

National Parliament Committee on Economy and Development

OPINION OF NATIONAL PARLIAMENT COMMITTEE "D" ON PROPOSED GSB 2021

IV - Summary / Conclusions and Opinion

A - Summary / Conclusions of the report

A Budget is an instrument of economic policy and this is, in turn, an instrument to deal with a specific situation in a country's economy. OGE 21 is no exception: it is an instrument that embodies a defined economic policy to face a specific economic and social situation.

The economic policy that includes the OGE 21 is defined mainly in the Economic Recovery Plan (PRE) and in the government's program, which is a little more outdated, as it was defined before the pandemic that conditioned the world and the country's economic situation.

It is, therefore, against the background of the situation that the PRE intends to face that the OGE21 should be seen.

It should be noted that the PRE, in turn, seeks to deal with the bad economic situation in our economy -- which can be illustrated by the rate of change of -6% of GDP in 2020 but also, as far as possible, introducing some reversal of the weak development of human capital that has been with us since the restoration of independence.

Table 1.2: The Human Capital Index (HCI), 2020

Economy	Lower Bound	Value	Upper Bound	Economy	Lower Bound	Value	Upper Bound	Economy	Lower Bound	Value	Upper Bound
Papua New Guinea	0.41	0.43	0.44	Palau	0.57	0.59	0.61	France	0.75	0.76	0.77
Togo	0.41	0.43	0.45	Iran, Islamic Rep.	0.58	0.59	0.60	Portugal	0.76	0.77	0.78
Namibia	0.42	0.45	0.47	Ecuador	0.59	0.59	0.60	Australia	0.76	0.77	0.78
Haiti	0.43	0.45	0.46	Antigua and Barbuda	0.58	0.60	0.61	Norway	0.76	0.77	0.78
Tuvalu	0.43	0.45	0.46	Kyrgyz Republic	0.59	0.60	0.61	Slovenia	0.77	0.77	0.78
Ghana	0.44	0.45	0.46	Sri Lanka	0.59	0.60	0.60	New Zealand	0.77	0.78	0.78
Timor-Leste	0.43	0.45	0.47	Uruguay	0.59	0.60	0.61	Estonia	0.77	0.78	0.79
Vanuatu	0.44	0.45	0.47	Argentina	0.59	0.60	0.61	United Kingdom	0.77	0.78	0.79
Lao PDR	0.44	0.46	0.47	St. Lucia	0.59	0.60	0.62	Netherlands	0.78	0.79	0.80
Gabon	0.43	0.46	0.48	Trinidad and Tobago	0.57	0.60	0.62	Ireland	0.78	0.79	0.80
Guatemala	0.45	0.46	0.47	Colombia	0.59	0.60	0.62	Sweden	0.79	0.80	0.81
Bangladesh	0.46	0.46	0.47	Peru	0.59	0.61	0.62	Macao SAR, China	0.79	0.80	0.80
Zimbabwe	0.44	0.47	0.49	Oman	0.60	0.61	0.62	Finland	0.79	0.80	0.80
Bhutan	0.45	0.48	0.50	Thailand	0.60	0.61	0.62	Canada	0.79	0.80	0.81
Myanmar	0.46	0.48	0.49	Malaysia	0.60	0.61	0.62	Korea, Rep.	0.79	0.80	0.81
Honduras	0.47	0.48	0.49	Mexico	0.60	0.61	0.62	Japan	0.80	0.80	0.81
Cambodia	0.47	0.49	0.51	Bulgaria	0.60	0.61	0.62	Hong Kong SAR, China	0.80	0.81	0.82
Kiribati	0.46	0.49	0.52	Mongolia	0.60	0.61	0.63	Singapore	0.87	0.88	0.89

Source: World Bank calculations based on the 2020 update of the Human Capital Index.
 Notes: The Human Capital Index ranges between 0 and 1. The index is measured in terms of the productivity of the next generation of workers relative to the benchmark of complete education and full health. An economy in which a child born today can expect to achieve complete education and full health will score a value of 1 on the index. Lower and upper bounds indicate the range of uncertainty around the value of the HCI for each economy.

The value of the Human Capital Index for 2020 calculated by the World Bank (<https://openknowledge.worldbank.org/bitstream/handle/10986/34432/152967.pdf?sequence=1&isAllowed=y>) varies between 0 and 1 and in practice, by country, between a minimum of 0.29 for the Central African Republic and a maximum of 0.88 for Singapore. **Timor-Leste has an index of 0.45.** That of most of its neighbors is shown in the table above, missing only Vietnam, with 0.69, Indonesia, with 0.54 and the Philippines with 0.52. **Of the countries in Southeast Asia, Timor-Leste is therefore the one with the lowest index!**

The note in the table above helps us to interpret the meaning of this HCI :

"The index is measured in terms of the productivity of the next generation of workers relative to the benchmark of complete education and full health. An economy in which a child born today can expect to achieve a complete education and complete health will score a value of 1 on

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the index. Lower and upper bound [left and right columns] indicate the range of uncertainties around the value of the HCI for each economy. "[Emphasis added]

That is: from the point of view of their "human capital", the Timorese are in a situation of (significant?) inferiority in relation to all the countries of the region, which helps to explain the weakness of their economy and their capacity to attract investments, namely foreign. And it requires **a VERY important investment to reverse the situation** --- knowing that the other countries will not be "stalled" and will try to continue to move forward. But, of course, the great motivation, reason, for the need to improve the human capital of our country is, of course, the improvement of the living conditions of our people.

The PRE seems to have realized this situation and tries to indicate steps to improve it by placing its center on the Man (and on the woman, of course). But this is only achieved with the allocation of resources made in the annual budgets. It is what we seek to evaluate in relation to OGE21.

The main economic and social problem that the State had to face since April 2020 was the fall in employment, which is at the base of the remainder. To face this situation, the Government then defined a set of economic policy measures to be financed by the then created "COVID-19 Fund".

Essentially, the options and concrete measures taken are in line with those adopted in most countries affected by the pandemic and recommended by international institutions. It is expected that the application of these measures to "mitigate" the impact of the pandemic among us will allow, namely, to ensure that the rate of change of the GDP ends up at around -6% in 2020, a rate partially reversed in 2021 to +3.9%, foreseeing a full recovery from the economic crisis at the end of 2022 --- or at the latest during the first half of 2023.

In this **OGE21 we chose a real "big push" to the economy**, with a state budget of about \$1,800 million USD. The depth of the crisis that has been declared and the uncertainty that still exists about the evolution of the pandemic and the world economy should, however, alert us to the evolution of the national economy in 2021 and **not put aside the possibility of having to increase the "push" to the national economy still in 2021 or 2022**. For now, it is necessary to underline the requirement that the execution rate of OGE21 be higher than about 90%, as it was in the "best" years.

This should be seen in the context of the expected reduction in the Petroleum Fund's capital. The choice will be between

- (1) seek to maintain the Fund's capital as much as possible, or
- (2) **use it EFFECTIVELY to sustain and push the economy** and, with it, the living standards of the Timorese. It seems to us that there is no possible hesitation in **choosing the second**. "Money in the pocket doesn't grow"!

This raises the issue of sustainability in the longer term the general state budgets, each time more important in the context of the announced reduction of petroleum revenues.

However, while stressing the need to ensure that sustainability, we would like to underline that **the estimates of the duration of the fund's capital made by the Government (Ministry of Finance) seem (excessively?) Conservative (?)** since we believe that with correct decisions by the economic policy authorities, it is possible to extend the life of the PF beyond (+/-5 years?) from the announced date of 2035.

Taking into account the current data of the problem --- both national and international, very unstable and full of uncertainties regarding the future --- we would say that **the country needs Greater Sunrise to start producing fiscal revenues for Timor-Leste in a horizon (maximum?) of about 8/10 years (i.e., at the end of this decade) --- which is not much.**

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This exerts strong **pressure on national decision-makers** in their negotiations with the oil companies operating in the area and Australia. The instability of the international fuel market, doubts about the real profitability of the project and the pressure of the need to obtain revenues suggest being very careful in taking decisions.

Simultaneously with the definition of Sustainable Budgets, it is necessary that the PF money be used carefully in order to remove from its applications the **maximum yield** possible in terms of the **well-being of the Timorese**, which has not always happened since there are many oversized investments with higher than "reasonable" costs because the State has never been able to establish effective mechanisms to control the costs of projects, which is why it is **essential to approve new rules for procurement and public contracting**.

It is advisable to quickly approve **legal norms that favor the establishment of "fair prices" to the State**.

The **table below summarizes the allocation of resources made by the Government** to the sectors that, namely in the PRE, which were identified as priorities: human development (health and education) and agriculture.

As can be seen in OGE21, the values and percentages of these 3 sectors increased significantly in relation to the budgets of the previous two years (2019 and 2020). The variation in relation to the OGE20 is particularly important but it should be noted that the latter was an "atypical" budget due to the fact that most of the year was spent in the duodecimal regime.

QUADRO: GASTOS EM CAPITAL HUMANO E AGRICULTURA (Milhões de USD e %)			
	OGE 2019 (1482 Milhões USD)	OGE 2020 Set (1497 Milhões USD)	OGE 2021 (1797 milhões USD)
Educação: Min Educação + Min Ensino Superior + FDCH + FI_Educação	82,4 + 7,1 + 20 + 0,67 = 110,17 (7,4%)	72,3 + 4,2 + 10,7 + 0,07 = 87,3 (5,8%)	111,5 + 6,3 + 13 + 4,8 = 135,6 (7,5%) (em relação aos OGE19 e OGE20 --- ±1500 milhões = 9%. No PRE diz-se que o
			orçamento devia aumentar 2 pontos percentuais todos os anos; aqui sobe apenas 1,5%)
Saúde: Min Saúde + HNGV + FI_Saúde	46,2 + 10,5 + 1,1 = 57,8 (3,9%)	42,7 + 7,1 + 0,2 = 50 (3,3%)	58,8 + 11,5 + 4,8 = 75,1 (4,2%) (5% em relação aos OGE19 e OGE20 = ±1500)
Agricultura: MAP + FI_Agricultura	14,7 + 1,6 = 16,3 (1,1%)	7,3 + 1,2 = 8,4 (0,6%)	32 + 3,8 = 35,8 (2%) (2,4% em relação aos OGE19 e OGE20 = ±1500)
TOTAL (Edu+Saúde+Agr)	184,3 (12,4%)	145,7 (9,7%)	246,5 (13,7%)
Fonte: Propostas de Lei sobre os OGE			

But even in relation to the most "normal" year of 2019, there were important gains in amount and in percentage: +\$80 million and another 1.3%, which, however, is not much.

We have, therefore, that **OGE21 can fulfill its main objectives (?) to**

- (1) **contribute to improving the country's economic situation in the short term; and**

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- (2) **begin the process of correcting the insufficient commitment to human development of the country of the last decade.**

However, given the enormity of the task to be done to improve our human development to benefit the lives of Timorese but also to improve our position in the regional context by facilitating the attraction of foreign investment, it is not surprising if we **consider that it could have been more ambitious, namely in the area of expenditure structure (more investment in PEOPLE and slightly less in THINGS ...)**, more than in the total value of OGE21.

It is a recommendation that now is the time for the Government to begin preparation of OGE 22 --- even while executing OGE21.

Incidentally, allow an important aspect to be highlighted here: even from the point of view of the organization of the OGE21, namely of its Book 2, it is evident that what was done was a "pre-existing" budget built according to In the same logic as in the past, "apart" from what was added, as if it were wanted that it would not "infect" such logic, a "parallel" budget with PRE-inspired measures/programs. We believe that this option was facilitated by the late moment, in relation to the OGE21 preparation calendar, when the Economic Recovery Program was approved by the Council of Ministers.

Nothing more unfair for this one, however! What was intended, we believe, and that PRE, its basic philosophy of putting "**THE PEOPLE FIRST**", would be the budget matrix for 2021. Appointing the PRE team coordinator as the new Finance Minister will, it is believed, help the budget process to be put "head up" instead of "upside down". This could/should influence the execution of the OGE21 and certainly the preparation of future budgets (in 2022 and 2023, at least?).

A final note: the Ministry of Finance's "speech" about the duration of the PF is "consistent" with the pressure it puts on increasing the weight of domestic revenues by increasing the **tax burden** through **tax reform** (15%). We do not deny the need for this increase, but we warn of the error that it will be an exaggerated increase in that burden in a relatively short time.

The current economic situation, and even the longer term, does not seem to be such as to be overly optimistic about the ability to "increase" the tax burden in the medium term, at risk of "killing" many companies and discouraging new investments.

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ANNEX - REVIEW OF RECOMMENDATIONS BY BODY

Recommendations to the MCAE

As responsible for the coordination of the economic area of the government's performance, Commission D particularly recommends to the MCAE:

- Some measures foreseen in the OGE21 are particularly demanding for the functioning of the State apparatus and this requires great efficiency in the coordination and leadership action in the process of its implementation;
- Particularly important is the clarification of "who does what" with the Ministry of Planning and Planning in the field of "Coordination of development strategies in the medium and long term", one of the programs (the 536) of this ministry;
- One of these measures, which must always be present in the decisions of the Government, is to encourage a process of (partial) import substitution that opens space for national, Timorese or foreign investors.

Recommendations to SEFOPE

SEFOPE is called upon to do its utmost to ensure this, eventually ensuring the burden of testing and vaccines when they are available and required by immigration countries. Cost sharing schemes may be found by beneficiaries.

It is essential that there is professional training appropriate to the needs of the country's labor market.

SEFOPE must exercise greater control over the quality of training provided in vocational training centers, both in the tutelage and in the private ones it supports through the public transfers it makes. Informal information is that the quality of training, particularly in the latter, is not sufficient. It may be possible to get collaboration from development partners to improve it.

It is recommended that SEFOPE organize itself in order to significantly improve its ability to regulate any labor conflicts that arise in a timely manner, suggesting that they be resolved within a maximum period of around 6-9 months as a longer period works always at the expense of workers.

Recommendations to the Secretariat of State for Cooperatives:

Commission D recommends that in the future it is necessary to make an in-depth diagnosis of the cooperative sector in order to understand what problems the groups face, so that the Government can then take measures to solve the problems through its policy.

Furthermore, the Commission recommends that, in order to avoid duplication of efforts and unnecessary expenses, the Secretary of State for Cooperatives coordinates his action with the MTCL whenever there is any conflict with him.

The same coordination recommendation applies to the various ministries and organizations that propose to create their own stores for the sale of products, namely MAP, SECooperativas, CLN and MTCL.

Recommendations to Secretariat of State for Environment

Commission D particularly recommends SE Environment to prepare technically to have autonomous capacity to evaluate the various development projects in which its intervention is requested without depending on external audits, often made to the measure of those who pay for them.

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It is further recommended that in 2021 you pay particular attention to waste treatment in the city of Dili, which includes the studies necessary for the construction of a modern waste treatment plant as provided for in the PRE.

Recommendations to the MTCI:

Commission D recommends that the government assume, once and for all, in the budgetary process of resource allocation, the importance that in its program it gives to the tourism sector in the context of the strategy of development and diversification of the national economy through a significant increase of budgetary resources to the sector even though it is recognized that the main role of its development should lie with the private sector.

The OGE21 seems to point in this direction, but the effort to be made must be reinforced and diversified. In the PRE there are several suggestions on how to do this.

More is recommended a bet on improving conditions for domestic tourism, namely support for companies operating in the sector, advertising for domestic tourism and ease of movement of people (and goods) in Timor-Leste. Although due to the early 2020, not much can be done, under the OGE20, to improve support for tourism, conditions can be prepared for domestic tourism to improve in 2021.

More recommends creating rules to legalize traditional games and then in the future contribute the revenue to the State.

In collaboration with other Government bodies, it is suggested that studies be initiated for two PRE recommendations: the construction of the National Museum and a theme park on the traditional Timorese culture and way of life, including for the defense of traditional "knowledge" of handicrafts national.

Recommendations to MAP:

Commission D, for Economy and Development, recommends the following to the Ministry of Agriculture and Fisheries:

1. As the agriculture sector is a source of sustainable income for the country's economy, alongside oil and tourism, Commission D calls for the improvement of the policy of this sector, and should focus on investment for the diversification of production and for self-consumption either for sale on the domestic market;
2. The illegal fishing activity in the exclusive economic zone of Timor-Leste is a national problem that the State and the Government have to take responsibility for combating, preventing and protecting, but the Ministry of Agriculture and Fisheries, as the Ministry responsible maximum of this area, coordination with the relevant entities should continue to combat illegal fishing as much as possible. The difficulty that the Ministry faces at the moment 'e' have limited human resources and the lack of devices to monitor. Coordination between the MAP and the naval component of FALINTIL in the inspection of our territorial waters must be improved;
3. Continuation of good cooperation relations with the development partners that are supporting the MAP in the development process in the various sectors of the ministry. This cooperation should be increased, namely in the area of knowledge transfer (better adapted seeds; better cultivation techniques and market access) and support for the construction of some infrastructures (irrigation systems);
4. Consideration of the Ministry to, in the future, resolve the hiring status of employees who have had a fixed-term contract with the Ministry for a long time, namely tractor drivers, extension

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workers and others. For permanent employees, career review is advised. On the other hand, it is recommended to review the workplace of employees who have received scholarships abroad and who, when they return to the job, are not relocated according to their academic qualifications and specialty;

5. Reinforcement of the operational budget for technicians working in the field as an extension technician, forest guard, among others;
6. Coordination with the competent ministry to amend or rectify law no. 3/2009, which makes it difficult to operationalize the allocation of the budget for goods and services, as the Department of Agriculture Services, hierarchically, submits to the Municipal Administration;
7. Give preference in the future to the purchase of local seeds;
8. Complete the delimitation of protected areas, limiting their areas to those that deserve to be effectively protected in coordination with the entity responsible for environmental policy;
9. Streamline the use of the country's forestry production potential with respect for the rights of the populations, effectively implementing the Forest Law in force;
10. Promote the production of meat and dairy products (with the control of animal health conditions) and their consumption by the population in order to improve the population's diet.

Recommendations to MPRM

- a) To clarify the reasons for the allocation of budgetary resources --- particularly public transfers taking into account that they do not seem to reflect the announced changes in policy to be pursued in this sector, without making financial commitments without clarification;
- b) That the policy to be defined takes into account the structural characteristics of the country, namely in the field of technology, available financial resources and duly qualified human resources;
- c) the situation of the international fuel market in the coming years, unstable due to the effects of the pandemic with COVID-19 and its consequence on the policy to be implemented in the oil sector;
- d) Timor-Leste's public expenditure financing needs in about 8-10 years from now and the existing options.