



**P R I M E
M I N I S T E R**

**ADDRESS BY
HIS EXCELLENCY THE PRIME MINISTER
KAY RALA XANANA GUSMÃO
ON THE PRESENTATION OF THE 2012 STATE GENERAL ACCOUNT**

National Parliament, Dili
7 January 2014



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

Your Excellency the Speaker of Parliament

Your Excellencies the Deputy Speakers

Your Excellencies the Members of Parliament

Your Excellencies, Fellow Government Members

Ladies and Gentlemen

This is the fourth time I have come to this great house to comply with the constitutional requirement regarding the State General Account, following the verification made by the Court of Appeals and Parliament's Public Finance Committee.

And today, Illustrious Members of Parliament, I will speak on the 2012 State General Account.

I do this with the same sense of responsibility that I had when we started this very important process in our joint effort of State building by presenting the 2009 State General Account. I do this with the same spirit of open and transparent debate that has been the key goal of this Parliament since 2002, in order to ensure the political vitality in our Nation, which is about to complete its 12th anniversary.

While throughout the world there are countries older than Timor-Leste that cannot break free from the shackles of oppressive regimes or permanent violence and conflict to enjoy the democratic value of elections, in 2012 we took yet another fundamental political step in our process as a State under the rule of law.

I sincerely believe that 2012 is still fresh in everyone's memory as a landmark in our democracy. Indeed, it was in 2012 that we celebrated the 10th anniversary of the restoration of our independence.

On 29 February we started the electoral campaign for the 1st round of presidential elections, which was held on 17 March. The results were validated by the Court of Appeal on 26 March. On 30 March we started the electoral campaign for the 2nd round, which was held on 16 April. The results were validated by the Court of Appeal on 23 April.

These electoral events enabled us to have our third democratically elected President of the Republic, with a five-year mandate.

You will all recall the beautiful ceremonies of 20 May in Dili, with the presence of high international individuals, such as Heads of States and of Governments, in addition to representations at the ministerial level. This was an unequivocal display of a safe and peaceful democratic process.

Furthermore, the politicians and parties entered into a democratic electoral dispute, with the campaign for parliamentary elections starting on 5 June and concluding on 4 July. The elections were held on 7 July and their outcomes were validated by the Court of Appeal on 16 July.

On 30 July we started the 1st session of the Third Legislature of this Parliament, for the period from 2012 to 2017.

The new composition of Parliament enabled the formation of the Fifth Constitutional Government, which entered into office on 8 August 2012 and submitted its 5-year Programme on 12 September 2012, in accordance with the time limit set by law.

We also held here, on 11 October, a debate on the rectifying Budget for the final 5 months of 2012, so as to meet the needs concerning the Government's new composition and organic configuration.

We also recall the celebrations of 28 November in Manufahi, which breathed new life into our history of struggles for independence and increased the participation by the population in the districts regarding the celebration of national holidays.

2012 was also a very important year because it saw the end of the stabilization missions of UNMIT and the ISF. This was a confirmation that Timor-Leste was living in an atmosphere of peace and that the Timorese had acquired political maturity, thus making the international community confident that Timor-Leste could succeed.

Consequently, 2012 was a year full of significant events for the consolidation of our young Nation.

I believe that this is how the People saw 2012 and I also believe that this is how everyone in this Great House should see 2012.

Your Excellency the Speaker of Parliament

Illustrious Members of Parliament

Ladies and Gentlemen

In this exercise of reporting on the State General Account, which is becoming a constitutional obligation each year, we all start from the premise that the Court, the National Parliament and the Government are fully committed to improving our financial systems and institutions, and that it is through these checks and balances that we can grow into a strong and healthy Nation whose only determination is to serve our people.

Precisely during the first signs of the great financial recession in 2008/2009, we began this exercise that was continued throughout the current difficult economic situation, which is severely affecting the developed countries, namely in Europe.

However, I believe that the Court of Appeal and Parliament are aware of how complex the year 2012 was. As such, I am certain that both these sovereign institutions have positioned themselves to verify the 2012 State General Account.

Here we must acknowledge that we have made much progress, particularly if we look at what is happening in the world. In a short period of time, Timor-Leste has become a viable State, with increasingly sound institutions, a participative and tolerant society and rather significant levels of growth.

We all agree that there is still much to be done. We must correct what needs correcting and we must improve what needs improving.

In Timor-Leste we are committed to our common goal of building a stronger and more prosperous Nation for all Timorese citizens. The innovative and dynamic political environment we have created enables dialogue that is both structured and respectful of the applicable

democratic rules, in addition to guaranteeing that national interests are always above the interests of individuals or groups. The one goal here is to ensure the wellbeing of our People in the long term.

Ladies and Gentlemen

As I have said before, you will all recall that I came to this Great House to present the 5-year Programme of the Fifth Constitutional Government.

Its philosophy was to *'build on the progresses made and lead public administration in order to provide better services, while reporting to the State'*.

However, the final months of 2012 were spent with organic structural changes in the various ministries, in addition to continuing with the work done under the AMP mandate up until the start of the parliamentary elections. Here I should recall that, from the electoral period until the formation of the new Executive, the AMP Government was merely a caretaker.

A vital point to be made is that we continued investing in our petroleum sector, which is the driving force of our economic growth. Today and in the future, we are committed to ensuring that all the wealth from our natural resources is used to build our nation in a way that serves our People.

I must also recall that the Resource Management Index Report by the Revenue Watch Institute stated that Timor-Leste 'adopted transparent and accountable systems for managing its petroleum wealth'. Timor-Leste was ranked 13th among the 58 countries reviewed, which means that, in terms of safeguards and quality control, we were above some of our more developed neighbours.

Consequently we created the Ministry of Petroleum and Natural Resources, seeking to provide the best possible answers to the challenges of internal capacity building, as well as to draft clear and strong policies for ensuring that natural gas is processed in Timor-Leste and that the actions of international petroleum companies benefit our Nation and our People.

These benefits should be in the form of paying due taxes, creating employment and increasing the skills of Timorese workers.

Everyone knows of the 49 proceedings that Conoco Philips has filed at the Court of Dili against the Government. This was the outcome of the arduous work by the Ministry of Finance under the previous Government. Not satisfied with these ongoing proceedings, Conoco Philips is looking for another way to create more confusion for itself by sending the proceedings to Arbitration in Singapore.

It is extremely unfortunate that the Public Prosecution, at the start of the litigation, tried to claim for itself the exclusive competence to defend the interests of the State. This was very counterproductive, since the Public Prosecution failed to acknowledge that it was not the least bit qualified to understand international contracts, particularly when they concern the petroleum business.

It is also unfortunate that very recently, on 6 December 2013, the Court of Dili issued an irresponsible decision against the Government of the DRTL and in favour of the Company Minzas. The Court was not the least bit aware that its analyses were completely wrong. This raises questions regarding the integrity of the judges, or at least the intellectual and political capacity of the justice officers.

When I talked about 'responsibility to the State' I meant the duty by the Government and by all State institutions, whose officers are paid to defend the interests of the Nation and of the People. These officers must have a sense of State and abstain from actions that may suggest loss of control.

I should also recall here that, following the lengthy and difficult work that began in the AMP period, the Government decided to write to the Government of Australia in December 2012 to inform that there had been unacceptable irregularities and to propose that this problem should be solved at the table of negotiations. Since Canberra refused to accept that there had been practises against the ethics of negotiation process, the Government of the DRTL had no other choice than to submit the matter to the Arbitration Court in The Hague.

Deciding on these two proceedings will be difficult. In view of the complexity of year 2012, I hope that we will not look at the outcomes merely in terms of '*revenue forecast against expenditure execution*', since we do not want to verify the State General Account in a purely mechanical and theoretical manner.

Your Excellencies

Ladies and Gentlemen

Nevertheless, I want to mention some key areas, lest one would think that the only thing that happened in Timor-Leste in 2012 was the elections.

Agriculture

Throughout the last few years we have implemented several agricultural initiatives, by way of infrastructures, irrigation systems, seeds, fertilizers and equipment and machinery for increasing productivity, in increased quantity and quality.

Consequently we improved agricultural production in some crops. The production levels of rice and corn in 2012 far exceeded those of 2011, with the overall production of essential food crops increasing from a little over 100,000 tonnes in 2011 to almost 200,000 tonnes in 2012.

This achievement is confirmed by the figures regarding rice imports. In 2011 we imported around 100,000 tonnes, while in 2012 we imported less than 40,000 tonnes.

This reduction had an obvious impact on the so-called 'revenues' from the selling of rice, mentioned by the Court of Appeal as an indication of the lack of accurate forecasts. However, it should have been taken into account that imported rice is also used on 'school meals' and for assisting persons affected by natural disasters.

Electricity

By 2012 we installed medium voltage power lines covering 1,318.75 km, as well as low voltage power lines covering 1,040.67 km. A total of 43,678 houses were connected to the grid.

From September to the end of 2012 we installed 52.16 km of medium voltage power lines and 51 km of low voltage power lines, connecting 2,186 houses.

Human Development Index

The UNDP report indicates that Timor-Leste moved up 5 places since 2007, which is the greatest annual average improvement in the index from 2000 to 2012 for an East Asian and Pacific country.

Reports indicate that the life expectancy at birth for a Timorese citizen was 35 years in 1980. This increased to 56 years in 2000 and to 63 in 2012.

Between 2000 and 2012, Timor-Leste's position in the Human Development Index improved by 38%, from 0.418 to 0.576. Timor-Leste currently stands in 134th place among 187 countries and territories, which puts Timor-Leste in the category of medium human development. From 2000 to 2012 our country's per capita GNP increased by 356%.

Human Capital Development Fund

In 2012 alone, the Government awarded 366 scholarships to Timorese students, namely 102 in Brazil, 13 in Cuba, 10 in the Philippines, 3 in Indonesia, 1 in Malaysia, 3 in Mozambique, 131 in Portugal and 106 in Thailand. The education levels cover Diploma III, Degree, Masters and Doctorates in various fields of science.

The number of beneficiaries continuing their studies from previous years is now 1,564.

However, I fully agree with the recommendation of drafting a more appropriate policy for using this Fund. The President of the Republic himself has said that more attention should be given in the medium term to the capacity building of the Justice sector.

Health

In October 2012, Timor-Leste had 13 specialized doctors, 139 general practitioners, 1,271 nurses and assistant nurses, 427 midwives and 416 health professionals, in addition to the 400 new doctors that recently graduated from UNTL.

Social Solidarity

The Government continued to pay pensions to Veterans and continued the verification and validation of records. The Ministry also continued to pay pensions to the elderly and to provide other assistance to disabled persons and orphans.

It is interesting to note that the Court of Appeal of Timor-Leste expresses concern that the amount to be paid under Transfers as Social Benefits is greater than the amount of salaries for staff and exceeds Domestic Revenues. In other countries, the Constitutional Courts proclaim the unconstitutionality of measures reducing pensions for retired and elderly persons, even knowing that their countries no longer produce sufficient domestic resources to pay their staff, who have already suffered salary cuts.

In Timor-Leste, Social Benefits cover Veterans and Vulnerable Citizens and have been approved by Parliament. As such, it makes no sense to compare these transfers with Domestic Revenues. The observation by the Court of Appeal merely shows that the Court of Appeal is not familiar with that piece of legislation.

More interesting still is the fact that the Court of Appeal confuses those 'Transfers' with alleged 'Personal Benefits' to staff, as if the amount in the Transfers were a bonus for staff. The Court of Appeal questions why that alleged Bonus is greater than the salary earned by staff.

This only shows lack of knowledge about the budgeting process and the social policies of the State. This is unacceptable if the Court of Appeal is to issue a credible opinion on the State General Accounts.

Your Excellencies

Ladies and Gentlemen

When we speak of the 2012 State General Account we must mention the Rectifying Budget. The rectifying budget did not increase the State General Expenditure in 2012. The \$50 million in additional net expenses in the Consolidated Fund for Timor-Leste were funded entirely from savings in the Infrastructure Fund.

As is common knowledge, the Infrastructure Fund managers large projects that are inherently multiyear projects. There has been a constant effort to have the Infrastructure Fund comply with the best international practises.

The creation of this Fund, as well as of the Human Capital Development Fund, was vital in order to make project management more flexible and to enable a more realistic annual assessment of the execution capacity.

These 2 Funds also seek to enable the public in general and the State institutions to review their operations and to permanently assess their performance.

Consequently the State General Budget consists of three Funds, which forecast the annual figures of the expenses to be made. The idea of a Single Account, transmitted by the Audit Chamber, as a legal obligation, from the LOGF and LOCC, is merely the legal aspect of a principle, which in the developed countries we copied proved not to be a sine qua non condition for the fiscal sustainability of public expenses.

I am in favour of this modality of separating the 3 Funds in the State General Budget, so as to ensure the proper management of these Funds. In time, I am absolutely convinced that their management will improve and become more transparent.

The transferring of \$50 million from the IF to the CFTL did not compromise the Tasi Mane Project, which, due to the complexity of its projects, required time for design studies, procurement and, evidently, construction (recently, the previous verification process by the Audit Chamber is showing that large projects always take their time).

It is also interesting that the Court of Appeal has classified savings in the Funds as revenues. This certainly makes calculations more difficult, particularly if we want to learn from the verification reports concerning the State General Account.

Still regarding revenues, the Court of Appeal has said that there was no forecast on 'revenues from Salaries and Wages and Service Delivery by *Government Employees*', however fees were collected in the amount of \$749,000. I must clarify that those revenues are forecasted in the item 'Other taxes' and I would like to continue insisting on the fact that a 'forecast' is merely a 'projection of estimates'.

Reading this observation by the Court of Appeal, one might think that it is not 'legal' to obtain more money as revenues if that additional money has not been forecasted.

Linking the said 'revenues' (of the Petroleum Fund) to the 'expenses' (of the Infrastructure Fund), the Court questions the withdrawal at 100% of \$1,494 million and a lower execution set at \$1,197 million, with a remainder of \$297 million. The Court considers that more money was withdrawn than required which is something that the Court believes should be prevented.

Firstly, I must clarify that, in general terms, withdrawals from the Petroleum Fund are made in accordance to payment requirements and that there is never one single withdrawal immediately after a SGB is approved. Withdrawals take into account the estimated public expenditure during the first two quarters and the greater needs in the last semester, as well as a permanent reserve of \$300 million in the Central Bank to meet absolutely extraordinary situations.

The IF is a multiyear fund and has a more flexible management, since it depends from the execution of projects. This was what happened in 2012, when the Government decided to withdraw 100% of the money. One could never withdraw exactly \$1,197 million, since it would be impossible to measure exactly how much a work has been completed by the end of the year.

I believe that this is the difference between 'verifying the application of a law' and 'verifying or controlling the quality of a work'.

Only mechanistic and legalistic assessments such as these could impose, as the Court of Appeal recommends, '*presenting every justification for all material differences between the initial budget, the final budget and the execution of the revenue and the expenditure*'. This would not be a budget exercise, but rather an arithmetic operation in dribs and drabs. I can only venture that such exercises might lead to Nobel prizes for accurate calculations at the end of the five-year governance period. Indeed, with laws like these some European countries have been rewarded by the IMF with bankruptcy awards.

The Court of Appeal states that the unbalance of expenses per quarter, with a larger volume in the final quarter, may jeopardize proper budget control. Nothing could be more wrong than to think there can be a perfectly scheduled budget execution, following a proportional chart, and that this is the only way for enabling proper budget control.

Salaries and goods and services regarding administrative current expenses are usually executed every month. (A good example is 2 Judges having signed their monthly attendance sheet at the Legal Training Centre and having already been paid without working; the more shocking aspect is that, according to the sheet they signed, both Judges were teaching even from Christmas to New Year's Eve).

Due to procurement rules, minor capital is usually not executed in the first two quarters. Additionally, the greater the quantity to be acquired, the more time will be necessary for the delivery.

The expenses, which would be the payments, under the item Capital Development, should be understood within the scope of the execution of the physical projects. Indeed, the very Court of Appeal states, in relation to the Report by the independent auditor, that: '*... the National Development Agency has strengthened the control procedures and its capacity for monitoring projects*'.

Budget control comes from complying with the execution rules and from the exact quantity, and particularly the quality, that validate the expenditure amount to be made.

Here I must plead ignorance and question whether there is truly a Government in this globalized world that only uses state of the art technology, that presents absolutely accurate forecasts and that executed 100% of its annual expenses. If there is such a government, then the Human Capital Development Fund will create 'comparative studies', of which our State institutions are so fond, in order to learn from it and to apply it in our reality.

I would now like to address the issue of inflation.

Committee C expressed the need to approach the reform of the tax legislation, so as to accelerate the increase of Domestic Revenues. Additionally it conveyed concern that the large amount of money as public investment in infrastructures has contributed to increase inflation in the country. As such, it recommends reducing Public Expenses with infrastructures in order to reduce inflation.

Although I am not an economist, I would still like to disagree.

If we are to tax each and every article to be sold, the sellers will immediately increase the price of those articles, since the general law of commerce assumes that sellers must make a profit, so as to sustain their businesses. This indicates that the taxes will be paid by the common citizen. However, if the regime applies only to some articles, which the people do not even buy, then how is this going to increase revenues?

In our society's stage of development, which is still in a time of Nation building, what is needed is better price control by the Government. I absolutely agree with this and, in my capacity as Head of Government, I report to Parliament on the inefficiency of government bodies. Chancellor Merkel herself has been imposing price control over essential products since 2009.

Reducing public spending on infrastructures will only show the absence of an exact perception of the imperious need of basic infrastructures to sustain development in every sector.

At the recent ESCAP Ministerial Meeting, in Bangkok, the emerging economies of Asia-Pacific tried to formulate their challenges in terms of economic growth:

- countries need Foreign Direct Investment ('FDI') to boost their economies;
- however, if a country raises taxes in order to increase domestic revenues, no foreigners will want to invest there;
- many countries require large infrastructure works, since otherwise they will be unable to reduce their regional and social inequalities.

In the case of Timor-Leste, we also need to take other factors into account, including our international commitments and our intent of joining ASEAN. Membership in this organization may entail limits on certain tariff items and, as far as we can see, other countries are strongly involved in tariff agreements.

What Timor-Leste needs in order to increase its revenues is to promote investment in order to create employment. However, according to the Strategic Development Plan, this requires integrated planning so as to better estimate national and foreign investment opportunities.

Illustrious Members of Parliament

The recommendations made by the Court of Appeal and by Committee C raise once again constructive issues on administrative, tax and audit matters.

At the time of the discussion over the 2011 State General Account, already during the Third Legislature, I stated here that the Government acknowledged the weaknesses pointed by the Court of Appeal and by Committee C and that it was working to improve its performance.

Since 2007 we have been establishing a political agenda of reform in our institutions. It seems unquestionable that we have been creating new systems and mechanisms that will gradually respond to many recommendations made in the reports on the State General Accounts.

As a result of these reforms, Timor-Leste climbed up 30 places in the world ranking of Transparency International, measured by the Corruption Perception Index. This is a significant improvement that recognizes the efforts made by the State institutions.

However, we must acknowledge that the reforms and the new systems that have been created will take time before they can be fully assimilated and operational. The key challenge here concerns the capacity building and training of Timorese technical staff and their commitment and professionalism. This process requires sacrifice and honesty from everyone.

As such, we took the development needs and their respective policies and added better control mechanisms, in order to manage public monies better and to improve the implementation of programmes.

I can list here some of the reforms made for improving the management of public finance and for ensuring good governance and transparency:

- the creation of the Audit Chamber;
- the launching of the Timor-Leste Transparency Model, including the Budget Transparency Portal, the e-Procurement Portal, the International Aid Portal and the Government Results Portal;
- the establishment of the National Procurement Commission for appreciating Large Projects, supported by an international procurement firm, thus ensuring quality and a high level of transparency, professionalism, and integrity in public tenders started for the main infrastructure projects;
- the operation of the National Development Agency, which is responsible for the final verification over physical projects, so as to prevent undue payments in situations where works are delayed or fail to meet the required quality;
- the operation of a FreeBalance financial system for managing, tracking and monitoring the budget, the government finances and purchases and payments by the State;
- the improvement of the Treasury functions, having already achieved Full Account Reconciliation and the establishment of a Single Account Treasury System at the Government, which enables greater Treasury surveillance over operations involving all bank accounts;
- the establishment of a quarterly reporting system to Parliament, with the key activities developed by each line ministry, in accordance with the budget execution.

Illustrious Members of Parliament

I can state with confidence that we are continuing to improve and consolidate the financial management policies and to improve the planning, budgeting, procedure application, implementation and payment components. We are also working to prevent the excessive and abusive use of virements, emergencies, contingency and debts.

We have been highlighting that it is important that everyone uses the IT system, which so far has not yielded positive results due to lack of professional commitment by the officers.

Your Excellency the Speaker

Your Excellencies the Deputy Speakers

Illustrious Members of Parliament

Before I conclude, I must give my thanks for the recommendations featured in the Report by the Court of Appeal and in the Report by Committee C. These recommendations ask for the due corrections in the budgeting and reporting processes, so as to consolidate a culture of accountability and good management in relation to public services.

I am here, representing the Whole of Government, for any additional clarifications.

Thank you for your attention.

Kay Rala Xanana Gusmão

7 January 2014