



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

**SPEECH
BY
H.E. KAY RALA XANANA GUSMÃO
PRIME MINISTER**

**On the
Proposed Law of the General State Budget
for the
Transitional Period 2007**

**NATIONAL PARLIAMENT
5th October 2007**

Distinguished President of the National Parliament

Distinguished Members of the National Parliament

Fellow members of Government

Members of the Press

Ladies and Gentlemen

Today the IV Constitutional Government takes the first steps towards achieving the goals it set itself in the program only recently approved by the National Parliament.

The Budget presented to the National Parliament today is one that assists the Government in its transition to a calendar year budget cycle and only covers the six-month period from 1 July to 31 December 2007.

A Calendar Year Budget and the Transition

This Government believes that a budget cycle based on a calendar year will allow us to better plan and execute our plans.

Basically, a calendar year budget will provide us with nine months of continuous fine weather, allowing for uninterrupted work in the crucial areas of:

- Providing timely agricultural assistance;
- Building and maintaining irrigation systems;
- Building and maintaining water supply;
- Building and maintaining our roads.

The legislative and administrative processes for the passage of future budgets will be done in the months of October to January allowing Ministries ample time to execute their activities.

This is the first example of the many reforms in State Finances that will see us spending money on providing services to our people and building up our infrastructure.

Moving to a calendar year budget means that we must have a period of transition. This budget covers the period from 1 July 2007 to 31 December 2007. The major principles behind the development of this budget were to:

- continue to provide essential services to the people of Timor-Leste;
- ensure that a number of urgent and critical priorities are addressed;
- ensure displaced persons, reduced poverty, and better security are accorded priority; and
- implement the new structure of the 4th Constitutional Government.

I will speak later about some of the individual measures that the Government will introduce in this budget.

I hope the Distinguished Members of Parliament will see that this is a clear demonstration on the part of the Government of a change in the psychology of Government operations.

Reforming the Ministry of Finance Operations

The 4th Constitutional Government will aim to achieve outcomes, and we will measure this by the number of services delivered or by the infrastructure that is built. We will begin to do this by allowing Ministries to have more autonomy and more flexibility with their budgets to achieve results.

The role of the Ministry of Finance is crucial in the success of our venture. We believe that the Ministry of Finance is a high capacity institution. The Government believes that the principle role of the Ministry of Finance is to oversee the robust financial management of public finances. Previously it was thought the only way this could be done was through a centralized control over every payment and transfer of money. This cannot continue, it is too much for the Ministry to handle and removes a sense of responsibility and accountability from Ministries to achieve good outcomes and get value for money.

The Government is decentralizing some of the work currently done in the Ministry of Finance to the financial areas of the Ministries. This is a big change in culture but we are determined to make it happen.

The role of the Ministry of Finance will be to manage the process of decentralizing financial processes, to ensure that greater autonomy will be given to Ministries. Budget execution failure cannot be as a result of a lost piece of paper between a Ministry and the Ministry of Finance.

Decentralization means that Ministers will be given some freedoms but they will also be accountable.

It has taken 5 years to bring the Ministry of Finance to the capacity it is at today in the areas of Budget, Procurement and Treasury. The next critical stage of institutional development is to develop those skills in line Ministries. The Ministry of Finance will achieve this in two major ways, firstly by devolving some work to the Ministries themselves and secondly to provide an improved coaching and mentoring service to their clients, the line Ministries.

The following three significant steps are being taken:

- decentralisation of the input of Commitment Payment Vouchers (CPVs) to Ministries;
- decentralizing the process for approvals of virements of expenditure from one category to another to Ministries; and
- further decentralisation of procurement processes to Ministries

Economic Overview

I would like to provide the Members of Parliament with an economic overview of the nation. Five years have passed since the independence of Timor-Leste. In many areas,

Timor-Leste has made significant advances. However, in other areas, particularly on the socio-economic front, many challenges remain.

Poverty still is a critical challenge and preliminary studies indicate that the population below the poverty line of US\$0.55 per day may exceed the 41% identified back in 2001. Unemployment among youth is very high which has become a major cause of violence and social unrest.

It is predicted that up to 65,000 more people will enter the labour force in the next five years. At least more than 10,000 have already entered the labour force in 2006.

The IDP issue also poses as a serious challenge. Agriculture dominates Timor-Leste's economy and the livelihood of the majority of people. This sector makes up 30 per cent of the non-petroleum GDP. About 80 percent of the population is dependent on forestry, and fisheries for their livelihoods.

A third of the Timorese households rely on subsistence agriculture exclusively. There are high gaps in educational and health attainments between men and women. Under-five mortality is as high as 130 per 1000 live births and maternal mortality as high as 660 per 1,000,000 live births. The rural population also is confronted with livelihood insecurities resulting from dependence on fast degrading environmental resource base and climate change.

Overall, 2006 witnessed the country going backwards, where real non-oil GDP per capita declined to its lowest level since 2000. However, we believe the economy is beginning a modest recovery during 2007 as a combination of a couple of factors, firstly the build-up of UN activity in the last few months and favourable weather conditions in the upcoming season.

This transition period's budget, though for a brief period, aims to maintain the services provided by the government on the health, education and social areas as well as provide a modest jump-start and quick impact on the economy thus leading to firmer foundation for take-off into the Second Five Year National Development Plan.

In addition to this we are planning that higher levels of actual public spending and greater foreign direct investment will lead to a sustained recovery.

The greatest challenge this Government faces is to quickly develop our basic infrastructure. The Government's strategy will be to accelerate economic growth and job creation as the primary means of reducing poverty and increasing economic well-being.

The experience of other nations tells us that economic growth is the single most important factor that influences poverty reduction outcomes.

Managing the Carryover

Before I move on to the details of the Budget I would like to brief the National Parliament on the state of the carry over of funds from budgets in previous years.

When this Government came to office it was advised by officials in the Ministry of Finance that the level of the carry over was almost \$119m, the majority of which came from contracts signed in the last quarter.

This astounding figure is almost three times the size of the previous carry over and is almost the level of actual expenditure for the 2006-07 year.

Carrying over such large amounts of money is unsustainable, however the Government's hands are tied and for the moment we will carry over the funds in good faith, however we are taking the following actions to reduce this amount before the end of the calendar year. Steps to be taken by the Government to reduce the carryover are as follows:

- The Ministry of Finance will undertake to provide the quarterly execution reports to the National Parliament and other stakeholders showing the current budget as well as the carry over by Ministry and category of expenditure on a timely basis;
- The Ministry of Finance will immediately close off all the balances where the project or activity has been completed and the activity paid but funds still remain open;
- The Government will immediately lapse all carry overs which are not specified to a specific vendor;
- The Ministry of Finance will review all current contracts to verify whether there is an actual obligation on the Government, if no specific contract is available then we will lapse the carry over; and
- We intend to lapse all outstanding carry overs at 31 December 2007 with a view to re-budgeting items into the 2008 Budget where appropriate.

To alleviate this problem from happening again the Government will adopt a cash based approach to budgeting in the 2008 State Budget. Capital program will be appropriated via a 3-stage approach, these are:

- feasibility
- design; and
- construction

This will provide for a more realistic approach to the development of our nation and allow us to use our money more efficiently and effectively.

This leads me to introducing the State Budget to the National Parliament.

Revenue

The total revenue for the transition period's budget, from 1 July to 31 December is estimated at \$579m, of this amount \$556 million will come from petroleum receipts, and the remainder from non petroleum sources. The sustainable income for the budget of the

transition period 1 July to 31 December is estimated at \$133m, and I shall explain: the Petroleum Fund Law allows for this Government to withdraw these \$133m. Our Budget is well below this amount.

The Fiscal deficit and the Petroleum Fund

The balance of the Petroleum Fund as of 30 June 2007 was \$1,394m. By the end of 2007 the Ministry of Finance estimates the balance of the Petroleum Fund to be \$1,910m, assuming a withdrawal of \$40m from the Fund during the transition budget period. The Fund is expected to increase steadily in the medium term. The current forecast shows the total value of the Fund by 2008 of \$2,906m and by 2011 of \$5,550m.

The fiscal deficit, that is, the difference between expenditure and non-petroleum revenue is estimated to be 85.7m. The Government will finance \$40m of that deficit from a withdrawal from the Petroleum fund and the remainder from the cash in the Treasury Account, thus out of the \$133m available, the Government will only withdraw \$40m.

Funding the Basic Operations of Government

The Government has appropriated a basic needs budget. This has been based on providing Ministries with half of the 2006-07 Budget to keep the operations of Government continuing and to provide essential services to the population.

This base was established by calculating half of the budget for 2006-07 for salaries and goods and services. The base budget amounts to \$85.1 million and will cover those services which have been provided under the 1/12th regime since 1 July and which will continue to be undertaken until 31 December 2007.

New Measures Taken By Government

Then the Government has undertaken some measures that have:

- Saved money;
- Re appropriated money which was previously obligated to non vendors; and

- Funding for immediate needs.

Those immediate needs are to:

- ensure that a number of urgent and critical priorities are addressed;
- ensure displaced persons, reduced poverty, and better security are accorded priority; and
- implement the new structure of the 4th Constitutional Government.

The Government has adopted new measures totalling \$23.2, which entails a budget of \$112.303 million from 1 July to 31 December 2007.

I would like to introduce some of these now to you.

The Government is very conscious of the need to consolidate security in Dili and throughout Timor-Leste.

Over the next few months the Government is aiming to create an environment that provides those people who are living in difficult humanitarian conditions as a result of the circumstances, which have tormented our nation an opportunity to return to their homes. The Government will assist by giving them necessary means so that they can rebuild their lives through measures such as:

- Assistance to the IDPs through the Ministry of Social Solidarity;
- Equipping the PNIL to ensure that they can communicate and respond in a more timely and professional manner;
- Constructing more PNIL stations and border posts and workshops to provide communities with a sense of security locally.

The Government will aim to contribute more towards community development, through the \$206,000 distributed to the Chefes de suco and another \$104,000 for the District Administrators.

The Chefes to Suco need to be efficiently resourced in order that they can develop their communities, particularly by creating community centres, which will have the involvement of everyone.

In this regard the community will do its own assessment of the main needs and will promote responsible local development that generates income and keeps our young people occupied.

The Government will provide public grants to the Church and other non-government organisations (\$785,000), as these groups are providing services to the community where Government has failed. The Government feels obliged to fund services but it doesn't see itself as the sole provider, if some one can do the job better than us then we have no objection in helping them do it.

Most of our people live in subsistence agriculture, as a result we need to improve our services to them. Over the transition period the Ministry of Agriculture and Fisheries will be provided additional funds of \$225,000 for reforestation and a tree nursery, an additional \$105,000 will be provided for livestock vaccines and another \$345,000 to assist farmers with the tilling of their land.

Additionally we also have to assist our fisherman, and the development of aquaculture, in this sense the Ministry of Agriculture and Fisheries will be provided with an additional \$175,00 in funds to buy equipment such as nets and boat motors as well as fish food to develop fish farms.

The Government wishes to create rapid solutions to give employment to the youth, by continuing with projects that have proven their worth like "cash for work" in the short-term, above all for construction and maintenance of small community infrastructures. We will extend this program and fund it with another \$1.2 million.

Over the next year the Government will begin to develop the National Development Plan, updating the one from 2002. This will be supported by a project of economic planning adequate to the real needs of the country, by encompassing several projects that have been developed without the necessary coordination, to develop a development framework that allows national unity at all levels: economic, social, administrative, etc – with a clear vision for the next 10 to 20 years. We will fund the initial update of the National Development Plan at a cost of \$ 200,000.

Other important measures of Government consist of:

- The President's Anti-Poverty Task Force, which will allow the President to fulfil one of the major aims of his mandate with respect to the fight against poverty;
- Continuation of the Food Security Program at a cost of \$3.9 million;
- Building major roads, bridges and flood control works, namely the rehabilitation of roads: Zumalai-Suai-Salele; Betano-Natarboroa, Lourba-Zumalai; Laclubar-Natarboroa road junction; the control and normalization of seven rivers in key areas; and conception of a project to construct the bridges of Carau-Ulun and Bemos, at a total of \$2.4m; and
- The maintenance and operational subsidy of the Nakroma to keep our people connected at a cost of \$353,000.

Lastly we need to restructure the Public Service so that it is in accordance with the IV Constitutional Government. Some new departments and divisions under the new structure including Office of the Prime Minister, Social Solidarity, Infrastructure, and Commerce, Industry and Tourism need to be adequately resourced to ensure their smooth functioning.

Excellency, President of the National Parliament

Distinguished Members of Parliament

This budget is a first step in a long journey towards peace and prosperity. It starts the implementation of the Government's program, which this Parliament recently approved. It includes a number of measures to improve the situation of the Timorese people.

I also understand that two major issues have been at the heart of the budget debate over the past two days. One concerns the pension to the Veterans and the other assistance to the IDPs.

I want to take this opportunity to assure the distinguished members of Parliament that these two issues are not only of the highest priority for the AMP government but are issues that we are dealing with the utmost care to ensure lasting solutions.

On the issue of pensions for Veterans, as its strong advocate, against all odds and with very limited resources, I created the three Commissions, which led to the registry of all potential Veterans of the Resistance, the report of which I, in my former capacity as President of the Republic presented to the Parliament in 2004.

As a result of this, the National Parliament initiated discussions on the Law on the Status of Combatants of National Liberation, which among other relevant issues, regulates the pensions for veterans and martyrs of national liberation, in three types of pensions: special subsidy pension, special retirement pension for the veteran combatant of national liberation and subsistence pension; it also contemplates the attribution of a subsidy for exclusive dedication.

The Law regulating the eligibility criteria included the requirement of some critical details that were not contained in the registry completed in 2004. One of the first priorities for this Government was to look at identifying these details to ensure that all Veterans entitled to pensions are justly rewarded.

At the same time, this Government is preparing the necessary policies and criteria, which will guarantee that the Veterans are rewarded in accordance to their contribution to the struggle for national liberation. This explains why in this transitional budget, there is no specific amount allocated for the line item on pensions for Veterans. The Government will include this in the 2008 calendar year budget.

On the IDPs, the Government is committed to resolving this pressing issue in a responsible, prudent and fair manner. As everyone in this Noble Hall knows, this issue, which has dragged on for more than a year and half, is a complex one and needs to be dealt with sensitivity to ensure fair treatment for all.

Immediately upon taking office on 30th August, the Minister for Social Solidarity made this a priority for her ministry. She has had several meetings, including with the IDPs themselves to identify acceptable and long-lasting solutions.

During these discussions, a number of suggested solutions have been identified but to implement them, concrete data is critical, especially for working out the required budget.

Unfortunately, this Government has discovered that there is no data that could assist the Government in calculating a budget figure to address the lasting solutions in spite of the numerous organizations, which have worked on the case of IDPs.

This is why this Government, in one of its Council of Ministers meetings, requested that the Minister for Social Solidarity tackles this gap first, to assist the Government in allocating the appropriate budget for 2008. Thus, the budget for this transitional period has accommodated funding for this activity as well as addressing emergency needs that will emerge with the onset of the rainy season.

To conclude I would like to say that in accordance with Articles 95, 97 and 145 of the Constitution of the Democratic Republic of Timor-Leste, the Government submits the law for the general budget of the State for consideration and approval by the National Parliament.

The IV Constitutional Government believes that this Budget for the transitional period will be the engine that will provide the necessary kick-start for the Government to begin to fully work towards meeting the enormous challenges that the Nation faces. We are optimistic in achieving our program and will do everything for its full implementation.

Thank you.