 foresees an increase of only 1.61% in actual expenses, compared to OSS in the year 2020, this increase being mainly due to the increase in administration expenses, in particular expenses with “acquisition of goods and services” (plus \$392,500) and “personnel expenses” (+35.18%).

#### **C. Execution analysis**

The fiscal year 2020 was a particularly difficult year, given the pandemic caused by COVID, but it was also the year in which the FRSS constitution and its management model was approved, so the Government expects 2021 to be the year of consolidation of the current system.

As in 2019, in 2020, the perimeter of the OSS returned to integrate the entire Social Security Sector, that is, all social security regimes and Institutions. This has, however, been a particularly difficult year, given:

- i. extended period in duodecimal regime - although not applicable in the case of social benefits, as provided for in article 3.3(f) of Government Decree no. 1/2020, of 15 January, with the new wording given by Government Decree 4/2020, of 4 April;
- ii. and the pandemic caused by COVID19. These two factors have conditioned the development of the current activities initially planned, even preventing the realization of some of them, which has been revealed in the execution rate.



**PARLAMENTO NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

**Table 39**

Anexo 4.3 – Mapas de Execução Orçamental OSS 2020 – Jan a Setembro – *Resumo Global*

Rubricas	OSS inicial	OSS corrigido	Execução do ano anterior	Total Execução	Taxa Execução (%)	Saldo Execução
			Janeiro a Dezembro	Janeiro a Setembro	Janeiro a Setembro	
<b>RECEITAS</b>						
Saldo do ano anterior com aplicação em despesa	62.711.682,79	62.711.682,79	38.984.328,26	62.711.682,79	100,00%	0,00
<b>SALDO DO ANO ANTERIOR</b>	<b>62.711.682,79</b>	<b>62.711.682,79</b>	<b>38.984.328,26</b>	<b>62.711.682,79</b>	<b>100,00%</b>	<b>0,00</b>
<b>RECEITAS CORRENTES</b>	<b>75.682.375,00</b>	<b>75.682.375,00</b>	<b>64.042.310,22</b>	<b>48.830.298,41</b>	<b>64,52%</b>	<b>26.852.076,59</b>
Contribuições e Cotizações	33.791.417,00	33.791.417,00	23.819.996,44	16.280.938,78	48,18%	17.510.478,22
Sanções e Penalidades	0,00	0,00	0,00	0,00	#DIV/0!	0,00
Rendimentos	150.000,00	150.000,00	226.111,53	99.859,45	66,57%	50.140,55
Transferências Correntes	41.740.958,00	41.740.958,00	39.996.202,25	32.449.500,18	77,74%	9.291.457,82
Transferências do Estado - Ministério das Finanças	41.490.958,00	41.490.958,00	39.996.202,25	32.449.500,18	78,21%	9.041.457,82
Para financiamento do SAI	36.000.000,00	36.000.000,00	35.148.960,00	29.290.799,00	81,36%	6.709.201,00
Para financiamento do regime transitório	4.430.000,00	4.430.000,00	3.939.204,00	2.688.136,00	60,68%	1.741.864,00
Para financiamento das despesas de administração	1.060.958,00	1.060.958,00	908.038,25	470.565,18	44,35%	590.392,82
Para financiamento da garantia de valores mínimos de pensão	0,00	0,00	0,00	0,00	#DIV/0!	0,00
Transferências do Estado - Outros Ministérios	0,00	0,00	0,00	0,00	#DIV/0!	0,00
Outras Transferências (Resto do Mundo)	250.000,00	250.000,00	0,00	0,00	0,00%	250.000,00
Outras receitas correntes	0,00	0,00	0,00	0,00	#DIV/0!	0,00
<b>RECEITAS DE CAPITAL</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>#DIV/0!</b>	<b>0,00</b>
<b>Transferências de Capital</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>#DIV/0!</b>	<b>0,00</b>
Transferências do Estado - Ministério das Finanças	0,00	0,00	0,00	0,00	#DIV/0!	0,00
Outras transferências de Capital	0,00	0,00	0,00	0,00	#DIV/0!	0,00
Ativos Financeiros	0,00	0,00	0,00	0,00	#DIV/0!	0,00
Outras receitas de capital	0,00	0,00	0,00	0,00	#DIV/0!	0,00
<b>OUTRAS RECEITAS</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>0,00</b>	<b>#DIV/0!</b>	<b>0,00</b>
<b>TOTAL RECEITA+SALDO</b>	<b>138.394.057,79</b>	<b>138.394.057,79</b>	<b>103.026.638,48</b>	<b>111.541.981,21</b>	<b>80,60%</b>	<b>26.852.076,58</b>

**Table 40**

Rubricas	OSS inicial	OSS corrigido	Execução do ano anterior	Cabimentos ano corrente	Total Execução	Taxa Execução (%)	Saldo Execução	Saldo disponível Execução+ Cabimentos
			Janeiro a Dezembro	Janeiro a Setembro	Janeiro a Setembro	Janeiro a Setembro	Saldo Execução	Saldo disponível Execução+ Cabimentos
<b>DESPESAS</b>								
<b>DESPESAS CORRENTES</b>	<b>44.356.998,00</b>	<b>44.687.303,52</b>	<b>40.223.905,69</b>	<b>32.146.546,02</b>	<b>20.132.606,63</b>	<b>45,05%</b>	<b>24.554.696,89</b>	<b>12.540.757,50</b>
Despesas com Pessoal	703.658,00	703.658,00	453.248,25	520.033,00	333.784,02	47,44%	369.873,98	183.625,00
Aquisição de bens e serviços (funcionamento)	61.500,00	60.990,00	104.823,15	37.000,10	29.870,45	48,98%	31.119,55	23.989,90
Juros e outros encargos	250.000,00	250.000,00	239.976,88	250.000,00	9.964,24	3,99%	240.035,76	0,00
Transferências Correntes	41.816.040,00	42.147.582,52	39.406.991,41	31.331.964,92	19.755.349,92	46,87%	22.392.232,60	10.815.617,60
Transferências para o Estado - Ministério das Finanças (excedentes)	0,00	331.542,52	0,00	331.542,52	331.542,52	100,00%	0,00	0,00
Transferências para Famílias/beneficiários	41.816.040,00	41.816.040,00	39.406.991,41	31.000.422,40	19.423.807,40	46,45%	22.392.232,60	10.815.617,60
Subsidio de apoio a idosos e inválidos (SAII)	36.000.000,00	36.000.000,00	35.022.720,00	26.361.720,00	16.109.280,00	44,75%	19.890.720,00	9.638.280,00
Pensões (Regime Transitório, Regime Geral e Complementos)	4.464.799,00	4.464.799,00	3.750.197,80	4.064.895,00	2.781.166,24	62,29%	1.683.632,76	399.904,00
Invalidez	12.000,00	12.000,00	8.934,14	12.000,00	8.033,04	66,94%	3.966,96	0,00
Velhice	2.084.000,00	2.084.000,00	1.401.520,95	2.082.096,00	1.033.001,62	49,57%	1.050.998,38	1.904,00
Sobrevivência	2.368.799,00	2.368.799,00	2.339.742,71	1.970.799,00	1.740.131,58	73,46%	628.667,42	398.000,00
Subsidio por morte	200.000,00	200.000,00	171.660,85	124.218,39	124.243,34	62,12%	75.756,66	75.781,61
Subsidios de proteção na parentalidade	1.151.241,00	1.151.241,00	462.412,76	449.589,01	409.117,82	35,54%	742.123,18	701.651,99
Subsidios de maternidade, risco clínico e interrupção gravidez	1.000.000,00	1.000.000,00	442.722,90	437.178,25	396.814,07	39,68%	603.185,93	562.821,75
Subsidios de paternidade	150.241,00	150.241,00	19.689,86	12.410,76	12.303,75	8,19%	137.937,25	137.830,24
Subsidios de adoção	1.000,00	1.000,00	0,00	0,00	0,00	0,00%	1.000,00	1.000,00
Outras prestações	0,00	0,00	0,00	0,00	0,00	#DIV/0!	0,00	0,00
Outras despesas Correntes	1.525.800,00	1.525.073,00	18.866,00	7.548,00	3.638,00	0,24%	1.521.435,00	1.517.525,00
<b>DESPESAS DE CAPITAL</b>	<b>94.037.059,79</b>	<b>93.706.754,27</b>	<b>91.050,00</b>	<b>2.925,00</b>	<b>2.925,00</b>	<b>0,00%</b>	<b>93.703.829,27</b>	<b>93.703.829,27</b>
Aquisição de bens de capital	270.000,00	270.000,00	91.050,00	2.925,00	2.925,00	1,08%	267.075,00	267.075,00
Capital menor	270.000,00	270.000,00	91.050,00	2.925,00	2.925,00	1,08%	267.075,00	267.075,00
Capital de desenvolvimento	0,00	0,00	0,00	0,00	0,00	#DIV/0!	0,00	0,00
Ativos Financeiros	93.767.059,79	93.436.754,27	0,00	0,00	0,00	0,00%	93.436.754,27	93.436.754,27
Outras despesas de Capital	0,00	0,00	0,00	0,00	0,00	#DIV/0!	0,00	0,00
<b>TOTAL DESPESA</b>	<b>138.394.057,79</b>	<b>138.394.057,79</b>	<b>40.314.955,69</b>	<b>32.149.471,02</b>	<b>20.135.531,63</b>	<b>14,55%</b>	<b>118.258.526,16</b>	<b>106.244.586,77</b>



## **PUBLIC FINANCE COMMITTEE**

The increase in the number of contributors to the general regime - workers and employers - in 2020 was due, in part, to the launch of extraordinary measures to support employment, within the scope of the response to the pandemic caused by COVID19. It was verified, in this phase:

- an increase of 30.73% in registered employers;
- 8.15% in the total enrolled workers; and
- 1437% of informal sector workers registered voluntarily.

The number of beneficiaries of all social security schemes has also been increasing every year, as a result of a greater awareness of rights but also of a greater number of registered workers who are thus meeting the guarantee deadlines for accessing benefits. However, we noticed, until September 2020, lower numbers than expected in the beneficiaries of the general regime, which can be explained in part by the pandemic of COVID19 and, in addition, specifically:

- i. some workers, due to the fact that they are not working (suspended activity), chose not to apply for the parenting allowance, having received the employment support allowance (the support cannot be accumulated);
- ii. fears of contamination may have removed some beneficiaries who, therefore, did not require support.

## **VIII. CONCLUSIONS**

1. On 15 October 2020, the Eighth Constitutional Government presented to the National Parliament the Draft Law no 23/V/(3rd) that proves the State Budget for 2021 (GSB PPL 2021), accompanied by the documents that the LOGF and the Petroleum Fund Law determines, except for the budget books received on 29 October;
2. Since budget books are not part of the proposed law itself, there is no violation of Article 30.1 of LOGF, which stipulates the deadline for submitting the proposal;
3. With regard to the formal setting, the bill, PPL 23/V (3rd), follows the general rules of formal legislation, presenting only some derivations of legal rules governing the structure and formal content of the draft budget law in particular, some suitable and even necessary, others questionable, however without hindering the appreciation of and voting on the proposal;
4. The Bill proposes the expenditure projections of the bodies and services of the Public Administrative Sector, including the Central Administration Sector, the Sector of the Autonomous Region of Oe-Cusse Ambeno (RAEOA), this year autonomous for the first time, and the Sector of Social Security (with its OSS Social Security Budget) for the period between January 1 and December 31, 2021, as well as the estimate of revenues to be collected by the State, in the same period, to finance the former, albeit with some important cases of de-budgeting;





## PUBLIC FINANCE COMMITTEE

5. Committee C does not follow the Committee on Constitutional Affairs and Justice, Committee A, in their qualifications of PPL GSB 2021 as unconstitutional, in any way, because, first of all, it is not of the opinion that there exist in the Timorese framework juridical laws of reinforced value whose violation determines the declaration of illegality by constitutional justice and, in any case, because it does not consider, contrary to what is claimed by Committee A, that the content proposed in article 14, paragraphs 1 and 2 and 21.3 the proposed law violates even the LOGF;
6. In 2021, economic activity is expected to be driven mainly by public expenditure. The Ministry of Finance projects that public consumption and public investment will represent about 88% of real non-oil GDP and 52% of total national expenditure;
7. The potential economic growth of Timor-Leste still incipient and well below the growth target of 7% described in the Strategic Development Plan as needed to make Timor-Leste a medium-high income country by 2030;
8. The Government's policy and priorities for 2021 are based on the **Strategic Development Plan 2011-2030** and are based on four pillars: Institutional Framework, Social Capital, Economy and Infrastructure Development;
9. These four areas are covered by the Economic Recovery Plan in 2021, with the package of economic recovery measures having three objectives: Ensuring productive and decent jobs; Consolidate the social investment program (education, health, housing and social protection); Prioritize productive sectors and promote areas that can contribute to economic growth;
10. The proposed state expenditure and revenue for the next year, excluding OSS, is \$1,895 million and \$2,030 million when OSS is included. The overall amount of OSS revenue and expenditure for 2021 is \$177.3 million;
11. Timor-Leste continues to rely heavily on petroleum, which accounted for more than 80% of the country's total revenues in 2019, but the Government anticipates a continued positive growth in domestic non-oil revenues as of the year 2021 inclusive;
12. Projections point to economic recovery after a period of recession;
13. In turn, in the opposite direction, petroleum revenues will continue to decline as petroleum production in active fields rapidly approaches depletion;
14. The GSB proposal for 2021 foresees the largest expenditure ever forecast for the State;
15. The GSB proposal for 2021 provides that the Government will use Petroleum Fund transfers up to the limit of \$1.38 billion to finance its expenses, of which \$547.9 million correspond to the Estimated Sustainable Income (ESI) and \$829.7 million to withdrawals above ESI (excessive withdrawals);
16. Of the budgetary allocation of \$1,895.0 million that the Government considers necessary to finance its expenses next year, not counting the Social Security Budget, only about



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

\$500.0 million will finance capital expenditures and training human resources. In the coming year, transfers from the Petroleum Fund above the ESI will mainly serve to pay recurrent operating expenses of ministries and others and not capital expenditures, contrary to the justification presented by the Government and the spirit of Article 9(d) of the Petroleum Fund Law;

17. The revenues most affected by the state of emergency and the effects of the global pandemic are indirect taxes on goods and services;
18. In turn, with the gradual increase in autonomous institutions in recent years, it is predicted that next year they will be able to contribute 4.6% from their own revenues to the total revenue of the GSB;
19. The Government requests in its proposed law the contracting of new loans in the next year up to the maximum amount of \$420 million, which includes the eventual issue of government bonds (sovereign bonds) up to the amount of \$20 million if the corresponding regulation is approved in a timely manner, and the debt assumption in 2021 up to the limit of \$70.7 million, which corresponds to an increase of 17.8% compared to the allocation registered in the 2020 GSB law;
20. These loans are intended to finance road, energy, water and sanitation, housing and airport networks. The Committee was unable to ascertain which bank entities will finance them;
21. In 2021 new initiatives will be explored in various sectors, with the potential to be implemented by the Infrastructure Fund through the Public-Private Partnership (PPP) modality, in the energy, technical and professional education, transport and agriculture sectors, with the support of agencies Development Partners;
22. In 2021, the State intends to finance \$150 million of Central Administration expenditure with a portion of the Treasury Balances accumulated in the Treasury accounts and to finance \$97 million of the estimated expenses of RAEOA with treasury balances accumulated in its bank accounts;
23. In terms of income, within the scope of the Central Administration, the State expects to obtain earnings of \$8.6 million next year, at the same time that the RAEOA revenue budget registers a null income forecast, which is strange considering the large balances it maintains in its bank accounts from one year to the next;
24. The proposed budget allocation for 2021 for the expenditure of Central Administration bodies and services amounts to \$1,797 billion, a value that exceeds by approximately \$300 million the allocation that the GSB of 2020 allocated to it of \$1.498 billion;
25. There is an exceptional growth in the appropriations of the various categories of expenditure of Central Administration from one year to the next. Central Government Current Expenses alone will absorb 73% of all available budgetary resources;





## **PUBLIC FINANCE COMMITTEE**

26. There are budgetary growths that reach 2,516%, in the case of STAE, 725.6% in the case of the National Archives of Timor-Leste, 273.4% in the case of PCIC, 195.7% in MCAE, etc. In total, only two entities have their budget reduced next year, the MSSI (-66.4%) and the COVID-19 Fund (-90.7%);
27. The global budget for operating expenditure that the draft GSB law allocates to Municipal Authorities and Administrations for 2021 amounts to \$57.7 million, 32.8% more than in 2020;
28. For the implementation of the Economic Recovery Plan (PRE), the set of 12 municipalities should receive an additional allocation of \$6.0 million next year;
29. All Municipal Authorities and Administrations will also receive additional funds from the Ministry of State Administration, category of Public Transfers, for the implementation of national priorities in the municipalities, totaling \$111.4 million
30. The execution of the Consolidated Fund until November 20, 2020, according to the Budget Transparency Portal, stood at 39.4%, with payments reaching \$129.2 million and obligations \$2.2 million, a modest budget performance, which shows difficulties of management and proves that the last reinforcement of \$113.0 million that Parliament authorized for the implementation of economic recovery measures was probably unnecessary;
31. The budgetary allocation allocated to the COVID-19 Fund for the next year is \$31.0 million, which represents a very significant reduction compared to the allocation that was allocated for 2020, in the amount of \$333.2 million;
32. In contrast with this year, in 2021 the COVID-19 Fund will not consider funding for the implementation of economic recovery measures. The budget allocation for their implementation, which amounts to approximately \$123.0 million, will be distributed directly by the implementing entities, some Ministries, Autonomous Agencies and Municipalities, a sudden methodological change not justified by the Government;
33. The Economic Recovery Plan identifies as areas target the main measures, in the medium and long term, agriculture, tourism, housing, education, health, social protection, institutional aspects, the installation of optical fiber and renewable alternative energy;
34. The Infrastructure Fund presents an allocation for the financial year 2021 in the amount of \$339.605 million, an amount that substantiates an 83.6% increase compared to the GSB 2020;
35. The 2021 State Budget aims to meet the needs of the infrastructure sector, with special focus on Roads Program, Electricity Program and Airports Program, duly included in the Infrastructure Fund's portfolio;



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

#### **PUBLIC FINANCE COMMITTEE**

36. The budget allocation for the Human Capital Development Fund (FDCH) will be distributed next year over four programs, as in previous years: “vocational training”, “technical training”, “scholarships” and “other types of training programs”. It is noted that the program of scholarships has preponderant weight in the budget projection, absorbing 60% of the total expenditure, immediately followed by technical training program, 24%. The Fund’s actual execution of expenditure measured on the basis of payments made up to 23 November 2020 reaches 67%;
37. Revenues from the Special Administrative Region of Oe-Cusse Ambeno amount to \$207.4 million, an amount that represents an 18.4% increase over the budget for that region in 2020;
38. Regarding the appropriations presented for the Administrative Region of Oe-Cusse Ambeno (RAEOA), there is an increase in its total budget in the order of 67.1%, allocating a final value for the financial year of 2021 of \$127.0 million.
39. Also noteworthy is the allocation in the “Development Capital” category in the amount of \$85.5 million, an amount that translates into a percentage increase of 102.6%.
40. In Social Security there is still the application of a contributory rate of balance, higher than what is strictly necessary at present, in order to ensure social cohesion through a fair distribution of the contributory effort between generations;
41. The increase in the number of contributors to the general regime (workers and employers), in the year 2020, from the governmental perspective, was due, in part, to the launch of extraordinary measures to support employment, within the scope of the response to the pandemic caused by COVID19.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

### IX. RECOMMENDATIONS

#### TO THE NATIONAL PARLIAMENT

1. That, in order to comply with article 27 of LOGF, add the global revenues of each Service and Autonomous Fund (SFA) to the 2021 Budget law, preferably in a separate table;
2. To include, by reference, next to table II, the breakdown of the Petroleum Fund's revenues, which are not part of the budgetary perimeter;
3. What we think could be included are, in this exceptional transition year, are reference tables in the budget law itself with the funds of Central Government, detailing the organic ranking in terms of direction, to facilitate direct contrast of the evolution of expenses in 2020 and 2021, also taking into account the fact that expenditure increases considerably this year in year-on-year terms;
4. That, in order to clarify the transition, it should be clarified that, in a program budget, the chapters correspond to the programs and no longer to the ministries' directorates, in the context of Article 3.3 of the PPL GSB 2021;
5. That fit the definition in Article 4(q) of the proposal, to include reference to the two components of the central administration (direct and indirect), and also in Article 1.2, clarifying that something counterintuitively, Central Administration also includes Decentralized Administration, that is, the Municipal Authorities and Administrations;
6. That confused references to the budget perimeter be eliminated in the text of the law, which does not define them
7. That the components of the Central Administration Sector be clarified, listing the bodies of direct administration with financial autonomy;
8. That "financial autonomy" be defined, as the first concept of the financial regime of the organs and services;
9. To define, at the legislative level, "public subsidy", by the importance of accurately determining the amounts and recipients concerned;
10. That further changes in taxes on alcoholic beverages are deferred until the revision of the Tax Law, however increasing taxation on tobacco now, in line with the measures already taken in favor of public health;
11. That the notification to the member of the Government responsible for the area of finance of the financing agreements signed by the Presidency of the Republic or by the National Parliament be provided for, an obligation resulting from interinstitutional cooperation between sovereign bodies;



## **PUBLIC FINANCE COMMITTEE**

12. To define “own revenues”, in order to clarify their existence for all sectors of the Administration and amounts involved;
13. That references to “General State Budget” be replaced by “Central Administration Budget” when identifying the source of State transfers to finance the Social Security Sector;
14. Let it be clarified that (also) in the context of measures to combat the social impact of the pandemic COVID-19, temporary reductions and exemptions from employers’ contributory rates are envisaged;
15. That the rules for budgetary changes be clarified throughout the Administration, including by the autonomous entities and the RAEOA;
16. That the prerogatives of the budgetary alteration of the Social Security Budget by the executive are limited to a reasonable minimum;
17. That OSS revenue concepts are clarified, which are defined only for the expense side;
18. To clarify the conduct characterized as undue payment in the context of financial responsibility;

## **TO GOVERNMENT**

1. That promotes in the near future the approval of a new Budgetary Framework Law that addresses the many flaws in LOGF, especially now that budgeting is presented by programs;
2. That the Social Security Sector’s budget also fits into the Timorese legal system;
3. That it develops the public debt regime, contained in Title III of the LOGF and Law 13/2011, of 28 September, also taking into account the FRSS investment forecast for a minimum of 25% of Timor-Leste’s public debt securities;
4. That the OSS should in future include, at least, tables referring to the expenses of the two public institutes, the National Institute of Social Security INSS and the Social Security Reserve Fund FRSS, especially now that this fund is already constituted and in order to place the level and detail of the information related to these institutes alongside the other public entities within the budgetary perimeter;
5. That the information on the asset includes, in the future, the State’s assets and the information on the liabilities, the guarantees given to third parties and the non-financial debt, in compliance with article 22.1(c) of LOGF, the estimated cost of previous receipts not collected as a result of tax or customs benefits and the forecast of receipts not collected as a result of tax exemptions and due to non-financial benefits, in compliance with article 23.3(m), n) and o) of LOGF;
6. That it conducts and disseminates studies on the useful life of petroleum reserves, including realistic prospects for the Greater Sunrise model and start of exploitation;



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

#### **PUBLIC FINANCE COMMITTEE**

7. That the autonomy of the RAEOA Budget has a legal basis in the future Budgetary Framework Law, which is expected soon;
8. That the quality of the RAEOA's budget and its execution and reporting improve substantially;
9. That the contemporary sending of budget books to the proposed law be ensured, in order to allow an appropriate assessment of the Budget by Parliament, and the correction of its values in the face of the proposed law;
10. That all donations from development partners previously known in detail are duly budgeted, in compliance with the Constitution and the LOGF;
11. To budget all their own revenues, for all autonomous entities that collect them;
12. To include missing revenue categories such as fines, penalties, damages and prices;
13. That the use of errata for substantial changes to the legislative proposal be avoided;
14. That the existence of interest income in RAEOA be verified in detail;
15. That RAEOA expenditure be properly structured in programs;
16. To promote the approval of the Special Tax Regime of the RAEOA as soon as possible, in order to allow the collection by the regional administration of the tax revenues collected in the region;
17. That the Ministry of Finance makes public the relevant methodologies, assumptions and parameters, underlying its macroeconomic and budgetary forecasts;
18. That Table II of the Annex to the proposed budget law be adjusted in the future, so that it will include as one of the sources of GSB financing the estimate of accumulated balances in the FDCH account that the 2019 State Financial Statements, not yet audited, show;
19. That withdrawals from the Petroleum Fund should be avoided in the event of large amounts carried over;
20. To discriminate in detail the origins of the carried forward balances, indicating the autonomous entities concerned;
21. To duly consider, in times of crisis, proposals to increase the tax burden;
22. That the public procurement legislation be revised, in order to allow greater control and transparency of public purchases;
23. That it consider the inclusion of UPMA in the Ministry of Finance;
24. At UPMA, to ensure that all public entities included in the budget book 2 - Annual Action Plans -- without exception to be made available for each program and subprogram, complete, properly quantified and scheduled on the goals that they aim to



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

achieve and indicators that make it possible to assess the fulfillment of the established objectives and goals;

25. To the Civil Society Support Office, which will periodically send to the National Parliament a report on public transfers carried out in the period, containing the identification of the beneficiaries of the support and indication of the objectives for which they are intended;

### TO RAE OA

1. To take a special interest in the development of the island of Ataúro, integrated in the ZEESM Special Social Economy Market Zone, in order to improve the economic and social conditions of the island and to create a complementary development pole of great tourist potential for the whole country.

## **X. OPINION**

It is the opinion of this Committee that, with regard to its formal configuration, PPL No. 23/V (3rd) - State Budget for 2021 follows in general, the essential rules of formal legislation, fulfilling the formal requirements for the presentation of proposed laws, in constitutional and regimental terms and is therefore in a position to be considered in plenary.

## **XI. APPROVAL OF THE REPORT AND OPINION**

This Report and Opinion was discussed and approved on 30 of November 2020, with 9 votes in favor, 0 votes against and 4 abstentions.

Dili National Parliament, 30 of November 2020

The Rapporteurs,

Deputy Maria Angelina Lopes Sarmiento

The President of the Committee,

Deputy António da Conceição

Deputy Maria Angélica R. da C. dos Reis

Deputy António Nobre Maria Amaral Tilman





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

PUBLIC FINANCE COMMITTEE

**ANNEX 1 - Comparative table of allocations for Central Administration and RAEOA 2020-2021, with indication of funds allocated to economic recovery measures**

(thousands USD)

Entity	GSB 2019	GSB 2020 (approved)	PPL GSB 2021	Variation 2020/2021	Variation (%)	PRE measures
Presidency of the Republic	7567	6044	8661	2617	43.3%	
PN	16,683	12,040	16,984	4944	41.1%	
PM	11,170	5700	10,267	4567	80.1%	
MPCM	5116	3807	5023	1216	31.9%	
SEII	1739	960	2554	1594	166.0%	
MCAE	923	716	2117	1401	195.7%	340
SEPFOPE	5628	3765	6244	2479	65.8%	1354
SE Cooperatives	3722	2,500	7623	5123	204.9%	3,500
SE Environment	1321	958	2955	1997	208.5%	540
MRLAP (including SECS)/M. Ass. Parl. and Com (Includes SECS)	6990	4368	9930	5562	127.3%	
M. Finance	22,652	16,513	34,133	17,620	106.7%	
<b>COVID-19 Fund</b>	-	<b>333,248</b>	<b>31,000</b>	-302,248	-90.7%	
Appropriations for the whole government	189,072	86,499	228,533	142,034	164.2%	
MNEC	26,009	20,746	26,738	5992	28.9%	
MJ	21,983	11,609	15,523	3914	33.7%	2067
MOTHER	22,483	14,568	49,342	34,774	238.7%	31,416
MS	45,371	42,716	58,848	16,132	37.8%	12,651
MEJD (including SEJD)	90,245	70,402	120,954	50,552	71.8%	31,672
M. Ens. Sup. Cienc. and Culture (incl SEAC)	7,125	4177	6,320	2143	51.3%	
MSSI	56,506	59,286	19,943	-39,343	-66.4%	
M Sig. Libert fighters. National	102,165	98,768	104,521	5753	5.8%	



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

MPIE/MPO	17,007	14,094	15,211	1117	7.9%	
MOP	154,839	195,423	240,674	45,251	23.2%	21,503
TCM	7628	5949	13,348	7399	124.4%	3042
MTCI	7775	4110	11,802	7692	187.2%	2185
MAP	14,709	7265	31,964	24,699	340.0%	5178
MD (including F-FDTL)	31,875	21,494	39,222	17,728	82.5%	
MI (including PNTL)	51,285	45,990	54,459	8469	18.4%	
MPM	30,364	27,651	85,573	57,922	209.5%	
Courts	7541	4925	8389	3464	70.3%	
PGR	4526	4084	4787	703	17.2%	
PDHJ	1968	1156	1857	701	60.6%	
CNE	9969	7276	8369	1093	15.0%	
CDD Maritime Borders	1314	899	1044	145	16.1%	
<b>FDCH</b>	<b>20,000</b>	<b>10,732</b>	<b>12,995</b>	2263	21.1%	
Insp. General of the State	1097	1390	998	-392	-28.2%	
PCIC	1921	545	2035	1490	273.4%	
IGT			470	470		
SNI	1659	1049	1479	430	41.0%	
APORTIL	3638	2270	3896	1626	71.6%	
ACTL	-	41	92	51	124.4%	
TradeInvest	1116	661	1036	375	56.7%	
TIC-TIMOR	-	1335	4015	2,680	200.7%	
ANAAA	356	199	427	228	114.6%	
AMRT	3479	1148	2476	1328	115.7%	
AIFAESA	961	735	1608	873	118.8%	
National Archives of Timor-Leste	-	43	355	312	725.6%	
AACTL	-	534	880	346	64.8%	
ANC/ARC	1336	686	1311	625	91.1%	
CI	823	605	977	372	61.5%	
CLN	2539	1098	2338	1,240	112.9%	
CNFPE - Tibar	1504	526	1643	1117	212.4%	41
CNR	1119	594	1200	606	102.0%	
CAC	1373	1072	1784	712	66.4%	
CFP	2616	2240	3019	779	34.8%	17



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

<b>FI (including loans)</b>	<b>367,536</b>	<b>184,930</b>	<b>339,605</b>	154,675	83.6%	
HNGV	10,506	7,091	11,451	4360	61.5%	1,739
TL National Press	-	209	448	239	114.4%	
IADE	973	673	1228	555	82.5%	
IDN	1373	1,000	1218	218	21.8%	
Inst. Equipment Management	3141	2601	5014	2413	92.8%	
Bamboo Institute	474	301	624	323	107.3%	
Becora Training Center - SENAI	479	278	729	451	162.2%	
INAP	1133	447	1098	651	145.6%	
INCT	-	289	574	285	98.6%	
INDMO	495	247	650	403	163.2%	
INFORDEPE	-	788		-788	-100.0%	
INS	651	369	1223	854	231.4%	235
IQTL - TL Quality Institute	-	180	1378	1198	665.6%	
Inst. Politecn. Betano	-	963	1341	378	39.3%	
Health LN	842	565	854	289	51.2%	
STAE	-	119	3113	2994	2516.0%	
IT SUITS	1200	928	2304	1376	148.3%	438
SAMES	5536	6999	10,740	3741	53.5%	
TATOLI	-	362	680	318	87.8%	
UNTL	16,650	14,002	20,171	6169	44.1%	
AN Water and Sanitation			556	556		
AN Electricity			443	443		
National Center ARRIVES!			3166	3166		
Serv. Ambulances and Medical Emergency			950	950		
AM Baucau	3871	3019	5702	2683	88.9%	655
AM Bobonaro	4110	2,541	5332	2791	109.8%	549
AM Dili	6229	5153	9059	3906	75.8%	652
Adm. Mun. Ermera	3296	2269	5022	2753	121.3%	694



**PARLAMENTO  
NACIONAL**  
República Democrática de Timor-Leste

**PUBLIC FINANCE COMMITTEE**

Adm. Mun. Aileu	2341	1829	3173	1344	73.5%	397
Adm. M. Ainaro	2803	1964	3672	1708	87.0%	441
Adm. Mun. Covalima	2887	2142	4679	2537	118.4%	442
Adm. Mun. Lautém	3216	2504	4416	1912	76.4%	431
Adm. Mun. Liquiça	2593	1,727	3600	1873	108.5%	450
Adm. Mun. Manufahi	3000	2,052	4010	1958	95.4%	405
Adm. Mun. Manatuto	2790	2182	4568	2386	109.3%	383
Adm. Mun. Viqueque	3070	2194	4507	2313	105.4%	501
<b>TOTAL MUNICIPALITIES</b>	<b>40,206</b>	<b>29,576</b>	<b>57,740</b>	<b>28,164</b>	<b>95.2%</b>	<b>123,918</b>
<b>TOTAL Central Government Budget</b>	<b>1,482,002</b>	<b>1,420,126</b>	<b>1,797,244</b>	<b>377,118</b>	<b>26.6%</b>	
<b>RAEOA</b> (consolidated - without transfer from Central Administration)		76,000	127,000	51,000	67.1%	
<b>TOTAL GSB 2020</b>	<b>1482,002</b>	<b>1,497,039</b>	<b>1,895,001</b>	<b>397,962</b>	<b>26.6%</b>	

**ANNEX 2 - Sectorial Opinions of Committees A, B, D, E, F and G and opinions of CCFP and GMPTL**

**NOTES**

- [1] The “Public Administrative Sector” can be defined as “the set of public bodies and services without form of company, foundation or association that ensure the regular and continuous satisfaction of collective needs, composed of the Central, Direct Administration (Concentrated and Deconcentrated)) and Indirect, by the Social Security Sector and by the Special Administrative Region of Oe-Cusse Ambeno”, as stated, in approximate terms, of article 4, paragraph q) of PPL GSB 2021
- [2] Consisting, on the one hand, of **the Direct Administration**, that is, of the State and bodies and services without a legal personality distinct from the legal entity State, **excluding, however, in the draft law of the GSB, of the Petroleum Fund of Timor-Leste**, and on the other hand, by **the Indirect Administration**,



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

that is, by public legal persons distinct from the State legal person without the form of company, foundation or association, **excluding, however, in the draft law of the GSB, of the National Institute of Social Security, of the Social Security Reserve Fund and the Central Bank of Timor-Leste** - cfr artº 1º nºs 2, 4 and 5 of PPL GSB 2021.

- [13] The “RAEOA Sector” comprises the Authority of the Special Administrative Region of Oe-Cusse Ambeno, its President, the Advisory Council of the Special Administrative Region of Oe-Cusse Ambeno and the services directed or supervised by them - cfr artº 1.3 of PPL GSB 2021.
- [14] Comprised of the National Social Security Institute and the Social Security Reserve Fund - cfr artº 1.4 of PL GSB 2021.
- [15] As we will analyze below, in point II (iii).
- [16] See article 5 of the Petroleum Fund Law, Law 9/2005, of 3 August, amended and republished by Law 12/2011, of 28 September.
- [17] Pursuant to Law 5/2011 of 15 June
- [18] As for IPG, article 1 of DL 33/2012, of 18 July, and for ANPM, article 1.1 of DL 20/2008, of 19 June, amended and republished by DLs 1/2016, of February 19, and 27/2019, of August 27.
- [19] We will also discuss this below, in point II (iii)
- [20] The books that accompany the GSB are as follows:
- Book 1 - Budget Overview;
  - Book 2 - Annual action plans;
  - Book 3A - Infrastructure Fund;
  - Book 3B - Municipalities (only in Tetum);
  - Book 3C - RAEOA - ZEESM (only in Tetum);
  - Book 4A - Budget Items (PR - MOP);
  - Book 4B - Budget Items (MTC - ANAS);
  - Book 5 - Development Partners;
  - Book 6 - Special Fund (for Human Capital Development);
  - Social Security Budget Book 2021.
- [21] Listed in point I (iv)
- [22] Arising from the constitutional principle of the separation and interdependence of powers - article 69 of the Constitution
- [23] That are not to be confused with the elective structures of the sucos and villages, structures with customary roots that do not belong to the formal administrative structure of the State - cf. Law 9/2016, of July 8, in the path of article 2.4 of the Constitution.
- [24] Although Law 11/2009, of October 7, amended and republished by Law 4/2016, of May 25, already provides, also in preparation for administrative decentralization at the local level, the municipal districts of Timor-Leste.
- [25] In previous years, except for 2020, RAEOA’s global revenues and expenses were inexplicably presented in the Annex and under the title “Autonomous Funds and Services”.
- [26] See point II (i) B
- [27] See point II (i) C
- [28] See point II (ii)
- [29] Table II lists the own revenue from SFAs, but nowhere in PPL GSB 2021 does global revenue appear.
- [30] The art 28(c) LOGF refers to a table to “Autonomous Bodies partly funded by own revenues into the



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

state budget,” historically interpreted as referring to “autonomous funds and services.”

[21] According to the concepts explained above, in point I (i).

[22] Perhaps the set of the budgets of the Central Administration and the RAEOA could be called “State Budget”, as opposed to the “Social Security Budget”, as suggested in this Committee regarding the 2020 Budget - but little one would gain in conceptual rigor, running the risk of increased confusion, in a budget proposed law for 2021 that is much clearer in this respect than that of 2020.

[23] Among the other shortcomings of the LOGF, the extreme and lacunae brevity of the regulation of budget execution in twelfths, as set out in Article 31 (which does not immediately explain how withdrawals from the Petroleum Fund are processed, also in view of the Article 7.3 of Law 9/2005, of August 3, amended and republished by Law 12/2011, of September 28 - Petroleum Fund Law PFL) and the lack of provision, in Article 44, of a report of budget execution to the 12th month of budget execution, a fault that the Government itself seeks to remedy with article 20 of its PPL GSB 2021. Another flaw that will appear in detail but that has important consequences for the scope of the proposed law is the deficient wording of the Article 4 LOGF that explains the principle of universality, which will be dealt with below in point II (iii).

[24] Jointly or separately from the future Budgetary Framework Law

[25] *Maxime* your article 61

[26] *Maxime* your article 19

[27] The RSE for the year 2021 was estimated at 547.9 million dollars

[28] Regardless of the material goodness of the transfer itself, which is criticized below.

[29] See point I (i)

[30] It is true that the opinion of this same Committee, regarding the 3rd draft GSB law for 2020, was to remove several tables by reference, for the sake of simplicity and rigor, in which the Fund’s table of revenues was included. Petroleum - however, in a year of transition to program budgeting and, specifically in this case, in view of the growing depletion of the Petroleum Fund (see point V (i) A), tables by reference will be advisable this year.

[31] See point II (iii) B

[32] In Central Government and RAEOA Budgets:

- Salaries and Wages;
- Goods and services;
- Public Transfers;
- Minor Capital;
- Development Capital

In the Social Security Budget:

- Personnel expenses;
- Acquisition of Goods and Services;
- Interest and Other Charges;
- Current Transfers;
- Other current expenses;
- Acquisition of capital goods;
- Financial assets;
- Capital Transfers;
- Financial liabilities;
- Other Capital Expenses.





PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

[33] It is true that for several years one of the books (traditionally book 2) accompanying the unstructured program budget contains information on government action programs - however, not being part of the budget law, these programs do not bind public administration and the Government and will only indirectly serve as a basis for a political judgment of government action; from the outset, budget execution reports and accounts have not used program execution as a reference, as they will have to do in the context of a program budget.

[34] Books 4 this year, as usual

[35] See also Appendix 1, with a comparative table of allocations for Central Administration and RAEOA 2020-2021

[36] It should be recalled that the Committee already expressed reticence to the presentation of tables by reference within a law.

[37] Obviously, the presentation of such tables to a vote would imply a duplicate vote of the same appropriations, even if structured differently, which has to be avoided.

[38] Even so, the LOGF is still a law that opens the door to the legislator's option for program budgeting - pay particular attention to the terminology of its article 37

[39] Unfortunately, Article 4 LOGF refers only to services without administrative and financial autonomy and SFA, forgetting the category of Autonomous Bodies - which will have to be interpreted correctly, since what reason will be seen for the exclusion of the Budget and State of entities as central to the activity of the State as are the Parliament, the Presidency of the Republic and the Courts, among others.

[40] The new Budgetary Framework Law cannot fail to mention and define this concept.

[41] Remember the criticisms and recommendations of this Committee in this regard in particular in relation to the 3rd PPL GSB 2020.

[42] The Petroleum Fund Law, Law 9/2005, of 3 August, was amended and republished by Law 12/2011, of 28 September.

[43] This is not the appropriate place to discuss such a controversy.

[44] Right away, Law 5/2011, of 15 June

[45] As for IPG, article 1 of DL 33/2012, of 18 July, and for ANPM, article 1.1 of DL 20/2008, of 19 June, amended and republished by DLs 1/2016, of February 19, and 27/2019, of August 27.

[46] The RAEOA and Social Security sectors have their own financial systems, as they make up separate sectors and budgets for Central Administration.

[47] As follows

a) The bodies and services that enjoy financial autonomy by constitutional imperative:

- the Presidency of the Republic,
- the National Parliament,
- the Courts,
- the Attorney General's Office,
- the Ombudsman for Human Rights and Justice
- and the National Election Commission;

b) Support services for the Presidency of the Republic, the National Parliament and the Courts;

c) Municipal Authorities and Administrations;

d) The State General Inspectorate;

e) The Human Capital Development Fund;



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

f) The COVID-19 Fund

g) And other bodies and services of the direct administration that enjoy financial autonomy:

- the State Inspectorate General,
- the Scientific Criminal Investigation Police,
- the National Intelligence Service
- and the Council for the Definitive Delimitation of Maritime Boundaries

[48] It should be noted that LOGF makes the concept of SFA rooted mainly in the collection of its own revenues, which raises problems since the rest of the Timorese legal system (since the budgetary laws every year) has considered SFA to be a notable number of entities that, year after year, do not collect any of their own revenues, in addition to the fact that other entities with financial autonomy not considered SFA collect their own revenues on time; on the other hand, LOGF does not refer to the holding of legal personality as a criterion for the classification of SFA, which has always been the defining criterion for SFA in the rest of the Timorese legal system (since then the budget laws every year). We are looking forward to a Budgetary Framework Law that will stabilize, in a coherent way, all these concepts of the greatest importance for public finances.

[49] It will, moreover, be called each entity with financial autonomy in the list of the Central Administration of table III of the proposed law of "Autonomous Body" or "Service and Autonomous Fund", as was done in table II of annex I of Budget 2020 (Law 10/2020, of October 19).

[50] It is proposed: *"the financial administration regime that consists of the competence of the respective management body to manage its financial resources, in the applicable legal and regulatory terms"*.

[51] See article 10 of PPL GSB 2021, referring to transfers between budgets that are part of the GSB.

[52] See the example, highlighted in point V (ii) A below, housing allowances for veterans.

[53] It is proposed *"subsidies, support or aid, in the form of financial importance, granted to the public or private sector to pursue an objective compatible with the powers of the granting entity, including State contributions to cooperation programs; »*

[54] Law 8/2008, of June 30, amended and republished by Law 5/2019, of August 27

[55] The 3rd PPL GSB 2020 proposed, and thus enshrined in the GSB Law for 2020 of 19 October this year (Law 10/2020), a considerable increase in taxes on beer consumption.

[56] The Government justifies the proposal in the explanatory memorandum, essentially with the objective of promoting public health, discouraging the consumption of drinks with a higher alcohol content, while promoting the national beer production industry (with less alcohol content, subject in theory to lower taxation and even subject to an investment agreement with even more favorable tax treatment) and, of course, that tax revenues are increased.

[57] Which, by the way, accepted all the other suggestions of this Committee in this matter in the context of the 3rd PPL GSB 2020

[58] Arising, repeat, from the constitutional principle of the separation and interdependence of powers - article 69 of the Constitution

[59] Judging by the budgetary execution of years past

[60] It is believed that the total expected revenue from these categories is included, improperly and without any distinction, in the "fees" category.

[61] Cf. National Parliament Resolution 9/2020, of 30 September

[62] See page 116 of the social security book

[63] That is, in addition to what article 19.9 of the proposed law already allows.



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

[64] Namely:

- Timor-Leste Cooperation Agency (ACT-L);
- National Archives of Timor-Leste;
- National Institute for the Training of Teachers and Education Professionals (INFORDEPE);
- Technical Secretariat for Electoral Administration.

[65] It is important to note that Committee A refers in this context, certainly by mistake, that the Central Administration includes Public Companies, which is clearly not the case in view of the definition of Public Administrative Sector, which is already included in article 4, paragraph q) of PPL GSB 2021; it should also be noted that, contrary to what has been stated, there is no (for now) Autonomous Administration in Timor-Leste composed of Local Authorities (Municipalities are, for the time being, decentralized central administration) or for example, by Professional Public Associations - the *sui* case being *generis* of RAEOA that can eventually be integrated into an Autonomous Administration in a broad sense.

[66] See references to such laws right away in Parliament's absolute legislative reserve (article 95.2, paragraphs l), m), o), p), q) of the Constitution) and in Parliament's relative legislative reserve (art. 96.1 subparagraphs d), e), h), i), k) of the Constitution). LOGF, on the budgetary regime, is based on article 95.2(q) of the Constitution.

[67] See immediately and by everyone *MIRANDA, Jorge, "Legislative Acts", Almeida, Coimbra, 2019*

[68] And as long as this article is interpreted in the sense that the reference to illegality also refers to laws and not only to regulations and referendums, which is not liquid

[69] See such a substantive reference in the Constitution of the Portuguese Republic, in its article 112, paragraph 3, which enshrines the figure of the laws of reinforced value with combination, for its disrespect, of illegality, without room for doubt

[70] See, for all, the doctrinal citations contained in the Judgments of the Court of Appeal in Cases No. 2/Constitutionality/2016/TR and No. 1/Const.Abst/2019/TR, referenced below

[71] See, deciding on a relationship between the budget law that is not coordinated in the light of the (then in force) Petroleum Fund Law, the Judgment of the Court of Appeal in Case 01/Const/11

[72] See the Judgment of the Court of Appeal in Case No. 2/Constitutionality/2016/TR, regarding the regulation of the Infrastructure Fund as an autonomous fund by the 2016 budget law (Law 1/2016, of 14 January), allegedly illegal in the face of LOGF

[73] See very recently the Judgment of the Court of Appeal in Case No. 1/Const.Abst/2019/TR, regarding the alleged illegality of Law 1/2019, of January 18, in the amendments it introduced to the Law of Petroleum Activities (Law 13/2005, of 2 September), in view of the Petroleum Fund Law.

[74] Distinguish hierarchically superior laws, in this sense, from laws that, in a concrete instance of conflicting interpretation with another law, see their provisions (and their interpretation) prevail - these are the cases of conflict rules, which exist in Timor-Leste (cfr, for example, article 4 of the Petroleum Fund Law, with an ascendant over LOGF in case of conflict)

[75] To which Parliament can immediately go without approving a proposal for a law in this sense or, in the case of a Decree-Law, promptly altering it in a parliamentary appraisal process - see Article 98 of the Constitution.

[76] It will be the case of legislation that violates the State Budget in force by increasing expenditures or decreasing State revenues, or a violation of a specific legislation in Parliament's legislative reserve when the Government does not respect a legislative authorization law - a unconstitutionality will derive, in these cases, from violation of articles 97º 2 and 95º or 96º, respectively, of the Constitution, and not by



PARLAMENTO  
NACIONAL  
República Democrática de Timor-Leste

## PUBLIC FINANCE COMMITTEE

violation of the budget law or the legislative authorization law in question.

- [77] It should be noted that the opinion of Committee A refers to “criminal liability”, which is believed to be a slip of the tongue.
- [78] The article 21.3 of PPL GSB 2021 in question densifies, for holders of political positions but also directors of the administration, a certain conduct as filling the financial wrongdoing of “undue payment”.
- [79] As would be the case, for example, with provisions on immunities or specificities of participation in procedural acts.
- [80] Extension that, it should be noted, is also not consensual in jurisprudence and doctrine
- [81] Available at <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>
- [82] Published at: <https://www.imf.org/en/Countries/TLS>
- [83] Source: World Bank *Doing Business 2020* report.
- [84] Available at: <https://openknowledge.worldbank.org/handle/10986/34748>
- [85] Cfr <https://www.adb.org/sites/default/files/publication/29031/economic-growth-2030-tim.pdf>
- [86] Available at [http://timor-leste.gov.tl/wp-content/uploads/2012/02/Plano-Estrategico-de-Desenvolvimento\\_PT1.pdf](http://timor-leste.gov.tl/wp-content/uploads/2012/02/Plano-Estrategico-de-Desenvolvimento_PT1.pdf)
- [87] Available at [https://www.gpm.gov.tl/wp-content/uploads/2020/08/Plano\\_Recuperacao\\_Economica\\_Timor-Leste-20201.pdf](https://www.gpm.gov.tl/wp-content/uploads/2020/08/Plano_Recuperacao_Economica_Timor-Leste-20201.pdf)
- [88] Cfr Ponto V (i) D infra
- [89] See Point VI below.
- [90] See page 61 of book 1
- [91] See pages 67 and 68 of book 1
- [92] \$40 million budgeted for 2021 (the BNCTL plan also mentions the need for \$75 million), after \$20 million in 2020, with a further 50 million scheduled for 2022.
- [93] According to the BNCTL itself, the priority sectors targeted by credit facilitation policies will be agriculture, tourism, livestock and manufacturing.
- [94] According to government data:
- in 2020, \$2.4 million, to be allocated to 60 veterans;
  - in 2021, \$1.6 million, to be allocated to 40 veterans;
  - in 2022, \$0.68 million, to be allocated to 17 veterans.
- [95] The sum of all partial expenses does not correspond to the amount indicated in the book, totaling only \$106.65 million)
- [96] Amounts expressed in dollars.
- [97] Figures expressed in millions of dollars.
- [98] The proposed amount already includes the amount of \$70.7 million as Loans.