



COMMITTEE ON PUBLIC FINANCES

VI. CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusions

Year after year, the efforts of the government to adapt public spending to the real needs of the country and the ability to perform on the part of the Ministries and, not least, to control inflation, become more apparent. The proposed State Budget for 2014 follows this cost containment trend and, for next year, government spending will be reduced by \$147.5 million, without accounting for existing commitments by donors.

The flexibility shown by the government to accommodate, as far as possible, the suggestions and recommendations of the National Parliament is commendable and gives a clear signal to economic agents of the need to rationalize increasing government spending through consistent and timely planning, at this time it is already evident that the oil revenues that have generously funded budgets of the Timorese state have their days numbered and should finish within a small number of years. A better budget management on the expenditure side cannot be avoided and must, however, not neglect the revenue component, in particular the non-oil revenue (so-called “domestic revenues”). In this regard the Government has a long way to go to replace gradually, but in a way that begins to be increasingly urgent, the oil revenues with domestic revenue to thereby ensure the financial sustainability of the state and the country in medium/long term. A careful reading of the Table on p. 42 of Book 1 of GSB2014 is enough to conclude that it is essential to review the tax regime (including tariffs) and increase and diversify the fees charged for the provision of public services.

Also the remuneration of deposits from the Treasury accounts carries almost no weight in financing the state budget, \$200,000 in 2013 and \$300,000 thousand (sic) next year. We suggest that the Ministry of Finance monetize existing deposits in the Treasury accounts, scheduling the subscription of short-term investments without jeopardizing the state’s payment plan. It is suggested to the Finance Ministry to make a calendar of their needs for cash and notify the Central Bank so that it can, through application of public funds to longer-term, more profitable way of remunerating such funds through, inter alia, deposits with commercial banks in the country.

The temptation to transfer more than the Estimated Sustainable Income (ESI) annually from the Petroleum Fund to fund the activity of the state is unsustainable and therefore it is necessary to revise the General State Budget (GSB), not only according to actual execution of expenditure of previous years, but also based on the likely restrictions on access to finance in the future with very limited or no oil revenues. The 2014 Budget should therefore be framed in a longer-term vision with the essential perspective of funding public accounts not only with petroleum revenues, protecting, namely, the financial base of the Petroleum Fund in respect for the legitimate expectations of future generations, promoting generational balance.

Not only Committee C but also the other specialized Committees called for the Government, namely through the Ministry of Finance, to increase the quality of information it provides to the National Parliament in the books that complement the proposed GSB. For example, in the charts of the Consolidated Fund of Timor-Leste budget, the amounts distributed to the Ministries in 2013 did not fit, when you referred it to Parliament, with the approved State Budget in 2013, and this hampered the systematic error analysis and Committees and only last November 25 the Committee C received corrected files on paper.

There is no need for complex indicators measuring poverty to understand that the population in most



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districts of the country struggles daily with severe food shortages, lack of sanitation and health and educational facilities in sufficient quantity and quality. In contrast to this fact, Dili sees increasing proliferation of ministerial buildings that compete for the number of floors as well, luxurious equipment, redundant, to house high-level foreign dignitaries who visit Timor-Leste at the invitation of the Government (an example is the new building next to Motael Church in Dili) and expenses associated with foreign travel in every Ministry are triggered without much control.

A warning is needed against the ignorance shown by some of the Ministers and Secretaries of State during the hearings on the various committees during the initial assessment of the proposed 2014 State Budget Law, both in terms of budget management of the respective Ministries/State Secretariats and about the legal framework of the state budget itself. For this reason it is urgent to equip ministries and services under their purview with internal audit services to monitor on a daily basis or at least weekly, the existing budgetary and financial situation, detected deviations and possible corrective solutions and to report to the respective supervisors.

Committee C does not agree, with the budget effect inserted, with the subsequent loss of autonomy for EDTL in 2014 (see Annexes III of the GSB2013 Law and proposed GSB2014). We urge the Government to study the possibility of implementing, through the creation of their legal regime, a Public Company, since this service is one of the largest centers of State costs and revenues. Failure to create an autonomous body means that financial information that we receive will be diluted weaker in the future, in the Ministry of Public Works budget and transparency will tend to decline. It is believed that this loss of autonomy should be reviewed; it is not an acceptable way to more easily understand the company's accounts, given its importance, that it will be understood as if it were a directorate-general.

Finally a brief note on the 2012 General State Accounts (GSA), which although indirectly, affect and complement Committee C's analysis on the budget proposal for 2014. The Court of Appeals, pursuant to law, referred its report and opinion to the National Parliament on November 25, 2013, which was forwarded to Committee C on the same day by order of the President of the National Parliament. Its late transmittal made it impossible for Parliament to debate and adopt the 2012 General State Accounts before the 2014 State Budget as would be desirable, but still allowed it to be signaled in this report and opinion of the Committee, at least one of its major relevant recommendations to the Government on the General State Accounts that in the opinion of this Committee should extend the proposed GSB: that information on non-financial debt (debt from the Ministries and their services, as well as the FSA, Infrastructure Fund and Human Capital Development Fund) appear to pass the GSA and GSB and, for this purpose, the Treasury should keep updated records of debts to suppliers of all public entities.

6.2. Recommendations

The analysis of the 2013 budget execution took into account that the Budget this year came into force only in March and a budget of twelve months is running at about nine months, which reveals only limited knowledge about how various Ministries used the duodecimal system until the new state budget came into force.

Given the proposed State Budget for 2014, after conducting a significant number of public hearings and analysis of reports and opinions of other Specialized Standing Committees, Committee C recommends to the plenary of the National Parliament as follows:



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1. That in future the Government comply with the deadline of October 15, imposed by article 30.2 of Law 13/2009 for submission to the National Parliament of the proposed state budget for the next fiscal year, except in exceptional circumstances duly established by law.
2. In order to ensure the financial sustainability of the country and, in the short term, contribute to the reduction of the inflation rate, the Government should try to withdraw from the Petroleum Fund only what is strictly necessary, eliminating in 2014 the use of excess withdrawals above the “sustainable income,” under penalty of non-approval by the National Parliament under this Law.
3. The Committee recommends that the government until December 31 of the current year, transfer from the Petroleum Fund for the 2013 GSB only what is necessary to help meet management needs, under which the law provides.
4. Systematically the execution rates of the GSB are well below 100%, reaching as far as about 80%. This fact repeats mainly because of problems with the process of preparing budgets, which causes them to be systematically too large compared with the capacity to execute, rather than from the execution process itself. It is recommended that the drafting of budgets be reviewed, so that the amounts contained therein are more in line with the actual capacity of implementing them. So it is advisable to adjust budgetary proposals to more realistic values .
5. Given the expected low achievement by the end of the year for most of the projects in the Infrastructure Fund, the Committee recommends a more realistic and accurate adjustment of the proposed budget for this Fund in 2014.
6. For 2014, the Government again equates in the Infrastructure Fund, the construction of numerous buildings to house the ministries and other public services. With regard to all of these multi-annual projects that will together at the end of construction, reach unaffordable levels, Committee C considers that this policy option does not deserve to be a priority for now, calls on the Government to concentrate at this stage on other public equipment and infrastructure works most needed by the population, and urges the Government to rethink its strategy in the medium term.
7. The Government allocates in the next budget \$24.7 million for the “Contingency Reserve,” a value more than \$5.3 million higher than in 2013, which although lower than the statutory ceiling of 3% of the overall budget is high for the purpose it is intended. We recommend that the Government strictly enforce budgetary discipline in order to avoid the systematic use of contingency funds in accordance with legal requirements.
8. It is recommended that the Government devises appropriate mechanisms to make reliable projections based on grounded economic indicators in studies of reputable and independent national and international institutions, so that economic policy is based on real and timely data.
9. Given the figures for inflation, that have been verified in previous years as well as those we are currently experiencing, Committee C urges the Government, within six months, to study the updating of wages and salaries for the civil service in order to combat the increasing lack of purchasing power.
10. The immediate adoption of the strategic plan for the Radio and Television of Timor-Leste (RTTL), an essential instrument for the development of the company and necessary for their growth, improving the



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quality and diversification of services provided, and looking for practical solutions that make possible the effective exercise of RTTL's financial autonomy in a gradual way, accompanied by the respective increases in management capacity as well as the definition of a statute for its personnel, distinct from the Civil Service and compatible with their business nature and the specifics of their activity.

11. The Oecusse Special Economy of Social Market Zone continues without its own legal status, it is recommended that legislation be produced governing all aspects of its existence and operation, such as its legal status, its purpose and objectives, their authority, its powers, its institutional design, its management and funding. Accordingly, the use of the proposed allocation should be made conditional on the respective legislation.
12. The Committee recommends that the Government, in the context of the implementation of local government policies, accelerate the completion of the legislative package on Decentralization and Local Power and transmit it to the National Parliament.
13. In the analysis of the budgets of the various Ministries and other services we found a great appetite to predict important values of "public grants" available at the discretion of the highest authorities of the state institutions. Although one understands the need to disburse these funds in accordance with needs which were unforeseeable when the budget was prepared, the truth is that some of them are predictable and therefore should be clearly identified in such Budgets as activities of institutions, and the transparency and good management of public money.
14. Expenditure on foreign travel should be strongly conditioned to avoid unnecessary waste of public (sic) money. Committee C, following a proposal from Committee D, recommends a slimming of this component in all ministries, except for funds to that end assigned to the principal organs which represent the State abroad: The Presidency of the Republic, the Prime Minister and the Ministry of Foreign Affairs. Remember that the National Parliament has approved in its own budget for 2014 a reduction in this type of expenditure.
15. Taking into account the expected evolution of oil revenues and the need to increase domestic revenues, it is recommended that the government balances the outset the possibility of increasing tax revenues. We also recommend reviewing tax legislation to assess the need for rate changes and exemptions for taxes. It is also recommended special attention to addiction taxes, those relating to tobacco and alcohol, which serve a dual societal role.
16. It is also the view of this Committee that the Government should envisage increasing customs fees in the country. If the reduction implemented a few years ago was justified as an incentive to foreign investment that would generate jobs and produce goods for domestic consumption and even for export, it is clear today that this objective was not achieved. This rise in tariffs to a level to be defined (which, it is believed, should be at least around 15 % for all customs tariffs together) will have the following objectives, among others: discourage the high level of imports, which seems to be unsustainable over time, given the expectations of oil revenues dropping to zero, and create a source of non-oil revenues to help finance the GSB.
17. The Committee further believes that products most common in the diet and the costs of housing (e.g. cement) of the poorest social groups, should get special treatment, with lower duties. Some of these



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products, for reasons of economies scale, are difficult to produce here, thus losing the expected effect of “import substitution.”

18. The projection of interest receivable in 2013 as compensation from the Treasury accounts is up by \$200,000 and the proposed 2014 State Budget remains with a very low estimate of interest rate, reaching a maximum of \$300,000. Given the unavoidable urgent need to increase non-oil revenues, it is strongly recommended that the Government instruct the Central Bank to carry out financial short-term investments with a rate of return higher than the current low risk, scheduling the maturity thereof in order to not undermine the commitments of state payments throughout the year.
19. The situation in terms of fees charged by the overseas Embassies of Timor Leste remains unchanged, and so the budgeted revenue for 2014 remains null. Committee C does not understand why the Executive does not pass on to users of the services provided by the Embassies and Consulates the inherent costs of those services.
20. The Ministry of Agriculture estimates that only about a third of the land with capacity to produce rice is being used for this, with the remainder abandoned because the country spent about \$30 million in 2012 and expected \$40 million or more in 2013 to import rice. Thus it strongly encourages the Ministry of Agriculture to study the “rice economy” in Timor-Leste and to adopt measures that effectively reverse this situation, with a strong reduction of cereal imports and increased domestic production and consumption of rice by the people, and to adopt other measures to increase production of some products on an industrial scale. The increased scale of production should be part of a national strategy for growing linkages between agriculture and industry with the development of agro-industry and consequent growing inclusion of national value of agricultural, forestry and livestock production in the country.
21. The Ministry of Finance is strongly encouraged to review the procedure for payment of the debts of the State (as well as strengthen the training of its employees in areas of procurement and finances, for other ministries) to reduce to the bare minimum the time period between receiving invoices from suppliers of goods and services and the time of their payment. Indeed, there are indications that the delays of payments are used as an excuse by the entrepreneurs to increase the prices of goods and services provided to the State.
22. As a result of the delayed time when the Central Bank of Timor-Leste sent its request to the Prime Minister, the GSB2014 proposal does not appropriate the \$30 million considered by the Bank as required to, within a strategy to be implemented by 2017, to increase the capital of the Central Bank from the current \$20 million to \$100 million. Since it is an investment that alters the structure of State wealth by replacing cash with fixed and financial assets, it is considered that the claim is justified to give greater solidity to the Central Bank, indirectly to the financial system of the country. Therefore it is recommended that the Government act accordingly, strengthening the capital of the Central Bank in the amount requested for 2014.
23. Committee C follows Committee D considering the so-called “Millennium Villages” (MDG-suco housing) which are being built in Timor-Leste are far from meeting the conditions required by the concept, and mainly are inconsistent with traditional ways of organizing space by communities; especially considering that the materials used and the very architecture of the houses seem inappropriate for the life of a family



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and that the overwhelming majority of the construction costs of these “villages” corresponds to imports despite having methods and building materials with a much higher incorporation of national value (and also cheaper), it is recommended that the Government and the entity in charge of implementing the project order the suspension of the construction work of the “villages” provided under the “Housing” line of Infrastructure Fund until a valid scientific study of the way people interact with those buildings and to present solutions of urbanization and use of construction materials with a very small imported component, especially as known cement “blocks” are available.

24. It is recommended that the operation of existing power plants and energy in Hera and Betano that are currently supplied by diesel shift, provisionally to be supplied to heavy oil, since in the future under the SDP they will be supplied with liquefied natural gas (sic), allowing respectively an annual cost reduction of approximately 30% to 50%.
25. It is recommended to the Government to reformulate the social character of the housing sector through the creation of a regulatory body for the sector, so that the population can realize their right to adequate housing. Should be made a legal instrument conclusively minimize costs in housing and infrastructure, stimulate new institutional practices and new models of urban and territorial management. This will require the elaboration of detailed studies that will include the types of urban organization, taking into account the cultural specifics.
26. The sum of the allocations for the development of the Oe-cusse Zone and various Funds, is very significant for next year and well above the amounts to be distributed to the remaining twelve districts of the country. We recommend to the government to ensure a fair distribution in relative terms of funds in the 2014 State Budget.
27. Whereas there is an increased involvement of authorities to attract foreign investment due to the end of the UN mission, raising concerns of an even more increased unemployment rate, it is recommended to the government to implement concrete measures by the Foreign Ministry, in particular, to keep ambassadors and embassies informed about the macroeconomic data of the country, potential of the region, the legal regime applicable to business creation, responsible bodies and administrative procedures and the tax regime of Timor-Leste. The coordination and cooperation with the Ministry of Trade, Industry and the Environment and the various organs and agencies of the state is critical and should be implemented.
28. One of the strategic objectives of the government is tourism development, yet customers who use taxi service to move within the city or outside of Dili may not choose to list prices. The Committee therefore calls for urgent regulation of the industry, introducing the possibility of metered charges and the creation of international quality standards required for taxi transport service.
29. Until the start of the construction of new Parliamentary facilities and given the apparent lack of space in existing facilities to accommodate all the services befittingly, it is recommended that after the completion of the new Ministry of Finance Building and the moving of all services to it, the PN pass to temporarily use the facilities which will become vacant, if the solution enjoys the consent of the Executive.