



National Parliament, Committee on Economics, Finance and Anti-Corruption
Rough unofficial translation from Portuguese by La'o Hamutuk

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For more information on the 2012 State Budget, see
<http://www.laohamutuk.org/econ/OGE12/100JE2012En.htm>

The Portuguese original of this Report is at
<http://www.laohamutuk.org/econ/OGE12/ComCRelParecerOGE2012Pt.pdf>

REPORT AND OPINION
ON DRAFT LAW No. 54/II
APPROVING GENERAL STATE BUDGET FOR 2012

9 November 2011



1 Introduction

1.1 Admission

The Draft Law (PPL) No 54/II - State Budget for 2012 was presented by the Government on 3 October 2011, under the terms specified in d) and e) of Article 95.3 and Article 97.1(c) and Article 145.1 of the Constitution of the Republic and also in Articles 162 et seq. National Parliament's Rules. Having been admitted that same day, by order of His Excellency, President of the National Parliament, it was distributed and referred to the Committee on Economics, Finance and Anti-Corruption for the report and opinion, and the other specialized parliamentary committees for their sectoral opinions.

1.2 Issue Preview and designation of rapporteur

The Committee considers that it has jurisdiction in the matter, to enjoy the legislative initiative allowed in formal terms and in relation to their material content.

Her Excellency Deputy Maria da Costa Paixão, of the Social Democratic Party (PSD) Parliamentary Caucus was appointed rapporteur.

In preparing this report it was observed, mutatis mutandis, the provisions of Article 34 of the National Rules of Procedure.

1.3 Public Hearings

As provided in the rules, public hearings were held between 10 September and 21 October 2011, which was heard the Government (Minister of State Administration, Minister of Economy and Development, the Minister for Infrastructure, the Minister of Tourism, Trade and Industry, the Minister of Finance, the Secretary of State for Electricity, Water and Urbanization, the Secretary of State for Public Works and the Secretary of State for Natural Resources), the National Petroleum Authority, the Central Bank of Timor-Leste, the Petroleum Fund Consultative Council, the Chamber of Commerce and Industry of Timor-Leste, and the Non-Governmental Organizations Luta Hamutuk, Lao Hamutuk, and FONGTIL.

During the hearings, the above mentioned entities had opportunity to express their views and to inform Members about their position on the budget proposal, with some written comments submitted to the Committee on this matter, attached to this report.

2 Legal framework

Under articles 115.1(d) and 145.1 of the Constitution, the proposed State Budget is the sole initiative of the Government and must be presented to Parliament National, in the form of a bill, by 15 October each year.



In terms of substantive law, the budget system, as well as framed by the Constitution, is also governed by Law No. 13/2009 of 21 October - Budget and Financial Management.

Appreciating the PPL No. 54/II in light of the formal requirements to be complied with to its admissibility, it is found that complies with the provisions of Articles 92, 96.2, 98 and 162 of the Rules, considering that is written in Portuguese, in the form of articles, contains a title that reflects its central object and is accompanied by explanatory memorandum has been submitted within the legally stipulated.

With regard to its formal configuration, the bill under consideration obeys, in general, the essential formal legalistic rules. Are therefore satisfied the formal requirements for submission of bills, in accordance with the Act and Rules.

With regard to organic requirements, it is the legislative competence of Parliament exclusively in terms of Article 95.2(q) and paragraph 1 of Article 145.1 of the Constitution of the Republic, the Parliament which is the competent body to decide.

With regard to the normative content, it appears that under the proposal - Article 4 - the amount to withdraw from the Petroleum Fund for credit to the State Budget for 2012 is U.S. \$ 1.594.2 million, \$928.9 million of which exceeds the limit of the Estimated Sustainable Income, which stands at \$665.3 million for the same year and in accordance with Law No. 9/2005 of August 3 - Petroleum Fund Law, according to the information conveyed by the Ministry of Finance in the documentation attached to the budget proposal.

From a legal standpoint, given the applicable legal framework, this possibility depends on parliamentary decision taken in strict accordance with the provisions in subparagraphs a), b), c) and d) of , Law No. 9/2005. This means it depends on the Parliament, having been acquainted with the elements provided by law, to judge if they were justified in sufficient detail, the reasons that lead to consider the transfer of an amount greater than the Estimated Sustainable Income to be in the *long-term interests of Timor-Leste*.

That parliamentary decision, as set by law, immediately and necessarily involves an assessment or evaluation of a political nature, but also based on consideration of economic and financial factors of a more objective, i.e. pertaining to concrete financial variables. Notwithstanding the above it the issue can be argued from an economic perspective - financial or financial plan, as will be done in this report.

Regarding the normative content, note also that this budget proposal to permit the Government to raise debt up to an amount determined under the terms and conditions established by law.

3 Macroeconomic frame of reference

3.1 Panorama macroeconomic environment



3.1.1 Global economy

According to the IMF in its *World Economic Outlook* report for the III quarter of 2011, published last October, as can be seen in the table below, the performance of the global economy is still affected by intermittent bouts of volatility in international financial markets, which has Bipolar caused a recovery of macroeconomic indicators of the global economy:

On the one hand, the advanced economies with current account imbalances in public accounts and the pre-crisis scenario, now have slow and anemic rates of output growth, attempting a transition to an economy with less government intervention and more private participation ;

On the other hand, countries with surpluses in the external accounts in the pre-crisis scenario now have robust growth rates, but lower than those given above and based on a combination (*mix*) accommodation of economic crisis by stimulating domestic demand, as demand in advanced economies is a cycle of slow growth by being the epicenter of the outbreak of such volatility.

The economic and financial stability of the global economy remains exposed to various risks, because the results of the combination (*mix's*) economic policies undertaken by governments to each group of economies described above have been timid, and therefore, for the period 2011-12, anticipate the following trends in major macroeconomic frameworks:

1. The rates of output growth for 2011-12 are still expected to be lower than in the period before the crisis;
2. Inflation rates for 2011-12 are anticipated to be even higher than the period before the crisis;
3. The deficits of external accounts are anticipated even greater for 2011, recovering in 2012 compared to deficits observed for the period before the crisis;
4. Unemployment levels for 2011-12 are anticipated higher for advanced Western economies, and may be lower than the levels observed in pre-crisis period for the advanced economies in Asia.

The economy of Timor-Leste is not immune to the negative impacts of these outbreaks of instability in international financial markets and timid performance of the global economy, before we are also exposed to these risks through various channels, including the implied volatilities, as the following cases:

1. in the evolution of the nominal exchange rate of U.S. dollars;

in the evolution of the price index differential between the U.S. economy and its main trading partners;



the evolution of nominal exchange rates of U.S. dollar with the currencies of major trading partners of the Timorese economy, particularly the currencies of the major supplying countries (Australia, Indonesia, Malaysia and Singapore, etc.).

in the evolution of oil prices in international markets and its critical factors;

on prices of other raw materials and food products in international markets and its critical factors.

Table 1 - Macro - economic conditions Projections for the advanced economies

Table 2.1. Selected Advanced Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2010	Projections		2010	Projections		2010	Projections		2010	Projections	
		2011	2012		2011	2012		2011	2012		2011	2012
Advanced Economies	3.1	1.6	1.9	1.6	2.6	1.4	-0.2	-0.3	0.1	8.3	7.9	7.9
United States	3.0	1.5	1.8	1.6	3.0	1.2	-3.2	-3.1	-2.1	9.6	9.1	9.0
Euro Area ^{4,5}	1.8	1.6	1.1	1.6	2.5	1.5	-0.4	0.1	0.4	10.1	9.9	9.9
Japan	4.0	-0.5	2.3	-0.7	-0.4	-0.5	3.6	2.5	2.8	5.1	4.9	4.8
United Kingdom ⁴	1.4	1.1	1.6	3.3	4.5	2.4	-3.2	-2.7	-2.3	7.9	7.8	7.8
Canada	3.2	2.1	1.9	1.8	2.9	2.1	-3.1	-3.3	-3.8	8.0	7.6	7.7
Other Advanced Economies ⁶	5.8	3.6	3.7	2.3	3.3	2.8	5.0	4.7	3.7	4.9	4.4	4.3
<i>Memorandum</i>												
Newly Industrialized Asian Economies	8.4	4.7	4.5	2.3	3.7	3.1	7.0	6.4	6.1	4.1	3.5	3.5

¹Movements in consumer prices are shown as annual averages. December–December changes can be found in Table A6 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴Based on Eurostat's harmonized index of consumer prices.

⁵Current account position corrected for reporting discrepancies in intra-area transactions.

⁶Excludes the G7 economies (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and Euro Area countries.

3.1.2 Regional Economies

According to the IMF, the aforementioned *World Economic Outlook* report for the Third quarter of 2011, it is expected that the Asian region has a GDP growth rate above 6% in 2011-12, stressing, however, some inflation pressures and deterioration in the relative position of the external accounts. These less positive aspects are explained by the combination (*mix*) economic policies to stimulate domestic demand in these countries, given the constraints of its external demand, beginning in the advanced Western economies, which are embodied as relevant consumer market of Asian production.

In the case of *Advanced Asian economies*, the IMF, anticipates a sharp slowdown in output growth, slight inflationary pressures, deterioration of the relative surplus of external links and a slight decrease in unemployment. These macroeconomic trends are explained by the economic policies of accommodation of external shocks to the allocation of resources to productive activities oriented to the domestic market by intensifying the intervention since the Asian crisis, now justified by the financial crisis and slump in external demand and environmental shocks (natural disasters).

For *Australia*, a slowdown in economic growth in 2011 is anticipated compared to 2010, despite high fixed against the previous projections. However, this trend may be reversed in 2012, with an acceleration of economic growth in Australia. Some



inflationary pressures in 2011-12 are also expected. These pressures include direct effects on import prices of Timor-Leste from Australia. The relative position of the Australian current account will deteriorate substantially; however, unemployment will fall slightly.

In the case of *ASEAN-5* economies, a slowdown in economic growth is expected in 2011-12 compared to growth rates observed in 2010. However, in the case of *Indonesia*, the pace of economic growth for 2011-12 remains equivalent to the rhythms of 2010. In these countries, strong inflationary pressures during 2011-12 are still expected, with direct effects on prices of imports of Timor-Leste originating in these countries, especially *Indonesia*. It is also expected a deteriorating external position on the *ASEAN-5* countries. In *Indonesia*, it is expected to observe in 2012 a deficit position in the external accounts and a slight improvement in unemployment levels.

For *emerging Asian economies* (including China and India), the IMF forecasts a slowdown in economic growth for the period 2011-12, particularly in India, to below 2010, inflationary pressures, particularly to China, to higher levels in 2011 to those observed in 2010 (in the case of India, the pressure decreases considerably compared to 2010). For these countries, no significant changes are anticipated for the outer positions or levels of unemployment.

In the case of other *developing Asian economies* (the group which includes Timor-Leste), 2011-12 envisages to a slowdown in economic growth compared to 2010 levels, an increase in inflationary pressures over 2010 levels and a worsening of loss of external relations positions.



Table 2 - Macro-economic projections for Asian economies

Table 2.4. Selected Asian Economies: Real GDP, Consumer Prices, Current Account Balance, and Unemployment
(Annual percent change unless noted otherwise)

	Real GDP			Consumer Prices ¹			Current Account Balance ²			Unemployment ³		
	2010	Projections		2010	Projections		2010	Projections		2010	Projections	
		2011	2012		2011	2012		2011	2012		2011	2012
Asia	8.2	6.2	6.6	4.1	5.3	4.0	3.3	2.9	2.9	...	...	...
Advanced Asia	5.4	1.7	3.3	0.8	1.6	1.3	3.3	2.5	2.3	4.8	4.4	4.4
Japan	4.0	-0.5	2.3	-0.7	-0.4	-0.5	3.6	2.5	2.8	5.1	4.9	4.8
Australia	2.7	1.8	3.3	2.8	3.5	3.3	-2.7	-2.2	-4.7	5.2	5.0	4.8
New Zealand	1.7	2.0	3.8	2.3	4.4	2.7	-4.1	-3.9	-5.6	6.5	6.4	5.6
Newly Industrialized Asian Economies	8.4	4.7	4.5	2.3	3.7	3.1	7.0	6.4	6.1	4.1	3.5	3.5
Korea ⁴	6.2	3.9	4.4	3.0	4.5	3.5	2.8	1.5	1.4	3.7	3.3	3.3
Taiwan Province of China	10.9	5.2	5.0	1.0	1.8	1.8	9.3	11.0	11.0	5.2	4.3	4.2
Hong Kong SAR	7.0	6.0	4.3	2.3	5.5	4.5	6.2	5.4	5.5	4.3	3.6	3.7
Singapore	14.5	5.3	4.3	2.8	3.7	2.9	22.2	19.8	18.5	2.2	2.3	2.3
Developing Asia	9.5	8.2	8.0	5.7	7.0	5.1	3.3	3.3	3.4	...	...	...
China	10.3	9.5	9.0	3.3	5.5	3.3	5.2	5.2	5.6	4.1	4.0	4.0
India	10.1	7.8	7.5	12.0	10.6	8.6	-2.6	-2.2	-2.2	...	...	...
ASEAN-5	6.9	5.3	5.6	4.4	6.1	5.6	3.3	2.5	1.6	...	...	...
Indonesia	6.1	6.4	6.3	5.1	5.7	6.5	0.8	0.2	-0.4	7.1	6.8	6.6
Thailand	7.8	3.5	4.8	3.3	4.0	4.1	4.6	4.8	2.5	1.0	1.2	1.2
Malaysia	7.2	5.2	5.1	1.7	3.2	2.5	11.5	11.3	10.8	3.3	3.2	3.1
Philippines	7.6	4.7	4.9	3.8	4.5	4.1	4.2	1.7	1.3	7.2	7.2	7.2
Vietnam	6.8	5.8	6.3	9.2	18.8	12.1	-3.8	-4.7	-3.8	5.0	5.0	5.0
Other Developing Asia⁵	5.2	4.6	5.0	9.1	10.9	9.5	-0.4	-0.1	-1.3	...	...	...
Memorandum												
Emerging Asia ⁶	9.3	7.7	7.5	5.2	6.6	4.9	3.9	3.8	3.8	...	...	...

¹Movements in consumer prices are shown as annual averages. December–December changes can be found in Tables A6 and A7 in the Statistical Appendix.

²Percent of GDP.

³Percent. National definitions of unemployment may differ.

⁴The 2011 annual GDP growth forecast is as of September 5, 2011. The recent revision of the second quarter GDP data would imply a revision of the 2011 annual GDP growth forecast to 4 percent.

⁵Other Developing Asia comprises Islamic Republic of Afghanistan, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Republic of Fiji, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Pakistan, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

⁶Emerging Asia comprises all economies in Developing Asia and the Newly Industrialized Asian Economies.

3.2 Panorama domestic macroeconomic

3.2.1 Rate of GDP growth

The proposed State Budget for 2012 provides a rate of real output growth of 10.9%. According to the projections included in the same document provides that:

- the nominal GDP growth rate in 2012 is equal to 17.9%;
- the average inflation rate for 2012 will be equal to 8%.

These projections are not consistent with each other, since approximately the sum of the inflation rate with the actual growth rate should be equal to nominal growth rate. ¹

3.2.2 Unemployment rate

The proposed State Budget for 2012 shows no statistical projection for the rate of unemployment for the year to which it relates. Possibly this omission on the unemployment rate is justified, considering the characteristics of the labor market in Timor-Leste, which hinder the achievement of a credible and reliable estimate, or the

¹ $1 + \text{TCN} = (1 + \text{TCR}) \times (1 + i)$



omission of the National Directorate of Statistics in collecting and processing data for the effect.

However, according to the information contained in the proposed State Budget (Book 1), citing the study of the National Directorate of Statistics and SEFOPE, the structure of the employed population can be described according to the following table:

	Dili	Districts	Total
Formal Employment	58%	20%	30%
Informal Employment	42%	80%	70%

There is a strong component of the informal economy in the structure of output and employment. The origin of this profile of the informal economy may be, on the one hand, the uncertainty that producers face on the structure of demand (internal or external) and disposable income. On the other hand, the origin of this informal profile may be lack of training for domestic informal producers to minimize the risk factors that determine the performance of their production.

Labor legislation alone will not solve the problem of informality of legal relations between workers and employers. It is necessary to provide the economic activity with a legal framework - that requires effective institutional employers a formalization of its business, including through regular and effective public accountability. The public accountability, in turn, result in the formalization of their relationship with the workforce, at least in urban areas and in industrial and commercial activities. These procedures should precede any institutionalization of a tax system that want effective in achieving its objectives, including the taxation of natural and legal persons as well as added value in commercial transactions.

The state can help to stimulate the creation of jobs through further investment and consumption and public support for private investment and active policies to promote the creation of jobs. The Government estimates that in 2010, under the 26.2% increase in the volume of spending on public investment in development capital (infrastructure), has created about 70,000 full-time equivalent (FTE) jobs. In 2011 and 2012, the volume of expenditure on public investment in development capital grows respectively 219.2% and 53.2%. It is expected that during this period, the increased expenditure on public investment in capital development will have an effect proportional to those that were created in 2010 to create new FTE jobs. In this way, you can anticipate a higher rate of formal employment, as well as any increase in activity rate, notwithstanding that there is no necessary direct relationship between these two variables.



The potential creation of employment through public spending on investment or acquisition of goods and services can be maximized if the Government, in its decisions on budget allocation, includes criteria to prefer domestic production and legal quality - institutional and economic- financial operators.

3.2.3 Inflation rate

The proposed 2012 State Budget assumes that the rate of inflation next year will be equal to 8%. Considered the stimulatory nature of the proposed budget (an increase of 35% of total public expenditure and an increase of 15.4% of current public expenditure - which given their forms of financing, mean an increase of money in circulation, unmatched by an increase in productive capacity and actual production in the short term), the inflation scenario on which projects the State Budget for next year cannot be confirmed and, apparently, can already be inconsistent with the inflation forecasts for 2011, which is already more than 10%.

The projected inflation rate for next year is also inconsistent with the anticipation of possible depreciation of the real effective exchange rate of Timor-Leste for the next year.

In any case, the result may be an increase in the rate of inflation:

- a. is via the stimulation of domestic demand, the effect of increased disposable income, by increasing wages, consumption and public investment in goods and services and public transfers to individuals, without a corresponding proportional increase in domestic production of goods and services;
- b. whether by increasing the volume of imports, the effect of increasing the amount imported due to higher disposable income, coupled with rising prices in the countries of origin of imports of Timor-Leste and the evolution of the U.S. dollar in relation to currencies of the major suppliers in the domestic economy.
- c. for this purpose, they also contribute to deficiencies in the internal microstructures of the different markets for goods and services that do not favor the freedom of market entry of new traders (given some natural and legal barriers to entry), or competition between producers / sellers via prices, thus exacerbating inflationary pressures.

Interest in projection on the rate of inflation during the elaboration and discussion of the proposed State Budget results from the effects of unfair transfers of wealth that can occur between different socio- economic groups. As part of an inflationary process, can you generate a negative impact on welfare (by reducing the loss of real income or purchasing power) to those who have constant nominal income (not indexed to the price level) - typically, salaried workers and pensioners - or those who have variable nominal obligations (indexed to the price level, for example house rents). The state is also a State affected by inflation, since, without its own currency,



it cannot prevent or counteract the negative effects of inflation on the purchasing power of their own state budget.

However, within these processes, there are socio-economic benefits from a positive impact on their welfare (by increasing the real income or purchasing power): the case of those with variable income (because they can attribute the rise in price level of their income through increases in income) and those with fixed obligations (because the real value of the obligations to be met will be smaller with the rise in the price level, as is the case of credits).

Considering the effect of transferring wealth in inflationary processes, the economic policy assumed in the State Budget, it is recommended to take care of minimizing the effects of inflationary processes with transfers of wealth to the detriment of more vulnerable social groups, particularly those who have no mechanisms to immunize the risk of inflation and loss of purchasing power of their income.

3.2.4 Interest rate

Considering that Timor-Leste does not have its own currency, nor that the Central Bank may intervene in the interbank market, the interest rate is not a relevant instrument of economic policy in the short term.

However, we have observed the activity of a parallel informal banking market, which operates with high interest rates. These figures can reach 10-20%, which is not an incentive for private savings bank deposit.

3.2.5 Exchange rate

The real effective exchange rate (REER) of Timor-Leste has to depreciate. Given the likely increase in the inflation rate differentials between Timor-Leste and its major trading partners and the real depreciation of the U.S. dollar against the currencies of major trading partners in Timor-Leste, it is expected that this trend of depreciation of the real effective exchange of Timor-Leste will get worse next year. This projection deserves two considerations:

- a. On the one hand, this evolution of the REER makes exports more competitive on international markets. However, these are constrained by production capacity and climatic conditions, as they are almost entirely agricultural products (coffee). Still, it is necessary that other coffee producing countries have an unfavorable evolution of REER and competitiveness of its domestic production capacity had to respond to international demand. It is not anticipated, therefore, that the volume of exports will increase significantly for this reason. Does not anticipate any impact on the trade balance by increasing exports.
- b. On the other hand, the depreciation of the REER and the depreciation of U.S. dollar against the currencies of major trading partners of Timor-Leste will increase the value of imports, without the volume of imports increases,



caused by rising prices for imported goods at the border. If we consider a certain stiffness or inelasticity in the quantities of goods imported by Timor-Leste, it is expected that this evolution of REER and the real exchange rate of U.S. dollar would result in a worsening of the balance of non-oil trade balance and an increase of inflation by increasing import prices, in addition to other factors that have influence domestic inflation.

3.2.6 External Accounts

The external position concerning the non-oil sectors in the economy of Timor-Leste has been deteriorating. This is explained by the faster growth of imports in relation to volume growth of exports.

The rapid relative growth in the volume of imports is explained on the one hand, by the increase in private domestic demand for goods and services from abroad, caused by the increase in disposable income. On the other hand, the more rapid increase in the volume of imports is explained by the increase in prices in international markets observed in the countries supplying some goods and services to the economy of Timor-Leste, associated with inelastic demand to lower the quantity demanded of goods and services from abroad, given the type of imported goods. Finally, the increase in imports may also be justified by increased public spending on investment in development capital, which causes an increase in domestic demand for goods and services specialized equipment only available overseas.

The lowest relative growth in the volume of exports over imports is explained, on the one hand, by reduced production capacity that allows to increase the quantities of exported goods and agricultural products, with which the economy of Timor-Leste may be able to compete in international markets. To overcome these limitations, there is a need to increase the installed capacity of production of these goods and agricultural products and improve the efficiency of existing production capacity in a way that is effective in increasing production and export. There is a need also to seek new opportunities for domestic production of goods and services that can compete in international markets, and in this way, it can increase the physical volume of exports of Timor-Leste. On the other hand, domestic production has exported competitively priced in international markets, so the volume of exports via price increases only when the prices of exported goods increased in the reference markets.

4 Economic policy objectives

Good practice in design, implementation and evaluation of public policy includes the definition of a logical framework of policies, consisting of an integral and integrated strategic goals for the medium and long-term, short-term intermediate objectives, or instruments and means of intervention, translatable into measures whose results are quantifiable over its implementation, which will allow its interim and final.



Good practice in design, implementation and evaluation of economic policy, especially fiscal policy, requires the definition of credible long- and short-term goals, the purpose of drafting, discussion and implementation of each budget instrument. Specifically, it is recommended *prior to* the enunciation of quantified targets, based technically on economic growth, price stability, the promotion of employment, the evolution of external accounts and accounts and the outcome of the fight against poverty, inequality and social exclusion. The enunciation of the goals in this way will, *in retrospect*, monitoring by Parliament and the public execution of the budget instrument and evaluation of their results.

The quality and credibility of the targets covered by economic policy for every budget depend on the realism of the policy objectives set for each exercise, supported by the analysis work of national and international statistical authorities, independent of the policymaker, in assessing the viability these goals.

Note:

The proposed State Budget for the year 2012 makes no reference to predictions about the behavior of macroeconomic indicators for the economy of Timor-Leste in that year, which is needed for budgeting in a rigorous and credible macroeconomic scenario, with support projections produced by independent statistical authorities. The proposal also does not articulate the goals you want to reach with the instruments or measures it proposes to implement public policies, particularly with regard to indicators of economic growth, price stability, external accounts, public accounts and poverty and inequality in distribution of income.

4.1 Economic growth - the trend of Gross Domestic Product (GDP)

The proposed budget for 2012 has not so evident any objective of economic policy for the promotion of real output growth in non-oil sector in relation to budget decisions. However, the same budget proposal projects a growth in real non-oil GDP of 10.9% for the year under review; in 2011 the projection is equal to 10%. The projected real output growth for 2012, considering the increase of public expenditure scheduled for the same year, is not consistent with the effect that the growth of public expenditure in 2011 was in real output growth this year. It is estimated that output growth may be higher than projected in the proposed budget, if it is promoted to improved efficiency of public expenditure on promoting economic growth.

Output growth is a very important indicator to assess the increase of resources available to meet the needs of the population. Given the evolution of birth rate and infant mortality rate, it is desired that output growth exceeds population growth, because only then *per capita* GDP at constant prices (real) will increase as a measure of average income of the population. However, this analysis of income or average product should be complemented by analyzing the distribution of income between different social groups. We recommend the introduction of measures to minimize the difficulty in accessing basic goods and services and inequality in income distribution. It is intended that, through the political economy of income



distribution, each member of the community have the minimum required to meet their basic needs and for their participation in social life with dignity.

4.2 Price stability - the evolution of the Consumer Price Index (CPI)

The proposed State Budget for 2012 does not obviously present an economic policy a target to promote price stability in Timor-Leste, linking it to budgetary choices. This is particularly strange when, in the case of Timor-Leste, the state has only the instrument of fiscal policy to control inflationary pressures - because, not having its own currency, it has no instruments of monetary policy or exchange rate policy available for this effect.

Despite the reference to an estimated inflation rate of 8% for 2012, this projection does not seem compatible with the expansive budgetary choices of total public expenditure, in particular the current public expenditure. This option is understandable if the control of inflation is not a concern of economic policy in this budget. However, possible future interventions to control the inflationary pressure caused by past budgets will take some years to have an impact.

The concern of economic policy with the growth of the overall price level (CPI) is sustained in the fact that inflation causes adverse effects on the welfare of vulnerable social groups and those on fixed incomes, eroding their purchasing power of their income. In addition, the phenomenon of inflation creates distortions in the price system that affects the efficiency of the decisions of the entire national economic system.

The inflation phenomenon does not affect the markets for goods and services in the same way, which explains the analysis of the evolution not only of the general price index but also of the ends, by region and by category, of goods and services.

4.3 Promoting employment - evolution of activity and unemployment rates

The proposed State Budget for 2012 does not obviously contain a target for short-term economic policy to promote active employment, linking it to the objectives of promoting economic growth and their budgets.

The concern with the promotion of employment is sustained on the one hand, the fact that most people acquire the means to satisfy their basic needs through earnings obtained in the labor market or through formal or informal own means of survival (e.g. subsistence farming).

On the other hand, the rate of integration of the economic system through participation in formal economic activities of production and consumption of goods and services is one of the most relevant indicators to assess the risk of vulnerability and social exclusion for some social groups, addition to the indicators of civic and political participation and indicators of belonging and self-esteem.



Therefore, the options for economic and social policy of the Government, expressed in its fiscal policy options for each financial year, should look to some goal with respect to the activity rate, the rate of job creation and unemployment in particularly for the most vulnerable social groups, including women and children (through the analysis of general activity rate by gender and the unemployment rate overall and by gender), the populations of the poorest regions (by analyzing the rate general activity, region and the overall unemployment rate and by region), or members of social groups less qualified (by analyzing the rate of general activity and qualifications and the overall unemployment rate and skills).

Thus, it is recommended that the national statistical system and the system of national accounts of Timor-Leste, in order to empower the public, regularly report these and other indicators necessary for guidance and evaluation of any economic and social policy. In turn, the Government, from these periodic diagnostics, could design public policy measures (economic and social), setting targets for each indicator and means to achieve them according to their political choices.

4.4 Promotion of external balance - Evolution of External Accounts

The proposed State Budget for 2012 does not have an obvious target of economic policy to improve the relative position of external non-oil accounts of Timor-Leste on their budget decisions.

The balance of the non-oil current account represents the position of saving the economy of Timor-Leste to the outside. If the balance is negative, as has been observed in recent years, it means that the Timorese economy consumes more than it produces and, therefore, it is possible to rely on foreign savings to finance the excess consumption (which will have to pay later) or is using national resources which have value in international markets (oil resources) as a means of payment.

However, in any case, the use of the mechanisms of financing the national economy may have limits, surmountable only through the adoption of policy measures to improve the competitiveness of the sector of tradable non-oil goods and services, in order to increase export growth and slow the growth of imports, thus, improving the relative position of non-oil external accounts to sustainable levels over the long term.

Beyond the question of the financial balance of external accounts, management of net external demand may also be relevant from the point of view of geostrategic sustainability of the Timorese economy. They get the state and the Timorese economy challenges arising from external food dependency. This is evident if we consider the low levels of food self-sufficiency, including agricultural products, with respect to growing needs by virtue of the increase in population and disposable income. The problem is more sensitive if one considers the exposure of Timorese families at risk of change in food prices in international markets, requiring them to acquire more revenue the same amount in case of rising prices.



4.5 Fighting poverty and inequality - the evolution of HDI and MDGs (MDG's)

The proposed State Budget for 2012 does not define any explicit policy objective to improve economic and social indicators of absolute poverty (poverty line) and relative poverty (income distribution), linking them to policy options budget proposals.

The proposed budget also does not make any reference to the effect of budgetary choices of the financial year in question on the Human Development Index (HDI) or level of achievement of the Millennium Development Goals (MDGs).

Considering the level of development of the Timorese society and economy, it is recommended that the proposed budget indicated to quantify the impact of public spending on indices of quality of life, particularly in relation to key aspects such as food, housing, health, education, political participation and others.

There is, however, a reference to improve the *poverty line* indicator between 2007 and 2009, which changed from 49.9% (peak of the crisis) to 41%. However, according to the Human Development Report for Timor-Leste, the target set for *the poverty line* in 2015 is 14%. In 2012, the forecasts of the same report pointed out that the indicator is located at 35.4%. The average rate observed in reducing *the poverty line* in relation to economic growth, it seems difficult to achieve the target set for the year 2015.

According to UNDP, the pace, in 2015 the *poverty line* will be equal to 29.7%, well above the set target. To correct this slower trajectory indicator, it is recommended that the Government strengthen policies that promote the growth of output and employment policies and transfers and social services for vulnerable families.

5 Structure of the State Budget ²

5.1 Public spending

According to the proposed State Budget for 2012, public expenditure in the year 2012, will total an amount equal to \$1.7634 billion. This corresponds to, for the year, a growth in volume equal to 35% when compared with the volume of public expenditure in the year 2011.

For the period 2009-2012, the average annual growth of public expenditure will therefore be approximately equal to 44%.

5.1.1 Current expenses

In the year 2012, current expenditure will amount to a volume of \$679 million, which translates into an increase of 15.4% over the corresponding volume of the previous year. In the same year, current expenditure will have a relative weight in total public expenditure equal to 38.5%. However, the relative share of current expenditure in

² See Table in Annex 1



total public spending will decrease by 14.5% over the relative weight observed in the year 2011.

Between 2009 and 2012, current expenses weighed on average 53.9% of total public expenditure, corresponding to them an average annual growth in its volume equal to 20%. However, for the same period, the relative share of current expenditure in total public expenditure will decrease an average annual rate equal to 15%.

a. Wages and salaries

In fiscal 2012, the volume of public expenditure on wages and salaries is expected to be approximately equal to 140 million dollars, which means that the volume of this line of current public expenditure will increase 19.9% over the volume entered in the year 2011. Corresponds to it, so a relative weight equal to 7, 9% in total public expenditure. For the year under review, the relative expenditure on wages and salaries in public spending will decrease 11.2% over the relative weight observed in the previous year's budget.

Between 2009 and 2012, the volume of public expenditure on wages and salaries will grow at an average annual rate equal to 17.5%. During this period the relative average cost of wages and salaries in total public expenditure will be equal to 10.9%. However, this weight has been decreasing at an average annual rate of 17.9%.

Reading these values will be more interesting if associated with the development of the staffs of the state.

b. Goods and services

In 2012, the volume of public spending on goods and services (which includes fund development of human capital) will increase 17.2% compared with the volume of 2011, accounting for a budget amounting to 344.7 million dollars. This item will have a share in total government expenditure is equal to 19.5%. The weight of the same heading in the general budget will decrease 13.2% over the previous year.

Between 2009 and 2012, the volume of spending on goods and services will increase an average annual rate of 17.5%. During this same period, the average weight of this item of public expenditure will be 27.4%. However, the relative weight of this item in the general budget has been declining throughout this period to an average annual rate of 17.3%.

c. Public transfers

In 2012, the volume of public expenditure on public transfers is equal to 194.2 million dollars. The volume of this item increased 9.4% over the



amount budgeted the previous year. In 2012, these costs will be for the general budget equal to 11%. However, the relative expenditure on transfers in total government expenditure in 2012 will decrease by 19% compared to the observed weight to the same item in the previous budget.

Between 2009 and 2012, the volume of expenditure on public transfers has increased on average 31% annually. The average relative weight of these in public expenditure during this period will be 15.6%. However, this weight has been decreasing at an average annual rate of 5.2%.

The amount allocated to finance the Investment Company should be introduced here.

5.1.2 Capital expenditure

Capital expenditures planned for the year 2012 will have a volume equal to 1.0844 billion dollars, corresponding to 61.5% of total public expenditure. Capital expenditure for the year 2012 will increase in volume, about 51.5% above the volume of capital expenditures in the budget of 2011. The relative weight of capital expenditure in total public expenditure in 2012 will grow 11.9% compared to the weight determined in the previous budget.

Between 2009 and 2012, capital expenditures represent an average relative weight in total public expenditure equal to 46.1%. In the same period, the average annual growth rate of the volume of capital expenditure will be 85.1%, accounting for, so an average annual growth rate of the relative weight equivalent to 24.2%.

a. Minor capital

In 2012, the volume of the minor capital expenditures is \$30 million. There is an increase of 2.4% over the volume seen in this section last year. Capital expenditures will have a lower relative weight in total public expenditure equal to 1.7%. This weight will decrease 24.4% from the observed weight to the same item in the previous budget.

Between 2009 and 2012, the volume of public expenditure on minor capital dropped by a 7.2% average annual rate. The average relative weight observed during this period for this item will be 3.8%. However, the relative weight of the same item in the total public expenditure in this period has been decreasing at an average annual rate of 33.6%.

b. Capital development

In 2012, the volume of public spending on capital development (which includes the infrastructure fund) will be \$1.0544 billion, corresponding to a 52.3% increase over the volume observed in the previous budget. In 2012, public spending on capital development will have a share in total



government expenditure is equal to 59.8%. The weight of this item will increase 13.5% over the observed weight in the budget of 2011.

Between 2009 and 2012, the volume of public spending on capital development will grow on average 99.6% per year. This item therefore represents an average relative weight in total public expenditure over the period equal to 42.3%, and its relative weight increased on average 33.1% per year.

5.2 Revenues

5.2.1 Current revenue

In 2012, the income streams will be equal to 136.1 million dollars. The volume of this item will increase 22.6% over the volume observed in the previous year's budget. In 2012, current revenues will fund 7.7% of the general budget, decreasing by 9.2% but their relative contribution over the previous year.

In the period 2009 - 2012, the income streams rise on average 14.6% per year. This item will therefore be responsible for finance on average 11% of the budget.

However, during the same period, the relative contribution of current revenues to finance the budget has been declining on average 19.3% per year.

a. Direct taxes

In 2012, the volume of direct taxes is equal to 40.6 million U.S. dollars, accounting for an increase of 82.1% over the amount budgeted last year. In 2012, direct taxes fund 2.3% of budget, accounting for an increase in the relative contribution equal to 34.8% when compared with the relative contribution in the previous year.

Between 2009 - 2012, the volume of direct tax increases on average 47.1% per year. During the same period, direct taxes financed an average of 2.2% of the budget and its contribution increased on average 5% per year.

b. Indirect taxes

In 2012, it is expected that the volume of indirect taxes is equal to \$54.5 million, accounting for an increase of 27.9% over the budgeted amount last year. So, this year, indirect taxes fund 3.1% of budget, accounting for a slowdown in the relative contribution equal to 5.2% when compared with the relative contribution of the previous year.

Between 2009-2012, the volume of indirect tax increased on average 22.3% per year. During this period, indirect taxes will fund an average 3.9% of the budget and this contribution decreased on average 14.6% per year.



c. Other current revenue

Fees

In 2012, it is expected that the volume of taxes equal to \$19 million, accounting for an increase of 15.2% over the amount budgeted before. In the year under review, the finance charges amount to 1.1% of total public expenditure.

Between 2009 - 2012, the total revenue obtained through collection of fees will grow on average 6.3% per year. During this period, the same source of revenue has funded an average of 1.9% of public expenditure. The weight of this item of revenue in total revenue of the State Budget will decrease between 2009 - 2012 to an average annual rate of 23.5%.

Revenue of autonomous agencies

In 2012, autonomous institutions' own income will be \$20.9 million, accounting for an increase of 8.9% over the amount budgeted last year. Revenues from autonomous financial institutions in 2012, are 1.2% of total public expenditure.

In 2009-2012, the income of the autonomous institutions will grow on average 27.8% per year. During this period, this revenue source has funded an average of 1.5% of total public expenditure. However, their relative weight in state funding has decreased to an average annual rate of 10.4%.

Interest

In 2012, the volume of public revenues from payment of interest on deposits of the Consolidated Fund of Timor-Leste will be equal to 0.1 million, exactly equal to the volume observed in the State Budget in 2011. The interest income funds in 2012, 0.006% of total public expenditure.

In 2009-2012, the volume of interest will decrease on average 22.8% per year. During this period, this revenue source has funded an average of 0.2% of total public expenditure. However, their relative weight in state funding has decreased to an average annual rate of 47.1%.

Observation: Considering the average balances of deposits from the Consolidated Fund of Timor-Leste, it is strange that the volume of interest income from the observed remuneration of these deposits has declined. recommendations to remove



Recommendation: optimizing financial management of treasury funds.

This improvement in the management of public funds may be obtained by proper adjustment of the temporal origins of the funds (flows of receipts) with the Treasury's needs for funds (payment flows), and the excess liquidity observed in each time be applied in short-term financial products. Thus, the Treasury can increase government revenues from interest income as compensation for the application of excess cash.

At the same time, if we consider the opportunity costs of withdrawals from the Petroleum Fund (lost profit) in comparison to the opportunity cost of deposits from the Consolidated Fund (lost interest), will be economically most appropriate financing option of the State Budget through using balances of the Consolidated Fund in the same amount and decrease the use of withdrawals of the Petroleum Fund, because the opportunity cost of using it is greater than the opportunity cost of using the deposits.

Other

The current revenue budget for *the sale of rice* and *Social Games* have in the proposed State Budget a residual volume and weight in the financing of public spending is less than 0.05%.

5.2.2 Oil revenues

In 2012, the total volume of oil revenues will be equal to \$2.0902 billion. This volume of oil revenues, the state budget will be financed with an amount equal to \$1.5942 billion, accounting for an increase of 51.1% over the amount budgeted last year. In 2012, oil revenues will finance 90.4% of budget, accounting for a relative increase in contribution equal to 11.9% when compared with the relative contribution observed in the previous year's budget.

Between 2009 and 2012, the volume of oil revenues grow by an average 46.5% per year. During this period, the average oil revenues fund 90.7% of the budget and this relative contribution has grown on average 4.5% per year.

a. Estimated sustainable income

For 2012, the Estimated Sustainable Income is 665.3 million dollars, which translates into a reduction of 9.4% over the previous year. For this same year 2012, the Estimated Sustainable Income (ESI) will finance 37.7% of budget, accounting for a relative decrease in the contribution equal to 32.9% when compared with the relative contribution of the previous year.

Between 2009 and 2012, the volume of ESI grows on average 19.9% per year. During this period, the ESI funds on average 56.9% of the budget and this relative contribution has decreased on average 16.7% per year.



b. Transfers (Withdrawal) from the petroleum fund

In 2012, the [excess] withdrawal from the petroleum fund will be \$928.9 million, accounting for an increase of 189.4% over the amount budgeted last year. In 2012, the fund raising will finance 52.7% of budget, accounting for a relative increase in contribution equal to 114.3% compared to the relative contribution of the previous year.

Between 2009 and 2012, the volume of withdrawals grows on average 130.5% per year. During this period, the fund surveys on average 33.8% of the budget and this relative contribution has increased on average 70.7% per year.

c. Critical factors of oil revenues

1. Price on world markets

Possibility of hedging the risk of change in oil prices through financial instruments derivatives markets (futures and/or options) on oil to the horizon of the budget each year.

2. Volume of production

- a. Prospective: it is estimated that oil sector funding for the economy and the state of Timor-Leste will be used up in a horizon of approximately 20 years.
- b. Note need for rapid transformation of the productive structure of the Timorese economy by developing the internal non-oil market, particularly in non-tradable goods sector - through agriculture and fisheries, manufacturing, local services and public services - and tradable sector - through those activities with competitive profile in the international market regional or global - such as the tourism sector.

3. Production costs

The increase in production costs by currency fluctuations between the Australian dollar and U.S. dollar reveals a risk of inadequate coverage of the variation of exchange rates in the context of international financial management of the project of exploitation of oil reserves in the Timor Sea. The market has sufficient financial instruments to hedge this type of financial risks, and these losses should not be charged to the income of the holding, but the operator.

4. Return on the Petroleum Fund

The volume of real income of the Petroleum Fund depends on each period:



- a. the Petroleum Fund's total accumulated balance: withdrawals from the Petroleum Fund reduces the Fund's total volume and therefore the volume of future real income of the Fund;
- b. Nominal assets comprising the portfolio, which points to the need for diversification;
- c. Interest rate differential between the reference and the domestic interbank market where the assets comprising the portfolio are traded, which suggests the need for portfolio diversification;
- d. Differential inflation rate between the domestic economy and the economy where assets are traded, which also suggests the need for portfolio diversification;
- e. Measurement of credit risk associated with the issuers of the assets comprising the portfolio, a factor that also points to the need of its diversification;
- f. Costs of the operational management of the asset portfolio, which focuses on the need to implement monitoring system operational management system of portfolio management.

Note: for better monitoring of the Petroleum Fund by the National Parliament, there should be implemented a more sophisticated system of public financial reporting of performance in managing the portfolio assets of the Petroleum Fund, including benchmarking the performance of this fund with other matching funds.

d. Changes to the Petroleum Fund Law

1. Principles of Governance

The separation of Principal and Agent, forced by the increasing technical complexity of the decision-making process, always involves an agency problem which runs the risk of agent moral hazard in relation to the mandate received from the principal, in the process of decision making on behalf of, a conflict of interest in the simultaneous optimization of the utility functions of agent and principal, is also optimized by the agent.

To improve their position relative efficiency of the State (Principal) in this context, it should establish a monitoring system to be observed by the Government and the Fund Manager (agents). For the system to be constituted as an effective mechanism of linking agent during the term, this should be an agent cost (cost of production and reporting of information), to seek public statement prior to the performance



objectives and submit to post the agent to a system of incentives and penalties resulting from a process of performance evaluation.

The procedures that fit the criteria for effective signal now referred to help minimize the risk of agent moral hazard, avoiding undue transfers of wealth between the State and the Manager and ensuring optimum performance in fulfilling the mandate given by the Principal.

Recommendation:

Increased sophistication of the system monitoring and control of Parliament in relation to decision-making process in managing the Fund.

2. Principles of diversification

Sovereign wealth funds are by definition portfolios of financial assets with conservative risk profile (preference for investment options with low volatility in the expected return). This type of portfolio should include assets whose volatility is lower than the market volatility in a context of diversification. In this context, the establishment of an efficient portfolio of assets requires the use of diversification as a way to eliminate the specific risk of each of the assets comprising the portfolio, obtaining therefore better risk - return. The performance of the asset portfolio will thus be immune to the specific risk of the assets belonging to it and exposed, only the systematic component of risk (market risk) that affects all assets in that market. To this end, the portfolio management should also take care of market diversification (assuming markets for different types of securities activities and geographies).

Recommendation:

Given the conservative risk profile of sovereign portfolios of financial assets, the mandate to be given to the portfolio management team should be clear and objective in this sense, precise specifications on types of securities, economic activities and geographic areas where the portfolio may intervene. It should also involve an evaluation system and public reporting of comparative performance with other similar portfolios, considering the maximization of return on sovereign risk profile defined.



6 Budget balance

Deficit

In 2012, the proposed State Budget shows a deficit budget balance of volume equal to \$1.6273 billion dollars, which represents an increase of 36.1% over the volume of the current account deficit in the budget last year. The budget deficit in 2012 is approximately 12 times the volume of the current income year, corresponding to an increase of 11% compared to the ratio observed in the previous year (10.7 times higher).

Between 2009-2012, the average volume of annual budget deficits will be equal to \$999.4 million, accounting for an average annual growth rate equal to 48.6%. In the same period, the volume of the budget deficit will average 8.8 times the volume of current revenues. This ratio has increased at an average annual rate of 29.8%.

Gross Domestic Product (GDP)

According to the proposed State Budget, the government's projections for nominal GDP (not including the oil sector and the UN) in 2012, indicate that this measure of wealth created in this year will grow 17.9% compared to 2011, stand at 929.7 million dollars.

According to figures provided by the proposed State Budget, including 2009-2012, the nominal gross domestic product (not including the oil sector and the UN) will grow on average 17.2% per year.

Deficit relative to GDP

In 2012, the budget deficit will have a volume equivalent to 175% of GDP. The relationship between deficit and GDP worsens, therefore, 15.4% compared with the deficit because of the relationship between GDP and budgeted for 2011, which then stood at 151.6%.

Between 2009-2012, the volume of the budget deficit in relation to nominal gross domestic product (not including the oil sector and the UN) is on average equal to 129.2%. In the same period, the budget deficit relative to GDP will grow on average 26.5% per year.

Note: from 2009-2012, the budget deficit has grown faster than nominal GDP (not including the oil sector and the UN).

Warning: the worsening trend of the weight of the deficit compared the nominal GDP indicates long-term unsustainability of public finances, the risk of rigidity of the current level of government spending, which can be exceeded only with access to oil resources or borrowing, which by nature and definition are sources of public funding with limited horizons.



Recommendation: increase the relative weight of current revenues to finance the General State Budget, by increasing the tax base and improving the effectiveness of the tax system.

7 Financing

7.1 Public - Private Partnerships (PPPs)

The state has an economic function oriented to improving the efficient allocation of economic resources of the community - by virtue of the failure of market mechanisms to solve economic problems in certain circumstances - and to promote equitable distribution of income among community members - pursuant to the criteria of political-social justice specific to each community, in every historical moment, that outweigh the efficiency criteria of income distribution, but are constrained by its availability.

7.1.1 Considering the problem of economic efficiency:

- (1) The state has a primary function: the provision of the means (resources) needed to ensure production of those goods and services with the character of *public goods*³ (National Defense, Internal Security, Justice Administration, Environmental Protection, Promotion of Culture and Language, ...) - because, given the nature of such goods, the market (companies) do not have economic incentives to ensure their production.
- (2) The state has another important function: the economic regulation of social life, community oriented to socially optimal levels of production / consumption of *merit goods*, such as the goods and services of health, education, transport, communications, housing, social protection, etc. It shall, therefore, influence the behavior of producers and/or consumers of those goods and services that can generate some external positive or negative effect (externality) (as a matter of *public good*) about the welfare of others (community members) encouraging or punishing them, through the mechanisms of public regulation (obligation, prohibition or restriction) and the instruments of budget policies conditioning free market mechanism (with subsidies on production and/or consumption on or taxes production and/or consumption).
- (3) In certain circumstances, the State may take yet another function to supplement the market mechanism: the production of goods and services for private consumption, especially when companies do not show interest in the production, because:
 - a. Estimated reduced demand
 - b. High amount of initial investment

³ Public goods are those goods for which consumers do not compete for the allocation of the quantity produced and for which the price mechanism is not an effective mechanism of exclusion from consumption.



- c. Shortage of private financing
- d. High financial risk
- e. High operational risk

7.1.2 Considering the problem of equity in income distribution

- (1) The state has a primary function: the redistribution of income among community members, based on criteria of equity and political-social justice, after the distribution of gross operating surplus from the productive factors, paid for their contribution in accordance with the productivity of each of the factors.
- (2) For this purpose, the state can intervene, including through:
 - a. Equitable regulation of legal relations between the factors involved in the production function: labor, capital, property and business.
 - b. Taxes on income and on consumption of superfluous goods and services.
 - c. Subsidies on production and consumption of essential goods and services.
 - d. Contracting with private producers of essential goods and services for private consumption.
 - e. Public production for private consumption of essential goods and services.
 - f. Partnerships with the private production of essential goods and services for private or intermediate consumption.
- (3) The PPP is an instrument for regulating the relationship between the State and private economic agents to produce essential goods and services for intermediate consumption (production companies) or private consumption (family needs), among other possible instruments, such as:
 - a. Procurement of essential goods and services for private consumption;
 - b. Concession contracts for private operation of the production of essential goods and services for private consumption;
 - c. Subsidies to private production of goods and services for private consumption;
- (4) In view of the public interest that the state represents, the viability of PPPs depends on the nature of the activity and the market conditions affecting it. *A priori*, PPPs are neither good nor bad instruments. The effectiveness in achieving the purposes and efficient allocation of public resources to PPPs will depend on the use made by those representing the state in defending the



interests of the community and the operation of the activity in question, always considering the market conditions.

- (5) In view of the state, the PPP's instruments can be interesting if:
- a. In the context of restrictions on public access to means of financing - via public debt, public tax revenue or income - or complexity of the technical management of projects or activities in question, either in its investment phase or during its operation, - for which the government has no technical capacity to respond satisfactorily without jeopardizing the viability of the project or its efficient operation - the state may resort to private economic agents to obtain the means of financing investment or knowledge (know-how) activity, sharing with them the risk and results of operations, after depreciation of invested capital, ensuring better efficiency in the management of public resources and levels of satisfaction and well-being of community members of the consumer good or service produced in the context from each PPP in question;
 - b. In a context of uncertainty on investment in socially relevant economic activities for the welfare of the community, the state can partner with a private entity to reduce their perception of investment or operational risk, stimulating investment in return for participation in operating results. This objective is also achievable through participation in project financing from public funds for private venture capital.
- (6) Warning: specifically, the main threat of this tool for the interests of the State is associated with the difficulties of reliably estimating and forecasting behavior of the variables that introduce volatility (risk) in capital expenditure and operating results of PPPs, combined with the moral risks (agency problem) for those who do business on behalf of the State sharing the risk and return of the partnership. This threat is particularly relevant to the Treasury if the contracts between the State and Private contain contingency clauses (*real options*) that are similar in effect on the results (*payoff's*) party, the options contracts on financial assets (*financial options*). These clauses, if their potential impacts are poorly evaluated, may cause, in certain circumstances, unlimited losses to the financial position of the State.

7.2 Public debt

7.2.1 Debt

- (1) The state has several options for financing consumption and public investment. Among these options are:
- a. Fiscal and quasi-fiscal receipts
 - b. Income from capital



- c. Sale of licenses and operating concessions
 - d. Sale of assets
 - e. Domestic public debt
 - f. External public debt
- (2) The option for financing public spending by domestic or external debt means an anticipated resource utilization that the economy will have only in the future. In the future, you need to realize savings to meet financial obligations from the present. Alternatively, the State may increase tax revenue by raising taxes or resorting to sale of assets accumulated through savings in the past (Petroleum Fund).
- (3) The option for financing the expenditure through debt is recommended when there are two conditions simultaneously:
- a. If the cost of the option of financing through public debt is less than the opportunity cost (lost rate of return) of the option of financing through the use of asset sales (Petroleum Fund) or increased tax revenue and quasi-fiscal taxes (rate of fiscal effort).
 - b. If the time horizon of financing through public debt is equivalent to the period of economically useful life of the capital asset to be financed by the investment project. The financial resources obtained through the issuance or employment of long-term-maturing debt should finance the production of durable capital goods that will be functionally available for an equivalent period.
- (4) In any circumstance or financing option, it is assumed, however, that investment decisions (whatever activity) are taken only when the rate of return on investment - whether from an economic-financial perspective (*Return on Investment* and/or *Return on Assets*), or socio-economic perspective (*Social Return on Investment*) - is greater than the opportunity cost of capital invested in the project (cost of financing through equity and/or debt), i.e., the return on investment from a project must exceed the weighted average cost of capital to finance the project so that it is economically, financially and socially viable and, thus, approvable at the political discretion of the decision maker.
- (5) Note: in the proposed State Budget for 2012, it is not evident that economic-financial viability or the adequacy of financial resources allocated to investment needs, considering the impacts on the welfare of the community of projects submitted (Streets and Sanitation) nor has a projected cost of debt service (interest) associated with this request to contract public debt by the state. The costs of debt (interest) are expenses to be included in future State budgets.



- (6) Note: carefully consider taking on decisions of public debt considering the inter-temporal projection of debt and its debt service costs and their effects on future increases in public spending and a worsening of the ratio between *public debt* and *gross domestic product* – a measure of long-term financial sustainability of public finances.
- (7) Recommendation: presentation of studies on economic, social and environmental impact and economic and financial viability of proposed projects.

8 Special Topics

8.1 Option for a development model based on indigenous resources

8.1.1 The case of the social housing construction project

Considering the volume of resources allocated, the project to build housing in rural areas could be a good example of how fiscal policy can promote the development of the domestic production market by substitution of imports for production based on available indigenous resources and, simultaneously, meet the aspirations and needs of vulnerable populations. For this purpose, the use of this budget must meet the following conditions:

- a. Encourage proposals whose technical construction options consider the use of indigenous (local) raw materials. This criterion is expected to increase output and employment in the primary sector of the economy, particularly in industries associated with forestry, the extractive industries.
- b. Encourage proposals whose technical construction options consider the use of consumable components originating from the national manufacturing industry, especially small-scale wood processing industry and the small metal industry. This could produce the effect of increasing industrial output and employment.
- c. Encourage proposals whose technical construction options consider the use of local services, including electrification and plumbing services. The effect of this criterion, is expected to increase output and employment in the services sector.
- d. Encourage proposals whose technical construction options consider the use of local manual labor. The effect of this criterion, it is expected an increase in demand for local labor (supply of jobs), with positive effects on employment levels and disposable household income. It is also expected to improve the professional skills of workers with regard to the technical field of productive activities where they are inserted.
- e. Encourage proposals for which technical construction and aesthetic options to consider the economic value of the sustainability of the traditional cultural and environmental landscape of Timor-Leste. The effect of this criterion, it is



- expected an increase in Timorese socio-cultural capital and identity, which will enhance the attractiveness of Timor-Leste as a destination for ecotourism.
- f. Encourage business proposals whose strategic business choices go through reinvesting their profits in the Timorese economy. The effect of this criterion and the previous ones, is to improve the capacity of the national economy to retain financial resources allocated by the State to implement the project of constructing housing in rural areas.
 - g. In addition, the favored proposals should be choices whose construction techniques ensure minimum levels of health that cause a qualitative perception by beneficiaries of housing so that they feel their need for housing is adequately met at the country's level of development.
 - h. *Note:* Government options for implementing this project do not meet any of the criteria described. The choices made have a multiplier effect irrelevant since they result in the exit of financial resources abroad as payment for imports and a mediocre satisfaction of the need for social housing in rural areas, with negative impacts from the environmental, social and cultural points of view which are detrimental to the aspirations of an economy with ecotourism as an area of long-term strategic development.

9 Budget of the National Parliament

Under the Law of Parliamentary Organization, Operation and Administration, Parliament has administrative and financial autonomy, in particular for drawing up its private budget.

Since the Parliament, pursuant to Resolution No. 75/II approved its budget for the financial year 2012, amounting to \$15.569 million, and \$4.095 for Salaries and Wages, \$7.242 for Goods and Services, \$4.182 for Minor Capital and 50 for Capital Development. Accordingly, should the State Budget approved to keep that amount. So, should change the table on the budget for 2012 budget (expenditure - Annex II), with regard to the values enshrined in the allocation of the National Parliament.

10 Recommendations of specialized standing committees, the Petroleum Fund Consultative Council, the Central Bank and NGOs⁴

10.1 Committee A

Based on sectoral economic analysis of the proposed budget amendment and in the public hearings, the Committee recommends the following:

1. The urgent adoption of the Official Public Accounting Plan (Article 10 of Law no. 13/2009 of 21 October);

⁴ The Recommendations of the Specialized Committees are transcribed here from the respective sectoral opinions.



2. The revised allocations to the institutions of the justice sector, and strengthening to enable the improvement of working conditions and thus to strengthen institutions;
3. Under the Attorney General's Office, the allocation of funds required for completion of the projects launched in 2011 and for which contractual commitments have been made: building the office of the Dili General Prosecutor and construction of officers and homes for prosecutors and employees in Ermera, Viqueque and Bobonaro;
4. Under the Anti-Corruption Commission, by the Government to release land for building the CAC office and the transfer of \$800,000 allocated to the category of development capital for CAC from the Infrastructure Fund;
5. As part of Provedor for Human Rights and Justice, the allocation of funds to allow the pursuit of ongoing monitoring of the elections in 2012;
6. Enactment of legislation to combat corruption, including the system of declaration of assets and interests, the use of vehicles and other public resources, and access to fuel coupons;
7. The urgent definition of the legal status of the Post-CAVR Technical Secretariat;
8. Urgent maintenance of the Ex-Comarca/Balide to preserve its historic character;
9. Not to allocate funds for the construction of municipal buildings which are not defined in the relevant legal framework;
10. Not to allocate funds for the office of the Police Criminal Investigation until the relevant legal framework is defined;
11. The clarification of the rights and duties of sucos and their representatives in the planning, management and implementation of the Local Development Program and Decentralized Development Program;
12. The adoption of urgent measures which prevent the issuance of the Official Gazette, quoting the legislation, a publication date prior to the effective date of printing;
13. The revised budget of \$4 million for the centennial celebrations of Dom Boaventura and other festive days, assigned to the Ministry of State Administration;
14. Prior to the allocation of funds for the infrastructure fund, weighing which projects are priority and those that can be implemented and should be funded;



15. In order not to question the sustainability of the Petroleum Fund and, ultimately, the constitutional requirement to exploit natural resources to ensure sustainable development for the benefit of current and future generations, withdrawals from the Petroleum Fund which are substantially higher than the estimated sustainable income, namely the use of a high amount of \$200,000 [sic] (two hundred million U.S. dollars) for capitalization of the CITL, should be duly considered, as well as providing the amount in the transfers budget category and not in the category of capital development;

16. The capitalization of an investment firm should only take place after they have established the priorities and strategic areas of investment and the fact that these contributions will be effective to develop the non-oil sector in the Timor-Leste economy, after making an assessment of concrete investment projects that the Government intends to implement, the costs that they will involve and the expected benefits, and after the establishment of the general legal framework regulating the activity of the State's business sector;

17. Parliament should not allow the government to resort to external borrowing without having detailed information about the conditions applicable to government borrowing, including the costs incurred by the Timorese State.

10.2 Committee B

Based on sectoral economic analysis of the proposed budget amendment and in the public hearings, the Committee makes the following recommendations:

1. The Committee recommends that a new building be built for the Fire Department Manufahi district, since the current one no longer has the minimum conditions of use;
2. The acquisition of materials and safety equipment for the PNTL officers must be completed before the end of February 2012;
3. Institutions such as the F-FDTL and PNTL must have their own workshops and supply centers in order to better control costs associated with these services;
4. The Committee also recommends the recruitment of new PNTL officers, totaling 500 people in 2012, to tackle the current situation of shortage of staff;
5. All PNTL officers and F-FDTL members should undergo regular monitoring of health status;
6. The Government should proceed with the construction of a permanent port on the south coast as a base of support for the Naval component of the F-FDTL;



7. The Government should proceed to conduct a technical inspection and audit of the construction of the Hera naval port, ensuring that the work is completed within the time specified in the contract;
8. The government must take the necessary measures to standardize the brand of vehicles used by the PNTL to facilitate maintenance services;
9. Care must be taken to the creation of a public company for the purchase and import of defense materials and safety;
11. It is necessary to build a new building of the Consulate of Timor-Leste in Bali - Indonesia, with appropriate resources to facilitate the control of entry and exit of foreigners in Timor-Leste.
12. The Government should increase training of immigration services for effective control of drug and human trafficking.

12.1 Committee D

[as this is in Tetum, we have not yet translated it all. Numbers are not consecutive.]

Ministry of Agriculture and Fisheries (MAP)

- Need deeper socialization and use of local products to ensure food security. To carry out this socialization, MAP should work with Universities in Dili.
- MAP needs concrete data about annual food production in the country, to provide MTCI so that they can predict the amount of imported rice which will be needed in 2012 to meet all people's needs.
- Need deeper supervision of abandoned and incomplete physical projects, in the 2012 budget we should find a way to finalize and send to District Directorates so that they can use it well.
- Need to identify and use organic fertilizer that is already produced in Timor Leste (Suku Ponilalla/Ermera), such as a government subsidy, to provide for the needs of farmer and horticulture groups which stay near suku ponilala.
- Presiza iha rezerva subseleante apropiadu ba trator mediu no boot iha sentru manutensaun trator iha rejiaun tomak no fo atensaun ba kualifikasaun teknis tratoristas no mekaniku.
- Tenki konsidera no garante ekipamentu no transporte ba extensionistas, guarda florestais no agente pekuaria iha distritos hodi bele aseguara servisu rutina no tekniku iha fatin refere.
- Krisasaun linha koordenasaun servisu entre ministerio importante tebes hodi defini tarefa serbisu ida-idak nian (MAP vs SEMA vs MI).



- Presiza aumente frekuensia treinamentu utilizasaun makina dulas kafe iha sentru prosesamentu kafe liu-liu ba responsavel grupu beneficiariu ka responsavel lideres komunitaria ka nia representante.
- Tenki fo atensaun masimu ba prosesu tenderizasaun ba material subsidiu governu nian (mina, adubu, fini) atu labele difikulta grupu agrikoltor nia aktividade antes udan tau (antes tempu kultivu nian).
- Aumenta agente pekuaris iha baze hodi bele atende komunidadade nia nesesidade ba aktividade pekuaria no fo konsiderasaun ba kuantidade aimoruk animal kiik no boot.
- Presiza halo levantamentu dado hodi bele fo konsiderasaun ba plano konstrusaun fatin vasinasaun animal nian.
- Fortifika utilizasaun no jestaun ba edifisiu MAP iha baze.
- La iha relatoriu ne'ebe klaru konaba fundu subvesaun publika ba grupu beneficiariu fetu.

g. SERN

- Tenki fo prioridade ba lei explorasaun minerais hodi bele asegura fonte reseita nao petroliferu iha futuro.
- Sosializasaun Diploma Ministerial no.1/2008 importante tebes iha baze.
- Tenki fo informasaun no halo komunikasaun rutina entre SERN, ME no Universidade ne'ebe simu bolseiru SERN liu-liu konaba atrazu transferensia subsidiu, transferensia bolsa estudus no propinas atu labele difikulta prosesu aprendizajem estudantes iha Universidade refere.

h. SEPE

- Presiza maksimiza akompanamentu tekniku ba komunidadade ne'ebe hetan apoiu projetu biogas, ho nune'e bele muda mentalidade no konesimentu grupu beneficiariu ba projetu refere.
- Tenki hahu oha kooperasaun servisu entre SEPE no Universidade sira iha parte sensibilizasaun no sosializasaun ba fonte enerjia renovavel.
- Tenki iha koordinasaun no transparensia servisu entre SEPE no lider komunitaria ka Governu lokal ba apoio fundu subvensaun publika liu-liu ba prosesu distribuissau painel solar.

i. MTCI



- Presiza maksimiza sosializasaun ba prosesu pedidu fundu subvensaun publika ba lideres komunitaria hodi nune'e bele kria balansu distribuisaun fundus refere iha sub distrito hotu-hotu.
- Tenki kria lina koordenasaun servisu no analise ne'ebe diak entre MTCl no MAP hodi bele identifika no halo previzaun ba nesesidade uma kain ida-ida ba fos ne'ebe sei importa iha tinan 2012.
- Presiza tau provizoriu ka permanente representante ka vocal point MTCl iha fatin sentru produsaun agrikola durante tempu kolheita iha rejiaun hotu-hotu hodi fo informasaun ba tabela produtu lokal no mos hatutan informasaun ba grupo agrikultor konaba prosesu fa'an produtu lokal ba Governu ka MTCl atu nune'e bele responde ba orsamento ne'ebe destinadu ba kompra produtu lokal.
- Presiza halo asaun konkretu ba restaurante no hotel ne'ebe halo nia konstrusaun iha tasiibun sidade Dili ka iha Distrito, ne'ebe la fo importansia ba kriteriu impaktu ambiental.
- Presiza hahu ona programa rehabilitasaun no konservasaun fazeadamente ba sentru turistikubalun ne'ebe importante tebes atu hahu halo promosaun, hanesan ezemplu Fatin Be manas Marobo iha Bobonaro.
- Tenki halo sosializasaun ba entidade hotu-hotu iha Seitor Oeste konaba apoio subvensaun publika iha parte Guest House hodi nune'e bele garante balansu ba fundo refere.
- Tenki halo konstrusaun latrina iha parte Walu (Tutuala) liu-liu fatin parazem ro bero ne'ebe sei lori sidadaun balun ba Ilha Jaco.
- Presiza atensaun masimu ba manutensaun, jestaun no funksionamentu Merkadu ne'ebe hari ona iha Distrito Dili.

j. SEMA

- Presiza iha koordenasaun servisu diak entre SEMA no DN Floresta (MAP) no SES hodi halo prevensaun no asaun ba korte ilegal ai nian.
- Tenki fo konsiderasaun rutina ba programa sensibilizasaun soe lixu (foer) tuir klasifikasaun lixu nian ba sosiedade tomak liu-liu ba eskola primaria, sekundaria no fatin publiku. Programa refere, Komisaun sujere atu servisu hamutuk ho grupo identifikadu husi estudantes universidade nian hodi bele ajuda hakman SEMA nia servisu.

12.2 Comissão E



Bazeia ba analize ekonomika sektorial ba proposta orsamentu iha audiênsia publika sira nebe realizada, maka Komisaun prezenta komentariu sira hanesan tuir mai:

1. Sekretariu Estadu Promosaun Igualdade (SEPI):

- Husu ba Ministeriu Finansas, liu-liu Komisaun Revizaun Orsamentu atu konsidera limitasaun sira nebe SEPI infrenta, hanesan kareta ba Diretor Jeral no mos ba Diretor Nasional sira, hodi bele fasilita servisu sira atu lao ho diak.
- Propoin atu SEPI aloka orsamentu tuir kategoria nebe maka eziste iha orsamentu, labele Bens Servisu tau fali iha Kapital Dezenvolvimentu, tanba bainhira Komisaun Revisaun Orsamentu hasai osan bele fo impaktu ba kategoria nebe mak lolos SEPI persiza.
- Selebrasaun Loron Feto Rural presiza halao iha fatin rural, laos konsentra iha distritu ou sub-distritu deit.
- Aselera elaborasaun Planu Aksaun Nasional kontra violensia bazeia ba jeneru, nebe enkluvi violensia domestika, no fahe implementasaun Planu Aksaun Nasional.
- Monitoramentu no avaliasaun apoio dadus husi SEPI ba grupu feto sira, liu husi aktividade hanesan kustura tradisional (suru tais), kulinaria ho selu-seluk tan.
- Monitoramentu atividades kapasitasaun ba feto, espesialmente feto rurais, nebe dezenvolve husi Ministeriu sira. Dudu promosaun ba kapasitasaun feto sira iha fatin rurais.
- Kriasaun sistema (statistika jêneru) ida hodi kolekta dadus relasionadu ba jeneru iha sektore ekonomia no manutensaun baze dadus ba informasaun sira ne'e.
- Hametin koordenasaun ho Ministeriu relevante sira ba atividades implementasaun Lei Kontra Violensia Domestika.
- Asegura katak orsamentu ba Ministeriu hotu sensitivu ba jeneru.
- Hahu mobilizasaun nasional hodi hetan dadus nebe los kona ba prostituisaun ho pornografia. Parlamentu iha interesse atu halo lei ba pornografia ho prostituisaun, tanba ne'e persiza hatene lai kona ba eskalaun problema iha Timor Leste, liu husi dadus nebe persiza.

2. Ministeriu Solidariedade Sosial (MSS):

- Aselera validasaun dadus ba veteranos hodi nune'e bele halao ona pagamentu ba benefisiariu sira, tanba Parlamentu Nasional tinan-tinan aprova osan ba asuntu refere.



National Parliament, Committee on Economics, Finance and Anti-Corruption
Rough unofficial translation from Portuguese by La'o Hamutuk

- Sujere se bele karik, konstrusaun Monumento Herois Patria iha nivel sub-distritu presiza konsidera mos familia Saudozu sira nia opiniaun kona ba fatin, alein de konsidera mos Autoridade Lokal, hodi nune'e labele hamosu desintendimentu ba Governu Lokal ho familia Saudozu sira.
 - Apoio materiais konstrusaun ho lojistika husi Governu la to'o atu harii fali uma sira nebe mak hetan sunu iha Suku Galitas, Sub-Distritu Zumalai, Distritu Cova-Lima, tanba ne'e Governu ou liu husi Parlamentu ida ne'e tau montante balu atu harii uma ba vitima sira.
 - Ba orfanatu Timor-oan iha Malaka nebe hanesan mos Veteranos nia oan (Saudozu DK Tiborçio ho Komandante João Branco nia familia), husu ba Governu atu bele investiga sira nia kondisaun real hodi nune'e bele tau osan ba sustenta sira nia moris loro-loron no mos nudar estudante iha ema nia rain.
 - Fortifika supervizaun ba planu harii uma 5 iha aldeia, nebe prosesu alterasaun montante hamosu duvidas iha pubiku, tanba husi inisiu iha montante osan \$44 milloens ba uma 11.014, maibe agora hasae ba osan \$55 milloens ba deit uma 9.000.
3. Ministeriu Administrasaun Estatal ho Oredenamentu Teritoriu (MAEOT):
- Husu Governu atu defini programa PDD-I iha nivel suku hodi labele diskrimina povu ou labele sentraliza ba suku balu deit, no entantu iha suku balu la hetan programa PDD iha tinan 2011 to'o agora tinan 2012.
 - Husu Governu liu husi Ministeriu sira atu buka tuir no hatene tuir implementasaun PDD sira nebe mak iha, tanba tuir Komisaun E nia haree projetu balun ezekuta e nia pagamentu hotu ona maibe iha 2012 tau tan iha montante hanesan.
 - Sujere se bele, orsamentu ba loron bo'ot Nasionais ho loron 500 anos Portugal iha Timor Leste tenki sentraliza no labele kada Ministeriu ida-idak selebra ninian. Volume fundu ba festa 500 anos Portugal iha Timor Leste bo'ot liu, presiza redus hodi uza ba hadian eskola ho saude ba povu.
 - Prevende kobransa ilegal husi servisu saneamentu ba populasau iha nasional to'o iha distritu sira, tanba iha osan \$8 mil ba Administrador sira atu hamos lixu.
4. Ministro Turismu, Komersiu no Industria (MTCI)
- Husu Governu atu hatudu rezultadu kompra produto lokal sira oras ne'e rai iha nebe hodi nune'e Komisaun E bele monitoriza produto sira ne'e.



- Sujere atu hadian mekanismu sosa produto lokal, dalam efektivu ida mak sosa liu husi kooperativa nebe estabesidu husi Ministerio Ekonomia Dezenvolvimento.
- Husu apresiasaun ba oferese sira nebe hato'o husi Governu Malaka kona ba kooperasaun iha área turismo.

5. Ministro Ekonomia ho Dezenvolvimento (MED)

- Presiza acelera implementasaun banko móvel hodi fasilita pagamentu osan ba funsionariu publiku enklui veteranos, idozus, aleizadu iha distritu hotu.
- Implementa aktivamente Sirkulasaun Governu kona ba atuasaun polusaun, e sujere kria legislasaun ba proteze meio-ambiente husi polusaun molok mandatu IV Governu Konstitusional remata.

Alein de komentariu ba entidade sira, Komisaun mos hakarak hato'o komentariu ba Ministerio Finanças, katak:

- Presiza klarifica kona ba “Apropriadu” nebe mak mosu barak iha Ministeriu sira nia planu orsamentu 2012, maske iha parte Ministeriu sira la propoin. Pur ezeplu, Ministerio Ekonomia Dezenvolvimento la propoin Trade Investment Apropriadu 17% nebe publika iha Livro OGE 2012.

12.3 Committee F

a) Ministry of Health

- Observing and analyzing the 2012 budget proposal, Committee “F” is very sad that the Ministry of Health is only awarded the amount of 2.5% of the total budget, a very minimal amount and is not proportional in relation to problems faced by the Ministry, we also doubt that the assigned amount is sufficient to meet needs throughout the year 2012. The Committee therefore recommends the Government to accept an additional amount allocated to the respective Ministry to resolve the issues considered most pressing.
- The Committee welcomes the Government for finally, after reminders, having provided for the creation of a special career regime for health professionals in OGE12 to come into force from January 2012. The Committee expects that the implementation will not find this a less satisfying experience than the Ministry of Education faced regarding the payment of the duties of Teachers in the implementation of the RCE, for it is requested that there be good coordination between the Ministry of Finance and the Ministry of Health.
- The Committee once again deplores the delay of construction of the Baucau Referral Hospital. The Committee hopes it is completed in the year 2012.



- The Committee “F” is concerned with increasing the number of registered cases of HIV/AIDS in Timor-Leste. Knowing that this disease causes economic and social consequences that go beyond the strict scope of the Ministry of Health, the Committee reiterates its recommendation to the Government to prepare an integrated plan for HIV/AIDS, which includes programs of prevention and information about this disease, as well as medical and social support to those infected with HIV.
- The Committee “F” insists that the Government urgently needs to start building the required infrastructure to guarantee the existence of minimum levels of medical support to the population, i.e. at least one doctor, one nurse and a midwife in each health center, no later than by the end of the next two years.
- The Committee once again urges the government to expedite the necessary measures taken in order to transform the current SAMES into a public company with enough capital to ensure effective procurement and distribution of medicines.
- Through the monitoring carried out by the Committee takes up the information you want either the Hospitals or Centers, Health Clinics and Stations at the base sometimes face difficulties and delays in carrying out its work faced with the current inflexible mechanism that is strictly hidden by the Ministry of Finance. The Committee therefore recommends to grant financial autonomy to these entities so that there is flexibility that can meet the most pressing problems in their daily management. Just for example, fuel supply for vehicles operating as ambulances and generators should be under purview of these institutions.
- The Committee urges the government to complete in this budget year the program to purchase multi-function cars, that is one car for every sub-district. Also, the Committee continues to support the purchase of ambulances during fiscal year 2012, in order to replace old ones.
- The Committee recommends to the Government that the National Institute of Health (INS) which has been get sufficient financial support including a plan for the development of vocational training among health professionals to ensure competent, friendly and urban service to users of the Health System.
- Through the inspection visit by the Committee, it is noted that certain medical and laboratory examinations are struggling and in some cases are not made simply because they are not available the necessary chemical reagents as well as the simple Gaje. For this gap, the Committee requires the Government to give full attention to the supply of such materials in all Hospitals, Health Centres and Clinics.
- Through a public hearing with the Ministry of Health, the Committee is aware that several times the coordination between the Ministry of Health and Coordinator for



Cuban Doctors regarding the transfer of Cuban doctors in the field has taken place several times as an accidental “mis-Coordination,” that is the Coordinator is executing a transfer without prior knowledge of those in charge of Health Care institutions. The Committee therefore recommends that the Government make good coordination and cooperation with the Coordinator of the Cuban Medical Brigade in the preparation of an “applicable” mechanism to ensure good understanding between the heads of the institutions mentioned above and the Coordinator for transfers, including the holiday calendar.

- Through monitoring, especially the meetings with the Timorese interns, Committee “F” notes that their current subsidy amount no longer corresponds to the needs they face, so Committee “F” recommends that the Government analyze and review the amount in accordance with the capabilities of existing Fund.
- The Committee is aware that there is often a shortage of certain items of medicines in hospitals and health centers, while the budget amount for the procurement of drugs for SAMES is very minimal. The Committee therefore recommends that the Government allocate an additional amount for SAMES to acquire drugs, covering the needs during the budget year.

b) Ministry of Education

- The Committee continues to require the government to create a nutritious school lunch program suitable for all children attending primary school throughout Timor-Leste and which covers both public schools and private schools.
- The Committee F requests the Government to draw up a multi-ministerial plan to ensure access to basic sanitation, including clean water, in all educational facilities in Timor-Leste.
- The Committee again recommends that the Government as soon as possible carry out a needs assessment of adequate housing for teachers living in rural areas, and draw up a plan to start construction at the earliest opportunity.
- Through monitoring the Committee is aware that the Special Career Regime for staff approved in 2010, its implementation is sad or creates grievances and complaints from staff. The Committee therefore requests to the Government, first, the Ministry of Education to inform and communicate effectively to staff regarding their rights under RCE and second, requests to the Ministry of Education and Ministry of Finance to adopt a uniform system of payment rights.
- Committee F continues to require further transfers of funds to schools, under the law, should henceforth be made on time, which, unfortunately, are always delayed.



- The Committee again emphasizes the importance of the Government, in terms of defense of the culture, which on the one hand, publicize and disseminate the culture and traditional values among the younger population and, second, strengthen a plan aiming to conserve historical heritage of Timor-Leste.
- The Committee once again reminds the Government that as of 2012, the first year of higher education should be taught in Portuguese. The Committee recommends to the Government to draw up an action plan to ensure this aim.
- Through supervision, the Committee “F” is on record that the number of volunteer teachers instead of having been declining in recent years has increased, a situation contrary to the repeated recommendations of this Committee. The Committee therefore recommends the Government to take urgent action in addressing the unfortunate situation faced by volunteer teachers
- Delays in distributing books and school supplies, especially desks, remains a reality in Timorese schools. The Committee urges the Government to definitively resolve this problem at the beginning of next school year.
- The Committee considers further encouraging the implementation of the program of adult literacy in particular, continuing to monitor those already trained, which have been declared free of illiteracy.
- The Committee also recommends to the Government to ensure the existence of multidisciplinary laboratories, including school libraries, in the design and construction of secondary schools.
- Through a public hearing with the Ministry of Education, Committee “F” has on record information that financial support provided by Development Partners related to the education sector, in its formulation and implementation of its programs, the relevant ministry not very involved and is informed by the Ministry of Finance which doubts the certainty of committed projects and the effectiveness of their implementation. Thus Committee “F” recommends to the Government that there be good communication and good coordination between the relevant Ministries and the Ministry of Finance in relation to projects contributed by development partners.
- Committee “F” considers that the experience of several countries that did not give importance to investment in the education sector in the past today face problems in supporting national development, and then observing the budgetary practice underlines that Timor-Leste is the Southeast Asian country which spends least on education. The Committee F therefore calls with full awareness on the Government to make an effort, albeit slowly, to increase the percentage of the state budget for the education, to a value close to the other countries of Southeast Asia.



12.4 Committee G

Recommendations

2.1. Ministry of Infrastructure and Secretary of State for Public Works

2.1.1 Since the proposed 2012 State Budget presents a very high value for infrastructure (\$746.2 million), the Committee considers the National Development Agency an important body for the management and implementation of projects, and recommends the reinforcement of more technical professionals to this institution;

2.1.2 The Committee considers it important to assign priority to the Ministry of infrastructure, within its mandate, accountability in the following activities: routine and periodic maintenance of roads as well as emergency measures.

2.1.3 With regard to emergency measures, it should be the responsibility of the Ministry of Infrastructure immediate customer service to situations related to normalization of roads, flood standards to be awarded to IGE;

2.1.4 To ensure better operation of heavy equipment at the Institute of Equipment Management (IGE) and their ability to respond to several requests for sewer cleaning in cities and rural areas, road widening, new roads to sucos and isolated areas, as well as support for major projects to be developed, the Committee recommends an increase in the budget allocated to the operation and maintenance of such equipment;

2.1.5 The need for the institution to define the IGE status as an autonomous agency which manages revenue to state coffers;

2.1.6 It is recommended that the Planning and Construction Drawings for Roads, Bridges and Sewerage be more detailed and more specific budget allocation for each item, each project (BoQ).

2.1.7 Effect a system of Coordination more appropriate and intensive for building Roads and Bridges, with qualified and Professional Human Resources among the relevant institutions;

2.1.8 Apply sanction or criminal prosecution for businesspeople who do not meet contractual obligations;

2.1.9 To improve the services of the Directorate of Urban Planning and Urban Construction, recommended, that these two directorates be joined as a single directorate to improve service planning and control of urban construction.

2.2. Ministry of Infrastructure and Secretary of State for Electricity, Water and Urbanization



2.2.1 The sustainable operation of EDTL-Comoro Generating station and other central and districts must be guaranteed;

2.2.2 The Committee recommends to the operation of the Hera and Betano generating stations with maximum attention to the preparation of able human resources capable of maintaining and operating the Wartsila generator type;

2.2.3 Need to develop national spatial urbanization plans (Urban Master Plan) as well as the capital city of Dili and districts;

2.2.4 need to create laws and regulations to better regulate the use and control of water and electricity;

2.2.5 It is recommended that the projects on the ground distribution lines are regularized

2.3 Minister of Infrastructure and Permanent Secretary for Transport and Telecommunications

2.3.1. The implementation of solar panel traffic lights is necessary to its realization, as well as road signs in the city of Dili should be improved. The committee recommends more money to this sector to minimize traffic congestion in working hours;

2.3.2. The liberalization of the communication is necessary, but you must prepare conditions as laws, regulations, training of human resources and ensure a regulatory body capable and competent authority;

2.3.3. need to prepare Human Resources as future operators of the *Nacroma Berlin* boat, in order to gradually assume responsibility;

2.3.4. The budget allocated for the management of IGE (operation of heavy equipment), is still insufficient, compared to the various activities planned (normalization of flooding, road widening, opening of new roads to connect rural areas as support for upcoming elections and cleaning of the streams in the city Dili, which are very silted), for this requires an increase of funds in this regard.

2.4 Minister for State Administration and Territorial Planning - (ETF Task Force Team-PDD)

2.4.1 The teams of District Development Committees with responsibilities for PDD projects I, II should include experienced professional technicians, to ensure the effective exercise of the functions of planning, monitoring, supervision and evaluation;

2.4.2 Finally, a regulation must be approved laying down the basic rules to ensure the implementation and functioning of management and implementation of projects



under PDD 1 and PDD 2, including system coordination, supervision, control and sanction measures;

2.4.3 Human Resources specialist from each area to assess and reassess BoQ and design of each project.

12.5 Committee H

Based on sectoral economic analysis of the proposed budget amendment and in the public hearings, the Committee makes the following recommendations:

1. Recommends the Government adopt an interministerial plan that ensures adequacy of training given to the needs of the labor market and economic development of Timor-Leste;
2. Recommends that the Secretary of State for Employment and Vocational Training to develop bilateral cooperation projects with a view to creating jobs where the trainees can gain experience;
3. Recommends that this Secretary adopt appropriate mechanisms for selection of trainees with a view to future participation in insertion in the labor market;
4. Also recommends to implement protocols of cooperation with companies operating in Timor-Leste to ensure the recruitment of trainees after completion of training, thus avoiding a return to unemployment;
5. Recommends a more rigorous selection of projects to be developed at district level to which funds are allocated to ensure that no project receives duplicate funding, thus preventing good execution and corruption risks;
6. Recommends greater cooperation with local authorities at district and sub-district level, to ensure that implemented projects have a positive, real impact on people's lives;
7. In relation to the Secretary of State for Youth and Sports, the Committee recommends that the funds used by the Secretary to develop sports activities in the districts and sub-districts be published and informed to citizens of the area;
8. Recommends the training of sports coaches for the development of sporting activities and this be a sustainable, professional activity;
9. Recommends the establishment, within the Secretariat of State for Youth and Sports, a department responsible for music, allowing to formalize the distribution of musical materials and equipment that currently is done at the district and suco level;



10. Recommended follow-up of young people participating in the Youth Parliament Program (Parlamentu FoinSae) to ensure the development of skills gained in training programs they participated in;

12.6 Committee I (No report presented)

12.7 Group of Women Parliamentarians for Timor-Leste

After analysis of the state budget for 2012, the GMPTL makes the following recommendations:

Secretary of State for the Promotion of Equality - SEPI (1, 271 million)

SEPI has played a key role in developing policies for the promotion of gender equality. Its objectives and its activities have contributed greatly to increase the participation and empowerment of women in Timor-Leste, which is still at a disadvantage with respect to the rights and opportunities for development and training. The efforts of SEPI are noteworthy in some programs within its mandate, however, the GMPTL makes the following recommendations:

- The GMPTL laments the fact that the SEPI Annual Action Plan lacks an integrated multi-sectoral plan in relation to gender equality.
- Monitoring and evaluation of support provided by SEPI women's groups, through activities like the traditional fashion (tais), cooking, etc.
- Promotion and monitoring of training activities for women, especially rural women, developed by the various Ministries.
- Creation of a system for collecting data related to gender in all sectors of the economy and maintaining a database of such information.
- Continue with the dissemination of the Law Against Domestic Violence (LCVD), especially in the districts and rural areas where the rate of violence is greater.
- Emphasize coordination with relevant ministries for the activities to implement the LCVD.
- Ensure that the budgets of all ministries are gender sensitive.
- The GMPTL supports the SEPI budget to get a decent building and facilities for transportation. SEPI is facing serious logistical and organizational difficulties and needs an office that will accommodate the employees with dignity.

Ministry of Social Solidarity (124,752 million)

Recommendations:



- Give priority to building support centers (centers and shelters), implementing thus the provisions of Article 15 of the Law Against Domestic Violence.
- Provide training for employees of the MSS responsible for matters related to veterans and that a database is maintained for a better management of the beneficiaries.
- Provide training for focal points of the MSS responsible for the identification of vulnerable groups.
- Implement the Recommendations of the National Conference on Reproductive Health, Family Planning and Sexual Education held in Dili in July 2010, suggested to the Ministry of Social Solidarity. (Ensure the establishment of support centers for victims of domestic violence, sexual abuse and trauma; Continue Bolsa de Mãe with good monitoring and evaluation; Continue support for existing institutions of childcare, such as orphanages, hostels and creches; Continue to work with partners in the prevention of human trafficking.)
- Guarantee the right to retirement, the payment of veterans and elderly benefits.
- Work closely with STAE to provide electoral cards for the elderly so that they can request benefits.
- Monitoring the implementation of the 5 houses in each village project, since their houses were reduced to 9,000 homes, instead of 11,448 homes, and the amount in the budget increased, disregarding the approved budget in 2011.

Ministry of Health (44,408 million U.S. dollars)

Recommendations:

- The GMPTL regrets the fact that the Ministry of Health faces several difficulties in relation to the provision of services to ensure good health to the community as well as the fact that the Ministry received a tiny percentage of the budget to carry out their activities.
- In 2012, the Ministry of Health will benefit from \$ 2.6 million from the Human Capital Development Fund to finance training and development of human resources. It is recommended that men and women benefit equally, to ensure a fair and representative training.
- Improve the services related to maternal and child health in order to reduce the high rate of infant and maternal mortality in Timor-Leste.
- Continue the program of SISCA in rural and remote areas.



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- Continue to work towards the provision of family planning and sex education in urban and rural areas, aimed primarily at young people and adolescents.
- Build Maternity and sub-district health posts in for pre and post -natal care.
- Continue programs for socialization and prevention of sexually transmitted diseases, especially HIV/AIDS.
- Improve the dissemination of information on malnutrition in the communities.
- Provide adequate financial support for the services of midwives and health workers in rural areas.
- Improve the distribution of medicines in all hospitals, clinics and health posts.
- Ensure good hospital care for victims of domestic violence, including children.
- Provide health services for elderly and disabled people in rural areas.
- Implement the Recommendations of the National Conference on Reproductive Health, Family Planning and Sexual Education held in Dili in July 2010, suggested to the Ministry of Health
- Require the operation of the Blood Washing Machine, imported last year and non-operational to date.

Ministry of Economy and Development (10.015 million)

Recommendations:

- The GMPTL congratulates the Ministry of Economy and Development for the creation of the the Office of Gender Equality, approved in the Council of Ministers.
- The Ministry will allocate the amount in 2012 of \$3,701 million dollars for public concessions. It is recommended to improve the identification, evaluation and monitoring of their activities, thus avoiding in this way, misuse of application.
- Accelerate the development of Environment Law.
- Establish relationship of inter-ministerial cooperation, especially with the Ministry of Infrastructure, Transport Directorate, in order to control irregular vehicles contributing to pollution.
- Continue credit programs, including Mobile Banking, rural women's groups in districts and subdistricts.

National Police of Timor-Leste - PNTL (19.934 million)

Recommendations:



- The National Police of Timor-Leste intends, in 2012, to develop the capacities of human resources recruitment and basic training of 250 people, including 220 women and 30 men. The GMPTL recommends that the new members of the police employees receive appropriate training on the implementation of LCVD and the importance of respect and promotion of gender equality.
- Implement the Recommendations of the National Conference on Reproductive Health, Family Planning and Sexual Education held in Dili in July 2010, suggested to the PNTL. (Take steps under the law against pornography, alcohol, or pornographic films that have a negative impact on the community.)
- To promote women to management positions. So far the PNTL has only one woman in management positions (Liquiçá District Commander), and more gender balance is recommended in leadership positions of the PNTL.
- The GMPTL requires the utmost discipline of PNTL officers and wants to obtain the outcome of the sex scandal in the police office.
- Create residence for the PNTL officers stationed at border posts.

Ministry of Justice (6,428 million)

Recommendations:

- The GMPTL regrets a low percentage of the state budget allocated to the justice sector, taking into account the need to give priority to the functioning of the judicial machinery, particularly the Public Defender. The Group notes that in all the years of government, the budget allocated to the Ministry of Justice was a minimum percentage.
- In 2012, the Ministry of Justice will be granted 4.9 million dollars from the Human Capital Development Fund to finance training and human resource development. It is recommended that men and women benefit equally, to ensure a fair and representative training.
- Emphasis on dissemination of the role of the Public Defender with communities on the provision of legal assistance to the general community, including victims of domestic violence, so that everyone has full knowledge of the free legal assistance and the possibility of recourse to the legal provisions to safeguard their rights and dignity.
- Under the exchange program and job training with Brazil, which aims to train 6 public defenders through two months training in Brazil, it is recommended that three defenders (50%) are women and that all officers receive training on procedures to implement the Brazilian Law against domestic violence (Maria da Penha Law), as



well as the work of the Brazilian Public Defender in dealing with cases of domestic violence in order to learn best practices to implement in Timor-Leste.

- In the formulation of an action plan to promote the politics of human rights in Timor-Leste, which aims to present the policy implementation of international conventions ratified by Timor-Leste, it is recommended the inclusion of CEDAW (Convention on Elimination of all forms of Discrimination Against Women) in the action plan. Timor-Leste acceded to CEDAW in April 2003.
- Implement the Recommendations of the National Conference on Reproductive Health, Family Planning and Sexual Education held in Dili in July 2010, suggested to the Ministry of Justice. (To assist in processing cases of children and wives abandoned by the father/husband.)
- Give more importance and urgency to proceedings relating to Domestic Violence and Sexual Assault.
- Make the socialization of the Civil Code and the Law Against Domestic Violence.

Ministry of Education (86,635 million)

Recommendations:

- The GMPTL regrets a low percentage of the state budget allocated to the education sector, it is of paramount importance for the development of human capital of the Nation.
- In 2012, the Ministry of Education will benefit from \$ 8.3 million from the Human Capital Development Fund to finance training and development of human resources. It is recommended that men and women to benefit equally, to ensure a fair and representative training.
- Emphasis on social inclusion policy, with the aim of achieving gender balance in schools - universal education - by 2015, according to Millennium Development Goal No 2 (achieving universal primary education).
- Include sex education in the school curriculum.
- Implement the Recommendations of the National Conference on Reproductive Health, Family Planning and Sexual Education held in Dili in July 2010, suggested to the Ministry of Education (Developing a curriculum for education in sexual and reproductive health of adolescents in schools, establish a policy for the continuation of schooling for girls who gave birth; improve the nutrition program in schools, in collaboration with stakeholders, collaborate with the Church and other stakeholders on the curriculum for sex education in schools and establish the degree to which the teaching of sex education should begin.)



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- Ensuring that young people who had to interrupt education because of pregnancy have continuing education.
- Accelerate the rehabilitation of buildings for education and ensure that they have an adequate sanitation system.
- The GMPTL reiterates the need to implement Parliamentary Resolution No 20/2011 on the Importance of Promotion and the Official Languages in Education for National Unity and Cohesion and the Consolidation of their Own Unique Identity in the world.
- The GMPTL is apprehensive that UNESCO program 13 repeats, and reiterates its inconsistency with Article 13 of the Constitution, Parliamentary Resolution No 20/2011 and Article 8 of the Basic Law of Education. The group holds that the program is inappropriate and requires its immediate termination. The GMPTL believes that implementation of the various mother tongues can foster ethnic rivalries as occurred in 2006.

Ministry of Tourism, Trade and Industry (18.494 million)

Recommendations:

- The Ministry of Tourism, Trade and Industry intends, in 2012, to promote rural development. It is recommended that the Ministry give special emphasis to activities that could benefit the development of rural women so that they have the opportunity to achieve self-sufficiency.
- Promote a people's store to give all citizens access to local products.
- The GMPTL regrets the often uncertain fate of local products and the fact that they perish before their consumption.
- Note that the Ministry did not implement Decree-Law 6/2009 of 21 October and Decree-Law No 2/2009 on March 25 on managing revenue from legal games.
- The GMPTL values Caroline Pemberton's great contribution to the development of Timor-Leste, but regrets the fact that the Ministry of Tourism, Trade and Industry elected her Ambassador of Tourism of Timor-Leste, not valuing Timorese women.

Ministry of Agriculture and Fisheries (15,904 million)

Recommendations:

- The focus of the Ministry of Agriculture and Fisheries for 2012 is to achieve food security, promote economic growth and create jobs in rural areas. It is recommended the inclusion of women in all activities of the Ministry, especially in capacity building activities aimed at the development and empowerment of rural women, who are the most vulnerable victims of poverty.



- Diversify and promote sustainable agriculture as a source of income of the nation.
- The Annual Action Plan of the Ministry of Agriculture and Fisheries does not reflect an integrated plan that could raise the level of ability of farmers and agricultural production.
- The GMPTL regrets gender discrimination in rural areas with regard to the distribution of tractors.

13 Recommendations of Committee C

13.1 External macroeconomic scenario

Considering the need to increase the credibility of the international macro-economic frame of reference on which the proposed State Budget is based, we recommend the use of updated data reported by international statistical agencies.

13.2 Domestic macroeconomic scenario

Considering the need to increase the credibility of the national macro-economic frame of reference on which the proposed State Budget is based, we recommend the use of updated data reported by national statistical agencies and independent agencies. To this end, we recommend the training of national statistical agency responsible for independent public reporting and periodic general statistics and, in particular, statistics on national accounts.

13.3 Economic policy objectives

For a better understanding of the relationship between economic policy objectives and budgetary choices, it is recommended that the proposed State Budget present a systematic logical framework of economic policy objectives, instruments of public policy, quantified targets and allocated budgetary resources, so that one can analyze and evaluation budgets and their implementation by function, purpose and line.

13.4 Public spending

13.4.1 Current expenses

Considering the possible effects of public spending on the price levels of goods and services in the domestic market, a special monitoring of the evolution of consumer price index (CPI) is recommended, which can go for updating the market basket and for collecting quarterly data on the basket for analyzing inflation.

13.4.2 Capital expenditure

Considering the possible effects of public expenditure on external accounts, we recommend a follow-up of domestic procurement for capital goods and specialized



services abroad, which can pass through the quarterly report of the external accounts position.

13.5 Revenues

13.5.1 Current revenue

Considering the reduction of this revenue stream to finance the State Budget and the increase of the budget deficit on the nominal gross domestic product (GDP) between 2009-12, which indicates unsustainability of public finances in the long term, a long-term effort is recommended to increase the relative share of current revenues to finance the General State Budget, by increasing the tax base and improving the effectiveness of the tax system.

13.5.2 Capital Receipts

Considering that the average balances of deposits from the Consolidated Fund of Timor-Leste report interest income from the remuneration of these deposits is very low, it is recommended an additional effort towards optimizing the financial management of treasury funds. This improvement in the management of public funds may be obtained by proper adjustment of the temporal origins of the funds (flows of receipts) with the needs of funds (payment flows) of the Treasury, and the excess liquidity observed in each time be applied in short-term financial products. Thus, the Treasury can increase government revenues from interest income as compensation for the application of excess cash.

At the same time, if we consider the opportunity costs of withdrawals from the Petroleum Fund (lost profit) in comparison to the opportunity cost of deposits from the Consolidated Fund (lost interest), it may be the most economically appropriate option to finance part of the State Budget through the use of the balance of the Consolidated Fund and decrease the use of withdrawals from the Petroleum Fund, because the opportunity cost of using it is greater than the opportunity cost of using the deposits.

13.6 Financing

13.6.1 Public - Private Partnerships

To avoid losses to the state, it is recommended the elaboration of prior, careful studies about each PPP before it is contracted. This recommendation is underscored by the difficulties of reliable estimation and prediction of the risk factors associated with capital expenditure and operating results of activities, combined with moral hazard (agency problem) who negotiates risk-sharing on behalf of the state and the return of the partnership with the private.



13.6.2 Public debt

Considering the request of the State debt enrolled in the proposed State Budget for 2012, it is recommended that the presentation of the financial statement for the implementation of public debt and economic impact studies, and social and environmental viability of the projects proposed for funding for public appreciation.

In consideration of hiring public debt, it is also recommended a comparative analysis of the costs of financing through public debt with the costs of other forms of financing such projects, including the use of the Petroleum Fund or the Consolidated Fund balances.

13.6.3 Development of the domestic market

It is recommended that the government promote necessary efforts for a more efficient allocation of public resources, giving priority to the development of the domestic market (increased domestic production of goods and services for disposable household income), based on the use of local resources, minimizing the imported component of economic growth promoted by public policies.

14 Opinion

The Committee is therefore of the opinion that Draft Law No. 54/II, approving the 2012 General State Budget, meets the constitutional, legal and regulatory requirements and is therefore able to climb to the Plenary for discussion and voting in general and specific, allowing the parliamentary caucuses their positions in the debate.

15 Approval

This report was discussed and approved on November 9, 2011, and was approved with nine votes in favor, 0 against and 0 abstentions.

Dili, the National Parliament, November 9, 2011.

The Rapporteur of the Committee	President
/s/	/s/
(Maria da Costa Paixão)	(Manuel Tilman)

Attachments:

Table report
Sectoral opinions of specialized parliamentary committees
Information of the Secretary-General on the 2012 budget of the National Parliament
Written comments from Non-Governmental Organizations



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Anexo I: Evolução das Contas Públicas de Timor-Leste (2009-2012) / por Rubrica Orçamental / em Volume e Peso Relativo (em milhões de USD / %)

	2009		2010		2011 (estimativas)		2012 (proposta)		Média (2009-12)		
	Total	Peso(%)	Total	var. Total (%)	var. Peso(%)	var. Total (%)	var. Peso(%)	Total	Peso(%)	var. Total (%)	var. Peso(%)
Despesa Pública	503,6	100,0%	758,7	25,7%	0,0%	1306	100,0%	1763,4	100,0%	1,107,93	100,0%
Recorrentes	394,3	65,3%	595,0	28,1%	1,9%	588,4	45,1%	679	38,5%	541,68	53,3%
Salários e Vencimentos	87,3	14,5%	91,5	12,1%	-16,6%	116,8	8,9%	140,1	7,9%	108,93	10,9%
Bens e Serviços	212,8	35,3%	245,1	15,2%	-8,4%	294,1	22,9%	344,7	19,5%	274,18	27,4%
Transferências Públicas	94,2	15,0%	168,4	22,2%	42,2%	177,5	13,6%	194,2	11,0%	158,58	15,6%
Capital	209,3	34,7%	233,7	33,4%	-3,6%	717,6	54,9%	1044,4	61,5%	566,25	46,1%
Capital Menor	38,5	6,4%	38,1	-1,0%	-21,3%	29,3	2,2%	30	1,7%	33,98	3,8%
Capital Desenvolvimento	170,8	28,3%	215,6	26,2%	0,4%	688,3	52,7%	1054,4	59,8%	532,28	42,3%
Recaldas Públicas	603,6	100,0%	758,7	25,7%	0,0%	1306,0	100,0%	1763,4	100,0%	1.107,93	100,0%
Recaldas Correntes	90,9	15,1%	96,2	12,7%	-15,8%	111,0	8,5%	106,1	7,7%	108,35	11,0%
Impostos Directos	13,3	2,2%	18,2	2,4%	36,8%	22,3	1,7%	40,6	2,3%	23,60	2,2%
Impostos Indirectos	30,3	5,0%	31,9	4,2%	-16,2%	42,6	3,3%	54,5	3,1%	39,83	3,9%
Taxas	16,4	2,7%	19,7	2,0%	-4,4%	16,5	1,3%	19,0	1,1%	17,90	1,9%
Instituição autónomas	10,2	1,7%	13,7	1,6%	6,9%	19,2	1,5%	20,9	1,2%	16,00	1,5%
Juros	0,3	0,0%	0,1	0,0%	-73,5%	0,1	0,0%	0,1	0,0%	0,15	0,0%
Venda de - az	20,4	3,4%	12,6	1,7%	-38,2%	10,0	0,8%	0,8	0,0%	10,95	1,5%
Recaldas de Jogos Sociais	0,0	0,0%	0,0	0,0%	-	0,3	0,0%	0,2	0,0%	0,13	0,0%
Recaldas Petrolíferas	512,0	84,8%	811,0	106,9%	58,4%	1055,0	80,8%	1594,2	90,4%	993,05	90,7%
Fund. Sust. Están.	408,4	67,7%	502,0	66,2%	-2,2%	734,0	56,2%	665,3	37,7%	577,43	56,9%
Lev. do Fundo Petrolífero	103,6	17,2%	309,0	40,7%	137,3%	321,0	24,6%	928,9	52,7%	415,63	33,8%
Saldo da Conta Corrente	0,8	0,1%	-148,7	-19,6%	-16887,7%	148,3	10,7%	0,0	0,0%	-1,90	-2,2%
Dívida Pública	0,0	0,0%	0,0	0,0%	-	0,0	0,0%	33,1	1,9%	-	-
Devido Estatístico	-0,1	-	0,2	-0,3	-	-	-	-	-	-	-
Saldo Orçamental	-512,8	-5,64	-662,3	-6,88	-29,2%	-1195,3	-16,77	-1827,3	-11,96	-999,43	-6,81
PIB nom. eP nUN	578,5	-	653,8	-	13,0%	786,3	-	929,7	-	737,58	-
Saldo Orçamental / PIB nom.	88,6%	-	101,3%	-	14,3%	151,8%	-	175,0%	-	129,2%	-
Taxa de Inflação			8,0%		9,4%			8,0%		8,5%	

Fonte: Proposta de Orçamento Geral do Estado 2012