



**P R I M E
M I N I S T E R**

**ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE OCCASION OF THE PRESENTATION OF THE DRAFT
BUDGET LAW FOR 2014**

National Parliament, Díli
9 January 2014



Palácio do Governo,
Avenida Presidente Nicolau Lobato,
Díli, Timor-Leste

Your Excellency, The Speaker of Parliament
Your Excellencies, The Deputy Speakers of Parliament
Your Excellencies, The Members of Parliament

Fellow Government members,

Ladies and Gentlemen,

It is with the greatest respect that, for the last time as the Prime Minister, I come before this Great House to present a State General Budget.

Everyone here has been consolidating the democratic exercise in Timor-Leste for the past few years, representing citizens who are benefitting from institutional dialogue and interaction.

The creation of a sound platform for peace and stability has enabled the institutional architecture that today is maturing as a result of a fluid dynamic of debate, of checks and balances, as well as the search for consensus and joint efforts bringing everyone together around the same project.

We all have a common goal: to promote the growth of Timor-Leste in a manner that is inclusive, balanced and sustainable. I believe that this Great House should be the meeting point for positions and solutions that, first and foremost, serve the national interest.

The debate on the SGB is the one that, coming before a new tax period, requires us to set goals and objectives to be achieved, as well as a corresponding plan in terms of activities and funding. This is the debate in which we clarify the work to be undertaken over the next twelve months. As such, it should be well thought out, so that all available resources can be maximised to benefit all Timorese citizens.

It is to serve that higher goal of improving the living conditions of Timorese families that this Great House needs to find a broad and joint solution.

We want the 2014 State General Budget to reflect the various perspectives in Timor-Leste, so as to create a consensus that allows us to talk about a participative democracy.

Let us focus on the things that bring us together, which are much stronger than the things that may keep us apart. We all want our children to be able to go to school, grow into capable adults, be employed - to be able to provide healthy and happy lives for their families. We want our elderly and our most fragile citizens to be supported by special services. We want our economy to prosper. We want every Timorese to be able to fulfil new dreams, born from the great dream of achieving independence. That was the seed that today gives birth to our entire future.

Your Excellencies,

The international context in which we dare to dream is not an auspicious one. We are witnessing a global economic framework where overspending led to a crisis in which the solutions centred on austerity are failing to work. The recession spiral faced by many developed countries today is a result of governing that neglects to look at the people. I believe that the State institutions of these developed countries have failed to meet the standards prescribed by their laws in terms of financial management and budget control over expenses and, particularly, sovereign debts. The most interesting aspect is that, as a new country, we were encouraged to learn from them, to copy their standards. Today we know that in order to prevent similar situations we must strengthen our own agencies so as to have a good practice of checks and balances.

We have learned from others and we reaffirm our commitment before Timorese families, before the men and women that contribute to a growth that should be inclusive and sustainable, before the citizens that are most vulnerable and that require special care, and before the young people who are the future and who deserve the opportunity to build their new country.

This is our ultimate commitment.

Timor-Leste has managed to grow despite the global crisis, with modest, albeit positive, signs of economic development. Although much of this growth is boosted by the enormous wealth of our energy resources, Timor-Leste must be able to make use of this favourable wind. It is urgent to seize the moment to invest in economic diversification, so as to make our economy more mature in the medium term.

However, having the wind in our sails is not of much use if we do not know our destination.

Today we know the path we want to take and the country we want to become. We have a plan that enables us to look forward to the concrete goals that we want to achieve. Twenty years from now, we want to have a medium-high income Timor-Leste, with a prosperous, educated and healthy population.

In order to get there we have prepared a plan that is today the key matrix of our governing action. The Strategic Development Plan 2011-2030 is presently ongoing and this 2014 State General Budget is simply the materialisation of the current stage of the Plan.

This Plan provides for an approach that encompasses the short, medium and long terms within a shared vision for a country that seeks to grow well, and on sound foundations. The draft 2014 Budget that we present here today responds in full to the needs of the present, while preparing to sustain the future. It includes policies and projects with immediate impacts, complemented by programs that will produce visible results in a few years, but which are still part of the country's growth as a whole.

With this plan, we want to make use of this favourable wind in order to achieve a development that is primarily inclusive and sustainable.

It must be inclusive in order to respond equally to the needs of every Timorese citizen, from the coastal communities to the mountains in the countryside.

It must be sustainable because it cannot respond only to the immediate needs of our population. Instead, it must respond to our long term vision, so as not to jeopardise resources for future generations.

It is because of the vital importance of sustainability that we also insist that public accounts must be managed in an accurate and professional manner. As such, we will continue encouraging the State institutions to increase their commitment to achieving greater efficiency and transparency.

Indeed, this commitment in relation to accuracy, accountability and transparency has been acknowledged internationally in different forums. In 2012 we moved up 30 places in the world transparency ranking, measured by the Corruption Perception Index. In 2013 the Resource Management Index report by the Revenue Watch Institute recognised the transparency of the systems adopted by Timor-Leste for managing its petroleum wealth, by putting our country in 13th place, ahead of many of our more developed neighbours, in what concerns safeguards and quality control.

Timor-Leste's exemplary compliance with the Extractive Industries Transparency Initiative has led other countries with similar resources to seek to learn from our experience so that they may replicate the good practices, transparency, and the accuracy mechanisms we have established in Timor-Leste.

Your Excellencies,

The draft SGB we present today also respects the issues of accuracy and reflection in our administrative management and financial execution.

Consequently we propose a 2014 State General Budget of **\$1.5 billion**. This is in line with our execution capacity, our pressing development needs and the need to control inflation.

We recognise that the economic growth of the last few years has also led to increases in inflation that affect the purchasing power of the Timorese people. As such, we have invested in better inflation monitoring and review in order to curb inflation.

We know today that the reasons for this increase include several factors, not all of which can be controlled by the State. Therefore we are creating conditions that will better prepare us to control inflation. We do not want to see inflation shoot up, but we also want to continue our vital investments in development programs.

This is the time to build the future, without losing sight of our macroeconomic goals.

This is why in 2013, for the second consecutive year, we have managed to reduce considerably the total budget amount. This is part of an ongoing effort of fiscal sustainability and resource maximisation.

Defining priorities that continue the work undertaken in previous years is essential for preventing wastefulness and disorientation in public accounts:

- Investing in the people, namely in the areas of health, education and professional training.

- Developing of basic infrastructure.

- Achieving integrated, inclusive and sustainable economic growth, based on agriculture, tourism and the petroleum industry.

- Consolidating the institutional framework, a stalwart of good governance, peace and stability. This is vital for enabling all other sectors to succeed.

If we look at the fund allocation per Ministry, it is easy to see that the Fifth Constitutional Government gives priority in this State General Budget to issues concerning social wellbeing and infrastructure. The four Ministries with the most significant financial contributions are the Ministry of Public Works, the Ministry of Social Solidarity, the Ministry of Education and the Ministry of Health.

Consequently the 2014 State General Budget reflects the attention paid to the key priority sectors for the Fifth Constitutional Government by continuing major investments made in previous years and by starting new projects and programs seeking to provide a more effective response to the short, medium and long term needs of the Timorese.

This Budget makes significant increases in health and education expenditure, within a general framework of fighting poverty.

The budget for the **Ministry of Health** increases from \$64.3 million in 2013 to **\$67.2 million** in 2014.

This increase will enable the full implementation of the health service delivery policy and the construction of 39 health clinics under the integrated suco health plan. These programs seek to strengthen primary services by expanding national coverage, while improving specialised services in areas such as trauma care, pneumology, oncology and cardiology, so as to expand national specialised health care.

The budget for the **Ministry of Health** increases from \$92 million in 2013 to **\$106.6 million** in 2014, representing more than 15% of the SGB. This is evidence that the Government considers it a priority to strengthen the education of our children and young people.

This financial package will ensure the construction of 100 new pre-schools, the refurbishing of 50 basic education schools and the construction of four new model schools for General Secondary Education. Complementing the investment in the improvement of school infrastructure, the amount allocated to the Ministry of Education will also be dedicated to curricular improvement and to the development of the pedagogic and educational capacity of teachers. In 2014 alone we expect 1500 new teachers to graduate the complementary training course and to be ready to enter teaching careers.

The two special funds – the Human Capital Development Fund and the Infrastructure Fund – also reflect the primary needs.

The Human Capital Development Fund has been allocated a total of **\$40 million**, which is sufficient to meet the vital need of improving our human resources. The main difference here is the reorganisation in the allocation of funds, focusing on technical and professional training, whose allocation will increase from \$4.8 million to **\$10.1 million**. The amount allocated to scholarships remains very significant, so as to continue enabling Timorese students to receive professional training abroad.

The amount allocated to infrastructure is reduced from \$604.4 million in 2013 to **\$425.1 million** in 2014, reflecting the results already achieved in the previous year and the ongoing financial management for projects underway.

Regarding the results achieved, the success of the Electricity Project, with the full operation of the power plants of Hera and Betano, will enable a more efficient national power distribution, which will have a clear impact on the living quality of our People and on the development of economic activities that depend on electricity.

The ongoing major projects, such as the Tasi Mane project, the construction and rehabilitation of roads and bridges and improvements in terms of port and airport infrastructure, will be implemented according to their respective stages. However, since the corresponding expenses will be paid gradually instead of through lump sums, the annual allocation for each will be smaller and the total amount will be smaller than the in 2013.

This does not mean that the State no longer wants to base economic growth on the development of core infrastructure. Rather, it means that the State wants to rationalise resources more efficiently, in line with our execution capacity, so as to have greater accuracy in the sustainable management of public expenditure.

Consequently this 2014 Budget will cover basic infrastructure directed in particular to our rural and remote areas, such as the installation of water systems in 25,000 rural households, the rehabilitation of 200 km of rural roads in the 13 districts and the construction of 3,000 units of solar panels and wind energy systems in Atauro and Oecusse.

In response to our market needs, we will be investing **\$10.5 million** in the extension and construction of the new Terminal for the President Nicolau Lobato International Airport and **\$13.2 million** in the new ports, including the preparation of the new Tibar Port. Together, these initiatives will increase the confidence of foreign investors in Timor-Leste by creating the essential conditions for access to commodities and services.

\$20.9 million under the Infrastructure Fund will also be allocated to the development of Oecusse. As you know, this district will benefit from the creation in 2014 of a Special Economic Zone, as a result of an initiative led by Dr Mari Alkatiri, which will transform the economic, social and cultural landscape of our enclave, so as to approximate its growth to that of the rest of the country.

Containing the investments made in infrastructure allowed us to compensate the budget in our traditional sectors, such as Agriculture and Fisheries. This is in line with the intention by the Strategic Development Plan and the Government Program of diversifying the non-petroleum economy, particularly Agriculture and Tourism. Consequently, agriculture will benefit from an allocation of **\$25.25 million**.

Your Excellencies,

The draft 2014 State General Budget suggests a diversified approach in the short, medium and long term for the national cause that has replaced the struggle for independence as the top priority of Timor-Leste: the fight against poverty.

In regard to this fight, the Millennium Development Goals are presently being revised for the post-2015 period. Timor-Leste has been participating in this debate and sharing the lessons we learned as a country in transition, along with the other 17 countries of the 'g7+' group.

So far we have achieved progress in the Goals related to the child mortality rate, the under-5 mortality rate and the cases of tuberculosis detected and treated.

The considerable reduction of these indicators shows the positive effect of the reforms implemented for improving the conditions of health services, namely by increasing the number of health professionals and establishing partnerships with civil society for creating information campaigns with strong impacts on the people.

In 2012 we also achieved the MDG related to the percentage of Parliamentary seats occupied by women.

Today we are well placed to improve the national results concerning two other MDGs: the net enrolment rate in primary education, which is already close to 90%, and the percentage of deliveries of babies assisted by qualified health professionals.

Although Timor-Leste continues to be dramatically affected by poverty, these modest improvements represent a collective effort and an approach by the whole of Government towards an inclusive economic growth that can improve the living conditions of every Timorese citizen both now and in the future.

This imperative is the basis for a Plan that covers the rehabilitation of roads to facilitate access by families to health clinics, the construction of schools to educate new generations, the creation of irrigation systems to improve agricultural production and training in the tourism industry to diversify our economy.

This imperative is present throughout the State Budget. No program makes sense if it is implemented in isolation. Only by implementing this whole picture can we respond to the challenges ahead responsibly and sensibly.

Your Excellency The Speaker of Parliament,
Your Excellencies
The Members of Parliament,

This SGB features an increase of 11% in the three appropriation categories under recurrent expenditure. However, the national project contained in this financial document cannot be explained by simplistic calculations, which is why we must look at what is reflected in this draft budget in greater detail.

A first simplistic assessment of the increase in recurrent expenditure might be deceiving. It is essential to understand that a large part of this increase is achieved by adding social and physical investments in priority areas such as health and education. If we observe each expenditure category, we may see that the goal is not to feed a State apparatus but rather to guarantee a series of core public services for Timorese families.

If the category of 'salaries and wages' benefitted from increases it is because we consider that professionals such as health professionals are entitled to a special career regime, for which we allocated **\$4.7 million**. The same applies to the education sector, where it is vital to motivate the staff in order to increase national standards.

Similarly, the category of 'salaries and wages' includes staff from the Ministry of Foreign Affairs and Cooperation. In 2014, this ministry will be establishing new embassies in Laos, Cambodia, Brunei and Myanmar. These new representations abroad will help Timor-Leste increase the country's influence and reputation, which is particularly important for Timor-Leste to join ASEAN.

We should also try to understand the increases in the category of Goods and Services, which also falls under that which is called recurrent expenditure.

The investment in goods and services will cover, for instance, the operational and maintenance costs of the power plants of Hera and Betano, thus ensuring the distribution of power, which is absolutely essential for improving the living conditions of all Timorese citizens and for developing the economic.

In the sector of Education, **\$26.9 million** is allocated to the School Meal Program, which serves to keep our children in school and to provide them with better nutritional balance, thereby preventing malnutrition. Also in the sector of Education, **\$9.5 million** is allocated to salaries for teachers in the transitional regime, which will benefit 4,220 teachers throughout the country. This will strengthen the role of the people who are the frontline educators of our children and who will shape our future.

The health sector also benefits from this category, since it receives **\$3 million** for purchasing foodstuffs for hospital patients, thereby improving national medical care. It also receives **\$13 million** for purchasing medicine, so as to ensure better conditions for our patients and for people with disabilities.

Our traditional economic sectors are also covered by the budget item of "Goods and Services", through programs by the Ministry of Agriculture for purchasing seeds in the amount of **\$4.6 million** (indispensable for ensuring food security) and through the continuity of the Program titled "Suku ida, Produto ida", which will contribute **\$3 million** for encouraging specialised local production.

Inside recurrent expenditure we can also identify a series of basic social investments under public transfers.

One of the main recipients of public transfers is the Ministry of Social Solidarity, which is allocated **\$139.4 million** for vital programs such as “Bolsa de Mãe” and for financial support to our veterans.

Under public transfers, the priority sectors of Education and Health benefit from essential investments that will ensure the operation of their services. The Ministry of Education will be allocated **\$25 million** for rehabilitating schools in the 13 districts, including equipment, water and sanitation facilities and electricity. The Ministry of Health will receive **\$9 million** for subsidising health posts throughout the country.

This category also includes **\$10 million** allocated to SEPFOPE for developing rural roads, which will enable the government to improve infrastructure for our rural populations and to generate employment throughout the country. Seeking to achieve rural development, public transfers also include **\$11 million** for the Ministry of Justice’s “Ita nia Rai” Program related to land compensation, as well as **\$13.7 million** for the National Suco Development Program, a large multiyear programme targeting balanced development in our sucos by way of subsidies according to the specific needs of each suco.

This budget category also contributes to the development of cooperatives and small industrial groups through the MTIE, as well as to small local industries in the area of construction materials through SEPFOPE.

This detailed description leads us to conclude that this Budget is broad, covering the capital development component, which is directed at physical investment, as well as social investment for economic growth and employment creation through recurrent expenditure.

Your Excellencies,

We recognise that the budget execution rate is below what we intended, due to the obstacles we still face when implementing certain projects. Nevertheless, we have been making the necessary corrections and we want this 2014 State General Budget to reflect the importance of improving that implementation capacity.

We know that we will have to strengthen the verification and monitoring instruments of the Government Program and of the Strategic Development Plan, so as to ensure proper adequacy between plans and actual outcomes.

As such, this year we decided to create an instrument that will enable us to monitor the implementation of the Strategic Development Plan more closely.

Thus we established the Development Policy Coordination Mechanism, which looks at the Strategic Development Plan in an integrated manner, so as to interlink sectors and economic initiatives.

Ultimately, this mechanism seeks to make the implementation of the Strategic Development Plan more effective every year, favouring better inter-ministerial coordination. It seeks to achieve a whole-of-government approach to future challenges.

As a whole, this draft 2014 State General Budget benefits at this time from the possibility of using the enormous wealth of our natural resources to support economic growth and, in turn, stimulate the private sector.

Here the Strategic Development Plan is also very clear: in the absence of a dynamic private sector that can drive the economy on its own, it is the State that must lead this growth by creating the necessary conditions in terms of infrastructure, human capital development, institutional strengthening, etc., so that private companies will take on a greater role.

I believe that we are seeing the first signs that suggest we are on the right path. We have carried out several initiatives in order to boost the Timorese business sector and to encourage foreign private investment in our country.

PDD I and PDD II had already allowed us to nurture the private sector throughout the country by implementing local projects for constructing small infrastructure works. Subsequently the Integrated District Development Plan (PDID) made it possible to extend those projects, leading to the creation of the National Suco Development Plan, which has already implemented projects in 30 sucos. In addition to boosting the local private sector, this also promotes decentralised decision-making that takes into consideration the specific needs of each local community.

Along with these major Programs, there are several other initiatives nurturing the national market.

As you know, in June 2013 the Registry and Verification of Enterprises Service (SERVE) became operational. This service facilitates the administrative aspects for enhancing the national business environment. The figures presented by SERVE show that this initiative has indeed accelerated the development of the private sector, with 1,470 companies created in the first three quarters of 2013. Most of these companies are national companies.

These figures show that we are starting to see some of the minimum conditions required to give confidence to Timorese professionals to start their own businesses. Starting a business requires significant effort and investment, technical capacity and, more importantly, confidence that personal and financial investments will be rewarded.

This confidence, your Excellencies, is one of the most important signs that the country is looking to the future and starting to overcome the fear of a painful and uncertain past that has previously hindered Timorese citizens from starting their own businesses. Still, I must say that it is vital and urgent to promote a broad debate in 2014 on mechanisms for providing credit to national businesspeople, with rigorous rules in terms of compliance with obligations.

The greater strength of the private sector will allow us to gradually increase tax revenues. Indeed, tax revenues are already increasing, with the government expecting a 13.5% increase from 2013 to 2014.

Your Excellency

The Speaker of Parliament,

Your Excellencies

The Deputy Speakers of Parliament,

Your Excellencies

The Members of Parliament,

Ladies and Gentlemen,

This domestic confidence is also starting to reconfigure Timor-Leste's role in the world.

The country's profile abroad has been changing. While we were once the beneficiaries of intensive international assistance, today we are a resilient country finding its own place in the region and in the world.

It is almost a year since the United Nations International Mission in Timor-Leste and the ISF departed, and in many ways we are exceeding our expectations.

Until very recently we were mostly the recipients of development aid and seen as a fragile State. Specialists did not believe in our national project, thinking that we would need longer international intervention before we could become the masters of our fate.

In a short time, that vision changed radically. Today Timor-Leste is seen as a reliable and committed partner. The good results we have been presenting and our pragmatic vision of our future have earned the confidence of our international partners.

This dialogue with our partners has been facilitated by the fact that we created the Strategic Development Plan 2011-2030. Timor-Leste has a plan and knows the path it wants to take.

Many thought that we had not yet built a solid base to stand on our own. A year later, I believe that we have proved otherwise. The economy did not suffer as had been foreseen, and we continue to have security and stability. I believe that everyone is committed to this non-partisan effort of building the country into what we want it to become.

This Budget reflects this gradual autonomy that we have achieved as a result of reduced dependence on our development partners during the last few years. In 2014 the contribution by development partners to the expenditure by the State will be 10.6%, against 11.0% in 2013.

This is another promising fact within a broader context of Timor-Leste's position in the world and in the region.

Today we are starting to become attractive to international investment, as can be seen by Japan's RICOH PENTAX's decision to settle in Timor-Leste. The gradual replacement of international development aid with international private investment shows that, in addition to having a national impact, the ongoing efforts to establish the

basic conditions for developing the private sector are having an impact on our international partners.

Timor-Leste is one of the most fiscally competitive countries in the CPLP, as was stated in the recent report titled "Paying Taxes 2014". This validates this Government's political option of keeping the total tax rate low. It presently stands at 11%.

The confidence of the global market also reflects the responsibilities that we have been given in several international forums and that we have been meeting with great accuracy and commitment.

Just last year we were invited to assume the Presidency of UNESCAP and in 2014 we will assume the Presidency of the CPLP. The active presence of Timor-Leste in these arenas has enabled the development of key bridges to some of the regional areas in the world where we have privileged partnerships.

As an island country, we only have land connection with our Indonesian brothers and sisters, with whom we are developing an exceptional relationship. Nevertheless, we have a series of connections that go much beyond our land border and that may be capitalized by membership in ASEAN.

While we already have stable bilateral relations with Indonesia, we are now establishing a tripartite relationship, having Australia as the third member of this strategic partnership. The tripartite growth initiative between Timor-Leste, the neighbouring provinces of Indonesia and Australia's Northern Territory seek the integrated development of the three States in this sub-region, by strengthening sectors as varied as tourism, energy, agriculture and R&D. We also want to have social and cultural initiatives that will strengthen the ties of friendship with our closest neighbours.

We are also continuing to lead a new paradigm with the g7+ for the development of the so-called fragile States, which exist in situations of conflict or transition. This leadership has also enabled Timor-Leste to assume a different standing in the world. We are now a model for fragile States and for nation-building in post-conflict areas worldwide. Timor-Leste stands at the cutting edge of the aid effectiveness movement.

As a result of this framework we have created the Timor-Leste Cooperation Agency, through which we have been providing assistance to several countries.

The last case was that of Guinea-Bissau, in November of the last year. We offered \$6 million and we sent a technical team for supporting the electoral registration process, with a spirit of interagency cooperation and of sharing the valuable experience that the Timorese Technical Secretariat for Electoral Administration has already acquired.

In all these areas we are creating a renewed country that is attentive to what takes place both internationally and domestically, as well as a country that takes care of the people who live in it.

Your Excellencies,

The draft 2014 State General Budget that we present here today reflects in full the national project that we have for Timor-Leste.

In compliance with our commitment in terms of accuracy, reflection and transparency, this Budget responds to the present and future needs, while taking into consideration the issues of fiscal sustainability and proper management of public accounts.

The challenges ahead of us are enormous, but today we know the path we want to take so that Timor-Leste's government reflects the aspirations of all its citizens, both now and in the future.

Today we begin a new stage on this path!

This is a stage that should be supported by constructive dialogue, within a spirit of common commitment towards our core national interest which is the wellbeing of every Timorese citizen.

Thank you very much.

Kay Rala Xanana Gusmão
Dili, 9 January 2014