



PRIME
MINISTER

**ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE PRESENTATION OF THE DRAFT LAW CONCERNING
THE 2012 RECTIFYING BUDGET**

National Parliament, Dili
11 October 2012



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

Your Excellency
The Speaker of Parliament
Your Excellencies
The Deputy Speakers of Parliament
Your Excellencies
The Members of Parliament

Fellow Government members

Ladies and gentlemen,

It is with great pleasure that I address Your Excellency, the Speaker of Parliament, and all the honourable Members of Parliament in this Great House in order to present the 2012 Rectification Budget, which will enable the full operation of the Fifth Constitutional Government.

In August 2007, the previous Government vowed to make reforms to the management and administration of the country. As such, and as a result of the need to change the 'fiscal year' system that previously went from July to June, the Government presented to Parliament a transitional budget to cover the needs of the new executive until 31 December 2007 and determined that, from then on, the 'financial year' would be from 1 January to 31 December.

In 2008 it was necessary to draft a Rectification Budget to respond to the world food crisis. Thanks to Parliament, Timor-Leste managed to avoid all the problems that could result from a food shortage in the country as well from inflation in the price of rice.

In 2010, Parliament was once again requested to approve another Rectification Budget, so as to follow through with the Decentralised Development Projects and the capacity building of local companies. We must acknowledge that this has encouraged job creation in the districts and sub-districts and nurtured entrepreneurship among the Timorese.

Today I come before Parliament again to defend the need for a Rectification Budget or, in other words, a revision to the 2012 SGB.

In 2008 and 2010 the Rectification Budgets presented expenses beyond the overall amounts of the respective annual SGBs, requiring additional withdrawals from the Petroleum Fund. This revision to the 2012 SGB does not require additional withdrawals from the Petroleum Fund, since the intended amount will be funded by way of savings in the Infrastructure Fund. This means that my Government is merely requesting a readjustment to the 2012 SGB.

The Financial Management Law requires discipline in budget execution, preventing transfers from the categories of Salaries and Wages and Development Capital to other

categories and allowing transfers only up to 20% from the categories of Goods and Services and Minor Capital.

As Parliament is the only entity with power to authorise these transfers and the related changes in different items, by way of a law, the Government submits and defends the need for a Rectification Budget to the 2012 SGB.

Mr Speaker
Messrs Deputy Speakers
Honourable Members of Parliament

Your Excellencies,

The Fifth Constitutional Government is committed to the primary goal, which we all share, of building a stronger and more prosperous Nation for every Timorese citizen. As was extensively debated here, the Government's Program sets the policies and actions to achieve this goal by strengthening the State and providing a sound foundation for national development in the country.

In order to achieve this we proposed a new Government structure featuring Ministries and Secretaries of State with clear and well defined responsibilities. There is no global consensus on the size the optimum size of government. In 2007 we submitted a 'small government', while today I present to you a 'big government'. I come from the previous Government, and as such I can tell the Members of Parliament and the People that the principle adopted in the creation of the present Government seeks to provide efficiency and effectiveness in our actions.

Funding this new structure means continuing the progress made so far and leading public administration towards the goals of efficiency and effectiveness with regard to service delivery and compliance with the responsibilities of the State.

This new structure will implement the commitments made in the Government's Program and ensure that the cornerstones of development are set: social capital, infrastructure, a strong economy, job creation and the strengthening of the institutional framework.

In our development vision, the petroleum sector will be a vital driving force of economic growth. Today, and in the future, this Government is committed to ensuring that the wealth from natural resources is used to build our nation and to improve the living situation of our people.

This will require local capacity building and strong policies to ensure that actions by international petroleum companies benefit our nation both through taxes and through the creation of employment and skills. In order to achieve this, we need to ensure that natural gas is also processed in Timor-Leste and not just processed offshore.

The importance and complexity of this task justify the creation of the Ministry of Petroleum and Mineral Resources. This Ministry has a budget of \$6.3 million, which is

fully justified in view of the potential revenue, job creation and wealth creation resulting from petroleum exploration.

Timor-Leste is also rich in natural beauty, history and culture. There is significant potential for attracting tourists, which in turn can contribute directly to economic development and employment creation.

As such, the Government must strive to promote our country abroad and to provide the services sought by international tourists.

The new Ministry of Tourism will seek to achieve these goals. Its creation and its \$3.9 million budget are justified by the importance of tourism to our future economic development.

The Fourth Constitutional Government laid the foundations for integrated, planned and staged investment in projects to improve basic infrastructure, including in regard to roads, ports, airports, bridges, drainage, telecommunications, clean water supply and the generation of electricity.

We have been investing in development capital and in the construction of complex projects, such as the generation, transmission and distribution of electricity. These projects were managed by the Ministry of Infrastructure.

A thorough review of infrastructure projects has found that they should not continue to be managed by a single ministry, so as to ensure a large scale investment program to update, repair, improve or undertake a series of core infrastructure projects to provide support and access to education, markets, industries and businesses.

As such, and seeking to improve the cost-efficiency of these projects and to meet the human resource needs, the Government has created the Ministry of Transport and Communications and the Ministry of Public Works, with budgets of \$6.1 million and 152.7 million, respectively.

The private sector is undoubtedly a vital partner for boosting economic development. Therefore, this Government intends to create an environment that enables the private sector to contribute to growth, generate employment and reduce poverty. This responsibility will mostly belong to the new Ministry of Commerce, Industry and Environment and to the Secretary of State for Support and Promotion of the Private Sector. These bodies have budgets of \$20.9 million and \$1.9 million, respectively.

In the future, it will be just as important to ensure better coordination of the policies to be developed and implemented across Government. The new Ministry of the Presidency of the Council of Ministers, with a \$2.1 million budget, will contribute to improve coordination in the drafting and implementation of Government policies.

The costs associated with this new Government structure are small, since the new Ministries and Secretaries of State consist mostly of directorates transferred from dissolved ministries. We also achieved a saving of approximately \$0.8 million, as a result of the dissolution of divisions, particularly in the Ministry of Economy and Development, the Secretary of State for Energy Policy and the Ministry of Social Solidarity.

In short, the new Government structure will improve service delivery and has a limited impact on expenses in 2012.

Your Excellency the Speaker of Parliament
Your Excellencies the Deputy Speakers of Parliament
Your Excellencies the Members of Parliament

Ladies and gentlemen,

As you can see in our proposal for revising the 2012 SGB, the overall amount in our budget readjustment request is \$50 million.

The largest increase in expenses concerns the \$26.9 million allocated for pensions to veterans. This increase, which is higher than what was originally budgeted for 2012, is due to a larger number of approved veterans as a result of the record verification and validation process. Recently approved veterans receive back payments in the first year, which has resulted in a disproportionately high budget impact, but which will be limited to that first year.

I believe there is no need to justify this State obligation, since the only alternative would be to postpone payments to some veterans until next year. I believe that we can all agree that this rectification budget is the fair and correct way to treat those who have already waited for too long.

The rectification budget also increases old age pensions by \$7.1 million. This expense is necessary to pay benefits to people over sixty and to people with certified disabilities that prevent them from working.

The contingency fund is also increased by \$6.1 million. This increase is due to the need to cover unforeseen and urgent expenses that may arise at the end of this financial year. Nevertheless, even with this increase, the overall budget of the contingency fund will continue to be significantly below the 5% of the State Budget allowed by law.

We will also be investing \$2.9 million through the Ministry of Defence and Security in order to pay for the training of staff and other operational costs, as well as around \$2.4 million for PNTL goods and services to continue to support ongoing operations to ensure internal security and to support community based law enforcement.

I would like to highlight the reconstruction and refurbishing of 23 schools and other education facilities affected by natural disasters, with an investment of \$1.7 million. We are also investing \$1.2 million in health care and \$1.4 million in the construction and refurbishing of churches in Viqueque, Suai, Fohoren, Ermera and Sare, along with other projects to improve the wellbeing of the population through public transfers.

This budget also reflects investment in the operation of the Berlim-Nakroma, for water supply throughout the territory, for external audits of the Government accounts in order to ensure good governance and transparency and for the final payment for the construction of a wharf for the naval component in Hera.

In conclusion, the additional expense in the Consolidated Fund of Timor-Leste is rather small when compared with the size of the original budget. This means that the net expense of \$50 million in the Consolidated Fund of Timor-Leste represents less than 3% of the total 2012 original budget.

Your excellencies

Ladies and gentlemen,

As I have reminded you at the start, the rectification budget does not increase the overall allocation by the State in 2012. The \$50 million in additional net expenses in the Consolidated Fund of Timor-Leste are funded in full by savings from the Infrastructure Fund, and more precisely from the Tasi Mane programme which should not incur significant expenses during this year.

As you know, the Infrastructure Fund is managed according to the best international practises and covers large multiyear projects.

As such, construction delays caused by weather or any other reason outside the Government's control may lead to payments foreseen for one financial year not being settled in full and being moved to the next financial year.

This careful fund management and the justified rollover of projects as certain components reach their conclusion enabled the saving of \$50 million in the Infrastructure Fund, and in particular from the Tasi Mane programme.

This does not mean that the Tasi Mane project will be compromised with delays in terms of design, procurement and construction. If necessary, we will readjust all savings made in every Infrastructure Fund project, with the approval of the CAFI (Council of Administration of the Infrastructure Fund), in order to duly enable this investment that is so important for our nation.

Consequently, we will not need to withdraw money from the Petroleum Fund, since we are able to fund new expenses and the new Government structure through the savings made.

Ladies and gentlemen,

This rectification budget does not increase expenses, borrowings or taxes. As such, it will not affect economic growth, inflation or short term fiscal sustainability. In the long term the new Government structure will improve service delivery and support strong economic growth.

This Government is aware that the price of many goods has increased in Timor-Leste over the last few years. We are also aware that this is affecting many households. We are making every effort to carefully monitor inflation and to implement policies to ensure that prices do not increase too quickly, including by limiting the growth of recurrent expenses.

By 10 October of this year, budget execution was approximately \$822 million, representing 49% of the total SGB of \$1,674.1 million. Although this seems low for a nine month period, it is a fact that spending always increases in the 4th quarter of the year. There are several reasons for this, but the main one is that the first months of the year always consist of preliminary work, both in the categories of Goods and Services as in the categories of Capital. Additionally, payments are always made after works are completed, which means that payments tend to occur in the final quarter.

In relation to expenses by categories, I can report the following preliminary cash execution:

- Salaries and Wages, 63%
- Goods and Services, 64%
- Minor Capital, 40.7%
- Development Capital, 31.5%
- Transfers, 72.6%
- Infrastructure Fund, 37%
- Human Capital Development Fund, 83%

Your Excellency the Speaker of Parliament
Honourable Members of Government

Ladies and Gentlemen,

The Government is submitting this rectification budget to Parliament for three key reasons:

First, by funding new ministries in sectors such as tourism, oil and public works, we will be improving cost efficiency in infrastructure development as well as encouraging private sector growth.

Second, the rectification budget funds some new investments, such as payments to veterans as we do not want to have undue delays in making payments to those who fought gallantly and bravely to free our nation. We will also need to make sure that we protect our most vulnerable citizens.

Third, the overall cost of the rectification budget is zero dollars and zero cents. As such, it does not hinder our budget execution.

Last, this rectification budget is the driving force of this new executive. We will be responding to the development challenges of our beloved nation with firmness, dedication, optimism and courage.

Thank you very much.

Kay Rala Xanana Gusmão
11 October 2012