

Executive summary

First of all, I would like to thank you for the invitation made by OCDE to **Timor-Leste** to participate, for a second time, in such an important forum.

We are a new nation, and we need support from the International Community in order to achieve the development goals of the Country.

Hence, our presence here today will be to learn from your experiences and the reforms that you have been making in your own countries, and from those lessons we will assess which ones are more relevant to our country and adapt them and implement them. In this exercise we will search for the most sustainable development path for our nation. We will to continuously work to improve our systems and processes in order to assist the Government in achieving our Nation's priorities.

The public spending has been the main source of economy expansion it has been the engine that powers the country. With greater spending of public moneys we were able to increase our growth. We are aware that with increasing spending comes increasing responsibility, and a sound financial management system is more important than ever. We also give great value to transparency. Over the years we have discovered that budget comprehensiveness and transparency plays an ever increasing role in our budget elaboration process.

We all know that public governance is integral to the management and control of public resources. It is important that the governance structure maintains clear and strong responsibility and accountability features. We must be ever vigilant regarding our public finances and improve them regularly.

We continue to observe sound financial management policies and practices and budgetary discipline, our financial accounts are subject to internal and external audits. It is also important that we provide the Ministries the necessary financial resources to perform their financial management roles effectively. We continue to operate in accordance with the international financial rules and procedures and comply with the international standards.

We have submitted to the OCDE secretariat our paper that talks about the Timor-Leste Outlook, Budget, Financial Management, Reform and challenges ahead. Please consult it for further information.

For more information about our Ministry of Finance, our budget, budget codes, chart of accounts and budget execution reports please consult our website at www.mof.gov.tl

We are available to any questions that you may wish to raise and once again we are very happy to be here this year again. Thank you!

Timor-Leste Outlook

Timor-Leste voted for independence in a UN supervised referendum in August 1999. The subsequent administration of the UN (UNTAET) was too short for ensuring the consolidation of the country's democratic institutions. Security institutions proved to be very fragile.

On 21 March 2002, a Constitution was approved establishing a republican system of government, and the Constituent Assembly transformed into the National Parliament. On 14 April 2002, Timor elected the country's first president. In May 2002, Timor-Leste became formally independent, and the Government, formed was sworn in.

Timor-Leste is one of the youngest countries in the world, achieving independence in 2002 with a population of just above one million. The country has faced a myriad of complex difficulties at various levels.

The new Constitutional Government has recently set priorities for the short, medium and longer term. Emphasis shall be on economic growth, security sector reform, institution building, supporting the return of displaced people, providing youth employment, vocational training, community development programmes, agriculture, infrastructure, health and solidarity with vulnerable groups.

Timor-Leste like many countries has adhered to the Millennium Development Goals. In the year 2002 Timor did a national consultation which became the National Development Plan for Timor-Leste, and it is consistent with the MDGs.

During last year fiscal aggregates and structural reforms have significantly improved and according with IMF the Timorese economy grew about 10 % for the first time. The improvement in budget execution, government expenditure (cash basis) has contributed in large factor for such expand into the economy (near 500 MUSD cash basis comparing with financial year 2006/07 with 160,4 MUSD). The year of 2008 was the starting year of the reform but into 2009 some reforms will continue such as financial management and procurement reforms.

This year is the year of the infrastructure development and each dollar of public spending will have greater impact. The total budget recent approved was 680 MUSD, and 205 MUSD are related with big infra-structure projects

The 2007 Timor-Leste Survey of Living Standards conducted by the National Directorate of Statistics and the World Bank shows that approximately 50 % of the population lives below the poverty line. That is a significant increase from the 36% of the population estimated to have been the below line of the poverty in 2001.

In order to reduce poverty the 2009 budget address a sustainable way for the development and the increase in public expenditure that has funded construction, improvements in public services, and transfers programs that have raised the purchasing power of the population. Indirectly by raising demand, public sector expenditure also helped support strong growth in the private sector. There are strong anecdotal signs that investors have been further buoyed by the improved security environment. Going forward,

the mid -2008 reform program that reduced direct and indirect taxes and import duties should provide additional incentives for future private sector growth.

The non petroleum revenue is estimated to increase from an estimated total of \$59 million in 2008 to \$90 million in 2009.

The petroleum fund balance as of 1 January of 2009 was 4,215 million and the total petroleum wealth, which comprises the balance of the Fund plus the net present value of the future petroleum revenue, is estimated to be 13,595 million as of 1 January 2009.

According with the Petroleum Fund Law the Estimated Sustainable income shall be 3% of the Petroleum Wealth therefore makes that's in 2009 is \$408 million.

The public financial management system in Timor-Leste has made steady progress since the restoration of independence. Under the new Government efforts are being placed to deconcentrate and decentralise functions and responsibilities, most notably in the area of finance so as not to undermine efficient service delivery. In addition to a general shortage of technical skills at all levels, the GoTL lacks seasoned managers. The GoTL therefore wants to move beyond the transitional substitution of international for local expertise and focus on an integrated approach to government-wide institution building that relies on three pillars: skills and knowledge, systems and processes and attitudes and behaviour.

Financial Management and Budgetary Systems

The budget and financial management regulation defines the role, functions and responsibilities of the National Directorate of Treasury. Amongst these are many including the recording and reporting on receipts of the government, the deposits of public moneys into official bank accounts, the implementation of the budget of the government as detailed in the appropriation regulations every year.

As part of one of many transparency initiatives we record and report actual expenditure compared with the planned expenditure and produce regular reports on the implementation of the budget. The Ministry of Finance issues financial administrative instructions to ministries in order to establish proper accountability in the financial management of public funds. The Ministry also compiles quarterly and annual accounts of the financial operations of the government including appropriation, accounts and financial statements incorporating all state fiscal operations.

The Ministry, namely the National Directorate of Treasury maintains the Petroleum Fund accounts and records in accordance with the international accounting standards. As part of the Petroleum Fund related activities which are enshrined in law, we report on the performance and activities of the Petroleum Fund for the purpose of the annual financial statements. These reports are made available to the public and sent to Parliament.

The Directorate of Treasury coordinates the audit of the financial statements by an independent auditor appointed in accordance with the law.

The Ministry envisages that in 2009 it will improve the Financial Management Systems so as to enhance the payment process of salaries and wages and also decentralised this procedure. We will install and implement the new budgeting module of the FMS with the legacy budget system, and we hope that this will streamline the budgeting procedures and enhance budgeting systems.

We also intend to improve the FMS reporting to better cater to the user requirements and increase productivity.

Reform of the budgetary and financial framework of Government

Major financial reform in 2008 was the continued reduction of the carry-over funds from previous years.

From 2009, the Government will operate on a purely cash basis, and will cease the practice of transporting unspent funds from previous years budgets. This reform will improve the linkages between the State Budget and actual economic activity, allowing for improved analysis of economic activity and an improved approach towards planning of activities which cannot be finalised in 12 months. This is particularly important as the Government undertakes projects of greater magnitude for the benefit of Timor-Leste.

As of the 1st of January no Institution of State will be allowed to carry over funds from previous years appropriations. Outstanding liabilities which are not paid by the 31st of December will need to be financed from the Institutions 2009 Budget appropriation. The Budget of Timor-Leste will now be executed on a cash basis with no commitments or obligations carried over.

Some challenges ahead for the Ministry of Finance:

- Implement the new organic law of the Ministry;
- Improve the budget formulation in order to classify the activities on program based, moving from line item to top down budgeting in line with the current Chart of Accounts;
- Budget maintains multi-year budget plan;
- Total compliance with the Government Financial Statistics during the budgeting elaboration process;
- Budget of 2010 to truly reflect bilateral and multilateral donor financing;
- All currently planned upgrades to Financial Management System implemented;
- Improved cash management with principle of Treasury Single General Ledger Account restored;
- District treasury operations strengthened.

We will strive to overcome these challenges with the same spirit that we gained the independence.