DEMOCRATIC REPUBLIC OF TIMOR-LESTE
NATIONAL PARLIAMENT

LAW NO. 9/2004
OF 14 JULY 2004

ON THE STATE BUDGET FOR FISCAL YEAR 2004-2005

The Budget comprises all revenues and expenditures within the Timor-Leste Consolidated Fund (TLCF), the Government's central account.

The *2004-2005 Combined Sources Budget, Budget Documents Nos. 1 and 2,* is presented as a supporting document to help the National Parliament understand the underlying reason behind the TLCF budget level for fiscal year (FY) 2004-2005 as well as the fundamental TLCF expenditure measures. It also explains the broader context within which the budget was formulated, including the estimated funding amount from combined sources – that is, the TLCF, the Timor-Leste Trust Fund (TLTF) and other bilateral and multilateral assistance – over the next four years.

Annex 1 to the State Budget Law establishes the estimated total amount of TLCF revenues for FY 2004-2005 derived from all sources – taxes, Timor Sea Revenues, Grants, other non-fiscal revenues and withdrawals from TLCF balances. The estimated total revenues from all these sources amount to US$109.1 million.

In addition, pending the establishment of a Petroleum Fund, the Government policy entails saving all First Petroleum Tranche (FPT) revenues derived from the Timor Sea and from the interest thereon, with all this interest being kept as savings, and not allotting such savings for Government expenditures. In this connection, Annex 1 also includes estimates of FPT revenues and interests, which might be earned as a result of savings accrued during FY 2004-2005, in the amount of US$25.5 million and of US$0.3 million, respectively.

Annex 2 to the State Budget Act establishes proposed budget allocations, per programme, for each Organ, which are divided as follows:

- US$28.5 million for Salaries and Wages;
- US$43.7 million for Goods and Services; and
- US$11.2 million for Capital.

This last category comprises US$2.1 million for Minor Capital and US$9.1 million for Capital and Development projects.

Thus, the total amount of appropriations stands at US$83.4 million. This represents an increase of 2.6% in relation to the budget for the current fiscal year, of US$81.3 million.

The self-funded autonomous organs are excluded, whose total amount of appropriations stands at US$75.1 million. This represents an increase of 0.6% in relation to the budget for the current fiscal year, of US$74.6 million.

The TLCF account includes all revenues and expenditures starting of the self-funded "Autonomous Organs," notably the Power Authority (EDTL), the Civil Aviation and the Maritime Transports. Revenues of these categories fall under "Own Revenues of Autonomous Organs" in Annex 1, and the proposed expenditure budgets are set out in Annex 3.

The total amount of estimated expenditures for the self-funded "Autonomous Organs" stands at US$8.3 million. Therefore, the total amount of estimated expenditures for the TLCF stands at US$83.4 million included in Annex 1. The total amount of estimated expenditures for the self-funded "Autonomous Organs" stands at US$8.3 million, plus an additional sum of US$110,000 transferred from savings (i.e., surplus revenue over expenditures). Thus, the estimated total amount of TLCF expenditure is US$85.8 million, plus an additional sum of US$ 110,000 in savings from the Designated Service Authorities, which is equivalent to the estimated total amount of US$109.1 million in revenues included in Annex 1.

The Government has thus been able to formulate a budget for FY 2004-2005, totally funded and pro-poor, in which approximately 70% of the TLCF budget and 75% of the budget from combined sources shall be directed towards the social and economic sectors.

The TLCF budget allocation is within the agreed parameters of the Transition Support Programme (TSP). In particular, nearly 35% of the TLCF planned base resources are allocated to the education and health sectors, with primary education receiving at least 45% of the total budget for education, and with the hospitals representing less than 40% of the total amount of planned expenditures on health; and the total amount of the budgets for police and defence is less than 25% of the TLCF total base budget.

Additionally, the total number of permanent civil servants surpassed the ceiling of 12,000, standing at 12,033. This increase was a result of two actions: 60 (civil) administrative employees of Falintil-FDTL and PNTL are classified in this grouping. In previous years, these employees had been wrongly classified as part of the operational element of these forces and 13 employees of the Directorate of Sea Transportation had been previously classified as employees of autonomous entities. With the creation of the Port Authority of Timor-Leste (PATL), these employees are integrated into the Ministry of Transport, Communications and Public Works, while the remaining 44 are assigned to the PATL.

The total number of cadres is below the ceiling of 17,200, totalling only 17,175, with the total amount of salaries and wages falling below the ceiling of US$30 million, standing at US$28.2 million.

Of the US$7.5 million in Capital development projects, 83% are allotted to projects in the infrastructure sector, and 20% to the social sectors.

The draft Budget Document No. 1 was submitted for discussion to the Timor-Leste Development Partners Meeting (TLDPM) on 18 and 19 May 2004. The document was also forwarded to the Speaker of the National Parliament. There was strong support for the TLDPM budget indicating an implicit renewal of the commitment of the development partners in securing the pledged funding for the PAT in the FY 2004-2005.
Although there is a TLCF budget for the next fiscal year, the main focus of the Government and of its development partners is on the medium term, in which both the TLCF revenue projections and combined sources are insufficient to respond to the needs of Timor-Leste in terms of public expenditures. These questions as well as the Government strategy to deal with the situation are discussed in detail in Budget Document No. 1.

Once again, there was strong support from the development partners in the TLDPM in respect to their co-operation with the Government over the next six months so as to address these funding gap issues.

Pursuant to Sections 92.3(d), 95.1 and 145 of the Constitution of the Republic, the National Parliament enacts the following that shall have the force of law:

Chapter I
Definitions and Approval

Article 1
Definitions

For the purpose of the present act:

"State Budget" – is the document prepared by the Government and approved by the National Parliament for the implementation of the National Development Plan and based on annual action plans to be prepared by the public administration, with a view to providing goods and services to society;

"Budget Law" – is the law that establishes all projected revenues and expenditures of the state and of the public administration *organs* for the given fiscal year;

"Appropriation" – means the identification in Annex 2 of the *Budget Law* of the maximum amount that can be made available to an *Organ* for the realisation of expenditures for a specific purpose, provided such appropriation is subsequently the subject of an *Expenditure Authorisation Notice*;

"Expenditure Authorisation Notice" – is the notice issued by the Treasury to an *Organ* informing that the latter is authorised to realise expenditures up to the amount of the appropriation specified in the notice;

"Organ/Organs" – is the generic term, adopted in the Budget, to designate the Presidency of the Democratic Republic of Timor-Leste, the National Parliament, the Government Organs (the Office of the Prime Minister, the Presidency of the Council of Ministers, Ministries, Secretariats of State and Agencies), the Courts, the Office of the Prosecutor-General and the Provedor of Human Rights and Justice;

"Autonomous Organ" – means the *Organ* that operates as a separate entity and that is listed in Annex 1 to UNTAET Regulation No. 2001/13, namely the Power Authority, the Sea Transportation and the Civil Aviation, amongst others, created by law.

"Expenditure Category" – means an expenditure pool under the three following categories: *Salaries and Wages; Goods and Services; and Capital* wherein:

> **"Salaries and Wages"** – represents the total amount that an *Organ* can spend on salaries and wages for permanent, temporary and part-time employees;
>
> **"Goods and Services"** – represents the total amount that an *Organ* can spend on the procurement of goods and services;
>
> **"Capital"** – represents the total amount that an *Organ* can spend on the procurement of minor capital goods and on capital and development projects;

"Expenditure Lines" – means individual expenditure lines within each *Expenditure Category*, based on the expenditure account code maintained by the Treasury Department;

"Contingency Reserve" – represents the total amount established by the Government in the State Budget to deal with urgent, inevitable and impossible expenditures that might arise during the fiscal year;

"Own Revenues" – means the amount collected by the *Autonomous Organs* from the sale of goods and the provision of services;

"Expenditures offset by revenues" – means the expenditures supported by *own revenues* collected by the *Autonomous Organs*, provided the amount does not exceed the total value of the revenues that have been deposited in the relevant accounts of the Treasury;

"Programme" – means an important division of the activities of one *Organ*, with regard to the provision of services for a specific purpose, outcome or group, including all activities of one *Organ*, where these constitute a single set of activities;

"Project" – represents a set of time-bound operations from which proceeds, which expand or improve Government operations, are derived.

Article 2
Approval

The State Budget for fiscal year 2004-2005 is approved by the following act, which comprises the following annexes:

- **Annex 1:** Total revenues by pools, including the *Autonomous Organs' own revenues*;
- **Annex 2:** Total expenditure by pools, including the monies to be transferred from the State Budget to the *Autonomous Organs*; and
- **Annex 3:** Total expenditure of the *Autonomous Organs* to be funded from their own revenues.

Chapter II
Revenues

Article 3
Revenues

During the course of fiscal year 2004-2005, the Government is authorised to levy the taxes stipulated in the applicable tax law.

Chapter III
Budgetary Execution

Article 4
Payment of Taxes on Government Imports

The Treasury is authorised to establish and implement an accounting mechanism for recording and controlling revenues and expenditures pertaining to the payment of taxes on imports made by *Organs*, as referred to in Article 1.

Article 5
Appropriations

During the course of fiscal year 2004-2005, the *Organs* referred to in Annex 2 to the present act shall receive appropriations from the State Budget to meet expenditures pertaining to the *Expenditure Categories*, as set out in the aforementioned Annex.

Article 6
Cash Fund for Supplies

The Treasury is authorised to establish and implement a self-fundable revolving mechanism for procuring supplies for the entire Government, anticipating the needs for such supplies, up to a maximum limit of US$1,200,000 (one million two hundred thousand American Dollars).

Article 7
Transfer of Monies

1. The Head of the Treasury may, at any time, repeal or change an *Expenditure Authorisation Notice*, within *Expenditure Categories*, whenever deemed advisable in the interests of a prudent tax management, or whenever appropriate to ensure a continued payment of expenditures throughout the fiscal year.
2. Based on a request from the respective *Organ*, the Head of the Treasury may authorise the transfer of monies between items of the same *Expenditure Pool of that Organ* complying with the following:
   (a) The Head of the Treasury may authorise transfers up to a maximum limit of 20% of the initial appropriation, provided they do not exceed US$20,000 (twenty thousand American Dollars);
   (b) If the amount is in excess of US$20,000 (twenty thousand American Dollars), an authorisation from the Minister of Planning and Finance shall be required.
3. Every Minister or Secretary of State who comes under no Ministry may apply for an authorisation from the Minister of Planning and Finance to transfer monies between *Expenditure Categories*, as follows:
   (a) The Minister of Planning and Finance may authorise such a transfer where the amount thereof does not exceed 10% of the initial appropriation, provided the transfer does not exceed US$100,000 (one hundred thousand American Dollars);
   (b) If the amount of the transfer is in excess of US$100,000 (one hundred thousand American Dollars), the authorisation may only be granted by the Prime Minister, following a consenting opinion from the Minister of Planning and Finance.
4. Irrespective of their amount, transfers from the *Salaries and Wages Category* to any of the two other *Expenditure Categories* shall not be permitted.

5. Irrespective of their amount, transfers between the different *Organs*, or between the different Ministries or Secretariats of the State shall not be permitted.

Article 8
Funds

In order to respond to the funding needs of the State Budget, and in accordance with the clear and precise criteria that have been established in regard to public expenditure, the Government has entered some funds in the Budget of the Ministry of Planning and Finance that shall be managed by the latter on behalf of the entire Government, as follows:

a. Contingency Reserve;
b. TFET Project Counterpart Funds;
c. Retroactive Funding;
d. External Auditing;
e. Membership Contributions to International Organisations;
f. Overseas Travel Fund.

Article 9
Contingency Reserve

It shall be incumbent upon the Prime Minister, subject to the consenting opinion of the Minister of Planning and Finance, to decide on the transfer of resources from the Contingency Reserve to the different *Organs*, on the basis of the grounds and justifications presented.

Chapter IV
Autonomous Organs

Article 10
Own Revenues

1. The estimated revenues to be collected by the *Autonomous Organs* are included in Annex 1.
2. Expenditures arising out of transfers from the State Budget to the Timor-Leste Power Authority, as well as expenditures that shall be incurred, are included in Annex 2.
3. Budgets by *Expenditure Category* pertaining to the *Autonomous Organs*, funded by their *own revenues*, are included in Annex 3.
4. An *Expenditure Authorisation Notice* in favour of an *Autonomous Organ* for monies from *own revenues* may only be authorised after receipt of such revenues by the State, and such authorisation must be of an equal or lesser amount.

Chapter V
Final Provisions

Article 11
Financing an Independent Donor

1. An *Organ* may only establish an agreement with a donor for the provision of resources additional or complementary to the funding contained in the budget allocations of this act upon prior approval by the Ministry of Planning and Finance.
2. The management of such funding shall be conducted in accordance with the donor's requirements and the directives issued by the Ministry of Planning and Finance.

Article 12
Transitional Provisions

That which is not regulated by the present act shall be done in conformity with the provisions contained in UNTAET Regulation No. 2001/13, on Budget and Financial Management.

Article 13
Entry into Force

The present act shall enter into force on the day immediately following the date of its publication, with retroactive effects as from 1 July 2004.

Approved on 1 July 2004

The Speaker of the National Parliament,

[Signed]
Francisco Guterres "Lu-Olo"

Promulgated on 8 July 2004.

To be published.

The President of the Republic

[Signed]
Kay Rala Xanana Gusmão