



## INTRODUÇÃO

- **Diálogo político anual** entre a União Europeia e o Governo de Timor-Leste (Bruxelas, 16 de Outubro)
- Concluimos que de futuro seria necessário ter uma discussão mais profunda e fazer um **acompanhamento mais próximo das questões relativas ao planeamento, ao orçamento e aos resultados das políticas públicas em Timor-Leste.**

- **Timor-Leste tem apresentado resultados extraordinários na construção do Estado de direito e no relançamento da economia** desde que ganhou a sua independência em 2002:
  - Estabilidade
  - Democracia
  - Criação e gestão transparente do Fundo Petrolífero
  - A melhoria do nível de vida da população timorense: acesso a educação, aos serviços de saúde, ao abastecimento de água e ao fornecimento de electricidade
- Constitui um exemplo de sucesso no mundo inteiro, em especial para os países pós-conflito.
- **"Adeus Conflito, Bem-vindo desenvolvimento!"**.

- Timor-Leste enfrenta ainda **importantes desafios**, entre os quais:
  - Promover o **crescimento económico inclusivo e sustentável** num quadro de **diminuição das receitas petrolíferas**;
  - Estimular o **sector privado** e promover a criação de **emprego**;
  - Melhorar a **qualidade dos serviços públicos** na área da saúde e da educação, na manutenção das estradas, no abastecimento de água potável e no saneamento urbano e rural;
  - Capacitar e qualificar o seu **capital humano**.
- Estes desafios são também os nossos desafios enquanto Parceiros de Desenvolvimento:
  - Ajuda externa: 80% do orçamento em 2002, menos de 20% hoje
  - Timor-Leste não tem falta de dinheiro - por agora -, mas tem falta de recursos humanos suficientes e qualificados em todas as áreas.
  - **Através dos nossos programas de cooperação é pois possível trazer essa capacidade técnica** em falta e contribuir para a qualificação dos Timorenses. Esta é hoje a **nossa mais-valia**.

### **Apresentação:**

- Aspectos importantes para contribuir a este debate sobre o orçamento e que quero partilhar com os deputados:
  - 1. A **afecção de recursos públicos** nas áreas fundamentais para garantir a qualidade dos serviços públicos e um crescimento económico inclusivo e sustentável
  - 2. **Avaliação do desempenho da acção governativa**
- 3. Considerações em relação a proposta de orçamento para 2015.
- 4. Cooperação da União Europeia, presente e futura.

### 1. BETTER ALLOCATION OF PUBLIC RESOURCES FOR AN EFFECTIVE DELIVERY OF PUBLIC SERVICES AND TO ACHIEVE INCLUSIVE AND SUSTAINABLE GROWTH

- Timor-Leste's government operations and economy are **highly dependent on oil revenues**.
- Oil production is now showing a declining trend. **Two thirds of the expected revenues have already been used** and the oil production is expected to end in 2021.
- A **sustainable path of public expenditure** should thus be established in order to avoid rapidly depleting the Petroleum Fund.
- Need to continue **strengthening the collection of non-oil domestic revenues**.
- The composition of **expenditure would need to be reviewed to focus on priority growth-generating and social sectors** while avoiding **unsustainable social transfers and large investments not based on genuine cost/benefits analysis**.

- Policies and budgeting of the Government of Timor-Leste should place much more **priority on the development of economic sectors such as agriculture and tourism**, in line with the development priority policies outlined in the SDP.
- **Private sector-led** sectors:
  - more **employment opportunities**
  - **expansion of the tax base** increasing domestic revenues
  - higher quality and sustainability of growth
- **Structural reforms such as the strengthening and enforcement of the legal framework and the land law** still need to be completed. The private sector needs **better legal certainty, better roads and a well-educated and healthy workforce**.
- **A lot of spending on "easy" expenditures, especially infrastructure and cash handouts**. Services which are more difficult to deliver like **education, health and agriculture have received much less resources**.
- The very high spending on infrastructure (with impact on recurrent maintenance costs), civil servants, electricity subsidy, cash transfers and donations to other countries are **narrowing Government budgeting policy options for other priority sectors**.

- If there is **no consistency between the policy objectives contained in the SDP and the resources allocated**, service delivery and social outcomes will inevitably suffer in terms of quality.
- **The quality of public services in education, health and agriculture has already been affected**, as the Line Ministries responsible to deliver these services have not received sufficient budget allocations.
- Budget for **maintenance**, including for roads, has been minimal in comparison to the huge capital expenditures.
- This situation of limited budgeting policy choices will very likely **worsen in the near future**, with declining oil revenues. Need to focus on **investments with high economic and social rates of return**.

- The **greatest wealth of a nation is its population**. Providing a strong **education foundation for all Timorese people should be a top priority** of the Government.
- **Adequate budget allocations for the agriculture sector should also remain a priority** of the annual fiscal policy. Agriculture, including allocations from the infrastructure fund, only received around 2.3 % of the 2014 State Budget. This seems insufficient when looking at the **limited outcomes in terms of increase in production and productivity** so far.
- Good progress already made in reducing malnutrition, but **malnutrition is still very high**. Government made a strong commitment to the **Zero Hunger Challenge** to fight malnutrition. It promised to allocate 10% of its budget to reduce hunger and malnutrition and to improve food security. It is important to review whether this welcome political and policy commitment will really translate in additional resources for meaningful interventions in this sector.
- A **strong public finance management system** is essential for having efficient budget allocations, for constraining corruption and for good service delivery.

## 2. PERFORMANCE ACCOUNTABILITY

- **Performance accountability is key for the successful design, implementation and evaluation of public policies.**
- Parliament and citizens often say that they do not know what the Government has produced with all the **billions of public funds spent in recent years.**
- It is not because the Government is not delivering public services. Lots of improvements all over the country in terms of infrastructure, electricity, access to education and water, etc.
- But there are 2 issues:
  - **Government is not systematically compiling and providing information on all the results achieved so far and those that were not achieved.**
  - Because this information is still incomplete, the **Government may have allocated funds and implemented programmes without analysing results** and lessons learnt from previous successful or failed interventions. This in turn may have resulted in **inefficient and ineffective allocation of public funds** and investment in programmes with little to no investment return.

- The Government is aware of this problem:
  - Adoption in August of the **10 Commandments to improve the performance of the State**
  - Implement One Vision, One Plan, One Action, aligned with the **SDP Matrix and to Key Performance Indicators.**
  - **National Diagnostic Assessment** in a few Ministries.
- **SDP Matrix:**
  - Good basis to work towards improving performance accountability but it is a very big document with more than 300 Indicators.
  - As such, it **may not be an optimal performance measurement system.**
  - Difficult for the President, the Prime Minister, the Council of Ministers, the Parliament, and the citizens to get an overview of the performance of a macro-level strategy, the SDP, based on so many indicators.

- How to address this weakness?
  - Each Ministry could have a 5-year strategy with priority policies and interventions with **clear annual targets limited to about 20 to 30 key indicators for each sector**.
  - Out of these key indicators, **5 to 10 core indicators should be selected for each sector and compiled to form the SDP performance matrix**.
  - Each Ministry could then produce an **annual review** reporting on the activities implemented and the level of achievement of the annual targets.
  - This would in turn allow the Government to **report to the Parliament and the citizens about progress made in achieving the 5-10 core indicators in each sector** in line with the SDP objectives.
  - If the Parliament and citizens want to know more, they would be able to consult the annual review reports produced by each Ministry and made available to the public.

- This mechanism which is implemented in many countries would allow for **much better performance and better accountability**.
- Parliament and citizens in general would be able to better **monitor the outcomes of Government policies and budget execution**.
- This would help to promote a **culture of performance accountability** at all levels of Government. Similar performance system already successfully introduced in the Ministry of Finance.
- With the **decentralisation process**, the policy and budget decisions will come much closer to the citizens and this will quickly translate into **stronger accountability** for the execution of the budget and for better service delivery.

### 3. COMMENTS ON THE 2015 STATE BUDGET

- The Government should be commended for having once again conducted the **budget formulation process in an orderly and transparent manner**.
- In light of the important aspects mentioned above, a few specific comments:
  - First of all, in light of significant underspending in past years, the **quality of the budget planning could be questioned**. Allocating such a high amount of expenditures in a context of limited execution capacities actually often encourages **inefficient spending in the last months of the year** in order to increase budget execution rates.

- Budget looks very much a "**business as usual**" budget for the Government, save for a clear budgeting policy signal with the significant increase of funds allocated to the **Oecussi programme**.
- "business as usual", **in the context of the situation I described before**.
- **Allocations to Ministries of health, education, agriculture and tourism**, compared to 2014:
  - Health: 67.8 million dollars (0.8% increase)
  - Education: 99 million dollars (15% decrease)
  - Agriculture: 25.6 million (8% decrease)
  - Tourism: 7.1 million (3% decrease)
- The important political and policy statement made in the context of the Zero Hunger Challenge does not seem to be reflected in the Government budget allocations for agriculture and health. The Government's promise to allocate **10% of its budget to the fight against hunger and malnutrition has not translated in additional resources to the agriculture and health sectors**, on the contrary.
- The strong policy statements in the SDP about **the need to develop agriculture and tourism as a priority also do not seem to be reflected in this budget**.



- This Proposal does reflect however the Government's **frontloading policy for major infrastructure construction**.
- While it also reflects Government's **efforts to contain expenditure to a sustainable path**, with only a 2.1% increase over the 2014 budget, the **2015 budget proposal is still much higher than the revenues** generated from the Estimated Sustainable Income of the Petroleum Fund and non-oil revenues.
- The proposed **withdrawal from the Petroleum Fund is more than twice the Estimated Sustainable Income**. The ESI is 638.5 million dollars and the excess withdrawal is 689 million dollars.
- It is **important not to look at the 2015 budget statically**. The approval of the **2015 budget for infrastructure, for example, will have consequences for the 2016 budget and beyond**. Expenditures under the IF are expected to increase from 364 million dollars in 2015 to 659 million in 2016 and 617 million in 2017.
- The total **Government expenditures would increase from 1.47 billion dollars in 2015 to 1.85 billion in 2016** (2 billion if including loans). This would be way above the ESI of 632 million for 2016 and reflects a **strong expansionary fiscal policy**.

- The **cost/benefit and return on investment of interventions financed under the infrastructure fund should thus be carefully assessed**:
  - Oecussi ZEESM: 62.5 million dollars (17,2% of IF total budget)
  - Electricity programme: 58 million (16% of IF)
  - Tasi Mane: 37.5 million (10%).
- **Very clear priority budgeting policy signal by Government in this case**: 158 million USD allocated to these 3 programmes vs. only 200 million dollars allocated to the ministries of education, health, agriculture and tourism altogether (without counting infrastructure projects in these sectors).
- In our budget discussions with Line Ministries, we were informed that the Health Ministry had budgeted **2.5 million dollars for specific nutrition interventions** and that the Ministry of Public Works had budgeted **4 million dollars for road maintenance**, to complement EU-funded programmes in these areas in light of the huge importance of these two priority areas. We **cannot see where it is budgeted in the 2015 budget** so we will try to find out more when back in Dili.

- Government's commitment to **strengthen domestic revenue mobilisation**: 3 million USD to “**reinforce tax law**”. This should help to take key decisions in terms of increasing non-oil revenues.
- Interesting to know Government's position on the collection and management of fees and charges by Autonomous Agencies and how to improve that collection.
- Increasing **budget transparency**:
  - More transparent **reporting of TimorGap's operations** (cf Lao Hamutuk recommendation)
  - Useful to know the **expenditures by sector under the District Development Programme** (PDID), to enable a better functional analysis of the budget.

#### 4. EU COOPERATION IN TIMOR-LESTE - CURRENT AND FUTURE PROJECTS

- **120 million dollars for 2007-2013** under the 10<sup>th</sup> European Development Fund:
  - **Rural development**, including rural roads, agriculture and climate change;
  - **Health**, including Nutrition and Water and Sanitation;
  - **Institutional capacity building** with programmes aimed notably at supporting public finance management, the National Parliament, the Chamber of Accounts, Media and Civil Society.
- **125 million dollars was allocated for 2014-2020** (EDF11):
  - **40 million dollars for good governance**. Support to oversight and control institutions such as the National Parliament, the Chamber of Accounts, the Anti-corruption Commission, the media and Civil Society is part of our envisaged governance programme.
  - **75 million dollars for rural development, including nutrition**.
- Agreement with Government that EDF11 support would focus to a large extent to **strengthen line Ministries and oversight institutions to ensure that public funds are allocated more effectively to improve public service delivery and achieve development priorities** outlined in the SDP to improve the life of Timorese.
- One of our main objectives is **that our financial assistance complements rather than substitutes Government's resources** in priority development areas.

- The EU started this year to provide **budget support** to the Government on a very small scale, to support PFM reforms. Relatively positive assessment of Timor-Leste public finance management system (2013 **PEFA**).
- Budget support:
  - Annual transfer of funds directly to the Government Treasury based on the continued implementation of appropriate macroeconomic policies, progress in strengthening public finance management and progress in outcome indicators in the sector supported.
  - **Money is not so much an issue in Timor-Leste** and our **value-added as development partners is more the expertise that we bring in** through our programmes
  - Strategic decision to provide budget support on a small scale in the context of the **New Deal** for fragile states and in order to **engage in a more meaningful policy dialogue with Government with regard to the allocation and use of public funds**.
  - This reflects our **confidence and trust in the public finance management reforms implemented by the Government**, and our genuine willingness to engage in a more mature partnership with the Government.

### CONCLUSION

- As **Timor-Leste oil revenues may stop flowing in a decade from now, the Government, the Parliament and its citizens need to allocate very strategically taxpayer money** to avoid wasteful spending and support priority sectors in order to achieve a more inclusive and sustainable growth.
- The **Government also needs to report regularly to the Parliament and the citizens about its performance** in reaching the expected objectives using the funds entrusted to it.
- The **EU has taken a strategic approach to support this process of strategic resource allocation and performance monitoring** in partnership with the Government and all other relevant stakeholders. In doing so, we hope that our support will be more effective and lead to a sustainable improvement of the life of Timorese.

