



Speech of H.E. the Prime Minister of Republic Democratic of Timor-Leste, Taur Matan Ruak

In occasion presentation of the 2021 General State Budget Law Proposal

National Parliament, November 30th 2020

Your Excellency,

Mr President of the National Parliament;

Your Excellencies,

Vice-Presidents, Secretary and Vice-Secretaries of the National Parliament;

Your Excellencies,

Ladies and gentlemen Members of Parliament from all Political Benches;

Excellencies, Dear Colleagues

Members of the 8th Constitutional Government;

Distinguished Guests;

Ladies and Gentlemen;

People of Timor-Leste;

Introduction and context

This State Budget that our Nation proposes to approve has been developed in response to the unprecedented challenges our Nation faced during 2020. My Government has formulated this budget in order to revitalize our economy, to protect and to invest in our People, and to provide our youth with the opportunities they need to insert themselves into society to fulfil their dreams.

Documentation includes 9 different budget books, which total roughly 1,500 pages and describe the planned expenditures of 91 different Ministries, State Secretariats, and Public Institutions. Over 1,800 different activities have been costed. You will notice that the format of this year's budget has significantly changed, as we have for the first time, adopted a program based

budgeting approach. This will provide a foundation to the better management of our results and performance, and to more efficiently allocate scarce public resources, both now and in the future. Rather than repeating what has been detailed in the books, my speech will provide the context and rationale for the major decisions we are making through the budget. I will highlight significant trends and identify some of the most important priorities of our Government in the upcoming year.

2020 was the most challenging year we faced, since the early days of our independence! We were tested by a disastrous storm of unexpected events. We were confronted by the COVID-19 pandemic, by floods, and by an extended political impasse which tried our very democracy. These uniquely challenging times showed the strength of our Nation and its success in acting together as one, as a united Government at the service of its People and our People's societal capacity for resilience and adaptation to shocks.

The Government and we, as a People and a Nation, tackled COVID-19 decisively and effectively. We quickly mobilized over US\$ 220 Million, including US\$ 92 Million for immediate economic response measures. With unprecedented planning and speed, we developed an emergency response unit. We built a system of quarantine, testing, track and tracing. We significantly strengthened our health system and supported our health professionals and front line workers. Our Government and National Parliament made bold and far-reaching decisions, in record time. We protected our borders. Our People united. Timorese wore masks, washed their hands, and maintained social distancing. A total of 18 laws and regulations were approved by the Government to ensure a timely response to COVID-19. Within days of the creation of a state of emergency, electricity subsidies were being implemented and water was being provided free of charge. We replenished our emergency food supplies. We maintained our international connectivity through Darwin to keep supplies and expertise moving. Roughly 300,000 households were provided a US\$ 200 universal cash transfer. Wage subsidies were disbursed. We assisted our students trapped overseas and we stimulated agricultural production. Our stabilization measures protected families from loss of income, falling into poverty, and unemployment and helped firms sustain their cash flow and keep many workers employed. On top of this immediate response, on the 12th of August, the Government approved an Economic Recovery Package. This contains 71 short and medium-term measures to be implemented between 2021 and 2023. The plan aims to increase employment, to ensure all jobs are both productive and dignified. It aims to spur public social investment, in education, health, housing, and social protection. Finally, it aims to promote sectors and areas that contribute to economic growth. The full cost of this program in the 2021 state budget will be US\$ 124 Million.

To what degree did we successfully protect our economy and the health of our People?

Our Ministry of Health and our security forces performed with precision. There were fears that we would experience between 13,000 and 65,000 infected persons. The worse-case scenario projected deaths of almost 12,000 Timorese. Despite these fears, our Country accomplished one of the best health outcomes not only in our region, but in the entire world. To date, 30 People have been infected and as I speak we don't have any active cases. We are free of community transmission. Timor-Leste is one of only 26 countries in the world where no deaths have been recorded. When our collective future was at stake, we managed a shared and coordinated response that enabled us to overcome some of the worst threats of the pandemic. For now, in many ways, life continues as normal.

At the time of the pandemic, economic forecasts were similarly dire. Some projections predicted GDP losses of 10 to 15%. There were widespread concerns over food shortages and price inflation. There were fears a great number of households would fall deeply into poverty. In 2020 we lacked an approved state budget, which essentially froze spending during much of the year. This negatively affected economic growth, especially in sectors like construction. Natural disasters, including huge floods, struck nearly 5,000 families in the first half of the year. Despite these obstacles – COVID-19, a budget freeze, and natural disaster – economically, we have fared much better than expected. We project our GDP will decrease not by 10% or by 15% but by only 6% in 2020. We project inflation in 2020 reached only 0.7%. We handled price inflation of food and critical goods because we put in place policy measures to ensure that price gouging in high-demand goods and hoarding doesn't occur, focused on maintaining a functioning food supply fundamentally by increasing agricultural production of staple food items through subsidies of key inputs for the 2020/2021 planting season, and ensured continuity in the distribution and supply of essential goods, in particular through a national stock of staple foods, medical supplies, pharmaceuticals and clinical equipment.

We learned much from our experience in 2020. We learned our People and the State are resilient and capable. We learned we can be very innovative. We learned we must maintain a sense of urgency if we want to achieve something substantial. Lastly, and perhaps most importantly, we have learned that decisive action requires decisive resources.

The objective of the Government's economic policy now is to speed up the recovery with a greater level of Government support as we face multiple challenges. The path towards progress will not be through a misguided and premature turn toward fiscal austerity impeding the much needed path of strong recovery, resilient, and inclusive growth. Rather, with a robust fiscal stimulus that boosts aggregate demand significantly we will bring forward private sector investments and restore consumer confidence. The Government will continue to expand its protection of people, save jobs, sustain consumption, and catalyse private sector activity.

Size of the Budget

Mr President of the National Parliament,

Honourable Members of the National Parliament,

Our 2021 state budget mobilizes significant resources to invest in our Nation.

Our economy will not recover fully nor immediately from these shocks. This is the case worldwide, in virtually all countries, as it takes time to turn things around. Our tourism and hospitality sector will continue to be impacted. Oil prices will remain volatile. International movement of goods is still constrained. Consumers are expected continue to delay some of their spending, and our trading partners are facing difficult economic times. There will continue to be both demand and supply disruptions. We therefore project our non-oil GDP in 2021 will grow by 3.9%, that there will be a rebound in private investment and household consumption. This turnaround will be due in part to the fiscal stimulus announced in our state budget. And, this rate of growth, if realized, will be the highest rate of growth since 2014. Unfortunately, because of the contraction in 2020, our non-

oil GDP, a measure of the size our economy, will only reach US\$ 1.57 Billion in 2021. This is virtually the same level we achieved in 2017 and 2018.

To ensure the Timorese economy rebounds in 2021 the Government's economic development efforts will fight the recession, structural problems, and the Coronavirus shocks decisively. With a growing population, the need to catalyze economic growth is more important than ever.

This coming year, the state budget plans to spend, in total, almost US\$ 1.895 Billion, of which about US\$ 9.1 Million is being contributed by development partners. This budget is 27% higher than last year's revised budget and is equivalent to about three-fourths of our total GDP. In all, our Government will be spending about US\$ 1,400 for each and every Timorese citizen. What we spend must provide value. It must restore our economy, and it must meet the needs and expectations of our citizens.

Why is this year's budget different than past budgets?

First, we are a young Nation and we must continue to build our Country and we need to help prevent deeper and protracted economic downturns. The ability to stimulate the economy will allow for a fuller recovery, welfare, and resilient growth. A strong economic response that boosts demand and supply in the economy, supporting the recovery, and that helps employment when the economy is depressed is desirable.

Our history shows us that upon independence our infrastructure had been virtually destroyed and we lacked skills, knowledge, and know-how. As the magnitude of those challenges became evident, public spending ramped up to large levels. In a similar way, today's recession and multiple crises have decelerated economic activity to negative GDP levels seen in first post-independence years, but, this time, the output gap is wider. Therefore, as our past Government spending ramped up during persistent distress, now in the greatest crisis we need to focus on quickly moving additional resources deemed strategic to take the economy back to pre-coronavirus levels of GDP, and then to a path of resilient and sustainable growth. Continued public investment is therefore still required for the economic resuscitation in the areas of infrastructure that leaves the private sector with more resources and incentivizes firms to invest in more capital and hire more workers, a "healthy Timor-Leste" to achieve wellbeing and quality of life, education to ensure the learning and skills needs of children, youth and adults are met, and conditional cash transfers for vulnerable households. For example, in 2021 we will be spending US\$ 474 Million on capital investment, an increase of almost US\$ 271 Million from the previous year.

Second, there remains significant health, economic, and societal risks, and the economic shocks just described are expected to linger throughout the year. We faced economic recession in three of the past four years, in 2017, 2018, and 2020. We must carefully and quickly restore our Nation to positive growth. Furthermore, unlike other countries, our monetary toolbox is limited since we use US dollars and we must rely on fiscal stimulus. Therefore, now is most certainly not the time for austerity. In times of crises, we ought to adopt countercyclical investment and spending measures to ensure the economy rebounds strongly and returns to its long-term growth path.

Most countries have adopted countercyclical measures. Even the IMF recent October 2020 fiscal monitor finds that "*Fiscal policy action amounted to around US\$ 12 trillion globally and this policy action contributed to restored orderly financial market conditions and extended critical lifelines to households and firms.*" In making the case for public investment, they estimate that "1 percent of

*GDP increasing public investment in advanced and emerging markets has the potential to, within two years, push up GDP by 2.7 percent, private investment by 10 percent, and most importantly to create between 20 and 33 million jobs directly and indirectly*¹.

Finally, thirdly, and most importantly, this is also not the time to turn our backs on the most vulnerable in our society. Many Timorese continue to live in or near poverty and we must remain dedicated to ensuring a strong social safety net in these most trying of times. For example, in our state budget, we plan to expand the number of vulnerable children we support, increasing support from 101,393 to 146,527 children through the Bolsa da Mãe Program.

Without a fiscal stimulus we would remain on a slow path to recovery and we would be reversing the progress made since the restoration of peace. Our policies will speed up recovery, will boost aggregate demand, and will restore consumer confidence. Most importantly, they will bring forward private sector investment, will create or save jobs, and will ensure the private sector remains our primary engine of growth. Timorese can be self-assured that the State will guarantee that Timor-Leste is pulled out of the crisis and emerges strong.

Financing the Budget

Mr President of the National Parliament,

Honourable Members of the National Parliament,

Our Budget will be primarily financed through withdrawals from the Petroleum Fund; taxes; non-tax revenues, such as licenses, charges, and user fees; loans; and donor contributions.

As of January 2021, the value of the Petroleum Fund will be about US\$ 18.3 Billion. This is US\$ 410 Million higher than it was in the beginning of 2020. This Fund remains the heritage of each and every Timorese; it is a store of wealth as well as a means of funding critical public services and promoting the development of our Nation. If the Petroleum Fund was an individual bank account, each Timorese would have almost US\$ 14,000 dollars in his or her account.

As such, the Petroleum Fund was designed to be used in a sustainable manner, so that it could benefit future generations. The Fund is currently invested 5% in cash, 55% in Government bonds, 35% in equities and up to 5% in petroleum related operations, through a private debt placement in Timor GAP. While some oil revenues are expected in the future, from 2022 and 2023 we can expect only an additional US\$ 141 Million to be generated. At that point, revenues may cease until other sources of oil and natural gas come on line.

In any given year, a sustainable withdrawal is calculated as 3% of the value of the total wealth of the Fund. Therefore, for 2021 the Estimated Sustainable Income (ESI) amounts of US\$ 547 Million. As described in our 2021 state budget, total withdrawals to our activities require US\$ 1,378 Million for the Petroleum Fund, equivalent to 7.5% of our petroleum wealth. In 2021 withdrawals will be above the Estimated Sustainable Income (ESI) by US\$ 830 million.

¹ October 2020 Fiscal Monitor, IMF.



While withdrawals from the Petroleum Fund cannot grow indefinitely without harming the financing of future public expenditures, there are several reasons why we have agreed to withdraw an excess of US\$ 830 Million this year. Firstly, we are confronted by a deep economic downturn; this threatens living standards and our quality of life. It potentially places our population at extreme risk of poverty. In good times we should build up our petroleum wealth, while in bad times we should draw from to make direct investments that support our national economy and benefit future generations. Second, the Petroleum Fund's return since inception to September 2020 has been 4.6% per annum. Multiple Governments have, in fact, withdrawn over 3% of the available wealth, going beyond the Estimated Sustainable Income (ESI). As long as the return to our public expenditure exceeds 4.6%, for example, when we build a road or a school, when we promote and develop our agricultural diversification, or when we educate our children, withdrawals are financially justifiable.

The Petroleum Fund will finance a bit over 74% of our 2021 state budget. To reduce this dependency, we are dedicated to diversifying our revenue sources.

In 2021 we expect to raise US\$ 124 Million in direct and indirect taxes, such as income tax and excise and import duties. Though this represents a 12% increase from 2020, it is still equivalent to only US\$ 93 dollars per person, or less than US\$ 10 dollars per person, monthly. Such levels of revenue collection cannot finance public services at any meaningful level. While the need to increase tax collection is clear, in the long-term, there are disadvantages to this when compared to the Petroleum Fund. Taxes are potentially distortionary to the economy and they may have high costs of collection and compliance.

In addition to the collection of taxes, in 2021 we expect to raise US\$ 54 Million in fees and charges, including payment for public services, licensing, royalty charges, and the like. Our 2021 collection is expected to be 6% higher than 2020.

As an alternative to the Petroleum Fund, we have developed a strategy to increase concessionary borrowing and the issuance of public debt. This represents an important change and a key innovation. Since the interest rate on these vehicles is expected to be less than the return we now receive to our assets in the Petroleum Fund, this is a cheaper source of funding that will save the Nation money. Sound and transparent debt management will, however, be critical to ensure foreign borrowing ensures the cost of debt and fiscal risks are contained. To be specific, we are proposing an estimated ceiling of US\$ 400 million for new concessional foreign loans to be negotiated in 2021. This is equivalent to roughly 26% of GDP. Our debt-carrying capacity has been rated as "medium" by the World Bank-IMF Debt Sustainability Framework for Low-Income Countries, meaning we can handle debt accumulation due to our sound macroeconomic performance, overall debt sustainability, and low risk for debt distress. To further raise the finances, we need, we also plan to issue public debt bonds with a ceiling of US\$ 20 million, equivalent to about 1.3% of GDP.

These figures depend on the approval of the Government bonds legal framework during 2021.

Current loans contracted by the Government of Timor-Leste are used to finance key infrastructure projects and continue to have relatively low rates of interest and significant grace periods. Total loan financing for 2021 is US\$ 71 million. The strategic sectors such as water, education, telecommunication, and air transports are expected to receive concessional financing. This would

help unleash diversification and the growth potential of other key economic activities, leading to inclusive economic growth and poverty reduction.

Lastly, the total use of cash balances for the 2021 State Budget is US\$ 247 million, of which US\$ 150 Million is from the Consolidated Fund with the remaining US\$ 97 million from RAEOA/ZEESM. Included in our revenue sources is US\$ 9.1 million as direct budget support from European Union. We urge other development partners to follow the European Union's courageous lead and to increasingly contribute towards use and strengthen the State's financial management systems.

In summary, reliance on the public sector is not permanent and our spending is intended to enable human development and to promote private sector growth. Further action will be taken to safeguard the assets of the Petroleum Fund and to ensure fiscal sustainability by developing sources from alternative revenues, including improved tax collection and concessional borrowing. The Government has made Fiscal and Public Financial Management Reforms a clear priority and the development of a detailed program and action plan is under way, under the leadership of the Minister of Finance. These reforms will optimize the design and implementation of public investments; they will ensure budget transparency and value for money in public expenditure; and they will strengthen domestic revenue collection to restore fiscal sustainability once our recovery is firmly underway.

Our economic and fiscal strategy maintains our commitment to Timor-Leste's national development, improvement of the life of the people, poverty reduction, and sound fiscal policy and debt sustainability, which considers the long-term interests of East Timorese and future generations.

Expenditure Overview

Mr President of the National Parliament,

Honourable Members of the National Parliament,

Consistent with the four pillars of our 2011-2030 Strategic Development Plan, planned expenditures will strengthen our social capital expected to be US\$ 541 million, US\$ 475 million in infrastructure development, an overall support of US\$ 338 million for our economic development, and US\$ 470 million to consolidate our institutional framework.

The recovery will be achieved with a comprehensive Economic Recovery Package (ERP) that includes considerable infrastructure investments, an expansion of social protection for most vulnerable families, and main investments in agriculture, manufacturing and tourism to achieve higher productivity. With a sizable response of nearly US\$ 124 million we can prevent a catastrophic economic crisis and come back to a stronger economic growth.

Timor-Leste will also be required to strengthen its economic and fiscal policy against other large and pre-existing vulnerabilities and structural problems. Features such as the low-income levels, modest improvements in human development and delays in Government spending because of budget constraints throughout 2020, indicate that the Country needs critical and optimal spending levels to positively affect macroeconomic stability, economic opportunities, and production possibilities in the economy.

More generally, the 2021 State Budget will finance an infrastructure push that enables human development and sustainable private sector growth, structural transformation of the non-oil economy and diversification of the export base that places Timor-Leste on the path towards stronger, more inclusive, and resilient growth, it targets gaps to allow the agriculture, health, education, tourism, petroleum, and manufacturing sectors to grow, and it makes investments to expand our social protection, as well to improve the educational prospects and health outcomes of current generations. The long-run effects are expected to be positive because we are coming from below our economy's potential output.

Our expenditure is oriented to:

- Invest our oil wealth in our People, especially our youth. The future of our economy and our development lies in the knowledge and skills of our People. We will also ensure our citizens have the skills needed to hold both technical and professional positions throughout the Country;
- Facilitate the private sector to create meaningful, dignified jobs. We will increasingly promote a few key sectors such as high end coffee export, agri-processing, fisheries, tourism, and construction. With these investments we promote trade and foreign direct investment. We will significantly improve our business climate;
- Strengthen the resilience of our population through a robust social safety net, disaster management, a stronger national health system with larger investments in primary healthcare and public health infrastructure, and better environmental management;
- Shift from basic infrastructure development, such as roads, into strategic infrastructure projects that have a clear and direct impact on the economy and people's livelihoods. For example, we will lay a submarine fibre optic cable, developing an industrial park, and upgrading our ports and airports in order to ensure more competitive prices and the increased movement of goods and people;
- Reform the functioning of our judiciary and public service, in order to ensure fairness, efficiency, innovation, transparency, and value for money in everything we do.

In the remainder of my speech I will highlight several strategic priority areas of the 2021 State Budget.

Expenditure priorities

Mr President of the National Parliament,

Honourable Members of the National Parliament,

HUMAN DEVELOPMENT/SOCIAL

Social Protection

As a component of the State Budget, social protection is more important than ever to help stimulate domestic demand and help the economy rebound in 2021.

To make the recovery and growth fair and equitable, the Government will mobilize the necessary financial resources intended to maintain Timor-Leste's social protection system as we emerge from the crisis, while strengthening and expanding it where there are gaps by growing access and increasing coverage to our national population. The Government is seeking to reinvest in contributory social protection with the recent creation of Timor-Leste's Social Security Reserve Fund for better access and higher coverage of previously large portions of excluded People. The proposed funding will address the coverage gaps and reach significant new portions of individuals—an additional 45,134 beneficiaries, under Bolsa da Mãe, and around 23,000 more in the case of old combatants and their families. The beneficiaries are amongst the most vulnerable to the current economic shocks and require a wider support from the Government. By protecting individuals and households, our social protection will help cushion the blow to their livelihoods, while it plays a central role in the economic recovery.

The overall social spending to help strengthen the social protection system is around US\$ 166.7 million (8% of the total state budget). This includes allocating the required budget support of US\$ 93.6 million for pension payments and health treatment of veterans, US\$ 42.7 million for social security transfers to protect workers and their families, US\$ 15.5 million for the provision of pensions for permanent civil servants, US\$ 8.9 million to improve the lives of vulnerable children under the Bolsa da Mãe Program, and US\$ 6 million in pension payments for former leaders and members of sovereign bodies. With the mobilization of these resources, we protect individuals and families and address the economic, health and social dimensions of the present and crisis and all future crises.

Education and Health

Timor-Leste needs to significantly increase and improve the provision of public goods—like healthcare and education.

The COVID-19 pandemic has revealed the vital importance of accessing a quality national health system capable of providing healthcare and a public health infrastructure that covers the needs of our population. The total budget support to the health sector ascends to around US\$ 86 million (4% of the total state budget). The investment in primary healthcare is the largest with US\$ 29.1 million, including investments in new health posts and spending on the services provided for disease control, health in the family, medical emergencies, nutrition services, which supports our epidemiological surveillance strategy. We reinforce secondary and tertiary healthcare with US\$ 19.6 million which includes US\$ 10.9 million for inpatient care, US\$ 7.2 million for outpatient services, and US\$ 1.3 million for infrastructure. Moreover, an investment of US\$ 11.4 million in National Hospital Guido Valadares covers its needs for secondary and tertiary healthcare. An overall support of US\$ 10.7 million to the Serviço Autónomo de Medicamentos e Equipamentos Médicos (SAMÉS) helps reinforce and prepare medical supply chain, pharmaceutical management and health logistics to prevent, detect and treat diseases. The Infrastructure Fund will finance US\$ 4.8 million to complete the construction of the Baucau Hospital and ICU units and Paediatric facilities at National Hospital Guido Valadares.

Supporting investment in education is another major component of the state budget. The education ministry's budget rises to US\$ 111.4 million (5% of the total state budget), where about

US\$ 78.4 million is an investment in our children, especially important, since at early ages, preschool and basic education will ultimately lead to their human potential and strengthen their conditions in the future as young adults and productive citizens for their active participation in sustainable development and Nation-building. About US\$ 3 million funds pre-school infrastructure, US\$ 17.9 million funds basic education infrastructure, US\$ 4 million implements the Centres of School Learning and Training (CAFE is the Portuguese Acronym for Centro de Aprendizagem e Formação Escolar) and US\$ 44.9 million is for paying basic education teachers and workforce. To put this into perspective, according to a recent UNICEF scientific evidence, for every dollar we spend in pre-primary education we produce US\$9 of benefits to society². With this intervention we will at least increase our enrolment in basic education to 96 percentage points. About US\$ 24.9 million is directed to support secondary education, including US\$ 10.4 million in infrastructure to allow for an adequate learning environment because this improves our students' performance and US\$ 12 million is to pay teachers and workforce for service delivery. On the other hand, we focus investments in our higher education system to continue to promote quality and access. Around US\$ 26.4 million is proposed for this sector, including US\$ 6.3 million for the ministry of higher education and US\$ 20.1 million for the National University of Timor-Leste in order to maintain services for students, research and scientific investigation capacity. This intervention will help ensure 50% of Higher Education institutions are accredited, that 1350 students holders of scholarships abroad succeed in their school performance, that priority research for our Country is completed in the areas of agro-production systems, agro-economy and law relating to the culture and tradition of East Timor, and to produce 170 doctors, nurses and midwife professionals, 263 economic and management professionals, 158 social science professionals, and 26 in the legal profession. The Infrastructure Fund will finance US\$ 4.8 million to complete the Nova Escola Polo de Baucau and prioritizes building the Polytechnic School of Aileu and Betano, and the New University Campus em Aileu.

INFRASTRUCTURE

Public infrastructure is the foundation of our social and economic development. In 2011 we established the Infrastructure Fund to build and maintain essential infrastructure, including roads and bridges, ports and airports, electricity, water and sanitation, public facilities, and other strategic sectors. These investments, in the form of multi-year projects, are funded from the state budget and through public private partnerships and external loans. Over the 10 years of its operations, the Infrastructure Fund has completed 988 projects while an additional 868 projects are ongoing, new, or planned. Since the inception of the Fund, the total value of all approved projects has been US\$ 4.8 billion while execution has reached US\$ 3.1 billion, or 64%. In implementing these projects 61,325 jobs were created.

In the 2021 state budget, we will invest US\$ 474 Million in capital and development, including US\$ 340 million from the Infrastructure Fund. While a 2019 World Bank study showed the average developing Country to be investing 4% of their GDP in public infrastructure, our infrastructure was severely degraded by years of war and conflict. In 2021 the Infrastructure Fund will be investing roughly 13% of our total GDP in public infrastructure.

² UNICEF, 2020. COVID-19: A REASON TO DOUBLE DOWN ON INVESTMENTS IN PRE-PRIMARY EDUCATION.

Our Government program prioritizes improvements to the governance of the infrastructure sector. Because our investments have a clear opportunity cost, we must choose them wisely, ensuring they generate social and financial returns which justify the scarce resources we have allocated. We will continue to hold our projects to high standards of transparency, feasibility, environmental impact, competitive procurement procedures, quality assurance, and value for money. During 2021 we will comprehensively review our planning processes and institutions, ensuring our safeguards are robust and effective.

For the purpose of my speech I will focus on only a few subsectors. I will discuss electricity, the President Nicolau Lobato International Airport, the Tibar Port, information technology, roads, and the petroleum sector.

Electricity

As described in our Government program, access to a regular and reliable supply of electricity is a basic right as well as a key building block of our economy. We aim to ensure electricity 24 hours a day, for all citizens, at an affordable and fair price. Our program also commits us to, increasingly, relying upon renewable energy sources. Over US\$ 1 Billion has been spent in the electricity sector since 2011.

Unfortunately, our power sector is still plagued by high costs, frequent disruptions, inefficient distribution, and excess capacity. We generate our electricity by burning diesel, which, by its nature is expensive and environmentally damaging.

In our 2021 budget we will invest US\$ 18 Million to strengthen our distribution system, mostly lines and transformers, to reach more and more citizens. We will also spend almost US\$ 140.1 Million, or about 7% of our budget, towards fuel and the maintenance of electricity generators in Hera and Betano.

Because our generation costs are high, we must continue to significantly subsidize electricity to our consumers. Even though we will be spending some \$US 140 Million on electricity, we will be raising only US\$ 33 Million in electricity fees. And, despite these subsidies, our businesses face prices that are significantly higher than most ASEAN countries. For example, in Dili, in 2016-7, our enterprises paid over twice the unit price paid in Bangkok, Hanoi, and Singapore, and almost three times the price paid in Jakarta.

The problems in our electricity sector largely reflect the technology currently in use. In 2021, we will develop a project or a series of projects, to generate power more cheaply, cleanly, and sustainably, through either solar or LNG. To support these technological changes, we will also transform Eletricidade de Timor-Leste (EDTL) into a public enterprise. This will strengthen its autonomy and allow it to run in a more efficiency and business-like fashion.

President Nicolau Lobato International Airport

The upgrade of the Presidente Nicolau Lobato International Airport is a priority of our Government. We need to expand its runway, ensure the airport meets safety and other aviation standards, and to provide lighting for night-time flights. In 2018 we attracted 275 thousand

passengers while, in 2019, this figure dropped to under 100,000. For our tourism sector to realize its full potential, we aim to reach 1 million passengers per year. This will require price reductions, increase traffic, and increased competition.

Runway expansion will allow larger and heavier planes, originating from longer distances. The estimated investment required totals US\$ 483 million, to be financed through a combination of the State Budget, loans, public private partnerships, and donor grants. In 2021, we allocated \$US 16 Million from the Infrastructure Fund to cover land acquisition, compensation and other initial activities. Loan negotiation and mobilization is expected to conclude in 2021. Construction of the first of the three phases should begin in mid-2022 and should be completed by 2024.

Tibar Port

Tibar Bay Port is a project of high, strategic national interest. It is the first Public-Private Partnership (PPP) we have been implementing. Construction began in August 2018, under the management of Bolloré Group, the holder of a 30-year, US\$ 490 Million concession contract. It is expected, following a 9 month extension due to COVID-19, for the construction to be completed in May 2022.

The Port expansion aims to solve current congestion problems and to allow larger vessels to dock. It should lower shipping costs and increase volumes. During 2021, we will complete a project preparation and feasibility study for an industrial park. Expected to be located in Liquiçá, this is expected to create 4,000 jobs and to promote transshipment, repackaging and export-oriented manufacturing linked to the Tibar Bay Port.

Information and Communications Technology

Our future depends on our ability to innovate and to make use of information technology. This will not only require changes in our Peoples' skills and education, but will require improved connectivity. We are one of only a few of countries in the world still connected to the internet via satellite rather than fibre optic cable. This technology is significantly slower, less reliable, and more expensive. According to 2019 data by Seasia.co, Timor-Leste has the second slowest internet speed in the world. Our speed is 25 times slower than the average across Asia and the Pacific. And, while our citizens pay, US\$ 300 per megabits per second, rates in Cambodia, Indonesia, and Australia are US\$ 8.1, US\$ 1.8 and US\$ 2.1 respectively. This situation negatively impacts our economic growth and inhibits our citizens from accessing information and from receiving a wide range of on-line services.

To transform our connectivity, in the 2021 we will invest US\$ 41 million to install a submarine fibre-optic cable through Australia's northern territory. It is expected that this cable will be laid in coming year.

Roads

This year, including loans from the Japanese Agency for International Cooperation (JICA), from the Asian Development Bank (ADB) and from World Bank, we will allocate US\$ 180 Million to the construction and upgrade of roads and bridges. These important investments in basic

infrastructure, which exclude Tasi Mane, comprises 51% of the Infrastructure Fund and roughly 9% of the total 2021 State Budget. Since the start of the Infrastructure Fund, over US\$ 1.1 billion has been allocated to the development of roads and bridges. As our infrastructure needs are increasingly met, these expenditures are expected to be reduced in the future.

In our 2021 state budget, an additional US\$ 25 Million is being allocated to the maintenance, rehabilitation and improvement of this infrastructure, including US\$ 6 Million for rural roads in our Roads for Development (R4D) program.

Petroleum

Our petroleum wealth will continue to finance the building of our Nation and our investment in our People's health, education, and well-being. These resources have been extremely well managed, achieving one of the highest rankings for governance of national sovereign wealth funds. As our petroleum resources in *Baya Undang* run down, our strategy is to exploit new fields in the *Greater Sunrise* area. In 2018, we negotiated a maritime boundary and treaty with Australia that increases our share of the revenues from 50% to 70%, as long as the petroleum is processed in Timor-Leste. An estimate by *Conoco Phillips, Shell, and Osaka Gas* projected the fields would generate approximately US\$ 50 Billion in revenues, while estimates of the investment costs required to establish a petroleum industry on the South Coast are, roughly, US\$ 18 Billion.

While investment costs are high, it is urgent we transform the oil sector, from the current stage of pure extraction, into a viable and industrialized sector that creates added value and ensures energy independence. While investment costs are high, the project is expected to generate, on net, approximately \$30 Billion of additional revenue, to be deposited in our Petroleum Fund. From this perspective, our petroleum investments are not an obstacle to an investment in People or human development, but instead they are a facilitator of this development. This \$30 Billion will be essential to finance the next stage of our development and this inter-generational transfer will provide a lifeline or our future generations. In our 2021 budget, we have allocated \$8.5 Million from the Infrastructure Fund for investment in Tasi Mane and \$71 Million to Timor GAP, contributing to the sensible management of our oil resources.

ECONOMIC DEVELOPMENT

Today's economic and societal risks necessitate a greater level of Government support. Once our health and social protection priorities are funded we focus on boosting pro-poor and equitable growth through a careful mix of productivity enhancing spending with an additional Economic Recovery package that immediately scales up and stimulates the economy.

The emergence of the Coronavirus, the internal crisis, and natural disasters led to this year's depressed level of economic activity. It is possible that the current recession is generally more concentrated in the period between Abril and June, that's when Timor-Leste, the entire region, and many parts of the globe went into a stringent lockdown. However, the recession appears to be short lived, as activities are normalizing faster than expected and as our fiscal capacities lift economic growth. Yet, it can be that some of the economic dislocations persist even after the recession ends. If National Parliament passes the budget law it will allow for the critical and immediate relief. A recession absent a State Budget and the subsequent constraint on

Government's public policies will engender a deeper economic fallout and harm People's livelihoods. The state budget therefore plays a critical role in fighting the recession. Hence, I wish to explain the few important ways in which our public policies funded with the state budget will help us in fighting this decline in economic activity but, more so, in how they play a role in sustaining the living standards and livelihoods of East Timorese across the Nation.

At a time when people's living standards are at risk and the COVID-19 shocks persist, and especially when the Country needs to overcome a deep contraction of 6 percent, it will be beneficial to trigger long-term effects on productivity and job creation now, while achieving positive short-term effects to alleviate that gap in gross domestic product.

Equitable growth on the back of strong policy support steered by high-return Government investments is both set to have significant impacts on long run GDP and welfare. These lasting effects are desirable and welcome to stimulate the economy, drive unemployment down, and build a path of better growth and resilience.

Our policies essentially aim to calibrate the decline in economic activity and accelerate the recovery.

First on supporting people and businesses. A prominent feature of the State Budget is to make it easier for Timorese and the private sector to borrow money. The logic is that this policy will both prevent individuals and businesses from going bankrupt and encourage People and businesses to take on loans to support their purchases, workers, and investments, which will ramp demand back up to reverse the economic contraction. This will be achieved with the capitalization of the National Trade Bank of Timor-Leste and the Central Bank of Timor-Leste with US\$ 50 million. We think it is important to capitalize the National Trade Bank and the Central Bank with US\$ 40 million and US\$ 10 million respectively because banks need to be resilient in the stress events caused by COVID-19 and the recession. Our banks need to have enough resources to continue to lend and to keep credit flowing into the whole economy, since this is meant to give them a cushion to be used in times of financial stress. It is in everyone's interest that our banking system is resilient so that they use the capital to make our economy stronger.

Second, we believe that we can achieve productivity gains and job creation with other policies that are supportive of the development of productive sectors.

In 2021, we will develop a new tourism policy, master plan and tourism brand, identifying the growth potential of each possible site with the aim to promote Timor-Leste as tourist destination in Asia Pacific, alongside various marketing activities such as fairs and exhibitions. The tourism budget available, for this purpose, is US\$ 11.9 million dollars.

Our policies and investments aim to promote and develop the agricultural sector as a main driver of the economy's structural transformation. Agriculture in Timor-Leste has been performing below its potential and hence not fully generating value to the economy. The share of agriculture in gross domestic product is less than 1% of GDP. The Government's strategic vision is about food security, modern and sustainable market oriented agriculture in Timor-Leste with poverty reduction in the rural areas and improvement in the quality and wellbeing of Timorese in farming, fishing and livestock. More productive agricultural systems and diversification can enhance the nutrition and welfare of the Timorese People. Therefore, the Ministry of Agriculture's budget is US\$ 31.9 million to begin to accelerate agricultural transformation by supporting the productive and export

potential of forest production, cash crops, food crops, and aquaculture. The agreed Economic Recovery Package prioritizes the renewal of our coffee plantations with new techniques enhancing productivity and quality for exports, boosting forest production to increase farmer's income, intensification of livestock farming to improve the populations diet, the creation of direct incentives for production and marketing of products (rice, maize, beans, soya and cassava), and activation and expansion of aquaculture farms by focusing on tilapia breeding, allowing and supporting the private sector to develop the market.

Moreover, to support transformational change and an increasingly diversified agricultural sector the state budget plans to fund modernization, industrialization an increase in agricultural productivity with US\$ 16.8 million included in the ministry of agriculture's budget. During 2021, the agriculture budget aims to contribute to structural transformation through infrastructure development (operation of irrigation schemes and building of aquaculture facilities), water supply, harvesting storage and processing to support farmers, increase in animal production (support creation of dairy goats, pigs, cows, and local gainhas and improved breed of cows), increase in production of other products (rice, corn, horticulture, coffee), increase access to markets and value chains by structuring agricultural enterprises operating in the agribusiness value chain in the Country, support for the development of commercial plantations and sandalwood, use of the oceans, seas and marine resources for sustainable development, and investment in the forest sector (Sandalwood, Saria, Teak, Mahoni and Pau Rosa).

These are other measures to be funded which aim to create a strong economic comeback:

- Private sector development and capacity building in economic areas- US\$ 476,000, Coordinating Ministry of Economic Affairs (MCAE);
- Design and implementation of Vocational Training Strategies and Reinforcement of Commitment to Vocational Training for a skilled workforce with access to employment and economic development - US\$ 3 million, Secretariat of State for Vocational Training and Employment;
- Increase revenues from customs and effectiveness of tax collection - US\$ 14.2 million, Ministry of Finance;
- Develop, implement, monitor and evaluate the Basic Economic Return Program, US\$ 37.7 million, Ministry of State Administration;
- Develop and promote TL as tourist destination in Asia Pacific with a marketing plan and tourism brand, US\$ 5 million, Ministry of Tourism, Commerce and Industry;
- Develop and promote commercial activities including promote and market national products, technical support and training for the private sector in the area of commerce, support export and import activities, and creation of 'Social Business Projects' to facilitate national companies (in cooperation with United Nations Development Program)- US\$ 2 million, Ministry of Tourism Commerce and Industry;
- Establishment, development, and support of industrial centres - US\$ 1 million, Ministry of Tourism Commerce and Industry;

- Petroleum assets management- US\$ 70.6 million, Ministry of Petroleum and Minerals (MPM);
- Development, production and marketing of Bamboo products, US\$ 623,971, Bamboo Institute;
- Improve market access of local products - US\$ 1.2 million, Logistic National Centre (CLN)

Timorese need jobs and ones that are sustainable for their livelihoods. To make that happen the Government will use a range of policies as described above, including direct public investments in the social protection sector, infrastructure, and agriculture, and development of skills through vocational training. A major development constraint we face to create jobs is the lack of technical and entrepreneurial skills among young people. Their skills will be essential to drive a stable, diversified economy that creates dignified private sector jobs. Our most recent labour force study, from 2015, estimates that each year over 30,000 Timorese will reach working age but only 4,000 new formal sector jobs are being created. Insufficient post-secondary education opportunities and a small formal labour market are forcing a majority of our population to pursue their livelihoods through subsistence agriculture, micro-businesses and unskilled work. In order to augment the skills of our post-secondary population and make the transition from a subsistence economy possible, the Government will invest around US\$ 32 million, through various workforce development programs and centres, including the National University of Timor-Leste and the Secretariat of State for Vocational Training and Employment. The Government remains committed to address the ongoing problem of employment through these measures.

To address other structural problems of our economy the Government will also:

- Accelerate the accession to the World Trade Organization;
- Fast-track cross border trade with our neighbouring countries;
- Improve connectivity and our telecommunications infrastructure;
- And take additional action to unblock the final approval of large foreign direct investment, including ship repair, *Pelican Paradise* and *TL Cement*;

INSTITUTIONAL FRAMEWORK

Our State Budget for institutional framework includes justice, public administration, security, defence, and foreign affairs, as well as expenditures by Ministries and agencies that provide services internal to the Government, such as the Ministries of Planning and Finance. In 2021 we plan to spend US\$ 470 million on institutional pillar. This is equivalent to a quarter of our budget.

It includes, among others, the 4 Grand Institutional Reforms, our 4G reforms, which Government is designing and implementing as well as the National Land Use Plan which will consume US\$ 3.8 million dollars.

We will define systematically the universe of Timorese citizens and that of foreigners residing in the Country, based on a modern Civil Registry and a Digital System. We will conclude the land and property legal framework and its management regime. We will define the basis for territorial planning and use. We will modernize public administration. These are foundational aspects of the

state building process. They are also *condition sine qua non* for good governance, economic development and efficient and effective services delivery.

With this reasoning, the Presidency of the Council of the Ministers will be coordinating the 4G Reforms. This will include major legal changes including civil service reform and changes to public financial management, which will be submitted to National Parliament following the budget debate. National Parliament's support and enactment of these laws will be an important step in strengthening the state's management capacity and efficiency of operations.

The 4G Reforms focus on deconcentration and decentralization of the decision-making process and resources, strengthening accountability and good governance, modernization, promoting innovation, and strengthening efficiency and value for money. These reforms include public administrative reform, fiscal and financial management reform, decentralization, and judicial and legal reform.

First, we will improve the business climate, in order to facilitate private sector development. We have begun and will continue the process of rationalizing business registration and business licensing, which can be time consuming and unnecessarily arbitrary and bureaucratic. By the end of 2021 we plan to have a land registry or title deed system in place. Knowing who owns each parcel of land and being able to leverage assets to borrow funds for business expansion against this land, is an essential foundation of a modern state and a modern economy.

Second, our Government systems must be modernized so citizens can access services on line. The foundation of our E-Government strategy is to create unique, digitalized identities for all citizens. This will ease access to a wide range of services, including health, social protection, and tax registration. Having a single, verifiable, computerized identity will reduce fraud, will eliminate the duplication of payments and will fight the use of false identities for business transactions.

Third, we will continue to implement a wide range of planning and budgeting reforms. You will notice that this year's state budget, for the very first time, adopts a program budgeting approach. This will improve transparency, the costing of services, accountability for results, and thus Government performance. Significant improvements on this are expected in the future, as formats are improved, as fragmentations in the budget process and institutions are addressed, and as Ministries improve their capacities in planning, monitoring, and evaluation. In the future our budget will more fully describe each Ministry's policies and strategies and will better describe what they plan to achieve and how much it will cost. Our adoption, this year, is a very positive development.

Fourth, in terms of financial management reform, we will diversify our sources of public revenues. We will better manage tax arrears and will continue to develop prudent debt management strategies. We will strengthen our customs and tax authorities, enhancing their performance and accountability. It is urgent that we improve our budget implementation, especially on capital projects. We will upgrade the computerized financial management systems we currently use, so that budget holders have full, up-to-date, and accurate information on their available funds.

Fifth, decentralization is an essential process for bringing service delivery closer to the people and for strengthening accountability to local communities. We will continue to restructure our institutions to ensure human and financial resources are better distributed throughout the Nation.

Finally, the strengthening of our judiciary system is paramount. Our citizens depend on a justice system that is fair, efficient and accessible. We will develop and cost a full program, to ensure these goals are realized. In parallel we will be developing extrajudicial means of dispute resolution like arbitration and mediation and will go on guaranteeing the relevant role of traditional law and our customary means of conflict resolution.

Mr President of the National Parliament,

Honourable Members of the National Parliament,

CONCLUDING REMARKS

This is an ambitious State Budget for extraordinary times when the Government needs to be more responsive than ever. A lesson that COVID-19 has taught us is that to overcome a severe crisis requires the work and resolve of every public institution, every branch of Government, each community, and each one of us.

We don't get to choose our institutional, social and economic adversities. But we do get to choose how hard and efficient we are willing to work in order to face the challenges. We moved at speed and adapted in unprecedented ways to contain the pandemic and the extent of its shocks.

The Government and National Parliament did its part. We understood the risks, changed our behaviour and made decisions that contributed to the security and resilience of our Nation, while leading in the region and the world by example. We are greatly indebted to our frontline workers, citizens, and leaders across our Country.

The Government will continue to serve its People and has already deployed policies for the stabilization and has agreed to pursue an Economic Recovery Package to restart the economy. Our agenda for 2021 will build back better and focus on creating jobs for everyone, with targeted and sustainable investments that strengthen the average income of households, builds resiliency and generates equitable growth. The 2021 state budget is committed to economic growth, addressing gaps in our social protection, investing in health care and education, a stronger workforce and creating jobs. It is not a small task to build a stronger, resilient and more sustainable Country. It will take a lot of work. It will require political commitment to guide our Country forward and to find common ground to identify as many policies as feasible that can deliver the much needed progress. Today is our moment to build a better Timor-Leste for everyone.

For a Rich, Strong and Safe Timor-Leste!

For a more modern, prosperous and developed Country!

God bless us all!

