Excerpts from Report of Parliament Committee C

on the proposed General State Budget for 2024

11 December 2023

X. CONCLUSIONS

1. The 2024 State Budget proposal was submitted by the Government to the National Parliament for consideration and approval on November 23, 2023, with a request for urgency.
2. Basing her decision on the admissibility note prepared by the services, Her Excellency the President of the National Parliament admitted the 2024 State Budget Bill, in the meantime numbered as Bill no. 4/VI (1st), and by order of November 24 determined that it should be referred to the Public Finance Committee for the issuance of a reasoned Opinion within 24 hours on the Government's request for urgency.
3. The government's budget proposal for 2024 (PPL OGE 2024) is based on the central theme "Building a bridge to tomorrow: investing in the productive sector and in social capital", comprising 10 articles, and the Annex, made up of 12 budget tables, in compliance with the Framework Law for the General State Budget and Public Financial Management (LEO).
4. It is a constitutional requirement that the State Budget contains a global forecast of all the income and expenditure of the services and entities of the Public Administrative Sector. In turn, the LEO determines the breakdown of this expenditure and revenue by its three subsectors of the Public Administrative Sector: the Direct State Administration subsector, the Special Administrative Region of Oe-Cusse Ambeno (RAEOA) and Social Security. The draft State Budget for 2024 complies with all these constitutional and legal requirements.
5. By setting total revenue for the Public Administrative Sector at $2,258 million (non-consolidated figure) and total expenditure at $2,238 million (non-consolidated figure), the budget proposal for 2024 is presented by the Government as being in surplus, when in fact it is not, the "budget surplus" being obtained next year at the expense of unnecessary excessive withdrawals from the Petroleum Fund.[1] Compared to the 2023 State Budget before rectification, the 2024 budget proposal translates into an overall reduction in State expenditure of $918 million.
6. The government's revenue proposal for the Central Administration for next year matches its expenditure proposal, setting it at $1.830 billion, as do the revenue and expenditure ceilings for Social Security, set at $347.6 million. In the case of the RAEOA's revenue budget, estimated by the government at $80.3 million, it exceeds its proposed expenditure ceiling of $60 million.
7. Overall, the accumulated execution of GSB 2023 expenditure up to November 15 stood at 61.2% in terms of payments made and obligations assumed, but some individual entities had very modest levels of execution, including the Infrastructure Fund, with an execution rate of 38.4% of its annual expenditure allocation of $177.7 million, or the Ataúro Special Development Fund, with an execution rate of only 17.4% of its annual allocation of $3.4 million.

[1] The revenue and expenditure proposed for the 2024 State Budget should be the same. When the government presents a bill in which the revenue figure is higher than the expenditure figure, it means in practice that the government intends to take more from the Petroleum Fund than it really needs to finance its expenditure next year. A surplus budget is justified when revenue collection exceeds expenditure, which is not the case at all, and gives a false picture of the country's real economic performance.

8. In order to finance next year's expenses, the Government is requesting, under Article 4 of the proposed budget law, authorization from the National Parliament to transfer up to $1,377 million from the Petroleum Fund, an amount that exceeds by $855 million the value of the Estimated Sustainable Income, calculated at $522 million for the year 2024.
9. The Government estimates that the accumulated balance in the Petroleum Fund at the end of 2023 (which will also correspond to the Fund's initial balance on January 1, 2024), is $17,351 million. With the aim of increasing non-oil revenue, the government proposes to maintain next year the increase in the tax burden that the National Parliament approved in the Amending State Budget for 2023.
10. The draft law submitted to the National Parliament appears to contain an oversight in Article 4(3), which, in the opinion of Committee C, should be corrected in good time, as it establishes that authorized transfers from the Petroleum Fund should only take place when the balance of the Treasury account is less than $200,000 (two hundred thousand dollars), a figure that is clearly insufficient to ensure prudent cash management for the State. Unless there is a better opinion, that figure should be rectified to $200,000,000 (two hundred million dollars).
11. It should also be noted that the organic classification codes used in Table V of the PPL GSB 2024 do not coincide with the coding used in the budget development books. The error has already been acknowledged by the Ministry of Finance and will be corrected during the debate on the draft law in the plenary session of the National Parliament.
12. In articles 10 and 11 of the PPL OGE 2024, the government proposes to introduce changes to Law no. 2/2022, of February 10 (LEO), to reintroduce the obligation for the General State Account (CGE) to be certified by the Chamber of Accounts, just a few months after the same government proposed, and the National Parliament accepted, eliminating this reference from the law (LEO), on the grounds that the accounting systems necessary for this type of validation by the Chamber of Accounts of the Court of Appeal were not in place. Committee C is surprised at the government's backtracking and believes that this may be an oversight on the part of the Ministry of Finance, which needs to be rectified when the bill is debated in plenary in the National Parliament.
13. The government's priorities for the year 2024 are to promote economic diversification by creating a favorable environment that promotes sustainable economic growth, namely by improving investments in social capital, in order to guarantee the well-being of the Timorese people, the democratic rule of law and the fundamental principles of good governance, inclusion and justice.
14. In the words of the Government, the current Public Financial Management Reform (PFM) strategy in Timor-Leste was formulated based on the results of internal consultations and assessments, such as the 2021 Public Expenditure Review (PER) and the 2019 Public Expenditure and Financial Accountability (PEFA) assessment.
15. The main priorities of this Reform Strategy are: to improve the quality of financial information by consolidating the Government Resource Planning (GRP) system and improving data quality; to strengthen public debt management by implementing a debt management strategy and improving debt transparency; and to promote transparency and accountability by implementing new transparency measures, such as the disclosure of budget data in real time.
16. The cumulative execution of public expenditure in Timor-Leste amounted to $1,085 million as of November 15, 2023, corresponding to an execution rate of 61.2%. The budget category of public transfers is the one that weighs the most in the 2023 Amending Budget. However, at the end of the period under review, it had a modest execution rate of 62.8%.
17. Article 4 of the draft law on the General State Budget (GSB) for 2024 authorizes the government to make withdrawals from the Petroleum Fund to finance the State Budget, up to a maximum amount of $1,377 million, of which $522 million corresponds to the Estimated Sustainable Income (ESI). The investment strategy of the country's sovereign wealth fund is based on a liquidity portfolio, to finance withdrawals from the State Budget over the next three years, and a

growth portfolio, made up of 35% in stocks and the rest in US government bonds. As of September 30 this year, the government had made withdrawals from the Petroleum Fund amounting to $790 million.

18. The country's domestic revenues have been growing in recent years and the government expects them to increase to $174.9 million by 2023, driven by the increase in customs duties and the introduction of new excise duties.

19. The 2024 State Budget Bill also provides for the government to contract or issue additional public debt up to a maximum amount of $500 million. Timor-Leste's public debt has grown in recent years, reaching $1,024 million in 2023. All public debt is external, with grace periods of up to 10 years, and repayment terms ranging from 20 to 40 years. Some outstanding loans will have to be paid in full by 2062.

20. The disbursements planned by the development partners in 2024 are estimated at $177.8 million. Donor support will continue to focus on social capital, which includes education, training and health (49.1%). The infrastructure sector will also be strengthened in the coming year, due to the large investments in improving the President Nicolau Lobato International Airport and also those planned for the south coast, in the petroleum sector.

21. On October 31, 2023, the Treasury's cash balance amounted to $303.8 million. The Government projects a reconciled cash balance of 220 million from the Central Administration and $78 million from the RAEOA.

XII. RECOMMENDATIONS

Recommendations of the Public Finance Committee (Committee C)

TO THE NATIONAL PARLIAMENT

1. It is recommended that you carefully read the sectoral opinions produced by the various specialized standing committees, as well as the opinions of the Petroleum Fund Consultative Council (CCFP), the GMPTL and the NGO La'o Hamutuk, as they make important points and set out their concerns regarding the proposed 2024 State Budget law under consideration.

2. It is recommended to Her Excellency the President of the National Parliament that, as a way of overcoming the differences that have persisted for several years between the Government and the National Parliament, the President of the National Parliament should the accounting of financial assets and liabilities under the modified cash basis accounting system that has been used by the Public Administrative Sector, request an opinion on this matter from the International Accounting Standards Board (IASB), the independent international organization responsible for developing the International Accounting Standards (IAS).

3. It is also recommended that the organic classification codes used in table V of the budget proposal for 2024 be revised, as they differ from the coding used by the Government in the GRP system (aka FreeBalance) and Dalan ba Futuru Timor-Leste (DBFTL).

4. Committees C and D consider that the National Parliament should consider the need, opportunity and feasibility of reintroducing into law the certification of the State's accounts, a procedure of the Chamber of Accounts that the National Parliament expunged from the LEO at the proposal of the same government five months ago, and strongly recommend that articles 10 and 11 of the draft State Budget law be rewritten to correct the Ministry of Finance's oversight.

5. Committees C and D once again recommend that the National Parliament consider promote, as soon as possible, a broader revision of Law no. 2/2022, of February 10 (LEO).

6. Given the volume of irregularities detected by the Chamber of Accounts in the last financial audit of the RAEOA, it is recommended that the PN request the Court of Appeal to include in the Chamber of Accounts' activity plan for 2024 a new financial audit of that Region, this time covering the entire term of the outgoing Authority.

7. For the National Parliament to use the prerogative granted to it by law and ask the Chamber of Auditors to carry out an audit of the Social Security sub-sector, covering the financial activity of the INSS and the FRSS since they were set up.
8. To the National Parliament, Committee C recommends that, during the plenary debate on the PPL GSB 2024, it takes the opportunity to remove from the LEO the reference, which by mistake, is still made to the Major Planning Options (GOP) law, in Article 125(1) of that law.

TO THE GOVERNMENT:

1. In the interests of legality, transparency and the power of oversight of sovereign bodies and civil society over the government's budget execution, it is recommended that the Ministry of Finance comply with the LEO with regard to its reporting obligations, meeting the legal deadlines for publishing, on its official website, the quarterly and half-yearly budget execution reports, the CGE, the performance reports, as well as the annual reports on the Petroleum Fund, and also ensure proper monitoring of the publication of the annual financial reports of public companies.
2. It is once again recommended that the government urgently regulate Law no. 13/2011, which approved the Public Debt Regime, in order to regulate once and for all this particularly complex area, which is currently quite permissive for the state, at a time when the government is increasingly resorting to this form of public financing and it is necessary to safeguard the sustainability of public finances for future generations.
3. Social Security is once again recommended to speed up the completion of the computerized Social Security management system, which has been under development for years with the support of the Portuguese government, in order to finally start investing and making a return on the surpluses deposited in the Social Security Reserve Fund account, with the aim of safeguarding its sustainability for its current and future beneficiaries.
4. Consultation of the Budget Transparency Portal confirms that the government no longer registers the estimated annual withdrawals from the Petroleum Fund approved by the State Budget law in the GRP integrated financial management system, managed by the Ministry of Finance. The Ministry of Finance is recommended to resume these registrations.
5. The Petroleum Fund law provides for all withdrawals above the ESI (Estimated Sustainable Income) to be used to finance capital investment expenditure for the development of the country's strategic infrastructure, but these funds continue to be freely used by the government to finance current expenditure, despite successive warnings from Committee C. It is therefore recommended that greater caution be exercised in withdrawing from the Fund, so much so that the government anticipates that it will be exhausted in 12 years' time.
6. The Ministry of Petroleum and Mineral Resources, with the support of the Development Partners, to promote the projects it has in the pipeline in the area of renewable energies, in order to reduce the energy bill and bring energy to the whole country.
7. The Ministry of Finance to reconfigure the Budget Transparency Portal so that it provides information on budget execution rates, not only for sub-programs, but also for budget programs, in order to enable better oversight by the National Parliament.
8. Committee C recommends that the government carry out a considered and rigorous assessment of the creation of new public companies, with a special focus on their future capacity to generate revenue, as well as defining a remuneration package adjusted to the results they achieve.
9. The Ministry of Finance to complete and the government to approve the regulation of the public consultation system to be carried out as part of the budget planning process, so that it now includes consultation with citizens, sovereign bodies and the services and entities of the Public Administrative Sector, thus complying, albeit belatedly, with the provisions of article 45(2) of the LEO.
10. The Ministry of Finance to continue to ensure that all budget books and annexes to the draft State Budget Law are published in digital format on its website in Tetum and English, as in the past, so

that the information is accessible to the entire Public Administration, the population, development partners and friendly nations, helping to maintain the level of budget transparency that has existed to date.

11. Committee C recommends that the Government take steps to ensure the effectiveness of development partner assistance by implementing a robust monitoring and evaluation system to track the impact of interventions funded by development partners.
12. Committee C is of the opinion that the authorization that the National Parliament will give to the Government to subscribe up to $500 million of additional public debt is a blank check to the Government. Therefore, it is recommended that the government maintain a high level of transparency in relation to debt management, which includes providing detailed information on the use of loans, the projects financed and the plans for debt repayment, prior to the subscription of new external loans.
13. Committee C highlights a possible "grey area" in relation to debt authorization by sub-sectors of the state. It recommends that the government establish clear limits and transparent procedures for the authorization of debt by different subsectors, ensuring that it is done according to best practices and in compliance with existing laws.

Committee C has selected and included below the recommendations of the other specialized standing committees on the draft GSB 2024 law that it considers most pertinent to the area of public finances, as well as some of the recommendations submitted to it by the NGO La’o Hamutuk.

Recommendations of the Constitutional Affairs and Justice Committee (Committee A)

1. Request for additional funds: It has been a constant practice for the institutions to request additional funds, which requires Members of Parliament to submit proposals for amendments, which imply - in order not to increase the budget ceiling - that amounts are taken from some appropriations to be added to other appropriations. This jeopardizes the implementation of the programs and activities of the institutions from which the funds are taken (...) In any case, the Committee believes, and has suggested in the hearings, that if a contingency situation arises, a change of circumstance that imposes on an institution the need for an increased budget allocation, it should make contact with the Government with a view to obtaining the additional funds it needs; and in this case it would be the Government that would present a request for an amendment before Parliament, with the Government itself taking the decision on what will be sacrificed in order to meet the request for additional funds. The government is always in a better position to make that decision than Parliament.

Recommendations of the Committee on Foreign Affairs, Defense and Security (Committee B)

In the Special Committee, it is recommended that the following proposed amendments tabled by the members of Committee B be approved, taking into account their impact, feasibility and alignment with the objectives and priorities established at the public hearings, specifically:

1. (...)
2. The proposal for an additional budget for the National Intelligence Service (SNI) in the amount of $756,678, with the aim of fulfilling the commitments established during the public hearings with Committee B, in accordance with the shared vision on the security needs and priorities of the RDTL;
3. The proposal for an additional budget for the National Police of Timor-Leste (PNTL) in the amount of $3,081,260 to guarantee adequate means and equipment for the different units of the PNTL, in particular the request of Committee B, the training of "Community Policing" in the 13 municipalities and the consolidation of conflict prevention and resolution, which therefore qualify as extremely important for the security and well-being of the community. In addition, this amount ensures that the capacity to deal with illegal activities associated with Martial Arts Groups (GAM) is adequately resourced.

Committee on Economy and Development (Committee D)

1. The Government to inform this National Parliament of the result of the increase in tax revenue derived from the increase in excise duty rates.
2. The Government to regulate Law no. 13/2011, of September 28, which approved the Public Debt Regime or, alternatively, to create the legal framework for issuing Public Debt, considering broadening the scope of application and providing for the possibility of ordinary citizens being able to acquire public debt certificates/Treasury certificates.
3. The National Parliament to review the special deadlines for the presentation of the State Budget by the Executive.

Infrastructure Committee (Committee E)

1. The Ministry of Public Works to establish a single tariff for laboratory services, with a view to increasing revenue;
2. The Ministry of Public Works to find a solution to pay for the 44 projects with legal problems;
3. The Ministry of Planning and Strategic Investment to create an effective system for licensing and inspecting buildings;
4. The Ministry of Planning and Strategic Investment to provide a budget to deal with the impacts caused by natural disasters and calamities due to ongoing climate change;
5. The Ministry of Planning and Strategic Investment to speed up the process of regularizing infrastructure projects that are underway or have already been implemented but have not yet been contracted.

Committee on Health, Safety and Social Equality (Committee F)

1. To the Civil Society Support and Social Audit Service to strengthen the monitoring and evaluation of beneficiary Civil Society Organizations.
2. The Ministry of Health to pay the remainder of the debt owed to hospitals in Malaysia, Singapore and Indonesia.
3. The Ministry of Health to register the National Institute of Pharmacy and Medical Products (INFPM) with the Ministry of Health's National Directorate of Pharmacy and Medicines, as an importer of medicines.
4. With regard to the purchase of medicines, it is necessary to facilitate the procurement process, and a specific procurement regime should be drawn up for the purchase of pharmaceutical products and medical equipment, taking into account the particularity and urgency of these processes.

Committee on Education, Youth, Culture and Citizenship (Committee G)

1. The Ministry of Education should allocate fuel to municipal presidents so that they can carry out their monitoring duties in administrative posts and remote areas.
2. The Ministry of Education should review the budget items for school design, as the current budget item does not correspond to the reality of schools.
3. The Ministry of Education, so that in the future the withdrawal or transfer from the budget is subject to less bureaucracy, so as not to delay the start of construction, since due to the rainy season, in remote areas it is not possible to carry out the construction of the projects and consequently fulfill the completion of the same, provided for in the contracts;
4. The Ministry of Youth, Sports, Art and Culture (MJDAC), which, before allocating budget to the program, should train the youth groups in the sucos, since they have no knowledge of managing large budgets;