

Remarks by Ambassador Sylvie Tabesse,

Head of the Delegation of the European Union to Timor-Leste

"Orçamento do Estado – Panorama para 2015", organizado pelo Parlamento Nacional,

Maubisse, 27 to 29 October 2014

Sua Excelência o Vice-Primeiro Ministro,

Sua Excelência o Presidente do Parlamento Nacional,

Sua Excelência o Presidente da Comissão de Finanças Publicas do Parlamento Nacional,

Sua Excelência a Ministra/Vice-Ministra das Finanças,

Suas Excelências os Deputados do Parlamento Nacional,

Suas Excelências os Representantes dos Parceiros de Desenvolvimento e da Sociedade Civil,

Minhas Senhoras e meus Senhores,

Muito bom dia a todos,

- Gostaria de começar por agradecer a oportunidade oferecida pelo Parlamento Nacional para participar, em representação da União Europeia, neste fórum de diálogo e de discussão política sobre o orçamento do Estado para 2015.
- Como sabem, o dia 16 de Outubro, a União Europeia e o Governo de Timor-Leste reuniram-se em Bruxelas para realizar o seu **diálogo político anual** no qual concluímos 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**. E aqui estamos hoje precisamente para discutir e reflectir sobre a proposta de orçamento do Estado para o próximo ano de 2015.

- Senhoras e Senhores, **Timor-Leste tem apresentado resultados extraordinários na construção do Estado de direito e no relançamento da economia** desde que reganhou a sua independência em 2002. O que Timor-Leste alcançou neste últimos 12 anos, tal como a estabilidade e a democracia, a criação e gestão transparente do Fundo Petrolífero, e a melhoria do nível de vida da população timorense através do acesso a educação, aos serviços de saúde, ao abastecimento de água e ao fornecimento de electricidade, é simplesmente admirável. Constitui um exemplo de sucesso no mundo inteiro, em especial para os países pós-conflito, tao bem descrito no lema "**Adeus Conflito, Bem-vindo desenvolvimento!**".
- Apesar destes e outros sucessos, o Governo reconhece que Timor-Leste enfrenta ainda **importantes desafios**, entre os quais:
 - a) Promover o **crescimento económico inclusivo e sustentável** num quadro de **diminuição das receitas petrolíferas**;
 - b) Estimular o **sector privado** e promover a criação de **emprego**;
 - c) 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;
 - d) Capacitar e qualificar o seu **capital humano**.
- Estes desafios são também os nossos desafios enquanto parceiros de desenvolvimento. Se a ajuda externa representava cerca de 80% do orçamento em 2002, hoje representa menos de 20%. Como todos sabemos, Timor-Leste não tem (felizmente!) 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**.
- Na minha exposição, irei abordar **2 aspectos** que considero importantes para contribuir a este debate sobre o orçamento e que quero partilhar com os deputados, a saber:

1. **A afectação de recursos públicos nas áreas fundamentais para garantir a qualidade dos serviços públicos e um crescimento económico inclusivo e sustentável:** trata-se da necessidade de diversificar a economia e investir seriamente no capital humano y no sector agrícola y do turismo; continuar as reformas estruturais fundamentais para o desenvolvimento do sector privado; e promover o aumento das receitas domésticas não petrolíferas;

2. **Avaliação do desempenho da acção governativa:** o Governo tem que estabelecer metas anuais claras e operacionais para poder numa fase posterior avaliar o seu desempenho com base nessas metas e poder apresentar ao Parlamento Nacional e ao público em geral, os resultados do seu trabalho e os objectivos para o futuro.

- Depois partilharei algumas considerações em relação a proposta de orçamento para 2015 e que espero possam contribuir para discussão e apreciação da proposta pelo Parlamento Nacional.
- Antes de concluir, farei ainda uma descrição da cooperação da União Europeia, presente e futura, realçando de que forma nossos projectos visam apoiar o país a enfrentar e a ultrapassar alguns dos desafios enunciados.
- *Uma vez que dispomos de tradução em simultâneo, e se me permitirem, irei agora continuar a minha intervenção em inglês:*

1. Better allocation of public resources for an effective delivery of public services and to achieve inclusive and sustainable growth

- We know that Timor-Leste's government operations and economy are **highly dependent on oil revenues** and that the 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. Strong efforts should also continue in **strengthening the collection of non-oil domestic revenues** so that the expansion in taxable economic activities can be effectively translated in higher domestic revenues.

- If public expenditure is decreasing, this also means that 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**. We, European Countries, have learnt it the hard way and have recently been forced to cut our social transfers which obviously created a lot of social discontent among our citizens as you know.
- In this context, the 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. These **private sector-led** sectors will ensure higher quality and sustainability of growth since they create more **employment opportunities** and they result in an **expansion of the tax base** increasing domestic revenues. But in order for that to happen, **structural reforms such as the strengthening and enforcement of the legal framework and the land law** still need to be completed in order to enhance the business climate. The private sector needs **better legal certainty, better roads and a well-educated and healthy workforce**.
- In recent years the Government has been **spending a lot on "easy" expenditures, especially infrastructure and cash handouts**. On the other hand, 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. This has already **affected the quality of public services in education, health and agriculture**, as the Line Ministries responsible to deliver these services have not received sufficient budget allocations, by international standards, to perform efficiently and effectively. Budget for **maintenance**, including for roads, has been minimal in comparison to the huge capital expenditures.

- This situation will very likely **worsen in the near future**, with declining oil revenues. Only **investments with high economic and social rates of return** will help the country become an upper-middle income country with an educated, healthy and secure population by 2030 which is the ultimate goal of the SDP.
- Ladies and gentlemen, the **greatest wealth of a nation is its population**. In light of the history of Timor-Leste which faced serious disruptions of its education system, and in light of the changes made in the language of instruction, in my opinion, 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.
- In spite of the progress already made in reducing malnutrition, we note that malnutrition is still very high in Timor-Leste. Earlier this year at the CPLP Summit, the Government made a strong commitment to the **Zero Hunger Challenge** to fight malnutrition, one of the most important challenges in Timor-Leste. It promised to allocate 10% of its budget to reduce hunger and malnutrition and to improve food security. Nevertheless it is important to review whether this welcome political and policy commitment will really translate in additional resources for meaningful interventions in this sector.
- I would like to conclude this point by also highlighting that a **strong public finance management system** is essential for having efficient budget allocations, for constraining corruption and for good service delivery.

2. Performance Accountability

- Ladies and gentlemen, **performance accountability is key for the successful design, implementation and evaluation of public policies.** We often hear Parliament and citizens saying that they do not know what the Government has produced with all the **billions of public funds spent in recent years.**
- Let me be clear, I believe that it is not because the Government is not delivering public services. We all have seen the improvements all over the country in terms of infrastructure, electricity, access to education and water, etc. But there are 2 issues. Firstly, the **Government is not systematically compiling and providing information on all the results achieved so far and those that were not achieved.** Secondly, 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, and with a view to address it, it adopted in August the **10 Commandments to improve the performance of the State**, having committed notably to implement One Vision, One Plan, One Action, aligned with the **SDP Matrix and to Key Performance Indicators.** It is also conducting a **National Diagnostic Assessment** in a few Ministries.
- The **SDP Matrix** is a 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.** Ladies and gentlemen, you would all agree that it is 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.
- We believe that to address this weakness, it would be preferable for each Ministry to 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.** Some Ministries already have this kind of medium-term strategies. But very few have annual targets linked to it, and it seems that none of them have annual targets for a limited number of key indicators that they review and report on, on an annual basis.

- 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, which is very important as acknowledged by the Prime Minister and the Minister of Finance, notably during the last TLDPM meeting in July. Development Partners are all ready to support this service delivery performance monitoring mechanism. It is worth noting here that the Ministry of Finance has successfully introduced such performance monitoring system for its Ministry.
- I would like to conclude this topic by noting that 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. 2015 State Budget

- I would now like to share with you some considerations regarding the 2015 State Budget Proposal.

- First of all, 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 I talked about earlier, I would like to make a few specific comments:
 - First of all, in light of significant underspending in past years, the **quality of the budget planning could be questioned.** Indeed 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.
 - Our general comment is that the 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.**
 - When I say "business as usual", I am viewing it **in the context of the situation I described before.** If we look at the **allocation for health, education, agriculture and tourism,** and compare them with the 2014 budget proposal, what we see is a 0.8% increase for health at 67.8 million dollars, a 15% decrease for education at 99 million dollars, a 8% decrease for agriculture at 25.6 million, and a 3% decrease for tourism at 7.1 million.
 - Ladies and gentlemen, when we look at the 2014 budget for agriculture and health, 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. Indeed it seems that 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. In addition, 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**. At the same time, 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.
- Here I believe 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**. In this regard we note that the expenditures under the Infrastructure Fund 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**. We note in particular that 17,2% of the total budget (62.5 million dollars) is allocated to the development of the Special Social Market Economic Zone in Oecusse, 16% to the electricity programme (58 million) and 10% to the Tasi Mane programme (37.5 million). Here we see a **very clear priority budgeting policy signal by Government**. Indeed a total of 158 million dollars was allocated to these 3 programmes which we could compare to a total of 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.

- We see in the Proposal the Government's commitment to **strengthen domestic revenue mobilisation** by allocating an amount of 3 million dollars to “**reinforce tax law**”. We hope that it will help to take key decisions in terms of increasing non-oil revenues. It would also be interesting to know Government's position on the collection and management of fees and charges by Autonomous Agencies and how to improve that collection.
- Finally, in terms of increasing budget transparency, we also support Lao Hamutuk's recent recommendation for a more transparent **reporting of TimorGap's operations**. I believe that it would also be useful to know the **expenditures by sector under the District Development Programme (PDID)**, to enable a better functional analysis of the budget.
- Your H.E. Members of the Parliament, I would like to wish you a very fruitful discussion during the next weeks and hope that our considerations have been helpful in your democratic debate.

4. EU Cooperation in Timor-Leste - current and future support

- Before I finish, let me briefly give you an overview of the EU current and future portfolio of cooperation projects in Timor-Leste, especially in relation to what I mentioned during my presentation:
- The EU allocated **120 million dollars for 2007-2013** under the 10th European Development Fund in the following areas:
 - 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.

- Under the 11th EDF, an amount of **125 million dollars was allocated for 2014-2020**, including **40 million dollars for good governance** and **75 million dollars for rural development, including nutrition**. 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.
- The EU and the Government have agreed that EU support under the 11th EDF 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.
- Following a relatively positive assessment of Timor-Leste public finance management system through the **PEFA**, the Public Expenditure Financial Accountability Assessment undertaken in 2013 in which the Parliament and the Chamber of Accounts participated, the EU started this year to provide **budget support** to the Government on a very small scale, to support public finance management reforms.
- Budget support means an 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. While, as I said earlier **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, we took the 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:

- To conclude, we very much appreciate your invitation to participate in this very important event. 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.

Obrigadu barak!