



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

**SPEECH BY HIS EXCELLENCY THE PRIME MINISTER OF THE DEMOCRATIC  
REPUBLIC OF TIMOR-LESTE,  
DR RUI MARIA DE ARAÚJO,  
AT THE DEBATE ON DRAFT LAW NO. 41/III (4<sup>a</sup>) – FIRST CHANGE TO THE  
2016 GENERAL STATE BUDGET**

**National Parliament  
12 July 2016**



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

Your Excellency the President of Parliament

Your Excellencies the Vice-Presidents of Parliament

Distinguished Members of Parliament

Fellow Members of Government

People of Timor-Leste

I am here at this Great House on behalf of the Sixth Constitutional Government to request the first change to Law no. 1/2016 of 14 January on the 2016 State General Budget.

Before I go into details, please allow me to present to this Great House and to all the people of Timor-Leste an overview of the social and economic development in our beloved country.

As we know, the Programme of the Fifth Government was discussed and approved by Parliament in March 2015. The present programme is partially a continuation of the Programme of the Fifth Government – while differing in certain aspects – and also seeks to implement the Strategic Development Plan, which was approved by Parliament in 2011 and serves as a guide for the social and economic development of Timor-Leste from 2011 to 2030. According to the Strategic Development Plan, 2016-2020 will be the years in which Timor-Leste enters its second implementation stage, involving the three key directives: (1) Continuing to develop infrastructures, (2) Consolidating Human Resources; (3) Developing the Country's economic competitiveness.

The three lines of action already set in the Strategic Development Plan for 2016-2020 – in which the Government is presently trying to harmonise and incorporate the Sustainable Development Goals already formally adopted by this Great House – seek to build on the great efforts already done to transform the Timorese economy from a subsistence oil-and-petroleum-dependent economy into an economy that is based on service delivery, agribusinesses and manufacturing, so as to lead Timor-Leste towards the goal already set by the Strategic Development Plan.

In order for these economic transformation and diversification efforts to be fulfilled, Timor-Leste needs to continue investing in core infrastructures and in human capital. Timor-Leste has two pathways available to it for doing so: public investment and private investment. Like other small-market post-conflict countries, Timor-Leste still has difficulties in attracting private investment in the areas of core infrastructure and human capital development. The ultimate goal of private investment is to keep its patrimonial value and to make profits for its stakeholders/members. In order to make profits, private investors must invest in an economy or an economic area where risk perception is the lowest and where there is potential for financial returns. In other words, private investors will invest where they believe there is great potential for making profits.

**The dilemma faced by countries such as Timor-Leste is this:** If private investors are not interested in investing their capital in core infrastructure and human capital – if these are not areas promising large financial returns – then who will? Can the State choose to make use of public investments through the financial resources or reserves available to it? Immediately this dilemma leads to another question. If the State chooses to make public investments, should the principle applied by the State to public investments **be equivalent** to the principle of attracting profits that guides private investors?

Mr President, illustrious Members of Parliament, people of Timor-Leste

Starting in 2011, Timor-Leste chose to use the financial resources held in the Petroleum Fund, exceeding the Estimated Sustainable Revenue, to make public investments in core infrastructures and to develop human capital. Still, there is a concern as to the returns of the public investment already made using money from the Petroleum Fund above the Sustainable Estimated Revenue. Unfortunately, when speaking about public investment through the Petroleum Fund we tend to confuse returns with profits. These are two different concepts.

As explained before at the 2016 GSB debate, public investment returns are not comparable to private investment returns. Every investment, both public and private, must deal with the dilemma between risk and returns, with the decision on whether to invest usually being based on a good balance between risk and returns. Smaller risks are normally associated with smaller returns, and vice-versa. What would the risk be in public investment? I am speaking of just three important risks: *inefficiency, waste and corruption*. Are we ready to face these risks? Good planning reduces the risk of inefficiency, while a good control mechanism reduces the risks of waste and corruption. As for returns, the most important returns of public investment would be social returns, followed by economic returns, then tax returns and finally financial returns. However, in all investments, whether they are public or private, it is difficult to ensure the quality of returns, particularly in terms of financial returns or profits. One can carry out feasibility studies and use other methods, but it is still difficult to determine the exact financial return that a project or a business may attract.

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Within the context of public investment to support the diversification of the Timorese economy, and as I have stated before, the Sixth Constitutional Government is submitting to this Great House the draft alteration to Law no. 1/2016 of 14 January on the 2016 GSB, namely:

- (1) Alteration of Attachment I of the 2016 GSB on the funding of expenses through the Petroleum Fund;
- (2) Alteration of Attachment II of the 2016 GSB in the part concerning the Infrastructure Fund;
- (3) Alteration of Attachment III of the 2016 GSB in the part concerning the Infrastructure Fund;

- (4) Alteration of Article 4 of the 2016 GSB on the threshold authorised by Parliament for funding the GSB;
- (5) Alteration of Article 7 on the complementary rules for budget execution.

In short, the Draft Alteration to Law no. 1/2016 of 14 January requests Parliament to authorise a budget increase of \$390.7 million in Capital Development for funding the infrastructure projects already included in the three categories. According to the 2016 GSB budgeting exercise (1) the budget for these projects was insufficient; (2) the contracts had not yet been signed and the 2016 tax envelope was insufficient; (3) the 2016 budget allocation was not enough for settling debts.

I will not go into detail regarding the projects included in this category, since the explanatory memorandum submitted by the Sixth Government to this Great House already contains those details. Nevertheless, I would like to seize this opportunity to highlight a few items:

**Firstly**, Government agencies are improving their supervision in relation to works. This has a positive implication on the services provided by contractors, leading them to improve the quality and timeliness of the works they perform. Additionally, the Infrastructure Fund, which according to the Law is an autonomous entity, makes payments directly to the Central Bank. This has an impact on the time required for paying contractors. In view of the above, the figure foreseen in the 2016 GSB was insufficient for meeting every payment, which is why we are requiring an additional grant to make sure that companies have sufficient liquidity to continue carrying out works of good quality and that comply with the schedules set in their contracts. Payment delays by the State, whether due to bureaucracy or lack of budgeting, cause considerable damage to the liquidity, performance and ultimately the sustainability of companies.

**Secondly**, there are some multiyear projects, such as the State's part in the construction of the Tibar Port, the State's part in the Dili drainage system and the payment concerning the construction of the Suai logistics base that could not be included in the 2016 GSB. Although they are behind schedule, the Government needs to assume its financial accountability in 2016 so as to ensure that these projects will indeed be carried out. These projects are very important to the effort of transforming and diversifying the economy of Timor-Leste and constitute a step forward so that the State may facilitate and attract private investment in other areas.

**Thirdly**, in the next year there will be presidential and general elections in Timor-Leste. The Government that is elected in August next year cannot start its mandate by settling debts from the previous financial years. Furthermore, regardless of the application of the accountability mechanism on the State body managing public monies, as set in the law, the Sixth Constitutional Government acknowledges that would be harming to the private sector and business people if it failed to anticipate a budget for settling current debts.

Mr President, illustrious Members of Parliament, people of Timor-Leste

The Sixth Constitutional Government is aware that this additional request must be sourced from the Petroleum Fund, since non-petroleum revenues are insufficient to meet these additional needs. This additional request may raise some doubts on the future tax sustainability of Timor-Leste, as well as on the implementation capacity by the Government itself. I have already explained the need for this additional request in order to continue having public investment, which means that doing so again would be merely repeating myself. However, I would like to make use of this opportunity to highlight a few more items:

**Firstly**, the total current expenditure of the State, i.e. the money allocated in the 2016 GSB for sustaining the State apparatus – salaries and wages, goods and services and minor capital – is but 29% of the 2016 GSB. This means that the cost of sustaining the State apparatus in 2016 is \$453.862 million. The 2016 Estimated Sustainable Revenue is predicted to be \$544.8 million, while non-petroleum revenues in 2016 are forecasted at \$171.4 million. These two figures add up to \$716.2 million. This means that the current expenditure of the State does not exceed the Estimated Sustainable Revenue and represents an even lower percentage if we add the non-petroleum revenues. Indeed, \$262.3 million from the Estimated Sustainable Revenue and non-petroleum revenues was not used on the State's current expenditure but rather on public transfers, i.e. on benefitting the community. It follows that the excess withdrawal from the Petroleum Fund was used on public investment in the area of core infrastructures and human capital development. According to the estimates, starting in 2020 we will start to witness greater social and economic returns for the people, which in turn translates into larger tax returns for the State.

**Secondly**, if we consider the data on non-petroleum revenues we can see that this figure has not stagnated. Indeed, non-petroleum revenues increased from \$111.7 million in 2011 to \$170 million in 2015, which corresponds to a 52.1% increase in a five-year period. As long as there is a serious investment in our economy, non-petroleum revenues have great potential and can mean a very significant additional source for funding social and economic development of Timor-Leste. The Economic and Tax Reform currently being undertaken by the Government seeks to (1) further diversify the type of non-petroleum tax; (2) further expand the basis or universe of taxpayers; (3) make tax administration more efficient.

**Thirdly**, being an autonomous fund approved by Law no. 1/2016 and already regulated by Decree-Law no. 13/2016, the Infrastructure Fund is easier to execute since (a) it has an Administrative Council dedicated to manage its budget; (b) it has greater execution flexibility, considering for instance that rule for transfers within items is different from the rule on non-autonomous bodies and services; (c) the payment process no longer goes through the Ministry of Finance, instead being sent directly to the Central Bank Secretariat. This reduces bureaucracy and accelerates payment processes.

Mr President, illustrious Members of Parliament, people of Timor-Leste

In view of the above, and on behalf of the Sixth Constitutional Government, I hereby request the illustrious Members of Parliament to approve this Government proposal to alter Law no. 1/2016 of 14 January, so that together we may contribute to economic transformation and diversification, enabling us to achieve the target set in the Strategic Development Plan and the Sustainable Development Goals.

Thank you very much.

Dr Rui Maria de Araújo  
12 July 2016