



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

**SPEECH BY HIS EXCELLENCY
PRIME MINISTER KAY RALA XANANA GUSMÃO
ON THE OCCASION OF THE PRESENTATION OF
THE BILL FOR THE
2009 STATE GENERAL BUDGET**

NATIONAL PARLIAMENT

14 JANUARY 2009

Your Excellency the President of the National Parliament

Illustrious Members of Parliament

Illustrious Members of Government

Ladies and Gentlemen,

We are here today in this Great House to present the 2009 State Budget and Plan, as well as to clarify and discuss, in this National Parliament, all questions put to us, within a truly democratic and accountable spirit, meeting our institutional goal of making this proposal as aligned as possible with national needs and priorities.

The 2009 State General Budget responds to the urgent needs of the Country: **to accelerate administrative and legal processes leading to national reconstruction and to the reduction of poverty, to enhance economic growth and to enhance national development!**

In this sense, the 2009 budget:

- Is a budget that enables making vital decisions for the **development of basic infrastructures** in all development sectors;
- Is a budget that gives priority to the implementation of **regional development policies**, so as to reduce poverty in rural areas and to distribute resources in such a way as to achieve a greater regional balance;
- Is a budget that **invests in national human capital** in all its dimensions: investment in education and professional training, in the fight against unemployment and in a greater protection to the purchase power of families, in the continuation of social justice measures for the most vulnerable groups and, consequently, in the strengthening of social cohesion.

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Present times are marked by troubling international events in economic and financial terms, resulting from the international crisis that has been affecting, above all, the leading world economies. The growth forecasts for the world economy are being revised downwards, with the IMF estimating that global growth in 2009 will be around 2.2%.

Developing countries have not registered losses as great in the financial sector, however they are still feeling the consequences of tighter credits and a smaller demand for their exports. This gloomy and uncertain global scenario is also contributing towards inflationary pressures, as we saw in the sudden increase of food and fuel prices within the last few years, shooting inflation up to levels we had not seen for over a decade.

This impact was mostly felt in developing countries, and Timor-Leste was no exception. However, with the **introduction of the Economic Stabilization Fund** in the 2008 budget review, we have succeeded in mitigating the impact of imported inflation on essential consumables, such as rice, ensuring that the price paid by the Timorese consumer would not increase along with the price of rice sold in international markets.

This measure, which was vital for the stability of the People, must be interpreted in a very clear and responsible manner by all political agents in this Country, especially by those who insist on using crisis situations, with consequences that may be dramatic for our population, to gain political influence in a most irresponsible manner, to discredit this Government and to defend purely partisan interests.

Ladies and Gentlemen,

The Economic Stabilization Fund has achieved its goal! It has prevented disturbances and popular demonstrations similar to the ones we have seen in other countries. It has prevented food insecurity and regulated the prices of rice, cement and other goods, just by showing that this Government would not allow some more opportunistic traders to make use of speculative inflation to increase prices in our Country. The existence of the Fund neutralized bad practises in our market!

More than preventing a situation of crisis with unpredictable consequences, this instrument for monitoring price pressure has achieved its mission of stabilization. Also, as we promised,

out of the 240 million approved by this National Parliament, we have used only the necessary amount for regulating the market, using public monies in a wise and prudent manner.

This is another sign by this Government that the People can have confidence in our governance. We have used only 29 million out of this Fund, returning the rest to the Treasury – this shows that **this Government is rigorous and has budget discipline; that the priority of this Government is to protect the Timorese, their families and their companies.**

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Despite the international crisis, the Timorese economy is ready to keep on growing. Our 2009 plan relies on a policy for maximizing expenses that create employment, making use of the policies that have been implemented since this Government entered into office.

Step by step, we have begun to build solid foundations for the gradual growth of a resilient economy. If we compare this process to the process of building a house, everyone will agree that if the foundations are not solid, any stronger rain or wind will quickly bring the house to the ground.

The development of the economy requires a similar construction process, and that is why 2008 was marked by vital reforms in sectors that are the basis for good economic growth. Step by step, we have been paving the way to include Timor-Leste in the ranking of the countries designated as emergent economies. To be more precise:

Firstly, **we have ensured political and social stability**, including the resolution of national security problems and the introduction of a thorough reform in the sector of defence and security. Security and economic development are connected, since only with peace, tranquillity and confidence will it be possible to develop the activities required for the economic, social and political growth of the Country.

Secondly, we have carried out a **series of reforms within the administrative operations of the Government and of the Civil Service**, as this is a vital component of the formal economy. In order to conduct economic growth it is necessary to have technical capacity and administrative competence, i.e. productivity, professionalism, integrity and efficiency in Public Administration. The maximum outcome of this achievement by the Government is the creation of the Civil Service Commission, which will become operational later this year.

Thirdly, we have approved and submitted to the National Parliament the **legislation for the creation of the Anti-Corruption Commission**, which will have a fundamental role to play in improving good governance, required for the correct mobilization of national resources towards economic growth.

Fourthly, **we have produced a series of legislative documents** that are essential for the development of Timorese society, from which we can highlight: The Base Law on Education; The Tax Regime Law; a set of Conventions under CPLP in the area of justice and within the scope of language; the Base Law on Witness Protection; the Law on Martial Arts; the Law on Authorization in Penal Matters; the Statute of Public Defence; as well as regimes of adoption; responsibility for minors; parental responsibility exercise; and, particularly important for the area of Justice, the draft Civil Code already being discussed by the Council of Ministers.

Also being discussed by the Council of Ministers, and to be sent very soon to the Parliament, we have the new Investment Law and the package of decentralization, which includes a legislation proposal on administrative and territorial division, a legislation proposal on Local Government and a legislation proposal on Municipal Elections.

Fifthly, **we have increased investment in the public sector**, financing new constructions, improvements in public services and public transfer programs. These policies have improved the purchase power of the population and indirectly benefited the private sector, as well as creating around 31 thousand fulltime jobs in 2008.

Sixthly, **we have started paying pensions to veterans, elderly persons, orphans and other more vulnerable groups of our society**, which contributes significantly to reduce poverty and ensure national stability.

Seventhly, **we have increased the agricultural production levels of some important crops**, doubling the export value of coffee and achieving a 21% increase in the production of rice, as a result of the increase in the cultivated area and of other measures taken by the Government to enhance agricultural production.

Eighthly, we have improved the **financial management processes and systems, and increased significantly the budget execution rate!** The total budgeted for 2008, already including the rectification, was 548.3 million, excluding the Economic Stabilization Fund. From this amount, 365.1 million have already been spent.

We must also consider the 29 million executed in the Economic Stabilization Fund and the 69.5 million as carryovers, adding up to 463.6 million, which were injected into our economy.

Illustrious Members of Parliament,

These figures speak for themselves! Our Government, in its first year of work, in 2008, within a process of reforms and needing to solve countless social problems, **has managed to increase budget execution by 257%, comparing with the best execution in the past, which was 180 million in cash, in fiscal year 2006/7.**

Ninthly, **we have carried out a financial reform to act according to the Law, respecting the best public finance management practises.** Thus, since 1 January 2009 no State institution will be authorized to carry funds over from previous year appropriations. Only during the present year, for purposes of adjustment and adaptation to this new practise, will State institutions be allowed to pay capital development and minor capital projects up to 28 February.

This reform will improve the connections between the State Budget and the actual economic activity, being more transparent and enabling a better analysis of the economic activity and a better approach in relation to activity planning.

These are just some examples that enable us to say that **indeed this Government has obtained results!**

Furthermore I must add that these results were obtained in particularly adverse conditions, in a year where most the energy of this executive was spent in solving problems left to us by previous governments, in a year where we suffered a most serious attack on our national sovereignty, in a year where foreign economic situations have once again threatened our stability.

And for those who are not still convinced, I ask you to walk around Dili and the rest of the Country and to see “with your very own eyes” the new dynamic that streets, commerce, homes, schools and Universities have recently acquired. Look at the young people, who are a vital component of our society, and deny, if you can, that they are more united and closer to each other!

Your Excellency the President of the National Parliament

Illustrious Members of Parliament

Ladies and Gentlemen,

We are seeing change! A change of attitudes and behaviours, a change of mentalities and a change of priorities: the Timorese want stability and national development, and they are all willing to contribute towards it.

One of the reasons that motivated the people to demand this change was the fact that the Timorese could feel that they were getting poorer every year. We all suspected this reality, but the recent work produced by the World Bank and the Ministry of Finance on the national poverty index in Timor-Leste has confirmed that we are poorer now than we were 5 years ago.

Between 2001 and 2007 the percentage of Timorese people living in poverty increased from 36.3% to 49.9% of the overall population, meaning that over 200 thousand people were thrown below the poverty line, thus increasing the number of poor people to half a million.

This sad legacy left to us by previous Governments is due to the lack of application of actual measures towards economic development. Previous governments have simply failed in managing the economy and providing opportunities for our People.

Therefore this Government has the moral duty to change the situation of poverty in which it found the Country. A Country where half the population lives with less than 88 cents a day, and where half of these people are children, suffering from hunger and malnutrition, **requires a Government that will work “day and night” to change this situation!**

And this, Illustrious Members of Parliament, is what this Government has been doing. Thus I ask those who were responsible for the situation in which they left the Country to, at least now, show some respect for our work! For the good of the poor, for the good of democracy, for the good of the Country!

Between 2002 and 2006 there was a negative growth, even though oil revenues increased. In opposition to this, the IMF estimates a growth of 8% in 2007 and a growth of 10% in 2008.

I have said it many times and I will say it again: we must invest strongly in economic growth and we must review the current Petroleum Fund strategy, so that its revenues may meet the needs of our people, eradicating hunger and reducing poverty, as well as improving education and health systems.

Our 2009 budget policy is designed to take another step towards setting our foundations, thus enabling economic growth, i.e. the development of basic infrastructures, as without infrastructures there can be no development of the production sector, no increase in the Country's competitiveness, and no increase in non-oil revenues to free us from the dependence on our natural wealth for funding the State Budget.

With this 2009 budget, we want to achieve a real growth up to 10%. Still, we do not want to leave it at that, we have the vision and the strategy to grow even more, and this is the right time to make the decisions that will enable us to achieve this.

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Ladies and Gentlemen,

The total expenditure by the State of Timor-Leste in 2009 is estimated at **\$680.873 million**, with the total non-oil revenues being estimated at **91.1 million**. The tax deficit is therefore **589.828 million**, which must be met through the Petroleum Fund.

As the sustainable income is estimated at **407.8 million**, the Government proposes to withdraw an amount exceeding the Sustainable Income of the Petroleum Fund by **181.2 million**, in order to meet the tax deficit.

Illustrious Members of Parliament, the Government, like you, recognizes the extreme importance of the Petroleum Fund as a source of wealth for our future generations. However, it also recognizes that our Country cannot rely forever on this Fund to meet public expenses – on the contrary, we know that the only way to overcome a stagnated economy that depends exclusively from the petroleum sector is to invest in other products with potential to be exported, so as to level our trade balance, i.e. increase our exports in view of our imports.

Yet, this cannot happen without public investment! Nothing will happen without the audacity and vision to invest immediately in potential economic development areas, namely infrastructures, agriculture and fisheries, tourism, education and professional training.

This is what our financial policy instrument proposes to you. It is up to each of you to analyse this document carefully and, in good conscience, to decide whether you want to move on with bold measures for the Country that will lead to the change and gradual growth of our economy, or whether you prefer to rely on petroleum revenues (which will be important for our children and grandchildren) to feed the State Budget, year after year.

In order to contribute to this reflection, I would like to mention the following items:

Firstly, we have already demonstrated here the historical improvement in our budget execution, which is undoubtedly something that gives us confidence to choose the path towards development;

Secondly, despite having spent a relatively large amount in 2008, the assets of the Petroleum Fund went from about 1.6 billion dollars in August 2007 to 4.2 billion dollars in December 2008. It is estimated that the Fund will continue to increase gradually in the medium term, adding up to 5.4 billion dollars by the end of 2009.

Although oil prices have been going down every day, this budget was calculated, as always, according to prudent assumptions and reflecting international best practises, taking into consideration the volatility of oil prices. For the period from 2009 to 2013 the calculations in terms of petroleum wealth and sustainable income are based on a steady nominal oil price of USD 60 per barrel, therefore USD 10 per barrel below the prices used in the New York Market Exchange for the period between December 2008 and December 2013.

This approach should be a sufficient guarantee against the overestimation of future revenues, in conformity with the prudence requirements of the Petroleum Fund Law.

Thirdly, at present there is only one operational field in the Joint Petroleum Development Area, namely the Bayu-Undan field, which is still in its initial production stage and which will generate revenues at least until 2023, with these revenues being calculated under the low production scenario. However the calculation of petroleum wealth also takes into consideration expected future revenues from petroleum resources still in the sea bed of Timor Sea.

New and potential sources have been discovered in the Joint Area and in the area close to the sea of Timor-Leste. Kitan, which was recently discovered, was declared to be commercially feasible by ENI, and should start in 2010 – this field's revenues may soon be included in the calculation of Petroleum Wealth, thereby increasing even more the estimate balance of the Petroleum Fund. Also, in relation to the Greater Sunrise field, the Government is seriously considering the option of bringing the pipeline and the Liquefied Gas plant into Timor-Leste, and when this happens the additional revenues from the operations will flow into the Petroleum Fund.

This is a reality that should be considered when one engages in negative propaganda against the Government, trying to spread the false idea that we are compromising the resources for future generations. Luckily, as we have been blessed with all this wealth, we are being quite

prudent in using our resources. As an example of this, in 2008 alone the wealth of the Fund increased by 1 billion over the estimates, and this amount has not been spent.

Fourthly, the detail of the Annual Action Plans contained in this budget shows clearly the activities sought by the Government, the consideration of the main priorities for the Country and the manner in which the 2009 Plan is drafted, including investment in the productive sectors, without neglecting essential issues in our society, such as gender equality, social inclusiveness – especially by young people – and the fight against regional asymmetries.

I would also like to stress that we have already drafted the State of the Nation Report and we have begun to draft the National Development Strategic Plan.

I am aware that we have not met the timings desired by the Illustrious Members of Parliament, but you must understand that a plan such as this, in a Country with so many priorities, cannot be improvised! This Plan must be coherent and duly considered, analysing all factors in detail, so that its implementation is a reality and not just the completion of a requirement. In other words, we do not want to come here with a “fancy document” void of content, but rather with a document that makes the difference for the Country, and this means it will have to be executable!

Lastly, I would also like to say that the additional withdrawal from the Petroleum Fund is clearly justified by the long term interests of Timor-Leste and of its citizens. We are investing in our agricultural and rural sectors, developing our human resources base, establishing operation systems that encourage the development of private sector, developing an integrated infrastructure plan (Timorese infrastructures are among the poorest in the world) that includes the supply of power throughout the entire Country in the mid term, the improvement of telecommunications, and the development of our ports, airports, roads, sewage and drinkable water distribution systems.

Without these infrastructures, any agricultural, industrial or business development policy cannot succeed. What is more, education and health cannot be provided as the People requested in the document Vision 2020 without proper infrastructural support.

Evidently, if when this Government entered into office it had already found an Infrastructure Development Plan ready to be implemented, and if the Country had already a minimum system of basic infrastructure, we would not need to be here today justifying the need to use our natural resources on this structural project for our Nation. Furthermore, everyone knows that public investment in infrastructures has shown to be, in all countries in the world, an important engine for growth and employment creation. It is an expensive investment, but one that is known to be profitable for future generations.

Sadly this was not what we found, and we do not intend on sitting with our arms crossed waiting for the infrastructures, the agricultural sector and the human capital to develop through the constant support provided by the international community or, ultimately, by some kind of miracle.

Timor-Leste is a sovereign Country that is entitled to use its own resources, provided it does so in a balanced and prudent manner. This is precisely what we are doing!

Your Excellency the President of the National Parliament
Illustrious Members of Parliament
Ladies and Gentlemen,

The presentation of the State General Budget covers a combined sources budget that results from the articulation with Development Partners in the obtaining of this information, and which for the first time also covers information district by district concerning the sums to be invested in each one.

At this time, I would like to highlight the fact that the Government estimates to invest, outside of Dili, around:

- **28 million** in pensions for National Liberation Fighters, elderly persons and vulnerable groups;
- **26 million** for paying wages to staff members;
- **50.5 million** in new projects identified specifically in the districts;
- **3.14 million** in local and suco administration;

- **3.34 million** in school grants (including school meals) to benefit students; and
- **1.7 million** in other grants in the areas of arts, sport and alternative energy sources;

These are measures for combating poverty in rural areas, including greater support to agricultural initiatives through more and better infrastructures, seeds, fertilizers and equipments for enhancing productivity. This policy follows measures already implemented in 2008, such as the decentralization of services to farmers, materialized in the construction of 8 Regional Centres and in the absolute priority of the purchase of their stocks by the Government, in detriment of importing goods.

Also, at district level, we will be implementing 3 Regional Health Centres to provide decentralized education services, 5 new Professional Training and Employment Regional Offices, 8 Notary Offices to provide civil registration services, as well as new initiatives in terms of Integrated Health Services. Furthermore we will be building new Maternities, 3 Community Health Centres and 14 new Health Posts, along with lodging. These measures are associated with the establishment of Local Government, through the establishment of district-elected Municipal Assemblies.

Lastly, our integrated policy for fighting regional unbalances will continue to support over 39 Cooperatives, create 10 Rural Information Centres and build 26 mini-markets throughout the Country, as well as develop a microfinance program that will contribute with banking and credit functions outside of Dili to support growth inside and outside the agricultural sector.

With all these projects, we expect to create over 26 thousand jobs!

Ladies and Gentlemen,

Public investment in human capital is an essential condition for national development. Therefore, in addition to sector-crossing institutional capacity building actions, the 2009 budget considers the attribution of public grants of around 2 million towards activities directed specifically to young people, within the scope of the Secretary of State for Youth and Sport, as well as the attribution of Scholarships in the amount of 1 million to Timorese persons, to study in the area of natural resources.

Within the scope of the Secretary of State of Professional Training and Employment, we will be starting 4 new transfer programs in the amount of \$2.55 million, throughout four years, including the Temporary Labour Program, which will employ and qualify around 6,900 young people (50% women), support the National Centre of Professional Training in Tibar and other Professional Centres, as well as train around 3,000 persons in Korean language, so that they can access to foreign labour market.

In the area of education, the implementation of the Base Law on Education, together with the construction and rehabilitation of schools and universities and with the capacity building of teachers in several areas, will contribute to create a workforce better prepared and qualified to play a relevant role in the development of the Country.

Other vital sectors for national development will be covered by training and professional capacity building programs, either directly through public investment or through international partnerships, such as tourism, trade, industry, companies, primary sector, security and justice.

In relation to the sector of justice, I would like to underline that 2009 will see the start of the capacity building for the police in terms of criminal investigation, as well as the training of Timorese staff in order to set up a Chamber of Accounts, which is a fundamental step for verifying the legality of public expenses and the judgement of State accounts, in conformity with the Constitution of the Republic.

Lastly, because we consider that investing in human capital is first and foremost investing in the people who are the starting engine of the economy, from 2009 on we will be paying special attention to civil servants, namely those who manage and administrate public investment.

This is achieved through the Civil Service Commission, which I have already mentioned today, but also through training and institutional capacity building programs, and just as important through reforms in terms of their wages, which will contribute towards greater motivation, greater commitment and greater accountability.

Civil servants who are responsible for providing public services to the entire population must therefore perform their tasks with greater efficiency and greater professionalism.

The increase in salaries and wages, which go from a total of 58.9 million in 2008 to 93.1 million in 2009, according to the implementation of new Career Regimes, is a measure that seeks to benefit these staff members according to their merits, and consequently benefit every citizen of Timor-Leste.

Still, I must underline the responsibility that is given to them. Civil servants, presently rewarded for their service to the Nation as administrative officers or managers, as security and defence officers, as holders of public offices, as health professionals, as teachers – are responsible for improving the living conditions of all Timorese. They must be aware of this responsibility and they must bring credit to their profession!

Ladies and Gentlemen,

2009 will be the year of decision in relation to infrastructure projects. This will entail the drafting of a project development and implementation plan covering roads, bridges, ports, airports, dams, electricity and basic sanitation.

A stable and regular supply of electricity is vital for developing industry and improving the lives of the Timorese.

Timor-Leste will build two power plants, with staged schedules for completion. It is estimated that by late 2009 all districts will have power 24/7, and that by late 2010 this will be extended to all sub-districts.

Furthermore, ten transforming stations will be built in the Country, namely in Dili, Baucau, Liquica, Manatuto, LosPalos, Viqueque, Same, Maliana, Suai and Bobonaro. A total 630 kilometres of overhead power lines will also enable national distribution.

In addition to enabling the development of many other employment-generating sectors, this project will in itself create over 20 thousand jobs already in 2009.

This electricity project will not be an isolated project, but rather part of a broader strategy to be presented during 2009 and that will include surveys and feasibility studies for the implementation of projects, along with the socialization and establishment of financial, technical and legal mechanisms, in order to start the projects considered as top priority.

Lastly, the present document also has a budget of 118.334 million for infrastructures, seeking to start the construction of roads and bridges, airport and port infrastructures, water supply projects, the already mentioned schools, health facilities, agricultural facilities, municipal facilities, warehouses and silos for food security, the acquisition of patrol boats for maritime security and the improvement of border security posts, among other projects.

Ladies and Gentlemen,

This year is marked by the celebration of the 10th anniversary of the Referendum, where the Timorese have voted for National Sovereignty and Independence! In average, ten years is the time that countries with a history similar to ours take to emerge from post-conflict situations.

If we can now manage to put the Country on the right track, with national stability and unity, moving towards development, we can move away definitively from a gloomy setting of conflict and poverty.

This can only be achieved through strategic policies that conciliate short term needs with medium and long term needs. This will require work and willingness by all Timorese people.

Therefore we thank the Illustrious Members of Parliament for their constructive contributions, making this draft 2009 Budget Plan a turning point in the fight against poverty in its various aspects, as well as putting Timor-Leste on the path towards sustainable development.

I count on your dedication, cooperation and energy to meet this vital NATIONAL CHALLENGE!

Thank you very much!