

Unofficial English translation from scanned Portuguese document by La'o Hamutuk. For more information on the 2011 State Budget, see <http://www.laohamutuk.org/econ/OGE11/100JE2011.htm>.

This document was presented to Parliament on 15 November 2010 as part of the proposed General State Budget for 2011, along with the Budget Law and annexes.



DEMOCRATIC REPUBLIC OF TIMOR-LESTE
IV CONSTITUTIONAL GOVERNMENT

Explanatory Memorandum
Proposed Law on the State Budget of the Republic
Democratic Republic of Timor-Leste for 2011

Introduction

Pursuant to articles 97.1(c) and 115.2(a) of the Constitution of the Democratic Republic of Timor-Leste, the Government proposes to the National Parliament to present the General State Budget Law Proposal for 2011.

This Draft Law on State Budget for 2011 includes all revenue and expenditure of the State of Timor-Leste and covers the period between 1 January 2011 and December 31, 2011.

Goodbye Conflict, Welcome Development

The State Budget for 2011 is consistent with the policies and reforms that the IV Constitutional Government has implemented so far, reflected in a positive economic and social indicators by 2010, and establishes the fundamental basis for continuity and to attract investment, which is essential for the growth and development of Timor-Leste in an accelerated and sustainable.

Timor-Leste has had a laudable and internationally recognized level of poverty reduction, 9%, and the level of economic growth. The Timorese economy was ranked in 2009 by the International Monetary Fund as having submitted the second highest growth rate in the world (12.9%). Therefore, Timor-Leste is recognized as a “leader” and model for countries who are reborn from conflict and fragility through innovations and internal reforms, and was appointed in April 2010 as leader of the g7+, a group of seventeen fragile countries, representing a population of around 320 million people in post-conflict coming together for the first time in history to share their experiences and influence global politics.

All these victories were possible because there is good leadership and governance, and because the reforms at the policy, planning and implementation as well as improving relations overall, were a success.

This is the path towards development which the IV Constitutional Government intends to continue and it must respond to crucial factors such as job creation, because at this time the growth of manpower exceeds the growth of jobs in the public and private sectors. Building a sustainable economy, able to absorb the workforce and achieve poverty reduction, represents an enormous challenge. The national

economy is driven by public investment, however, for sustainable growth and long-term private investment is crucial. Private investment requires requirements such as security and political stability, basic infrastructure development, skilled labor, attractive tax framework, legal certainty and laws on land ownership, among others. At this early stage of development, these requirements can only be achieved through public investment and legislative reform.

The Strategic Development Plan

The Government is in final preparation of the Strategic Development Plan (2011-2030), which aims to transform Timor-Leste, from a low-income country to a moderate-income country within 20 years, for just as diversifying the economy, transforming an oil-based economy into a non-oil economy, which implies high funding for infrastructure and human capital, two cornerstones in creating the basic conditions to enable attracting private investment and achieve growth and sustainability of the economy.

In order to achieve these objectives effectively and efficiently, the Government decided to create two funds. The Infrastructure Fund and the Human Capital Development Fund.

These special funds will allow the implementation of the Strategic Development Plan and will be administered by a Board of Directors chaired by the Prime Minister and composed of relevant ministers. One advantage of the special funds is the centralization of decision making, which will ensure better coordination of projects between ministries and greater integration of these in the Strategic Development Plan. The Board has the authority to order and determine the priority projects, with the ability to realign them to adjust to the changing face of circumstances beyond its control.

Will be created depending on the Prime Minister, the National Development Agency (ADN), consisting of qualified technicians who will control the quality of projects and ensure that the specifications and costs of them are appropriate. The ADN will also have the mission to supervise and monitor the implementation of projects, including quarterly progress reports to the Council of Ministers and the National Parliament.

The Fund for Infrastructure

This special fund is established under Article 32 of Law No 13/2009 of 21 October on Budget and Financial Management, following procedures established by this Act and is regulated by ordinance.

This groundbreaking initiative will help the Government overcome many of the difficulties that has faced so far in building the infrastructure of the country and is a unique tool that allows the execution of multi-year contracts in a safe, efficient and transparent.

The Fund for Development of Human Capital

The Government in 2011 will establish the Fund for Development of Human Capital. This is a Special Fund established under Article 32 of Law No 13/2009 of 21 October on Budget and Financial Management, with the same characteristics of the Fund described above.

This instrument allows the Government to ensure a form of multi-year project funding for training human resources, increasing capacity and training of professionals in strategic sectors of development, such as justice, health, education, infrastructure, agriculture, tourism, Oil and financial management, among others.

This initiative allows the Government to invest in the citizens of Timor-Leste, forming the national human resources, essential for the Development of the nation. Only with qualified national technical staff, can Timor-Leste can develop in a sustainable way and compete in the context of regional development to which it belongs.

Investing in people is investing in the future of the country.

Oil Revenues

It is expected that oil revenues will remain high in 2011 and 2012 due to stable production and a positive forecast of future oil prices.

The total Petroleum Wealth, which corresponds to the balance of the Petroleum Fund added to the current value of future oil revenues, is estimated at \$ 24,470 million on 1 January 2011. The estimated Petroleum Wealth increased \$ 7.82 billion compared to the calculations made in the 2010 budget.

According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) is 3% of the Petroleum Wealth. Thus, the ESI for financial year 2011 is \$ 734 million, representing an increase of \$ 232 million.

Domestic Revenue

It is estimated that the non-oil revenues will be \$ 110 million in 2011, rising from the estimated value for 2010 of \$ 94.7 million. In 2009 it collected a total of \$ 90.8 million.

Taking into account the fiscal scenario of Timor-Leste, since the reform enacted in 2008, which reduced tax rates to one third in order to create more attractive conditions for private investment, and increased the limit on tax-free income (\$ 100 - \$ 500/month) allowing more disposable income, there is a tendency for a gradual growth of tax revenues from \$ 43.6 million in 2009 to \$ 47.5 million in 2010 and a forecast of \$ 64.9 million for 2011, which reflects better tax administration and an increased number of taxpayers.

Expenses budgeted in the General State Budget for 2011

Salaries and Wages

The total budget for wages and salaries is \$ 115.9 million in 2011, representing an increase of \$ 16.6 million from 2010, which was \$ 99.3 million.

The main measures in this category are:

- processing of travel expenses of the Ministry of Foreign Affairs, budgeted in Goods and Services, in representation allowances paid under the category of wages and salaries (\$ 9 million);
- Salaries of professional education, which includes new career scheme for teachers of the Ministry of Education (\$ 7 million);
- Recruitment for the PNTL and F-FDTL (\$ 0.65 million).

Goods and Services

The total budget for this category is \$ 270.5 million of which \$ 25 million is for the Human Capital Development Fund.

The main measures in this category included among others:

- Fuel, including EDTL (\$ 48 million);
- Professional services and technical assistance in legal, education, oil and financial management, procurement, foreign affairs, tourism, conflict prevention and quality control (\$ 32 million).

Public Transfers

The total budget for this category is \$ 164.5 million. The Government intends to continue its payments to entities operating in the public interest, in accordance with law, and with subsidies for elderly and

disabled, as well as payments to veterans.

The main measures in this category included, among others:

- Demobilization of ex-FALINTIL (\$ 7.5 million);
- Operations and training grants for local government (\$ 3.5 million);
- Capitalization of IMFTL (\$ 3.4 million);
- Medical treatment abroad (\$ 3 million) and return of medical students in Cuba (\$ 1.5 million);
- Capitalization of the National Oil Company of Timor-Leste (\$ 2 million);
- Continuation of Decentralized Development Program (\$ 11 million).

Minor Capital

Expenditures under this category have been reduced to \$ 28.3 million compared with 2010 (\$ 39.9 million).

The main measures in this category include, among others:

- Purchase of two patrol boats for security and defense of the country, ambulances, mobile banking, transport means for monitoring of school education in rural areas, STAE to watch preparations for the elections of 2012 and to strengthen local government in the supervision and monitoring of rural projects (\$ 12 million);
- Equipment for schools, business and technical laboratories (\$ 1.1 million);
- Support the transition of responsibility from UNPOL to the PNTL (\$ 0.7 million);

Capital and Development

The Government proposes \$ 405.9 million for this category, of which \$ 317.3 million is allocated to the Fund for Infrastructure. The Government intends to continue to develop and implement programs that were successful in 2010, as the Decentralized Development Program ((PDD).

The main measures in this category include among others:

- Program of the Millennium Development Goals (MDG's for sucos), five years, which will provide 11,140 homes annually, including water, sanitation and electricity in 2,228 villages (\$ 65 million);
- Decentralized Development Program (PDD) at the sub-district, village and suco levels (\$ 15.5 million), as well as the district level (\$ 28.8 million);
- Continued construction of the power plant and transmission lines (\$ 166 million);
- Development program for Tasi Mane (South Coast) (\$ 36 million).

Approved by the Council of Ministers on 11 November 2010.

/ s /

The Prime Minister
Kay Rala Xanana Gusmão

/ s /

The Minister of Finance
Emilia Pires