



PRIME
MINISTER

**ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE OCCASION OF THE PRESENTATION OF THE DRAFT
BUDGET LAW FOR 2013**

National Parliament, Dili
4 February 2013



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

Your Excellency
The President of Parliament
Your Excellencies
The Vice President of Parliament
Your Excellencies
The Members of Parliament

Fellow Government members

Ladies and Gentlemen,

It is a great privilege and honour to address Your Excellency, the Speaker of Parliament, and all the honourable Members of Parliament in this Great House, to present the 2013 State Budget.

Last September I had the opportunity of presenting here, at this Great House, the Program of the Fifth Constitutional Government. At that time I underlined the fact that today we have a vision, and a plan to implement, to transform Timor-Leste from the poor country it is today into an upper-middle income country by 2030, with a safe, healthy, educated and productive population.

In these ten years as an independent and sovereign State we have had setbacks, due to our situation as a post-conflict country. However, and more so than in other countries, the consistent political will shown by Timorese leaders, and the participation of all parts of our society, enabled us to overcome this post-conflict situation with courage and clarity.

In this decade-long process of State building (from scratch) and consolidating, we were aware that we were part of the LDC (Least Developed Countries) group.

There were long studies made by experts on how LDCs develop, within perspectives of sustainability and without losing sight of the Millennium Development Goals.

These theories and experiences by agencies that were familiar dealing with the entrenched poverty of others helped us to lead the dialogue of the g7+, which consists of 18 countries representing over 350 million people. We have insisted with the international community regarding the need to adopt new mechanisms to replace the old ones, which have been used for dozens of years and have proven to be completely ineffective.

The New Deal launched in Busan, South Korea, and debated in the hallways of the UN, basically reflects the need for developing countries to know their own (social, political and economic) reality, their weaknesses and their potential, so that they can own the process and choose the best path to steady and sound development, in order to ensure stability.

Another guiding principle of the Group is to take into account the macro principles and the universal micro doctrines, but only to guide annual and medium and long term policies. These policies must in turn reflect the current and actual needs of each country, so as to prevent governments from becoming too theoretical and too subjective in their action plans.

The macroeconomic theories have failed to solve the great global financial crisis. Today's world requires a more humane doctrine to free itself from the mathematic calculations of profits and money that defines the statistic GDP of nations, as an instrument for separating rich and poor, with the latter being subject to the speculations of the markets. These speculations and markets show that in the US and in the European Union, the rich and powerful transfer every year \$1.7 trillion and \$1.3 trillion respectively, to avoid paying taxes.

The world has already realised that the current system is not merely sick but rotten inside. The world has also realised that 99% of humanity is at the mercy of the rich and powerful, whose experts, working in their comfortable offices and earning huge salaries, draft doctrines to be followed by the poor.

Just in 2004, Timor-Leste signed the UN's global anti-poverty programme, known as the Millennium Development Goals. Despite the short time we had, we have achieved some small success (reducing child mortality, improving the fight against tuberculosis, etc.), better than some countries that have been independent for over half a century. Nevertheless, we keep our feet on the ground and do not forget that what we are achieving is very relative, since we are a small country with only 1 million people. We cannot compare ourselves with nations that already have very sound economies and where classic macroeconomic concepts (such as employment and unemployment, imports and exports, expenditure and revenues) would be easier to apply, even though they are not.

This is the current challenge of the modern and globalised world, in which the poor absorb or consume concepts and theories without realising that these concepts and theories only serve the large decision-making centres and the ones that have the money and keep the weak and the poor down with tricks and threats.

Your Excellencies,

While the Strategic Development Plan sets the rules for the next 20 years, the Fifth Constitutional Government presented its 5-year political program, setting the goals to be achieved by the end of its mandate. It is with particular satisfaction that I now present to the honourable members of Parliament the 2013 SGB, which responds to the program of the first year of our mandate.

I would like to remind the honourable members of Parliament and all the People that the 5-year plan is, in practice, the program for the first five years of the SDP.

This Government must necessarily look to the future, lest it become too busy with immediate day to day problems. The Government is aware that unless it adopts a broad vision or a Road Map to start and continue a steady and consistent development process we will lose ourselves in small reviews and become confused in our efforts.

A social and economic process, particularly at the start as is the case in Timor-Leste, is always complex requiring thorough review of priorities with medium term impact and of the connection between activities covered.

As such, national projects must take into account the goals they seek to achieve in the medium and long term. The policies to be developed must also be staged in consideration of impacts and benefits, which cannot be immediate, since the immediate is always temporary.

Consequently, the projects concerning the National Power Grid and Tasi Mane must also be seen as a whole, taking into consideration the impact and the benefits that they will stimulate and produce in the medium and long term.

The Government has adopted the idea of a new development benchmark. The fight against poverty is the eternal slogan of the international community, with the United Nations, the World Bank, the IMF and OECD being at the forefront of the fight against poverty. The results are plain to see, particularly in Africa. Billions and billions of dollars are invested and much of the world population continues to go without food, shelter, health, education or safety.

Some curious person found out that in Timor-Leste, between the end of 1999 and 2007, the international community invested over 8 billion dollars and yet we, the Timorese, were responsible when the number of poor people increased by 5% in 2007.

We Timorese must avoid following the trend of simple statistical and mathematical calculations regarding the outcome of our actions only to justify the investments we want to make. When millions of Americans fear to lose their homes because they cannot continue to pay their mortgages, when millions of Europeans cannot afford a single meal a day, do we say that they are poor or simply that they are unemployed? In Timor-Leste we have adopted the international standard that considers as poor someone who 'lives with under \$1 every day'.

I ask these questions so that we do not lose sight of our reality and can look to the medium and long term.

The First Constitutional Government set the goal of 'Fighting poverty' as a 'National Cause', and we continue committed to eradicating poverty in our country.

The Program of the Fifth Constitutional Government, in line with the Strategic Development Plan, creates and promotes the Special Economic Zones. The

Constitution of the RDTL grants special regimes to Oecussi and Ataúro, however it is necessary to carry out proper and thorough studies before both these territories may acquire their special status.

Timor-Leste has been the leading player in various international initiatives, at least in regard to the EITI (Extractive Industries Transparency Initiative), being the 3rd country in the world and the 1st in Asia to be granted full compliance status and having already provided support to several countries that want to become more familiar with our practice in order to replicate it. Timor-Leste is also leading the 'g7+'.

We Timorese will star in another initiative under the new development benchmark to try convincing the world that it is effective in the sustainable fight against poverty.

Making use of the legal and conceptual bases available to us, the Government has decided to start a Special Economic Zone pilot project in Oecussi, to be called, under the new benchmark, a 'Social and Market Special Economic Zone'.

Being a member of the CPLP and part of the Economic Forum of Macau, as well as close to entering ASEAN, which is debating the subjects of 'common market' and 'market chain', the Special Economic Zone of Oecussi should be a trade and industrial centre directed to the market but also with social concerns regarding the 'atoni' population and consequently the whole of Timor-Leste.

With the agreement of the President of the Republic, the Government has decided to appoint Dr Mari Alkatiri as the representative of the State in this initiative of studies, reviews and contacts with the CPLP countries and – why not? – the ASEAN and Pacific countries. This strategically relevant program will then be expanded to Ataúro and other parts of the country.

Your Excellencies,

The philosophy that guides this Government is the same that guided the Fourth Government. In other words, this Government has received the mission to continue implementing the successful programs and reforms. Continuity implies the ongoing correction of operating mechanisms and working systems, as well as the fine-tuning of methodologies and of administration and management.

The budget I present today to Parliament takes into consideration the macroeconomic policy goals and is the financial expression of what we want to do in the short term in order to eradicate poverty in Timor-Leste in the medium and long term.

This is a complex challenge requiring strong economic growth, better infrastructure and a skilled labour. Achieving these goals will require significant public investment.

The economic miracles in the 2nd half of the 20th century, many without the help of natural resources, show a consistent focus on public investment, in the creation of basic conditions for generating other types of wealth, in maintaining a double-digit growth rate and in dealing with a double-digit inflation rate. The question put to them when seeking proper solutions in each of their programs' period of implementation was how low it should be and how high it can be. However the real dilemma was whether they should stop development programs in order to focus on inflation or whether they should merely strive not to let inflation run wild while continuing with the development programs that were requiring significant public investment.

The 2013 Budget **invests in new policies**, based on the Program of the Fifth Government and on the Strategic Development Plan, **while strengthening investment in policies started in previous years**, which have led the country to greater stability, better management of State affairs and economic growth.

Timor-Leste has enormous wealth in natural resources, namely oil and gas. We all know that these resources are not renewable, which is why I have already stated before this Parliament that they must be used so that in a not so distant future we may have an economy that is not dependent on the petroleum sector.

Since the First Government we have made a commitment to the Timorese People to use the money from petroleum revenues in a sustainable manner, so as to protect future generations. That was why Parliament authorised the diversification of Petroleum Fund investments.

Financially, this means that there is a perspective that overall public spending will be reduced in the future. It also means that we must start immediately to limit the growth of current expenditure. This is a challenge for the entire public administration, and here we must bear in mind that our State agencies are also growing. This Government is committed to improving service delivery to the people and to correcting management irregularities, so as to achieve the budget stabilisation of current expenses.

Only by thinking of 'building and consolidating' can we generate domestic revenue for funding a larger percentage of State expenditure and attract investments in productive sectors in order to benefit the Timorese People.

The 2013 State Budget enables the achievement of this goal in a prudent manner.

The 2013 State Budget sets priorities properly.

The 2013 State Budget is a balanced budget.

Your Excellency
The President of Parliament

Your Excellencies
The Members of Parliament,

The debate on the 2013 SGB, which we are starting today, must take into account the successes and achievements of the previous Government's policies and budgets.

As we turn the page on our first decade as an independent Nation, we must acknowledge that, despite the obstacles, we have managed to build a sound political and institutional architecture that has brought us social stability.

In 2013, Timor-Leste finds itself in a different and special situation. Last year we had two landmark moments in our experience as a sovereign Nation: we had presidential and parliamentary elections, strengthening the soundness of our democracy, and we witnessed the withdrawal of the United Nations Mission and of the International Stabilisation Force, confirming that we are ready to become the masters of our fate.

Our commitment to ensuring an atmosphere of peace and security has not been for nothing, since **presently Timor-Leste is a promise of development.**

Development progress can be measured in many ways. One way is through economic growth, which in our nation has been an average of 11.9% since 2007!

In the international press, the renowned Economist magazine recently stated that Timor-Leste was the sixth fastest growing economy in the world. This recognition fills us with confidence and resilience to meet the future ahead. The Economist does not say we are the world's sixth largest economy, it merely says we are growing well and that we are doing so in a very difficult time for the entire world.

This economic growth means that there is greater economic activity in the country. It reflects the existence of an emerging private sector, the creation of more employment, the increase of commercial and tourist activities, greater production levels (including agricultural production) and a larger percentage of tax revenues to support State services. In short, it means generation of wealth.

Progress in development can also be measured by looking at health and education. Here Timor-Leste is also making strong progress. From 2010 to 2011 the total number of children enrolled increased by 5%, 8% and 17% in basic, general secondary and secondary technical education respectively. Child mortality rates have also seen a sharp decline from 83 to 64 per thousand live births between 2003 and 2009/2010. Life expectancy at birth has also increased from 59.5 in 2006 to 64.64 in 2011.

Your Excellencies
The Members of Parliament,

For the good of the future generations, it is up to us to use the available resources in a way that is balanced and responsible, but also ambitious. As such, the Fifth Constitutional Government has set very clear priorities for the country, and will continue to focus on four key aspects:

- Development of social capital, particularly investment in the capacity building of our human resources and in the education and health of the Timorese;
- Development of the basic infrastructure;
- Development of the economy, particularly agriculture, tourism and the petroleum industry;
- Consolidation of the institutional framework, continuing to promote good governance and starting the decentralisation process.

Economic growth may only be considered a favourable indicator of national development if it observes two fundamental principles: **inclusiveness and equity**.

This means that every Timorese citizen should, directly or indirectly, be able to experience the benefits and opportunities of this economic growth. It does not matter whether they are men or women, young or old, whether they live in Fatumean or Tutuala, Nítibe or Laklubar, Alas or Ataúro, or whether they are farmers, fishers, carpenters, traders or teachers.

Since the First Government we have been working to establish administrative decentralisation and to implement Local Power. In 2013 we will be creating the establishment framework for the municipalities. We will also be promoting a broad public consultation, to be started in April, so that we may choose together the model best suited to the needs of the Timorese. After this we will start creating the Municipal Installation Committees in each of the 13 districts.

The creation of the Municipalities will bring citizens and the public administration closer and, along with a more effective local democratic participation, will promote the supply of public services able to drive social and economic growth, nurture the development of the private sector in rural areas, ensure environmental sustainability and promote gender equality. Furthermore, it will enable us to mobilise more efficiently the collective effort for implementing the Strategic Development Plan.

The Local Development Program, the Suco Development Plan and the Decentralised Development Program (which started in 2010), have enabled local and district administrations to become familiar with systems and actions in terms of planning, management and execution of projects, making our country better prepared for this unique process of greater democratisation and development. There are still aspects to be corrected, however we now have greater confidence and certainty in terms of improving implementation.

Based on previous experiences, the District Integrated Development Plan (PDID) established a budget planning and implementation system at district and sub-district level, preparing the Districts before the creation of the Municipalities.

The Government will continue to improve the management of the two main funds – the Infrastructure Fund and the Human Capital Development Fund. These funds will receive special attention this year, since their impact is expected to cover the entire society. These two pillars are essential for a balanced and sustainable economic development project and are a source of opportunities for men and women of all ages throughout the country.

As such, the number of scholarships provided by this Fund will be increased. We awarded 3,256 scholarships in 2012 and this year we intend to continue awarding scholarships in areas that are very important for the development of the country. Nevertheless, in 2013 the Government wants to carry out a study in order to improve the application of the HCDF, including a plan on more specialised training in strategic areas to meet the needs the country will have in 7-15 years.

We will also be providing professional training to an average of 2,500 young people a year, ensuring that access to capacity building will be the same in the capital as it is in the Districts. In view of this, we will be acknowledging 20 new community professional training centres a year.

The supply of basic education and health services is a priority in 2013.

We will continue to build health posts in order to ensure that every Suco has access to essential care, giving particular attention to those located in remote areas. In the next few years we will also start to improve considerably the services of the National Hospital and to expand the care provided.

In the area of education, we are planning to build 250 new pre-schools and, as a priority, 5 new technical and vocational schools and 4 Polytechnic Institutes. There is a pressing need to build the capacity of young people in order to obtain professional employment without forcing everyone to go to higher education facilities in Dili. Therefore we will be giving young people alternatives to acquire know-how that will prepare them to find productive employment.

In 2013 we want to generate wealth by creating more employment. This will be done by investing in the economic sectors.

Poverty reduction is also closely connected with the direct improvement of the living situation of the Timorese. The 2013 SGB foresees that drinkable water systems will start to be installed in 25,000 rural households. Additionally, the MDG Sucos project will continue, building 55,000 houses in several community clusters throughout the country within the next few years.

The traditional economic sectors such as agriculture and fisheries will be nurtured in parallel with areas where Timor-Leste may become extremely competitive, such as tourism.

This year we are planning the construction of a Training Centre of Tourism and Hospitality and we will be establishing two new Tourist Information Centres, one in Batugade and the other in Dili. We will prepare, through an implementation unit, the establishment of the Academy of Arts, Culture and Creative Industries of Timor-Leste, complete one of six new Regional Cultural Centres and move forward with the establishment of the Library, Museum and Cultural Centre of Dili, for which land has already been allocated. We will also be continuing the work in terms of identifying the Timorese cultural legacy.

While the Government has a key role to play in making major investments in these essential areas, it is also a priority to strengthen the private sector so that it may take on a greater role in the development of Timor-Leste in the medium term. The inclusion of a Secretary of State for the Support and Promotion of the Private Sector in the Organic Structure of the Fifth Constitutional Government is both necessary and timely.

However, infrastructure must also respond to the needs of the country's economic characteristics, which requires a strong effort in terms of building the national roads. The Government is also focusing on the South Coast, building a set of refinery and petrochemical infrastructure as well as roads, so as to ensure that the economic potential of this cluster is not wasted.

The Government foresees that by the end of the mandate it will establish 7 Public-Private Partnerships that will contribute to the national development goals.

This year there are two Public-Private Partnership projects that will begin construction works: the expansion of Airport President Nicolau Lobato and the Tibar Port. The current Dili port can no longer deal with the flow of commodities and this has contributed to price increases in consumable goods, since in the present conditions it is inevitable to have mooring delays. For instance, a few weeks before Christmas we had 24 freighters in the Dili territorial waters and some of them are yet to unload their cargo.

Only by improving the country's administrative and financial management can we ensure good governance.

As such, the Government will focus its attention in assisting State agencies so that they become characterised by their effectiveness, transparency and accountability. The Secretary of State for Institutional Strengthening will implement a performance and verification audit in every line ministry, thereby promoting the operational capacity building of public administration.

The Ministry of Finance will also continue to promote training in the areas of procurement, contract management and legal and administrative procedures, as well as to report to the public the policy decisions of the Government, including in the areas of Budget, Assistance, Procurement and Outcomes, by way of the Transparency Portal.

The Government defends the ongoing correction of systems and processes and even policies that prove to be inefficient or weak. This implies permanent oversight, which is why we will establish a Commission to review the Government's policy and expenditure options and to suggest corrections.

The work of this Commission will include the drafting of spending reports and reviews, namely on the Infrastructure Fund, the Decentralised Development Programs I and II and other topics suggested by Parliament, in view of the long term sustainability of social policies and other economical impact studies.

The Government continues to be fully committed to good governance. Performance by State agencies in this area has been acknowledged by the Corruption Perceptions Index of Transparency International in 2012, with Timor-Leste climbing up 30 places in the ranking – a significant improvement that must not make us think that we can stop working hard in this area.

Your Excellencies
Ladies and Gentlemen,

The Government is aware that strong economic growth has been accompanied by high inflation. Year on year inflation in Timor-Leste peaked at 15.4% in December 2011 but then dropped and stabilised at around 11%.

We know that increases in prices of goods, particularly food, reduce the purchasing power of our citizens. We also recognise that high inflation increases the costs of materials and causes problems for businesses in Timor-Leste, affecting the quality of works in their relation with the profits to which businesses are entitled. We further recognise that inflation increases the costs of Goods and Services and Minor Capital acquired by the State.

It is for these reasons that the Government is seriously committed to reducing inflation. As such, we have been carefully recording, monitoring and analysing inflation.

Nevertheless, the causes of inflation are complex and vary over time. Due to the global recession and its effects so far, the American dollar has decreased in value compared to the currencies of our trading partners, such as Indonesia and Australia, which led to imports becoming more expensive. Increases in international food and commodity prices have also contributed to inflation in the past. These causes, along with the rise in the price of oil, either due to war or economic sanctions, are outside of the Government's control.

Another cause of inflation in Timor-Leste is the balance between the amount of money and goods produced. In our fledgling economy there must be a persistent and ongoing effort to produce goods in the country. There is no other magical solution.

As such, Timor-Leste needs to produce more. The current budget gives priority to agriculture. A greater (public and private) investment in agriculture, livestock and fisheries should contribute to a production increase in the short and medium term.

The Government proposes to facilitate the establishment of new companies by creating business incubators and a “one-stop shop” to simplify their registration and reduce the time necessary for establishing companies. This will also provide support to micro and small companies, cooperatives and industrial and commercial groups, in order to nurture employment creation and stimulate various productive sectors.

Increasing productivity, skilled labour and business competitiveness is the only way to support strong economic growth in the long term and to reduce and stabilise inflation. The Government will do everything it can to reduce inflation below 8%, in accordance with the priorities set in the 2013 State Budget.

Your Excellency
The President of Parliament

Your Excellencies
The Vice Presidents of Parliament

Your Excellencies
The Members of Parliament

Ladies and Gentlemen,

In 2013 we will be investing a total of **\$1,797.52 million** to meet the needs of the country, **giving priority to Infrastructures, Agriculture, Health and Education.**

In comparison with the previous year, **we have increased the investment in agriculture by 28%, in education by 12% and in health by 15%.**

The 2013 State Budget is set to invest **\$892 million** in development capital, including **\$753 million** for large multi-year projects in the Infrastructure Fund.

The three largest programmes in the Infrastructure Fund are:

1. Power (**\$173.9 million**)

In 2013 we will be finalising the works in Betano and thus completing the construction of the National Transmission and Distribution Grid. Improving power generation and supply should support strong economic growth in both micro and small companies in the districts and future medium and large industries.

One key error in these ten years of State building was the absence of a maintenance culture. In order to rectify this situation, we have allocated **\$10 million** in the category of Goods and Services of the respective Ministry to ensure the operation and maintenance of the Hera Power Plant and of the substations. The increase in electricity production due to the completion of the Hera and Betano power plants will boost industry and require higher fuel consumption. To pay for this, we have allocated **\$117.8 million**.

2. Roads (**\$116 million**)

The Government is determined to build high quality roads throughout the country, in order to facilitate the transport of people and commodities and to reduce the costs of manufactured goods.

In addition to building the roads set out in the Infrastructure Fund, the Government is also building the Dili – Manatuto – Baucau road and the Dili – Liquiçá – Tibar – Ermera road. These works will be paid for by borrowing from JICA and the Asian Development Bank, respectively.

The Government will be investing around **\$44 million** in this loan program to fund projects with high rates of economic return. The rate of interest on both of these loans is significantly lower than the estimated yield on Petroleum Fund investments. We, alongside financial agencies and other countries, are continuing to study the feasibility of other loans concerning major projects such as the Aileu – Ainaro – Maubisse road and the Manatuto – Natarbora road.

3. Tasi Mane (**\$139 million**)

The creation of the National Company TIMOR GAP resulted in a boost for starting works in the South Coast, including on the petrochemical projects and the Supply Base. Just last February 1st a Memorandum of Understanding was signed between TIMOR GAP and Thailand's PTT.

Another **\$139 million** included in the category of capital development of the Consolidated Fund for Timor-Leste will fund the development of small infrastructure, namely the construction of education and health facilities and of water supply, sanitation and irrigation systems, in accordance with local needs. These projects shall be awarded to Timorese construction companies, thereby nurturing local development and keeping profits in Timor-Leste.

The investment of **\$68.2 million**, through the PDID, seeks to continue promoting the construction of infrastructure throughout the country, so as to meet the basic needs of the population in a fair and inclusive manner that relies on the active participation by local citizens and leaders.

I would like to inform the illustrious Members of Parliament that the 2013 State General Budget only considered as eligible the capital development projects that met the following criteria:

- Certification by the Directorate of Land and Property regarding land use;
- Approval of design and BoQ's by ADN; and
- Approval by the Policy Budget Review Committee.

In this way, we want to ensure better execution rates for infrastructure projects.

Your Excellencies,

Ladies and Gentlemen,

The Government is determined to **boost agricultural production**. Better agricultural production is essential to reduce imports and improve food security. We are also conducting a thorough study on malnutrition that takes into account the calories that exist in Timorese produce, as well as encouraging a new food diet in our society.

The 2013 State Budget allocates **\$3 million** to the Goods and Services budget in the Ministry of Agriculture for buying seeds. This should boost the volume and value of farm production. The Infrastructure Fund also includes nearly **\$10 million** of expenditure on agriculture projects. Much of this expenditure is for the construction and supervision of irrigation schemes which the Government believes will increase agricultural productivity.

Three areas of health spending have received increased budgets.

First, we have increased expenditure with Salaries and Wages to \$21 million, in order to implement the new career regime for health professionals. This regime will increase the pay of health professionals with appropriate qualifications. The Government will be stricter in ensuring that health professionals respond to these incentives by displaying enthusiasm, dedication and empathy in the performance of their duties. The Government will also employ and adequately compensate recently qualified health professionals from Cuba. Better qualified and more motivated staff should improve the quality of healthcare in Timor-Leste in the short term.

Second, the Ministry of Health's budget for the purchase of medicines and drugs has been increased to **\$7 million**. This will contribute to better health care and outcomes.

Third, **\$5 million** has been allocated to purchase medical equipment in the Ministry of Health. This money will be used to purchase operation theatre equipment, anaesthesia machines, heart monitoring machines, a defibrillator and other medical equipment.

Education is another key factor in the development of a nation. The Government will pay due attention to the 'Education for All' Program, as this is related to the 'Education First' initiative by the Secretary General of the United Nations. I believe that all children should receive a decent education and that an educated workforce is a productive work force. Some progress has already been made and going forward we are determined to further improve education in Timor-Leste.

The quality of teaching is an important determinant of education outcomes. As such, the Government will continue to strive to ensure quality education in every school level. The Government is aware that no one should be pleased with the quantity of graduates every year given that the quality of education continues to be below expectations. Furthermore, education costs the parents of the students a lot of money. These parents are making sacrifices to try and provide better futures for their children.

The 2013 State Budget includes measures to raise the salaries of key groups of educators. More specifically, the UNTL's salary and wage budget has been increased to \$7.6 million, due to the new career regime for higher education professionals. We will also be paying salaries to teachers who had previously worked as volunteers.

Additionally, the **\$42 million** allocated to the Human Capital Development Fund, which includes the Scholarship Program, the Professional Training Program, the Technical Training Program and other types of training in key sectors, will train and build the capacity of our human resources to become the leading actors of national development.

In 2013 we will continue to invest in social policies seeking to improve the living situation of the Timorese. Investing in the people, particularly the most vulnerable ones, is a moral obligation of the State. For this purpose we have allocated **\$236.5 million** in the category of Public Transfers, namely:

- **\$84.8 million** for personal benefits to Veterans.
- **\$38.2 million** for our elderly and to those with demonstrated disabilities.
- **\$18 million** for supporting Non-government Organisations and Religious Organisations promoting cultural and religious activities, thereby contributing to the social, cultural and spiritual wellbeing of the Timorese.
- **\$10.5 million** for funding SEFOPE's "cash for work" programme, thereby contributing to lower unemployment.
- **\$8 million** for funding the Suco National Development Program, directly involving communities in their own development.
- **\$3.7 million** for paying pensions to civil servants, in accordance with the approved Law.

- **\$3 million** for land-related compensation.
- **\$5 million** for funding the “Ita Nia Rai” Program.

Finally, the Government will continue to invest in key sectors contributing to the consolidation of our democratic State under the rule of law.

We want to increase the PNTL’s Salary and Wage budget to \$13.6 million, thus ensuring the recruitment of more police officers to ensure safety in the country. We will also increase the F-FDTL’s Salary and Wage budget to \$7.9 million, so as to strengthen the capability of the Armed Forces.

Associated with this investment we have a **\$1.3 million** grant for acquiring furniture for the houses of soldiers and police officers throughout the country, as well as **\$1.2 million** for purchasing vehicles and equipment in order to help improve security at the airport.

We cannot neglect our foreign policy, particularly at a stage where Asia continues to be the fastest growing region in the world, boosting the growth of emerging and developing economies. As such, Timor-Leste is located in a region that presently offers strategic advantages.

This year, in addition to establishing two new Embassies, namely one in the United Kingdom and one in New Zealand, as well as consulates in Darwin and Atambua, which resulted in an increase of **\$9.1 million** in the Ministry of Foreign Affairs and Cooperation’s salary and wage budget, we will be investing in other key aspects:

- Establish a Unit that will carry out the preparatory work in order for Timor-Leste to assume the presidency of CPLP in 2014-2016. This is even more important because it will test our organisation capabilities before becoming full-fledged members of ASEAN.
- Prepare the establishment of the Diplomatic Study Centre in order to train and build the capacity of Timorese diplomats.
- Intensify the process on the demarcation of land and maritime borders.
- Continue to preside over the g7+ and to promote fragile States in terms of their collective development goals.
- Participate in the High Level Panel on the Post-2015 Development Agenda, represented by the Minister of Finance.

These regional and international diplomacy and integration efforts will, in the medium and long term, result in immeasurable benefits for the future generations of Timorese citizens. In today's globalised world, no country can overcome the obstacles to development by working alone and isolated from the dynamics of international relations.

Your Excellency
The President of Parliament

Your Excellencies
The Vice Presidents of Parliament

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The Members of Parliament

Ladies and Gentlemen,

In the 2013 State Budget this Government clearly explains how all expenditures will be paid for. Domestic revenue receipts are forecasted at **\$146 million** for 2013. This represents a 9% increase compared to 2012.

Our goal is to lower steadily the percentage of the budget effort that is paid by the Petroleum Fund. For this purpose we will draft a broad reform in order to expand the tax base and to increase State revenue receipts. During the mandate period, it is estimated that this reform will allow us to increase domestic State revenue receipts from **\$134 million** in 2012 to **\$218.4 million** in 2017.

The difference between domestic revenue and expenditure is approximately **\$1,651 million**. This is paid for by withdraws from the petroleum fund, the use of funds held in the Government's accounts and borrowing.

The 2013 State Budget includes **\$1,198 million** of withdraws from the Petroleum Fund. This represents a sharp fall compared to the **\$1,495 million** withdrawn in 2012. The decrease in the amount of money withdrawn from the petroleum fund shows the Government's commitment to fiscal prudence and sustainability.

Additionally, budget execution rates have been increasing since 2007. In 2012, and although we are not yet ready to present final figures as the accounts are yet to be audited, we estimate that the Consolidated Fund for Timor-Leste will have a "cash" budget execution of approximately 88%.

If we take into account the execution of the Special Funds, the overall cash execution rate is estimated at 66%.

We recognise that the execution rate of the Special Funds, particularly the Infrastructure Fund, has not corresponded to the initial estimates, due to the persistent

weakness in terms of implementing physical projects and other factors outside the Government's control. Nevertheless, the ongoing correction of the system and the introduction of new policies give us confidence that we will overcome this challenge in 2013.

In conclusion,

Your Excellencies,

Ladies and Gentlemen,

People of Timor-Leste

Today, more than ever, we are responsible for the path we want our country to follow!

Our ambition in terms of development, or better still our moral duty to reduce poverty among our People, requires coordinated sustainable policies, a plan and responsibility.

The Government I have the duty of leading is committed to being successful in this path towards development.

However, this will take time! We must walk this journey step by step, looking back to see how far we have come, correcting our stride whenever necessary and constantly reassessing the path still ahead of us.

In this collective effort, no one should be left behind. More importantly still, we cannot "cheat" our travelling companions.

Consequently, the 2013 State General Budget is another important step in this journey. As such, I look forward to having a constructive debate on this budget that will determine the development of our country and our nation in the short, medium and long term.

Thank you very much.

Kay Rala Xanana Gusmão
4 February 2013