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**Joint Statement by Ms. Kashima, Mr. Mochtar, Mr. O'Brolchain, Mr. White, Mr. Iona,  
Mr. Mooney, Ms. Ogihara, and Mr. Soe on Democratic Republic of Timor-Leste  
(Preliminary)  
Executive Board Meeting  
July 9, 2021**

We thank staff for the clear and comprehensive report and Mr. Bevilaqua, Mr. Saraiva, and Mr. Coelho for their useful Buff statement. While Timor-Leste was effective in containing the pandemic during 2020, it has been hit with the twin shocks of the recent surge in COVID-19 cases and severe flooding. In the medium term, the country faces significant challenges including large decreases in oil revenue and lack of development of the non-oil private sector economy that need be handled further. We broadly agree with staff's assessment and offer the following comments for emphasis.

**While acceleration of vaccine rollouts and providing relief to the most vulnerable should be the focus in the near term, preserving fiscal and external sustainability should be prioritized once the pandemic has abated.** We welcome the authorities' plan to adopt fiscal reforms to mobilize domestic revenue through the introduction of a Value-Added Tax and a revised tax procedure code. We encourage the authorities to reduce the reliance on excess withdrawals from the Petroleum Fund. Furthermore, we also encourage the authorities to avail themselves of Fund TA to ensure that the 2009 Budget and Financial Management Law is upgraded to reflect international best practices regarding public financial management, and improve the quality of government spending.

**We welcome the establishment of "R-TIMOR" and the "P24" system; however, more needs to be done to improve access to finance for SMEs.** We agree with staff that digitalization could be utilized in expanding credit to those who lack adequate collateral or have limited credit history. The upgrading of the financial sector regulatory and supervisory framework should also be a priority to ensure that the emerging risks in the financial sector are addressed and managed well. We positively note the measures taken by the central bank to date to enhance the AML/CFT framework and encourage the authorities to continue strengthening the regime.

**We agree with staff that structural reforms should underpin the diversification of the economy.** We encourage authorities to prioritize the strengthening of human capital formation and higher productivity, while enhancing governance, strengthening the business environment, and removing obstacles to job creation. We note the low female labor force participation rate in comparison to peers. *We would appreciate hearing staff's views on the specific obstacles in this regard and the advice provided to the authorities, if any, in this area.*

**Enhancing corruption eradication and strengthening the understanding of published budget documents amongst the public are challenges for the authorities.** We encourage authorities to expedite the strategy not only to enhance budget execution, but also to strengthen its transparency and oversight. In addition, policy to strengthen fiscal governance such as procurement, the regulatory framework in terms of doing business, and rule of law including contract enforcement and property rights, are recommended. Fund TA could also be utilized to enhance statistical capacity, particularly in the areas of trade and government financial statistics. Finally, in light of the country's vulnerability to climate shocks, the authorities should shift the focus of the disaster management strategy towards climate-resilient infrastructure.