



DEMOCRATIC REPUBLIC OF TIMOR-LESTE

SPEECH BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE OCCASION OF THE PRESENTATION OF
THE DRAFT 2010 RECTIFYING BUDGET LAW

NATIONAL PARLIAMENT

22 June 2010

Your Excellency the Speaker of the National Parliament
Honourable Members of Parliament
Honourable Members of Government
Ladies and Gentlemen,

The 2010 Rectification State Budget that the Government presents today for the consideration of the Honourable Members of Parliament reflects the **confidence in the current situation in Timor-Leste** and seeks to build on this confidence with this Budget to prepare the Country to meet the challenges of the future.

This budget review is part of a broader context of transformation and change that the Government has been promoting in Timorese society, and as such its goal goes beyond simply amending revenue and expenses this year.

During the period from 2000-2010, that now comes to an end, we have met the great challenge of building the foundations of the State through the measured establishment and ongoing capacity building of our democratic bodies, which include the technical and bureaucratic machinery of the State.

We must all agree that in this first stage we guided our efforts with a view to ensure political and social stability.

We must consider this priority in our reviews, while keeping in mind all the other sectors that benefit from this environment of confidence which Timorese society is currently enjoying.

If there is not a real understanding of the development stages of the State building process, we make the error of failing to objectively identify the correlation between the challenges we face and the search for solutions in an ordered and timely manner.

If we remain confused when proposing ideas, without understanding the complex reality of the Country, it will be difficult to implement a development program that works. If we continue to think that everything is equally important and urgent, we will end up lost in a complicated web of needs and priorities.

Country building is a complex process. It started at the time of the Transition Period and continued through Constitutional Governments I-IV. Our motto last year, “Goodbye Conflict, Welcome Development”, sought only to illustrate the resolution of our internal disputes and our desire to fulfil our wish, as a Nation, to create new hope for the future.

Honourable Members of Parliament

Ladies and Gentlemen,

We are at the dawn of a new decade that may be, from a social and economic perspective, the starting point to consolidate the Country and to free ourselves, as a People and a Nation, from the dark situation of the LDCs (Least Developed Countries).

After nearly three years of governance we have witnessed, through our efforts in the areas of programming and implementation, the dynamic relationship between public investment and economic growth and between public investment and peace and stability.

As such, **there can be no room for hesitation!** On the contrary, this is the right time for us to remain determined about our political decisions and the actions we took, and build on our achievements to invest further in the collective good of the Nation.

I know, Honourable Members of Parliament, that there are some reservations regarding the need to present a further increase to the 2010 State Budget in the middle of the year.

And I understand that these reservations are mostly based around the following issues:

- The reasons or, as often said here, the justification of the reasons;
- The view on this year’s budget execution;
- The sustainability and the return of public investment from the transfer above the Estimated Sustainable Revenue.

I. The Reasons

There is no one success formula for peace and economic growth, in a poor post-conflict country. And so we must proceed with well-thought and strategic public investment for the benefit of the People.

Public investment means all the money invested by the State in the payment of pensions to veterans and welfare to vulnerable groups such as elderly persons, women and children at risk, victims of natural disasters or crises (such as in the case of Internally Displaced Persons). Public investment also means everything we spend on health, education, agriculture, infrastructure, culture and sport, as well as what we invest in employment creation programs, professional training programs and scholarships.

It is public investment that enables us to ensure peace and stability for the Country, solving the problems and consequences of past crises, preventing new crises and presenting real solutions to improve the living conditions of the Timorese.

It was public investment that enabled this Government to restore stability and security in the Country, as well as to restore the confidence of the People in State agencies. The People, who have suffered so much with years of war and of trauma, now deserve to see actual improvements in their living conditions.

It was also public investment that enabled growth in our towns and districts; the creation of new jobs and the improvement of agricultural production; the growth of our tourism industry; the construction of houses, roads, schools and health clinics; the opening of stores and small businesses; and the improvement of the purchasing power of the Timorese.

These progresses could not have been achieved without investment. **Timor-Leste needs to invest even more if it wants to create employment and provide better living conditions to its People.**

The raison d'être for this Rectification Budget is that we want to expand on the actual and measurable achievements we have made within these past two years, **placing Timor-Leste**

on the international map as a Country that is proving that it is possible to beat poverty and its effects.

In view of all of this, this Budget should be seen from two perspectives: one that considers what has been and is being done, and another that looks to the future. This is a process that seeks to respond to the most immediate needs, while creating the conditions (as currently possible) to improve the future. Why wait, when with this rectifying budget:

1. The Government will continue to strengthen the Timorese private sector

Implementing local works with public funding through the **Decentralized Development Package**, using **\$31.4 million** from line ministry transfers to award construction projects up to \$250,000 dollars to local companies located in the sub-districts.

This is a gradual capacity building process for companies, with local communities having a vital role to play in the identification and implementation of these projects, ensuring the provision of more professional and quality services, while at the same time contributing to the capacity building of the future local governments.

This strategy nurtures employment creation, develops the economy and improves basic infrastructure.

A total of **\$5.5 million** will also be invested in order to demolish buildings and other degraded buildings throughout Timor-Leste, so as to renew and improve the landscape and build pride in our communities.

\$3.5 million will also be provided for establishing a new Diocese in Maliana and for refurbishing churches in the districts.

2. The Government will continue to make strategic investments in infrastructure

This budget allocates **\$10 million** to the purchase of generators for Comoro, responding to the increasing demand for power in Díli, as well as **\$17 million** to improve the power transmission system throughout the Country.

An additional grant of **\$4.5 million** is also proposed to fund the construction of roads, as well as **\$2 million** for the first stage of the reconstruction of the runway of Dili Airport.

3. The Government will continue to ensure Food Security

With an additional grant of **\$17.5 million** for the purchase, storage and distribution of rice throughout the Country, while investing heavily in agricultural productivity in order to reduce rice imports over the medium term.

To this end the Government will also allocate **\$1.16 million** for the purchase of fuel for agricultural tractors and to purchase hand tractors, agricultural equipment and heavy machinery, seeds as well as materials for controlling plagues.

4. The Government continues to invest in Justice

Through the construction of a new office building for the Prosecutor General, at a cost of **\$1.4 million**.

5. The Government will continue to give priority to Good Governance

Investing **\$7.3 million** in the development of an integrated and transparent financial management system, so as to improve connectivity among the organs of State and improve systems management.

Around **\$1.5 million** will also be provided for international advice pertaining to strategic investments of the Petroleum Fund and for legal assistance to manage and analyze large financial contracts.

As part of the Government's strategic vision to ensure that Timor-Leste benefits fully from our petroleum resources, we commissioned a study which found that the pipeline from the Greater Sunrise field to Timor-Leste was technically feasible. This initiative deserves a further investment of **\$3 million**, associated with the payment of specialists who will conduct studies at Beaco.

6. The Government will strengthen Public Safety

Through the construction of barracks for the Naval Component and docks at Hera, required for the new Patrol Boats, with an investment of **\$8.35 million**. This measure will bring economic returns in the short term, as a result of the maritime protection of the natural resources of Timor-Leste. It will also ensure National Sovereignty, which is invaluable.

7. The Government will continue to focus and to invest on the development of the Human Capital and Wellbeing of the Timorese

Through additional scholarships to Timorese students, at a total cost of **\$1.5 million**. The Government will also provide **\$1.9 million** to cover the expenses of Timorese students studying in Cuba.

There will be increased investment in health services for Timorese. This will cover additional training of health professionals, the purchase of medical supplies and support to community health clinics. Additional funds will pay for international medical specialists and advisers, as well as for medical treatment abroad.

There will also be a greater investment in education, namely through an additional grant of over **\$4.8 million** for the school meals program, the native language program and school transport subsidies. New Reference Schools will also be built in four regions (Oecussi, Maliana, Manufahi and Baucau), at a cost of **\$1.2 million**.

Lastly, the Government will be making additional payments to reduce the poverty and acknowledge the sacrifice of the National Liberation Combatants. Thus, and in accordance with the Law, the Government will invest around **\$25.5 million** in pensions to veterans.

These Combatants are the primary reason Timor-Leste is an independent State today. They fought for 24 years, waited another 10 to see the establishment of a State under the Rule of Law that acknowledges the services they provided to the Homeland, and are now waiting for the verification of the data concerning the payment of pensions. Part of this process was

completed during the first semester of 2010, which is why the Government should start paying their pensions now, rather than forcing them to wait for 6 more months.

We will also be concluding the outstanding IDP cases, with an investment of **\$4 million**.

Ladies and Gentlemen,

We have good reasons to strengthen public investment now: we are living in a period of lasting peace; we are fully sovereign; we have operational political structures committed to national development; we have began vital reforms in the sectors of lawmaking and public administration; and we have achieved double digit economic growth during the most unlikely of scenarios – a world economic crisis.

On the other hand, and because in today's globalized world we cannot be isolated from the international agenda, it is comforting to know that we are located in the region that is considered to be the most economically dynamic in the world.

Indeed, Asia is currently the centre of economic growth which is forecasted to continue for another fifteen years, and as we can see from the emerging economies of China and India and the success of ASEAN countries.

In addition, the world economic crisis of 2008/2009 which began in the rich countries and spread to other economies, impacting economic growth, public accounts and foreign deficits, did not greatly affect Timor-Leste.

And further, the economies of our neighbouring countries have already shown signs of recovering from the crisis, whilst at the same time average oil prices have increased compared with 2009.

All of this, Ladies and Gentlemen, **is good news for Timor-Leste! All of this represents opportunities that justify our reasons.**

II. The budget execution perspective for 2010

Thanks to public investment, in 2008 Timor-Leste was ranked as the second fastest growing economy in the entire world, below only Qatar, with a growth rate of 12.8%, and this was despite the world economic crisis.

In 2009, preliminary estimates indicate a growth rate of 12.2%. This is a consequence of public investment and reforms started in Public Administration, particularly in the Ministry of Finance, which have involved improving systems and procedures, as well as through increasing decentralization and accountability in the areas of budget, procurement and treasury for line ministries.

This resulted in the efficiency of public spending and in better budget execution rates, such as last year's 89% rate.

Indeed, the budget execution rate has been improving incredibly since 2007, increasing by 1,350% in the category of capital development alone between 2006 and 2009.

For 2010, budget execution is estimated at 95%. This is an increased challenge, in view of the reforms being implemented in the procurement system. The implementation of these reforms has been transferred from the Ministry of Finance to the Office of the Vice Prime Minister for State Administration and Management.

III. The sustainability and return of public investment from the transfer exceeding the Estimated Sustainable Income

In order to fund national development we will have to transfer grants from the Petroleum Fund exceeding the Estimated Sustainable Income. We must now justify the interests of this decision in the long term.

Why does this Government defend using the Petroleum Fund instead of assuming a conservative and overly prudent position in relation to the funds that are presently invested in US bonds?

Because this Government considers that the economic and social returns from Peace and National Stability are the best investment we can continue to make, and because

we have already proven that Peace and Stability have led to sustainable economic growth.

Still, we must not adopt a narrow view of what is considered economic return.

With Timor-Leste being the youngest LDC of all, we cannot embrace this concept from a purely technical economic perspective.

We still lack industry, permanent employment and a balanced relationship between imports and exports, which is why we must consider the subject of economic returns from a broader perspective.

Returns must be measured from an economic and **social** point of view, which forces us to favour qualitative methods over quantitative ones. For example, imports might suggest a rather negative balance, but if we think about it more carefully we see that the fact that the State has the purchasing power to import essential commodities, namely rice, has very positive effects in our Country – freeing our People from hunger and ensuring social stability.

In 2008, when in addition to social instability in several countries we witnessed an increase in the price of cereals, mostly rice, around 100 million people became poor. This did not happen in Timor-Leste.

To continue ensuring food security, while investing in agricultural productivity, is currently the only option we have for the Country.

In view of this, returns cannot be seen under the scope of the macro or microeconomic theories often used in developed countries – instead they must be adapted to our reality. We cannot, and we should not, use only technical terms when reviewing our development process.

Unfortunately both Timorese history and the history of other countries show that sustainable development cannot be attained in only a handful of years. Some countries need

decades to attain it, and many others fail to attain it at all – and of course we do not want the latter case to apply to our Country!

The Rectification Budget is part of a process we started in 2007 so as to “clean house” and enable the start of economic growth. We are aware that countries that live in situations of poverty and frailty such as we do require at least 10 years to stop being post-conflict countries and 59 years to move from low income countries to medium income countries.

Only some cases considered successful, or better yet “economic miracles”, manage to achieve progress within 25-30 years. This is the example we want to follow. If we can achieve development in 25 years, then why wait 59 years?

There are no plausible reasons that would make us wait more than the time considered as necessary, especially when with only 8 years of experience we are already better placed than some countries with 40/50/60 years of independence and State building and which are yet to achieve the progress that we have already achieved.

We must look to the future, lest we lose forever the opportunity to be part of the small group of successful countries that managed to use the means available to them to develop themselves. Delay is never the best option.

If the needs of the Country recommend fast and sustainable economic growth, we need to invest in the programs that have already been started and in new programs. For this we need to unblock the wrongful policy of “savings” and invest revenues the best we can in the current population, the “fathers, mothers and siblings” of the future generations.

Let us use these revenues or that national wealth to develop the Nation! Let us do it with care and without waste, i.e. with efficiency and responsibility.

Your Excellency the Speaker of the National Parliament

Honourable Members of Parliament

Ladies and Gentlemen,

The careful policy regarding the Petroleum Fund was suitable when the Country still depended almost exclusively from the goodwill of our Development Partners to fund public expenditure and to invest in the Country's development.

However, five years later our Petroleum Fund recorded a balance of \$5,377 million on 31 December 2009, which exceeds the 2010 Budget estimate by more than \$107 million. This reflects the actual average price of oil in 2009, which was \$62 per barrel, \$2 dollars more than the Budget estimate.

On the other hand, the average price of oil listed by WTI during the first four months of 2010 was \$80. At the end of May 2010 the price was \$74 per barrel. This means that during the first four months of 2010 oil revenues were \$651 million, i.e. \$162.750 million per month.

With the net investment return being \$67 million, the final balance at the end of April 2010 was \$5,945 million. Thus, and because the price of oil being higher than expected, there was a \$450 million increase in estimated petroleum revenue.

Therefore, we believe that the proposal described in the supplementary budget is not only imperative to subsidize our expenses in 2010, but it is also supported by a strong tax history that may justify the additional expenditure.

Thus, Ladies and Gentlemen, after five years we can conclude that if we truly want to develop the Nation we cannot use a Petroleum Fund policy that is too castrating.

Furthermore, I must highlight that **the only way for us not to be eternally dependent from the Fund is through public investment in the productive sectors and in the sectors that ensure social stability and public safety**, which are fundamental to ensure sustainable economic growth.

Ladies and Gentlemen,

The AMP Government considers that it is essential to manage the Fund with care and responsibility, but that it is even more essential **to create jobs**.

This has been a chronic problem in our country, and one that cannot wait to be solved by the next generations; it must be solved now!

To waste our human capital, which is the main contributor to economic growth, would be a failure that this Government could not tolerate. There is no Government in the world that does not defend the creation of jobs so that their country may grow as much as possible, even if this is a major challenge.

But this is merely rhetoric. In practise, and in the search for solutions, which should be the main drive for employment generation, the Government or the Private Sector?

Now this is exactly the change we want to instil in the Country. It is here that the Government assumes its responsibility of creating the necessary conditions for facilitating private initiative and making our economy stronger and more competitive.

The Government must assume a role increasingly focused on regulation and verification, creating an atmosphere that enables investment and induces our businesspeople to be more active in the development process.

The State is responsible for creating the proper conditions, as the effort, the obstacles and the risks associated with investment are often too big for the private sector to be truly committed.

In this sense, the first obstacle to the development of the business and industry sectors has already been removed. By ensuring security and stability in the Country, the Government has given the private sector more confidence to invest.

Your Excellency the Speaker of the National Parliament

Honourable Members of Parliament

Ladies and Gentlemen,

Considering that the growth of the private sector is a national priority with clear social and economic features, we have started the **Referendum Package program which, among**

other things, is a completely innovative means of enabling us to know and assess our local companies better.

We consider that this program was a true success in terms of the capacity building of our private sector, which was virtually non-existent, particularly in rural areas.

Within a total of 808 infrastructure projects reviewed, involving around 720 companies, only 17 (2%) were given negative marks. As for the others, 257 projects (32%) were ranked as satisfactory, 473 projects (58%) were ranked as good and 61 projects (8%) were ranked as very good.

I would also like to use this opportunity to clarify the issue surrounding the Referendum Package once and for all, listing for the last time the reasons for its creation.

Before starting this initiative we became aware of the fact that all companies were centralized in Díli, which led to two situations:

- 1) Stronger companies would end up winning most of the projects and then sub-contracting them;
- 2) It was very difficult to control the physical implementation of the projects, since they were not undertaken by local companies they did not report to local communities. Sometimes projects would even be abandoned, often without paying the due salaries.

In this way, the **Referendum Package was a timely decision** to change this situation, encouraging the existence of local companies in the sub-districts.

When we start a new major initiative there are always risks and we assume those risks. In regard to the Referendum Package, and taking into consideration the circumstances and the conditions of the Private Sector, I always stated that I would be accountable for a risk of 20% poor quality projects.

Having only 2% of poor quality projects exceeded my expectations considerably. If we did something right here it was motivating every sub-district to present its local companies in order to have broad participation throughout the territory.

Another successful aspect is the raising of awareness by local leaders, from Suco chiefs to district administrators, regarding the need to participate in this work-awarding process, so as to have greater social control. This increases social accountability.

I believe that no Member of Parliament can say that this was not an important achievement enabled by the Government in the private sector, particularly in local areas.

This exercise may now create the conditions for a better ranking of local, sub-district, district and national companies.

This timely policy initiative of drafting the Referendum Package gave new guidance to our small companies, which presently seek to install themselves in the districts and sub-districts. We cannot stop this momentum now.

It is because of this that the present Rectifying Budget includes the Decentralized Development Package.

We have the moral and constitutional obligation to promote our private sector – to give it the opportunity to learn from its mistakes, to give it increasingly greater responsibility and to enable it to correct its performance, so that it may progress and grow.

I would like to underline that without a broad view of the situation there can be a very negative trend regarding the growth of our private sector, particularly when projects exceeding \$1 million are in question, which under the Law require the opening of an international public tender.

The private sector, which it should be said is striving to become a qualified development partner of the Country, may suffer from the appearance of international companies that, because of blind obedience to the international standards, will be awarded all these projects.

Your Excellency the Speaker of the National Parliament
Honourable Members of Parliament
Ladies and Gentlemen,

All these measures together will enable due returns in terms of poverty reduction in Timor-Leste.

The funds allocated to public expenses, which many insist on labelling as unsustainable as they result in immediate expenditure, also have a relevant impact in the effort to develop Timor-Leste. In addition to being measures of social justice, they are also important to nurture economic development.

By acknowledging the fundamental role played by our veterans in the building of the Nation, or by benefiting our elderly persons and other vulnerable groups, we are also investing in our human capital, enabling access to health, education and wellbeing by many families. Often we are also contributing towards the creation of small businesses, thereby boosting the economy.

This is not yet enough. It will not be the informal economy that frees Timor-Leste from poverty, but the informal economy may act as a buffer in the unemployment crisis. It may also lead to the appearance of true businesspeople that later will establish their own positions in the formal economy.

The fundamental thing here is respecting our Country's internal processes and the times required. We must find the best development policies for Timor-Leste, without alienating the People from their own Country. Thus, and for the time being, instead of having our People depend on poverty and luck – or bad luck – it is preferable to have them depend on State subsidies, which gives them much more independence! **What is unacceptable is to remain only in misery.**

Your Excellency the Speaker of the National Parliament
Honourable Members of Parliament
Ladies and Gentlemen,

I trust that the \$177.985 million increase in this Rectification Budget will merit the attention of the Honourable Members of Parliament.

Presently, the State is the main drive of the Timorese economy, with public investment mobilizing development. However, this is not sustainable in the long term. As such, this Budget seeks to enable the development of people, agencies and the private sector.

Without infrastructure, without social stability and without businesspeople, we have no future. The beauty of our Country and the wealth of our natural resources will not be enough to save us from the curse we have seen affect so many other developing countries.

If we want to transform our mineral wealth into human wealth, we must invest in a sensible and strategic manner, making use of the right opportunities.

This is the opportunity, this is the time. We want to waste no time in investing in sustainable development, as the thing that is not sustainable at all is poverty.

Thank you very much!

Kay Rala Xanana Gusmão

22 June 2010