PARLAMENTO NACIONAL
República Democrática de Timor-Leste

PUBLIC FINANCE COMMITTEE

OPINION ON THE GENERAL STATE ACCOUNT 2023

unofficial rough translation by La'o Hamutuk

Rapporteur:

Deputy Alliance of Conceição Araújo (CNRT)

Read and approved on January 23, 2025

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ACRONYMS

ADB ANATL	Asian Development Bank (ADB) in Portuguese Civil Aviation Authority of Timor-Leste
ANPM	National Petroleum and Minerals Authority, Public Institute
BM	World Bank
BCTL	Central Bank of Timor-Leste
BTL EP	BEE Timor-Leste
CAFI	Infrastructure Fund Administration Council
CdC	Audit Chamber
CGE	State General Account
COVID-19	Corona Virus Disease-19
CRDTL	Constitution of the Democratic Republic of Timor-Leste
EDTL, EP	Electricity of Timor-Leste, Public Company
F-FDTL	FALINTIL-Timor-Leste Defence Forces
FCTL	Consolidated Fund of Timor-Leste
FDCH	Human Capital Development Fund
FED	Special Development Fund
FI	Infrastructure Fund
FP	$
FRSS	Social Security Reserve Fund
JICA	Japan International Cooperation Agency
INSS	National Institute of Social Security
IPG LOCdC	Institute of Petroleum and Geology Organic Law of the Chamber of Auditors
LOGF	Budget and Financial Management Law
MCAE	Coordinating Minister for Economic Affairs
MdF	Ministry of Finance
MNEC	Ministry of Foreign Affairs and Cooperation
OGE	General State Budget
PN	National Parliament
PNTL	National Police Timor-Leste
RAEOA	Oe-Cusse Ambeno Special Administrative Region
RDTL	Democratic Republic of Timor-Leste
RPCGE	Report and Opinion on the General State Account
CSR	Estimated Sustainable Income
SEAC	State Secretariat of Art and Culture
SEJD	Secretary of State for Youth and Sports
SDR	*Special Drawing Rights* / Special Drawing Rights
ST-FDCH	*Technical Secretariat of the FDCH*
US$	*US Dollar*
ZEESM	Special Economic Zone of Social Market Economy of Oe-Cusse Ambeno and Ataúro

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1. INTRODUCTORY NOTE

The General State Account (CGE) is the public accountability document prepared annually by the Government. Integrates and consolidates the accounts of the Public Administrative Sector. With the rendering of accounts, the annual budget cycle ends, with the CGE first being subject to an opinion by the Audit Chamber and subsequently voted on by the National Parliament under the terms and within the deadlines set out in the Constitution and the law.

The General State Account of 2023 (CGE 2023) reflects the State's financial activity for the period between January 1st and December 31st, 2023, in the field of public revenue and expenditure, from the perspective of treasury, public debt and of the State's assets.

The Government submits the CGE to the National Parliament (PN) for approval, and to the Chamber of Auditors of the Superior Administrative, Fiscal and Audit Court (CdC) for its opinion, within six months from the end of the budget year. In turn, the PN assesses the CGE, with a view to its possible approval, within eight months from its receipt and determines, if applicable, the implementation of responsibilities under the legal terms. under the terms of articles 105 and 106 of the Law on the Framework of the General State Budget and Public Financial Management (LEO), the CGE for the year 2023 was prepared by the Ministry of Finance and submitted to the National Parliament by the Government, in the person of the Prime Minister, on June 29, 2024, within the legally established deadline.

Pursuant to §1 of article 29 of the Organic Law of the Audit Chamber of the Superior Administrative, Fiscal and Accounts Court (LOCdC[1]), it is the Court's responsibility, through the Audit Chamber (CdC), to monitor the legality of public expenditure and judge State accounts[2], issuing its judgment on their legality and financial correctness, being able to comment on the economy, efficiency and effectiveness of public management, as well as on the reliability of the respective internal control systems, and also being able to formulate recommendations to Parliament or to the Government, with a view to eliminating the deficiencies found. In relation to the 2023 State Accounts, the CdC issued an overall favorable opinion, but with reservations.

In compliance with article 105 of Law no. 2/2022 of 10 February, as currently revised, the CdC requested that its Report and Opinion on the 2023 GCE (RPCGE 2023) be sent to the PN on 6 November 2024, Her Excellency the President of the National Parliament forwarded it to the competent committee, the Public Finance Committee (Committee C), by order of November 21st. RPCGE 2023 entered Committee C on the same date.

Pursuant to paragraphs 1 and 2 of article 178 of the Rules of Procedure of the National Parliament of the Democratic Republic of Timor-Leste (Regulation[3]), Committee C is responsible for preparing a reasoned opinion and recommendations on the General State Account, if applicable, within the period determined by law (eight months from the date of receipt, that is, until the end of February 2025, in the case of CGE 2023). The production of this Opinion falls within the scope of specific competences of the Public Finance Committee in accordance with the regulations,

Committee C's analysis of the 2023 CGE is based on the 2023 General State Account compiled by the Ministry of Finance (CGE 2023), the 2023 RPCGE prepared by the CdC, and the verbal and written contributions collected from members of the Government and other public entities

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[1] Law No. 9/2011, of August 17th, which approves the Organization of the Audit Chamber (LOCdC), amended by Law No. 3/2013, of August 7th, which is rectified by Declaration of Republication No. 4/2013, of 11th August September, and by Law no.

[2] See also Article 129, paragraphs 1 and 3, of the Constitution of the Democratic Republic of Timor-Leste (CRDTL)

[3] Rules of the National Parliament approved in 2009 and published in Series I of the Jornal da República, on November 11, 2009, amended and republished by Rules of the National Parliament nº 1/2016, of May 11th.

heard at a hearing on 15 and 16 January 2025, in accordance with the calendar prepared by the Public Finance Committee and approved by Her Excellency the President of the National Parliament.

2. LEGAL FRAMEWORK

The CGE is approved by the PN in accordance with the provisions of §1 of article 106 of the LEO and §4 of article 12 of the Organic Law of the Chamber of Accounts (LOCdC), and it is also up to it to decide whether to forward it to the Public Prosecutor's Office for investigation and carrying out possible financial, criminal and/or civil responsibilities, if signs of mismanagement of public resources are detected, if deemed necessary.

The PN is also responsible, within the scope of its constitutional powers of supervision and political control, to deliberate on the State Plan and Budget and the respective execution report, in accordance with the provisions of paragraph d) of §3 of article 95 of the RDTL Constitution.

The CGE is an accounting document that presents all revenues collected and all expenses incurred by the services and entities of the Public Administrative Sector during a fiscal year. It is based on the aggregated Financial Statements of the Public Administrative Sector and is a means of controlling the operations through which the execution took place. Through its assessment, Parliament carries out the monitoring and political control of the budget execution, and may trigger the legally provided means of accountability (political, financial, criminal and civil), if irregularities and/or financial infractions are detected.

3. APPOINTMENT OF RAPPORTEUR

Ms Aliançada Conceição Araújo, from the CNRT Parliamentary Group, was appointed rapporteur for this opinion.

4. HEARINGS HELD AND CONTRIBUTIONS RECEIVED

With reference to the CdC Report and Opinion on the 2023 CGE (RPCGE 2023) and the conclusions and recommendations contained therein, the Public Finance Committee approved the calendar of public hearings (Table 1) reproduced below, with relevant public entities, to collect contributions, clarifications and deepen the issues raised by its members and the CdC audit team:

Court of Appeals:

In the public hearings held with members of the Government and with the Court of Appeal, on the CGE 2023, the deputies present there made some <u>criticisms of the late conclusion of the audit reports produced by the Chamber of Auditors,</u> and were also the subject of their <u>criticism. the inability of public companies to finance themselves,</u> continuing to depend on large subsidies from the State to finance their operations, without being able to start raising their own revenue to finance their activity.

Deputies also questioned the weaknesses identified by the CdC in the management capacity <u>of the PNDS program,</u> with regard to the execution of the resources allocated to it by the OGE, as well as the accumulated volume of non-financial debt not reported in the CGE 2023, with a particularly significant amount in the case of UNTL.

Regarding the <u>status of the audit of the COVID-19 Fund,</u> the TR reported that it did not yet have concrete data, considering that the audit was still in progress, that the RPCGE prepared by the CdC was not an audit in the true sense of the word, but an opinion with recommendations to the Government, to improve monitoring of budget execution in the context of compliance with current laws and improvement in the use of public resources. Meanwhile, the head of the MF committed to sending the PN more information about this fund.

Ministry of Finance

The member of the Government responsible for the Ministry of Finance was also made aware of Committee C's concern regarding the fact that the funds donated to Timor-Leste by the Government of Australia and the European Union to TL, under the Direct Budget Support Program, are not properly accounted for in the 2023 CGE.

A large part of the State's non-financial debt accumulated at the end of 2023 was not reported in the 2023 CGE, this problem also causing some apprehension to members of Committee C.

Although the law in force allows direct awards in exceptional situations, for the acquisition of medicines, the contracting of the company SALIMAGO by the MS by direct ~~award~~ was also criticized by the deputies present at the hearing.

The budget execution of the FDCH in 2023 was also questioned by the members of Committee C, as the fund paid expenses above the budget allocation that had been assigned to it by the 2023 State Budget, without the necessary budgetary allocation, illegally using the management balance that by law should have been returned to the Treasury.

In response to concerns raised by Members of Parliament about the universe of public entities that are accountable, the Court of Appeal clarified that the number of entities subject to accountability has increased and that even the courts must report to the CdC, but that human resources of this last entity remain scarce, and that the creation of a true, independent Court of Auditors depends above all on a political decision.

In turn, the person responsible for the Ministry of Finance, referring to the strengthening of control over the non-financial debt of public services and entities, informed Committee C that there was an effort on the part of the ministry to create a system in 2024 that will allow *tracking* invoices to facilitate their monitoring and timely payment, making the 2025 Budget Execution DL the mandatory system for monitoring payment request processes.

Regarding the consolidation of Social Security accounts in the CGE, the person responsible for the Finance portfolio reported that the system of this subsector was not yet compatible with the MF's GRP system, meaning that the Social Security accounts were sent to the MF and then manually entered separately in the CGE.

Regarding the Advances to be regularized at the end of 2023, Committee C was informed by the MF that the vast majority are the responsibility of the embassies, but that in 2025, the increased use of credit cards would reduce the pending advances at the end of each year.

Regarding the expenses borne by the Economic Recovery Plan (PRE), in response to a question posed on the subject, the head of the Ministry of Finance confirmed that no payments were made in 2023.

Regarding State investments in the purchase of assets from the companies Timor Telecom and TL Cement, the person responsible for the Ministry of Finance informed that the IX Government analyzed the agreement to purchase shares from the former, having decided to cancel it after completing the assessment of profits of the same, and that, regarding the investment in the company TL Cement, it committed to providing more data to the PN before the debate on the CGE 2023 begins.

Ministry of Social Solidarity and Inclusion

In response to questions raised by PN members about the functioning of the INSS and the FRSS, the minister responsible for overseeing the MSSI reported:

- Currently, the FRSS does not invest, applying its reserves in commercial banks (national and foreign) in Timor-Leste;
- Social Security already has a single inspector (additional information on the subject will be sent to the PN);
- MSSI will start issuing Social Security contribution cards;
- The Social Security financial management system is now automated and works well, and data recording is no longer done in Excel.

Ministry of Health

In response to questions raised by PN members about the nutritional situation in the country, and the FRSS, the minister responsible for overseeing the MS informed:

- UNICEF conducted a survey to collect data on nutrition in Timor-Leste. Based on the data obtained, the Government will continue to work with Development Partners to establish mechanisms to improve the nutritional status of the population;
- Payments on non-financial debts accumulated by the COVID-19 Fund are being made, half of these expenses have not yet been paid. The fund's annual report demonstrates these executions, which are currently being audited by the CdC .

AUTHORITY OF RAEOA AND ZEDOA

In response to questions put to him by NP members about the RAEOA and the FEDR, the Chairman of the RAEOA Authority said:

- The RAEOA aircraft, a *Twin Engine,* stopped operating because its revenues were not enough to cover the costs of its operation and since then it has been idle without maintenance. There is no evidence of the purchase or sale of the device. The device is not new, having been acquired by the Region second-hand for US$7.2 million dollars. Thanks to the audits by the CdC it will be possible to identify its owner;
- The aim is to establish an airline to operate the aircraft. The project is awaiting the completion of ongoing audits at RAEOA and ZEESM before it can begin.
- The Fiscal Council of the FEDR is necessary and will be established as soon as possible. As for the CA of the Fund, it exists, and is chaired by the President of the RAEOA;
- All investment projects in the RAEOA launched since 2017 have been verified and the commitments made by the Region with a contract have been paid with funds from the FEDR, even without a Fiscal Council yet in existence;
- There is also a CAFI in the Region and its decisions are voted on so that decisions are fair;
- The Strategic Plan of the RAEOA is being initiated in accordance with the instructions of the PM, to increase the connectivity of the population of the most remote areas. By April

2025, this connectivity will be established for the circulation of public transport; 90% of the projects are implemented by residents of Oe-Cusse ;

- The Commercial Development Company is the majority shareholder of *Atlantic Eagle,* with a 95% stake. The company depends on FEDR financing and is not sustainable, making it necessary to find a solution for this commercial company;
- Regarding commercial bank accounts, about half of commercial banks do not cooperate with the Timorese State.
- Payments were not made by bank transfer but by *cash withdrawals*.

In addition to the responses provided verbally by the Government and the TR at hearings, the TR and the MSSI subsequently sent additional written information and clarifications to Committee C (they are attached to this opinion).

Table 1 – Calendar of Public Finance Committee hearings

DATE	TIME	ENTITY	SUBJECT	LOCATION
1/15/2025	09:00	Committee C and other Committees	Hearing of the **President of the Court of Appeal,** accompanied by the team of Auditors from the Audit Chamber	Plenary Room
	2:30 pm		Hearing of the **Deputy Prime Minister and Coordinating Minister for Economic Affairs and Minister for Tourism and Environment** accompanied by: • **Minister of Finance,** • **Minister of Planning and Strategic Investment,** • **Minister of Transport and Communications,** • **Minister of Public Works,** • **Minister of Petroleum and Mineral Resources**	
1/16/2025	09:00	Committee C and other Committees	Hearing of the **Deputy Prime Minister and Coordinating Minister for Social Affairs and Minister for Rural Development and Community Housing** accompanied by: • **Minister of Social Solidarity and Inclusion,** • **Minister of Health**	
	2:30 PM		Hearing **of the President of the RAEOA Authority** accompanied by the **ZEDOA Coordinator**	

The hearings, which, as already indicated, took place in the Plenary Room of the National Parliament between 15 and 16 January 2025, allowed this Committee to gather additional relevant information for the preparation of its opinion and for a more informed scrutiny of the CGE 2023 by the National Parliament, ultimately by the PN.

The written responses sent by the public entities heard to Committee C were attached to this Opinion.

5. BUDGETARY PERIMETER AND ACCOUNT CONSOLIDATION

The Account for the financial year 2023 was prepared by the Directorate-General of the Treasury of the Ministry of Finance, bringing together the financial statements of the Consolidated Fund of Timor-Leste (FCTL), the Infrastructure Fund (FI), the Human Capital Development Fund (FDCH), the COVID-19 Fund, the Bodies and Services of the indirect State Administration, and Social Security.

Some entities were excluded from the scope of the 2023 General State Account, and their financial statements were reported to the National Parliament and the Chamber of Auditors separately. According to information provided by the Ministry of Finance on pages 66 and 67 of the 2023 General State Account, the entities that are not included in the General State Account in 2023 and for which the General State Account only records public transfers made from and from the State Budget allocations were:

- Petroleum Fund (FP)
- Central Bank of Timor-Leste (BCTL)
- TIMOR GAP, EP
- National Bank of Commerce of Timor-Leste (BNCTL)
- Companhia Mineira de Timor-Leste, SA, (In 2024 it was transformed into Murak Rai Timor, EP)
- Radio and Television of Timor-Leste, EP (RTTL)
- Administration of Airports and Air Navigation of Timor-Leste, EP (ANATL)
- Electricity of Timor-Leste, EP (EDTL)
- Be'e Timor-Leste, EP (BTL)

The State's financial report for the fiscal year ending December 31, 2023 comprises 846 pages, having been prepared and presented by the Ministry of Finance simultaneously to the National Parliament and the Chamber of Auditors, in accordance with the basic principles of cash financial reporting, given that the accrual accounting system has not yet been implemented in Timor-Leste. The CGE 2023 report is presented in the first 57 pages of the document, followed by a broad set of financial statements and also the Notes to the Financial Statements.

In the preface to the document signed by the Minister of Finance, she states that, despite the significant global reduction in global expenditure, the increase in capital and consumption expenditure in 2023, allowed Timor-Leste's GDP (Gross Domestic Product) remained positive and that the Government, through an amending budget, had reduced spending on public transfers by 35% compared to the previous year, highlighting greater efficiency in the use of public resources, as, in its opinion, many of the transfers previously operated were not had directly contributed to economic growth.

The 2023 General State Account was prepared based on information from the Public Administrative Sector collected by the Ministry of Finance, partially incorporating the response to previous recommendations from the CdC and the NP. The Minister of Finance expresses the view that the report (CGE 2023) reflects the potential transition from the cash method to the modified accrual basis, and that she considers it essential to keep up with the increasing complexity of the government's financial operations, further stating that the financial statements follow the cash basis principles of the International Public Sector Accounting Standards, ensuring greater clarity in the presentation of accounts.

The CGE begins by explaining the 2023 expenditure by functional classification, then alluding to the accounting policy that served as a reference for preparing the State's accounts. There follows a chapter with the Aggregated Financial Statements, an overview of the State's Financial Position, including the State's budget and financial estimate for 2023, the budgetary execution of revenue and expenditure for that year, information on the cash balances calculated on December 31, 2023, the various existing resources, the OSFA (Autonomous Bodies, Services and Funds), the Municipalities and, finally, the Social Security financial statements. The General State Account also includes, as the law determines, the Account of the Special Administrative Region of Oe-Cusse Ambeno (RAEOA).

The 2023 CGE continues to not include, as it should and is required by law, all entities that are part of the consolidation perimeter of the State's accounts.

6. FINANCING OF THE 2023 GENERAL STATE BUDGET AND EXECUTION OF REVENUE

6.1. Sources of Funding

The OGE for the year 2023 was approved by Law No. 15/2022, of December 21, and its financing is ensured by Petroleum and Non-Petroleum, Fiscal and Non-Fiscal Revenues, and Loans. Months later, the year 2023 was already underway, the new government submitted and PN approved the first amendment to Law no. 15/2022, Law no. 17/2023 of 29 June - First Amendment to Law No. 15/2022, of December 21st - General State Budget for 2023", and to Law No. 2/2022, of February 10th - "Framework of the General State Budget and Public Financial Management, and Second Amendment to Law No. 8/2008, of June 30, Tax Law".

Due to changes in the Government's structure approved in mid-year by Decree-Law No. 46/2023, the headings of the organic classification of the General State Budget had to be adjusted. In order to contain public spending, the Government proposed reducing the expenditure originally budgeted for 2023 and the transfers from the Petroleum Fund to the State Budget. In addition, the rates of selective consumption tax and customs duties were adjusted to mitigate the effects of inflation and the increase in the cost of living.

Consequently, the consolidated revenues of the Public Administrative Sector were reduced to US$1,996.8 million, while the consolidated expenses of the Public Administrative Sector were set at US$1,960.5 million.

The following table is based on Table 1 of the RPCGE 2023 prepared by the CdC and breaks down the State Budget by sources of financing, covering the budget of the bodies and services of the Public Administrative Sector, composed of the budgets of the bodies and services of the Central Administration (Direct and Indirect Administration), the budget of the RAEOA and the budget of Social Security.

Table 2 - Initial and Rectifying General State Budget 2023 by Sectors

Thousands of US$

Designation	OGE 2023 Initial	OGE 2023 Final	Value Variation	Variation %
Revenue				
Central Administration	1 800 000	1 633 000	-167 000	-9.3%
Social Security	235 715	243 715	8,000	3.4%
RAEOA	121 207	120 039	-1 168	-1.0%
Total Revenue	**2 156 922**	**1 996 754**	**-160 168**	**-7.4%**
Total Revenue After Consolidation	**2 089 062**	**1 808 755**	**-280 307**	**-13.4%**
Expense				
Central Administration	1 800 000	1 633 000	-167 000	-9.3%
Social Security	235 715	243 715	8,000	3.4%
RAEOA	120,000	83 762	-36 238	-30.2%
Total Expenses	**2 155 715**	**1 960 477**	**-195 238**	**-9.1%**
Total Expenses After Consolidation	**2 087 855**	**1 771 867**	**-315 988**	**-15.1%**

Source: *Initial and Rectifying OGE 2023*

The analysis of the 2023 General State Budget (OGE 2023), in its amended version, reveals significant adjustments in revenues and expenses, evidencing a strategy of budgetary containment and fiscal adjustments.

The **estimated total revenue** of **The State** fell by 7.4%, from $2,156.9 million to $1,996.7 million, with an even more pronounced variation after consolidation, resulting in a drop of 13.4%. The Central Administration saw a decrease of 9.3%, reflecting a contraction of $167 million. The Oe-Cusse Ambeno Special Administrative Region (RAEOA) suffered a smaller reduction in revenue of just 1%, but it was still significant due to the impact it had on total revenue. On the other hand, Social Security was the only sector that benefited from an increase, recording a positive variation in its revenue of 3.4%, reflecting an effort by the new Government to prioritize social policies in a context of budgetary restrictions.

Total budget expenditure was also significantly reduced by the 2023 Rectifying State Budget, falling from the original $2,155.7 million to $1,960.4 million, a drop of 9.1%. However, the most drastic cut occurred in the RAEOA, with a 30.2% reduction in its expenditure budget, that is, $36.2 million, reflecting the reformulation of government policies for spending in the region. As was the case with the revenue forecast, the Central Administration also suffered a 9.3% decrease in its expenditure forecast . Interestingly, Social Security benefited from an increase in expenditure allocation similar to the increase in its revenue for the year 2023, a government approach that aimed to ensure the maintenance of social benefits to the population.

After the consolidation adjustments, the reduction in expenses was even more pronounced, with an overall drop of 15.1% when compared to the 13.4% reduction in revenues, demonstrating a greater effort to cut expenses than reducing the projected revenue. revenues. The difference of $35.7 million between the variation in consolidated revenue and expenditure reflects a clear attempt by the IX Government to keep the fiscal deficit under control.

Below is a Table that breaks down the State's revenue and expenditure budgets for the year 2023 (approved for the initial OGE and for the Amending OGE), by economic classification:

Table 3 – Initial and Final Budget 2023 by Economic Classification

Thousands $

Designation	OGE 2023 Initial	OGE 2023 Final	Value Variation	Variation %
Revenue				
Petroleum Revenues	1 346 090	1 208 195	-137 895	-10%
Non-petroleum revenues (a)	177 409	180 747	3 338	2%
Loan	74 110	35,000	-39 110	-53%
Transfers from Overseas/Contribution	4 900	10 400	5 500	112%
Management balance (AC+ RAEOA)	318 698	318 698	0	0%
Total revenue AC + RAEOA	**1 921 207**	**1 753 039**	**-168 168**	**-9%**
Social Security Income	235 715	285 711	49 996	21%
Total revenues AC+RAEOA+SS	**2 156 922**	**2 038 750**	**-118 172**	**-5%**
Total revenues after consolidation adjustment	**2 089 062**	**1 962 890**	**-126 172**	**-6%**
Expense				
Salaries and Wages	443 608	489 157	45 549	10%
Goods and Services	425 624	329 057	-96 567	-23%
Transfers	661 059	580 667	-80 392	-12%
Smaller Capital	56 386	58 385	1 999	4%
Capital and Development	333 323	259 498	-73 825	-22%
Total expenses of AC and RAEOA	**1 920 000**	**1 716 764**	**-203 236**	**-11%**
Social Security Expenses	235 715	285 711	49 996	21%
Total expenses AC+RAEOA+SS	**2 155 715**	**2 002 475**	**-153 240**	**-7%**
Total expenses after consolidation adjustment (b)	**2 087 855**	**1 926 615**	**-161 240**	**-8%**
Tax Deficit a) – b)	**-1 910 446**	**-1 745 868**	**-164 578**	**-9%**

Source: *Table 7 of CGE 2023*

From the previous table it can be seen that:

The overall revenue forecast for the State Budget was cut by 5%, from the initial $2,156.9 million to $2,038.8 million, as already mentioned in the revenue analysis by sector. State Budget revenue from the $, the State's main source of financing, saw a sharp reduction of 10% in the 2023 Rectified State Budget, representing a reduction of $137.9 million, with the aim of safeguarding the fund's sustainability in the long term. Conversely, non-petroleum revenue benefited from a slight positive adjustment of 2%, reflecting the Executive's efforts to diversify the State's revenue sources. External transfers almost tripled between the original State Budget and the Rectified State Budget (+112%), growing from $4.9 million to $10.4 million, demonstrating renewed confidence in the Government from international partners. As for the management balance forecast, it remained unchanged, at $318.7 million.

In turn, total expenses fell by 7%, from $2,155.7 million to $2,002.5 million. However, there were distinct variations between the various categories:

- <u>Salaries and Wages</u> : There was a 10% increase with the Amendment, totaling $489.2 million.

- Goods and Services : Showed a significant drop of 23%, evidencing cuts in operating expenses and contracted services.
- Public Transfers : The 12% reduction reflects a lower budget allocation for subsidies and direct assistance, indicating a rationalization of these types of expenditures.
- Minor Capital : The original expenditure allocation for this category, with a residual weight in the State Budget, benefited from a 4% increase proposed by the new Government, in the 2023 Rectifying State Budget.
- Capital Development Expenditure : The budget allocation for expenditure allocated to this economic classification category suffered a worrying drop of 22%, falling from $333.3 million to $259.5 million, which could jeopardize investment in infrastructure and long-term economic growth.

Social Security expenditure and revenue grew by 21% with the approval of the 2023 Rectifying State Budget, indicating an increase in the scope of social protection and an increase in membership of the Social Security system. The increase in this system was significant in a context of cuts proposed by the new Government in other areas of governance.

The fiscal deficit fell by 9%, from an original $-1,910.4 million to $-1,745.9 million, a direct consequence of the cuts made by the IX Government in the overall calculation of public expenditure and of a more careful management of public financing from loans, which fell significantly by 53%, from $74.1 million to $35 million with the approval of the Rectifying State Budget, substantially relieving pressure on public debt, but at the same time limiting the capacity for public investment. The systematic dependence on excessive withdrawals of petroleum revenues and the volatility of external transfers to support the State Budget highlight the need for urgent economic diversification and a sustainable strategy to finance the development of Timor-Leste.

Transfers from the Petroleum Fund in 2023 reveal a worrying deviation from the objective set out in Law No. 9/2005, which determines that transfers above the Estimated Sustainable Income (ESI) must be made in the long-term interest of Timor-Leste. The ESI calculated for 2023 was $490.1 million, but actual transfers exceeded this amount by $855 million.

Of the funds transferred above the ESI, only $259.2 million were allocated to Capital Development investments, such as infrastructure projects. The majority of the funds above the ESI, $595.8 million, were earmarked to finance recurring expenditures, including salaries, goods and services, and public transfers, as in previous years. This use deviates from the purpose of financing productive investments and undermines the principle of sustainability, as it does not contribute to the creation of assets that generate future economic returns for Timor-Leste.

6.2. Budgetary Execution of Revenue

The expenses recorded in the 2023 OGE were partially financed by revenue collected during the year, as can be seen in Table 4, which is based on Table 4 of the RPCGE and includes revenue collected by the Central Administration and the RAEOA.

Table 4 – Revenue Collected in 2023 by Economic Classification (thousands $)

Category	OGE 2023 Initial	OGE 2023 Final	Revenues Charged	% Total Revenue	Execution %
Taxes	139 523	145 244	187 281	10.4%	128.9%
Fees, Fines and other penalties	24 849	25 711	25 700	1.4%	100.0%
Income	5 526	6 301	23 406	1.3%	371.5%
Transfers	1 350 990	1 218 595	1 102 521	61.3%	90.5%
Other Current Income	675	1 785	372	0.0%	20.8%
Sale of Current Goods and Services	10 066	3 578	2 710	0.2%	75.7%
Financial Assets and Liabilities	74 110	35,000	25 412	1.4%	72.6%
Replacements not Deducted from Payments	0	3	62 722	3.5%	2090733%
Management Balance	318 698	318 698	368 411	20.5%	115.6%
Total	**1 924 438**	**1 754 914**	**1 798 533**	**100.0%**	**102.5%**

Table 4 reveals significant variations between the different types of revenue, highlighting high execution in some categories but challenges in others. The overall execution of revenue excluding Social Security reached 102.5%, exceeding the forecast of the final General State Budget after the Amendment, demonstrating efficiency in revenue collection, but also revealing areas of poorer performance.

Revenues from **taxes** collected totaled $187.3 million, 28.9% above the final forecast, representing 10.4% of the total. The result reflects an increase in economic activity and improvements in tax compliance. Fees and fines totaled $25.7 million, falling within the forecast range. Despite contributing only 1.4% of the total, the result attests to realistic planning regarding collection in this revenue category.

Revenue from **Income also** largely exceeded expectations, reaching $23.4 million, more than 3.7 times the initial forecast. Although they represent only 1.3% of the total, the growth indicates a volume of extraordinary revenues not originally estimated or underestimated, including investment income.

Transfers, **a** revenue category that includes petroleum revenues, exceeded $1.1 billion in 2023, corresponding to 61.3% of the total collected by the fund in that year. The execution of the category reached 90.5%, which reflects the reduction of excessive transfers from the Petroleum Fundoperated by the Rectifying State Budget.

The **Management Balance** of $368.4 million corresponded to 20.5% of the total OGE revenues, exceeding the final estimate by 15.6%. Such a substantial treasury surplus at the end of 2023 reflects the unnecessary accumulation of unused resources in the previous fiscal year.

The **Replacements Not Deducted from Payments category also** recorded revenue of $62.7 million, far exceeding forecasts. Atypical execution leads to the presupposition of recovery for the State of values that were not foreseen, such as refunds or significant adjustments.

Altogether, the **Municipalities** collected only $998 thousand in revenue in 2023, while, according to Table 6 of the RPCGE 2023, the revenue collected by the **Autonomous Fund Entities and Services (SFA)** totaled $7.6 Million in the same year. Revenues from **Autonomous Entities** recorded a decrease of 52% compared to the previous year ($-15.7 Million), mainly due to lower collections from APORTIL, IP, and ANC, IP.

In 2023, of the total of 104 entities operating with expanded autonomy, only 27 Autonomous Services and Funds (SFA) collected revenue, highlighting in the others the total dependence on transfers from the OGE, but they represent a notable increase in relation to 2022, when only 18 SFA had made collections. However, it is important to note in this Opinion that the

Timorese Resistance Archive and Museum (AMRT, IP) and the National Ambulance and Medical Emergency Service (SNAEM, IP) did not generate any revenue in the year under review, despite having managed to raise $8.8 million and $1 million respectively, in the immediately previous year. It is concluded that, although some entities have autonomy due to legal imperative or due to the greater complexity of their activity, others were created without prior financial feasibility studies, contradicting recommendations for good management of public affairs. Law No. 2/2022 reinforces that own revenues must be used to cover expenses before using resources from the Treasury. In 2023, the Ministry of Finance eliminated three unnecessary autonomous agencies, but avoidable gaps remain in controlling the creation of these types of entities.

Furthermore, according to information obtained on page 81 of the 2023 CGE, $6.3 million in revenue from **customs duties** was not collected due to tax exemptions, with emphasis on exemptions from the Government itself, diplomatic representations, United Nations (UN) agencies and companies. These exemptions are granted by the State when certain imported goods, classified under specific codes, are automatically exempt from paying taxes for legal, political or economic reasons, such as government incentives for investment or support for strategic sectors. In this context, in 2023, companies benefited from exemptions totaling $3.2 million, a relatively high amount of revenue that did not enter the State's coffers in customs duties.

7. BUDGET EXECUTION OF STATE EXPENDITURE

7.1. Expenses by categories

The next Table separates FCTL expenses into recurring and capital.

Table 5 – Budgetary execution of expenditure in 2023, by economic category

Millions $

Categories	OGE 2023 Initial	OGE 2023 Final	Execution	% Total Expenses	Execution %
Salaries and Wages	445.6	490.1	447.0	29.9%	91.2%
Goods and Services	428.4	331.6	241.2	16.2%	72.7%
Public Transfers	891.4	819.9	567.4	38.0%	69.2%
Minor Capital	56.8	58.6	47.6	3.2%	81.2%
Capital Development	333.6	258.9	188.6	12.6%	72.8%
Contingencies	0.0	1.4	0.9	0.1%	64.3%
Total	**2155.7**	**1960.5**	**1492.7**	**100.0%**	**76.1%**

Source: OGE 2023 and CGE 2023

The budget execution of expenditure by categories in 2023 presents mixed results, with some categories recording reasonable execution, while others faced increased difficulties in execution. The initial approved expenditure budget (Initial 2023 State Budget) was $2,155.7 million, having subsequently been adjusted by the Rectifying State Budget to the final value of $1,960.5 million, translating into a reduction of approximately 9.1% **.** The total adjusted amount, the execution, amounted to $1,492.7 million, with State expenditure corresponding to 76.1% of the final budget allocation, a relatively moderate overall performance.

Salaries and Wages category resulted in high execution, reaching 91.2% of the final adjusted budget, with the amount of $447 million. expenditures. The expenditure category represents 29.9% of total OGE revenues. The amount spent by the State in 2023 on this category shows a significant increase of $190.9 million (+74.5%) compared to 2022, a growth justified by the large increase in the number of public employees, which went from 58,045 to 64,831 (+6,786), and by the reclassification of consultants and advisors, previously paid by Goods and Services. Despite the increase in the volume of domestic tax revenues, to $239.5 million, they continued to be insufficient in 2023 to cover the State's expenses with salaries and wages.

There is also an additional $34 million paid to national and international advisors, casual and political support employees, which were still accounted for in 2023 in the Professional Service subcategory, of the Goods and Services category, bringing the total effective expenditure on personnel to $481 million, with the Ministry of Education being the largest employer in the year under analysis, with 16,977 employees, including 3,734 permanent and temporary employees and the rest in political support, casual and special regime situations (26% of the total), immediately followed by the Ministry of Health, with 4,846 employees (7% of the total).

Significant inconsistencies persisted in 2023 in the information provided on the number of civil servants. The 2023 CGE presents contradictory data, such as discrepancies in the total number of employees placed in ministries and omissions of data on institutions, such as the National Petroleum and Minerals Authority. An example of this is the Ministry of Education being indicated as having 3,734 permanent and temporary employees, while the Civil Service Commission reports only 2,910 for the same ministry. There are also discrepancies in the number of special regime employees in the Ministry of Justice (19 according to the CGE, but 228 according to the Civil Service Commission). These lack of credibility in the data presented by the Government in the accountability process had already been the subject of previous assessments by the CdC and recommendations in the 2021 and 2022 reports and opinions, but the problems repeated themselves in 2023, tainting the transparency of human resources in the service of the State.

As for the execution of the **Goods and Services category,** it reached $241.2 million, which is equivalent to 72.7% of its adjusted budget of $331.6 million. This category of expenses suffered a significant reduction in the final budget (from $428.4 million to $331.6 million, a drop of 22.6%), negatively impacting its implementation, which in 2023 did not even manage to reach 80%. Remaining at 72.7%, well below the ideal, the supply of essential resources, the maintenance of Government operations and the implementation of programs, some of which are priorities, were hampered. One factor that may have contributed to the decrease in the budget and budget execution of this category may have been the reclassification of expenses related to consultants (international and national) to the Salaries and Wages category.

In the context of public contracts, the acquisition of medicines in an emergency context stands out, due to stock shortages in health institutions. Although the Amended State Budget increased the allocation for the purchase of medicines by $6 million to meet this need, the delivery of medicines faced delays and only 42% of the contracted amounts were paid by June 2024, revealing challenges in the selection of suppliers and contract management. It becomes very clear to Committee C that the Government needs to strengthen supervision and control mechanisms, promoting greater automation, transparency and accountability in public procurement and its management.

Public Transfers category reported an atypical budgetary performance, reflecting not only the effects of the reduction in its budgetary allocations, but also challenges in its execution. Total transfers amounted to $567.4 million, representing 31% less than the final budget allocated to this category ($819.9 million) and a significant reduction of 35% compared to the previous year ($877.1 million). Despite its role in financing subsidies, grants and social benefits, the execution of this expenditure category continued to show challenges of various kinds in 2023.

Current transfers, which include payments to groups, institutions and families, accounted for the majority of the implementation, totaling $519.9 million. Among the programs covered were, for example, social benefits such as pensions for veterans, the elderly, the disabled, subsidies and funeral support, highlighting the importance of this category for social assistance. However, implementation necessarily faced logistical and administrative challenges that negatively impacted the efficiency and scope of the transfers.

The most significant transfers included $75 million to the National Social Security Institute (INSS), which accounted for 25% of total expenditure in this category. Other beneficiaries of public transfers included public companies such as Timor GAP ($54 million) and EDTL ($70 million), which highlights the significant role of public transfers from the Treasury in financing essential public services to the economy, provided by the State business sector, which has so far been unable to finance itself. However, the increase in expenditure on paying hospitals abroad, totaling $21 million in 2023, highlights the permanent dependence on external services, despite the intention of successive governments to strengthen the national health service. This expenditure grew by 115% compared to 2022, of which $5.8 million was intended to pay debts from previous years. The increase in spending on healthcare provision by external entities, although partially justified during the pandemic, contradicts the goals of medical self-sufficiency.

The National Suco Development Program (PNDS) is also a good example of the problem of excessive transfers of accumulated treasury balances. In 2023, $33 million were transferred to this program, but the overall balance at the end of the year reached $57.6 million, confirming that the amounts transferred by the Treasury to the PNDS substantially exceeded its actual needs. Furthermore, the positive balance recorded at the end of the year was not returned to the Treasury, in violation of the budgetary and financial management legislation in force; however, the Directorate-General of the Treasury initiated a procedure to recover these funds for the State coffers.

The disparity between the bank balances reported by the PNDS ($57.6 million) and those recorded in the 2023 CGE ($30.4 million) represents another unjustifiable failure of transparency, and the lack of clear explanations in the CGE for this difference compromises the reliability of the financial data and increases the risks of inappropriate use of scarce public resources. The inadequate management of PNDS resources requires an urgent strengthening of control mechanisms and budgetary discipline.

The **Minor Capital** expenditure category showed a moderate budgetary performance, reflecting its execution rate of 81.2% of the final adjusted budget for 2023, corresponding to an execution of $47.6 million, which highlights the Government's difficulties in implementing the planned activities. Investments under this category involve acquisitions of equipment, furniture and other capital expenditures not linked to major infrastructure projects. Despite its importance for strengthening institutional capacities, the relatively modest execution rate may reflect problems in budgetary planning and insufficient capacity to implement the projects allocated to this category.

Capital Development category stands out as an essential area of public investment, but presents considerable challenges in 2023 with regard to its budget execution. The initial budget allocated by the 2023 State Budget to this expenditure category was $333.6 million, adjusted by the Amendment to $258.9 million, demonstrating a considerable reduction in resources earmarked for infrastructure development and other strategic projects. Budget execution stood at $188.6 million, corresponding to an execution rate of 72.8% of the final budget. This category covers investments in infrastructure (roads, bridges, public buildings and other long-term assets) designed to promote economic growth and improve the population's quality of life. Despite its importance, execution below 80% indicates significant difficulties in implementing the planned projects. The main obstacles may be associated with delays in contracting processes, weak technical capacity in the responsible institutions and problems in contract management, especially in co-financed projects or projects with multiple *stakeholders .*

The execution of only 72.8% put at risk the progress of the infrastructure needed to leverage sustainable development and attract foreign investment. The efficient use of resources is necessary and urgent.

Contingency expenses constitute a budget reserve to respond to emergencies and unforeseen situations. In the initial 2023 State Budget, no significant allocation was allocated to the Contingency category. However, adjustments made by transfer to various ministries throughout the year resulted in a modest final allocation of $1.4 million, of which $900 thousand were actually used, raising the execution rate of the item to 64.3%. The limited use of Contingency funds indicates that the need to use this allocation was reduced, but the CGE did not provide sufficient details on the specific destination of the contingency funds, hampering a more in-depth assessment of their effectiveness.

The 2023 RPCGE reveals that the execution of the Contingency Reserve presents structural problems regarding its management, disregarding legal standards and revealing failures in transparency and accountability. The budget framework law (Law No. 2/2022) restricts the use of the contingency reserve, determining that it be used exclusively to pay urgent and unforeseen expenses, but the practice observed in 2023 disregarded the law, with expenses paid in the amount of $736.6 thousand being identified that did not meet the legally required urgency and unpredictability criteria. They are:

- ✓ $536.6 thousand earmarked for hiring in the Education sector (teaching staff for the MJ Legal and Judicial Training Center (CFJJ-MJ) and,
- ✓ $200,000 allocated for the inauguration ceremony of the IX Constitutional Government.

The expenses listed above are clearly predictable and should have been budgeted in the appropriate categories at the stage of preparing the State Budget. However, this practice has been accepted by the Ministry of Finance, which also demonstrates negligence in complying with legal obligations.

The 2023 CGE also does not include detailed information on budgetary changes related to the use of the contingency reserve, contrary to the provisions of article 103(f) of Law No. 2/2022. In addition, the requested documentation on the requests and authorizations for these expenses was not provided in full to the CdC, compromising transparency and hindering effective supervision.

7.2. Expenses by Organic Classification

In addition to assessing the public expenditure of the Consolidated Fund of Timor-Leste (FCTL) from the perspective of economic categories, the CGE and RPCGE also analyze it in light of the organic classification, which breaks it down into Direct State Administration, Autonomous Public Agencies and Municipalities, the matter being covered on pages 28 and 32 of the RPCGE. The following table summarizes the information provided by the CdC in Table 8 on page 28 of its report and opinion:

Table 6 – Central Administration Budgetary Execution, by Organic Classification in 2023

Millions $

Organic Classification	OGE 2023 Initial	OGE 2023 Final	Execution	% Total Expense	Execution %
Direct State Administration	1 259.3	1 101.9	993.5	69%	90%
Autonomous Public Agencies	459.6	449.0	365.8	26%	81%
Municipalities	81.1	82.1	70.6	5%	86%
Total	**1 800.0**	**1 633.0**	**1 429.9**	**100%**	**88%**

Source: CGE 2023

The expenditure for the year 2023, by organic classification, covers the services of the Direct Administration, the SFA (Autonomous Services and Funds), the Autonomous Bodies, the Special Fund and the Municipalities as previously mentioned. Initially, the budget foreseen for this subsector was $1,800 million, but, after corrections, it was reduced to $1,633 million. The budget execution of the Central Administration in Timor-Leste presented a moderate overall performance, with a total execution of $1,429.9 million, corresponding to 88% of the final budget adjusted by the Rectifying OGE, of $1,633 million. The analysis, disaggregated by type of entity, reveals inequalities in the execution capacity and priorities allocated to different levels of Government.

The State Direct Administration received the largest share of the State Budget, with $1,101.9 million in the final budget, representing 69% of the total expenditure approved by the PN. With an execution of $993.5 million USD (90%), this category performed reasonably well in percentage terms. However, the significant reduction in relation to the initial budget (which went from $1,259.3 million to $1,101.9 million) indicates significant fiscal adjustments. The reduction affected most ministries, except for strategic areas such as Health (+25.7%), Affairs of National Liberation Fighters (+10.8%) and the Presidency of the Council of Ministers (+179%). The prioritization reveals a partial alignment of the IX Government with social needs, such as strengthening the health sector, but raises many questions about the disproportionate increase in the expenditure allocation attributed to the Presidency of the Council of Ministers, given its relatively limited operational relevance.

A final allocation of $449 million for the year 2023 was allocated to all Autonomous Public Agencies by the Rectifying OGE, leaving the corresponding execution at $365.8 million, corresponding to an execution level of 81%, below the global average of 88%. Representing 26% of total OGE expenditure, agencies are essential for the provision of autonomous specialized services, but their relatively modest execution implies limitations in their technical capacity. The management of the agencies also revealed serious inconsistencies, such as the error in consolidating ANPM expenses. Although reporting a budget execution of 100% ($8.5 million), in fact its actual expenditure reached $9.5 million, exceeding the budget allocated to it for 2023, outside the law, by $700 thousand . The deviation highlights the expenditure made without the necessary budgetary allowance, thereby compromising the credibility of the entity's financial records and suggesting the need for greater rigor in its supervision by the respective guardians.

Another important issue to note is the low implementation of the Ataúro Special Development Fund (FEDA), which used only 20.1% of the budget made available to it by the Amendment ($700 thousand out of a budget of $3.4 million). The low performance of this fund suggests structural challenges, a lack of technical capacity or difficulties in implementation at local level.

Municipalities were the category with the lowest allocation of resources in 2023, receiving $82.1 million in the revised budget, equivalent to 5% of total public expenditure. Despite this, their execution rate was 86%, a satisfactory performance when compared to the general average, demonstrating an adequate use of available resources.

7.3. Expenses by Function

As mentioned above, the 2023 CGE reports the expenditure budgeted and realized in 2023, by category and by classification of State functions (functional classification). For the 2023 financial year, the majority of public expenditure was mainly concentrated in three areas: General Public Services, Economic Affairs and Social Protection. General Public Services incurred expenditure amounting to $550.5 million (37%), and expenditure in Economic Affairs totaled $381.4 million (25%), while Social Protection accounted for $148.6 million. These three areas together absorbed a significant amount of $1,080.5 million, equivalent to 72% of total expenditure and 62% of the consolidated budget of the Central Administration and the RAEOA (Oecussi-Ambeno Special Administrative Region) for the year 2023.

Expenditure on General Public Services remained virtually unchanged compared to the previous year. However, there was a significant reduction in expenditure in the Economic Affairs area compared to 2022, because public transfers intended for the payment of subsidies to families and the Basic Food Basket program implemented in 2022, during the COVID-19 pandemic, were not made in 2023. On the other hand, expenditure on the education sector increased by 234%, driven by the retroactive payment of the transport subsidy to teachers and the salaries of teachers and professors hired to enter the career. Table 7 below illustrates the comparison of expenditure by function, in the years 2022 and 2023.

Table 7 - Comparison of expenses by function between 2023 and 2022

Millions $

Functional Classification	Expense 2023	Expense 2022	Difference 2023/2022	% Difference 20223/2022
General Public Services	550.5	551.9	-1.4	-0.3%
Economic Affairs	381.4	600.9	-219.5	-36.5%
Social Protection	148.6	187.7	-39.1	-20.8%
Education	126	37.7	88.3	234.2%
Public Order and Security	114.7	125.8	-11.1	-8.8%
Health	76.3	83.6	-7.3	-8.7%
Defense	59.8	45.8	14	30.6%
Housing and Community	21.6	28.3	-6.7	-23.7%
Environmental Protection	7.2	10	-2.8	-28.0%
Leisure, Culture and Religion	6.5	5.6	0.9	16.1%
Total	**1492.6**	**1677.3**	**-184.7**	**-11.0%**

Source: CGE 2023

Table 7 above compares Government expenditures in 2022 and 2023, distributed across the State's main functions, offering an overview of the Government's priorities in terms of resource allocation. The table reveals that the Executive spent less in 2023 than in 2022. While some areas, such as education, saw an increase in spending, others, such as Economic Affairs and Social Protection, recorded reductions from 2022 to 2023. Information on budget execution it is detailed on pages 22 and 23 of the CGE, and further on page 635 (Declaration 3) of the same document.

7.4. COVID-19 Fund

The analysis of the COVID-19 Fund in 2023 highlights contradictions and areas for possible improvement. In 2023, there were no transfers from the Treasury to this Fund. The initial budget for the COVID-19 Fund was set at $18.3 million, but as a result of the adjustments made by the Amendment, its budgetary expenditure allocation was reduced to $9.813 million.

All expenses incurred under this fund, in the amount of $7.7 million, were fully covered by the cash balance carried over from 2022, in the amount of $13.6 million. In addition, the Fund generated additional revenues of $349 thousand throughout the year from interest and other receipts.

In terms of budget execution, the Fund delivered 78% of its final budget of $9.8 million, with expenditures concentrated on five main programs. The vaccination program absorbed $4.4 million, representing 45% of total expenditures and achieving an execution rate of 93%. Other programs, such as the treatment and isolation of COVID-19 cases ($2.3 million, with an execution rate of 83%) and appropriate quarantine ($1 million, with an execution rate of 47%), also received significant resources. Smaller portions were allocated to strengthening social distancing measures ($176 thousand) and contact tracing ($67 thousand).

Some contradictions and challenges were identified in the management of the Fund by the RPCGE 2023. First, the final cash balance in 2023 was $6.6 million, indicating that a considerable portion of the resources made available by the OGE was not used, thus raising questions about the efficiency in the allocation and execution of the available funds, especially in a context of ongoing needs in the public health area. Ineligible expenses from previous years also remained an outstanding issue in 2023. In 2022, undue payments of $43 thousand were identified, of which only $30 thousand were returned by the Banco Nacional de Comércio de Timor-Leste to the Fund's bank account. At the end of 2023, there were still $4.9 thousand to be returned, deposited in the bank. Despite efforts by the Ministry of Finance to coordinate the return of this amount, the pending issue demonstrates weaknesses in the mechanisms for controlling and recovering funds.

Another critical issue related to the COVID-19 Fund is the uneven implementation among its programs in the year under review. For example, the implementation rate of the Adequate Quarantine program was only 47%, while the vaccination program reached 93%, a disparity that indicates difficulties in implementing some activities.

The 46-page 2023 COVID-19 Fund Financial Report provides detailed insight into the management and execution of the fund since the pandemic phase. The document highlights that the COVID-19 Fund played a key role in containing COVID-19, especially in financing programs such as mass vaccination, case isolation and quarantine measures. The Fund's relevance decreased over time and, from 2024 onwards, all expenses attributable to it began to be allocated to the budget of the Ministry of Health, marking the end of the Fund's autonomous management.

Annex 1 of the COVID-19 Fund Financial Report (pages 17 and 18) presents a detailed table detailing the initial and final budgetary allocations for each programme and sub-programme of the Fund, as well as the corresponding implementation rates, allowing the identification of priority programmes and the assessment of the degree of success in the use of available resources.

Annex 2 of the same report (pages 18 to 46) details the analysis, listing all payments made under the Fund during 2023. This detail includes the identification of suppliers, description of expenses and frequency of payments, such as monthly amounts transferred to each contractor. This level of detail increased the transparency of the Fund's accounts, enabling a more rigorous analysis of the efficiency in the application of resources.

Although the Fund is no longer an active mechanism for direct financing of pandemic response programs, the Fund's Financial Report demonstrates its importance during the period in which it was in operation. The transition to the Ministry of Health's budget led to the integration of COVID-19 measures into regular public health operations, leveraging potential synergies in the area of health care. However, the analysis carried out by the CdC also highlighted challenges to the Fund's management, including the need to improve efficiency in the implementation of resources and to strengthen accountability mechanisms, especially considering the details provided in Annex 2.

7.5. Infrastructure Fund

The 2023 General State Account (CGE) provides a detailed analysis of the budget and implementation of the Infrastructure Fund (FI), highlighting significant advances in its financial performance compared to previous years. However, the 2023 RPCGE also identifies structural challenges, administrative inconsistencies and transparency issues that compromise the effectiveness of the Infrastructure Fund.

In 2023, the Fund achieved a budget execution of $160.5 million, representing 75% of the final budget after amendment, of $212.7 million. Of this expenditure, $25.4 million was financed by external loans. The fund's performance reflects a significant increase in that year compared to 2022, but its execution was marked by problems of inadequate allocation of resources, contractual irregularities and weaknesses in planning, according to the CdC .

Table 8 - Budget Execution of the Infrastructure Fund by Program

Millions $

Programs	OGE 2023 Initial	OGE 2023 Final	Executio n	% Total Expense	Execution %
Roads and Bridges	81.6	70.1	57.6	35.9%	82.2%
Loan	32.2	32.2	25.4	15.8%	78.9%
Information and Communication Technology	16.1	16.4	16.1	10.0%	98.2%
Maintenance, Rehabilitation and Response to Damaged Structures after Disaster	6.9	12.6	10.1	6.3%	80.2%
Agriculture	8.3	6.3	4.5	2.8%	71.4%
Spatial Planning, Rural and Urban Development	9.1	6.4	4	2.5%	62.5%
Bringing the services of the People's Courts	3.8	3.0	2.7	1.7%	90.0%
Health	4.0	4.0	2	1.2%	50.0%
Good governance and institutional management	4.2	3.9	2	1.2%	51.3%
National security	4.7	3.7	1.9	1.2%	51.4%
Airports Sector Program	12.5	4.5	1.7	1.1%	37.8%
Public Financial Management	3.1	2.6	1.6	1.0%	61.5%
Education and Training	2.3	1.9	1.4	0.9%	73.7%
Water and Sanitation Program	1.7	1.7	1.1	0.7%	64.7%
Electricity Program	5.1	3.1	0.9	0.6%	29.0%
National Defense Program	0.6	1.0	0.7	0.4%	70.0%
Ports	0.7	0.7	0.6	0.4%	85.7%
Gender Equality and Social Inclusion.	1.7	1.0	0.3	0.2%	30.0%
Investment and Economic Diversification	1.1	1.1	0.3	0.2%	27.3%
Culture and Heritage	0.9	0.2	0.1	0.1%	50.0%
Tourism	0.4	0.4	0	0.0%	0.0%
Access to Justice	0.0	0.0	0	0.0%	0.0%
Petroleum and Mineral Resources Management	1.0	0.1	0	0.0%	0.0%
Guarantee freedom of expression and access to information	0.1	0.1	0	0.0%	0.0%
Environmental Protection and Conservation	0.0	0.0	0	0.0%	0.0%
Spatial Planning	0.6	0.6	0	0.0%	0.0%
Total Infrastructure Fund	**202.7**	**177.7**	**135.0**	**84.2%**	**76.0%**
Loans from ADB, World Bank and JICA	74.1	35	25.4	15.8%	72.6%
Total Infrastructure and Loan Fund	**276.8**	**212.7**	**160.5**	**100.0%**	**75.4%**

Source: CGE 2023

One of the main problems identified in the CdC 's opinion was the excessive concentration of resources in specific investment programmes, such as the "Roads and Bridges" programme, which received around 36% of the total annual budget allocation of the Infrastructure Fund, while other key sectors such as Health, National Security and Education received only 1.2%, 1.2% and 0.9%, respectively. On the other hand, programmes relevant to sustainable development, such as "Tourism", "Management of Petroleum and Mineral Resources" and "Protection and Conservation of the Environment", did not even receive funds for the year 2023, which for Committee C highlights failures in the identification of national priorities.

Furthermore, the RPCGE also points out serious contractual irregularities that go against the Legal Procurement Regime and compromise the financial integrity of the Infrastructure Fund. The use of external credit, in the amount of $25.4 million, to finance poorly planned programs in time, has aggravated the risks to the country's fiscal sustainability, due to the financial impact that its inefficient management has on public accounts.

Inconsistencies and discrepancies were also noted in the information presented in the 2023 Account regarding the final budget of the ten Infrastructure Fund programs, with the CdC noting discrepancies in values between the document's tables and other official records, including the 2023 State Budget law itself, which compromises the credibility of the reports produced by the Government and makes it difficult to monitor the PN and control the expenses incurred. Correcting such discrepancies is essential for transparency, effective monitoring and strengthening the population's confidence in the State's financial management.

A clear example of inconsistency in the information provided by the Executive in the 2023 CGE on the Infrastructure Fund is the "Loan" program. While Table 15 of the CGE indicates a final budget of $32.1 million for this program, neither the 2023 OGE law nor the CGE's FI Expenditure Declaration include any program with this designation. The contradiction between sources of information compromises the credibility of the financial reports and makes it difficult to analyze and evaluate the management and execution of the resources allocated to this fund for the year 2023.

CdC report and endorsed by Committee C in relation to the Infrastructure Fund concerns the delay in the implementation of strategic investment projects. For example: the contract for the installation of fiber optics, valued at $38.6 million, was only executed half of the amount planned between 2022 and 2023, compromising in some way important goals of connectivity and technological modernization of the country. The execution of programs such as the "Information and Communication Technology" program also reached an execution level of 98%, while others, such as "Gender Equality and Social Inclusion", fell far short of expectations with only 30% execution in 2023.

It appears to Committee C that the Government's adoption of measures to correct the deficiencies found in the RPCGE 2023, strengthen oversight mechanisms, ensure consistency in financial reporting and strict compliance with contractual standards is necessary and urgent.

7.6. Special Fund for the Development of Ataúro (FEDA)

The Government has established the Ataúro Special Development Fund (FEDA) with the aim of stimulating economic activity and fostering opportunities for sustainable growth in the Ataúro region through strategic investments in infrastructure such as transport, roads, bridges and communication systems, as well as by allocating resources to the areas of education, vocational training and health. The Government's vision is to leverage economic growth, boost tourism, generate better employment opportunities and, in this way, improve the quality of life of the population of Ataúro.

The budget execution of the FEDA faced, as did the vast majority of budget programs, significant challenges in 2023. Despite an initial allocation of $13.4 million, the amount was drastically reduced to $3.4 million in the final budget. And, of this amount, only 20% was actually used, corresponding to $682 thousand dollars. Such a low execution rate raises questions about the efficiency in the management of resources and the ability of the fund to achieve its planned goals. In addition, there was a disproportionate allocation of resources between the various expenditure categories, with 52% of the fund's allocation being earmarked for the payment of salaries. Only two international workers hired by the FEDA received a total of $205 thousand dollars, exceeding the $148 thousand paid to the 14 national employees.

Other categories, such as Goods and Services and Minor Capital, also showed low execution rates, of 35% and 66% respectively. Development capital, essential for structuring projects, had zero execution (0%), compromising investments and the central mission of the FEDA. Furthermore, the final balance of the fund, of $2.5 million even after the payment of pending expenses, confirms that the resources accumulated by the FEDA were not effectively channeled to the objectives for which they were intended. The situation highlights serious flaws in planning and difficulties in the execution of funds. This is why the RPCGE 2023 concludes that the FEDA's performance in 2023 was marked by administrative deficiencies, inadequate allocation of resources and inability to implement significant projects, failures that may compromise the central objective of promoting the sustainable development of Ataúro. For more information on the FEDA, we suggest reading page 52 of the RPCGE 2023.

7.7. Human Capital Development Fund

The performance of the Human Capital Development Fund (FDCH) in 2023 also brought to light issues related to its management and transparency. Although it achieved an execution rate of 95%, the transfer of $22.5 million it received from the General State Budget far exceeded the allocation approved by law, of $18.3 million. This excessive financing generated an unnecessary cash balance and revealed flaws in the Government's financial planning. For a more in-depth analysis of the FDCH, we suggest reading pages 48 to 50 of the RPCGE 2023 and 43 to 45 of the CGE 2023.

Among the programs financed by the FDCH, the highlight in 2023 was the "Scholarships" program, which favored the graduation of students from Timor-Leste and Indonesia, absorbing by itself 67% of the total budget allocation allocated to the Fund for the year.

The CdC highlighted in the RPCGE 2023 that the FDCH once again failed to report outstanding payments at the end of the year as non-financial debt, compromising the integrity of the financial statements. This opinion from the CdC reinforces the need for greater rigor in future transfers, to avoid wasting public resources and ensure more efficient management of public funds.

The discrepancy in the net asset values of the FDCH between 2022 and 2023 (-1.127 million dollars in 2022 and -1.134 million dollars in 2023) raises concerns about the accuracy of the accounts. In addition, the change in the structure of the income and payment statements without clear justification raises doubts about the consistency and transparency of the financial reporting of this fund, including undermining the credibility of the financial reporting and making it difficult for the highest audit bodies to carry out a detailed analysis.

The RPCGE also emphasized the need for the FDCH to increase the detail in the reports it produces on the impact of its programs and activities, in order to allow a more accurate assessment of the benefits generated by the State's investments in Education and helping to identify areas for improvement and increase the efficiency of the resources applied.

Both the FDCH and the Ministry of Finance had already recognized the flaws now highlighted by the CdC and committed to introducing corrective measures. However, the repetition of problems already identified in previous years indicates that improving financial management and accountability continue to be a challenge. Committee C now joins the voice of the CdC to strongly advise the FDCH administration to implement measures to ensure strict compliance with the budget allocations allocated to it by the OGE, avoiding excessive transfers and ensuring the preparation of more detailed and consistent financial reports, to promote greater transparency and credibility in the FDCH's accountability.

7.8. State Business Sector in 2023

In CGE 2023, the Government also reports on the budgetary and financial performance of public companies on pages 562 to 566 of the document. The matter is also addressed by the CdC, albeit superficially in RPCGE 2023, pages 78 and 79.

In Timor-Leste, public companies are established with the aim of decentralizing administration and increasing efficiency in the provision of public services. As a rule, they operate in strategic economic sectors or in areas essential to improving the well-being of the population. In 2023, the country had six public companies distributed across the following sectors: Petroleum (Timor Gap, EP, and Murak Rai Timor, EP), Airports (ANATL, EP), Communications (RTTL, EP), Electricity (EDTL, EP) and Water and Sanitation (BTL, EP). These entities naturally perform important functions, but continue to face significant financial and administrative challenges, as highlighted by the RPCGE 2023.

According to the assessment carried out by the CdC, the six public companies generally complied with the legal requirements for reporting in 2023. However, the CdC highlights that RTTL, EP repeated a failure already identified in the previous year, by not preparing its annual accounts report in accordance with the standards provided for in the law on public companies, tainting transparency and making its financial oversight difficult.

In financial terms, Timor-Leste's public companies continued to be highly dependent on transfers from the State Budget for their financing in 2023. In 2023, the State transferred $136.6 million to these entities as a whole. EDTL, EP, the largest beneficiary, received $70 million, followed by Timor Gap, EP, with $54 million. However, relative dependence on the State Budget was even more pronounced in the companies BTL, EP, and RTTL, EP, which had 97% and 91% of their expenses covered by the State Budget, respectively. This pattern of dependence has persisted over the last decade, during which transfers from the State Budget to public companies have already totaled around $730.6 million. Although such transfers are essential for the sustainability of companies, the CdC rightly points out the absence of clear and transparent criteria to justify their allocation. Without this, confidence in the efficient use of resources is definitely compromised.

The CdC therefore recommends that the CGE start disclosing the technical criteria used to determine the transfers made to each public company. In its view, this measure would promote greater transparency, help the National Parliament and other bodies to exercise their oversight function more effectively and ensure that resources are used efficiently. Furthermore, the management of public companies should focus on achieving greater operational and financial efficiency, in order to gradually reduce their dependence on the State, using strategies that allow them to increase the generation of their own revenues.

7.9. RAEOA

Oe-Cusse Ambeno Special Administrative Region (RAEOA) is a territorial entity with the status of a legal person under public law limited to a regional geographical area, which was established by Law No. 3/2014 amended by Law No. 18/2023 of 30 November . The region benefits from administrative, financial and patrimonial independence, having its own governing and consultative bodies, as well as public services and its own staff.

The main objective of RAEOA in economic terms is to promote the inclusive development of Oe-Cusse Ambeno, placing emphasis on socioeconomic activities aimed at improving the quality of life and well-being of the local community. The region must also establish a new model of social market economy, with the purpose of stimulating, promoting and accelerating the region's growth, in a fair and sustainable way. Another of its objectives is to boost the development of the Oe-Cusse Ambeno region, making it economically competitive and a center of development at a sub-regional and regional level, attractive for investment and job creation. For greater depth on this subject, we suggest reading pages 67 to 72 of the RPCGE 2023 and 212 of the CGE 2023.

Oe-Cusse Ambeno Special Administrative Region (RAEOA) subsector is composed of the RAEOA Authority and the RAEOA Special Development Fund (FEDR).

However, since its creation, the management of RAEOA has faced significant structural and operational challenges that compromise administrative effectiveness and transparency in the use of financial resources made available by the OGE. The lack of oversight structures, such as the FEDR Fiscal Council, combined with dependence on public transfers and inefficiency in asset management, calls for the need for indispensable structural reforms to ensure that the allocated resources effectively contribute to the well-being of the population and to the sustainable development of the enclave.

In 2023, RAEOA achieved expenditure execution of $63.5 million, equivalent to an execution rate of 76%, which represents an increase of 28.3% in relation to the $49.5 million spent in the previous year. For the first time, the CGE disaggregated RAEOA and FEDR expenses, a worthy practice applauded by the Chamber of Auditors (CdC) and Committee C.

The majority of expenses were recorded in the Goods and Services category, totaling $11.3 million, of which 2.2 million were allocated to paying the company responsible for managing and operating the RAEOA plane. However, the acquisition and operation of this asset proved to be inefficient, generating substantial costs that were much higher than revenues, constituting a significant burden on public coffers.

The RAEOA's revenues continued to be predominantly non-fiscal in nature in 2023. Despite the increase in revenues, its dependence on transfers from the General State Budget remained high. Since its establishment, the region has accumulated high treasury balances due to excessive transfers, financing recurring deficits. At the end of 2023, it carried over a balance of almost $92.2 million to the following year.

The Special Development Fund of the RAEOA (FEDR), created in 2015, is an important instrument for financing strategic projects and ensuring the implementation of public investments in the region. However, the fund’s management structure remains vulnerable, lacking efficient financial oversight mechanisms that minimize the scope for irregularities.

Another point of concern highlighted in the RPCGE 2023 refers to the transfers of resources from the RAEOA to the Sociedade Comercial de Desenvolvimento ZEESM OAA Unipessoal, Lda. This regional company, created by Resolution 06/2020, depends heavily on public funds and, in 2023, transfers were made to it without adequate contractual support, to cover recurring expenses and compromising basic principles of budgetary discipline. In addition, the interest generated by the RAEOA bank accounts was incomprehensibly modest: $211 thousand dollars collected by the RAEOA Authority and $52 thousand by the EDF R. Such residual amounts reinforce the need for more efficient management of the financial resources available in the region.

The RAEOA's cash balance at the end of 2023, although at first glance it may seem like an indicator of financial robustness, in fact reveals significant challenges in the execution of the regional budget and in the management of resources. The accumulated balance of $92.2 million at the end of the year demonstrates the Authority's inability to implement the projects and programs planned for the region, especially taking into account the budgetary adjustment promoted by the Rectifying State Budget, which reduced the final budget from $120 million to $83.7 million (-30%). The modest budget execution also suggests reduced resource management capacity, which is especially worrying in a region that faces significant structural challenges in terms of infrastructure, health, education and employment.

All of the above reinforces the need for urgent structural reforms to increase transparency, efficiency and effectiveness in the administration of the RAEOA, and it is essential to strengthen supervision mechanisms and improve asset management, including the assessment of the impact of investments, such as the RAEOA aircraft.

8. SOCIAL SECURITY

Social Security, one of the three subsectors of the Public Administrative Sector within the scope of the OGE and CGE, enshrines the right to social security and assistance in Timor-Leste. Since the creation of the "Social Security Contributory Regime" in 2016, the system has undergone several institutional and legislative changes, seeking to consolidate itself as a unique, mandatory and self-financed mechanism.

Social Security is managed by the National Social Security Institute (INSS) and the Social Security Reserve Fund (FRSS). The INSS, as the entity responsible for operating the system, faces significant challenges related to its budgetary execution and asset management of the system, hindering the sustainability and transparency of the system.

In 2023, the Rectifying State Budget set the Social Security budget allocation at $285.7 million, of which 93% was implemented. The final balance of the year, of $200 million, was accumulated for transfer to the FRSS at the beginning of 2024.

However, the RPCGE 2023 identified gaps in the financial consolidation of Social Security. For example: the transfer of accumulated reserves in the INSS to the FRSS continued to be recorded as a budgetary expense rather than as a financial cost, due to the lack of an asset accounting system in Timor-Leste. In addition, the lack of consolidation between the INSS and FRSS accounts compromised the transparency and integrated management of the system, raising concerns about the financial integrity of Social Security.

The FRSS, created to stabilize and sustain the contributory regime, still lacks solid control and supervision mechanisms. Since its creation, delays in the appointment of the Single Auditor have compromised the independence of supervision and the credibility of the system. In 2023, the FRSS began direct management of its assets, without contracting with a specialized entity. The approach included diversifying investments into local and foreign banks, but without a robust assessment of the risks associated with this investment option. The lack of rigor in risk analysis can contribute to exposing Social Security funds to financial losses, undermining the sustainability of Social Security.

The CdC warns in the RPCGE 2023 of the need for the FRSS asset management to follow strict risk analysis standards and considers it essential that the Fund seeks professional support from financial entities specialized in investments, to ensure safe and sustainable diversification, protecting Social Security resources and promoting its financial sustainability.

Furthermore, the management of FRSS assets requires, in the opinion of the CdC and Committee C, a structural review of investment policies, which should be based on robust risk analyses, with the support of financial experts, and it is also recommended that Social Security urgently implement an integrated asset accounting system. For further information on the subject, we suggest consulting pages 72 to 76 of the RPCGE 2023 and 54 to 58 of the CGE 2023.

9. STATE TREASURY SITUATION AS OF DECEMBER 31, 2023

The cash balance recorded for the year 2023 corresponds to the sum of the balances in all official bank accounts, plus the amounts of advances to be settled and bank guarantees outstanding as at December 31 of that year. The balance reflects, in theory, the State's available financial resources, and is an essential component for the transparency and efficient management of public finances.

On December 31, 2023, the Treasury's cash balance totaled, according to the RPCGE 2023, $585.4 million dollars, and was distributed as follows:

Table 9 – Cash balance as of December 31, 2023

Cash balance description	Millions $
Central Administration	186.7
RAEOA	92.2
INSS/FRSS	200.0
ANPM	55.9
Captive value for the purchase of Timor Telecom shares	19.0
BNCTL	31.7
Total Cash Balance	**585.4**

However, the CdC identified inconsistencies in the cash balance reported by the Government in the 2023 CGE, an accounting error in the Consolidated Fund of Timor-Leste, of $251 thousand dollars. The actual value should reach $585.7 million dollars, while that indicated by the Government was $584.4 million.

In addition to this accounting error, it was also found that the cash balance reported in the CGE did not include significant amounts that should have been considered, totaling $56.4 million. These amounts correspond to:

Transfer from the European Union: An amount of $2.2 million dollars.

Funds from the Bolsa da Mãe Program: $4 million transferred by the Australian Government, but still available in the official bank account opened at the Banco Nacional de Comércio de Timor-Leste (BNCTL).

Guarantee and Soft Credit : An amount of $50 million dollars not yet used.

The CdC criticizes the fact that this omission has already been identified in previous exercises and has even been the subject of repeated recommendations, without the corrections being implemented.

The financial situation of some public entities, such as the Ministry of the Presidency of the Council of Ministers, the National Intelligence Service and the National Ambulance and Medical Emergency Service, illustrates the budgetary management challenges in 2023. The cash balance of these institutions at the Central Bank was almost zero at the end of the year due to:

Insufficient transfers: The amounts transferred by the OGE were lower than the budgetary allocations foreseen for these entities.

Outstanding payments from 2022: Delayed expenditure was processed only in 2023, but accounted for as budget execution for 2023.

Advances, regulated by the 2023 Budget Execution Decree-Law, also presented problems in the 2023 CGE. At the end of that year, advances totaled $1.8 million, and were mostly classified by the Government as "Professional Services Advances", without further details. The CdC points out in its RPCGE that the records provided by the Ministry of Finance are consistent with the data presented in the 2023 CGE, making it impossible to identify the entities with pending advances and the reasons that justified this situation, compromising transparency and their monitoring.

10. STATE ASSETS

The State's assets, made up of financial and non-financial assets, also face problems of lack of transparency and deficiencies in their management, as pointed out by the CdC in its analysis of the 2023 CGE. In its opinion, the lack of clear and complete information on these assets hinders the assessment of the patrimonial panorama and the effectiveness of public administration. The CdC stresses that detailed accounting and transparent disclosure of all State assets are imperative to strengthen public management and increase society's confidence, and the Government should give priority to the approval and implementation of regulations that ensure efficient and responsible management of these public resources.

In 2023, the OGE authorized the granting of guarantees and loans with the State's guarantee, up to a limit of $80 million. However, the regulations necessary to make these operations viable had not yet been approved, preventing their execution.

A significant example of the State's asset management failures is related to the "Soft Credit Guarantee Facility" Credit Line created with an initial deposit of $50 million. The objective of the initiative was to promote access to credit for micro, small and medium-sized companies in order to stimulate the productive sector. However, no loans were granted in 2023 and that amount remained deposited, without execution and generating minimal interest for the public coffers. The situation reflects the underutilization of resources that facilitate economic development. In the RPCGE 2023, the CdC points out the urgency of establishing clear and effective mechanisms to guarantee the practical implementation of relevant initiatives such as this, ensuring a real impact on the productive sector and the national economy.

Regarding non-financial assets, the shortcomings identified by the CdC are also worrying. The inventories presented to the CGE were in 2023, limited to just two municipalities, and do not offer an integrated or comprehensive view of public assets. The lack of information on depreciation and amortization of real estate and movable assets compromises the accuracy of the State's asset survey, showing that the Government has not yet developed a coordinated and structured approach to the inventory and asset regularization. Without a consolidated analysis, the CdC understands that the Government is unable to adequately plan the maintenance, renovation or disposal of public assets, weakening the efficiency of asset management and accountability. For a more in-depth analysis of the State's assets and financial and non-financial assets, we recommend reading pages 64 to 67 of the RPCGE 2023.

11. STATE DEBT (FINANCIAL AND NON-FINANCIAL)

In its opinion on the 2023 CGE, the CdC also looks at the situation of public debt, both financial and non-financial, in 2023, on pages 53 to 62 of the document. In this analysis, it highlights the lack of complete accounting of the non-financial debts of all public entities, recommending that the Government adopt measures to include all debts in the CGE, an initiative that it considers essential to ensure more efficient management of the State's liabilities and promote greater transparency in the provision of accounts. The analysis covers both financial debt related to the financing of strategic infrastructure projects and non-financial debt originating from obligations with suppliers of goods and services. Both types of public debt present significant challenges that affect the efficiency and sustainability of public management.

Financial debt has been an essential instrument for financing infrastructure such as roads, airports, basic sanitation and education. However, weaknesses have been highlighted in the presentation and management of information on public debt. The CGE does not provide clear and reliable data on the budgetary execution of debt, including interest payments and amortizations in the year under review, compromising the assessment of fiscal regularity and hindering informed decisions on debt management.

Although the 2023 State Budget authorized the Government to contract up to $200 million in new loans, no new loan agreements were signed by the Government on behalf of the State that year. Problems were also identified in the execution of contracts already in progress, especially in seven loans signed between 2020 and 2022, which were not executed due to the impact of the COVID-19 pandemic and the temporary suspension, for reassessment, of the projects they financed, by the 9th Government. These suspensions resulted in contractual penalties, such as interest rates and commitment charges, but the 2023 State Budget failed to quantify or clarify these penalties, presenting contradictory information between the Ministry of Finance and the Infrastructure Fund. The RPCGE also highlights that excessive exposure to foreign currencies, such as Special Drawing Rights (SDR) and the yen, could pose significant exchange rate risks for the country.

Between 2012 and 2023, only $303.7 million of the $1.02 billion in loans granted to Timor-Leste were disbursed, resulting in a much lower than expected execution. And, in 2023, only 33.1% of the disbursements planned for that year were made, highlighting obvious difficulties in absorbing the contracted external financial resources.

Likewise, the lack of detailed information in the 2023 CGE on **debt service** hampered the CdC's analysis, also hampering the National Parliament's political oversight work on the efficiency of the implementation of external financing. The inconsistency in data related to interest payments was also a cause for concern for the CdC. Although the final budget for 2023 allocated $4.2 million for interest payments, the CGE recorded $4.9 million paid, raising doubts about the calculations made by the Government.

Regarding loan repayments, the $14.7 million repaid in 2023 represented a 17% increase over the previous year. The public debt balance at the end of 2023 stood at $316.1 million, considering exchange rate variations that generated a gain of $6 million for the State. However, the low use of available resources (only 3.5% of the $702 million available) highlights challenges in the execution of projects financed by loans.

Timor-Leste's non-financial debt stood at $16.8 million at the end of 2023, a significant increase of 188% compared to the previous year. This debt, consisting of obligations to suppliers of goods and services, is mostly the responsibility of ministries, autonomous bodies and services, and municipalities.

Ministries alone were responsible for 67% of this debt ($11.2 million), with the Ministry of Health standing out, accumulating non-financial debt of $8 million in 2023. The National Parliament was the second most responsible, with $1.2 million not being paid to suppliers that year. Among the autonomous bodies, the Infrastructure Fund ($1.2 million) and the National Logistics Center ($448 thousand) led the debts, while municipalities accounted for 22% of the total ($3.7 million), with RAEOA and the municipality of Aileu being the most responsible, with $1.8 million and $401 thousand of non-financial debt, respectively.

The 2023 RPCGE revealed weaknesses in the control of non-financial debts, noting the payment in that year of debts related to electricity and travel accumulated between 2016 and 2022. Some entities, such as the Timorese Resistance Archive and Museum (AMRT), the Ministry of Social Solidarity and Inclusion (MSSI), and the National University of Timor-Leste (UNTL), presented specific problems in this area. In the case of UNTL, debts not registered in the CGE were identified that included debts accumulated since 2016. The CdC analysis (carried out by sampling) exposed notable weaknesses in the financial management of some public entities. In particular, the outstanding debts relating to the supply of electricity, on the part of the AMRT, the Ministry of Social Solidarity and Inclusion and the UNTL, were very significant and, in some cases, had not even been recorded in the 2023 CGE. The situation of the UNTL was considered by the CdC to be particularly worrying, with debts accumulated since 2016 to be paid in 2023, demonstrating unacceptable financial management, aggravated by the lack of an adequate control system for recording and monitoring liabilities.

The situation, which has been dragging on for years, raises serious questions about the transparency and financial responsibility of the defaulting entities.

12. PUBLIC INVESTMENT IN PUBLIC-PRIVATE PARTNERSHIPS (PPPs) AND OTHERS

The 2023 CGE and the 2023 RPCGE analyze public investment initiatives in Timor-Leste, highlighting the Public-Private Partnership (PPP) model and other forms of application of public resources adopted by the Government in recent years. In addition to PPPs, emphasis is placed on State investments in companies and banking institutions, considered essential by the Government to boost strategic sectors of the economy and national infrastructure.

Although these investments are fundamental for the country's development, the analysis produced by CdC points to challenges in management, execution and transparency, requiring improvements in the planning and implementation of public initiatives.

PPPs allow private partners to take responsibility for the financing, construction, operation or maintenance of public infrastructure, providing an alternative to direct government financing. Since 2015, Timor-Leste has opted for this type of contracting, with the Port of Tibar being the first significant project.

Signed in 2016 with a 30-year concession agreement, the Tibar Port project received a $129.5 million state subsidy to make the initiative viable. By 2023, deposits in an escrow account had generated $9.4 million in interest, amounts that have already been transferred to the state.

The 2023 State Budget (OGE) included five projects in the PPP modality: Medical Diagnosis (in the acquisition phase) and four under feasibility assessment (Affordable Housing, Cristo Rei, Port of Dili and Presidente Nicolau Lobato International Airport). However, only the Affordable Housing project was approved, with the others being cancelled due to difficulties in assessing feasibility and implementation.

The delays and cancellations of PPP projects reported in the 2023 CGE indicated weaknesses in the government's planning and decision-making processes. Among the cancelled projects are medical services and tourism development initiatives, which also resulted in the payment of fines and other costs associated with the decisions taken. The known challenges indicate the need to refine the feasibility analysis methodology and the monitoring mechanisms of PPPs, ensuring greater efficiency and positive impact. The CdC reinforces in the RPCGE 2023 that, without those improvements, PPPs could become a source of additional expenses, instead of a driver of sustainable development.

In addition to the investment in PPPs, the 2023 CGE highlights the public investment, in 2023, of $175.8 million in banking, such as the Central Bank of Timor-Leste (BCTL) and the National Bank of Commerce of Timor-Leste (BNCTL). Both received, until 2023, $85 million each, reinforcing their operations and contributing to the strengthening of the national financial system. As other investments, $906 thousand dollars are worth of note for the acquisition or increase of the State's shares in Timor Telecom and $4.9 million dollars in TL Cement . In the case of Timor Telecom, the purchase of shares and credits provided for in a contract for $21 million dollars showed significant delays. The funds deposited in an escrow account remained unused in 2023, highlighting implementation problems. The CdC highlights that the absence of clear criteria and strategic planning for these investments compromises the efficiency and transparency in the application of public resources.

For greater depth on this subject, we suggest consulting pages 79 and 80 of the CGE 2023 and pages 81, 82 and 89 of the RPCGE 2023.

13. PETROLEUM FUND

The CGE also includes the financial statements of the Timor-Leste Petroleum Fund for the year 2023, detailed from page 573 onwards. In turn, the RPCGE 2023 only dedicates a brief analysis of this fund, on pages 76 to 78.

The Petroleum Fund (FP), created by Law No. 9/2005 and amended by Law No. 12/2011, has played a fundamental role in financing the State, accumulating revenues from petroleum operations and from the investment of accumulated wealth in financial instruments abroad. As of January 1, 2023, the FP recorded a balance of $17.3 billion and, by the end of that year, the Fund had accumulated total revenues of $2.105 billion, of which $1.7 billion came from petroleum revenues and $427 million corresponded to investment income, representing an increase of 52% compared to the previous year. Despite the observed growth, the CdC warned of the decreasing trend in petroleum revenues and the excessive use of the Fund to finance the State Budget, putting the sustainability of the FP at risk in the long term.

The PF management expenses paid to the Central Bank of Timor-Leste (BCTL) totaled $13.7 million in 2023. Total expenses related to the Fund, including tax payments, totaled $21.4 million, an increase of $2 million compared to 2022. Among the main increases in expenses, the expenses of the Investment Advisory Board stand out, which rose from $287.3 thousand to $677.5 thousand in just one year, and the operational management fees charged by the BCTL, which increased from $6.2 million to $7.2 million. In addition, the "Other expenses" item also increased from $8 thousand in 2022 to $1.6 million in 2023, without the CGE providing justification for these substantial increases.

Since 2015, transfers from the FP to the State Budget have systematically exceeded annual petroleum revenues, a practice that is actually unsustainable. This trend resulted in negative total revenues for the Fund in 2018 and 2022, although transfers to the State Budget in those two years continued to grow above the Estimated Sustainable Income (ESI). According to government projections, the FP could be exhausted by 2035 if the current rate of transfers remains unchanged, compromising the ability to finance the State's annual budgets from that year onwards. To avoid this scenario, the CdC argues that it is essential that petroleum resources be allocated to high-impact projects that promote sustainable growth.

Throughout 2023, the Government transferred to the OGE, in five installments, a total of $1.09 billion, more than double the ESI calculated for that year, at $490.15 million. This excessive dependence on the PF as the main source of public financing exposes Timor-Leste to avoidable risks, compromising not only the viability of the Fund, but also the country's economic and fiscal stability. The diversification of revenue sources and the strengthening of public financial management are urgent measures to preserve the role of the PF in supporting national development and ensuring the country's economic future.

In 2021, the VIII Government segmented the FP, creating an additional liquidity portfolio to the existing investment portfolio. That year, the new portfolio received a transfer of $3 billion, intended to cover the financing needs of the State Budget for three consecutive years. In July 2024, the liquidity portfolio had a balance of $3.07 billion. It is important to note its average annual profitability.

In addition to traditional investments in US Treasury bonds and stocks, FP has committed $650 million to Timor Gap, EP, as part of the Greater Sunrise project. In 2018, the Government acquired 56.56% of the shares in the Greater Sunrise joint venture, previously owned by ConocoPhillips and Shell, with the aim of fostering onshore (sic) petroleum development. Originally, this investment would be included in the 2019 State Budget, but due to concerns about fiscal sustainability, the Petroleum Activities Law was amended, allowing the use of up to 5% of the FP for operations of this nature.

The Timor Gap investment was structured as a loan with annual interest of 4.5%, an eight-year grace period and repayment in ten years after the start of production. Despite its national development objectives, the investment faced legal and operational challenges. The need to reassess the fair value of the loan delayed the release of the financial statements, as highlighted by external auditors. In addition, concerns arose regarding non-compliance with the exposure limits set out in the PF law, which restrict investments in a single entity to 3% of the Fund's total assets. A review of the terms of the Timor Gap loan was discussed in 2023, with adjustments planned for 2024, depending on progress in the development of the petroleum field.

The Government's financial statements, including details of the investment in Timor Gap, were presented to the National Parliament on 22 June 2023 and a similar process was followed for the 2023 PF financial statements, as mentioned in the PF's financial report. Such information is fundamental to assessing the impact and sustainability of the Fund's investments.

14. EXTERNAL ASSISTANCE TO TIMOR-LESTE

External assistance in Timor-Leste has been essential for financing several government programs, but it also presents significant challenges regarding the transparency, management and execution of resources received by the State. According to the analysis carried out in the RPCGE 2023, such weaknesses stand out in several areas of external financial support.

For example, the European Union (EU) direct budget support of €2.2 million in 2023 was earmarked for the Ministries of Health and State Administration. However, the CdC found that these amounts were not properly recorded in the 2023 CGE, compromising the credibility of the financial statements and raising doubts about their application. The Australian Government also made available $12.5 million to support programs across various ministries. Although the Ministry of Health achieved a 92% implementation rate, the Ministries of State Administration and Social Solidarity and Inclusion (MSSI) revealed deficiencies in the use of these resources. In particular, the MSSI was unable to fully implement the resources allocated to the Bolsa da Mãe program, and the program was subsequently discontinued. In addition, discrepancies between the program's accounting records and bank statements raised additional concerns about possible misappropriation or mismanagement of funds.

In terms of indirect budget support, donations totaled $101 million in 2023, representing a significant drop compared to the previous year, when this type of support registered $162.4 million. The main donors in this form of support to Timor-Leste were Australia, New Zealand and the World Health Organization. However, the lack of detailed information on the application of these resources reinforces the need for greater transparency and accountability in the management of external support.

For a more in-depth analysis of External Assistance, we suggest reading pages 62 to 65 of RPCGE 2023 and 177 to 179 of CGE 2023.

The implementation problems detected reveal structural weaknesses that require urgent attention in the opinion of the CdC, therefore recommending that the State improve its registration and management systems, to ensure the proper accounting of external financing and its use for the purposes for which it is intended.

15. CONCLUSIONS

State Accountability:

The budget cycle ends annually with the submission of accounts by the Government on behalf of the State, under the terms and within the deadlines provided for in the Constitution and the law, with the General State Account (CGE) being the main accounting document for the submission of State Accounts (financial statements) prepared by the Government, which encompasses all the accounts of the services and entities that were part of the scope of the General State Budget (OGE).

Under the terms of the Constitution and the law, the Government prepares the CGE, the Account, and sends it simultaneously to the Chamber of Accounts (CdC) and to the National Parliament (PN), the first up to six months after the end of the year to which the Account relates, so that it can issue its opinion on the legality and financial correctness of the public accounts, and, to the PN, for assessment with a view to its approval within eight months after its receipt.

The sending of the CGE for the year 2023 (CGE 2023) to the CdC and PN met the legal deadlines. The CdC also met the deadline set by Law No. 2/2022, of February 10th, for issuing a report and opinion on the legality of public revenue and expenditure carried out in 2023. The PN then approved a calendar assessment of the Account, respecting the deadline that the law and the PN Regulations assign to the consideration and voting on the Account, which ends at the end of February 2025.

The CGE was prepared in accordance with cash accounting principles, since the accrual accounting regime is not yet implemented in Timor-Leste, covering the accounts of the Public Administrative Sector, which encompass the Central Administration subsectors (Direct and Indirect), the Special Administrative Region of Oé-Cusse Ambeno (RAEOA) and Social Security, and reflects the financial activity of the State, providing detailed information on all financial transactions (revenues collected and collected and public expenditures occurred between January 1 and December 31, 2023). The 2023 fiscal year was an atypical year, because legislative elections took place in the middle of the year, leading to a change in the structure of the political forces in power, starting in July. Therefore, the CGE 2023 is jointly responsible for the VIII Government (first half of the year) and the IX Government (second half of the year). The budget execution for the year 2023 may have been partially affected by all this.

The State Budget for 2023 was approved by Law 15/2022 of 21 December, and was subsequently amended by Law 17/2023 of 29 June. The Amendment (before consolidation between subsectors) reduced the revenue allocation from the initial $2.157 billion to $1.997 billion (-$160.2 million, i.e. -13.4%) and expenditure from $2.157 billion to $1.961 billion (-$195.2 million, i.e. -9.1%). Only the Social Security subsector increased its revenue and expenditure budgets with the Amendment State Budget by 3.4% (+$8 million).

The 2023 Amending OGE cut 9.3% to the initial revenue and expenditure budgets of the Central Administration, also reducing 30.2% to the expenditure budget initially approved for the RAEOA, as a way of reducing the fiscal deficit originally registered by 9% in the 2023 OGE, and excessive transfers from the Petroleum Fund by -$137.9 million (-10%). Regarding the management balance, the Rectification, nothing changed, maintaining the Government's initial estimate of $318.7 million (in fact, the management balance calculated reached a higher value, standing at $368.4 million at the end of the exercise.

Revenue collected by the State in 2023:

In global terms, the revenue collected by the State in 2023, without including Social Security, reached 102.5%, exceeding the estimate recorded in the Rectification, despite the execution of each of its categories not being linear. For example, revenue collection by Municipalities was residual in 2023, not exceeding $998 thousand. The Autonomous Entities and Autonomous Services and Funds had a more positive performance, collecting revenues in the amount of $7.6 million this year, an amount still 52% lower than the revenues collected in the previous year. The fact that only 27 of the 104 entities with extended autonomy collect revenue does not help much with their sustainability in the coming years, remaining a major burden for the Treasury. In turn, tax exemptions on imports granted by Timor-Leste brought losses of $6.3 million in tax revenue to the State coffers that year.

<u>Expenditure incurred:</u>

Between the original 2023 State Budget and the Rectifying 2023 State Budget, the budget allocation for the payment of Salaries and Wages increased by 10%, while the Goods and Services category suffered a substantial cut of 23%, Public Transfers saw their expenditure budget also reduced by 12% and the budget allocation for Capital Expenditure suffered a very significant cut of 22% with the Rectifying State Budget, going from the initial $333.6 million to $258.9 million, and reporting an execution of 72.8% of its final budget allocation. Contrary to the other categories, the expenditure allocation attributed to Minor Capital, initially contemplated with a budget allocation of $56.8 million, was reinforced by $2 million, with the adjustment operated by the Rectifying State Budget 2023, reaching a moderate budgetary performance of 81.2% in the year.

In terms of overall absolute values, the execution of State expenditure stood at 76.1%, corresponding to expenditure of $1.494 billion. Spending on Salaries and Wages alone, including the salaries of national and international advisors, totaled $481 million (an execution rate of 91.2%), with the Ministry of Education being the largest employer. In the Goods and Services category, State expenditure reached $341.2 million (an execution rate of 72.7%). In relation to this last category, the CdC made a comment about the serious *stock shortage* of medicines that occurred and the limited contractual management capacity of the Ministry of Health. In the Public Transfers category, the Government was unable to execute more than $567.4 million (an execution rate of 69.2%) of the $819.9 million allocated by the OGE to expenditure of this nature. The transfers with the largest budgetary expression were the INSS (which received $75 million), Timor GAP, EP, which received $54 million from the Treasury, EDTL, EP, which benefited from $70 million and transfers abroad, of $21 million for payments to hospitals abroad for expenses related to the provision of health care (this type of expense grew 115% between 2022 and 2023), and of the amount paid in 2023, $5.8 million was used to pay debts to foreign hospitals from previous years.

As for the expenses incurred using the Contingency Reserve, not all of them complied with the legal standards of public management according to the conclusions of the CdC, with some, totaling $736.6 thousand dollars, being characterized as urgent and unforeseen, when in reality they were predictable and routine expenses.

The analysis of the execution of the 2023 State Budget expenditure by subsectors showed that the financial performance of the Central Administration (encompassing the Direct and Indirect State Administration and Municipalities) was moderate, reaching 88% of its final budget allocation of $1.633 billion. The analysis conducted by the CdC on the performance of the subsector also revealed that the Presidency of the Council of Ministers, despite having a relatively limited operational relevance, benefited from a disproportionate budgetary reinforcement with the entry into office of the current Government. Regarding the Autonomous Public Agencies, which were allocated a budget of $449 million by the Amendment, representing 26% of the total expenditure of the State Budget, they also had a moderate execution of 81%. The CdC criticized the deviations detected in the National Petroleum and Minerals Authority (ANPM), an entity in which expenses exceeded the allocation allocated to it by the State Budget, making payments without budgetary justification. The CdC also criticized the performance of the Ataúro Special Fund (FEDA), for having used only $700 (20.1%) of a budget of $3.4 million allocated to it for 2023.

The volume of public expenditure in 2023 was mainly concentrated in three functional areas of the State: General Public Services, Economic Affairs and Social Protection, absorbing between them 72% of the overall allocation of the 2023 State Budget, with expenditure totaling $1.081 billion.

Implementation of the COVID-19 Fund:

The COVID-19 Fund, which has seen its relevance decrease over the last few years, saw its budget allocation reduced from the initial $18.3 million to $9.8 million with the approval of the 2023 Rectifying State Budget, with the Basic Food Basket program disappearing from it and without receiving any transfer from the Treasury that same year. It was forced to use its cash balance carried over from 2022 to finance all its programs in 2023. The fund's execution amounted to $7.7 million, a performance considered moderate. At the end of the year, $4.9 thousand deposited in the BNCTL, relating to ineligible expenses, had yet to be returned to the fund, and in 2024 the functions and expenses of the COVID-19 Fund were absorbed by the Ministry of Health.

Implementation of the Infrastructure Fund:

As for the Infrastructure Fund (IF), it also achieved a moderate financial performance, of 75.4% of the final budget of $212.7 million allocated to it by the Amending State Budget, but still higher than the budget execution of previous years. Of the expenditure incurred, $25.4 million was financed by external loans, revealing structural challenges, inconsistencies and transparency problems in the management of the IF in 2023 that undermined its effectiveness. Key sectors such as Health, National Security and Education received only 1.2%, 1.2% and 0.9% of the IF's allocation in 2023, respectively, while programs such as "Tourism", "Management of Petroleum and Mineral Resources" and "Environmental Protection and Conservation" did not even benefit from funds in the year under review.

Budget execution of the Ataúro Special Development Fund (FEDA):

Regarding the budgetary implementation of the Ataúro Special Development Fund (FEDA), it faced significant challenges in 2023. After obtaining an initial allocation of $13.4 million in the initial OGE, this amount was reduced to $3.4 million in the final amended budget and, of this amount, only 20% was actually used, totaling expenditure of $682 thousand dollars. More than half of the annual allocation of this fund was used to pay salary expenses, with only the two international workers hired by FEDA receiving a cumulative $205 thousand dollars. In turn, the category of capital development expenditure (investment projects) had zero implementation (0%), which for Committee C is serious and leads to questioning the usefulness of this Fund.

Implementation of the Human Capital Development Fund (FDCH):

Regarding the performance of the Human Capital Development Fund (FDCH), it achieved a budget execution rate of 95%, but the transfer of $22.5 million from the Treasury to this fund far exceeded the planned allocation of $18.3 million, generating an unnecessary and excessive cash balance in the opinion of the CdC, highlighting failures in the Government's financial planning. This fund continues to fail to report outstanding payments at the end of the year (non-financial debt). The "Scholarships" program alone accounted for 67% of the FDCH's total expenditure in 2023, prioritizing undergraduate degrees in Timor-Leste and Indonesia.

Performance of the State's business sector:

Regarding the State Business Sector, composed of the universe of national public companies, there were six public companies in 2023, distributed across the Petroleum (Timor Gap, EP, and Murak Rai Timor, EP), Airport (ANATL, EP), Communications (RTTL, EP), Electricity (EDTL, EP) and Water and Sanitation (BTL, EP) sectors. Despite performing important State functions, they faced significant financial and administrative problems in 2023. For example, RTTL, EP again failed to submit an annual financial report, contrary to the legal standards provided for public companies, and all public companies in Timor-Leste continued to be excessively dependent on transfers from the State Budget. In 2023 alone, the State transferred $136.6 million to these entities, with EDTL, EP benefiting the most, with $70 million, followed by Timor Gap, EP, with $54 million. The companies BTL, EP. and RTTL, EP. had almost all of their expenses covered by the OGE (97% and 91%, respectively), despite the lack of clear and transparent criteria for allocating funds.

Implementation of the Oe-Cusse Ambeno Special Administrative Region (RAEOA):

As for the subsector "Special Administrative Region of Oe-Cusse Ambeno (RAEOA)", it was found that in 2023 it did not obtain transfers from the Treasury, nor did it establish the inspection structures of its special fund FEDR (Fiscal Council), and that the region continued to reveal inefficiency in the management of its assets, indicating the need for structural reforms. RAEOA achieved an expenditure execution of $63.5 million, an execution rate of 76%, translating an increase of 28.3% in relation to the $49.5 million spent in the previous year. The large portion of RAEOA's expenses was made in the Goods and Services category, which totaled $11.3 million, of which 2.2 million were allocated to paying the company responsible for managing and operating the region's plane. In terms of revenue, RAEOA has accumulated high cash balances since its creation, due to excessive transfers from the Treasury, never having collected significant revenues of its own. At the end of 2023, the Region accumulated a management balance of $92 million, causing concern to CdC and Committee C regarding the transfer of resources from RAEOA to Sociedade Comercial de Desenvolvimento ZEESM OAA Unipessoal, Lda., a regional company created in 2020, but in 2023 still heavily dependent on public funds. That year, the Region made transfers to this company without adequate contractual support, thus compromising fiscal discipline.

Implementation of the Social Security system:

Regarding the Social Security subsector, it is a system managed by the National Social Security Institute (INSS) and the Social Security Reserve Fund (FRSS). In 2023, the INSS, the entity responsible for operating the system, continued to face challenges in terms of budgetary and asset execution of Social Security, undermining the sustainability and transparency of the system.

In 2023, the Rectifying State Budget allocated a budget allocation of $285.7 million to Social Security, of which 93% was implemented, with a balance of $200 million at the end of the year, which was transferred to the FRSS. The lack of an asset accounting system and the lack of consolidation between the INSS and FRSS accounts compromised the transparency and integrated management of the system in the year under review. Social Security also continued to lack robust control and supervision mechanisms, and, by not appointing a Single Auditor as it should have, it also compromised the independence of supervision and the credibility of the system. Furthermore, the lack of rigor in the risk analysis of the FRSS's 2023 financial investments unnecessarily exposed the Fund's reserves to potential financial losses, which is why the hiring of financial entities specialized in investments is urgent and necessary to ensure a safe and sustainable diversification of the FRSS's wealth and protect Social Security resources.

2023 Management Balance Status:

With regard to the situation of the State Treasury, the cash balance calculated on December 31, 2023, corresponding to the sum of the balances in all official bank accounts, plus the amounts of advances yet to be settled and outstanding bank guarantees, accumulated $585.4 million dollars, and an accounting error in the Consolidated Fund of Timor-Leste (FCTL) of $251 thousand dollars was highlighted by the RPCGE 2023, resulting in the undervaluation of the effective balance for 2023. The cash balance reported by the Government in the CGE also did not include $56.4 million related to the transfer made by the European Union of $2.2 million to finance the Bolsa da Mãe Program, plus $4 million that were transferred by the Government of Australia and were available in the bank account of the Banco Nacional de Comércio de Timor-Leste (BNCTL), and the amount of $50 million related to the Gentle Credit Guarantee program. Advances also presented problems, accumulating $1.8 million at the end of 2023, being mostly classified by the Government as "Professional Services Advance", without further details. Likewise, the records provided by the Ministry of Finance to the CdC were inconsistent with the data reported by the Government in the 2023 CGE, making it impossible to identify entities with outstanding advances and the reasons that justified such amounts.

State Asset Situation

The State's assets are made up of its financial and non-financial assets. This area continues to face transparency and management challenges, as highlighted in the 2023 RPCGE, with the lack of clear and complete information on such assets hindering the assessment of the State's asset situation and the effectiveness of public administration. Persistent failures in this area have been identified, compromising transparency. In 2023, the OGE authorized the granting of guarantees and loans by the State up to a limit of $80 million, but the lack of necessary regulations made their implementation unfeasible. An example of mismanagement in this area is the "Facilidade Garantia Crédito Suave" credit line, created with an initial deposit of $50 million to encourage access to credit for micro, small and medium-sized companies, stimulating the productive sector. As no loans were granted under this program in 2023, the funds remained deposited in the BNCTL, generating an almost zero return for the public coffers. Regarding the State's non-financial assets, the flaws identified in the RPCGE are also worrying, noting that the inventories presented in the 2023 CGE were limited to two municipalities. Likewise, the lack of information on depreciation and amortization of real estate and movable assets in the CGE compromises the reliability of the State's asset survey.

Public investments

Both the CGE and the RPCGE 2023 focused on public investment initiatives, highlighting the Public-Private Partnerships (PPP) model and other forms of application of public resources adopted by the Government for Timor-Leste in recent years. Since 2015, Timor-Leste has been using the PPP contractual modality for large-scale and complex investments, with the Port of Tibar being the first significant PPP project in the country. The 2023 OGE provided for five PPP projects, namely: Medical Diagnosis (in the acquisition phase) and four under feasibility assessment (Affordable Housing, Cristo Rei, Port of Dili and Presidente Nicolau Lobato International Airport). However, only the Affordable Housing project was approved, with the others being cancelled by the IX Government due to difficulties in assessing feasibility and implementation. In addition to investments in PPPs, the CGE 2023 highlights that the State has already invested $85 million each in the Central Bank of Timor-Leste (BCTL) and the National Bank of Commerce of Timor-Leste (BNCTL), intended to reinforce their capital.

Petroleum Fund Performance

The 2023 CGE also reports the financial statements of the Petroleum Fund (PF) of Timor-Leste for the year 2023. As of January 1 of that year, the PF had a balance of $17.3 billion, recording total revenues of $2.105 billion, of which $1.7 billion came from petroleum revenues and $427 million came from income from the fund's investments, representing an increase of 52% compared to the previous year.

Expenses for the management of this Fund, paid to the Central Bank of Timor-Leste (BCTL), totaled $13.7 million in 2023, at the same time that expenses related to paying taxes reached $21.4 million, $2 million more compared to 2022. Among the main increases in expenses, we highlight the expenses of the Investment Advisory Board, which rose from $287.3 thousand to $677.5 thousand in just one year, and operational management fees charged by BCTL, which increased from $6.2 million to $7.2 million in the same period. Furthermore, the item "Other expenses" increased from $8 thousand in 2022 to $1.6 million in 2023, without the CGE providing justification for such substantial increases. In 2023, the Government transferred from the FP to the OGE, in five tranches, a total of $1.09 billion, more than double the ESI calculated at $490.15 million for the year 2023.

Development Partners Support to Timor-Leste

External assistance in Timor-Leste takes the form of direct and indirect budget support. Regarding direct support from the EU and Australia to government programmes, the 2023 RPCGE highlighted discrepancies between the accounting records of the supported programmes and the corresponding bank statements, raising doubts about possible misappropriation or mismanagement of funds donated by development partners and received by Timor-Leste. Likewise, donations from indirect budget support provided by Australia, New Zealand and the World Health Organization lack detailed information in the 2023 CGE on their implementation, making it necessary to increase transparency and accountability in the management of this external support, in order to strengthen the credibility of public accounts.

16. RECOMMENDATIONS

Recommendations to the Government

1. In addition to the cash-based accounting system currently used by Public Administrative Sector services and entities, begin preparing and presenting the State's financial statements also from the perspective of *accrual accounting*, including a comprehensive chart of accounts in line with international standards (IPSAS), with a view to improving the quality of financial reports currently produced by the Executive.
2. Ensure the full inclusion of the budget execution of Social Security and other public entities that have so far been excluded from the CGE, in the State's consolidated financial statements.
3. Correct financial consolidation errors, such as those observed in the calculation of the cash balance and ANPM revenues for 2023, in order to increase the fidelity of consolidated public accounts.
4. Improve the annual budget planning process, ensuring that the OGE is prepared and executed based on realistic revenue and expenditure projections.
5. Specify the percentage of recurrent and capital expenditure financed by transfers from the Petroleum Fund, helping to increase their transparency.
6. Conduct and disclose to the PN detailed impact assessments on investment projects financed by funds transferred from the Petroleum Fund.
7. Strengthen the State's internal audit system, so that financial and budgetary management can be monitored and evaluated appropriately and in a timely manner.

8. Record and report transparently the cash advances and guarantees provided by the Government on behalf of the State annually, detailing the beneficiary entities and the reason for non-timely regularization.
9. Design and introduce clearer performance indicators to monitor the efficiency of government programs.
10. Review and align budget planning criteria with the country's real needs, avoiding systematic changes between programs during the budget execution period.
11. Stimulate domestic revenue collection and diversify the economy, to reduce dependence on the Petroleum Fund and safeguard its long-term sustainability.
12. Avoid making changes to the financial statements without due justification, in order to reduce the inconsistency in the data disclosed, which is widely criticized by the CdC.
13. Implement mechanisms to control cash balances reported in the CGE to ensure their accuracy.
14. Ensure that criteria for public transfers between subsectors are consistent with the public interest.
15. Strengthen the management of infrastructure projects, monitoring and evaluating them continuously, especially those with greater importance in terms of the use of public resources, ensuring compliance with deadlines and their quality.
16. Ensure that the values published in the OGE and CGE are consistent with each other and reconcilable.
17. Prioritize budgetary efficiency, directing public resources to areas that offer the greatest social impact and return for the economy.
18. Publish detailed financial statement reports on the execution of all funds, including the Human Capital Development Fund.
19. Improve reporting on public debt, including repayment terms and debt management costs.
20. Optimize the financial management of the FRSS, protecting its financial resources from investments that may involve a risk of losses for the State.

17. OPINION

Committee C follows the overall favorable opinion of the Chamber of Auditors, considering that the CGE 2023 generally and adequately represents the 2023 budget execution, and fully subscribes to the reservations placed by the CdC in the State accounts for the year 2023.

Without prejudice to the considerations and recommendations made in this opinion, and taking as a reference the RPCGE 2023 presented by the CdC, the Public Finance Committee considers that sufficient constitutional and regulatory conditions are met for the debate and voting on the General Account of the State of 2023 can be carried out by the Plenary of the National Parliament.

This opinion was read and voted on by the Public Finance Committee on January 23, 2025, with 5 votes in favor, 3 abstentions and 0 votes against.

The President of Committee C,
Deputy Cedelizia Faria dos Santos

The Rapporteur,
Deputy Aliança da Conceição Araújo

Annex – Written contributions sent to Committee C following public hearings

- **Court of Appeals:**

1. The Audit Chamber identified weaknesses in the mechanisms for monitoring and supervising public spending in 2023. What actions could be implemented to strengthen internal control at all levels of Government?

   Answer: Based on the control results carried out by the Audit Chamber, the actions that can be implemented to strengthen control are the following: increase control mechanisms with a view to ensuring public expenditure is well executed and improve the transparency and reliability of information in the General State Account.

2. Non-financial debt grew by 188% in 2023, reaching $16.8 million by the end of that fiscal year. What measures does the CdC recommend to the Government to improve the management and recording of these debts, with the aim of ensuring timely payment to suppliers?

   Answer: (Pls see recommendation no. 13 of the RPCGE of 2023).

3. In relation to financial debt, what are the most critical risks identified by the CdC, especially with regard to foreign exchange exposure and the low execution of loans granted to the State?

   Answer: The risks identified by the CdC namely:

   Failure to use loans in accordance with the disbursement schedule set out in the contracts will result in the payment of fines/penalties.

   Contracts have been signed, disbursements have been made, and the physical execution of investments is low, resulting in fines/penalties that reduce the amount of financing available to pay for these investments. Therefore, a reassessment is necessary.

4. The CdC identified a significant increase in the Petroleum Fund's operating expenses in 2023. What actions does the Chamber of Accounts recommend to improve management efficiency and reduce these excessive costs?

   Answer: The ESI should be allocated to investments in productive and long-term infrastructures, the risk to the sustainability of public finances is accentuated, which calls for the intensification of the prudent management of these revenues, for the benefit of current and future generations. It was also important to assess the results and impacts of the transfers already made above the ESI with the aim of introducing the necessary corrections, if necessary.

5. With the Petroleum Fund expected to be depleted by the year 2035, what measures does the CdC consider to be priorities to diversify revenue sources and reduce dependence on petroleum revenues?

   Answer: The decreasing trajectory of the PF and its expected longevity until 2035 and that in the last 9 years transfers to finance State expenses have always exceeded petroleum revenues, proves to be fundamental and critical to the sustainability of public finances which, while not alternative and complementary sources of financing are obtained, the use of FP is judicious and limited to what is strictly necessary for the country's sustained development.

6. What were the main flaws identified in the management of infrastructure projects, such as roads and hospitals, including those financed by Public-Private Partnerships (PPP), and

what measures could be taken to improve the assessment of the viability and execution of these projects?

Answer: This question can only be answered when the CdC carries out an audit within the scope of the PPP project, while in the CdC 's RPCGE it would not be possible to give a conclusion on the matter.

7. The RPCGE 2023 highlighted the lack of a complete inventory of the State's non-financial assets as a recurring problem. What does the CdC suggest the Government implement to implement a comprehensive and reliable asset registration system?

   Answer: The information presented in the CGE 2023 and in previous accounts is incomplete and insufficient, therefore, it is not possible for the CdC to issue an opinion on the State's Assets, nor on the asset changes.

   Regarding asset management, it is up to the Government to decide to implement a comprehensive and reliable registration system.

8. The 'Facilidade Garantia Crédito Suave' credit line, with 50 million dollars allocated, remained unused in 2023. How does CdC assess the situation and what suggestions does it make to improve the use of similar financial instruments in the future?

   Answer: The CGE 2023 with regard to financial assets did not present all the information appropriate to the transparency of public finances, namely the credit line 'Facilidade Garantia Crédito Suave' which, as of 2023, had not yet been executed or had reached the recipients.

9. The Audit Chamber identifies several discrepancies between CGE records and bank statements from various public entities. What changes to the system should occur to avoid these inconsistencies and increase their financial transparency?

   Answer: (Please see one of the examples written on page 40 and recommendation 7 of the 2023 RPCGE).

10. Regarding the transfer of $2.2 million from the Special Development Fund (FED) of the RAEOA.

    Answer: In 2023, the FED transferred $2.2 M to a company governed by private law in the RAEOA, without a contract and according to information from the RAEOA, to expenses allocated to pay salaries, rent and installment agreement payable to the Administration of the Port of Figueira da Foz Portugal, Insurance, security company, lawyers, etc.

11. Why does the RPCGE not include information about the economic recovery package that benefited 29 institutions?

    Answer: Based on the results of the analysis carried out by the Audit Chamber, the CGE 2023 does not contain detailed information about the aforementioned recovery package, therefore, the CdC cannot comment on this matter in the 2023 RPCGE.

12. What actions will the Audit Chamber take to implement the Covid-19 Fund?

    Answer: In RPCGE 2023, the Audit Chamber found the cash balance carried forward, the management of the Fund and the ineligible expenditure from previous years that still need to be returned. It is important to note that the Audit Chamber is also carrying out an audit for this fund, which has yet to be completed.

13. Why did the Audit Chamber find that the 2023 CGE does not present reliable information?

Answer: Based on the analysis carried out by the CGE, the Audit Chamber concluded that several inconsistencies were found in the information provided in the account, and a lack of rigor in the respective preparation. The example title is error in accounting for the cash balance, discrepancy in information on existing employee numbers, the consolidated statement and others.

14. What is the current status of monitoring the RPCGE recommendations for 2022, especially those recommendations that were not accepted?

    Answer: Please note that there are 3 recommendations not accepted in the 2023 RPCGE and the Chamber of Auditors continues to monitor and reiterate these recommendations in the 2023 RPCGE so that the Government can take action to comply.

15. What is the information about 44 Infrastructure projects?

    Answer: Regarding the 44 public works projects without contracts, in 2024, the Government, through the decision of the council of ministers, approved Decree-Law no. 15/2024, of March 20 Extraordinary procurement regime by direct award of public contract for works initiated without contractual formalization. This Decree-Law aims to establish an extraordinary procurement regime by direct award of a contract for the execution of public works already carried out, partially or completely, without the prior formalization of any public contract.

    Therefore, this new legislation does not change the fact that CAFI authorized the execution of projects without all legal requirements having been met.

❖ **MSSI:**

1. The CdC has highlighted shortcomings in the consolidation of accounts between the National Social Security Institute (INSS) and the Social Security Reserve Fund (FRSS). What measures are being taken to address this deficiency, integrate accounting systems and improve the financial transparency of the Social Security subsystem?

    Answer: The Social Security Account for the year 2023 presents the budgetary execution and financial execution of the Social Security subsector, in compliance with the provisions of Law No. 2/2022, of February 10 (LEO).

    In relation to budget execution, individual budget statements – from the INSS and FRSS – and consolidated statements of revenues and expenses are presented, based on the budget classifiers approved by the Executive Branch (including the economic classifier of revenues and expenses). This information is presented in accordance with all the tables provided for by law (article 102 of the LEO), also presenting additional, more detailed information: in terms of economic classification, budget execution is presented at the most detailed level possible (sub-items, and not only the categories and headings); in terms of programs, budget execution is presented at the level of activity (and not just programs and subprograms); in terms of functional classification, also at the most detailed level. On the other hand, although budget execution has a cash basis, budget movements prior to payment (budget expenditure) are also presented, notably commitments, commitments and obligations. All budget changes made are also detailed and the calculated budget balances are presented, allowing a clear picture of the Social Security Treasury.

    In other words, in terms of budgetary accounting, individual and consolidated statements are presented, including the FRSS accounts and the balances that constitute it.

In relation to financial execution, and as a Chart of Accounts for the Public Administrative Sector has not yet been approved, the INSS continued to use in 2023 the Chart of Accounts prepared and approved internally (prepared with the technical support of the Social Security Financial Management Institute Social of Portugal), and which has been used since 2019, under the terms set out article 5.3(c) of the INSS Statutes, approved by Decree-Law no. 47/2016, of December 14, with the wording that is given by Law no. 2/2022, of February 10 (LEO). Effectively, in 2023 only INSS financial statements will be presented. This is because the FRSS was only formally constituted in mid-2023, with the opening of bank accounts held by the FRSS, allowing the effective constitution of its assets; and investments in capital markets did not begin until the end of 2023, with only investments being made in the money market, with reduced risk. Therefore, and as shown in the budget maps of the capitalization regime (FRSS), costs are zero and there are no records of financial assets and liabilities, but only of term (short-term) deposits. In other words, 2023 is just a year of transition, with the few financial movements occurring in the middle of the year.

In this sense, the conclusion that Social Security does not present FRSS accounts or consolidated accounts does not seem entirely correct to us. In fact, it does not do so, but only from the point of view of financial accounting, presenting individual and consolidated budget accounts.

This was transmitted to the CdC, in a contradictory manner, with the INSS also indicating that we have already adapted the accounting records system, and will start to present, from 2024, in addition to the budgetary statements already presented, also the financial statements not only from the INSS, but also from the FRSS and consolidated. The INSS is, therefore, in agreement with this CdC recommendation (recommendation no. 17) and will follow suit accordingly.

2. Transfers of accumulated reserves from the INSS to the FRSS continue to be recorded as budget expenses and not as financial costs, due to the lack of asset accounting. When do you expect the Ministry and INSS to be able to implement a system that corrects the situation?

   Answer: Social Security has already presented asset financial accounting since 2019, although, as mentioned in the answer to question 1, only in relation to the INSS (it will also be presented in relation to the FRSS from the 2024 Account onwards). As mentioned, and given that a Chart of Accounts for the Public Administrative Sector has not yet been approved, the INSS has been using its own Chart of Accounts, prepared with specialized technical support from the entity that manages the Social Security Budget in Brazil, and with the which the INSS maintains an intense cooperation project.

   Thus, in the 2023 Social Security Account, transfers from the INSS to the FRSS, made throughout the year, were recorded as budgetary expenses (in the category of "public transfers", under the heading "Public Capital Transfers to Social Security – between social security system regimes") in budgetary accounting (modified cash basis, adopted by the government). However, in financial accounting, these transfers are recorded as costs/expenses, in account 604 ("Expenses – Capital transfers granted") of the Chart of Accounts adopted by Social Security, and are thus included in the INSS Income Statement presented.

3. The FRSS balance increased significantly to 200 million dollars in 2023, but the RPCGE 2023 identified that the supervision mechanisms, including the appointment of the Single

Auditor, continued in 2023 without implementation. Why does this situation still remain unresolved until now and what is the expected deadline for your appointment?

Answer: The CdC is right in identifying this situation, identifying that the FRSS Single Auditor has not yet been appointed, which in legal terms is done by joint order of the members of the Government responsible for the areas of social security and finance.

However, it should be noted that it was only in mid-2023 that the autonomous assets of the FRSS were effectively constituted (with the opening of the respective bank accounts) and investments in the money market began, with the budgetary execution of the regime's expenses still being null and void. of capitalization. Therefore, until now, there were no "accounts" with an absolute need to be audited. Despite this, and as communicated to the CdC, in a contradictory manner, it is recognized that it is now essential and urgent to have the Single Auditor, not only because there will be financial accounting for the FRSS, but also because it is essential to ensure control of assets accumulated in the FRSS, done independently of the FRSS technical team. We therefore agree with the CdC 's analysis and also share the concerns of the National Parliament on this matter and will follow up accordingly, proposing to the guardianship the designation of this important FRSS body.

4. What initiatives are being taken to strengthen the internal oversight mechanisms of the Social Security system, ensuring that Social Security resources are used exclusively for the purposes for which they are intended?

   Answer: This is an issue that we consider crucial for the sustainability and credibility of the social security system, which is why we fully share the concerns of the National Parliament.

   Internally, in the management of the social security system, there is already control that is based on the current legislation itself, which determined the allocation of certain social security revenues for specific expenses, in accordance with the social security program/regime in question; and also determined the creation of an institution of its own and autonomous from the INSS, the FRSS, to manage social security reserves, thus preventing the use of reserves for current INSS expenses. However, from a practical point of view, it is effectively necessary to create mechanisms that allow internal supervision of both the collection of contribution revenue and its use, ensuring compliance with the law.

   Thus, the INSS has already created a social security inspection department, which specifically deals with monitoring social security collections (and social security debt). Internal operating mechanisms were also created at the INSS that require that the expense processes, revenue collection and granting of social benefits pass through different people and units, from a perspective of segregation of functions, minimizing the risks of both lapses and misuse of resources. funds.

   And it is planned, on the FRSS side, for 2025, not only the appointment of the Single Auditor, as mentioned in the answer to the previous question, but also the hiring (costs included in the Budget for 2025) of an external and independent entity to ensure the audit financial position of the fund's reserves.

5. Social Security administrative expenses, including increased administration fees and "other expenses", were not properly detailed in the CGE 2023. How do the Ministry and INSS plan to improve accountability regarding such expenses?

   Answer: The Social Security Report and Account presented details the expenses incurred. However, it is admitted that there will still be weaknesses in the consolidation and presentation of Social Security accounts in the General State Account. However, as LEO itself predicts, this is a complex process that is being worked on in a phased manner, together, within the Government. We believe that in 2024 there will already be improvements in this matter.

6. The diversification of FRSS investments in local and foreign banks in 2023 was considered by the CdC to be a risky operation, due to the lack of a robust risk assessment. What plans are being drawn up by INSS to strengthen control and reduce the exposure of FRSS wealth to high-risk investments?

   Answer: We are not aware that the CdC has made considerations that operations carried out by the FRSS in 2023 are risky. In any case, it is clarified that in 2023 only term deposits were made, in commercial banks represented in Timor-Leste, and with a maximum maturity of 12 months (which is why these movements only fall within the notion of treasury/availability and not are recorded as "budget expenditure"). Term deposits are probably the lowest risk investments when compared to investments in capital markets. However, reserve funds – like the Petroleum Fund– will always have to also invest in capital markets, assuming that there will always be risks (and necessarily periods of losses) and in the case of social security it is essential to guarantee a balance between risk, liquidity and profitability, in order to ensure that any losses that may occur are later compensated, as this is a very long-term fund.

   In any case, and in response to the specific question posed, investments in the markets – which will take place from 2025 onwards – will necessarily comply with the legally approved investment policy, limits and criteria, which take into account the aforementioned balance, in order to prevent excessive exposure to risk. This is also why it is essential, as already said, that the FRSS now has a Single Auditor and external audit.

7. What actions are being taken to ensure that non-tax Social Security revenues are used efficiently and transparently, as recommended by the CdC ?

   Answer: As mentioned in the answer to question 4, the INSS created internal operating mechanisms that require the expenditure, revenue collection and granting of social benefits processes to pass through different people and units, from a perspective of segregation of functions, minimizing the risks of both lapses and misuse of funds. On the other hand, it is expected to hire an external audit at FRSS by 2025, in addition to the appointment of the Single Auditor.

   Regarding transparency, the pension system already makes all information available – including monthly financial information – on the recent Social Security portal.

8. What were the main reasons why the resources allocated to programs such as Bolsa da Mãe were so inefficiently executed and were not delivered to the beneficiary families?

   Answer: The Bolsa da Mãe program is a social assistance program, managed by the Ministry that oversees it, and not by Social Security.

9. Discrepancies between INSS accounting records and bank statements were identified by the CdC in relation to the 2023 accounts. What measures were taken to correct these inconsistencies and ensure greater accuracy in future financial records?

   Answer: We did not find any reference to this issue in the CdC Report and Opinion with regard to the INSS and Social Security accounts, so we think that the issue must concern other entities and programs. Furthermore, the accounts presented by the pension plan are fully reconciled with the bank statements, with no discrepancies, as presented in the Report and Accounts. The INSS carries out bank reconciliation (between current accounts and the respective statements) on a monthly basis in relation to all social security bank accounts, identifying existing differences. This process is ongoing and will continue to occur.

10. The lack of detailed information on outstanding payments at the end of 2023 compromised the CdC 's analysis of the Social Security system's accounts. Has this information already been provided?

    Answer: There are no outstanding payments at the end of 2023 in the social security system. There is only revenue to be collected (debt to social security) from entities that have not paid social contributions or have done so late. On this issue, the creation of the Social Security Inspection Department has made it possible to better control the debt of social security contributions, also from an educational perspective and to support debtor entities, namely through the negotiation of payment agreements in installments.

11. Transfers from the OGE to the Social Security system remain very high, despite the growing FRSS balance. What strategies is the INSS considering to increase the system's financial autonomy and thus reduce its dependence on the General Budget of the Union?

    Answer: The social security system is made up of a contributory regime and a non-contributory regime. Under legal terms, social security revenues are intended to pay specific expenses (article 13 of the LEO; articles 56 and 59 of Law no. 12/2016 of 14 November, which creates the contributory social security regime. Like this:

    - social contributions (from workers and employers) are specifically allocated to the payment of social benefits under the general contributory distribution scheme (without prejudice to 5% of these revenues being used by the FRSS in the administration/management of the fund's own portfolio);

    - expenditure on non-contributory and transitional regimes (for civil servants) is financed exclusively by transfers from the Central State Administration Budget to the Social Security Budget;

    - the administrative expenses and common expenses of the social security system are also financed by transfers from the State Central Administration Budget;

    - revenues relating to donor transfers or donations may be allocated to the payment of specific expenses, when so agreed.

    On the other hand, the law also determines that the annual surpluses of the distribution regime (balances recorded in the INSS, for the difference between the contributions received and the social benefits of the contributory regime paid) revert to the FRSS, where they are recorded as revenue, used for cover investments with financial investments. Just like these surpluses (balances) transferred to the FRSS, the gains and income from financial investments are also income from the FRSS and cannot, therefore, be used to cover expenses from other regimes in the system – they will only be used, in the future, when annual contribution revenues are no longer sufficient to cover the annual payment of social benefits under the contributory distribution scheme.

    This means that the funds accumulated in the FRSS cannot be used for any purpose other than paying contributory social benefits, in the future when annual contributions are no longer sufficient: that is what the Reserve Fund is for and that is why it must continue to accumulate and capitalize on reserves. This is the only way to guarantee that the contributory regime is sustainable and that workers who are contributing today will have the right to pensions in the future.

    Therefore, it is not possible – nor would it be legitimate – to use the funds from the fund to pay benefits from the non-contributory scheme (such as social pensions for the elderly). These non-contributory benefits are and will always be financed by transfers from the State Budget, as they are benefits granted to people who did not contribute to the contributory regime.

Likewise, the State Budget does not finance the benefits of the contributory regime – except to the extent that it contributes, with the contribution rate, as employer of public servants, just as any company contributes in relation to its employees.

Therefore, there will always be a part of the social security system that is totally dependent on State transfers: the non-contributory regime. Therefore, the way to reduce this dependence is, necessarily, to continue focusing on bringing more people – including from the informal sector of the economy – to the contributory regime. The INSS has been working on this issue, through permanent socialization sessions across the country (normally around 50 sessions are held every year) and by making the social security portal available. A campaign specifically aimed at informal workers is planned for 2025, to be carried out with support from the International Labor Organization (ILO), within the scope of the ACTION-Portugal project, financed by the Portuguese government.

12. The lack of integrated planning for the INSS and FRSS was highlighted by the CdC as a limitation to management. When does the Ministry expect to present a consolidated management plan that meets the requirements of transparency and efficiency of the system?

    Answer: Social Security has a long-term plan, with activity forecasts and a budget, and also presents the economic projections of the FRSS, in addition to actuarial forecasts, containing the system's long-term costs and revenues. This information is made available in the budget book relating to the Social Security Budget.

13. How is the Ministry dealing with the gaps in the reporting of FRSS interest and income, which remain without being detailed in the 2023 CGE?

    Answer: As already mentioned, the Social Security Report and Account presents the budgetary execution of the FRSS, which contains the revenues obtained from income (related to interest on term deposits made and due in 2023) and the INSS provided the CdC with additional information about investments, including interest rates and bank statements. All information has been provided.

    However, we will still improve the accountability of the FRSS, through the presentation, from the 2024 Account, of the financial statements (and not just budgetary, as in 2023) of the FRSS.

    The INSS will also continue to work with the Ministry of Finance to improve so that all information provided in the Social Security Report and Account is reported in the General State Account (and the Social Security Account must, as provided by law, be attached to the General State Account).