



**REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE**

**SPEECH BY  
HIS EXCELLENCY PRIME MINISTER  
KAY RALA XANANA GUSMÃO  
ON THE PRESENTATION OF THE BILL ON THE STATE GENERAL MID-YEAR  
REVIEW BUDGET FOR 2008**

**(Check against delivery and the Portuguese original)**

**NATIONAL PARLIAMENT  
18 JULY 2008**

His Excellency, President of the National Parliament  
Distinguished Members of Parliament  
Distinguished Members of Government  
Ladies and Gentlemen,

The State General Mid-Year Review Budget for 2008 symbolises the commitment of the AMP Government to advance the development of the country.

With this Mid-Year Review Budget, to be debated today, we are preparing the future of the nation. And the future, Distinguished Members of Parliament, will come through **stability** and **national development**.

This was the mandate the People gave us, to redefine the path of the country, taking the only opportunity available to transform Timor-Leste into a stable, solid and developed community. It was with this desire for change and for reform that we were sworn in – it is this will of the Timorese people that gives us strength.

For that reason, this Mid-Year Review Budget, despite the criticisms, is to update the annual budget. Rectifying signifies aligning. The circumstances have changed, the international context has changed, and therefore, we must have the courage to update the budget, without hesitation, to the new and demanding reality that Timor-Leste faces, and this change can only be addressed with an audacious budget.

This Government has the benefit of having learned lessons from the mistakes of previous Governments and this means that we cannot turn away when peace and national stability are at stake. The Government must always be on alert to recognise problems that threaten national development and be ready to act immediately. This means that the Government cannot dismiss emerging opportunities for growth, even if they come in the middle of the financial year.

- **Has there been any progress made on the priorities set for 2008?** Let us redefine our priorities to improve the living conditions of more Timorese this year;
- **Has new data been collected for the payment of pensions to the elderly, combatants and martyrs?** We will correct this and support the elderly and combatants and we will not wait until the 2009 Budget to do so;
- **Were we confronted unexpectedly by the dramatic incidents in early February, which forced us to reallocate funds within Government security bodies to meet these needs?**

We will not wait until next year to adjust these funds, we will allow these Government bodies to implement their programs as planned for 2008;

- **Have the prices for food and other essential goods increased significantly around the world, putting at risk national stability?** We will respond immediately so as to not allow these increases to have disastrous consequences for our country;
- **Have we not had extraordinary increases in the petroleum revenue as a result of the increasing world oil prices?** We will use these revenues to alleviate poverty and address social problems immediately, while implementing in 2008 new measures for economic growth.

Distinguished Members of Parliament

Ladies and Gentlemen

The State Mid-Year Review Budget is not just a document of arithmetic nor should it be understood simply in terms of economic returns. The economic and social returns resulting from peace and national stability are the best investment that we can now make.

This was the first investment that our Government proposed to undertake! I will move on to present the “value” of this first investment, given that some Members of this Parliament have had difficulty recognizing the progress made and seek “guarantees” that this Government has the capability to effectively set the country on the path to development.

The exercise is simple: what was the situation in our nation, exactly a year ago on 18 July 2007, compared to the current situation?

Back then we had thousands of people internally displaced in camps in the centre of Dili, living in appalling conditions. **This year, we closed down 18 camps and 3,206 families returned to their homes.**

We had a group of ex-F-FDTL (a third of the Armed Forces), frustrated with decisions made by the State, who became disillusioned with society after having no response to their petitions. **This year, and starting this week, we will pay financial compensation to all these petitioners who opted to return to civilian life, successfully bringing to a close this issue.**

We had an unacceptable situation of lack of coordination and distrust between two institutions fundamental to security and national stability; the PNTL and F-FDTL. **This year these two**

**institutions successfully worked together for the good of the Nation, as evidenced by the success of the Joint Command. This has starting a new stage in the history of the relationship between these forces,** resulting in the development of new relationships of coordination and cooperation on security and national defence, as is seen with the Campaign of Weapons Collection.

We also had an armed rebel group, with significant influence among the population, which could at any moment endanger the security of the country, as indeed it did, by threatening our national sovereignty. **This year, this group surrendered peacefully to the forces of the Joint Command, and consequently, to justice.**

The parties that make up the AMP Government have travelled across the country “from the eastern point to the enclave” and the message that they heard from the population was always the same: Discontentment with a lack of trust in the State institutions!

What about the private sector? It was totally neglected and lacking any incentive to work with the Government in the process of nation-building. Foreign investors? They were reluctant to invest in a country that failed to offer the minimum conditions of security in both physical and legal terms. What about domestic production to offset the cost of imports? The revenues from exports of non-petroleum goods are essential to pay for imported goods in our country, as we depend heavily on the import of essential goods – to date the only thing our private sector had to export was pessimism.

However, the most shocking was to see our national heroes, Combatants for the National Liberation, eight years after the end of the war, without just recognition and living in conditions of extreme poverty. And up until last year, and before this Government took office, the payment of pensions to the elderly had never seriously been considered.

Without these *katuas*, without these Combatants, without the widows and orphans who made sacrifices to achieve our Independence, we would not be here today to defend this State Budget.

We believe in social justice measures, essential to national stability, just as we believe in investing for future generations. And so our policies are developed to alleviate the needs of the most underprivileged today with our eyes set on economic growth for the future.

Distinguished Members of Parliament

Ladies and Gentlemen

Addressing these problems has been an important focus of this Government. In eleven months the progress made has been impressive and is there for all to see. We have practically delivered on 100% of measures approved by this National Parliament for 2007 and are accelerating the program for 2008, and not even the constraints that emerged at the beginning of this year have sidetracking us from our set goals.

I will not bother you with more discussion of all that this Government has achieved and refer you instead to this Government's activities report which has been presented to the Parliament.

Better still, we can demonstrate the work of this Government through discussion of the numbers:

I remind you that the budget for the transitional period was only approved on October 10, 2007, notwithstanding the reduced execution period of two and a half months, the budget execution achieved was 90.1%. This execution rate is exceptional when compared to those rates achieved in regard to previous budgets.

Of the \$119 million inherited from previous Governments and carried over into the Transitional Budget, \$104 million related to the 2006-07 financial year and \$15 million to previous years. This carryover is equivalent to almost one third of recurrent budget. The IV Constitutional Government considered this practice unsustainable and took action to reduce carryovers to a more manageable level.

This Government was able, with the application of improved methods of financial management and with reforms in the Ministry of Finance, to improve management and transparency of public funds, and reduce the \$119 million to \$55.19 million. In conclusion, **53% of carryovers have now been resolved.**

And in 2008, **we have already executed \$153 million out of the \$348 million that was approved.** Which means the budget execution rate achieved up to 16<sup>th</sup> July 2008 equates to 81% on a pro-rata basis. If we only examine the situation in terms of cash, we have executed \$111 million or 59% on a pro-rata basis.

I ask that you do not distort the numbers to manipulate public opinion against the Government's performance. And I also ask you to recognise that performance is not measured in quantitative terms alone.

In the first months of this year, we focused on preparing for the implementation of the measures set for 2008, reforms which define this Government. Reforms in the Ministries, reforms in policies and

procedures, legislative reforms and the changing of attitudes and behaviours to become more focused on service to the People.

Reforms are not implemented overnight. However, the experience of other countries suggest that bold reforms, a committed Government, capable and new systems and mechanisms – which while they may take some time to produce results – are the key to successful sustainable growth. But these reforms are not ends in themselves; they are merely the means of achieving our goals, which is the improvement of the living conditions of all Timorese.

We inherited an essentially stagnant government apparatus. We examined the problems, identified the gaps and we acted. Our machine does not stop! A concrete example is the review made of procurement process and the customs and tax services – by independent internationals – who identified the main problems in the system which were impacted on the economic and social development of the country. And the recommendations which were made are already being implemented.

These fundamental reforms are difficult to quantify in terms of budget execution. The improvement of processes and procedures for a more efficient public investment, the strengthening of the capacity building of the private sector, the closure of *carry-over* projects, the settling of previous Governments' debts, the reforms in the defence and security sectors, the drafting of fundamental legislation which we have approved, the development of attractive mechanisms for foreign investment – these are not easily quantifiable but they will be the foundation for successful execution of the mid-year review budget.

A concrete example of these reforms is the rate of execution of the carry-overs, which was 57%. If we consider only the carry-overs of the IV Constitutional Government, out of the \$40.560 million, we have executed \$29.317 million or **72% in six months!**

Excellency, President of the National Parliament  
Distinguished Members of Parliament,

These results demonstrate the discipline which has guided our work and the decisive way with which we intend to create the necessary conditions for economic development. We have neither supernatural powers nor can we make miracles, but in mere months we have achieved results never before achieved in this country.

This is the guarantee we give you that we know what we are doing and it is because of this that I ask your full attention for the measures that I will now outline.

However, first I will make a minor detour: this Government has been criticized for not presenting detailed action plans and for not having yet finished the second National Development Plan.

Well, the action plans are an integral part of the Budget papers, the National Development Plan is being developed, and the draft State of the Nation Report is finished. But, more important than the plans are our completed activities and for this reason it is with great pride that we state that in less than a year, of the five that we have to realise our programs, we have made great strides in accomplishing the Government's Program, the document which guides our actions.

And I ask, of the many plans made previously, including the First National Development Plan, where are the achieved results? Where is the execution of the great capital development projects? Where are the important infrastructure works and the public investment within Timor-Leste, which resulted from these magnificent plans?

If we carefully study the measures proposed in this Mid-Year Review, we can conclude that we are not only beginning to develop our infrastructure, we are preparing for 2009, which will be the Year of Infrastructure. Unfortunately, in a country with so many challenges and needs, we cannot do everything at once – and it is because of this that our priorities were a subject of careful reflection. Firstly, a priority will be the consolidation of national stability, for without it there will be no room for investment. And secondly, a priority will be the development of public investment, for without it there will be no room for economic growth and sustainable development.

I would like now to draw your attention to some numbers in the Mid-Year Review Budget, which re-directs Government spending to key areas of economic growth, while at the same time providing assistance to the population, especially the poorest and those in rural areas.

**\$31.9** million for electricity supply

**\$27.2** million for agriculture and food security

**\$20.5** million for infrastructure investment

**\$15.9** million for security

**\$10.3** million for health and education

**\$5.7** million for training and professional development

This increase in spending will:

- Pay for the **maintenance of and fuel for generators** to secure the supply of electricity to all districts, and at the same time finance the first construction phase of infrastructure for

the generation and distribution of electricity at the national level, to definitely resolve the perennial problem of poor electricity supply. And for the longer term, the Government will conduct a study to evaluate the viability of renewable and alternative energy sources.

- Increase **agricultural production to improve food security**, through the construction of agricultural buildings and Regional Centres of Maintenance, improvement of irrigation systems to increase the quantity of arable land and support measures to farmers to improve methods of production for increased productivity, while also creating storage capacity for food stock through the building of warehouses.

This increase in spending will also:

- **Improve infrastructure**, through the rehabilitation of more than 200km of rural roads, the design of projects and works to stabilise river beds and control floods, construction of bridges and rehabilitation of roads and footpaths in Dili, maintenance of the International Airport and of the Berlin-Nakroma Ferry and the implementation of the first phase of a strategic infrastructure plan, focusing on 2009.
- Allow for the **reinforcement of defence and security** of the country through a series of initiatives ranging from deployment of F-FDTL in the western part of the country, to the establishment of an Integrated Centre for Crisis Management, to increase civilian protection, and the better equipping of the Armed Forces. We will also proceed with payment for the first phase of the building of two coastal patrol boats, including the provision of training. I emphasize the importance of this project because never before were measures taken to adequately protect our national maritime wealth from exploitation, which currently results in an estimated loss of \$36 million each year. Illegal fishing and the way in which the maritime floor has been attacked, places at serious risk our marine life and destroys our precious corals – and so it is urgent that we effectively combat illegal fishing in our country, to ensure that future generations enjoy the benefits of these resources, which are a source of wealth and beauty for Timor-Leste.
- Rehabilitate and finalise the construction of **Schools and Health Posts** and other medical buildings, provide medicine and services to the hospitals, implementation of policies to improve maternity and infant health, and continuing nutritional support services to mothers and babies, services previously provided by development partners. And in education, in addition to a pilot program for intensive training of teachers, a program for school meals and improvement of teaching systems through decentralization of services and improved school inspections will be implemented.



Finally, this increase in spending,

- Will finance **professional development training and capacity building programs** and investment in human capital, including scholarships, language training, rehabilitation of training centres and overseas training in fields where learning is not available in Timor-Leste – this is a fundamental instrument for national economic growth.

The expenses I have just outlined, in particular those of capital development and the provision of goods and services are but a timid step, however, they represent a strong indication of the Government's future spending priorities, to increase investment in infrastructure, education and health, and to stimulate the private sector and create conditions for new businesses and industries to emerge. With this spending, there will be less investment risk in a society where one can count on the benefits of a well educated and able workforce, a more efficient health system, better roads, communications and reliable electricity as well as access to markets.

**Minor capital** spending will increase by **\$14 million**, primarily to acquire tractors and other machinery to support farmers and to purchase multifunctional vehicles for health centres.

In addition to this, the Mid-Year Review Budget will fund an increase of **\$10.4 million** for a one-off payment, equivalent to one month's salary, to all public servants, health professionals and health workers, judicial staff and academic staff and continue to fund the subsidies for members of PNTL and F-FDTL.

This measure will acknowledge and improve public sector performance, taking into account the fact that since the UNTAET period, public service positions have not been reviewed, thereby leaving them in a less advantageous situation compared with private sector workers and international agency staff which offer much more attractive remuneration packages. This will, however, be a temporary measure, as the current public administration reform and the implementation of the already approved diplomas, will permanently address this situation.

Further, the recognition of the work of our security and defence forces, who undertake activities of great risk and responsibility, are essential to the improvement of their performance, increasing professionalism and minimizing the risks of corruption. These payments are also a transitional measure, as this year's defence and security sector reform will deliver improved and promotional opportunities for PNTL officers.

The **public transfers** expenditure will increase by **\$48.1 million** to a total of \$112 million, to account for the increased number of old age pension beneficiaries, the pension payments to Combatants of the National Liberation, assistance to internally displaced people, additional assistance to the Petitioners, greater support to sporting organisations throughout the country and increased payments for “*cash for work*”.

The Mid-Year Review Budget includes, for the first time, multi-year programs. National development requires patience and cross-sectoral, medium and long-term implementation plans. Not understanding this requirement places at risk the development of the country. We will not mortgage the quality of projects because of a lack of flexibility to approve projects which are impossible to implement within a financial year. This mechanism is in accordance with the Law and guarantees a proper and transparent process.

Distinguished Members of Parliament

Ladies and Gentlemen

The 2008 Budget update to **\$773.3 million** reflects an additional amount of **\$185.6 million** in economic development investment and general State services. The remaining **\$240 million** targeted for the Economic Stabilisation Fund is a temporary preventative measure to guarantee national stability.

This measure results from the worldwide increased cost of essential goods, not only making the goods more expensive but also increasing the scarcity of their supplies in the international market. And at the same time that we are increasing investment in capital development projects, we are faced with shortages in building materials, in particular when procured individually by the private sector which now requires government support.

The increase in spending is only possible because the **Petroleum Fund** continues to enjoy the benefits of recent petrol price increases, which have resulted in the sustainable revenue increasing in a few months by more than \$100 million per annum.

While the international outlook suggests that the increases in petrol prices will continue to rise, we have taken a conservative approach to our estimated sustainable revenue and at the same time are developing an investment and fund management strategy, which will maximize the value of revenues derived from the petroleum sector.

We have no doubt that we are investing our resources in a sensible and responsible manner, thereby guaranteeing, in the present, social stability and investment in the development of essential

infrastructure, while maintaining sufficient resources for future generations. We also have no doubt that we are managing this in accordance with the Law. The people expect no less from this Government.

We are acting in the national interest and, like resource rich countries which have experienced economic growth “miracles”, we are transforming the use of petroleum revenues to provide an increased sustainable national income which can be distributed to all the population – **worse than having poor people in a rich country, is having rich people in a rich country where the majority of the people are poor.**

We do not want to leave anybody behind! I acknowledge that this is a huge challenge but at least we will not be accused of not having tried. This is not a Government for some, it is a Government for all. Therefore, we have no intention of allowing some to improve their living standards, while others continue to face extreme difficulties in accessing jobs, essential goods and public services - it is for this reason that a significant part of this money is allocated for rural development, the elderly, veterans and to the poorest, and not just to invest in infrastructure projects which would immediately silence the opposition and international theorists.

The true wealth of Timor-Leste is not its oil but its Dignity! **The true wealth of the country is not its natural resources but its people: men, women and children**, who did not fight for a “fat” account sitting in a “central bank” but for the Dignity of the Timorese people.

Distinguished Members of Parliament

Ladies and Gentlemen,

The consumer price index which was 9% in 2007, will increase in 2008, with estimates of 10-12% during this year. The prices of staples at the global level, has been increasing rapidly with the price of rice trebling in the first four months of this year.

Added to this **worldwide food crisis**, which some call the “silent tsunami”, is the significant increase in fuel prices and building materials. Timor-Leste relies on the import of these products to feed the population and to stimulate economic growth, however, the producing countries of the world have been reducing their exports and thereby inflating prices even further.

Ladies and gentlemen,

I am convinced that there is no doubt whatsoever among those present in this “Casa Magna” what this could mean to such a fragile country as ours. The disturbances and demonstrations that have been taking place in other countries, where poverty is not as prevalent as it is here, is a warning that we cannot afford to ignore.

The damage that food insecurity could bring to our people has no price. And, it is not only social stability that is at stake, it is also national development that is at risk.

Hunger causes increased vulnerability to illnesses such as malaria and tuberculosis, endemic in our country. Hunger causes greater learning difficulty for our children and mortgages the development of human capital. Hunger leads to violence and national instability.

And the shortage of fuel combined with the lack of building materials, poses serious difficulties to the development of infrastructure which the Government started this year and will increase further in 2009. For a country that is attempting to free itself from extreme poverty, a complex situation such as this requires bold measures – and it is because of this that we included the **Economic Stabilisation Fund** in this Mid-Year Review Budget.

We have the resources to fund this budget update. We are a sovereign State. It does not make sense to “hold out our hand” for international assistance, that may take time to arrive or not arrive at all, when such assistance could be channelled to other countries where the needs are more pressing. There are countries in Africa where children are dying of hunger and these countries are not blessed with the same resources that Timor-Leste possesses. Our response is also one of international solidarity.

The Economic Stabilization Fund, which has caused such criticism, is an instrument for the Government to monitor the pressure on prices. It is not, however, the only means. To reduce the rise of inflation, we will reduce import duties and sales tax to 2.5% and the service tax to 5%, through the recently approved tax law reform. Other measures, such as the establishment of a price monitoring and surveillance unit in the Ministry of Tourism, Commerce and Industry and increased dialogue with the private sector and other associations, such as cooperatives and veterans associations, will serve to guarantee adequate goods and services price competition.

The projects undertaken so far to increase agricultural productivity and expand the production of essential goods have already shown results and we are now in the phase of sowing the seeds to realise our own food security – but of course, it will take time and we cannot expect to harvest sufficient rice this year to address the current crisis.

The Government has defined the guiding principles for this Fund, however, the mechanisms used to prevent future challenges will depend on specific situations. It is not our intention to tie ourselves down to a fixed solution. We are looking for a degree of flexibility to respond to the pressing needs of this crisis, as and when they arise.

The majority of the \$240 million will be returned to State coffers. The preventative measures will serve to combat unpredictable factors dictated by the international environment, as they arise. These are exceptional measures, which require some degree of legislative and bureaucratic flexibility, but can save a country, which is in a post-conflict labyrinth, from an irreversible decline.

The Government leaves it to the conscience of each one of the Distinguished Members of Parliament to decide whether to approve or not to approve this Fund. If the situation deteriorates and demonstrations emerge, it will fall on the Government to restore peace and security. If that happens I will come back to this National Parliament to reiterate: do we invest in peace and stabilise the country or do we destroy the hope of this young nation?

President of the National Parliament,  
Distinguished Members of Parliament  
Ladies and Gentlemen,

The policies underpinning this Mid-Year Review Budget promote sustainable economic growth by creating an environment conducive to greater levels of investment, job creation, mobility of resources, social protection, equity and inclusion.

The capacity of a Government is not measured only by its ability to stay the course from start to finish but above all by its capacity to adapt to new circumstances and to transform challenges into opportunities, with practical results that foster stability and national development.

This Budget, more than updating the approved budget, **will place Timor-Leste in a more stable position and safeguard the rights of the poorest and most vulnerable.**

Thank you very much.