

President of the Republic

**MESSAGE TO THE NATIONAL PARLIAMENT FROM HIS EXCELLENCY, THE
PRESIDENT OF THE REPUBLIC OF TIMOR -LESTE, TAUR MATAN RUAK**

ON PROMULGATION OF THE GENERAL STATE BUDGET FOR 2014

President of the National Parliament, EXCELLENCY,
Mr. Prime Minister, EXCELLENCY,
Honourable Members of the National Parliament, EXCELLENCIES,

The General State Budget [GSB] is one of the most important tools available to state institutions to intervene in the economy to promote socio-economic development of the country, the fairer redistribution of wealth and improvement of living conditions of the populations. Allow me, Your Excellencies, at the time of promulgation of the State Budget for 2014, to send you some of the concerns that plague me, targeting both the implementation of this GSB, and the preparation of future GSBs. The enactment of the 2014 State Budget is for these reasons, accompanied by this message, pursuant to article 86(e) of the Constitution.

EXCELLENCIES,

§ 1. It is worth noticing the *consensus* that surrounded the adoption of the 2014 State Budget, which I was just sent for promulgation. In particular, we note the effort of the Government and the National Parliament in reducing the total 2014 state budget by 9%, compared with GSB 2013 (i.e., a reduction of \$147.5 million). Consensus on key issues for national development enhances the success of the approved measures, but cannot affect the efficacy of the measures contained in GSB, which are, after all, a measure of the *credibility* of the state itself.

§ 2. The best guarantee of the State's own credibility by the GSB is *compliance with the provisions of the Budget and Financial Management Law regarding the budget process*. It is essential to comply with the statutory deadlines for the submission of the draft State Budget Law as well as for its adoption, to ensure a full fiscal year to enable better budget execution. Also, this would allow full participation of all stakeholders in the preparation, approval and promulgation of the GSB. Remember that the 2014 Budget was received in this Presidency on 28 January 2014, and is being promulgated on the fourth following working day, in order to avoid the maintenance of the duodecimal regime. I want, for these reasons, to call attention to the importance of all state organs to ensure that the budget process is developed within the legal deadlines, so that next year the GSB can enter into force, as it is due, at the beginning of calendar year.

§ 3. To the same effect the credibility of state action, I believe it is essential to ensure *effective, timely and proper implementation of measures envisaged in the State Budget*. It is therefore important, during 2014 to ensure that some of the most innovative provisions of GSB are rigorously complied with.

[Unofficial rough translation by La'o Hamutuk]

§ 3.1 *It is important to point out*, in particular, article 8, to establish:

- a) mechanisms for greater parliamentary oversight of budget execution,
- b) limits on using above the Estimated Sustainable Income from the Petroleum Fund,
- c) limits the use of the direct award (single source) procedure for conducting public expenditure and
- d) improved reliability of values predicted in the GSB, if required by the adoption of a rectification budget.

Also of note are the new provisions aimed at effecting accountability mechanisms in compliance with GSB in its article 13.

§ 3.2 The guarantee of the credibility of the State Budget and the State imposes, however, *effective, rigorous and fair implementation of these measures* during the current year. In particular, this implementation will ensure a proper evaluation of *budget execution* (maximum, article 8, nos. 5 & 6), which should take into account the actual budget execution and not consider the assumed or anticipated commitments.

§ 3.3 It should also be recalled that in none of the previous financial years were even approximate percentages of (real) budget execution foreseen. These guarantees will be much more important in a year with as many challenges as 2014 will have.

EXCELLENCIES,

§ 4. I believe that our society still faces challenges in basic livelihoods for needy people, to which with great concern I find that the 2014 GSB does not appear to respond appropriately.

§ 4.1 A significant part of our population still suffers from *hunger*. A recent report by the *International Food Policy Research Institute* points to a decline in the Global Hunger Index of more than two percentage points between 2011 and 2013 (in 2011 Timor-Leste had an index of 27.1, which in 2013 rose to 29.6). Globally, Timor-Leste is in 75th place among 78 countries. Along with other efforts already underway, such as the “Zero Hunger” program, it is proposed to create a separate line in the 2015 GSB that expresses the political commitment to fight malnutrition and hunger in the country, especially among the most disadvantaged, children and the elderly.

§ 4.2 *Poverty* is also still a visible picture in rural areas of the country. Therefore, the President hopes to see the kind of inclusive economic growth and to address basic needs of our society and economy. There must be a decisive push to combat endemic poverty, for an effective national program, which prioritizes basic infrastructure aimed at satisfying the most elementary needs (health, water and sanitation) at the expense of public works with dubious return to the national economy and to citizens in general.

§ 4.3 I also observed on my visits to Districts, sucos and aldeias, where the main economic activity is subsistence agriculture, the acceleration of a trend to *abandon fertile land for growing* rice and other tubers and migration to the capital. Several reports indicate that about 70% of land for rice cultivation are now abandoned, either for lack of irrigation or for

other reasons, including the lack of diversification of the productive base or disjointed efforts to expand the productive base and fiscal subsidies.

EXCELLENCIES,

§ 5. Once again, I am concerned the persistence of *excessive dependence of government revenue from the Petroleum Fund*. I am absolutely convinced that it is urgent to correct this situation. The forecasts of domestic revenue (the non-oil sector) show a decreasing trend relative to the non-oil Gross Domestic Product (GDP), which could mean a significant non-oil GDP growth, but has actually resulted in an insignificant increase in domestic revenue. The estimates of non-oil revenue for this GSB constitute only 11.1% of the total and just over 3% of GDP.

§ 5.1 To cope with this excessive dependence on the Petroleum Fund, I believe that it is necessary to adopt active policies to diversify economic development, in terms which the 2014 Budget should already be promoting. Non-oil exports, on the one hand, remain low and, above all, with revenue only from selling coffee. On the other hand, imports grow from year to year, including almost all food products that should be produced in the country, a tendency that public policies and, in particular, the GSB must combat.

§ 5.2 There is almost no industrial production in Timor-Leste, which should be stimulated, or some “nascent industry” aimed at replacing imports with domestic production. The considerable financial resources available to the State facilitate the import of goods and services, at the expense of domestic production, an effort that the state should be the first to try to reverse.

§ 5.3 It is essential to adopt public policies that promote the strengthening of the private sector, boosting national economic activity by promoting entrepreneurship and productive economic activities. GSB 2014 should be harnessed as a tool for political intervention in promoting these values.

§ 6. Our development model has maximized economic porosity, in which Timor-Leste can lose annually a significant part of its GDP through licit and illicit capital outflows. This trend should also be reversed and it is expected that the Budget in this as in subsequent years, may show signs of a more inclusive and sustainable economy, with well-defined goals for increasing production and productivity.

§ 6.1 It is my opinion that it should also promote greater efficiency in the *fight against tax evasion* as well as, if necessary, to consider the revision of the Taxation Law to increase taxation on consumption of luxury goods and the products that threaten public health, including tobacco and alcohol. This would also promote the redistributive function of the budget (an economic function of the state), to reduce the injustices and social inequalities in the country, since our market, by itself, still cannot generate the distribution considered just for the majority of Timorese society.

§. 6.2 It is essential to comply with the constitutional provision on tax matters in relation to the determination, imposition and collection of fees (article 138 of the Constitution), which, despite their appearing among the revenues of the 2014 State Budget, still lack an adequate legal framework, which must involve a legislative intervention of the National Parliament.

[Unofficial rough translation by La'ó Hamutuk]

§ 6.3 It is also important to seek reform of public accounting rules to allow, more realistically, documenting and controlling the execution of public expenditure.

§ 7. I worry about the widespread public perception regarding the inefficiency and lack of transparency in the functioning of our public services. I recall that in the reports of *Transparency International*, Timor-Leste descended from 113 among 174 countries in the 2012 ranking to 119th among 175 countries in 2013.

§ 7.1 Various reforms can contribute to simplifying and reducing bureaucracy, seeking to modernize administration to become “investment friendly” - it is noted that in the annual *Doing Business 2014* report, Timor-Leste is only in 172nd place among 189 countries.

§ 7.2 It is essential to combat *wasteful state spending*, ensuring an effective return on public spending. It is urgent to ensure the efficiency of public capital expenditure, in particular the actual return of public works as well as rigor in carrying out the interim costs, avoiding useless expenditure (for example, spending on fuels). It is also crucial to ensure a culture of rigor and efficiency in the management of state assets, one should promote appropriate measures for inventory, monitoring and maintenance of (movable and immovable) public property at the expense of permanent acquisition and construction of ever more assets for the state. One would hope that the presented Budget, like other instruments to implement public policies, would include measures to assure quality and efficiency of public expenditure.

§ 7.3 It is essential to ensure the quality of the performance of public services, in promoting this culture of quality in the exercise of state action. There are not enough measures aimed at promoting food and medical security, and protection of consumers, the environment and public health. It is the quality of life of our citizens which must be promoted, with measures that the 2014 Budget would have to include.

YOUR EXCELLENCIES,

Let me point out that the concerns expressed in this message did not impede the promulgation of the 2014 State Budget. They are an expression of the contribution of the President of the Republic, within his constitutional powers, to the most effective, fair and rigorous implementation of the 2014 State Budget. It is expected that these concerns will be properly considered in the preparation of the 2015 State Budget for next year.

Presidential Palace, Dili, 3 February 2014

The President of the Republic,
/ s /
TAUR MATAN RUAK

President of the National Parliament, Dr. Vicente da Silva Guterres, EXCELLENCY,
Mr. Prime Minister, Kay Rala Xanana Gusmão, EXCELLENCY
Honourable Members, EXCELLENCIES.