
Commission on Economy, Finance and Anti-Corruption

**REPORT AND OPINION
PROPOSED LAW No. 42/II
THE STATE BUDGET FOR 2011****January 11, 2011**

Translation by La'o Hamutuk from scanned Portuguese text of pages 76-84 of the Committee's report. For more information on the budget, see <http://www.laohamutuk.org/econ/OGE11/10OJE2011.htm>

VIII. Recommendations of the Committee on Economy, Finance and Anti-Corruption**1. Autonomous Funds and Services:**

To provide a certain set of services to the public, the state has created a set of autonomous entities, which depending on each one, have varying degrees of autonomy, we considered those public companies that have greater autonomy in relation the structure of public administration. However, for these entities to work, it is essential that, at first, these entities have a clear legal framework enabling them to define their goals and financial means and so they can pursue their aims. In addition, policies must be set to operate based on merit and efficiency of its services, and when possible, a management designed to generate its own self-sufficiency, and in some cases profit. Thus, the Commission recommends the following:

- Review the legal framework for autonomous agencies of the state adapting it to the Timorese reality;
- Introduce management by objectives which are based on merit and efficiency;
- Create conditions for the management of these entities is monitored periodically and according to criteria of transparency.

2. Public - Private Partnerships:

Public Private Partnerships in the State transfers to a private partner an obligation to construct a public work or provide a public service, leaving the private partner with the right to charge or be paid for providing these services should be provided by users or taxpayers.

The agreements of public-private partnerships are guided by the limitations of public funds to cover the necessary investments, but also efforts to increase quality and efficiency of public services.

Experience, however, has shown that the government often pays more than it would lend itself directly to the services or build the infrastructure, because the value chain of a PPP is usually an endless number of entities, from the bank to the implementer service, which naturally intend to generate profit in jail. It was also noted that normally the service quality was the same as practiced by the state and they cost much more than if they did so directly, even though the state had to finance the bank. In this sense, and given the complexity of the options that often underlie PPP contracts, it is recommended that the Government should:

- Develop a legal framework, adopted in the National Parliament, to enshrine the PPP, as exists in countries that have adopted this development system;

- Before the establishment of a PPP assess the ability to provide these services or infrastructure by the State;

3. Private management of State services:

There is evidence that in some types of services the state has a tendency to not be efficient, given its size and complex web of bureaucracy. Thus, it is recommended that the Government considers the provision of certain services by their small size and lack of strategic interest of the state, consider delivering them through a concession contract for private management.

4. Reduction of poverty through the provision of agriculture:

In terms of investment, the allocation to agriculture should be approximately \$ 38 million to reduce poverty by 5-7% in rural areas. Special attention should be given to the creation of additional opportunities in order to create proper work. Improve support for self-employment of women and granting rights to land and other assets that are important to the country's economic development.

5. Envelopes for poverty reduction:

The draft law of the State Budget of 2011 assigns one set of funds for poverty reduction to be used by the President. The powers of the President are clearly enshrined in the Constitution and do not foresee any jurisdiction in the matter because only the Government has this mandate, the Ministry of Social Solidarity. It is undesirable to maintain this situation. Thus, it is recommended to eliminate the amount allocated to poverty reduction included in the Office of the Prime Minister, but intended for use by the President.

6. Reliable and quality socio-economic information:

Given the fact that Timor-Leste has problems relating to inadequate, unreliable and poor quality socio-economic information, and in line with recommendations made recently by the IMF in its Article IV to improve the national accounts, which are a basis for better macroeconomic projections, it will be crucial for the government to conduct several support investigations to complement the information and data, as follows:

- (1) **Household savings and investment survey** to obtain data on domestic transactions and monitor create and manage their savings and their investment horn.
- (2) **Input-Output survey** to obtain basic information about the structure of input (costs), availability of goods and distribution of products for certain economic activities, employment structure, indicators of production, prices and other supporting information.
- (3) **Trade and services sector survey** needed to improve the coverage, methodology, quality of production and price indicators, and revision of GDP (annual and quarterly).
- (4) **Review the market basket**, so that the calculation of inflation is more reliable and credible;
- (5) **Conduct a survey of living standards** in 2011 to investigate the impact of fiscal policy on poverty and inequality;
- (6) **Collection of statistical data on domestic production;**

It is very important that the state provide the National Directorate of Statistics with the means to achieve the above studies. It is not desirable for the state to base its policies on data

supplied by third party sources. The knowledge of the country should be, first, from the state itself and not from consultants or international institutions. For this reason, we recommend the appropriation of funds and human resources aimed at strengthening the Directorate of Statistics with the capacity to meet the State's needs for economic and social information.

7. Revision of the Civil Service Commission:

The high ratio of temporary positions, perhaps, lies in the lack of a functional Civil Service Commission responsible for providing a policy framework for the recruitment, composition of staff, capacity building of human resources working in the ministries. The nature of temporary positions may vary from the regular hiring unskilled labor to the relatively long contracts to one year for mean qualifying positions.

Therefore, it is recommended to review the status of the Civil Service Commission so as to suit the system of public administration of Timor-Leste.

8. Simplification of licensing procedures and granting of permits for small businesses:

It is important to develop measures to improve access to capital to facilitate the generation of employment through self-employment schemes in small businesses. The investment climate must be improved through, for example, simplification of procedures for issuing business licenses and business registration, provision of credit, in particular small entrepreneurs and farmers and for basic infrastructure.

9. Substantial difference between the Resolution of the National Parliament and the Proposed 2011 State Budget Law:

The private budget of the National Parliament provided for in the Draft Law is different from the Resolution of the National Parliament, highlighting a difference of \$20 million. In this sense, the discussion should be reopened in the specialty, and reviewed during the debate.

10. Hera Power Station:

The cost of the Hera Power Plant is rising very rapidly and is expected to climb to around \$600 million. The draft 2011 State Budget law only allocates \$166.7 million, which is not sufficient for completion of the Station. The Committee considers it essential to know how construction of the Station will be financed, because the National Parliament will always be the one to authorize the expenditure. Thus, it is recommended that the Government report to Parliament on how it will pay for the construction of the Hera power station.

11. Calculating the price of oil:

To have a proper perspective of the evolution of wealth in Timor-Leste, it is crucial to have stability in the way it calculates the price of oil and not change from year to year. This way, unwise, to evaluate the price of oil can give some proper perspective on the financial status of Timor-Leste and on the amounts to be withdrawn from the Petroleum Fund. Therefore, it is recommended that the Government prepare a comparative study of how countries that have SWFs that originate in natural resources calculate the price of oil, and to definitively adopt a method to perform this calculation with more prudence.

12. Establishment of Special Funds

This appears to follow the Law of Financial Management, Article 32,, that the establishment of funds should be by law. However, despite the Financial Management Law stating that the

funds should be “authorized by law, only the Constitution has jurisdiction to define what are the matters which may be adopted by the Government through a legislative authorization issued by the National Parliament. Through this analysis there seems to be no place for the establishment of funds by decree law, and only by law, following the rules of ordinary legislative procedure provided for in the Constitution and the National Parliament. It is recommended that the government should review the form of constitution of Special Funds and to submit its constitution to the National Parliament.

13. Special Funds:

Parliament should not approve the special funds of the Government without first receiving all the information that will enable it to take a reasoned decision. The approval should be dependent on the legally established commitment that funds in the documents submitted to the Parliament of the State Budget will actually perform as expected unless the Parliament approves the reallocation of funds.

14. Financial resources of the Infrastructure Fund:

Given the weak implementation capacity that the government has shown in relation to infrastructure, this raises questions about the realism of the budget of this fund. Is it worth giving the fund an amount so high that the Administration has demonstrated a total inability to hire, supervise and execute budgets for construction projects?

15. Transfer of Balances:

On November 15, 2010, withdrawals from the Petroleum Fund totaled \$450 million. After the presentation of the proposed state budget for 2011 it was required to transfer the remainder of which was \$361 million totaling \$811 million.

It is understood that this initiative translates into a bad practice, taking into account the spirit in which it was established the Petroleum Fund Law, Article 9. If the government lacks the capacity to execute that amount, it should not have transferred.

Parliament authorized the transfer of that amount in the prospect that the Government would execute it. The absence of this capability means that the remainder should have stayed in the Petroleum Fund, and would require new authorization.

16. Drug Administration and Health Equipment Service - SAMES:

With a view to structuring of health policy in Timor-Leste, in 2003 the Government established the SAMES, a public company for import, storage and distribution of medicines and medical equipment. However, it was found that this company has its appropriation in the Ministry of Health

Thus, it is recommended that the Government provide SAMES with its own budget.

17. National Petroleum Agency (sic):

During its activity the National Petroleum Agency has a number of receipts from companies that exploited the natural resources in Timor-Leste and the Joint Development Area. Strangely, the revenue from this activity is not reflected in the 2011 State Budget. Under budget rules all revenues and expenses have to be enshrined in the OGE. Notably, the report mentions ANP revenues of about \$5.7 million. Thus, it is recommended that the Government includes a breakdown of revenues and expenses of the ANP in Annexes I and III.

18. Recreational games:

The Inspector-General of the Games is responsible for supervising and monitoring the activity of legal gambling in Timor-Leste. However, according to Government Decree No 2/2009 of March 25, the management of non-tax revenues of the game are administered by the Agency for the Management of Participation in Games. The agency has technical and administrative autonomy, under the Ministry of Tourism, Commerce and Industry and is funded by the State Budget and Social Contribution (charge). Now, it happens though, that being a public entity, all expenses and income must necessarily be contained in the State Budget, which does not happen.

Also, according to the Constitution, all taxes and contributions must be created by law, which is not the case here.

So, we ask the Government to discriminate and include in the 2011 state budget all revenues collected by gaming activities.

19. Investment in the Education sector:

The allocation of state budget for the education sector has been declining since 2008. Given that investment in education is important for the consolidation of Timorese identity, critical to poverty reduction and the attainment of the Millennium Goals, it is recommended to review the allocation for this sector, in addition to the appropriation of Special Fund for Human Capital Development.

20. Investment in the Health sector:

There has been a substantial reduction in the allocation of state budget for the Health sector. As we all recognize, this sector is central to poverty reduction and for ensuring the quality of life. To improve the medical, hospital, paramedical staff, and access to health care in rural areas, it is essential to strengthen the Government's investment in this area. In this sense, it is recommended that the Government review the funding for this sector.

IX. OPINION

The Commission is therefore of the opinion that Proposed Law 42/II "2011 General State Budget" meets the constitutional, legal and procedural requirements and is therefore able to move to the plenary for discussion and vote in general and specific, under the constitution and applicable rules.

X. ADOPTION OF THE REPORT

This report was discussed and approved on January 11, 2011, and the same was approved with six votes in favor, 0 votes against and 4 abstentions.

The Rapporteur

President of the Commission

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