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2. BUDGET PROCESS

2.1 BUDGET LAW

The Government prepares the General State Budget (OGE) and submits it to the National Parliament for approval. National Parliament, as stated in paragraph 1 of art. 145 of CRDTL\(^8\).

The draft OGE for the following financial year is presented by the Government\(^9\) to the National Parliament by October 15th\(^10\).

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\(^8\) See paragraph 1 of Article 145 of CRDTL

\(^9\) In 2020, the government presented the draft law of the State Budget outside the deadline set in Article 30 of Law No. 13/2009, of 21 October, which is the deadline set in Article 30 of Law No. 13/2009, of 21 October. 13/2009, of 21 October, on Budget and Financial Management (LOGF), as amended by Laws 9/2011 and 3/2013, submitted on September 20, 2020.

\(^10\) Cf. article 30, no. 1 of Law 13/2009
The OGE for the year 2020 was approved by Law no.10/2020 of October 19 and came into force the day after it was approved by Parliament. entered into force the day after its publication and took effect on January 1, 2020\(^{11}\).

The OGE comprises the budget of the bodies and services of the Public Administrative Sector and is and is composed of

- Budget of the organs and services of the Central Administration (Direct and Indirect Administration);
- The budget of the Social Security sector, which integrates the budgets of the National Institute of Social Security (INSS) and the Social Security Reserve Fund (FRSS)
- The budget of the RAEOA.

The 2020 OGE includes, for the first time, an estimate of the Donations and Balance of the previous year\(^{12}\).

Contrary to what happened in the previous year, the 2020 OGE does not include in Annex 1 the forecast of revenues by source of oil revenue (Taxes, Royalties, Profit Oil)\(^{13}\). In effect, the forecast of oil revenues is presented based on the transfers from the Petroleum Fund (Estimated Sustainable Income and Transfer in excess of the Estimated Sustainable Income).

Moreover, this form of presentation of petroleum revenues makes it difficult to compare the value of revenues collected from the Petroleum Fund and the value of authorized withdrawals.

**Recommendation 1**

*The State Budget should include, in Annex 1, all information about the forecast of petroleum revenues collected.*

To date, the Ministry of Finance has not made available the 2020 Annual Report of the Petroleum Fund due to the ongoing audit of the Petroleum Fund’s financial statements\(^{14} \,^{15}\). Regarding the delay in submitting that report, it reported as follows:

\(^{11}\) Cf. article 28 of the 2020 OGE.

\(^{12}\) In Table I of annex I of the State Budget

\(^{13}\) As per article 6 of Law no. 9/2005, of August 3, 2005, revoked by Law no. 12/2011, of September 28.

\(^{14}\) As per information sent on September 11, 2021 by the Minister of Finance.

\(^{15}\) Regarding the status, of the publication of the 2020 Petroleum Fund Annual Report, within the scope of the contradictory, the MoF added the following clarifications:

"The publication of the annual report of the Petroleum Fund was delayed while we waited for the audited financial statements of Timor Gap. The value of Timor Gap’s shareholding in Greater Sunrise was necessary for the Petroleum Fund to complete its 2020 financial statements because the loan is expected to be repaid with the cash flows that Timor Gap receives from Greater Sunrise. (...) Timor Gap only provided its audited consolidated financial statements to BCTL and the Ministry of Finance at the end of September. In its financial statements, Timor GAP E.P. reduced the value of its stake in Greater Sunrise from $673.566 million to zero as of December 31, 2020, creating an impairment provision of $673.566 million. This followed an independent valuation of the asset performed on behalf of Timor GAP. According to the notes in Timor Gap’s financial statements, the impairment loss was triggered by: uncertainty about the tax and regulatory regime of the Greater Sunrise Special Regime; uncertainty about the agreed development concept of the Joint Venture partners; revisions to medium and long-term oil / Gas price forecasts; and the expected effects on margins of the macro environment, the COVID-19 pandemic and energy market supply and demand fundamentals. Timor GAP’s Impairment of the full value of its participating interests in Greater Sunrise is likely to affect the value of the Petroleum Fund, the loan and therefore the total Fund balance and performance for 2020. The value of the Fund at the end of 2020 is 18,990,615 million when the loan is valued at $701,350 million. The net investment income of the Fund in 2020 is $1,859,947 million, which includes accrued interest on the loan. If the fair value
A number of circumstances caused the delay in completing the 2020 Annual Report. This includes a delay in the appointment by the Ministry of Finance of Ernst & Young (EY) as the new auditor of the Petroleum Fund, which was finalized in April 2021, and also the BCTL’s hiring of an independent firm to calculate the expected credit loss (ECL) for the loan instruments to Timor Gap E.P. retained in the Petroleum Fund.

**Recommendation 2**


**2.2 BUDGET FORECAST**

In 2020, the total approved initial budget for revenues\(^{16}\) of the Central Administration and RAEOA was $1,734 million, including the balance of the Central Government’s revenue of $274.2 million and of the RAEOA revenue of $253.4 million. The total of the final budget in the General State Accounts (CGE) was $1,497 million. This reduction in the final budget ($237 million)\(^{17}\) is a result of the use of the balances of the Central Government’s Treasury account ($214.3 million) and the RAEOA ($76 million).

It should be noted that there is a divergence between the value of the Initial Budget that appears in the CGE and the value that appears in the OGE ($1,734 million).

The amount of the Central Government and RAEOA budget for 2020 represents an increase of 15.1 million (1%) compared to the value of the budget for the year 2019.

<table>
<thead>
<tr>
<th>Table 1- INITIAL AND FINAL BUDGET 2019-2020</th>
<th>milhões USD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Descrição</strong></td>
<td><strong>Orçamento 2020</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Inicial</strong></td>
</tr>
<tr>
<td>Receitas</td>
<td>1,734,4</td>
</tr>
<tr>
<td>Despesas</td>
<td>-</td>
</tr>
<tr>
<td>Despesas Correntes</td>
<td>1,274,5</td>
</tr>
<tr>
<td>Despesas de Capital</td>
<td>222,0</td>
</tr>
<tr>
<td>Totais das Despesas</td>
<td>1,497,1</td>
</tr>
<tr>
<td>Défice fiscal não petrolífero</td>
<td>1,324,8</td>
</tr>
</tbody>
</table>

Fonte: CGE 2019-2020 e OGE 2018-2020

In 2020, the Fiscal Deficit\(^{18}\) inherent in the State Budget presents a value of $1,324.8 million, having registered an increase of $41.4 million, compared to the value foreseen for 2019 ($1,283.4 million).

The projected fiscal deficit is financed by Transfers from the Petroleum Fund (73%), management balance of the Treasury Account and RAEOA (22%), loans (5%) and grants (1%).

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\(^{16}\) Due to an error, expenditure was previously mentioned when revenue was to be mentioned.

\(^{17}\) Unused Balances in 2020 amount to $237 million: RAEOA $253.4 million; Treasury Account $60.1 million.

\(^{18}\) Understood as the expenditure not covered by Domestic Revenues.
The estimate for Domestic Revenue (tax and non-tax), in 2020, was $172.3 million (down $26.3 million compared to 2019). This figure covers only 12% of the total planned expenditure.

The final revenue budget registered a decrease compared to the forecast resulting from the Balance of the Treasury Account. In the expenditure budget, the changes resulted mainly from an increase in Current Expenses as a counterpart to Capital Expenses.

2.3 TRANSFERS FROM THE PETROLEUM FUND

The value of transfers from the Petroleum Fund for financing the State Budget was $963.9 million, of which $544.4 million corresponds to the Estimated Sustainable Income (ESI) and $419.5 million above the ESI.

It should be noted that the value of transfers approved for 2020 was higher than the ESI by 77%.

The approval, by Parliament, of the transfers to be made from the Petroleum Fund, during the year 2020, obeyed the rules in Articles 8 and 9 of Law No. 9/2005 amended by Law No 12/2011 of September 28.

Without prejudice, it is important to analyze the justification provided by the Government for withdrawals from the Petroleum Fund in an amount above the ESI, when submission to Parliament of the proposed OGE.

According to Article 9(d) of Law No. 9/2005, cit. be made in the long term interest of Timor-Leste.

The justification given is essentially based on the need to continue funding the infrastructure development and human capacity building program. It further states that:

“This transfer is not intended to support current expenses related to the financing of the state administration. Rather, it is intended to meet the expenses related to the country’s investment, fulfilling the criteria required by the Petroleum Fund Law, in order to apply it to meet the needs of the current generation and future generations.”

Since the creation of the Petroleum Fund in 2006 and until the end of 2020, were authorized by the National Parliament, transfers in the total amount of 13,419.5 million USD, with withdrawals actually made in the amount of 12,548.6 million USD (94% of the authorized amount) for financing the State Budget. The total value of the ESI for the period was 7,696.7 million USD, with the transfers above this amount reaching 4,851.9 million USD (61% above the ESI).

The Capital Development expenditures planned for 2020 were USD 213.4 million, of which USD 153.4 million financed through the State Budget and USD 60 million financed through loans.

From the above, it follows that of the authorized transfer above the ESI of USD 419.5 million, only USD 153.4 million was for infrastructure construction, while USD 266 million was for Current Expenses (Salaries and Wages, Goods and Services and Public Transfers) and Minor Capital.

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19 According to no. 2 of art. 6 of Law no. 10/2020 of October 19th
20 Justification required by paragraph d) of Article 9 of Law No. 9/2005, cit. Parliament a “[j]ustification as to why it considers to be in the long the long term interests of Timor-Leste to transfer an amount greater than the Estimated Sustainable Income”.
21 Cf. Letter from the Prime Minister, dated September 15, 2020, addressed to the President of the National Parliament regarding the ”[j]ustification of making a transfer from the Petroleum Fund above the Estimated Sustainable Income” published on the MoF website.
Recommendation 3

Withdrawals from the Petroleum Fund in excess of the ESI be used for expenditures for infrastructure construction.

Finally, it should be noted that according to the information in Book 1- Budget Overview (OGE 2020):

Under this fiscal ceiling, as well as under the assumptions made, the model predicts that the Petroleum Fund will be exhausted in 2035, 15 years from now. As the Fund approaches zero spending will have to fall rapidly in order to match domestic revenue, as this will become the only source of income (apart from foreign debt). The model estimates that this will mean a 71% drop in spending over two years (2033 to 2035), falling from $2.3 billion to $659 million (the year in which spending will have to match domestic revenue). If revenues do not increase as quickly as the model predicts, the drop in spending will have to be even greater. It is therefore essential that domestic revenue mobilization be a priority for the government in the coming years through the implementation of tax reform and public finance management.

Given the fact that in the last ten years, the representativity of tax and own revenues in the financing structure of the state grew by only 1%, i.e. from 8.5% to 9.5% and that the estimates in the 2020 Budget Panorama indicate that funds from the Petroleum Fund may be exhausted within 15 years, it is urgent that the Government adopts measures to ensure the sustainability of public finances.

2.4 BUDGET AMENDMENTS

The transfers of funds between expenditure categories reached a total value of USD 12.7 million and resulted, essentially, from the use of the Contingency Reserve included in the Salaries and Wages category. The final budgetary allocation for the 2020 Contingency Reserve was USD 10.4 million, of which USD 7.7 million has been executed by the different public entities according to the utilization requests they submitted.

Table 2 - EXPENDITURE BUDGET CHANGES - 2020

<table>
<thead>
<tr>
<th>Descrição</th>
<th>Orçamento Inicial</th>
<th>Orçamento Final</th>
<th>Administração Direta Estado</th>
<th>Entidades Autônomas</th>
<th>Fundo Consolidado</th>
<th>FDCH</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salários e Vencimentos</td>
<td>207.2</td>
<td>0.9</td>
<td>0.3</td>
<td>1.2</td>
<td>0.0</td>
<td>1.2</td>
<td>208.4</td>
</tr>
<tr>
<td>Bens e Serviços</td>
<td>552.3</td>
<td>-10.0</td>
<td>11.9</td>
<td>1.9</td>
<td>0.0</td>
<td>1.9</td>
<td>554.1</td>
</tr>
<tr>
<td>Capital Menor</td>
<td>9.2</td>
<td>0.5</td>
<td>-0.6</td>
<td>-0.7</td>
<td>0.0</td>
<td>-0.7</td>
<td>9.1</td>
</tr>
<tr>
<td>Capital de Desenvolvimento</td>
<td>213.4</td>
<td>0.0</td>
<td>-2.6</td>
<td>-2.6</td>
<td>0.0</td>
<td>-2.6</td>
<td>210.8</td>
</tr>
<tr>
<td>Transferências Públicas</td>
<td>504.3</td>
<td>-12.0</td>
<td>-8.7</td>
<td>-9.9</td>
<td>0.0</td>
<td>-9.9</td>
<td>494.4</td>
</tr>
<tr>
<td>Despesas de Contingência</td>
<td>0.0</td>
<td>8.5</td>
<td>1.1</td>
<td>9.6</td>
<td>0.0</td>
<td>9.6</td>
<td>9.6</td>
</tr>
<tr>
<td>Total</td>
<td>1,486.3</td>
<td>-14.4</td>
<td>1.4</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1,486.3</td>
</tr>
</tbody>
</table>

Fonte: OGE e CGE 2020
Obs: (*) Serviços sem autonomia financeira; (**) Inclui SFA, Órgãos Autônomos e Municípios.

In 2020, the budget for the direct administration of the State22 decreased by USD 1.4 million, an amount that was used to reinforce the budget of the Autonomous Entities.

22 Where the budgetary allocation for the Contingency Reserve foreseen in the Appropriations for the entire Government is included.
2.5 DECREES ON BUDGET EXECUTION

Between January 1 and October 18, 2020\textsuperscript{23}, the duodecimal regime was in force, in accordance with the Government Decree no. 1/2020, of January 15 (Budget Execution in a duodecimal regime in the 2020 financial year). This Decree extended the validity, until the entry into force of the State Budget for 2020, of the provisions of Government Decree no. 3/2019 of March 27\textsuperscript{24} on budget execution for 2019.

The 2020 State Budget, approved by Law no. 10/2020, of October 19, came into force the day after its publication and took effect on January 1, 2020\textsuperscript{25}, and the provisions for its implementation, monitoring and reporting, were approved by Government Decree no. 14/2020, of October 23.

In 2020, all the documents relative to the budget execution were published in its electronic version, in accordance with article 1(2) of Law no. 1/2002, of August 7, and with article 11 of the Law on Budget and Financial Management (LOGF).

\ldots

\textsuperscript{23} Approved the rules governing budget execution under the duodecimal regime in the 2020 financial year. Amended by Government Decree no. 4/2020, of April 4 to include exceptions to the application of the duodecimal regime not foreseen.

\textsuperscript{24} Amended by Government Decree no. 5/2020 of 4 April to incorporate specific rules regarding the execution of expenditure during the duration of the state of emergency.

\textsuperscript{25} Cf. article 28 of the 2020 State Budget.
14. PUBLIC-PRIVATE PARTNERSHIPS

14.2 PORT OF TIBAR

RDTL and Timor Port, SA, signed the Tibar Port Concession Agreement, for a period of 30 years, on June 3, 2016.

As a result of this concession agreement, charges were incurred by the State of Timor-Leste in the amount of USD 129.5 million, by way of viability gap funding.

The agreement foresees that the subsidy will be placed by RDTL in the escrow account (escrow deposit contract), from which the disbursements will be made to the concessionaire upon achievement by the latter of each of the foreseen milestones.

In effect, RDTL and Timor Port, SA, opened the escrow account with UOB (United Overseas Bank) in 2016, and the deposit of the subsidy amount of 129.5 million USD was made in the same year.

Construction of the Port began on August 30, 2018 and was scheduled to be completed by August 30, 2021. However, due to the Covid-19 pandemic, its completion was extended by an additional 9 months, with completion expected by May 31, 2022.\(^{160}\)

The payments made between 2019 and 2020, are evidenced in the following table.

Table 57 - DISBURSEMENTS MADE UNDER THE PPP

<table>
<thead>
<tr>
<th>Ano</th>
<th>Data</th>
<th>Valor</th>
<th>Relação 2%</th>
<th>Desembolso</th>
<th>Total</th>
<th>Perda de Receita</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>20/08/2019</td>
<td>6,343,050</td>
<td>129,450</td>
<td>6,472,500</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>04/12/2019</td>
<td>12,945,000</td>
<td>0</td>
<td>12,945,000</td>
<td>258,900</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>04/08/2020</td>
<td>12,945,000</td>
<td>0</td>
<td>12,945,000</td>
<td>258,900</td>
<td></td>
</tr>
<tr>
<td>08/01/2020</td>
<td>12,945,000</td>
<td>0</td>
<td>12,945,000</td>
<td>258,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 2019</td>
<td>19,286,050</td>
<td>129,450</td>
<td>19,417,500</td>
<td>258,900</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 2020</td>
<td>25,890,000</td>
<td>0</td>
<td>25,890,000</td>
<td>517,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Global</td>
<td>45,176,050</td>
<td>129,450</td>
<td>45,307,500</td>
<td>776,700</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


As stated in the CGE 2020 "The Government of Timor-Leste received in 2019, 2% withholding at source for the 1st stage payment\(^{161}\) and the amount of USD 129,450 was transferred to the FCTL account. However, Port Tibar was guaranteed the Investor Certificate, as consequence, there will be no withholding tax for the payment of the 2nd stage\(^{162}\) onwards."

Consequently, during the year 2020, the payment to the concessionaire of the amount of 25.9 million USD\(^{163}\), was exempted from the 2% withholding tax, with the loss of revenues for 2020 corresponded to the amount of USD 517,800. Overall, in the period 2019 to 2020, the revenue losses with Port Tibar, amounted to 776,700 USD.

As a result of the payments made, the value in the escrow account, in 2020, was 92.8 million USD\(^{164}\).

\(^{160}\) The extension agreement signed on July 17, 2020.

\(^{161}\) The amount of 6,472,500 USD.

\(^{162}\) 2% of 12,945,000 USD= 258,900 USD.

\(^{163}\) The payments made in two phases: amounting to 12,945,000 USD in each.

\(^{164}\) Includes interest in the amount of 8,605 thousand USD.
The account generated net interest (after deducting bank charges) of USD 8.6 million of which USD 2.9 million refers to the year 2020. This interest constitutes income for RDTL, under the terms of the Escrow Agreement entered into\textsuperscript{165}.

However, this interest has not been accounted for as state revenue in the CGE, which is why they are understated by this amount.

In note 4 to the Financial Statements it is stated that "under the terms of the Custody Agreement, [the interest] will be transferred from the Escrow Account to the Infrastructure Fund Account Infrastructure Fund Account at BCTL after the completion of the Tibar Port project and the closing of the Guarantee Account.\textsuperscript{166}"

Notwithstanding that the account opening agreement does not allow the interest to be transferred to the IF account before the agreement expires and the respective accounts are closed, nothing prevents the interest received being recorded in the CGE as income for the respective year.

We therefore reiterate the recommendation from previous years.

**Recommendation 31**

*The revenues from interest on bank deposits must be accounted for in the year of their receipt.*

**15. STATE INVESTMENT IN TL CEMENT**

TL Cement’s investment project involves the construction of a limestone extraction and cement production unit located in the municipality of Baucau, with the participation of public capital.

Through Government Resolution no. 14/2016 of May 6, the draft Special Investment Agreement (SIA) was approved. Following this resolution, on May 17, 2016, the SIA was signed between RDTL and TL Cement, Lda. with a view to the construction of the referred cement production unit.

Later, through Government Resolution No. 41/2016 of November 23, the participation of the State of Timor-Leste in the commercial company TL Cement, Lda. was approved, up to a maximum limit of 40% and the draft of the promissory contract for capital increase and transformation of the company.

This Government Resolution also determined the payment/transfer of the amount of 4.9 million USD to the account of TL Cement, Ltd. for subscription and paid-in capital by the State.

The promissory contract was signed on November 23, 2016, and the transfer of the said amount to the company's account was made that same year. However, the entry of the State in the Share Capital of TL Cement, Lda. had not yet materialized, as well as the physical execution of the project where nothing has happened.

Government Resolution no. 27/2018, of December 18, approved the drafts of the new by-laws of TLC, SA, and of a shareholder agreement to be signed between the State and the partners of TLC, Lda.

Under this Resolution, the Government authorized the ANPM to proceed with the subscription of a new increase in share capital, to the amount of 4,900,000 USD, so that the State will now hold shares corresponding to 40% of the share capital of TLC, SA, thus increasing the State's participation in the company to a total value of 9,800,000 USD.

This second value of 4,900,000 USD is to be paid through the sum of 50,000,000 USD deposited in the bank account opened specifically for the State's investment in the project, by ANPM, with the Central Bank of Timor-Leste.

\textsuperscript{165} Cf. clause 2.4 of the agreement.

\textsuperscript{166} Observation resulting from clause 3.3, ibid.
The same resolution also determined that the remaining 45,100,000 USD deposited in that bank account held by ANPM and dedicated to the State’s investment in the project await a decision by the Council of Ministers defining the concrete terms of that investment.

On December 21, 2018, a request was sent to the Chamber of Auditors (CdC) by the Presidency of the Council of Ministers requesting its understanding CdC to be informed if the granting of the public deeds required for the purpose of subscription and payment of increased share capital in TLC, approving the respective new Articles of Association, and the execution of the Shareholders agreement by the State constitute acts and/or contracts not subject to prior review by the Chamber of Auditors”.

Following the request from the Presidency of the Council of Ministers, regarding the understanding of the CdC on the subjection to prior review of acts of public deeds necessary for the purpose of subscription and payment of increased share capital in TLC, approving the respective new Articles of Association, and the execution of the Shareholder Agreement, by the State, the Court confirmed to the Presidency of the Council of Ministers on January 18 2019 the subjection of those acts to prior review by the CdC.

However, to date, no act relating to the incorporation of TLC, SA has been sent to the CdC for prior review.

Currently, the analysis of the legality and regularity of these public transfers carried out as well as the compliance of the parties to the signed agreements, is currently being verification within the scope of a CdC audit of the Public Transfers under TL Cement - years 2016 to 2019.

17. CONCLUSIONS

Based on the results of the analysis of the 2020 CGE, the following conclusions can be highlighted, which summarize the main aspects of the matters presented throughout this document:

**Budgetary Process**

1. The 2020 State Budget was approved by Law no. 10/2020 of October 19, having entered into force the day after its publication and took effect on January 1, 2020. Between January 1 and October 18, 2020, the duodecimal system was in force.

2. In 2020 the total estimated budget for State Budget expenditures was approved in the amount of USD 1,497 million was approved and remained unchanged during 2020.

3. The State Budget expenditure for 2020 represented an increase of 15 million, corresponding to 1% compared to the value of the budget for the year 2019.

4. In 2020, the Fiscal Deficit inherent to the State Budget presents a value of 1,324.8 million USD, having registered an increase of 41.4 million USD, compared to the value forecast for 2019 (1,283.4 million USD).

5. The value of the transfer from the Petroleum Fund, for financing the State Budget, was 963.9 million, of which USD 544.4 million corresponds to the ESI and USD 419.5 million above the ESI.

6. The approval, by Parliament, of the transfers to be made from the Petroleum Fund, during the year 2020, followed the rules in Articles 8 and 9 of Law No. 9/2005.

7. The transfer of the amount exceeding the estimated sustainable income was intended, in part, to support current expenses related to the financing of the State administration.
8. The Capital Development expenditures planned for the year 2020 were USD 213.4 million, of which USD 60 million, financed through loans.

9. Of the above authorized transfer from the ESI, USD 266 million, were intended to meet Current Expenses (Salaries and Wages, Goods and Services and Public Transfers) and Minor Capital, not having as exclusive purpose the construction of infrastructure.

10. Since the creation of the Petroleum Fund in 2006 until the end of 2020, the National Parliament has authorized transfers in the total amount of 13,419.5 million, having been effectively carried out withdrawals in the amount of USD 12,548.6 million (94% of the authorized amount) to finance the State Budget.

11. The total value of the ESI for the period was 7,696.7 million USD, with the transfers above this amount transfers above this amount reached 4,851.9 million USD (61% above the ESI).

12. In the last ten years, the representativity of tax and own revenues in the structure for financing the State grew only 1%, i.e. from 8.5% to 9.5% and estimates in the 2020 Budget Overview indicate that the funds of the Petroleum Fund may be exhausted in 15 years, it is urgent that the Government adopts measures to ensure the sustainability of public finances.

13. The transfers of funds between expenditure categories reached a total value of 12.7 million USD and resulted primarily from the use of the Contingency Reserve included in the category of Goods and Services in the Whole of Government Appropriations.

Accountability

14. The CGE for the year 2020 was prepared by the Ministry of Finance and submitted to the CdC by the Government, in the person of the Prime Minister, on July 30, 2020, i.e. within the legally established period.

15. The Government's accounts were published on the website of the Ministry of Finance, in compliance with the principle of publicity set out in Article 11 of LOGF.

16. In 2020 the CdC was sent, within the deadlines established in article 44 of LOGF, the reports on the evolution of the budget for the three, six and nine months of the months of the year.

17. In general, the 2020 CGE contains the information foreseen in article 45 of the LOGF.

18. The CGE does not include asset accounting, which includes the value of real estate and other assets and liabilities of the state, nor information on commitments undertaken as a result of multiannual programs and contracts, namely that provided for in paragraphs g) and h) of no. 3 of that article.

19. The 2020 CGE reflects the budget execution (receipts and payments) of the ministries and services of the direct administration of the State (without financial autonomy), the SFA, the Municipalities, the Autonomous Organs and the FDCH.

20. The IPG and the ANPM are subject to the budgetary discipline established by the LOGF, as SFA with the nature of public institutes, and for this reason they should be included in the State Budget and CGE. The non-inclusion of these entities and of all their revenues and expenses in the and expenses in the State Budget and the CGE constitutes a phenomenon of "off-budgeting", which consists of the realization of revenues and expenditures outside the State Budget and the CGE.

21. The RAEOA accounts are outside the perimeter of consolidation of the State accounts, violating the principles of budgetary unity and universality, despite the fact that Note 15 to the Financial Statements of the CGE contains information about its budget execution.

23. From a universe of 61 public entities, including the Covid-19 fund, endowed with administrative and financial autonomy existing in 2020, it was found that in 2021 only 17 entities sent the proper annual accountability documents. accountability documents to the CdC.

State Budget Funding

24. The State Budget for 2020 authorized transfers from the Petroleum Fund up to amount of 963.9 million USD.

25. The State Budget for 2020 provided that the financing of expenses for 2020, in the global amount of 1,497.1 million USD, would be secured by transfers from the Petroleum Fund (64.4%), by Domestic Revenues (11.5%), Donations (0.7%), Balance of Treasury Account (19.4%) and through Loans (4%).

26. The total value of the expenditure in the different sources of financing reached 1,386.9 million, which corresponds to 92.6% of the budgeted amount, that is, below the forecast. This situation resulted, essentially, from the 50.2% execution of loans.

Revenue Budget Execution

27. The 2020 State Budget foresaw a total revenue of USD 1,734.4 million, of which USD 963.9 million refer to "Petroleum Revenues", USD 172.3 million from Domestic Revenues, Donations 10.6 million USD, Management Balance 527.6 million USD and 60 million from Loans.

28. Revenue collected in 2020 showed a decrease of 25.9% compared to 2019.

29. The petroleum fund revenues collected in 2020 in the amount of 794.5 million USD, were lower than the execution value of the FP transfer of the 2020 OGE of 886.3 million USD. Thus it is concluded that the remainder of the transfer value of 91.7 million, was taken from the value of the petroleum fund balance.

30. The receipts from loans, associated with the execution of public works, were only 30.1 million USD.

31. In 2020, Domestic Revenues totaled USD 181.9 million, a decrease of USD 7.4 million compared to 2019, as a result of the decrease in Tax and Non-Tax Revenues, by USD 6.9 million and USD 0.3 million, respectively.

32. In the last 5 years, Tax Revenues recorded a decrease of 20.6% compared to 2016 and Non-Tax Revenues recorded an increase of 20.6%.

33. As for the revenue loss, similar to what happened in 2019, in the 2020 CGE only the information on the tax not collected by the Customs Authority is included.

34. Regarding the tax not collected by the Tax Authority, the only information included is on the tax due but not collected in 2020, relating to revenue losses from 2014 to 2018 (amounting to USD 6.1 million), for tax benefits granted to companies, which submitted the Annual Income Report, excluding companies with an investor certificate that report annual income but submitted returns with income at zero, as well as the service tax of companies with tax benefits that reported their monthly returns with income at zero.

35. The largest uncollected amount concerning customs import duties relates to the exemptions provided for in the Tax Law for diplomatic representations, agencies of the United Nations and specialized agencies which in the period from 2016 to 2020 amounted to USD 8.4 million (57%).
36. In 2020, following the Covid-19 pandemic, the Government through the Minister of Justice established a temporary rent payment exemption regarding certain properties belonging to the private domain of the State, with the exemption in force for a period of 3 months starting on April 1 and ending on June 30, 2020, having been granted rent exemption to 3670 lease contracts representing a revenue loss for the State amounting to 1.5 million USD. This information does not appear in the 2020 CGE.

37. In 2020 the collection of Tax Revenue reached 115.5 million USD, which corresponded to an execution of 100.4% of the estimated value. The execution level of Goods Taxes reached 114.4%, while the execution of Other Taxes was 93.1%.

38. Taxes on goods represented 55.7% of the Tax Revenue collected in 2020, with Consumption Tax being the most significant (36.3 million USD).

39. In other taxes, the Withholding Tax stood out, rising to 17.7% (20.4 million USD) of the Tax Revenue collected in the year.

40. In 2020, Non-Tax Revenues amounted to 66.4 million USD, suffering a decrease of USD 0.2 million compared to the previous year (-0.4%) mainly due to the decrease in revenue from Municipalities and Autonomous Regions.

41. The revenue collected by the EDTL / Directorate General of Electricity, relative to the supply of electric energy, of $35.5 million, represent, in 2020, 53.5% of Non-Tax Revenues and 61% of the revenues of the State’s Direct Administration services.

42. The services of the Direct State Administration collected revenues totaling 58.2 million USD (87.7% of total Non-Tax Revenues for the year), 0.5% more than the year 2019, with the collection of dividends by the BCTL, in the amount of 6.5 million USD, which was not foreseen in the budget for the year 2020, as in the previous year.

43. Revenue from "Autonomous Entities" is still low, representing 4.3% of Domestic Revenue and 11.9% of Non-Tax Revenue, and showing a great dependence on appropriations from the State Budget.

44. As in previous years, APORTIL was responsible for almost half (41%) of the revenue collected by all the "Autonomous Entities", followed, in terms of revenue representativity, by the Timor Lorosa’e National University (UNTL), which collected 23% of the Non-Tax Revenue of these entities.

45. It was found that in 2020, 2 of the SFA without revenue budgeted in the State Budget proceeded to the collection of revenues, whose total value amounted to at least USD 5 thousand.

46. As regards the municipalities, there were also situations in which revenues were collected during the year without having been budgeted in the State Budget.

47. The revenues collected by the Autonomous Entities, over the last three years, have registered a decrease, which is explained in part by the decrease in hospital revenues.

48. In 2020, the HNGV deposited revenues amounting to 331 thousand USD. However according to bank account statement was provided by HNGV noted that collected revenues were not deposited daily, in non-compliance with the provisions of Article 13(5) of the Government Decree on the Execution of the General State Budget for 2019.

**Expenditure Budget Execution**

49. The final State Budget for the FCTL reached USD 1,486.3 million, with expenditure in the total amount of USD 1,118.8 million, corresponding to a budget execution rate of 75.3%.
In 2020, compared to 2019, there was an increase in expenditure on Public Transfers (14.6%), with, on the other hand, a decrease in expenditure on Capital Development (46%) and Minor Capital (81%).

The largest part of the expense went to the category of Public Transfers, which registered the amount of USD 388.8 million, corresponding to 34.8% of the total executed and whose execution rate reached 78.4%.

Expenses with Goods and Services and Salaries and Wages represented 32.5% and 18.5%, respectively of the total expenditure. It should be noted that these expenses with wages and salaries (206.4 million USD) were higher than domestic revenue (181.9 million USD) by 24.5 million USD.

Compared to the previous year, the amount paid in Salaries and Wages, recorded an increase of 1.7%, or more than USD 3.5 million than in 2019.

The final FCTL budget for Goods and Services amounted to USD 556.2 million, with expenditure of USD 363.4 million, corresponding to 32.5% of total expenditure for the year and registering an execution rate of 65.3%.

In 2020, there were 924 contract employees, or 461 fewer employees than in 2019 (1385). However, these figures are unreliable, as both the FDCH and ANAAA submitted divergent information with the MoF regarding the number of employees.

Both FDCH and ANAA have not established the CPRC according to article 9 Government Decree No. 6/2015 of November 18. In 2020, 10 contracted employees took unpaid leave to perform duties in other entities, contrary to the provisions of Article 2(4) of the same decree.

In 2020, the expenditure included in the Other Miscellaneous Services subheading increased by about USD 1 million compared to 2019 (USD 42 million), reaching an execution rate of 46% and amounting to USD 43 million.

In the Other Miscellaneous Services subheading (710), there was a Other Miscellaneous Services subtopic (7199), under which payments were identified for purchases of Christmas articles (baskets, gifts, coupons and vouchers) with a total value of 26,192.60 USD.

The State Budget for 2020, presented an estimate for expenses with Public Transfers in the total amount of 504.3 million USD, which was reduced by 8.4 million USD, through budget amendments, setting its final value at 496 million USD.

The expenditure incurred in the category of Public Transfers reached 388.8 million USD, which corresponds to 34.8% of the available appropriation. This value represented an increase of 14.6% (49.5 million USD) compared to the previous year, when the Public Transfers totaled 339.3 million USD.

This growth resulted, essentially, from the increase in the amount of public transfers from the FCTL for payment of the "Uma Kain" subsidy in the national territory, in the year a transfer of 63.6 million USD was executed.

The Minor Capital had a final budget of 9.1 million USD, with expenditures of 5.3 million, which represented an execution rate of 57.9%.

Capital Development investments amounted to 154.9 million USD, representing 13.8% of total expenditure and with an execution rate of 73.5%.

These investments were made, essentially, through the Infrastructure Fund, which was responsible for expenses of 138.7 million USD (90% of total Capital Development expenditures).
65. As in previous years, it was noted that expenses were paid through the Contingency Reserve that do not fit the concept of "unforeseeable and unpostponable expenses", amounting to 4.8 million USD.

66. In 2020, the expenses made by the Services of Direct State Administration (services without administrative and financial autonomy) were around 680.6 million USD, representing an overall execution rate of 80% of the available budget which corresponds to a decrease of 15.1% (121.2 million USD) compared to 2019.

67. The total expenditure incurred by the Autonomous Public Agencies, which include the SFA and the Autonomous Organs (sovereign bodies), reached 414.6 million USD, and registered an increase of 9.3% compared to the previous year corresponding to 35.2 million USD.

68. The vast majority of this expenditure relates to the Covid 19 Fund. 194.3 million, representing 46.9% of the available appropriation, and an execution rate of 58.3%. In terms of size, it is followed by the IF, with an expenditure of USD 138.7 million (33.5% of the total) and the UNTL, with USD 13 million (3.1%).

69. The Municipalities' expenditure amounted to 28.6 million USD, with a budget execution rate of 95.7% and a decrease of 17.5% (6 million USD) when compared with the previous year. compared to the previous year.

**Infrastructure Fund**

70. In the OGE for 2020, a global allocation of USD 184.9 million was approved for the IF, of which of which USD 60 million to be financed through loans.

71. The executed expenditure reached USD 138.7 million, representing an overall execution rate 75% and the loan-financed component was USD 30.1m, which corresponds to an overall execution rate of USD 30.1 million, which corresponds to an execution rate of 50%.

72. The largest part of the budget was due to the Roads program (93 million) and the investment reached 85 million (61.3% of total expenditure) and in comparison with the previous year the budget suffered a decrease of 58%.

73. In comparison with the previous year the Tasi Mane program had a cut of 58.6 million USD. In 2020 a budget of 2 million USD was foreseen and the executed expenditure was 953 thousand USD, which represents an execution rate below 50%.

74. If we consider the value of the investments made in the three programs, Roads, Tasi Mane and Loans (30.1 million USD), we conclude that a total of 116.1 million were invested in the construction, rehabilitation and maintenance of roads, which represents more than half (84%) of the total IF expenditure in 2020, with only 16% going to other projects.

75. As in previous years, the CGE does not present information regarding the execution of the state supported component (through the IF) in the programs co-financed by the loans. This information is provided in the Annual Report of the IF for 2020.

76. Since the creation of the Infrastructure Fund, first in the nature of a "special fund" and since 2016 as an "autonomous fund", budgets for a total amount of USD 4,813.3 million have been approved. The expenditure between 2011 and 2020 (10 years) totaled USD 3,140.4 million, which represents an execution rate of 65.2%.

77. Compared to previous years, the 2020 IF budget has seen a decrease of 50% of the total amount.

78. During 2020, a total of 479 projects and 449 contracts were approved in the Infrastructure Program. The Roads program accounted for the largest number of projects, with 160 projects (33% of the total), followed by the Electricity program with 98 projects (20% of the total).
79. A total of 348 procedures were carried out through direct award. Under the Roads program, 160 procurement procedures were carried out by direct award (46% of the total) and only 1 by national public tender. In the Electricity program, all 98 contracts were awarded by direct award.

80. By the end of 2020 the contracts concluded generated a total value of 2,161 million USD. The largest share of this expenditure corresponded to contracts awarded by international public tender (1,559.8 million USD) and by direct award, whose value amounted to 570.2 million USD.

81. As reported in the IF Annual Report, in 2020, there were 143 projects (approved on July 17, 2017) according to the following distribution: 135 projects under the Roads Program, 8 projects under the Bridges Program, and 1 project under the Defense and Security Program.

Human Capital Development Fund

82. In 2020, the FDCH was allocated an overall allocation of USD 10,732 thousand and revenues amounted to 8,394 thousand USD. The execution of expenditure 8,813 thousand USD, corresponding to 82% of the foreseen endowment. The execution of expenditure thus exceeded the revenue collected in the year, the difference was sustained by the balance from the previous year.

83. The "Scholarships" program was the one with the highest execution with an expense of 4,958 thousand USD and an execution rate of 79%. It is followed by the "Technical Training" program, with an expenditure of 1,330 thousand USD and an execution rate of 92%. The FDCH registered several programs with a total of 5,470 beneficiaries, of which 2,379 were in the Vocational Training program and 1,241 in the Technical Training program.

84. According to the information provided by the Executive Director of the FDCH-MESCC, the FDCH does not have information regarding the numbers of beneficiaries who did not finish their studies as well as the beneficiaries who returned the money including the returned amounts.

85. The FDCH granted a subsidy to students in Indonesia and East Timor based on the individual requests of these citizens, without, however, creating its own regulation with the criteria for granting these subsidies.

Global Execution of the State Budget

86. Overall expenditure was 1,132.5 million USD, corresponding to a budget execution rate of 75.6% of the available rate of 75.6% of the available appropriation.

87. The Current Deficit was 781.5 million USD, below the estimated deficit of 1,094.1 million USD, as a result of the budget execution of Current Expenses being 76.1%.

88. The Fiscal Deficit was about 950.6 million USD, with a 71.8% execution rate.

89. The budget surplus was 234.9 million USD, with the contribution of the previous year’s Treasury Account Balance, in the amount of 258.6 million USD.

90. The value provided for transfers from the Petroleum Fund of $963.9 million was far above the real financing needs of the State Budget, since only the amount of 886.3 million USD was executed.

91. The cash surplus occurred only in the FDCH, while the FCTL registered a deficit, which was financed by the balance from the previous year.

92. Current Expenses registered USD 972.2 million, representing 85.8% of the total, with the respective execution rate reaching 76.1%.

93. The largest part of expenditure was allocated to Public Transfers in the order of 388.8 million USD which represents 34.3% of total expenditure, having registered an execution rate of 78.4%.
94. The Acquisition of Goods and Services constituted the second largest aggregate of 376.9 million USD, or 33.3% of the total.

95. Capital Expenditure totaled USD 160.3 million, which represents only 14.2% of total expenditure.

96. Consolidated receipts totaled 1,102.7 million USD and consolidated payments 1,109.4 million USD.

**State Treasury**

97. At the end of 2020 the total amount of cash balances was USD 271.2 million, most of which related to the Consolidated Fund of Timor-Leste.

98. The cash balances are understated since they do not include the cash balances of the RAEOA, ANPM and IPG, public entities that should be included in the consolidation perimeter of the CGE.

99. The cash balances are also understated since they do not include the bank deposit in the custody of the ANPM, related to the State’s investments in TL Cement (50,280,428.15 USD).

**Port of Tibar**

139. The Tibar Port Concession Agreement was signed between RDTL and Timor Port, SA, on June 3, 2016, for a term of 30 years.

140. As a result of this concession agreement, the State of Timor-Leste allocated the amount of 129.5 million USD, as a viability gap funding.

141. In 2016, RDTL and Timor Port SA opened an escrow account with the United UOB (United Overseas Bank), having deposited in the same year the amount of the grant, of USD 129.5 million, was deposited in the same year.

142. The first payment or disbursement made for the Port of Tibar occurred in 2019, although that the concession contract was signed in 2016.

143. In 2020, payment was made to the concessionaire for the amount of USD 26 million, from which the 2% withholding tax was not deducted.

144. The total disbursements or payments made, in 2019 and 2020, were 45.3 million USD.

145. In 2020 Port Tibar was guaranteed the Investor Certificate, as a consequence, during 2020, the payment to the concessionaire of the amount of 25.9 million USD, was exempted from withholding tax of 2%, and the revenue losses of 2020 amounted to 517,800 USD. Overall, in the period from 2019 to 2020, the revenue losses from Tibar Port, amounted to 776,700 USD.

146. In 2020, the remaining amount in the escrow account was 92.7 million USD. The account earned net interest (after deducting bank charges) of USD 8.6 million of which USD 2.9 million was for the year 2020. This interest was not accounted for in the 2019 CGE as state revenues, so they are understated by that amount.

**State investment in TL Cement**

147. The SIA was signed between RDTL and TL Cement, Lda. for the construction of the referred cement production unit.

148. Through Government Resolution no. 41/2016 of 23 November, the State of Timor-Leste’s participation of the State of Timor-Leste in the commercial company TL Cement, Lda. up to a maximum limit of 40%, as well as the draft of the promissory contract for capital increase and transformation of the company.
149. The State's entry in the Share Capital of TL Cement, Lda., to date, has not materialized despite the payment of the USD 4.9 million in question.

150. The transfer of the USD 50 million to the bank account opened by the ANPM with the BCTL for this specific purpose.

151. Through Government Resolution No. 27/2018, cit. the draft of the New Articles of Association of TL Cement, SA, a company to be incorporated, and the Shareholders Agreement between the State and the Partners of TL Cement, Lda.

152. The Shareholders Agreement provided for the subscription and implementation of a new capital increase by the State in the additional amount of 4,900,000 USD, so that the State's stake in TL Cement, SA, will reach a total amount of 9,800,000 USD.

153. Following the request of the Presidency of the Council of Ministers, on the understanding of the CdC on the subjection to prior supervision of the acts of execution of the public deeds necessary for the purpose of subscription and realization of increased share capital in TLC, approving the respective new Articles of Association, and the conclusion of the Agreement Parasocial Agreement, by the State, the Court confirmed to the Presidency of the Council of Ministers on January 18, 2019 to subject those acts to prior supervision by the CdC. To date, no act has been sent for prior supervision by the CdC relating to the establishment of TLC, SA.

154. The analysis of the legality and regularity of these public transfers carried out, as well compliance of the parties with the signed agreements, is currently being analyzed within the scope of a CdC audit of the Public Transfers within TL Cement - years 2016 to 2019.

**Covid Fund**

155. The Covid-19 fund was created in April 2020 under Law no. 2/2020, April 6, amended by Law No. 5/2020, June 30, and Law No. 10/2020, October 19.

156. The Covid-19 Fund was regulated by Decree Law n. 12/2020, of April 14, establishing it as an autonomous fund endowed with administrative and financial autonomy whose management is managed by the Management Council.

157. The purpose of the fund is to finance the expenses related to the measures of prevention and fight against the COVID-19 disease, namely, with the acquisition of medicines, materials and medical equipment used in preventing and combating the SARS-Cov-2 virus and COVID-19 disease, the installation and maintenance of quarantine and isolation facilities, training and operationalization of professionals, the acquisition and supply of essential goods and social protection to victims of the SARS-Cov-2 virus and disease, the mitigation of the economic and social effects of the COVID-19 pandemic and the consequent economic recovery measures.

158. In 2020, the total budget allocated to the Covid-19 Fund was USD 333.2 million, of which of which USD 219.5 million was transferred from the petroleum fund, USD 113 million from the OGE, and 0.75 million USD from the ILO.

159. The USD 748 thousand from the ILO financier was aimed at supporting the operational implementation scheme of the Monetary Support to Low Income Households measure to reduce the adverse effect of the Covid-19 pandemic in Timor-Leste.

160. The budget of the covid-19 fund totaling 333.2 million USD was distributed to three programs, namely: prevention and mitigation of covid-19, sustainable increase in production and productivity, and access to food, non-food and services.

161. The largest share of the budget, 310.3 million USD, was allocated to the COVID-19 Prevention and mitigation program.
162. The execution rate related to Covid-19 fund revenues from April 17 to December 31, 2020 was USD 220.3 million, corresponds to 66% of the planned budget.

163. The executed expenditure amounted to USD 194.3 million, representing an overall execution rate of around 58% of the total budget of the COVID-19 fund.


165. As part of the CdC’s monitoring of the financial and physical execution of the of the covid-19 fund, information on the financial and physical execution of the measures was found, but it is not sufficiently detailed and reflected in the Budget Execution Reports of the Covid-19 Fund.

166. It was verified, also, that reports were not prepared on the implementation and supported beneficiaries, despite being foreseen in the various diplomas that created the measures.

167. From the analysis of the Budget Execution Reports of the COVID-19 Fund that the information included in them is insufficient since it does not include for all the a) The revenue foregone by the State as a result of the measures taken as part of the pandemic the measures taken as a result of the pandemic (lost revenue); b) The expenditure actually incurred with the measures taken as part of the pandemic, since the expenditure paid out may be less than that actually incurred.

18. RECOMMENDATIONS

In the RPCGE, the CdC may make recommendations to the National Parliament or the Government, with a view to the elimination of the identified deficiencies.167

Thus, considering the main conclusions and observations formulated in this Report, it is recommended that the Government adopt the following measures:

1. The State Budget should include, in Annex 1, all information on the forecast of petroleum revenues.


3. Withdrawals from the Petroleum Fund in excess of the ESI should only be used for expenditure on infrastructure construction.

4. The CGE must present information about the commitments assumed by the State resulting from multi-annual programs and contracts, under the terms of the provisions of article 45.3(h) of the LOGF.

5. The consolidation of the State General Account must cover all the bodies that under the law, should be considered Autonomous Funds and Services, in compliance with the provisions of article 4 of the LOGF, as is the case, namely, of the Public Institutes.

6. The entities subject to accountability, under the terms foreseen in the LOCC, must annually send to the Chamber of Auditors the respective accountability documents by May 31st of the year following that to which they refer.

7. The concept of domestic revenue in the CGE should be standardized.

8. The State Budget must present information about the estimated revenue not collected as a result of the attribution of fiscal and non-fiscal benefits.

9. The annual audit of investor certificates and special investment agreements provided for in Article 49(2) of Law No. 15/2017, of August 23 (Private Investment Law) be carried out.

167 Cf. article 29(3) of the LOCC.
10. The CGE shall submit information on the loss of revenue from the measures implemented regarding temporary exemptions from payment of rent on state-owned real estate.

11. The Ministry of Justice should endeavor to collect the amount of rent arrears.

12. Proceed to the registration and budgeting of all revenues of the SFA and Municipalities in the budget law, in obedience to the budgetary principles of unity, universality and specification.


14. Detailed information be included in the CGE regarding the number of temporary employees and all employees governed by special statutes.

15. Greater rigor in the payment of expenses for the year so that the expenses of each year are paid in the years in which they are incurred.

16. Compliance with the provisions of articles 2 and 9 of Government Decree no. 6/2015 of Nov. 18.

17. Expenses are not made and paid without any relation to the activity of the services and that lack a legal basis, namely those due with the acquisition of Christmas baskets.

18. Present in the CGE correct and detailed information about all the beneficiaries of public concessions.

19. Contingency funding should not be used for payment of expenses that are part of the normal and recurrent activities of the Ministries and other public services, whose expenses must be foreseen in the respective appropriations included in the General State Budget.

20. The requests for use of the Contingency Reserve must be analyzed by the Ministry of Finance in light of the requirements prescribed by law for its use.

21. That all information in the annual report of the Infrastructure Fund be standardized.

22. The Statements of Payments and Receipts of all accounting entities should include a breakdown of their year-end cash balances.

23. The General State Account should consolidate the cash balances of all public entities that in obedience to the budgetary principles of unity and universality should integrate the consolidation perimeter of accounts.

24. See to it that the food allowance can only be paid together with remuneration.

25. The establishment of the Legal Regime of Autonomous Funds and Services and a clear definition of clearly define the degree of their financial autonomy.

26. That all information about direct support by the European Union be included in the CGE.

27. The CGE Report should present information about the portfolio of financial assets held by the State, including shareholdings and credits granted to third parties, as well as, on the inventory of all movable and immovable assets of the of the state, in compliance with the provisions of article 45.3(g) of LOGF.

28. That greater control be exercised in updating the inventory and assets situation reported at the end of the year.

29. The RAEOA should deposit all its revenue in the State bank account, in compliance with the rules on the receipt of public monies and collection of revenues contained in the LOGF and the Budget Execution Decrees.

30. That the INSS be diligent in obtaining extra-budgetary information and proceed to its relevance either in the CGE or in the Covid-19 Fund report.

31. The revenues from interest on bank deposits must be accounted for in the year of respective receipt.
32. The MSSI and the MoF should articulate their services and ensure that all beneficiaries with monthly incomes over $500 return the amounts unduly received.

33. The reports on the implementation and impact on the supported beneficiaries, foreseen in the various diplomas that created the Covid-19 pandemic measures.

34. Provide in the CGE and the Covid-19 Fund Reports detailed information on the expenditure actually incurred for the pandemic measures, as the expenditure paid out may be paid out may be less than what was actually spent.

35. Accurately include in the CGE and Covid-19 Fund Reports detailed information regarding the revenue that the state has foregone as a result of pandemic the measures taken as a result of the Covid-19 pandemic.

PART III. OPINION

Emphasis

Petroleum Fund

- Non-reporting in Annex 1 of the 2020 State Budget, of the revenue forecast by origin of the revenue origin (Taxes, Royalties, Profit of the Petroleum).

- Non-compliance with the provisions of paragraph d) of Article 9 of Law No. 9/2005 (Petroleum Fund Law, amended by Law No. 12/2011 of September 28), regarding the use of transfers above the ESI, which should be made in the long term interest of Timor-Leste. In 2020, of the withdrawals above the ESI amounting to 419.5 million, USD 266 million were intended to meet Current Expenses (Salaries and Wages, Goods and Services and Public Transfers) and Minor Capital, while only USD 153.4 million were for infrastructure construction.

- The estimates in the 2020 Budget Overview warn that the Petroleum Fund may run out of money in 15 years, which could jeopardize the sustainability of public finances.
RIGHT OF REPLY
Democratic Republic of Timor-Leste
Ministry of Finance

Your Excellency Judge Counsellor of the Court of Appeal
Jacinta Costa Correia

Subject: Reply to the Court of Appeal/Chamber of Auditors on the exercise of the Contradictory Opinion on the Report and Opinion on the State General Account for the year 2020.

In reference to the findings identified in the RPCGE 2020 I present the following responses on the measures and in the Contradictory Exercise.

Contradictory 1 : 2.1. (page 12)
Response:
Annex 1 of the State Budget Law for 2020 describes the source of revenue and expenditure of the state budget that needs the approval of the National Parliament from Petroleum Fund, only transfers from the Fund (that is, ESI and withdrawal above the ESI) have been considered as sources of revenue to finance the state budget expenditure, along with estimated domestic revenues, loans and other sources of funding.

The estimated petroleum revenues (i.e. petroleum taxes, royalties and profit oil and expected return on investment of assets in the PF are NOT revenues for the state budget, but revenues for the Petroleum Fund, and therefore do not require Parliamentary approval and have been excluded from Annex 1. However, the information on petroleum revenues was presented and discussed in Budget Book I, Section 2.4.2. Petroleum Revenues and Petroleum Fund, Table 18.

Contradiction 2: 2.1. (page 12)
Response:
The letter sent to the President of the Court of Appeal, dated 11 September 2021, explained the reasons for the delay in the publication of the PF Annual Report for 2020 due to the delay in the appointment of the new auditor and the change in the accounting treatment of PF loans to Timor GAP EP from amortized costs to fair value as recommended by the auditor. This requires an independent assessment of the value of the loan. Since then, the Ministry of Finance has requested that BCTL contract an independent expert to appraise the loan. The estimated fair value will then be incorporated into the Fund’s final 2020 financial statements.

The publication of the Petroleum Fund’s annual report and financial statements has been delayed while we await Timor Gap’s audited financial statements. The value of Timor Gap’s shareholding in Greater Sunrise was necessary for the Petroleum Fund to complete its 2020 financial statements because the loan is expected to be repaid from the cash flows that Timor Gap receives from Greater Sunrise. The loan agreement requires that audited financial statements be provided to BCTL by April 30 of each year. However, Timor Gap only provided its audited consolidated financial statements to BCTL and the Ministry of Finance at the end of September. In its financial statements, Timor GAP E.P. reduced the value of its interest in Greater Sunrise from $673,566 million to nil as of December 31, 2020, creating an impairment provision of $673,566 million. This followed an independent valuation of the asset performed on behalf of Timor Gap. According to the notes in Timor Gap's consolidated financial statements, the impairment loss was triggered by: uncertainty about the tax and regulatory regime of the Greater Sunrise Special Regime; uncertainty about the agreed development concept of the Joint Venture partners; revisions to medium and long-term oil/gas price forecasts; and the expected effects on margins of the macro-environment, the COVID-19 pandemic and energy market supply and demand fundamentals.
Timor Gap’s impairment of the full value of its participating interests in Greater Sunrise is likely to affect the value of the Petroleum Fund’s assets, the loan and, therefore, the Fund’s total balance and performance for 2020. The value of the Fund at the end of 2020 is $18,990,615 million when the loan is valued at $701,350 million. The Fund’s net investment income in 2020 is $1,859,947 million, which includes accrued interest on the loan. If the fair value of the loan is less than the carrying value, the change in value will be deducted from investment income.

The independent appraisal is still ongoing. The independent appraiser appointed by BCTL has indicated that the work will take 4 to 6 weeks (starting in October). On November 8, they informed BCTL that their valuation team needs to continue to consult with their oil and gas team to assess and evaluate the information provided, including the need to have access to Timor GAP E.P. to underline the data related to Greater Sunrise. These exceptional circumstances of the loan appraisal result in a further delay in the reporting of the Petroleum Fund.

The Petroleum Fund’s audited financial statements and accompanying annual report will be published as soon as possible. The governing bodies of the Petroleum Fund are strongly committed to transparency as a fundamental principle and will follow the requirements of international accounting standards to ensure that the financial statements of the Fund give a true and fair view of the financial position and performance of the Fund.

Contradiction 3 : 2.2. (page 12)
Response:

According to the Budget Law (Law No. 10/2020, of October 19 (TABLE I, page 15), the total of revenue estimates to be collected by the Bodies and Services of the Central Government and the RAEOA in 2020 was USD 1,734.4 million, is composed of the following:

<table>
<thead>
<tr>
<th>Categoria</th>
<th>Valor (miliones de dolares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferências do Fundo Petrolífero</td>
<td>963,9</td>
</tr>
<tr>
<td>Receitas Tributária</td>
<td>165</td>
</tr>
<tr>
<td>Receitas próprias</td>
<td>6,8</td>
</tr>
<tr>
<td>Doações</td>
<td>10,6</td>
</tr>
<tr>
<td>Juros</td>
<td>0,5</td>
</tr>
<tr>
<td>Saldo de Gerência (Tesouro + RAEOA)</td>
<td>527,6</td>
</tr>
<tr>
<td>Empréstimo</td>
<td>60,0</td>
</tr>
<tr>
<td>Total da receita</td>
<td>1,734,4</td>
</tr>
</tbody>
</table>

Of the total revenue above, the total for financing the expenditure for the same year was 1,497.04, which represents the total of the State Budget for the year 2020, according to TABLE I (page 15) and TABLE II (page 47) of Law no. 10/2020, of October 19 on the General State Budget for 2020), and a total of 237.4 million of management balance (RAEOA: 177.4 million and Treasury: 60.1 million) was considered unused for financing expenditure in 2020 as provided in the budget law.

Therefore, based on the confirmation of the referred Law (Law no. 10/2020, of October 19 on the General State Budget for 2020), there is no Divergence between the value of the General State Budget indicated in the OGE and CGE. Because, the value referred to by USD 1,734.4 in the RPCGE is revenue for the year 2020 and is not expenses (OGE) for 2020.