



**PUBLIC FINANCE COMMITTEE**

**REPORT AND OPINION**

**Draft Law no. 14/VI(2) - Framework for the General State Budget and Public Financial Management**

Approved on 27 February 2025

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## **1. Introduction**

This report and opinion focuses on Bill No. 14/VI(2) on the Framework of the General State Budget and Public Financial Management, submitted by the Government to the National Parliament on November 22, 2024. The initiative aims to establish a regulatory framework for the preparation, execution and monitoring of the General State Budget, as well as to strengthen public finance management mechanisms, ensuring greater transparency, efficiency and accountability in the administration of public resources.

The Admissibility Note concerning the bill was prepared by the National Parliament services (DIPLÉN) on December 6, 2024, confirming that the bill complies with the formal and legal requirements for its processing within the National Parliament. Subsequently, on December 9, 2024, Her Excellency the President of the National Parliament announced the admission of the bill and forwarded it to the Public Finance Committee for analysis and issuance of the respective report and opinion.

Bill No. 14/VI(2) aims to repeal Law No. 2/2022, of February 10 (also known as LEO) and reflect the commitment of the IX Constitutional Government to modernize and strengthen the legal and financial regime of public finances, with a view to ensuring greater efficiency, transparency and sustainability in the management of public resources, within the meaning of the Government itself.

While it is true that Law No. 2/2022, in theory, introduced principles that contributed to increasing transparency, fiscal responsibility and efficiency in the allocation of resources, its implementation in practical terms revealed weaknesses that limited its effectiveness, especially in the areas of budget planning, execution and reporting. In this context, Bill No. 14/VI(2) appears as a normative response to consolidate the objectives that were at the genesis of the original law and correct the gaps identified therein.

The proposed law presents innovative measures, including the redefinition of the budgetary perimeter, the strengthening of the principles of transparency and efficiency, the introduction of new rules for the management of public funds and budgeting by programs. Such changes are assessed here by the Public Finance Committee, with the aim of contributing to improving the quality of the budgetary information presented to the National Parliament for scrutiny, facilitating political oversight and promoting greater public confidence in the administration of State finances.

This Report and Opinion provides a reasoned assessment of the following elements:

- Legal-constitutional framework and normative need for the proposal;
- Justification and financial relevance of the proposed changes;
- Practical impacts on public finance operations and results;
- Possible gaps or needs for additional regulation;
- Conclusions and recommendations for legislative deliberation by the National Parliament.

Through this analysis, the Public Finance Committee seeks to provide a solid basis for parliamentary debate, in order to enable the decision of the National Parliament as

legislator, regarding the approval with or without amendments of the legislative initiative under analysis, resulting in the strengthening of public financial management in Timor-Leste.

## **2. Legal framework**

The analysis of Bill No. 14/VI(2), which replaces Law No. 2/2022, which governs the General State Budget (OGE) and Public Financial Management, must, first of all, be analyzed in light of the formal and material requirements provided for in the legal system of Timor-Leste, especially those expressed in the Constitution of the Democratic Republic of Timor-Leste (CRDTL), in the Rules of Procedure of the National Parliament (RPN), and in the Publication of Acts Law (LPA).

It can be seen from Admissibility Note No. 20/2024/DIPLN<sup>1</sup> that the proposed law in question was presented on paper, complying with the legal provisions contained in article 101.1 of the Internal Regulations of the National Parliament, which determines the distribution of copies in physical format. Furthermore, the text of the proposed law is written in Portuguese, in accordance with article 98.1(a) of the RPN.

Another important requirement is the articulated form of the text of the proposed law, as established in article 98.1(b) of the RPN. The proposal is presented in a clear and structured manner, with the legal provisions organized in a cohesive and logical manner, which facilitates its analysis and understanding. The title of the proposal is also in accordance with article 98.1(c) of the RPN, as it accurately translates the main purpose of the law, allowing the content and purpose of the legislative proposal to be quickly understood.

Furthermore, the bill contains a justification or statement of reasons, as provided for in article 11.1 of the Publication of Acts Law and article 98.1(d) of the RPN, and a draft preamble of the law is also present, as required by articles 7.1 of the LPA and 98.2 of the RPN.

Regarding the competence to present the proposal, the requirements established by the Constitution and the Internal Regulations of the National Parliament were met. The Government is competent to present the bill, in accordance with articles 95.2(q), 97.1(c), 115.2(a) and 116(c) of the CRDTL, and the National Parliament has the competence to approve it. The document is duly signed by the Prime Minister and the ministers responsible for the matter, as required by article 11.3 of the LPA and article 96.2 of the RPN.

The bill also mentions the date of its approval in the Council of Ministers, as required by articles 11.3 of the LPA, which guarantees the transparency of the process and ensures that the bill has followed the necessary legal procedures before being presented to the National Parliament.

The legislative initiative is intelligible and clearly defines the changes it seeks to introduce into the national legislative order, as stipulated in Article 92.1 of the RPN. No gross or flagrant unconstitutionality was identified in the proposal.

Regarding the so-called “brake law”, the proposal complies with this constitutional principle, not foreseeing an increase in expenditure or a decrease in State revenue in the current year, in line with article 97.2 of the CRDTL. Finally, the proposal was not submitted for urgent

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<sup>1</sup>Attached document

processing, as established in article 97 of the RPN, which indicates that the legislative process will follow its normal course, without the need for acceleration.

In short, Bill No. 14/VI(2) fully complies with the formal and material requirements of Timorese legislation, which guarantees its regularity and compliance with the principles established in the country's legal system. The proposal is ready to proceed to the various stages of the legislative process associated with it.

From a financial perspective, the proposal reflects the State's commitment to sustainable and responsible fiscal management. In this sense, the financial legal framework analyses the compatibility of the changes proposed by the Government to the current law based on the following principles:

- Efficiency and effectiveness in budget management, with the introduction of new deadlines and mechanisms designed to improve execution and financial reporting, promoting greater predictability and control;
- Financial discipline, through stricter regulation on the use of management balances and the prohibition of taking out loans for services and funds with financial autonomy and their own income, except in specific situations;
- Strengthening transparency, with the obligation of regular budget execution reports and performance analyses, sent to the National Parliament and published.

In line with international best practices in public financial management, the legislative initiative under consideration aims to ensure that the General State Budget is a strategic development instrument, ensure greater clarity in budgetary processes and better allocation of public resources.

Bill No. 14/VI(2) arises in the context of increasing complexity in the management of public finances in Timor-Leste, marked by an urgent need to modernize its fiscal and governance systems. The country's economic and social development requires a regulatory response that ensures greater efficiency, transparency and accountability in public administration. In this context, the bill in question aims to correct the gaps and deficiencies identified in the legislation still in force, establishing a more robust legal framework that is more suited to the contemporary challenges of public management.

The legal and administrative context preceding the proposed law is based on a set of rules that, despite playing an important role in regulating public finances, present limitations that have compromised the effectiveness of financial management in the country.

Law No. 2/2022, although it represented an important step forward in the regulation of public finances and the organization of the budgetary system in Timor-Leste, also revealed some shortcomings in terms of its coverage and many of its provisions proved insufficient in view of the complexity of public management and the new demands of a growing economy and an evolving public sector. Among the most notable main problems is its difficulty in ensuring effective budget execution and monitoring of public spending, compromising the central objective of the law, which is to ensure efficient and transparent financial management. Therefore, Bill No. 14/VI(2) was created as a response to such shortcomings, seeking to integrate and harmonize existing rules, while incorporating innovations that seek

to respond to the new challenges posed by modern public management, from the Government's perspective.

The proposed law also aims to implement a more rigorous system of control and auditing of public finances, with an emphasis on transparency of information and accountability of public managers, providing a set of fundamental standards to prevent corruption and mismanagement, which has been a huge challenge for many nations, especially developing countries, such as Timor-Leste.

Furthermore, the proposed law seeks to align Timor-Leste's public financial management practices with international standards, such as guidelines issued by the International Monetary Fund (IMF) and the World Bank.

Another relevant issue relates to the sustainability of public finances. The increasing pressure on the limited resources of the State, combined with an increase in social needs and investment in infrastructure, makes it even more necessary to establish balanced and responsible fiscal management, in order to promote a balance between the need for public investment for development and the preservation of public financial stability.

### 3. Designation of rapporteur

The rapporteur for this report and opinion was Ms. Aliança da Conceição Araújo, from the CNRT Parliamentary Group.

### 4. Contributions received

With the aim of gathering clarifications and comments on Bill No. 14/VI(2) in the general phase, the Public Finance Committee held a hearing with the relevant members of the Government in relation to the matter, and obtained important written contributions on the new legislation now under consideration by the National Parliament, which are attached to this opinion.

The public entities identified in the following calendar participated in the public hearings convened by the Public Finance Committee:

DATE	TIME	SUBJECT	LOCATION
12/02/2025	09:00	<b>Minister of Finance</b> , accompanied by the Vice-Minister, Tax Authority and Customs Authority	Plenary Hall of the National Parliament
		Hearing of the <b>Governor of the TL Central Bank</b> accompanied by the team responsible for managing the Petroleum Fund	
02/13/2025	09:00	<b>Minister of Social Solidarity and Inclusion</b> , accompanied by INSS and FRSS	
		Hearing of the <b>President of the RAEOA Authority</b> accompanied by the ZEDOA Coordinator	
02/14/2025	09:00	<b>Minister of State Administration</b> accompanied by municipal authorities	

The contributions and written responses given to the questions raised by the Commission by some of the entities interviewed are summarized below:

- ***Contributions from the Ministry of Finance to the questions from the Public Finance Committee:***

According to the responses provided by the Ministry of Finance (MF) to a set of questions put to it by the PN, the current proposal for a new Law results from the need for a broad reform of public finances, as explained in the Program of the IX Constitutional Government. Given the relevance of the necessary changes to the legislation in force, the Government chose to present a proposal for a new law to the PN instead of making a third change to the current legislation.

The main changes to the legislation in force include the redefinition of the budget perimeter, adjusting the financial regime of public entities, the introduction into the OGE planning process of a Budget Strategy Declaration, the establishment of new rules on management balances and their use, restrictions on budgetary changes, subscription of loans by indirect administration entities, changes to the deadlines for the submission of accounts and the transfer of operational standards currently provided for in the law (LEO) to a Government decree-law.

According to the MF, the proposed law follows international best practices, aligning itself with OECD and IMF principles and aiming to ensure greater transparency and accountability in public financial management.

Regarding public debt, the MF states that the proposal defines annual limits for the central administration, excluding public companies, which will be regulated by specific legislation, and that the Government will maintain control mechanisms over these entities, providing for periodic audits and information to Parliament. The issuance of public debt is still under study and will be included in the next review of the Public Debt Law, which is currently under development. The regulation of a maximum debt limit will be considered in the Proposed Law for the Regulation of Public Debt, considering alternatives appropriate to the national context.

The introduction of the new “Budget Strategy Declaration” document into the budget planning process aims to inform Parliament, but without creating a legislative procedure prior to the approval of the General State Budget (OGE), which may be revised for greater clarity.

The exclusion of municipalities from the budgetary perimeter reinforces, as explained by the MF, the separation between budgetary framework and administrative organization, while the removal of the Social Security Reserve Fund (FRSS) from the budgetary perimeter guarantees its autonomy and flexibility, without however harming transparency and financial supervision.

The distinction between limitation periods for the refund of undue revenues and the replacement of amounts unduly paid seeks to balance fiscal predictability and the protection of public finances.

Replacing the reference to the “Ministry of Finance” with “government department responsible for finance” aims to ensure institutional flexibility, although the MF does not oppose the designation being reviewed by the PN, for greater clarity.

Regarding the concept of solvency, the MF considers that, despite being relevant, it should not be addressed in this PPL, but in specific legislation.

Regarding the transfer of balances from the Special Development Fund of Oe-Cusse Ambeno to the RAEOA, it is justified by recent changes in the organic structure of the Region, with a proposal to clarify the allocation of balances in the budget tables. The Social Security subsector may integrate balances carried over for application in expenses not included in the OGE, but only in the case of transfers from the INSS to the FRSS. The Government agrees to restrict investments by the Social Security Treasury to the short term, correcting the wording of the rule included in the proposed law. To guarantee the population's access to budgetary information, the MF clarifies that simplified materials will be created and made available on digital platforms and community centers.

Another new feature of the proposed law is that financial autonomy will only be granted to services that collect at least 50% of their expenses with their own revenue, and this autonomy may be revoked if the criterion is not met for two consecutive years.

The Petroleum Fund remains outside the OGE, however its transfers are transparent and subject to parliamentary control, and the PN can summon the Fund's operational manager (BCTL) at any time for clarification.

The multi-annual budget strategy includes mechanisms for expenditure discipline and revenue diversification, and tax reform is underway. As for the explanation for the need for an organic revenue classification questioned by the Commission, the MF responded that it may indeed limit budgetary flexibility, but that it allows for greater transparency on revenue collection by each entity. The PN may request audits not only of the Public Administrative Sector, but also of other entities in the public sector, which is already provided for in the legislation of the Chamber of Auditors.

The granting of guarantees and loans will now depend on the approval of the Council of Ministers and no longer exclusively on the Minister of Finance, in order to reinforce the security of financial operations, based on recommendations from that ministry.

- ***Written responses from the Court of Appeal to questions from the Public Finance Committee:***

For the Court of Appeal (TR) “the changes recommended by the proposed law do not appear to violate, at least in an evident way, the principles of budget execution that guide the proper execution of State accounts and the management of public money in a democratic state governed by the rule of law, as is the case in Timor-Leste”.

In response to the written questions put to it by the Public Finance Committee, the TR responded that “the proposed law resumes the current principles of budget execution, reaffirming them with changes, but without breaking continuity”. However, in the Court's opinion, it would be desirable to obtain greater clarity regarding the subjective scope of incidence (Article 2) and the conceptual arrangement of the services and entities it aims to cover (Articles 13 to 17).

Regarding the Budget Strategy Declaration, considering the TR, it is a document with undeniable relevance for the understanding and intelligibility of expenditure budgeting, but it is understood that “the omission in the proposed law of the obligation to report the



financial impacts of Social Security expenditure will make it difficult to analyze the sustainability of the subsystem, and may compromise fiscal transparency and predictability”.

The subsystem requires a balance between revenues (contributions) and expenditures (benefits), but according to the TR, the lack of clear information on the financial impacts increases the risk of underestimating social security expenditure and the timely adoption of preventive measures to correct future deficits, facilitates intergenerational imbalances and may undermine the stability of the system. The TR therefore suggests that the draft law include a clear provision making detailed reporting of the financial impacts of social security expenditure mandatory in the context of medium and long-term budgetary strategies, as this will contribute to the sustainability of the system.

Regarding the change in the deadline for issuing the Chamber of Auditors' opinion on the CGE, which, according to current law (law no. 2/2022) is six months and the proposed law reduces it to just three months (art. 81.2), in the opinion of the TR, this new deadline may not be sufficient due to the legal deadlines for exercising the adversarial system that need to be taken into account.

Regarding the capacity of the auditors of the Chamber of Auditors to be able to receive and respond to at least four audits per year (two at the request of the PN and two at the request of the Government), it is a task that the TR considers unbearable, given the annual volume of work that the Court currently has. Only an increase in staff (judges and auditors) would, in his opinion, make it possible to respond to this increase in the volume of work.

- ***Contributions from the Ministry of State Administration provided to the Public Finance Committee:***

The Ministry of State Administration (MAE) begins by clarifying, in the letter it addressed to this Committee, that Municipal Authorities are not to be confused with Municipalities, to which, when created by law of the National Parliament, the Municipal Finance Law will apply. The same does not apply to Municipal Authorities, which present themselves as personalized services integrated into the Indirect Administration of the State and subject to the Law on the Framework of the State Budget and public financial management. For the MAE, there is no contradiction or normative inconsistency in the solutions presented in the bill, as the legal distinction between the former and the latter is duly ensured. The ministry also highlights, in the responses sent to the Commission, that the Government will work, throughout the current year, on regulating some of the provisions of the Municipal Finance Law.

The MAE considers that granting financial autonomy and own revenues to Municipal Authorities, instead of just granting them financial autonomy, could be politically debatable. However, since it is understood to be a political option of the Government, it does not merit any objection.

- ***Contributions from the Ministry of Social Solidarity and Inclusion to the Public Finance Committee:***

In response to the request for comments and questions put to it by the Public Finance Committee in public hearings on the proposed law, the Ministry of Social Solidarity and Inclusion transmitted in writing that:



Bill no. 14/VI(2) introduces strategic reforms, including the adjustment of the budgetary perimeter (excluding the funds from the Social Security Reserve Fund - FRSS), the carryover of balances, the limitation of budgetary changes and the clarification of financial autonomy. Two relevant changes introduced by the bill to the legislation in force, concerning Social Security, stand out: the removal of FRSS funds from the budgetary perimeter to guarantee autonomy and effectiveness in the management of assets, and the restriction on the use of carryover balances, limiting their application to transfers from the INSS to the FRSS. The MSSSI advocates greater discussion during the legislative process of the legislative initiative under consideration, on the restrictions in the future law on budgetary changes in the Social Security subsector.

In the MSSSI's opinion, the exclusion of FRSS funds from the budget perimeter is a measure that guarantees autonomy and flexibility to this fund, which is essential for its long-term financial stabilization function. The reserves are capitalized and used only when necessary to cover future budget deficits. The exclusion avoids distortions in the State Budget and ensures transparency and supervision through asset accounting and mandatory reporting to the National Parliament, aligning the measure proposed by the Government with international best practices and maintaining the FRSS as a public institution within the budget perimeter, excluding only the capitalization of the reserves accumulated therein.

As for the allocation of social contributions, social contributions exclusively finance the contributory regime (payment of benefits and capitalization of reserves). In this sense, the proposed law corrects the wording of the current law, to clarify that only operational expenses linked to the management of the FRSS can be financed with revenues from social contributions, maintaining the prohibition on their use to finance the general administration of Social Security.

Regarding the integration of management balances without prior registration in the OGE, the MSSSI attests that the measure will only apply to the transfer of surpluses from the INSS to the FRSS, ensuring the continuity of the contribution regime and that, in all other cases, the application of the balance requires prior registration in the OGE.

The MSSSI also considers that the Government made a mistake in the wording it proposes for the article of the proposed law, when mentioning medium-term investments when referring to temporary investments of the Social Security Treasury, and that the technical concept of Treasury refers only to short-term investments (up to 1 year). It therefore asks the PN to make the necessary correction.

In response to the Public Finance Commission's request for information on the profitability of FRSS investments in 2024, the ministry reports that short-term investments achieved a profitability of between 3.15% and 4.39%, above the forecast (3%), generating US\$6.7 million in income, exceeding the budgeted US\$5 million, with part of the income to be recorded in 2025.

Finally, with regard to payment in installments or forgiveness of amounts unduly paid, the MSSSI considers that there is no change in relation to the legislation currently in force and that the Government's objective in this matter is to prevent the return of amounts unduly received from causing financial difficulties for beneficiaries. The Government's decision to pardon or pay in installments will always be exceptional and justified, ensuring equity and economic dignity to the affected citizens.

- ***RAEOA Contributions to the Public Finance Committee:***

The President of the RAEOA Authority welcomes the legislative initiative of the Draft Law on the Framework of the General State Budget and public financial management, as it aims to fill gaps in the current regime, making it more suited to contemporary demands. However, he stresses that, as defined in Law No. 3/2014 and Decree-Law No. 5/2015, the Region has administrative, financial and patrimonial autonomy, being a legal entity under territorial law with its own bodies, supervised by the Prime Minister, in accordance with Article 4 of the aforementioned law. This autonomy is constitutionally supported by Articles 5.3, and 71.2, which guarantee special administrative and economic treatment to Oé-Cusse Ambeno. In view of this specificity, certain provisions of the Draft Law will require, in the opinion of the President of the RAEOA Authority, a more detailed analysis, as they raise doubts as to their qualification and applicability to the Region.

The Bill classifies RAEOA as a subsector of the Public Administrative Sector with a regime of financial autonomy, its own revenues and an autonomous budget integrated into the General State Budget, in accordance with articles 2.1(c), 13.5(c), 16, 17.2, and 57.5. This classification, however, equates RAEOA with Social Security, giving them the same legal regime. However, RAEOA is a legal entity with distinct territorial law by nature, which makes its inclusion as a subsector of the Public Administrative Sector inappropriate, distorting its legal qualification, from the perspective of the President of the Authority.

Another point of concern for RAEOA is the forecast that the transfer of resources from the OGE to RAEOA will be made in twelfths on a half-yearly basis, equating it to Social Security. Considering the administrative and financial autonomy of RAEOA, this twelfths system is not justified, since it is mainly intended for unforeseen expenses. Therefore, the President of the RAEOA Authority understands that such provision represents a mistake and will have to be corrected by the PN.

As for the Special Development Fund of the RAEOA, the Bill includes in the Central Administration "the State and the bodies, services and funds (...) without legal personality distinct from the State legal entity ", but does not expressly mention the Special Fund of the RAEOA, created by Decree-Law No. 1/2015 to finance multi-annual projects. The Fund has administrative, financial and patrimonial autonomy, and its budget is approved annually at the OGE. Therefore, it is essential for the President of the Authority of the Region that the proposal include a specific chapter for Special Regimes, ensuring adequate legal provision for the Fund and its legal nature.

In view of this, RAEOA hopes that the considerations presented will contribute to the improvement of the Proposed Law on the Framework of the General State Budget and public financial management,

- ***Contributions from the Central Bank of Timor-Leste provided to the Public Finance Commission:***

The Governor of BCTL provided the Commission with an overview of the review of Law No. 2/2022, of February 10, beginning by stating that he considered it a relevant legislative initiative, given the impact it would have on national budgetary policy. He considered it essential that the nation implement a fiscal policy and a monetary policy, as a way of boosting the development of the country's economic and social situation, regretting

however that monetary policy still has no relevance in Timor-Leste, since the country uses the US dollar as its currency.

He recalled that the Central Bank of Timor-Leste has its own statute defined in Law No. 5/2011, of June 15, on the Organic Law of the Central Bank and that, according to Article 2.2(c) of PPL No. 14/VI(2), on the Framework of the General State Budget and Public Financial Management, the BCTL is not part of the General State Budget (OGE) and is governed by its own legislation, which means that the future law (LEO) will not directly affect the BCTL's autonomy, and its budget and accountability will continue to be regulated by a special legal regime.

During his hearing, the Governor of BCTL generally agreed with the content of the proposed law under consideration, expressing the Bank's willingness to take on the role of operational manager of the Social Security Reserve Fund, similar to what it has already done successfully for the Petroleum Fund over the years.

Referring then to the multi-annual principle provided for in the bill under analysis, the Governor of BCTL was of the opinion that a budget plan of more than one year will boost the country's economy, offering security to economic agents so that they can plan their activities for a horizon beyond the annual budget cycle.

The BCTL took the opportunity to also recommend that the Government and the National Parliament give priority to the approval of the new Tax Law, considering it essential for considering other ways of obtaining the resources necessary to finance the country's development, in addition to the Petroleum Fund, with the aim of reducing the great dependence of public finances on it. The Fund continues to be the main source of financing for the General State Budget, it stressed.

Finally, the Governor of BCTL stated that the Bank was prepared to manage the investment of the Social Security Reserve Fund, in order to guarantee its sustainability and its impact on the national economy.

- **Written contributions sent by the Non-Governmental *Organization La'o Hamutuk* to the Public Finance Committee:**

The *La'o Hamutuk* organization values the Government's initiative to amend Law No. 2/2022, of February 10, which provided the Framework for the General State Budget and Financial Management, considering it an opportunity to strengthen transparency, accountability and participation in the budgetary process. However, it suggests that the documents be published on the Government and Parliament websites to ensure their public access.

In the opinion of this non-governmental organization (NGO), the Government's proposal reflects weaknesses in the budgetary process, despite the fact that it claims to respect international best practices, especially with regard to transparency, discipline in budgetary execution and public debt management. *La'o Hamutuk* agrees with the need to improve planning and budgeting, but warns that transparency and public participation are still insufficient and argues that budgetary stability and clarity should be ensured, in practice, with the timely publication of all relevant documents.

The NGO emphasizes the importance of maintaining and improving the budget system, ensuring that proposals are submitted on time and that documents are accessible to the public, allowing for analysis and informed participation by civil society. It also recommends that budget data be published in editable formats, such as Excel spreadsheets, in alignment with international standards.

Finally, *La'ó Hamutuk* presents a set of recommendations to the PN related to the wording of the proposed law under examination, which are listed in the annex to this document and which may, hopefully, contribute to analyses and debates on the topic.

*The original version of the written contributions submitted by the Entities are attached to the Commission's Report and Opinion.*

## **5. General analysis of the Bill and foreseeable consequences of its approval**

### **5.1. The efficiency of changes in the budget preparation, execution and reporting process**

The efficiency of changes in the budget preparation, execution and reporting process in Timor-Leste reflects significant advances promoted by Law No. 2/2022 and the innovations contemplated in Bill No. 14/VI(2). Both diplomas seek to improve transparency, sustainability and results-orientation in public financial management, but present relevant differences that impact the efficiency of the budget process.

Law No. 2/2022 consolidated the use of program budgeting as the central structure of the General State Budget (OGE), allowing expenditure to be grouped by general and specific objectives. This approach was accompanied by the implementation of performance indicators, promoting greater accountability and measurement of results achieved. In addition, the law provided for the mandatory alignment of the OGE with the national development plan and the Government Program, ensuring that national priorities were reflected in the budget allocation. However, Bill No. 14/VI(2) details and expands the budgetary processes, incorporating the mandatory review of medium-term plans and allowing for more dynamic and responsible adjustments to national economic and social conditions.

In budget execution, Law No. 2/2022 introduced more robust budgetary and financial information systems, integrating budgetary and financial accounting into a unified platform, which Bill No. 14/VI(2) maintains (Article 44).

Regarding reporting and evaluation, Law No. 2/2022 establishes the preparation of quarterly and half-yearly reports that include detailed information on budget execution and program performance.

### **5.2. The sustainability of public finances and the impact on fiscal balance, with emphasis on the management of management balances and the financial autonomy of public entities**

The sustainability of public finances is a fundamental pillar for budgetary balance, ensuring that the government can meet its financial obligations without compromising the country's economic and social development. In this regard, Bill No. 14/VI(2) complements Law No. 2/2022 in its approach to this principle, focusing on the management of management balances and the financial autonomy of entities and services in the Public Administrative Sector.

Bill No. 14/VI(2) provides for greater transparency in the management of management balances. In addition, it proposes more rigorous mechanisms to monitor and evaluate the use of financial surpluses, ensuring that they are applied efficiently and in line with the country's strategic objectives.

As for the financial autonomy of public entities, Law No. 2/2022 in force establishes two main regimes: limited and extended financial autonomy, but this segmentation did not contribute to a clear and effective differentiation of the nature of both regimes in the financial management of entities, since both continue to be subject to budgetary restrictions and centralized approval processes that limit their operational flexibility and efficiency in financial execution.

Furthermore, the lack of objective criteria for the allocation of financial regimes has led to inconsistencies in the practical application of financial autonomy. Fortunately, Bill No. 14/VI(2) introduces mechanisms to clarify and reinforce financial autonomy, establishing more objective criteria for its allocation and promoting greater flexibility in the management of resources without compromising transparency and rigor in budgetary implementation.

### 5.3. The adequacy of regulatory innovations to promote greater responsibility and transparency in the use of public resources.

The adequacy of regulatory innovations is essential to promote greater accountability and transparency in the use of public resources. Both Law No. 2/2022 and Bill No. 14/VI(2) incorporate principles that seek to ensure that budget management is conducted rigorously and in accordance with international standards of good governance.

Another aspect that deserves to be highlighted in Bill No. 14/VI(2) is the monitoring and evaluation mechanisms. The creation of compatible and integrated information systems between the various government entities ensures that data collection and sharing are more efficient, reducing redundancies and errors. This integration will be useful in ensuring that resources are applied as planned and that the expected results are achieved.

### 5.4. The expected effects on simplifying processes and reducing the risk of abuse in public financial management.

Law No. 2/2022 implemented advances in process simplification by establishing a program budgeting framework that facilitates budget planning and execution, an approach that allows for greater clarity in defining goals and objectives, and aims to reduce complexity in resource allocation processes. Bill No. 14/VI(2) complements these innovations by introducing additional measures to simplify processes and reduce risks of public financial mismanagement.

Another relevant aspect of Bill No. 14/VI(2) is the strengthening of internal control and audit mechanisms.

In terms of overall impact, the measures indicated above, when combined, are expected to contribute significantly to more effective and transparent public financial management. Simplifying processes reduces administrative costs and increases agility in budget execution.

## 6. Detailed analysis of the draft Bill

The law that will result from the approval of Bill No. 14/VI(2) will not have any financial impact on the State in the year of its entry into force and production of effects, the year 2025.

If approved by the National Parliament, the new law will reduce the current number of articles from 126 to 90, without losing, but rather improving and reorganizing, the legal norms in force in law no. 2/2022, replicating the wording of almost all the articles of this law, merging the content of some, eliminating procedural rules that should only be included in the Rules of Procedure of the National Parliament (article 54 - Voting on the proposal), bringing together the norms of the current articles 113 to 124 in paragraph 2 of article 88, among several others.

In the opinion of Committee C, the structural reorganization of the diploma now proposed by the Government is not only pertinent, but necessary.

In the case of extensive legislation, such as Law No. 2/2022 and Bill No. 14/VI(2), the rules that comprise them are generally grouped into blocks of articles and, at the top of their hierarchy, the Titles appear. The text of bill no. 14/VI(2) is structured into seven titles, two fewer than Law 2/2022 which it aims to repeal. The comparison between the title architecture, in the current law and in the bill, is presented in the following table:

<b>Law no. 2/2022, of February 10 (current law)</b>	<b>Bill No. 14/VI(2)</b>
TITLE I - INITIAL PROVISIONS	TITLE I - INITIAL PROVISIONS
TITLE II - PUBLIC SECTOR	TITLE 1 - FINANCIAL REGIME FOR SERVICES AND ENTITIES OF THE PUBLIC ADMINISTRATIVE SECTOR
TITLE III- PUBLIC ADMINISTRATIVE SECTOR	TITLE III - GENERAL STATE BUDGET
TITLE IV - GENERAL STATE BUDGET	TITLE IV - BUDGET EXECUTION AND PUBLIC FINANCIAL MANAGEMENT
TITLE V - BUDGET PROCESS	TITLE V - GENERAL STATE ACCOUNT
TITLE VI - BUDGET EXECUTION AND PUBLIC FINANCIAL MANAGEMENT	TITLE VI - BUDGETARY CONTROL
TITLE VII - GENERAL STATE ACCOUNT	TITLE VII - FINAL PROVISIONS
TITLE VIII - BUDGETARY CONTROL AND RESPONSIBILITY	
TITLE IX - FINAL AND TRANSITORY PROVISIONS	

Below is the disaggregated technical analysis of the seven Titles of the Proposed Law:

### 6.1. TITLE I - Initial provisions

The proposed law includes in Title I - "Initial Provisions", 12 articles that are distributed across two Chapters, the first chapter corresponding to "Object and scope of the legislative initiative" and the second to "Budgetary principles".

Title I of Bill No. 14/VI(2) presents several modifications compared to Law No. 2/2022, with emphasis on the incorporation of new terminology and adjustments to the structure of certain articles.

In Chapter I, referring to “Object and Scope”, article 1 maintains much of the wording of the current law in force, but introduces the expressions “reporting” and “public financial management”, bringing more clarity and scope to its scope. In turn, Article 2 improves the definition of the scope of application, by combining provisions currently scattered throughout Articles 2, 19, 20 to 22, 24 and 25 of Law No. 2/2022. A relevant change is the exclusion of the Social Security Reserve Fund (FRSS) from the General State Budget (OGE). However, it is worth noting that the administration expenses of the INSS and FRSS, IP, and transfers from the OGE to the FRSS and from the FRSS to the OGE, when they occur, are expected to continue to form part of the OGE's revenues and expenses in a few decades.

In Chapter II, which deals with budgetary principles, Article 3 introduces the expression “... including the budget of the subsectors that comprise it ...”. Furthermore, the deadline for completing authorized payments is extended from 15 to 31 January of the following year, an adjustment considered pertinent by the Commission. The Government improves the wording of paragraphs 1 and 2 of Article 4, by eliminating the expression “consisting of a single normative act” and “allowing the collection of revenues above those foreseen, provided that they are directed to expenses registered or authorized by law”. However, the article raises questions about the payment of expenses not foreseen and registered in the State Budget.

In article 5, which deals with fiscal balance, the PPL inserts “... including the budget of the subsectors that comprise it..” and “... in the respective fiscal year”, reinforcing the concept of budget integrity. Article 6 is entirely new and reaffirms the Public Administration's commitment to the public interest, aligning it with article 137 of the RDTL Constitution.

Article 7 reformulates and defines the concepts of economy, efficiency and effectiveness, making them more analytical and accessible. Article 8 improves the structure and increases transparency by guaranteeing public access to the Report and Opinion on the General State Account of the Chamber of Auditors, although it omits the obligation to make all changes to the State Budget accessible, a setback in terms of oversight, from this Committee's perspective.

Article 9 removes paragraphs 2 and 3 of Law No. 2/2022, it is justifiable to remove paragraph 2, but recommended that paragraph 3 be maintained in an adapted form, in order to reinforce intergenerational equity. In Article 10, the Government improves the budget specification, requiring expenditure to be detailed down to the subprogram level, which, in the opinion of the Public Finance Committee, further increases the transparency of the OGE, but could make the OGE excessively voluminous.

Article 11 essentially replicates the content of Article 12 of Law No. 2/2022, removing the reference to the management of the FRSS asset portfolio, thus aligning with the new approach of Article 2 of the PPL. Finally, article 12 provides for the non-allocation of revenues, delimiting them in a specific manner and with a duration defined by law, which can be problematic in cases of long-term financing of the social system, for example, such as support for institutions that support the most vulnerable population. The changes in the law proposed for Title I reflect undeniable advances, but some changes may require adjustments



at the stage of assessment in the specialty, so that the new law can guarantee greater legal certainty and budgetary transparency.

## 6.2. TITLE II - Financial regime for services and entities of the Public Administrative Sector

The second title covers articles 13 to 17 of the bill, without including chapters.

Article 13 of the PPL, entitled "Financial regime for services and entities of the Public Administrative Sector", originates from articles 19 and 26 of the current law, law 2/2022, although it reflects some substantial differences. In Law 2/2022, two levels of financial regimes are distinguished for the services and entities of the Public Administrative Sector: the limited financial autonomy regime and the extended financial autonomy regime. In the proposed law, these two regimes disappear to give rise to three levels of financial regime within the Public Administrative Sector: services without financial autonomy, services with financial autonomy and services and funds with financial autonomy and their own revenue.

Another notable change is the removal of the prerogative of the Minister of Finance to grant, unilaterally and discretionarily, extended financial autonomy to certain services to the detriment of others, as currently established in paragraph 5 of article 26 of Law 2/2022, providing greater transparency and predictability to the process, removing the dependence of the financial regime on simple indications in the Circular for the preparation of the General State Budget (OGE).

In article 14 of the proposed law, dedicated to the "Regime applicable to services without financial autonomy", there is a partial correspondence with article 27 of Law no. 2/2022. However, the Government's proposal advocates the elimination of the limited financial autonomy regime and the creation of a new specific regime for services without financial autonomy, establishing a clearer distinction in the structure of the Public Administrative Sector.

Articles 15 and 16 of the PPL, which guide the regimes applicable to services with financial autonomy and services with financial autonomy and their own revenue, have similarities between them and a partial correspondence with articles 28 (expanded financial autonomy regime) and 49 (circular for the preparation of the OGE) of the current law. In Law No. 2/2022, the financial autonomy of Public Administrative Sector entities is classified only as limited or expanded, while the bill eliminates these designations and establishes three distinct levels. Also noteworthy is the inclusion of no. 3 in article 16 of the proposed law, allowing the INSS to transfer its own revenue management balance to the FRSS, a legal command relevant to the management of the resources of both entities.

Finally, article 17 of the PPL, entitled "Budgetary autonomy", summarizes and expands the content of articles 23, 29 and 30 of Law No. 2/2022, reducing the number of legal provisions and promoting greater coherence with the new guidelines established in the previous articles. The changes proposed by the Government reflect an evolution of the current model and provide greater clarity and rationality to the financial management of the Public Administrative Sector. In view of such changes, it is understood that the National Parliament may accept and subscribe to the innovations introduced by article 17 of the PPL.

## 6.3. TITLE III - General State Budget

Title III of Bill No. 14/VI(2) is particularly extensive, covering articles 18 to 36, which, in turn, are grouped into three chapters. In Chapter I of Title III, referring to nature and content,

article 18 of the Government's proposal simplifies article 27 of Law 2/2022, eliminating current redundancies. Article 19 partially corresponds to Article 32 of Law 2/2022 and reflects changes in the financial autonomy of services and entities, removing the former paragraphs 4 and 5 of Article 32 as they are now unnecessary.

As for Article 20 of the PPL, it modifies Article 33 of Law 2/2022, by referring to the inclusion of "subsectors", disaggregating the budgeting down to the level of subprograms, removing from the Minister of Finance the prerogative to authorize the organic classification of new titles and chapters in the OGE and excluding references to the Social Security capitalization contributory scheme, given that the social security reserve fund FRSS, IP, will no longer be included in the OGE in accordance with the Government's proposal. The incorrect conception regarding budgetary forecasts is now also corrected.

In article 21, corresponding to article 10 of Law 2/2022, there are only improvements in the wording and replacement of expressions, but the change in paragraph 4 unlinks the programs from the National Plan, compromising government accountability. Article 22 unifies articles 20, 21 and 22 of Law 2/2022, but the wording of paragraph 2 could be improved. Paragraph 4 expands the possibilities for creating additional regional structures to those already in place, something that should merit in-depth reflection by the PN.

In Chapter II, dedicated to Budget Planning, article 23 replaces the "Annual Strategic Investment Plan" with the "Budget Strategy Declaration", a more comprehensive document that sets "indicatively" spending ceilings for five years and must be submitted to the National Parliament by June of each year for "assessment".

In turn, article 24 of the proposed law, whose regulations partially correspond to those of articles 44 - "Budget planning" and 45 - "Planning Process" of law no. 2/2022 in force, further details the elements of budget planning. Next, article 25 reorganizes the regulation of medium-term and annual plans, transferring this responsibility to the Government through a specific diploma. Article 26 simplifies articles 50 and 51 of Law 2/2022, removing budgetary rules that the Government understands should be included exclusively in the OGE preparation Circular.

In Chapter III of Title III, which governs the General State Budget Law, article 27 reorganizes the content of articles 37 and 40 of the current Law 2/2022, changing the nomenclature from "Budget Developments" to "Budget Development Books". Article 28 amends Article 38 of Law 2/2022, clarifying that only the State can lend and grant guarantees, correcting a critical point in the previous legislation. It also authorizes the Oe-Cusse Ambeno Special Administrative Region (OASR) to transfer balances to the Special Development Fund and vice versa, although the wording of paragraph 5 needs some adjustment to avoid ambiguity. Article 29 reorganizes the numbering of budget tables, making the structure more logical. Article 30, similar to Article 39 of Law 2/2022, introduces the requirement to submit the bill not only in physical form, but also in digital form. Article 31 renames the "Report" as "Report of the State Budget Bill", without any changes to its content. Article 32 then replaces "Budget Developments" with "Budget Development Books" to allow for better organization of information.

Article 33 provides that, due to the exclusion of the social security reserve fund from the budgetary perimeter, it must continue to report on its financial and asset situation. The article of the proposed law, as in the law in force, does not yet regulate loans taken out by

public companies or by companies with public capital. Article 34 clarifies the times and means of publishing the OGE, maintaining the obligation of its publication in the Official Gazette. Article 35 differentiates the extension of the validity of the OGE from the maximum amount of debt permitted, but proposes a change to paragraph 10, as the law currently allows the execution, without restrictions, of extended amounts, something that should be carefully evaluated by the National Parliament. Finally, Article 36 eliminates paragraphs 2 to 4 of Article 95 of Law 2/2022, which could compromise important rules and should therefore be reconsidered by the legislator.

#### 6.4. TITLE IV - Budget execution and public financial management

Title IV of Bill No. 14/VI(2) presents several significant changes in relation to Law No. 2/2022 also concerning Budget Execution and Public Financial Management. With two chapters, this title extends across articles 37 to 76.

In article 37, on budget execution rules, the wording is identical to article 58 of the law currently in force, limited to grammatical improvements. Article 38, which deals with Budget Execution, corresponds to article 59 of the law still in force, but replaces "outflow" with "cash outflow", introduces the expression "Integration of Social Security management balances" and replaces "Ministry of Finance" with "government department responsible for finance", and it is recommended that this last expression be adjusted by the National Parliament to "ministry responsible for the area of public finance", when considering the diploma in detail.

Article 39 unifies the concepts of responsibility of the previous law and promotes changes in the classification of financial autonomy, removing the expression "limited financial autonomy" and distinguishing only between "financial autonomy" and "financial autonomy and own revenue". In article 40, relating to the "Release and transfer of credits or funds", similar changes occur regarding the nomenclature of the financial entity, in addition to the introduction of a new paragraph 6 aimed at speeding up the injection of capital into state entities, a measure that should be carefully analyzed by the National Parliament with the support of the Court of Appeal and the Central Bank of Timor-Leste.

In article 41, on "Contingency reserve", the bill replaces "depends on verification" with "depends on justification", requiring that the urgency and unpredictability of expenses be justified. Furthermore, the use of the reserve continues to be attributed to the Minister of Finance, which, in the opinion of this Committee, requires additional clarification from the Minister of Finance and further discussion within the National Parliament. Articles 42 and 43 maintain the essence of articles 63 and 64 of the previous law, only replacing "inflow and outflow of funds" with "cash inflow and outflow", making the terminology more accessible.

Article 44 changes the nomenclature of the "Ministry of Finance" to "government department responsible for finance", and it is recommended that this terminological choice be reviewed, as highlighted above in this document. In article 45, the deadline for preparing and publishing the monitoring of budget execution and the macroeconomic situation for the first half of the year is extended by one month, and the regulation of reporting and performance evaluation will be done by decree-law.

Article 46 introduces a clarification to the duodecimal regime through direct reference to employment contracts and omits reference to the management of the FRSS asset portfolio, since this fund will no longer be part of the OGE. Article 47 does not present any relevant

changes in relation to the previous law, but in article 48 of the bill, on "Budgetary changes", there is a reduction in the possibilities of changes that consist of a total increase in OGE expenditure.

Article 49 increases the deadline for communicating budgetary changes to the PN by one month and replaces "Ministry of Finance" with "government department", aspects that need to be reviewed.

In Chapter II, article 50 repeats the definition of the "Treasury Unit", while article 51 eliminates the possibility of negative current and effective balances, ensuring greater fiscal discipline. Article 52 excludes the possibility of Social Security using surpluses from the previous year in the following year, determining their total allocation to the FRSS.

In article 53, on "Public debt", the Government omits the inclusion of "non-financial debts in public debt", a practice that goes against international standards and requires further clarification from the Minister of Finance. Article 54 is unchanged, while Article 55 introduces a new paragraph 4 on rules for its implementation. In article 56, the only change is the addition of the expression "from the previous budget year" in the definition of "management balance", a change that seems redundant to us.

Article 57 includes the prior need to qualify revenues as own revenues in the regulations of the respective service or entity. Article 58, entitled "Management balance", partially corresponds to Article 74 of Law No. 2/2022 in force, improving the regulation of the management balance and allowing assigned revenues to be used in the following year, responding to a requirement of Committee C, by stipulating that all management balances of revenue from services with financial autonomy carried over to the following budget year may be used as revenue in the following year by services and funds with financial autonomy (when they are assigned revenues) and by services and funds with financial autonomy and own revenue (when they are own revenues) provided that they are previously registered in the OGE (i.e., approved by law), and can no longer be integrated in the following year through a mere internal budgetary change by the Government. All paragraphs of Article 58 of the proposed law appear to this Committee to be not only appropriate but also relevant, with the changes proposed by the Government representing progress but also challenges that require further study and clarification when assessing the legislative initiative in this area.

Article 59 of the PPL, "Contracting Public Debt", has partial correspondence in articles 17 and 75 of Law No. 2/2022. The reference to "medium and long-term solvency" disappears, as the previous law used it without a clear definition of the concept and in a less appropriate way.

In article 60, "Public funds", the term "public funds" is changed to "Social Security funds" or public funds of the Special Administrative Region of Oe-Cusse Ambeno when belonging to these subsectors, maintaining the expression "public funds" for funds of the central administration. Paragraph 4 prohibits any person from keeping these funds in their possession, reducing the risk of losses and harmful management.

Article 61, "Central State Treasury", maintains the content of Article 77 of Law No. 2/2022, eliminating redundancies, such as "The Central State Treasury is administered by the Ministry of Finance".

Article 62, "RAEOA Treasury", replicates Article 79 of Law No. 2/2022, but redefines RAEOA "money" as "public money". It also authorizes investment in medium-term instruments, which has already been recognized as a technical error on the part of the proponent.

In article 63, "Social Security Treasury", corresponding in practice to article 78 of Law No. 2/2022.

Article 64, "Incurring expenditure", condenses articles 80 and 81 of Law No. 2/2022 and establishes the obligation to follow the six successive stages of incurring expenditure. Article 65, "Authorization of expenditure", corresponds to article 82 of Law No. 2/2022, eliminating paragraphs 2 and 4 and replacing "justification" with "reasoning".

Article 66, "Verification of registration and budgetary allocation", eliminates paragraphs 3, 4 and 5 of article 83 of Law No. 2/2022, requiring the Government to provide better justification for this proposed change to the current law,

Article 67, "Assumption of commitments", raises doubts for this Committee about the reference to paragraph 2 of Article 19, and paragraphs 5 to 7 of Article 84 of Law No. 2/2022 have been removed, requiring this proposal for additional clarifications from the Government.

Article 68, "Settlement of expenses", omits paragraph 2 of article 85 of Law No. 2/2022, requiring justification from the Ministry of Finance for the change proposed by the Government. In turn, article 69, "Authorization of payment", corresponds to article 86 of Law no. 2/2022, but eliminates the power of the Minister of Finance to authorize, as until now, payments without consideration, thereby reinforcing State security.

Article 70, "Making of payment", simplifies Article 87 of Law No. 2/2022, reducing the content of the article from seven to a single rule, without covering the rules provided for in paragraphs 2 to 7 of Article 87 of the law in force in the future LEO, requesting clarification from the Government on the reason for the elimination of paragraphs 2 to 7. For reasons of consistency between the articles of the future law, it will be necessary for the National Parliament, in the phase of consideration of the specialty of the bill, to change the name "outflow of resources" to "cash outflow".

Article 71, "Prior Year Expense," seeks to extend the deadline for completing authorized and recorded payments from December 31 to January 31 of the following year. Article 72, "Remuneration expenses", changes the identification of those responsible for payments in the three subsectors.

Article 73, "Granting of guarantees and loans", reduces the power of the Minister of Finance in this matter, with the granting of guarantees and loans requiring authorization from the Council of Ministers,

Article 74, "Restitution", maintains Article 92 of Law No. 2/2022, but the National Parliament must question the three-year period for refunds. Article 75, "Replacement", adds a paragraph 10 to article 92 of the law, allowing the Government to regulate replacements and replacing the word "justified" with "founded".

Article 76, "Modification and extinction of credits", fully replicates article 93 of Law No. 2/2022.

## 6.5. TITLE V - General State Account

Title V of Bill No. 14/VI(2) covers articles 77 to 83, presenting several changes in relation to Law No. 2/2022.

In Article 77, entitled “Nature and Content”, the content of Articles 99 and 102 of the legislation in force is largely maintained, with slight differences. The acronym CGE will now be indicated in full, and the expression “accounts of services and entities of the Public Administrative Sector with limited financial autonomy and extended financial autonomy” will be replaced by “accounts of services without financial autonomy, services with financial autonomy and services and funds with financial autonomy and own revenues”, a change that reflects the new classification of financial regimes proposed by the Government.

Article 78, “Structure”, maintains the contents of articles 100 and 101 of Law no. 2/2022, with the only change being the replacement of the word “justification” by “reasoning”, with no significant impact. In article 79, “Informational elements”, there is the inclusion of a new paragraph in relation to the current law, which requires the presentation of the FRSS financial statements attached to the Social Security subsector account, considering the possible exclusion of the FRSS from the budgetary perimeter similar to the Petroleum Fund. Furthermore, the proposed law replaces “global debt of the Public Sector as a whole” with “global debt of the State” and simplifies the expression referring to treasury operations, since, according to the Government, it is the State that subscribes to the public debt and not the services and entities of the Public Administrative Sector. These changes are relevant and we believe they could be endorsed by the National Parliament, unless otherwise advised.

In Article 80, “Preparation”, there are changes to paragraphs 2 and 3, introducing the expression “The body with executive powers” for the INSS, and “The management bodies” for the RAEOA, in addition to replacing the expression “approval by the Prime Minister” with “approval by the member of the Government responsible”, considering such changes not only clarifying but also useful. In Article 81, “Presentation”, the proposed deadline for the submission of the General State Account (CGE) by the Government to Parliament and the Chamber of Auditors, is reduced from six to five months, and the deadline for the issuing of the opinion by the Chamber of Auditors will be reduced from six to just three months. The opinion of the Chamber of Auditors on the National Parliament is essential to assess the impact of this time reduction and to question the deadlines of these dependents.

Next, article 82, “Assessment and approval”, brings forward the deadline for assessment of the CGE by the National Parliament from eight to four months, in line with the new reduction in deadlines imposed by article 81 of the proposed law. As for article 83, “Publication”, it remains identical to article 107 of Law no. 2/2022, with no major changes.

## 6.6. TITLE VI - Budgetary control

In the title of the bill dedicated to Budgetary Control, article 84, “Control of budgetary execution”, maintains the text of article 108 of Law no. 2/2022, except for the removal of the expression “indirectly and cross-directly”, considered redundant. Article 85, “Administrative control”, partially repeats Article 109 of Law No. 2/2022, but the designation of the “Ministry of Finance” as a “department” is questionable in the opinion of this Committee, as highlighted above, and it is for Parliament to decide on the suitability of the proposed new terminology.



Article 86, “Political control”, maintains the first two paragraphs and paragraph 4 unchanged, but amends paragraph 3, increasing the deadline for sending quarterly budget information to Parliament from one to two months and specifying that quarterly execution is cumulative. Furthermore, paragraph 5 of article 111 of Law no. 2/2022 is removed and incorporated into article 87, transforming audit requests to the Chamber of Auditors from a political control action to a jurisdictional control action.

Finally, article 87, “Jurisdictional control”, maintains the text of article 111 of Law no. 2/2022, with the addition of number 5 of article 110 and a new number authorizing the Government to request annually, at least two audits of services and entities of the Public Administrative Sector. Although numbers 1 and 2 do not present problems, the inclusion of numbers 3 and 4 in this article should be reconsidered by the PN. These changes reflect an effort by the Government to restructure budgetary control deadlines and mechanisms, requiring an in-depth debate to ensure the consistency of the legislation.

#### **6.7. TITLE VII - Final provisions**

Bill No. 14/VI(2) also presents relevant changes to the title regulating the “Final Provisions” (articles 88 to 90), compared to Law No. 2/2022. Article 88 of the PPL maintains the content of article 122 of the law in force, with the aim of repealing the legislation already amended by Laws no. 17/2023 and 21/2023. However, the Public Finance Committee considers that maintaining the changes imposed by law 2/2022 on other legal diplomas does not require explicit mention in the proposed law, given that they have already been integrated into the respective diplomas. Therefore, it is advisable to eliminate paragraph 2 of article 88 when discussing the bill in detail, by means of an amendment proposal.

Article 89 of the PPL, referring to “Regulation”, maintains the same content as Article 123 of Law 2/2022, being essential for the implementation of the new legislation, without the need for additional comments by this Committee. Article 90 of the PPL, which deals with “Entry into force and production of effects”, corresponds to articles 125 and 126 of Law 2/2022, but presents it in a more simplified version. Although the wording of Article 125 of Law 2/2022 made sense upon its creation, the current situation does not justify the same approach. The proposed law establishes the unnecessary production of retroactive effects of the new law to January 1, 2025, since its entry into force in the first half of the year makes it applicable to the 2026 OGE planning process.

### **7. Conclusions**

1. Bill No. 14/VI(2), which aims to replace Law No. 2/2022 on the Framework of the General State Budget (OGE) and Public Financial Management, was submitted to the National Parliament on November 22, 2024, and after its admission, it was analyzed by the services from the perspective of compliance with the formal and material requirements provided for in the legal system of Timor-Leste, and was then referred to the Public Finance Committee, the competent committee in terms of the matter, by order of Her Excellency the President of the National Parliament of December 9, 2024, for the production of a report and opinion.
2. The legislative initiative is duly presented on paper, written in Portuguese, in an articulated manner and with a title in accordance with the Rules of Procedure of the



National Parliament (RPN). In addition, it contains a justification or statement of reasons and a draft preamble, as required by the Publication of Acts Law (LPA) and the RPN.

3. The bill was presented by the Government, the body with the authority to do so, and is duly signed by the Prime Minister and the competent ministers, mentioning the date of approval by the Council of Ministers, in compliance with the CRDTL, the RPN and the LPA.
4. The legislative initiative is clear and defines the changes that are intended to be introduced into the legislative order, with no gross or flagrant unconstitutionality having been identified, and, respecting the principle of the "brake law", it does not foresee an increase in expenses or a decrease in State revenues in the current year, nor has it been submitted. to the National Parliament with a request for urgent legislative processing.
5. Thus, Bill No. 14/VI(2) fully complies with the formal and material requirements demanded by Timorese legislation, and is capable of proceeding to the subsequent stages of the legislative process.
6. The initiative in question reduces the number of articles from 126 to 90, reorganizing, merging and improving the rules contained in Law No. 2/2022 in force. The proposed law presents only one truly new article, article 6 - Pursuit of the public interest.
7. The analysis carried out by this Commission led it to conclude that the new structure proposed by the Government is pertinent, more logical and coherent than the current law, proposing a restructuring of the titles and their reduction from nine to seven, aiming to improve the organization of content.
8. The Public Finance Committee understands that the comments made to the bill by the National Parliament services (DIPLN), starting on page 3 of Admissibility Note No. 20/2024/DIPLN (attached to this report and opinion), are relevant and, if so understood, should be taken into consideration by the National Parliament when assessing the legislative initiative in the specialty.
9. **Title I** of the proposed law presents modifications to incorporate new terms and adjust the structure of the articles, aiming for greater clarity and comprehensiveness. The Government also proposes to exclude the capitalization fund of the Social Security Reserve from the budgetary perimeter.
10. **TITLE II** The proposed law modifies the financial regimes of the Public Administrative Sector, replacing the previous levels with three new categories and transferring the decision on autonomy to the Government, ensuring greater transparency than the law in force. In addition, it reorganizes budgetary autonomy, promoting greater coherence and rationality in public financial management.
11. **Title III** introduces changes to simplify the State Budget, eliminate redundancies and correct misconceptions in the current law. The Government proposes replacing the current "Annual Strategic Investment Plan" with the "Budget Strategy Declaration", a more comprehensive document in terms of information and deadlines.
12. **Title IV** of the proposal presents changes to improve budget execution and public financial management, with more accessible and clear terminology than that contained in the current law. The Government here proposes to change the name of the "Ministry

of Finance" to "government department responsible for finance", and the new nomenclature may create some unnecessary undesirable confusion. The legislative initiative under analysis also omits the inclusion of "non-financial debts in public debt", as well as the limit on "indebtedness of the State business sector", a practice that contravenes international standards and requires additional clarification from the Government. The changes to the current law proposed in Title IV of the bill represent advances but also challenges in Public Financial Management, requiring further analysis and clarification from the Executive.

13. Under **Title V**, the proposed law proposes a reduction in the deadlines for sending the CGE and issuing the opinion by the Chamber of Auditors, requiring a discussion and assessment of its viability in concrete terms.
14. In **Title VI**, the Government proposes changes to the control mechanisms, recommending, however, a joint analysis by the National Parliament and the Government to assess possible rearrangements to the proposed law.
15. **Title VII** introduces changes, including the elimination of one of the paragraphs of Article 88 of the law in force, which seems redundant to us, and determining that the new legal diploma will come into force and take effect retroactively on 1 January 2025, which presupposes its application to the budget planning process for the year 2026.
16. Several rules included in the proposed law require further clarification from the Government, including the management of the FRSS asset portfolio, and some articles may even require adjustments at the stage of specialist assessment, to ensure greater legal certainty and budgetary transparency. The proposed changes, proposed by the Government, require a broad debate to ensure the coherence of the legislation and improve the State's financial management.
17. In Bill No. 14/VI(2), the Government decided not to take the opportunity to repeal the Military Programming Law (LPM) approved by the VIII Government in 2023, a law that set the revenue and expenditure ceilings for the budgets for the areas of Security and Defense for the following five years, without taking into account that the financing of military programming will always have to be compatible with the country's budgetary reality and, if the OGE law annually sets different values from those already set in the LPM, due to there being no financing capacity for its application in any of those five years, it may require the National Parliament to approve revisions to the military programming law, to ensure coherence between both laws and prevent problems in the financing and budgetary execution of Defense and Security.

## **8. Recommendations**

### **To the National Parliament:**

1. That it consider adding to the future budget framework law a rule repealing the Military Programming Law, and thus eliminate the risks that the provisions of this law bring to the OGE and to the sustainability of the public finances of Timor-Leste.
2. For the same reasons, it is recommended to review the Municipal Finance Law immediately after the conclusion of the legislative process of Bill No. 14/VI(2).

3. Take advantage of the opportunity created by the presentation of the bill that, among other matters, regulates the State's direct debt, and take the opportunity to review the public debt law.
4. That it reconsider the omission of the obligation to make all changes to the State Budget accessible, proposing the introduction of this obligation in article 8 of the bill, in order to ensure greater transparency.
5. That, with the necessary adaptations, it includes the rule currently provided for in paragraph 3 of article 9 of Law No. 2/2022, with the aim of strengthening the principle of intergenerational equity in the new law.
6. Analyze the time limit for the allocation of revenue, considering the difficulties that may arise when dealing with long-term financing.
7. That the amendment to paragraph 4 of article 21 of the bill that unlinks the programs from the National Plan and the Government Program be reconsidered, assessing the respective impact on the accountability of the Executive.
8. To improve the wording of paragraph 4 of article 22 of the bill, for greater clarity and evaluation of the expansion of possibilities for creating structures in the RAEOA.
9. That the wording of paragraph 5 of article 28 of the proposed law be adjusted, in order to avoid ambiguities in the transfer of balances between RAEOA and its Special Development Fund.
10. That it consider the elimination of paragraphs 2 to 4 of article 95 of Law 2/2022 in article 36 of the proposed law, assessing whether they compromise important standards.
11. Consider adjusting the expression "government department responsible for finance" to "ministry responsible for the area of public finance" in the various articles of the proposed law in which this new nomenclature is used, to reduce confusion with ministerial departments.
12. That it assess the scope of the rule contained in paragraph 6 of article 40 of the bill, on capital injection into public companies.
13. That the rule to be applied to non-financial debts currently included in the law be included in article 53 of the future law, aiming for greater alignment with international standards of good practices in public financial management.
14. That the regulation of the management balance proposed by article 58 of the bill be improved.
15. Consider the three-year term for refunds, seeking to understand the implications of the rule for the State and for those affected.
16. That it considers the impact of reducing the deadlines for the submission of the General State Account by the Government and for issuing its opinion on it, proposed in article 81 of the proposed law.

17. That it considers eliminating paragraph 2 of Article 88, as it is considered redundant. In the opinion of this Commission, it will not be necessary for the future law to refer to changes that Law No. 2/2022 has already introduced and incorporated into other laws.

## **9. Opinion**

Taking as reference the legal information condensed in Admissibility Note No. 20/2024/DIPLN and the legal-financial analysis carried out by the Public Finance Committee, it is its opinion that, with regard to its formal configuration, Bill No. 14/VI(2) - Framework for the General State Budget and public financial management generally complies with the essential rules of formal legislation, complying with the formal requirements for presenting bills, under constitutional and regulatory terms, and is thus in a position to be considered in Plenary.

## **10. Voting on the Opinion**

This Report and Opinion was discussed and voted on by the Public Finance Committee on February 27, 2025, and was approved with 5 votes in favor, 3 votes against and 0 abstentions.

Dili, National Parliament, 27 February 2025

The Rapporteur Deputy,  
Deputy Aliança da Conceição Araújo

The Chairperson of the Commission,  
Deputy Cedelizia Faria dos Santos

## **ATTACHMENTS:**

- Comparative Table of the articles of Law No. 2/2022, of February 10 and Bill No. 14/VI(2).
- Written contributions and responses on the proposed law received by the Public Finance Committee.
- Admissibility Note on Bill No. 14/VI(2), prepared by the PN services.