



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

**SPEECH BY
HIS EXCELLENCY THE PRIME MINISTER
DR RUI MARIA DE ARAÚJO
ON THE OCCASION OF THE PRESENTATION OF THE
LEGISLATIVE PROPOSAL ON THE 2015 RECTIFICATION
BUDGET**

National Parliament, Dili
1 April 2015



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

Your Excellency
The Speaker of Parliament

Your Excellencies
The Vice-Speakers of Parliament

Your Excellencies
The Members of Parliament

Fellow Colleagues
Members of Government

Ladies and Gentlemen
People of Timor-Leste,

It is a great honour for me to return once again and so soon to this Great House in order to present the Legislative Proposal on the 2015 Rectification Budget to Your Excellency the Speaker of Parliament and to all the distinguished Members of Parliament.

The 2015 Rectification Budget sets out the manner in which this Government intends to carry out, in the short term, the Government Plan that the distinguished Members of Parliament had the opportunity of reviewing last week, in a constructive and democratic debate.

The Program of the Sixth Government is a program of continuity, as it intends to follow through with the policies set by the previous Government and because it flows from the Strategic Development Plan, which sets our vision up until 2030. This is a long term vision seeking to transform Timor-Leste into a medium-high income country, with a prosperous, educated and healthy population. We know that by strengthening our People we are strengthening our Nation.

The previous Governments have been defining the priorities for Timor-Leste and successfully implementing many policies and programs that enable the country to live today in an environment of social and political stability and in an atmosphere of peace and security. It is undeniable that these are key factors towards the growth and development of a nation.

And because our Governments have been working on these, and on other priorities, we have already achieved much in our 13 years as an independent country.

Today our population lives in peace and safety. The purchasing power of our families in terms of goods and services has increased around 38% from 2007 to 2012. The support provided to our veterans and to our most vulnerable citizens, such as mothers, widows, disabled persons, the elderly and children, has contributed to these outcomes and will continue to be a priority for the Sixth Government.

Additionally, school enrolment has increased from 66% in 2007 to 92% in 2013; infant and under-5 mortality has dropped more than 50% between 2001 and 2009; and under-5 malnutrition has dropped from 46% in 2001 to 38% in 2013. In 2014 the World Health Organization acknowledged the efforts made by Timor-Leste in implementing the National Malaria Control Programme. Indeed, we have achieved this Millennium Development Goal target, with the incidence of malaria falling under 1 case in every 1,000 citizens.

This is statistical data that shows how the social indicators of our country have improved. Let us take pride in this achievement!

The Sixth Government will continue creating the basic conditions for improving the living conditions of all Timorese citizens and for generating wealth apart from that flowing from our natural resources. As such, **we know that we need to produce more, but first we need to build the capacity to produce!**

The Special Funds that have been created, such as the Infrastructure Fund and the Human Capital Development Fund, have contributed to improving the quality and quantity of core infrastructure and human resources, so that Timor-Leste is able to work towards achieving its goal of diversifying the economy.

By the end of 2014 we had awarded over 2,800 scholarships through the Human Capital Development Fund. Out of this total, 718 scholarships were in the area of education and 1,600 in the area of health, thereby contributing to the development of these sectors that are so important for the Nation. The integrated basic infrastructure development plan, which includes the construction of road networks, will also be vital for enhancing the country's productive sectors.

Household access to electricity has increased from 22% in 2007 to 71% in 2014. The country's electrification program, which includes the construction of two new power plants, is the largest investment by the State so far and seeks to ensure reliable generation, transmission and distribution of electricity throughout the entire territory, so as to benefit the citizens and to enable the development of companies and industries. The Government is also constructing a power plant in Oecusse, which will be vital for that region.

The average economic growth rates of around 12.5% a year from 2007 to 2011 and of around 7% over the last three years would not have been possible without the important reforms to public finance management and without the investment in the country's development sectors. Bodies such as the Chamber of Commerce and Industry, the Specialised Investment Agency, the "One-Stop Counter – SERVE" and the Commercial Bank of Timor-Leste will continue to be developed in order to support the business environment, including small and medium sized companies, cooperatives and industrial and commercial groups.

Your Excellency the Speaker of Parliament,
Your Excellencies the Vice-Speakers of Parliament,
Distinguished Members of Parliament,

Although much has been achieved, we acknowledge that there is still much to be done. We must continue to strive so that every child attends school on a full stomach, as well as to make sure that every citizen has access to the goods and services that enable them to live with dignity. There is still much to be done before we can reach our goal of having diversified, inclusive and sustainable growth.

In order to do this, we must invest in several industry sectors. This investment must be wise, balanced and crosscutting! The Sixth Government is truly committed to growing and diversifying our economy, making it increasingly independent from the Petroleum Fund.

While we already have a roadmap for achieving this goal, as set out in the Strategic Development Plan, which details the programs and policies required for fulfilling our development vision, it is now up to the Sixth Government to give this legacy a new dynamic. Consequently, the challenge presented to the Sixth Government is how to achieve greater efficiency in implementing investments and executing programs. We need to achieve better results in our productive sectors and to demand better service delivery from both the public and private sectors, so as to lead to a more coordinated and transparent public expenditure.

Ladies and Gentlemen,

The Strategic Development Plan acknowledges that there needs to be an initial development stage led by the public sector. This is a stage where public expenditure increases, core infrastructure is built and the public sector drives economic growth. Timor-Leste has achieved this development led by the public sector from 2008 to 2012, with a more than doubling of public investment during this period. This contributed to very high economic growth rates, focussed on reforming public administration and the construction sector.

The purpose of this initial development stage is creating the capacity to produce. In the long term, the Government cannot continue driving growth by significantly increasing public expenditure, since that might compromise the Petroleum Fund. As such, we should move to a second stage, to be led by the private sector, where the agricultural, tourism and petroleum sectors will grow and create a productive economy in which people are more skilled and work hard in order to produce goods.

I would like to emphasise that we are now moving into the second stage of development. This means that the rates of non-oil GDP growth will fall, but economic growth will be of a higher quality for four reasons:

- i) economic growth will be increasingly driven by the private sector and not Government spending. There will increasingly be productive investments by private sector firms that allow us to make things in Timor-Leste. The recent agreement signed with Heineken, entailing an investment of \$40 million and the creation of 200 direct jobs and 800 indirect jobs, is an example of this.

- ii) inflation will continue to be low and lower than it was in past years, not exceeding 4-6%. Lower inflation can help to increase the purchasing power of citizens' wages and reduce poverty. In addition, lower inflation will lead to lower increases in business costs. This will help to improve Timor-Leste's international competitiveness and that in turn will increase exports and investment.
- iii) the amount the average household consumes will continue to grow. The amount the average household spends is a better measure of their living standards than non-oil GDP.
- iv) the fruits of economic growth will be broadly shared among the people and less concentrated in Dili. This will be help to combat inequality.

For these reasons, while economic growth will be lower, it will be more sustainable and the people's living standards will increase faster. The last Government also correctly recognised that Timor-Leste was moving to the second stage of development where public spending stabilises. That is why the last Government has cut the overall size of the State Budget by over 13% since 2012. A conservative fiscal policy was required, in which the budget would be reduced rather than increased.

The Sixth Government is committed to continuing this trend. As such, **we will continue to lower the level of public expenditure and to focus on improving the quality and sustainability of the economy.**

Your Excellency the Speaker of Parliament,
Your Excellencies the Vice-Speakers of Parliament,
Distinguished Members of Parliament,

The Government is committed to making public investment more efficient. This means moderating the level of Government spending in the medium term and improving the delivery of services to our people. Yet the distinguished Members of Parliament may fairly ask: how will you increase the efficiency of spending? I can answer that question:

The first step is this rectification budget; it increases efficiency by streamlining the structure of Government, giving it a leaner, more productive and more efficient management, so that it can better perform its functions and manage public monies. This Government streamlining also entails greater coordination among ministries, including in terms of crosscutting planning when drafting and implementing policies.

The second step is a spending review. We will review every item, line and program of Government expenditure, and spending that is not essential and does not benefit the people will be cut. Such a review is a serious undertaking, it requires much detailed analysis and cannot be rushed. This spending review will be undertaken this year and its recommendations will feed into the 2016 State Budget process.

Your Excellency the Speaker of Parliament,
Your Excellencies the Vice-Speakers of Parliament,
Distinguished Members of Parliament,

The Legislative Proposal for the 2015 Rectification Budget that I present to you today does not change the total figure of **\$1,570 million**. This investment will be funded by domestic revenues, the Estimated Sustainable Income and excess withdrawals. The cash balance and loans also remain unchanged in relation to the 2015 budget.

Consequently, the main purpose of the 2015 Rectification Budget is to respond to the new government structure that is more focussed on service delivery and outcomes, as well as to the demands of a Government that seeks to do more and better while investing the same amount and avoiding unnecessary spending, so as to achieve better quality economic growth.

The effective implementation of Government policies requires close coordination between ministries. The creation of **three new Ministers of State responsible for coordinating** the economic and administrative sectors, as well as the **creation of the Ministry of Strategic Planning and Investment**, are the first steps towards Government efficiency and accountability for implementing the development strategy with the utmost rigour. Additionally, the **Minister of State and Presidency of the Council of Ministers** received additional tasks, becoming responsible for coordinating the drafting and organising of government work and of reforms to be implemented.

Consequently the current State Budget significantly reduces the size of Government, while substantially increasing its organisation and efficiency. As such, our **reforms** involve better implementation and execution methods more than programmatic content, which seek to continue long term goals. Therefore we have:

- Improved coordination among ministries;
- Strengthened long term planning and improved cost-efficiency of infrastructure investments and the quality of works;
- Reduced the complexity and size of public administration in order to make it more efficient and sustainable. This includes greater responsibility and accountability by civil servants, which will entail a thorough revision of staffing needs, recruitment and promotion in the civil service;
- Harmonisation of laws, so that we have instrumental legal orders with which the Timorese citizens may identify. These legal orders must also promote access to justice and provide legal certainty to potential investors.

The **Minister of State and Presidency of the Council of Ministers**, who assists the Prime Minister regarding the Presidency of the Council of Ministers and the coordination of the Government, will also be responsible for coordinating the reform in the sector of justice and the reform seeking to standardise laws. For this purpose, the Ministry is set to receive a **\$400,000** budget. The budget allocated to the Presidency of the Council of Ministers is now **\$137.7 million**. However, most of this amount is allocated to the public transfer to the

Authority of the Special Administrative Region of Oecusse Ambeno and to the Special Zone of Social Market Economy of Oecusse Ambeno and Ataúro.

The **Minister of State Coordinating Social Affairs** will have responsibility for coordinating and implementing social policies seeking to improve service delivery and access to goods that are indispensable to human development. This requires close collaboration with the line ministries in the areas of health, education, professional training and welfare. The budget for the Minister of State is **\$1.9 million**.

The economic sector is vital for the development of Timor-Leste. As such, strong coordination is needed in this area, which is delegated to the **Minister of State Coordinating Economic Affairs**. The budget for this area is **\$5.3 million**, which will be used to promote a strong boost in the agricultural, commercial and industrial sectors, as well as to promote the development of the business environment.

With a budget of around **\$2 million**, the **Minister of State Coordinating State Administration Affairs and Justice** is responsible for ensuring sounder, more democratic and more effective governance of State resources, by way of strengthening State agencies. The administrative decentralisation process and the project for creating municipalities, under the coordination of this Minister, will be key factors for enabling better and fairer distribution of public resources, access to services in rural and remote areas, and the fight against inequality.

Countries that have detailed and well specified long-term economic plans develop more quickly than their peers do. Going forward, the Government will develop more detailed and integrated policies, costing and setting priorities for all physical projects. This should enable projects to be implemented faster and with greater cost-efficiency. The new **Ministry of Strategic Planning and Investment** will have a budget of **\$76.5 million** in order to achieve these goals.

In this sense, it will be possible to improve the management of the integrated investment cycle, in which major infrastructure projects are submitted, reviewed, budgeted, drafted, procured, assessed and verified. This will enable greater efficiency in public investments in this sector that is the backbone of development. The Ministry will also carry out thorough assessments and revisions to the PDID and PNDS programs, so as to ensure better proportionality between costs and outcomes, which should be more satisfactory and sustainable.

Lastly, and because I consider that the sectors of Defence and Security are absolutely vital to a Democratic State under the Rule of Law, I cannot but mention the creation of the **Ministry of the Interior and of the Ministry of Defence**, which will have a better division of tasks and responsibilities in order to promote our internal security and sovereignty.

Peace and stability will always be priorities for the Government. The provision for **national stability operations** will be supported by **\$2 million** in the category of whole of

Government appropriations, since without peace and security we cannot hope to instil trust by investors or even by the Timorese people.

Your Excellency the Speaker of Parliament,
Your Excellencies the Vice-Speakers of Parliament,
Distinguished Members of Parliament,

As was already mentioned, the rectification budget does not change the budget of the Consolidated Fund for Timor-Leste in relation to the original 2015 State Budget. Nevertheless, there are changes within appropriation categories, since the money saved by streamlining the Government will be used on new important policies, which are set out as follows:

- Reduction of \$1.5 million in Salaries and Wages, to **\$177.5** million.
- Increase of \$0.7 million in Goods and Services, to **\$515** million.
- Reduction of \$4 million in Public Transfersto **\$454.4** million.
- Increase of \$3.4 million in Minor Capital, to **\$31** million.
- Increase of \$1.5 million in Capital Development, to **\$391** million.

From these measures, I would like to highlight the increased budget foreseen for the **Authority of the Special Administrative Region of Oecusse Ambeno and the pilot project for the Special Zone of Social Market Economy of Oecusse Ambeno and Ataúro**, which will include an additional transfer of \$51.5 million, adding to a total of **\$133.4 million**. This integrated development project led by Dr Mari Alkatiri, on whom we trust entirely, is vital for funding the development of core infrastructure and other conditions that will jumpstart economic and social growth in this region. This program will also include **\$1.5 million for celebrating the 500th anniversary of the arrival of the Portuguese in Timor-Leste**. These celebrations will feature the presence of international guests, which will contribute to the revitalisation and growth of this region.

Cooperation towards development is a strong component of our foreign policy. Our history reminds us that we have always been able to rely on the friendship, assistance and solidarity of other countries. Timor-Leste wants to take part in the development process of our brothers and sisters in other countries, such as the Republic of Guinea-Bissau. In order to continue strengthening the sector of defence and security, which is essential for stabilising and developing Guinea-Bissau, the **Timor-Leste Cooperation Agency** will have an allocation of **\$4.5 million**.

The Government will also continue the commitment to give dignity, pay homage and provide support to the **Veterans**. This rectification budget includes a new provision for the operational costs of the Veteran Councils, in the amount of **\$250,000**, so as to create a

National Veteran Council. The Government has also allocated around **\$150,000** to fund the exchange program between Timorese and Australian Veterans.

Lastly, and still within the scope of **Good Governance**, and because we see the public administration reform mentioned before as being essential, the Government also intends to allocate **\$300,000** to the Office of the Prime Minister in order to start the process for improving efficiency and effectiveness in the Civil Service. We will also have an allocation of **\$500,000** to start developing our “e-Government” program, seeking to enable a more active and responsible participation by everyone in the development process, as well as to provide online services.

Your Excellency the Speaker of Parliament,
Your Excellencies the Vice-Speakers of Parliament,
Distinguished Members of Parliament,

In view of the above, we cannot but expect to close the financial year with a budget execution that is high and that, more importantly, is of a good quality and benefits every Timorese citizen. If possible, we want to exceed the budget execution of 91.6% achieved by the previous Government in relation to the 2014 SGB.

The Sixth Constitutional Government is prepared for the challenges faced by the country and for implementing a sustainable tax policy and public expenditure that is coherent with what has been planned, reducing waste and increasing measurable and quality outcomes. Particularly at a time when the price of oil has been falling, leaving economies such as ours in a situation of vulnerability, it is important to enhance economic diversification by way of making intelligent investments in the sectors that may generate profits for Timor-Leste and increase domestic revenues.

This is the only way we can defend the national interest and honour the Veterans and all those who made sacrifices, including our elderly, women, young people and children, so that our Timor-Leste could be a free and sovereign country.

Lastly, I must praise the spirit of cooperation by the distinguished Members of Parliament. The creation of the Ad Hoc Committee has enabled greater flexibility when reviewing the initial Legislative Proposal on the Rectification Budget, so as to accelerate the work being undertaken without compromising rigour and efficiency when reviewing this Budget.

We believe that today’s debate will be equally constructive and democratic. We believe that if each and every one is truly committed, we can achieve sustained and balanced development for our country. This is our commitment towards the People of Timor-Leste and our Nation!

Thank you very much.

1 April 2015
Dr Rui Maria de Araújo