



PRIME  
MINISTER

**ADDRESS BY  
HIS EXCELLENCY THE PRIME MINISTER  
KAY RALA XANANA GUSMÃO  
ON THE OCCASION OF THE DEBATE ON THE 2011  
GENERAL STATE ACCOUNT**

National Parliament, Dili  
11 December 2012



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

Your Excellency,  
Mr Speaker of Parliament,  
Your Excellencies,  
Deputy Speakers of Parliament,  
Your Excellencies,  
Distinguished Members of Parliament,

Dear colleagues,  
Government Members,

Ladies and Gentlemen,

This is the third consecutive year that I have come before this Great House to comply with the constitutional requirement of speaking on the State General Account, after it has been reviewed by the Court of Appeals and by the Public Finance Committee of Parliament.

Regardless of representing a new Government, I have the same conviction that we are all – Court, Parliament and Government – focused on ensuring the steady and permanent improvement of our financial systems and agencies.

For this very reason, I want to start by giving my thanks for the recommendations featured in the Reports by the Court of Appeal and by Commission C. I also want to ensure that we will be continuing the policy of permanently correcting the budgeting and reporting processes.

I honestly believe that we all agree that consolidating the administrative and financial machinery of the entire State – our State – requires commitment and persistence by us all, since this is a process that needs time. We already have 10 years of independence under our belt and, throughout the next 5 years, we will need to have a clear policy in terms of ethics and accountability, so that we may achieve the common goal of properly managing public accounts.

Mr Speaker,  
Messrs Deputy Speakers,  
Distinguished Members of Parliament,

The recommendations drafted by Commission C give this debate a very constructive tone on administrative, tax and accountancy matters. The Government is not indifferent to this. Since I was part of the previous Government, please allow me to tell you what really happened in 2011, so that we can make our considerations within the right timeframe. Otherwise we would just be repeating a recent process.

When I state this, I am not saying that the Government unaware of the weaknesses that have been pointed out by the Court of Appeals and by Commission C. Indeed, we have been working to improve performance.

Your Excellencies,  
Ladies and Gentlemen,

We all know that the Fourth Constitutional Government had a key political agenda of undertaking reforms both in terms of procedures and agencies. As such, for five years we were a Government of 'experiments' for some and a Government of 'improvisations' for others.

What I want to say here is that, following those reforms, 2011 was a very important year in what concerns the construction of State structures for development, as well as the introduction of good governance policies.

We have only just had our 10<sup>th</sup> anniversary on 20 May 2012, which means that the Government never lost sight of the Statebuilding process. Perceiving continuous irregularities and failures, the Government saw the need for introducing stronger control mechanisms to ensure that public monies are managed more efficiently and that programmes are implemented with greater effectiveness.

Consequently, in March 2011 we approved the legislation that would regulate the National Development Agency, the National Procurement Commission, the Human Capital Development Fund and the Infrastructure Fund.

These structures and funding mechanisms were designed to provide Public Administration with greater capacity to manage projects considered to be vital for national development, thus ensuring a better use of the available financial resources and, most of all, assuring certainty in the continuity of the projects themselves under the Funds. The Human Capital Development Fund and the Infrastructure Fund resulted from an absolutely innovative political act and are more appropriate financial instruments in view of the reality and needs of the country.

Obviously, the creation of the Funds involved the subsequent establishment of complementary procedures, rules and legislation and required the recruitment of staff and the adaptation of the IT management system to these new funding mechanisms, including the creation of codes within the IT system and administrative flows, as well as the opening of bank accounts.

This complex task took some time to stabilize. As a result, the major projects already being implemented under the Infrastructure Fund (better yet, which were placed under the Infrastructure Fund), such as the Bebuy irrigation project and the Electricity project (the Hera Plant, the Substations and the transmission lines) were paid through the Consolidated Fund for Timor-Leste. It has not been easy to return these payments, which totalled \$16 million. Indeed, this process had not been completed by July, when the Auditor completed its report.

I have explained this because the Reports by both the Court of Appeals and Commission C saw fit to repeat this issue several times, so as to draw our attention. I

agree with those recommendations and would like to say that the Government is committed to implementing them as we build the necessary capacity.

Since Commission C has started in the role of the Chamber of Accounts, I must remind everyone that the Chamber of Accounts was only established in August 2011. This new Law anticipated the deadlines set for the reporting of accounts in Law no. 13/2009, Budget and Financial Management. In order to meet these new deadlines and to send out the accounting reporting documents on time (which did not happen in 2012), the Government must, starting in 2013, receive all payment requests for the financial year in question by 30 November, so that it may close its accounts by the end of the year.

This anomalous legal situation should have the attention of every sovereign branch of government, so that they may discuss, with their feet well planted on the ground of Timor-Leste, all that concerns the tasks of legislating on the one hand and the obligation to implement on the other, while taking into account the processes to build, consolidate and evolve the Timorese State, including its administrative establishment.

I say this because changing the time limits is another challenge in terms of human capacity and in terms of improving and consolidating management in every State agency. All sovereignty bodies, and not just the Government, will be required to send their spending documents to the Treasury in good time. Otherwise it will not be possible to comply with the time limits set in the Organic Law of the Chamber of Accounts.

Reducing the time limit from 6 months – which to us, and in the present situation, is not enough – to just 5 months is an additional challenge without taking the reality of the country into account. Developed countries that have had established capacity for dozens or hundreds of years may be able to carry out this exercise in around 6 months, but even so, they could not detect the serious irregularities that, in fact, led them to bankruptcy in recent times. In Timor-Leste, even by making use of internal auditors, it is difficult to meet the legal time limits. Therefore, I hope that thorough debates on this subject may help us find a way that does not force us to be reckless in order to comply with standards that are still difficult and maybe even unreasonable for us to adopt.

Mr Speaker,  
Messrs Deputy Speakers,  
Distinguished Members of Parliament,

Ladies and Gentlemen,

I would like to seize this opportunity to remind the Timorese People that, at the time of the presentation of the Programme of the Fifth Constitutional Government, I underlined the fact that this Government will essentially continue the reforms started by the previous one. We will also be correcting, improving and consolidating the

administrative and financial machinery of the State, as well as starting the First Five-Year Plan under the Strategic Development Plan.

The very organic structure of this Government was based on this philosophy and guided to provide efficiency and effectiveness in terms of service delivery to the people and State accountability. The latter entails budget reporting for each Government and Non-Government agency.

This implies the permanent correction of the operational mechanisms and the working systems. We must also perfect the methodologies and the operational capacity in terms of administration and management.

This requires the steady consolidation of the advances made under financial management and public administration capacity building. It also requires giving national human resources – our civil servants – the time they need to absorb the systems and procedures resulting from the implemented reforms.

In January 2012 we held separate one-day meetings with several ministries, in which the Finance team and I raised the issue of good governance in the two pillars of administration and management, in the following areas: planning, budgeting, procedures, implementation, payments and ways to prevent the excessive or abusive use of virements, emergencies, contingency and debts. We underlined the need to engage everyone in the use of the IT systems, which so far has not conveyed positive results due to lack of commitment by the technical staff.

We have been learning from the lessons and the errors in order to continue improving. Regarding the 2010 State General Account, I recall that I informed Parliament about the Government initiative of carrying out external audits to all State agencies in relation to procurement processes. The guiding principle of that initiative was to learn what the personal and/or institutional weaknesses were, so as to have a baseline for making corrections. The introduction of the e-procurement system is consequently the best solution, but only when its use is optimized.

This was why the Fifth Constitutional Government created the Office of the Secretary of State for Institutional Strengthening, which will conduct performance and verification audits in every line ministry, thereby promoting the operational capacity-building of staff.

Together with the Ministry of Finance, which will continue to provide assistance in terms of training in the areas of procurement, contract management and legal and administrative procedures, the Office of the Secretary of State for Institutional Strengthening shall continue to monitor good practises, in order to achieve greater efficiency and effectiveness.

Regarding the financial management IT system, I recognize that there are still flaws, but we shall strive to enable agencies to start using it in the proper manner. As such, it will be vital to conduct performance evaluations in each agency.

We are also aware of the low execution by some capital development projects, which is why we are committed to strengthening criteria. This means that we will not accept projects without previously approved technical drawings and for which land has not already been made available.

Throughout the next 5 years we will continue to insist on greater budget stabilisation concerning Goods and Services, as this is essential to improve financial management in the country. When drafting SGBs, we are guided by the performance execution in the previous years, and, therefore, we make cuts because we know that money would otherwise be returning to the State unspent. Still, there are many who complain that we are making agencies unable to carry out their programmes by taking money away from them. If we were to issue the money requested, we know that this would result in rushed spending at the end of the year in order to achieve high execution percentages. This would not be adequate in terms of financial management practises, since it would not follow set programmes.

We are already working with the President of the Civil Service Commission so as to draft a plan enabling us to provide a better response to the problem of lack of skilled personnel in 2013. We also want to have a better performance evaluation system and to reduce the placement of staff in jobs they are not qualified to perform. Additionally, we want to stop moving staff within agencies, as that means wasting the experience that staff members acquire through the years.

Both the previous Government and the new one insist on correcting the tendency to try to do everything at once, which often entails claiming situations of urgency and incurring debts. I have said before and I will say it again that the greatest risk our country faces is the fact that we have money, since it can easily lead to waste.

I have been warning the members of the current Government from the start that I will not tolerate debts in 2013. I agree with the recommendations by the Court of Appeal and by Commission C in terms of presenting debt statements in the State General Accounts. I say today before Parliament that if there are debts in 2013, the Government member in question and his or her Director-General and Finance Director should resign due to inability to manage.

Your Excellencies,  
Ladies and Gentlemen,

In their macroeconomic approaches, both the Court of Appeal and Commission C make reference to the Petroleum Fund and to the future generations.

My personal opinion, which I would like to share with the Distinguished Members of Parliament, is that the greatest gain Timor-Leste had with all the international assistance we received since 1999 was the support to the establishment of the Petroleum Fund. We owe this to the First Constitutional Government and particularly to the support of the Government of Norway.

Since we are evolving as a developing country, we noticed that there was a pressing need to leave behind the 'Annual Action Plans' and to move towards longer term planning. As such, we have already drafted a path forward.

The Strategic Development Plan, approved in July 2011, provides a systematic framework for the implementation of short, medium and long term development policies.

It was drafted considering the needs of the Timorese People and the capacity of the various sectors to absorb the funding allocated to them, as well as the macroeconomic framework of the country.

I want to inform here that last month I participated for the fifth consecutive year in the Bali Democracy Forum, a High Level Trilateral Meeting held by President Susilo who also involved the Australian Prime Minister, Julia Gillard. In this meeting, President Susilo insisted on the need to go to Indonesia to explain and debate our Strategic Development Plan, so that Indonesia may see our opportunities to take part in the development of our Country.

One week ago, we were visited by the Secretary-General of ASEAN, Dr. Surin, who agreed that we should go to other ASEAN member countries in order to inform them of our Strategic Development Plan, so that everyone knows we have a clear vision for our future, as well as opportunities in terms of cooperation and investment.

Your Excellencies,

As you know, in order to transform Timor-Leste from an oil economy to a non-oil economy the State needs to invest in several areas. The Strategic Development Plan enables the Government to do it in a sustainable matter, so as to create a productive and market-oriented economy.

I also noticed that some recommendations suggested that we should slow down infrastructure projects. There will be no investment in our country if we do not provide the best conditions in terms of core infrastructures. Without a productive economy and without foreign investment, we will continue to be dependent on oil revenues.

Only with a productive economy and strong foreign investment can we create sound bases for employment in our Country. There is no wiser option when talking about sustainable development. Meanwhile, the public sector must fulfil its mission of driving our economy; however the State cannot be the only employment source.

We must not forget that, according to the Law, the Government may not make withdrawals over the figure authorized by Parliament for each financial year. Furthermore, all unspent amounts shall expire at the end of the respective financial year, except for payments under the modified cash basis against operations conducted and presented by 31 December of every year.

This means that Petroleum Fund revenues are not compromised, since the Government only withdraws the figures determined by Law for funding expenses.

I must also recall that in the long term and with authorization by Parliament, we are diversifying the investments of the Petroleum Fund in order to ensure benefits for the future generations.

Lastly, I want to address the recommendation to increase the budget for the sector of Health. When I presented the Programme of the Fifth Constitutional Government, I said that planning is a complex exercise in which one must include and interconnect many short, medium and long-term priorities. The reports by both the Court of Appeals and Commission C focus on the lack of capacity, commitment and dedication by civil servants.

Only yesterday the Member of Parliament representing the Fretilin Bench presented a long list with the basic needs of the Timorese People. It is impossible for us to respond to all of them at the same time, and trying to respond to all of them in sequence would necessarily favour speed over quality, which would ultimately lead to a set of poor responses.

An integrated response requires sustainable long term solutions.

Mr Speaker,  
Messrs Deputy Speakers,  
Distinguished Members of Parliament,

The Government has taken notice of every concern. I hope that during the debate we may clarify all matters that were not covered in my address.

I also hope that the Distinguished Members of Parliament will not forget that many members of the Fifth Constitutional Government are new and will not be able to provide relevant answers concerning the 2011 State General Accounts.

Thank you very much.

Kay Rala Xanana Gusmão  
11 December 2012