



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

State Budget

2011

Budget Overview

Book 1

Goodbye Conflict, Welcome Development



Book 1 Budget Overview

Preface

The Organic Law of the Ministry of Finance specifies the responsibility of the National Directorate of the Budget to collect and manage financial information relating the public sector and publish the statistical results.

In accordance with this provision and to raise the transparency of public finances, the Ministry of Finance is publishing the final version of the documents relating to the General Budget of the State 2011, promulgated by His Excellency Dr. Jose Ramos-Horta, President of the Republic, following the debate in the plenary session of the National Parliament.

The documentation for the General Budget of the State 2011 consists of the Budget Law, which is published in the *Journal of the Republic*, plus six supporting budget books:

- Book 1 Budget Overview
- Book 2 Annual Action Plans
- Book 3 Districts
- Books 4a and 4b Budget Line Items
- Book 5 Development Partners
- Book 6 Special Funds

Book 1 *Budget Overview* describes the overall budget strategy of the Government. It provides information on the international and domestic economic outlook; expected domestic and oil-based revenue including expected sustainable income; and overall expenditure in the medium term and the main new initiatives in the coming year.

Budget documentation is available on the website of the Ministry of Finance, www.mof.gov.tl. Inquiries relating to the publication should be directed to the National Director of Budget, Mr. Agostinho Castro on e-mail: acastro@mof.gov.tl or telephone +670 333 9520.

As Timor-Leste farewells conflict and welcomes development, I believe that this document will increase awareness and understanding of the Government's finances by providing the people of Timor-Leste, civil society and our development partners with relevant information on the 2011 State Budget.



Emilia Pires
Minister

Contents

PART 1. SPEECH OF THE PRIME MINISTER	1
PART 2. EXECUTIVE SUMMARY	18
PART 3. ECONOMIC OUTLOOK	22
1. International Economy	22
Advanced Economies	23
Asia	23
Emerging and Developing Countries	24
World Prices	24
2. Domestic Economy	25
Non-oil GDP	25
Government Expenditures	27
Domestic Revenues	28
Petroleum Revenues	29
Inflation	30
Employment	32
Poverty and MDGs	32
Medium-Term Prospects (2011-2015)	34
PART 4. EXPENDITURE	36
1. Introduction	36
2. Expenditure reviews	37
3. Major initiatives proposed for 2011	37
CFTL Expenditures	38
Salaries and Wages	38
Goods and Services	38
Public Transfers	39
Minor Capital	40
CFTL Capital and Development	40
4. Infrastructure Fund	41
5. Human Capital Development Fund	42
6. Development Partners	42
PART 5. REVENUES	43
1. Introduction	43
2. Domestic Revenues	43
Taxes	44
User Fees and Charges	44

Rice Sales and Interest	45
Autonomous Agencies	45
3. Petroleum Revenues	46
Investment Return	48
Petroleum Fund	49
Petroleum Wealth and ESI calculation	50
Sensitivity analysis	53
4. Development Partners	54
PART 6. FINANCING	55
ANNEX 1 - ESTIMATED SUSTAINABLE INCOME CALCULATION 2011	57
ANNEX 2 - 2011 GENERAL STATE BUDGET LAW	62
ANNEX 3 - TRANSFER FROM PETROLEUM FUND	102
ANNEX 4 - DELOITTE REPORT	103

Figure 3.1: World, Regional and Timor-Leste's Output Growth, 2007-2011 (%).	22
Figure 3.2: Percentage Changes in Consumer Price Index, 2004 – 2010 (%).	30
Figure 3.3: Real Effective Exchange Rate and Real Exchange Rate Changes with Major Trading Partners, Jan. 2009 – May 2010	31
Chart 5.1: Historical Changes and Future Projections in the WTI Oil Price (\$ per barrel)	47
Figure 5.2: Timor-Leste Petroleum Revenues and ESI, 2002-2024	50
Figure 5.3: Changes in the Estimated Sustainable Income (from Budget 2010 to Budget 2011).....	53
Figure 5.4: Sensitivity Analysis – Estimated Sustainable Income, 2011 (\$ million).....	54
Graph 5.4: Development Partners' Indicative Commitment, 2010 - 2015 (\$ million)	54
Figure A1: Comparing EIA Oil Price Forecasts to Market Futures Prices	59
Figure A2: EIA Forecasts and 10 years Historical Average WTI Prices, 2004 – 2025	59

Table 2.1. Combined Source Budget, 2011 – 2015 (\$ million, prelim).....	18
Table 2.2. CFTL by Category, 2011 – 2015 (\$ Million, prelim)	18
Table 3.1: Real Economic Growth in Asian Economies, 2007 – 2011 (%).....	24
Table 3.2: Sectoral share of real non-oil GDP, 2002 - 2009 (%).....	26
Table 3.3: Nominal GDP by sector	26
Table 3.4: Real GDP Growth Rate (%).....	26
Table 3.5: Whole of Government Expenditures (\$ millions), including Auto Agencies.	28

Table 3.6: Domestic Revenues, 2002-2010 (\$millions).....	29
Table 4.1: Combined Source Budget, 2011 – 2015 (\$ million, preliminary)	36
Table 4.2: Expenditures and Fiscal Envelope, 2010 – 2015 (\$ million).....	36
Table 4.3: Economic Targets, 2011 – 2015	36
Table 4.4: CFTL by Category, 2011 – 2015 (\$ Million)	38
Table 4.5: CFTL Capital and Development, 2011 – 2015 (\$ Million)	41
Table 4.6: Special Funds, 2011– 2015	41
Table 5.1: Total Revenue Projections, 2009-2015 (\$' million).....	43
Table 5.2: Domestic Revenues, 2009-2015 (\$ million)	43
Table 5.3: Total Tax Revenue Projections, 2009-2015 (\$ million)	44
Table 5.4: User Fees and Charges, 2009-2015 (\$ Million).....	44
Table 5.5: Revenues from Autonomous Agencies, 2009-2015 (\$ million)	45
Table 5.6: Estimated Petroleum Revenues, 2009-2015 (\$m)	46
Table 5.7: Oil Price Assumptions, Total Production and Timor-Leste Revenue Forecasts 2002-2024	48
Table 5.8: Estimated Petroleum Fund Savings 2009-2015 (\$m)	49
Table 5.9: ESI as of 1 January 2011 Onward Compared to Figures in Budget 2010	50
Table A1. World Oil Price Forecasts, 2015 - 2025	60

PART 1. SPEECH OF THE PRIME MINISTER

Address by His Excellency Prime Minister Kay Rala Xanana Gusmão on the occasion of the Presentation of the Draft 2011 State General Budget

**National Parliament
12 January 2011**

Your Excellency the Speaker of Parliament,

Your Excellencies the Representatives of Civil Society and the Press,

Honourable Members of Parliament,

Government Colleagues,

Ladies and Gentlemen,

I would like to seize this opportunity to, once again, convey to the office holders of the nation's Bodies of Sovereignty, the honourable Representatives of the People in this Great House, and indeed all the People, the sincere wishes of my Government that 2011 will be the year in which we spread the values of political morality and promote professional ethical standards. We must consolidate democratic tolerance to allow People to have hope in the future, and in doing so strengthen social harmony.

One would also do well to recall that this transition process, in which we are recovering our sovereignty, has only had one decade so far. It began with UNTAET in 2000, but two years later, in December 2002, we started to have small skirmishes, which included the burning of some houses. In February 2004, in Lospalos, our Military went to the streets, firing shots, arresting police officers and scaring the population. In April 2005, there were 19 days of demonstrations in Dili that, while not causing major damage, led to a general feeling of anxiety and frustration.

In March 2006, in Baucau, the Military started to rise, and was joined by others. This caused tremendous damage to the State. And then in February 2008, we had the failed attack on the holders of office of two Bodies of Sovereignty, which resulted in significant national and international political repercussions.

It appeared that Timor-Leste and its People were doomed to a cycle of fire and violence, to be repeated every two years.

It was in view of this that in 2009, on the tenth anniversary of the Referendum, my Government issued a message to all the People: Goodbye Conflict, Welcome Development! On

31 December we said farewell to 2010 in a festive atmosphere, as throughout the year we could see our children play in the streets, alongside mothers with their babies, as they all shared in a sense of collective joy. This is because we are truly becoming a society of friendship and solidarity and, most of all, a society that is tolerant and peaceful.

I also wish to convey my heartfelt thanks to the Bodies of Sovereignty, to all political parties, to all Religions, to the International Community, to the UN and to the ISF, to Civil Society and to our Youth, and especially to the People of Timor-Leste, for the efforts that each and every one made to ensure the Country's political stability.

May 2011 be the Year of Greater Peace and Stability, so that the decade up to 2020 may show us the path to social and political progress and to economic development. Timor-Leste needs and deserves this outcome after 24 years of struggle for independence and 10 years of laying the foundations of our young State.

Your Excellencies,

Ladies and Gentlemen,

Since we are reminiscing about the first ten years that brought us to this point, I would also like to remind the People and the honourable Members of Parliament that 2011 will see the continuation of a 3 and a half year effort to fulfil the program of the IV Constitutional Government.

The central concerns that founded our 5-year Program, which was presented here in Parliament in early September 2007, were the following:

- the need of the People to regain confidence in State agencies. We strongly believe that we have succeeded in this objective, and that we have managed to instil this confidence, this spirit. If one of the causes of the 2006 crisis was the collapse of the discipline and professional ethics of our Defence and Security Forces, today, while there is still much to be done in these two agencies, we cannot but appreciate the ongoing and committed effort by the F-FDTL and the PNTL leadership in correcting and improving our soldiers and our police officers. Undoubtedly this is contributing a great deal to the environment of trust and stability that we enjoy today.
- the creation of conditions for dynamic and progressive growth that is able to combat unemployment. We have also succeeded in this goal. Although growth may be pronounced in Dili, no one in good faith can look at the Country and deny that there is today a boom of economic activity, which is the only way to generate

sustainable employment. We have also worked to establish decentralised mechanisms in the rural and regional areas so as to enable the private sector to operate, grow and create local employment.

- the need for proper support to the private sector, that is real and determined support, to enable the private sector to develop its competence, professional honesty and technical capability. We believe that we have done our best in this area, and that the clearer definition of the partnership between Government and private sector has been most useful in this vital period in terms of State building.
- the fundamental principle of good governance has required a gradual reform process involving the modernisation of Public Administration. Efforts have been made to set up the foundations of a governance system, with medium term objectives, by way of the establishment of the Civil Service Commission. The short term goal is to rehabilitate the image and the role of public service. We remain committed to improving the professionalism of civil servants and to instil in them ethics, honesty, discipline and team spirit.
- we have also given importance to the need to valorise human resources. Some initiatives have already been carried out, which should be continued in the medium and long term. Our Country needs skilled officers and specialists in several areas, so that we can be freed from the subservience of high salaries, as is the currently the case with many workers (both Timorese and foreign) that obey the organisations that pay them, and in doing so inverting the spirit of service to People and Country.
- in regard to social policy, we have begun paying veterans, the elderly and the disabled. We have also provided assistance to people requiring medical treatment abroad. My Government continues to examine and develop a Social Security System that is appropriate to the current and future circumstances of Timor-Leste and that is sustainable, as in the near future we will have thousands of civil servants who should be retiring.

Therefore, and as I said to Parliament in September 2007, my Government rejects the philosophy of ‘a country that is poor with people who live in misery, but proud to have lots of money in the banks of rich countries’. We all know that most of the money in the Petroleum Fund is in US Treasury Bonds, and I believe that all those who have been looking at the world

economic recession are aware of the great fragility of the American economy, suggesting to us that the real value of our wealth, which is in American dollars, is below its assumed face value.

Thus, my Government declared to Parliament that, starting in September 2007, it seeks to ‘use the wealth from natural and mineral resources in a controlled and efficient manner’. The estimated total value of the Petroleum Fund at that time was:

- for 2007..... 1.940 billion American dollars
- for 2008..... 2.906 billion American dollars
- and for 2011..... 5.550 billion American dollars.

On 31 December 2010, the balance of the Petroleum Fund was 6.9 billion dollars, which exceeds by 1.4 billion dollars the estimate made in September 2007 to be held at the end of 2011. In 2002, with the assistance of the International Monetary Fund, the value of the Petroleum Fund in 2021, which is the year when the Bayu Undan field should close, was estimated to be 1.8-3.2 billion dollars.

I wanted to give you these figures so that we do not waste our energy discussing the Petroleum Fund as if my Government does not understand the issue, as if my Government does not know what the ‘Norwegian virus’ and the ‘Dutch disease’ are.

Petroleum revenues have boomed in 2010. Timor-Leste recorded a 38% increase in relation to 2009 levels, with petroleum revenues reaching a record **\$2.172 billion**.

It is estimated that Petroleum Revenues will continue to be high in 2011 and 2012, due mostly to the demand from emerging economies and the damage caused by climatic changes, which are affecting the entire world. Therefore, the estimated petroleum revenues for 2011 and 2012 are respectively **\$2.2 billion and \$2.4 billion**.

The Estimated Sustainable Income (ESI) is calculated at **\$734 million** in 2011, representing an increase of **\$232 million** from 2010. This increase is due primarily to a change to the methodology for calculating the ESI. Prior to this change, the ESI was calculated according to the WTI (West Texas Intermediate) forecast, using the low case estimate for oil prices provided by the Energy Information Administration (EIA) in its annual report. This practice is now considered to be exceedingly cautious.

The 2011 ESI calculation uses the average of the EIA low case and reference case forecast as the WTI oil benchmarks. The average of the two EIA cases lies well within the 68 percent confidence interval and significantly below the average of futures prices. Our Petroleum Fund Independent Auditor has certified these calculations and confirmed that they are in accordance with the requirements of the Petroleum Fund Law.

The estimated oil price according to WTI is 68 dollars per barrel in 2011 and 71 dollars in 2012, increasing to 110 dollars per barrel by 2024. This review of the methodology proves the competence of the Ministry of Finance, which after 5 years of existence of the ESI carried out a critical analysis of the entire process and concluded that exceedingly prudent forecasts may jeopardize the credibility of the ESI calculations.

Any opinion defending exceedingly prudent forecasts suffers from the Norwegian virus, forgetting that Norway itself took dozens of years to adopt its approach after already becoming economically and socially developed, and without having to worry about mothers, the elderly and disabled, insufficient numbers of teachers and midwives, malaria and tuberculosis, the lack of tables and chairs in schools, water and sanitation, power, subsistence farming, an incipient private sector and many other challenges that Timor-Leste still has to face.

While not ceasing to be a prudent calculation, or jeopardising future revenues of the Fund, the ESI is now more appropriate to actual circumstances. It is this Government's policy that these funds be used **now** and **in the future**, investing strongly in our Nation and in our People.

It is this Government's policy to serve the best interests of the People and to not become despondent in the face of new challenges, even if they require many hours of study and reflection. As such, we have had the courage, after careful consideration throughout the past three years, to gradually develop an investment strategy for the Petroleum Fund that is more advantageous to Timor-Leste.

We want to diversify the investment portfolio into an array of assets, regions and currencies, so as to reduce risks and increase expected income. Since 2009 the investment portfolio has contained a proportion of bonds from foreign governments and bonds issued by supranational organisations. In October 2010, the Fund began to invest in global equities – all of this, as is obvious, while in full compliance with the Petroleum Fund Law.

Your Excellency the Speaker of Parliament,

Honourable Members of Parliament,

Ladies and Gentlemen,

For all this we can see that the 2011 State General Budget covers the positive achievements so far and that which can still be implemented so as to deliver the Program of the IV Government.

The reform policies implemented by this Government have already led to remarkable economic and social outcomes in 2010, which are acknowledged internationally and which enabled us to overcome the cycle of crisis we had been recording since 2002.

Timor-Leste is currently an increasingly stable Nation that is making steady progress in the fight against poverty. Around 96,000 people have been lifted from a life of extreme poverty, as a result of the 1.4 billion dollars of public expenditure invested, which has enabled a 9% reduction in poverty. As such, the trend of increasing absolute poverty, which reached its peak of 50% in 2007, has finally been reversed.

Unemployment, which is a plight not only in Timor-Leste, but also in many of today's developed societies, has also been reduced. Recent statistics show that an average of 95% of men aged 30-49, and approximately two in every three women aged 15-49, are classified as being currently employed.

In 2007, 85% of all Timorese were employed in agriculture. Today, only 67% of employed men and 61% of employed women are working in agriculture. The sector of sales and services is currently employing 22% of women and 14% of men, which shows a progressive diversification and modernisation of the Timorese economy.

The Millennium Development Indicators were reached in regard to child and under-5 mortality rates. Health indicators are improving rapidly, with 78% of children being treated today for basic diseases and 86% of mothers receiving pre-birth care, which is an increase of 41%.

We are also proud to see Timor-Leste record an economic growth rate of 13% in 2009. This gives us great hope for the future, as we are experiencing one of the highest growth rates in the region and one of the ten highest in the world in 2008 and 2009.

Reforms in regard to Public Finance Management have been vital for this growth. To give an example, the reforms to the tax system resulted in Timor-Leste improving from 75th to 19th place in this area, with the overall Doing Business ratings improving 7 places. Although these are yet small successes, they mean that we are clearly going forward.

Further, the United Nations 2010 Human Development Index shows that Timor-Leste has improved 11 places since 2005, with the Country currently positioned in the category of medium human development. The recent 2010 Corruption Perceptions Index, from Transparency International, also had Timor-Leste improving 19 places within the last 12 months.

Timor-Leste was the third country in the entire world to be granted full compliance status with the Extractive Industries Transparency Initiative. In 2010, the Revenue Watch Institute and Transparency International classified Timor-Leste as being in the group of the countries that are the most transparent in terms of revenues.

In view of all of this, we cannot start 2011 without feeling encouraged. My Government wants nothing more than to continue contributing towards the advancement of our Nation.

Your Excellency the Speaker of Parliament,

Honourable Members of Parliament,

The 2011 budget policy was designed to consolidate the steps we have already taken in the last few years towards economic growth and development.

For this, we can rely on the commitment by an increasingly efficient Civil Service, which is now able to manage a more robust administrative and financial establishment, as well as on the improvements in the performance of the Public Finance Management System which have enabled once again very satisfactory budget execution rates in 2010.

As such, on 31 December 2010 the Government's overall cash expense was **\$687.78 million**, which represents a budget execution rate of **82.1%**.

It is important to highlight the following:

1. This budget execution rate will be higher still, because according to the applicable international standards the closing of accounts is only fully recorded two months after the end of the fiscal year in question.
2. The Government no longer includes commitments in the financial execution reports. I should clarify that there are differences between obligations and commitments.
3. All funds not used revert to the State at the end of the year, in a transparent manner.
4. Expenditure is monitored through the FreeBalance system, in view of the expenditure approved by Parliament, thus ensuring greater transparency and real time adjustment to the contingencies of the Country, making public spending more efficient.
5. Finally, it should be underlined that we have executed **73.8%** of our capital development. This is a remarkable achievement, since this year we have faced some institutional constraints that made our procurement processes more difficult.

We also had a very long wet season, which we can describe as atypical.

Your Excellency the Speaker of Parliament,

Your Excellencies,

The total expenditure of the State of Timor-Leste in 2011 is estimated at **\$985 million**, with the total non-petroleum revenues being estimated at **\$110 million**. This means that the non-petroleum tax deficit is **\$875 million**, which will be paid from the Petroleum Fund (**\$734 million**) and from the Consolidated Fund for Timor-Leste (**\$141 million**).

Ladies and Gentlemen, the main message of this budget is along the same lines as the messages of previous budgets: **Investing in the area of infrastructure and human capital development is increasingly vital for Timor-Leste** if we want to diversify the economy that is primarily based on oil into a non-petroleum economy!

This is not a new concept. All economies (and economists) in the world share this vision. The challenge here is how to achieve this goal.

Let the 'G20' or 'G8' rich countries do the necessary rebalancing to enable the gradual recovery of their economies, while we Timorese focus our attention on this complex process of the ten years of State building and Nation building. It would be folly to compare GDP, inflation rates and current accounts with countries like Singapore or Australia, not to mention Indonesia, with over 250 million people, or China, with over a billion people.

My Government is mainly guided by the principle of never losing sight of the reality of the Country, the development situation of State agencies and the capacity of its human capital. My Government also has the principle of not accepting everything from abroad without first adjusting it to the Timorese reality.

As such, and taking into consideration the specific reality and difficulties of Timor-Leste, the Government decided to create two Special Funds that will ensure better coordination of investment and development projects, as well as their gradual and multiyear realisation and monitoring.

This is the strategy that is the most coherent and that can be applied in our Country with the greatest efficiency. We have chosen to create these special funds to enable better management, organisation and technical and financial control, while freeing Ministries, departments and other relevant authorities from more bureaucratic processes, so that they can dedicate their efforts to delivering services to the People, instead of having to worry about the realisation of their capital projects. There is a pressing need to improve the synergy between activities, so that we do not have a situation such as a school or a clinic being constructed but unable to operate due to lack of water because the water supply is dependent upon another body.

This is not a matter of centralising funding, but rather of rationalising it and making it more efficient, so as to ensure greater transparency in regard to the design, the unit cost of materials and the effectiveness of monitoring and payment processes.

Thus, from the total budget of **\$895 million** in 2011, **\$317.306 million** is allocated to the Infrastructure Fund and **\$25 million** is allocated to the Human Capital Development Fund.

The Infrastructure Fund covers multiyear projects and other large projects over one million dollars.

The Infrastructure Fund will also enable the continuation of the national project for generating and distributing electrical power at the plants of Hera and Betano. We have allocated only \$166 million, although we are aware that we would need more money to accelerate the project. This relatively small amount is necessary to meet the various needs and the major challenges of the country within these first few years.

This Fund also seeks to continue investing in roads, bridges, public buildings, schools and hospitals, in addition to the required investment in integrated financial systems, with over **\$7.7 million** designated for the development of procurement and financial monitoring hardware and software.

The Infrastructure Fund will also enable us to start developing the southern coast. We have large projects to be undertaken in Tasi Mane, which will cost, during this first stage, over **\$30 million**.

These large projects of unquestionable national interest will include:

- The Suai Development Package, including the Multitask Port (**\$2.5 million**); the Supply Base (**\$11.5 million**); and the Refurbishing of the Airport (**\$6.5 million**).
- The study, design and detailed supervision of the development site for the southern coast in Beaçó (**\$5.8 million**).
- The development of infrastructure in the southern coast to study the path of the pipeline (**\$3.5 million**), as well as the necessary environmental studies (**\$2.8 million**).
- And the design and studies on the development of the maritime port of Dili (**\$2 million**). The Dili wharf can no longer provide an efficient response, both in terms of space and operational capability, to the requirements of the increasingly larger volume of commercial traffic.

Your Excellency the Speaker of Parliament,

Honourable Members of Parliament,

In September 2000 the Millennium Assembly took place in New York. Timor-Leste had the privilege of participating as an observer, since we had not yet regained full sovereignty. This Assembly set the Millennium Goals and, in 2015, Timor-Leste will also have to report on what it did and did not do during these fifteen years.

In September 2010, our President of the Republic, Dr José Ramos-Horta, announced at the General Assembly of the United Nations that Timor-Leste was committed to improving the housing conditions of our population.

Hence the MDG-Suco program, which seeks to provide housing, solar power, water and sanitation, in addition to other small social development works. This program also foresees the construction of 5 houses in each village, which means that in 2011 we will be providing housing to over 11,000 families. The ultimate purpose of this is to improve the living conditions of over 55,000 families in rural areas by the end of 2015.

Your Excellencies,

Ladies and Gentlemen,

We know that to invest only in infrastructure, without at the same time investing in human capital, will only lead us to a “dead end”. Unless we want to depend forever on international advisors, officers or even companies, we must accelerate immediately the strategy for developing our human resources.

As such, the development of human resources cannot be postponed, but cannot also be rushed, in order to obtain results in the short term. Furthermore, while it cannot absorb all the financial means of the Nation, which are required for other important sectors, it will still require substantial investment. I would like to remind you that if there was an easy solution to this dilemma, we probably would not have underdeveloped societies in the 21st century!

Funding multiyear projects for training and building the technical and professional capacity of the Timorese in sectors such as justice, health, education, agriculture, natural resources, tourism, financial management and, evidently, infrastructure, fulfils the goal of investing in our economic growth and of greater competitiveness within the scope of regional development, and also involves investing in national sovereignty.

As such, the Human Capital Development Fund, with around **\$25 million** allocated for 2011, will mostly be used to ensure professional and technical training and to issue scholarships, as well as in other training methods, seeking to improve qualified national technical staff.

This Government initiative will include in 2011 the investment of:

- **\$7.7 million** for scholarships under the Ministry of Education.
- **\$2.4 million** for technical training in regard to Higher and Polytechnic Education in Suai and Lospalos.
- **\$2.1 million** for scholarships in the area of public finance and computers.
- **\$2.5 million** for scholarships in the area of the petroleum sector.
- **\$2.6 million** for professional training under SEFOPE.
- **\$2.4 million** for training in health and medicine.

- **\$1.9 million** for professional training in the area of justice, namely for registry officers, auditors, judges, notaries, attorneys, translators and inspectors.
- **\$1 million** for technical training in Public Administration and for scholarships under INAP.
- And **\$548 thousand** for training of F-FDTL and PNTL officers abroad.

Your Excellency the Speaker of Parliament,

Honourable Members of Parliament,

One might think that we are presenting three separate budgets, but that is not the case, as all applications of public monies, including monies allocated to the Funds, are integrated in this 2011 State General Budget. The difference is only the modality through which the money is managed. We did not allocate to the Funds the full amount for each project, but rather the annual parcel pertaining to each. The process in terms of annual reports and audits follows Chapter VI of the Budget and Financial Management Law.

When my Government came to office, we had to bear the weight of the carry-overs, which went as far back as 2002/2003 and added up to \$119 million. We started an account closing process, which was completed on 31 December 2009. However, in this account closing process, we saw that particularly in the area of capital projects, the constraints that we all know exist in our Country prevented fast and effective implementation within the financial year for which we allocated the amounts. And what we have been doing is to re-budget all unexecuted monies, thereby reducing our budget capacity to propose more sums as capital development.

And these funds, taking into account once more the existing constraints in our Country, with eight years of age as a State, will be an enormous assistance in terms of responding to eventual difficulties caused by weather and guiding execution so as to ensure quality.

In addition to the creation of these special funds designed to improve basic infrastructure and to develop human capital, which are also catalysing aspects of private investment, the 2011 budget estimates have benefitted from other innovative criteria that have enabled us to guide the forecasting of expenses with greater efficiency.

The Government is debating the format in which to present the Budget, which, it should be said, comes from the UNTAET period. The budget of a UN mission does not have the complexity of a budget belonging to a Government of an independent State, as this Government must evidently respond to the social, economic and political requirements that arise from its status as an independent State body.

The Government sought to redraft the Budget into two major divisions: recurring expenses and development expenses. However, at the State building and Nation building stage, both types of expenses cannot be handled with the simple arithmetic of relatively fixed figures. Still, this is what we often hear described as international budget standards... but if that is so, then how can it be that so many developed countries cannot prevent falling into bankruptcy, having to resort to China to purchase their debt?

In order to prevent the various State agencies from falling into the practice of exaggerating figures concerning each subsequent year so as to ensure better budget outcomes, when drafting the 2011 SGB we set criteria under which increases are accepted, thereby reducing the possibility of uncontrolled problems in the various services. The criteria that regulated increases in current expenses were:

First – the inflation rate, which for 2011 is calculated at 4%.

Second – a normal rate of increase, from 1 to 10%, in relation to the previous budget.

Third – the attribution of an increase, from 1 to 50%, should a program be identified as a national priority.

Also, within an innovative approach towards the achievement and implementation of the plans I mentioned, the National Development Agency (ADN) will be created under the Office of the Prime Minister in order to review, monitor and supervise the implementation of the projects, namely those of the Infrastructure Fund, and to ensure greater quality control and efficiency in the procurement process.

We are aware that the Strategic Development Plan can only be implemented if approved by Parliament. However, none of us can stop thinking about the future, none of us can stop thinking that we have already gone past the ten year mark of State building and that we will now be entering a new decade, which will be a decisive one for Timor-Leste. With or without the Strategic Development Plan, there are policies that deserve to be continued in 2011, and therefore I can say that the NDA may ultimately be seen as the precursor of the agency that will one day implement the Strategic Development Plan, when the latter is approved.

I will now summarise, Ladies and Gentlemen, the main programs that the Government is responsible for implementing in 2011. **Minor Capital** was reduced to **\$28.3 million**. The main expenses in this category are the following:

- Around **\$12 million** for purchasing two patrol boats for the Security and Defence of the Country, as well as ambulances, movable banks and means of transportation for monitoring school education in rural areas and for assisting in the preparation of local and general elections.

- Around **\$700 thousand** for assisting the transfer of responsibility from UNPOL to the PNTL.
- And around **\$1.1 million** for equipment for technical and professional schools and laboratories for the Ministry of Education.

Within the policy to build the capacity of the national private sector, we have begun in 2009 an innovative program, called the Referendum Package, seeking to decentralise the private sector and therefore break the trend of all companies setting up in Dili, winning tenders and then subcontracting local companies lacking sufficient means for their own development.

In 2010, we continued with the program called PDD, through which we began transferring to District Administrators the responsibility for conducting the entire process of tenders and verification, although the latter continued to receive permanent attention by the Government.

Therefore, in regard to **Capital Development**, with a total of \$405.9 million (of which \$317.3 million is allocated to the Infrastructure Fund), the Government will continue to improve service delivery to the People at local, sub-district and district level, particularly through programs acknowledged as successful in 2010, such as the Decentralized Development Program (PDD). The main measures in this category include:

- **\$65 million** for MDGs concerning sucos, homes, water and sanitation.
- **\$15.5 million** for the PDD at village, suco and sub-district level.
- **\$28.8 million** for the PDD at district level.
- **\$166 million** for continuing to build the power plant and the power lines.
- Over **\$30 million** for the development program of Tasi Mane.

I would like to inform everyone that we have indeed received the suco development plans, commonly called PDL. The truth is that we did not have enough time to conduct a more detailed study and to integrate in a plan all proposals received from the 425 sucos, as there were many disparities in terms of actual goals.

In 2011 the Ministry of State Administration will have enough time to draft an integrated action plan that will respond to the priorities presented by each suco. This will enable the People to see their wishes reflected in future State General Budgets.

Your Excellencies,

Ladies and Gentlemen,

In relation to recurrent expenses, and compared with 2010, we also have a reduction of expenses for **Public Transfers**, which will add up to **\$164.4 million**. This will be focused on the more vulnerable groups, with the dual goal of improving the living conditions of the Timorese who gave all they had for their Nation, as is the case with the elderly, the disabled and the veterans, and also to make these People part of the development of the Independent Nation. These expenses include:

- **\$7.5 million** for demobilising the FALINTIL.
- **\$1.1 million** for the Council of Veterans.
- **\$800 thousand** for transferring the mortal remains of our victims.
- **\$58.8 million** for paying pensions to Veterans.
- **\$30.2 million** for other vulnerable groups.

Also within the category of transfers, there are initiatives that seek to continue providing assistance in areas central to pursuit of the public interest, such as:

- **\$3.4 million** for the greater capitalisation of the IMFTL under the Ministry of Economy and Development.
- **\$3.5 million** for operations and subsidies to build the capacity of local administration.
- **\$3 million** for medical treatment abroad, under the Ministry of Health.
- **\$1.5 million** towards receiving the medical students from Cuba.
- **\$2.5 million** for the capitalisation of the National Oil Company of Timor-Leste.
- **\$1 million** for responding to natural disasters.
- **\$11 million** for continuing the PDD.

The overall budget for the category of **Goods and Services** is **\$270 million**, including the Human Capital Development Fund I mentioned before. The main expenses in this category will therefore be:

- **\$32 million** for professional and technical assistance services in the areas of law, education, petroleum and financial management, procurement, foreign affairs, tourism, conflict prevention and quality control.
- **\$46 million** for fuel, including the EDTL.
- **\$1.2 million** for supporting the F-FDTL in terms of provision of operational materials.

- **\$3.4 million** for the F-FDTL Operational Package and for maintaining patrol boats.
- **\$2 million** for reducing maternal mortality and for supporting specialists in the Baucau and Suai Hospitals.
- **\$1.6 million** for providing school textbooks and **\$1.5 million** for school meals to be provided by the Ministry of Education.

Finally, the main items for 2011 in the category of **Salaries and Wages** amount to a total of **\$115.9 million**, including:

- **\$65 thousand** for recruiting PNTL and F-FDTL staff.
- **\$7 million** for salaries for education professionals, reflecting the new teacher career regime.
- **\$9 million** for representation subsidies for all missions and diplomatic representations in the world, within the scope of the Ministry of Foreign Affairs.
- The increase of the investment on Salaries and Wages will also cover the conversion of temporary civil servants into permanent ones, according to the Reform of the Civil Service.

Finally, I must also mention a substantial increase in the amount for the Contingency Fund, although I cannot guarantee that it will turn out to be sufficient.

Last year we witnessed natural disasters causing incalculable damages throughout the world. In our Country, we could not respond efficiently to the damage caused by rains. The harvest of the 2nd season was destroyed by rain and the production of the 1st season, which is essentially corn, was almost non-existent.

No one can give us a weather estimate for the entire year of 2011. In our region, precisely at this start of the year, we are seeing a disproportional increase of rain and flood waters in Queensland, devastating fires in the forests near Perth, floods in Thailand, Malaysia, the Philippines and Bangladesh, not to mention Indonesia, with its earthquakes and volcanoes.

The Contingency Fund may seem large, but in fact it may even turn out to be insufficient should we have a year of hard rain or of serious draught. God alone knows the exact amount that we will need.

Meanwhile, the Government vows to regulate properly the use of this Contingency Fund, so that it may deal effectively with situations of extreme need resulting from climatic changes.

Your Excellency the Speaker of Parliament,

Honourable Members of Parliament,

Ladies and Gentlemen,

People of Timor-Leste,

We are at the dawn of a decade that can be historical for Timor-Leste in economic terms. Success in consolidating Timor-Leste and in moving to a medium-high income economy depends mostly of the following factors:

First – continued maintenance of National Stability. Here I have full confidence in our People and in our Defence and Security Forces which will remain united and motivated towards the good of the Country.

Second – improved service delivery, particularly to underprivileged sectors of society, accelerating social assistance and improving our systems for surveying and monitoring beneficiaries and payment procedures.

Third – continuation of our institutional reforms, from the improvement of financial administration and management systems and processes to the better coordination and communication between State services and offices, thereby ensuring greater cooperation and transparency, as well as good governance of the Agencies.

Fourth – continued promotion of civic education, helping people understand that rights also come with responsibilities, and that State building requires changing ways of thinking as well as new ideas.

Fifth – promotion of the capacity of the private sector as a partner of Government, so that in time it may assume the role that is now fully played by the State, i.e. driving the economy towards sustainable development.

Sixth – efficient implementation of the development strategy in regard to human capital development and infrastructure programs, so as to diversify the economy, to create surpluses from other productive sectors and to reduce dependency on our petroleum sector.

Finally, Ladies and Gentlemen, all these efforts will be wasted if we cannot maintain **political harmony and maturity**, if we do not respect the **value of dialogue** and the **right to have different, although constructive, opinions**.

This is a responsibility that must be carried out here in this Great House, by Government Members and the Members of Parliament, between the AMP parties and the opposition parties, between the new generation and the old generation. This is an example that can and should be expanded to the entire Timorese society.

If from 2000 to 2010 we have discovered the true concept of Independence and its resulting challenges, this new decade, from 2011 to 2020, will mark a new start for Timor-Leste, where we will work towards the consolidation of political and social stability and achieve real long term growth and development. We can go as far as saying that we will be working to create “the region’s new economic miracle”!

All recent economic and social indicators have supported this “wave of change” for our People and our Nation. Rather than being a failed State, as many said Timor-Leste would become, we are now in the top 10 fastest growing economies in the world!

Obviously these indicators are only of value if the Timorese are able to feel a difference in their daily lives, but they nevertheless provide unquestionable evidence that our efforts so far have been successful. And although fruit needs time before it can be plucked from a tree, in the case of Timor-Leste, a fertile land of people who have suffered, it would be well if these fruits could start being plucked as soon as possible.

We are thus creating opportunities so that all people can participate in the construction of the Nation. The People of Timor-Leste enabled the progress made last year to occur through their active, positive and hopeful participation!

This is not the time to be pessimistic. This is the time for hope and change. Only by believing, as we did ten years ago, can our Nation move forward and grow.

Thank you very much!

Kay Rala Xanana Gusmão
12 January 2011

PART 2. EXECUTIVE SUMMARY

Note: *The contents of the book have been revised to take into consideration the changes which took place during the Parliamentary Debate.*

Budget Outlook

The Combined Source Budget for Timor-Leste in 2011 is \$1.5 billion comprising the General State Budget in the amount of \$1.3 billion, and \$194.8 million from Development Partners, as shown in Table 2.1.

Table 2.1. Combined Source Budget, 2011 – 2015 (\$ million, prelim)

Budget	2010	2011	2012	2013	2014	2015
CFTL	837,9	681,7	671,2	694,2	718,1	743,0
Infrastructure Fund	-	599,3	597,2	620,9	645,8	671,6
HCDF	-	25,0	30	35	40	45
General State Budget	837,9	1.306,0	1.298,4	1.350,1	1.403,9	1.459,6
Development Partners	256,8	194,8	112,7	75,2	32,7	0
Combined State Budget	1.094,7	1.500,8	1.411,1	1.425,3	1.436,6	1.459,6

Source: Budget and Aid Effectiveness directorates, Ministry of Finance, 2010

Table 2.2 shows Consolidated Fund of Timor-Leste (CFTL) by categories of expense, divided between recurrent and capital.

Table 2.2. CFTL by Category, 2011 – 2015 (\$ million, prelim)

Budget	2010	2011	2012	2013	2014	2015
Recurrent						
Salary and Wages	99,1	116,8	121,1	125,5	130,1	134,8
Goods and Services	266,9	269,1	260,4	270,5	281,1	292,0
Public Transfers	184,6	177,5	182,9	187,2	191,5	196,1
Capital						
Minor Capital	34,5	29,3	29,6	30,7	31,9	33,3
Capital & Development	252,8	89,0	77,2	80,3	83,5	86,8
CFTL Total	837,9	681,7	671,2	694,2	718,1	743,0

Source: Budget Directorate, Ministry of Finance, 2010.

Economy

The international economy has begun to recover from the financial crisis that plunged major advanced economies into recession and impacted adversely on the majority of emerging and developing countries. Timor-Leste was relatively sheltered from the crisis and its economic growth remained strong throughout, as result of limited exposure to international trade and no financial industry. Overall real economic growth in Timor-Leste in 2009 is estimated at 13%, with Public Sector contributing 5.6% of this growth, Agriculture contributing 3.9% of growth and

Industry and Services contributing the remaining 3.5%. Going forward, it is projected that the economy will continue its double digit economic trajectory from 2011 through 2015 driven primarily by public expenditures.

Since the 2008 financial crisis, oil prices have risen and stabilized at around \$70-\$80 per barrel. Oil demand has risen in the first half of 2010, particularly in China, on the back of a rebound in global activity. Timor-Leste's petroleum revenues, including interest, were \$1.84 billion in 2009. It is estimated that the petroleum revenues will reach \$2.02 billion in 2010, primarily due to an increase in the average oil price from \$62 per barrel in 2009 to an estimated average of \$76 per barrel in 2010.

Expenditure

For 2011, the Government has determined the following expenditure priorities:

- **PN1: Infrastructure:** electricity, roads and bridges, water and sanitation.
- **PN2: Rural development:** agricultural productivity, livestock, access to microcredit and environmental protection.
- **PN3: Accelerated development of human resources:**
 - Professional and technical training;
 - Justice, health and teachers training;
 - Specialist training in the finance, management and administration areas.
- **PN4: Access to justice.**
- **PN5: Delivery of Public Services:**
 - Assistance to Vulnerable groups, health and education;
 - Improve public service and access.
- **PN6: Good Governance**
 - Focus in the transparency, accountability, coordination between ministries and user services and training of inspectors and auditors.
- **PN7: Public Security and Stability**

This year's Budget Review Retreat, led by the Prime Minister reviewed the budget submissions based on a careful assessment of prior years budgets, and redirected savings to national priorities which are to transform Timor-Leste:

- from a low-income country to an upper-middle income country by 2030, and
- by reducing its dependence on oil.

Public investment will constitute a major driver of growth in the immediate phase of this plan and provide a catalyst for private investment to supplant government expenditure. Two Special Funds, the Infrastructure Fund (FI) and the Human Capital Development Fund (HCDF),

will be established to better manage the capital expenditure of the State under the stewardship of the Prime Minister and relevant line ministers.

The Government will create a National Development Agency (ADN) in 2011 to provide technical assistance as well as ensure quality control in the implementation of the capital projects. In addition, a Procurement Commission will also be established to manage procurement.

The centralization of decision making on the projects within the Special Funds will ensure projects are better coordinated between line ministries and in line with the established priorities.

Revenues

In 2010, Domestic Revenues reached \$96.2 million despite a reduction in revenues from rice. Domestic Revenue will continue its growth trajectory and reach \$163.3 million by 2015. These are conservative estimates as further regulatory reforms, improved tax administration, and increased compliance may result in additional revenues.

The Petroleum Revenues are expected to remain high in 2011 and 2012 due to stable production and higher average oil prices. The estimated Petroleum Revenues for 2011 and 2012 are \$2.3 billion and \$2.4 billion respectively. The Petroleum Fund balance is expected to be \$6.62 billion at the beginning of 2011 representing an increase of \$1.24 billion from year on year. The Estimated Sustainable Income (ESI) for 2011 is calculated at \$734 million. This is an increase of \$232 million from ESI 2010, and results basically from a change of methodology for the oil price forecast.

The Government in the last three years has fully implemented its investment strategy, and fully utilized the scope of the Petroleum Fund Law. The Petroleum Fund now invests not only in US bonds but also in other foreign Government bonds, and Supranational Organizations. An equity mandate has been added to its portfolio in October 2010.

The Government's strategy to further diversify the Petroleum Fund portfolio will necessitate amendments to the Petroleum Fund Law and will require approval by Parliament. Diversification will manifest in an increase exposure to equities.

Development partners will contribute \$194.8 million in 2011 to the Combined Source Budget of Timor-Leste. Development partner's contribution will reduce disproportionately from 2010 onwards. This reduction is based on actual information to date and therefore does not reflect an absence of future international support and commitment.

Financing

Aside from traditional funding sources, a deficit will arise between desired development and domestic available resources over the medium and long term. Accordingly, the Government is exploring alternative funding options to finance strategic public investment.

A Debt Management Unit (DMU) has been established within the Ministry of Finance to ensure effective and efficient management of public debt should it arise. The Government is assessing the benefits of borrowing as opposed to relying exclusively on the Petroleum Fund revenues, including the financing options of Private Public Partnerships (PPP).

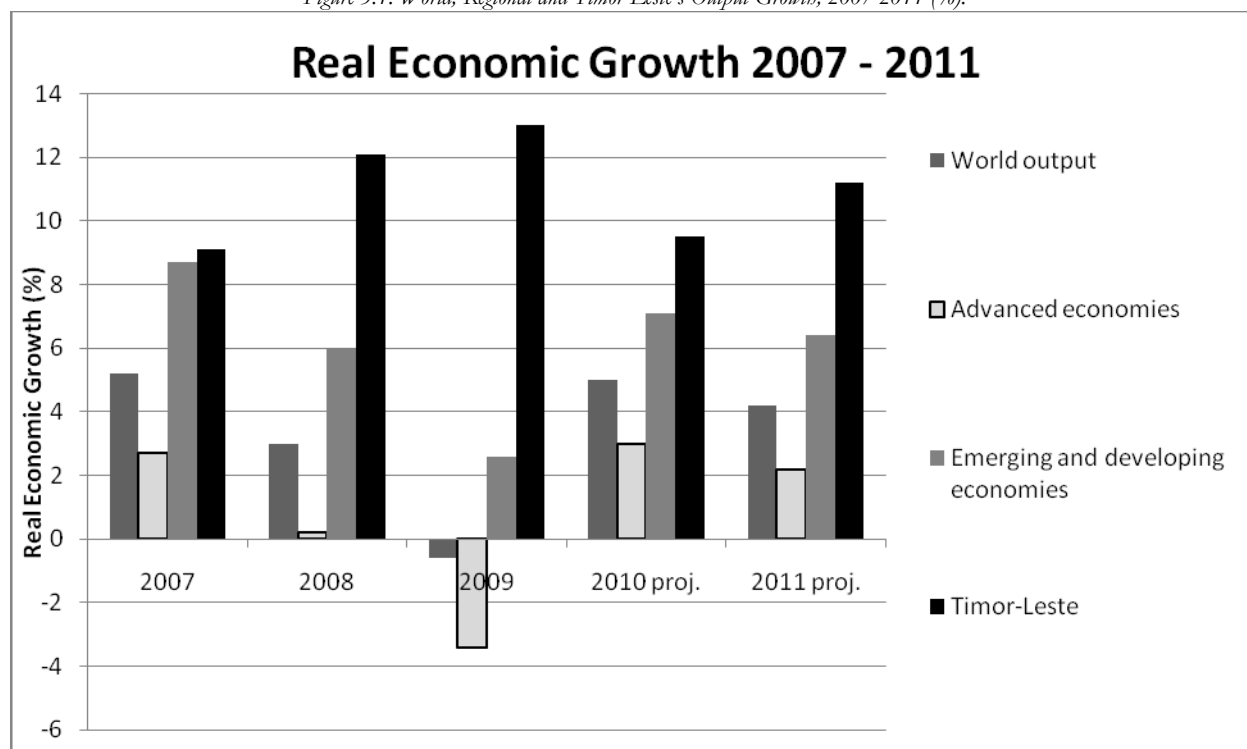
PART 3. ECONOMIC OUTLOOK

1. International Economy

The international economy has begun to recover from the financial crisis that plunged major advanced economies into recession and impacted adversely on the majority of emerging and developing countries. Over the first half of 2010 the world economy expanded at just over 5%, on an annual basis, according to the October 2010 IMF World Economic Outlook (WEO). Global output is now expected to rise by 4.8% in 2010 and 4.1% in 2011 and IMF's assessment is that the risk of a strong global downturn in economic activity is low. *Figure 3.1* shows world output between 2007 and 2011 and the impact of the recession and subsequent recovery. Timor-Leste was relatively sheltered from the crisis and its economic growth remained strong throughout.

Overall, inflation rates around the world are forecast to stay low due to excess capacity and high levels of unemployment. Financial markets have begun to return to their pre-crisis level, although in early 2010 financial market volatility increased and investor confidence dropped. This highlights the fragility of the recovery process. However, the extent of recovery varies substantially across regions; Asia and Latin America are the fastest rebounding regions.

Figure 3.1: World, Regional and Timor-Leste's Output Growth, 2007-2011 (%).



Source: IMF, *World Economic Outlook*, October 2010; *WEO Update* Jan 2011; Macroeconomic Directorate, Ministry of Finance (for Timor-Leste estimations).

Advanced Economies

Growth has accelerated in Europe in 2010, but elsewhere in the USA and Japan economic activity slowed in the second quarter of 2010. Advanced economies are battling with the need to reduce high levels of public and private debt, while consumption remains low due to a lack of consumer confidence and reduced household incomes. Advanced economies were hit hardest by the spread of global unemployment and in 2010 unemployment rates in advanced economies have dipped modestly from peak rates. There is also a pressing need to reform financial sectors, which are still vulnerable to shocks. Growth rates are reportedly slowing as public sector stimulus eases and IMF projects only 2.7% and 2.2% in output growth for 2010 and 2011 respectively in advanced economies.

Asia

Economies of advanced Asia (apart from Japan) experienced a strong rebound, with output already exceeding pre-crisis levels. Large manufacturing sectors in these countries have benefited from renewed levels of international trade. A strong demand-driven recovery is underway in Asia's newly industrialized economies (NIEs¹) and the ASEAN economies², with strong domestic activity coupled with healthy regional demand, particularly from China. Demand for commodities and electronics in particular is benefiting exporting countries and private investment activity is strong (although in Malaysia investment is not in full swing as in other countries).

Emerging Asia has also seen capital inflows return after the international crisis; inflows have increased by more than four times over the four quarters to October 2010. Many of these economies have already adopted prudent macroeconomic policies to protect against adverse effects from potential volatility of capital flows. Demand from Asian economies, particularly China, India and Indonesia has spurred growth in emerging Asia as well, with economic growth averaging 9.5% over the first half of 2010. In most Asian countries the transition from public sector-driven growth to private sector-driven growth is making good progress. The post-crisis era is a good time for Timor-Leste to take advantage of strong regional demand by increasing exports. *Table 3.1* shows the extent and timing of the economic recovery in selected Asian countries.

¹ NIEs include Hong Kong SAR, South Korea, Singapore and Taiwan Province of China.

² Indonesia, Philippines, Malaysia and Thailand

Table 3.1: Real Economic Growth in Asian Economies, 2007 – 2011 (%)

	Actual			Projection	
	2007	2008	2009	2010	2011
China	14.2	9.6	9.2	10.3	9.6
Australia	4.8	2.2	1.2	3.0	3.5
Singapore	8.5	1.8	-1.3	15.0	4.5
ASEAN-5	6.7	4.6	1.7	6.7	5.5
Indonesia	6.3	6.0	4.5	6.0	6.2
Vietnam	8.5	6.2	5.3	6.5	6.8
Philippines	7.1	3.7	1.1	6.0	4.0
Thailand	4.9	2.5	-2.2	7.5	4.0
Malaysia	6.5	4.7	-1.7	6.7	5.3
Timor-Leste	9.1	12.1	13.0	9.5	11.2

Sources: IMF, *World Economic Outlook* October 2010 and *WEO Update* Jan 2011; Macroeconomic Directorate, Ministry of Finance (for Timor-Leste data).

Emerging and Developing Countries

Emerging and Developing countries' prudent policies have led the IMF to project significantly improved medium-term growth compared to previous post-global recession periods; 7.1% growth in 2010 and 6.4% in 2011. As with all regions, recovery has been heterogeneous, with developing and emerging countries growing significantly faster; Timor-Leste is an example of such a country. Countries that were hit hard by the recession are straining to sustain economic growth after the crisis; these include many regions in emerging Europe and the Commonwealth of Independent States.

Noting that developing countries have begun to benefit from the higher post-crisis levels of global trade, which is contributing to their strong growth, IMF recommends measures to improve developing countries' market access, for example, 100% duty-free and quota-free market access for the least developed countries, complemented by liberal rules of origin. This should be implemented alongside programs aimed at strengthening low income countries' capacity to trade. Trade facilitation is especially important at a time when capital is scarcer than before the global recession and developing countries must rely more heavily on domestic revenues. Policy to supplement traditional forms of financing could include public-private partnerships (PPP) and South-South investment initiatives.

World Prices

The main impact of world economic activity on Timor-Leste is on oil revenues, through changing prices in oil. However, through saving the majority of oil revenues and spending via the mechanism of the Estimated Sustainable Income, Government spending in the domestic economy is protected from oil price fluctuations. Changing oil prices have no short-term impact on economic growth. In 2008 the world price of oil collapsed from over \$140 per barrel mid-year to

just \$40 by the end of 2008. Since then, oil prices have risen and stabilized at around \$70-80 a barrel and oil demand became stronger in the first half of 2010, particularly in China, on the back of strong global activity. Oil demand is projected to rise with economic recovery but advanced economies' slow-paced recovery will counteract much of the expected rise in demand for oil from emerging and developing countries. Oil prices are projected to rise gently but not exceed \$90 per barrel by 2013. A more detailed description of the impact of oil prices on Timor-Leste's oil wealth and projected oil revenue streams can be found in the Petroleum Sector section below.

Commodities are real assets as well as goods, and accordingly their prices can be affected by changing expectations over the global economic forecast. The IMF report that rapidly changing expectations in May and June 2010 resulted in broader financial market volatility spilling over into commodity markets, observed by a decline in commodity prices, after peaking in early May 2010. Since the decline, most commodity prices are on the rise again but only food, beverage and agricultural commodity prices have exceeded their peak in May. Rising food prices are a result of recent supply shocks from bad weather leading to poor harvests. Specifically, drought and wildfire in Russia and in other major exporters resulted in low wheat harvests with consequent surges in wheat prices in July and August 2010. The impact of rising global food prices can be seen in markets in Timor-Leste, mostly in Dili (see the Inflation section below).

Wheat markets are more vulnerable to shocks over this harvest period and the IMF assessment is that any further shocks to this harvest would probably spill over and impact on other major crop prices. Over the medium-term commodity prices are forecast to remain relatively high, accompanied by upside risks.

2. Domestic Economy

Non-oil GDP

Table 3.2 shows the evolution of the structure of Non-Oil Domestic Product (GDP) over seven years in Timor-Leste. The public sector's share in economic output increased from 31.6% to 38.4% between 2002 and 2009 while the United Nations' share decreased across this period by 61%. This is true despite the increased role of the United Nations since 2005, which has only partly offset the decline in UN presence in the four years leading up to the 2006 crisis. After 2003 the economy moved into recovery, driven by moderate growth in agriculture and public sector production. However, social unrest in 2006 destroyed parts of the economy, reducing the size of the economy by almost 6% in real terms.

Table 3.2: Sectoral share of real non-oil GDP, 2002 - 2009 (%)

	2002	2003	2004	2005	2006	2007	2008	2009
Real Non-oil GDP, excl. UN	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Including UN	119.0	113.0	109.4	105.6	108.1	115.2	114.7	111.7
Agriculture	33.5	32.7	33.3	33.2	35.3	30.6	30.9	30.8
Industry and Services	34.9	34.9	34.2	32.9	29.9	31.6	31.3	30.8
Public Sector, excl. UN	31.6	32.4	32.5	33.9	34.9	37.8	37.8	38.4
United Nations	19.0	13.0	9.4	5.6	8.1	15.2	14.7	11.7

Source: Macroeconomic Directorate, Ministry of Finance, 2010.

Table 3.4 illustrates that over the years since 2007, the Timor-Leste non-oil economy has continued to expand rapidly, driven primarily by public sector spending. Government spending has stimulated both the demand and supply sides of the domestic economy, contributing to impressive growth rates in many areas of the private sector. On the demand side, government funds have been allocated to social transfer schemes as well as creating tens of, thousands of jobs for unskilled labourers through infrastructure spending. Infrastructure developments and improvements in public services and public utilities have boosted the production capacity of private businesses. Overall real economic growth in Timor-Leste in 2009 is estimated at 13.0%, with public sector production contributing 5.6 of the 13 growth percentage points, agriculture contributing 3.9 of the points and industry and services contributing 3.5 of the percentage points to growth in Non-Oil GDP of Timor-Leste.

Table 3.3: Nominal GDP by sector

	2002	2003	2004	2005	2006	2007	2008	2009
Non-oil GDP, excl. UN	257.7	266.9	280.8	301.9	297.1	357.8	444.6	557.8
Agriculture	86.1	87.7	93.4	100.4	104.8	102.1	122.4	146.3
Industry and Services	90.2	94.4	96.0	99.2	88.8	111.3	135.1	161.7
Public Sector, excl. UN	81.4	84.8	91.4	102.3	103.6	144.4	187.1	249.8

Source: Macroeconomic Directorate, Ministry of Finance, 2010.

Table 3.4: Real GDP Growth Rate (%)

	2002	2003	2004	2005	2006	2007	2008	2009
Real Non-oil GDP, excl. UN	2.1	-0.1	4.4	6.5	-5.9	9.1	12.1	13.0
Agriculture	3.1	-2.5	6.2	6.4	-0.1	-5.4	13.4	12.6
Industry and Services	1.6	0.0	2.1	2.6	-14.6	15.3	11.2	11.2
Public Sector, excl. UN	1.7	2.3	5.0	10.8	-3.1	18.5	11.7	15.0

Source: Macroeconomic Directorate, Ministry of Finance, 2010.

Due to poor weather conditions in 2007, the agriculture sector suffered badly, with negative growth reported. However, the sector recovered in 2008 and stronger growth in the food sector is reported through into 2009. Ministry of Agriculture and Fisheries (MAF) report that productivity of land, particularly for rice and maize, rose sharply in 2009 following distribution of seeds, fertilizer and hand tractors. A poor year for coffee production was reported in 2009, with

minimal or negligible growth levels experienced by many farmers. High hopes for 2010 coffee production were dashed, largely due to persistent unseasonal rains, and only slight growth on 2009 is anticipated overall for 2010.

In the industry and service sector, wholesale and retail trade grew most rapidly in 2009 with substantial real growth also observed in transport and communications, manufacturing and private construction sectors. Overall, the private sector has seen double-digit growth since 2007.

Government Expenditures

Expenditure in 2009 reached a record \$603.6 million, increasing on 2008 expenditure levels by 25%. In 2009, 35% of the executed budget was spent on Capital and 65% on recurrent expenditure. This represents an increase in the proportion of spending afforded to capital, relative to recurrent items. In 2008, the split was 26% and 74% respectively. The budgeted divide in 2010 is 34% for capital spending and 66% for recurrent spending, maintaining 2009 allocations between these two broad categories. Total budget execution until February 16th 2011, for the 2010 budget, was 89.2% of the \$838 approved by the National Parliament in the Rectified 2010 Budget; on a cash basis, execution to February 16th 2011 was therefore \$747.5 million. The execution rate in 2010 is marginally higher than for 2009, for which 88.7% of the budget was executed.

During 2008, 2009, and 2010, the Government has placed public financial management on firm foundations. The direction and progress of the Government was confirmed by a number of independent reviews undertaken by leading international financial institutions. This included a Public Expenditure and Financial Accountability (PEFA) assessment and a Report on the Observance of Standards and Codes (ROSC) carried out by the IMF.

Improved service delivery by decentralisation remains a focus of Government. This related particularly to increased financial capacity and autonomy in line ministries and decentralisation of procurement. As a result of visits to the districts by the Prime Minister, local management of smaller projects were envisaged. To achieve the Government's priorities while maintaining fiscal responsibility has required reduced expenditure in areas of lower priority.

Table 3.5: Whole of Government Expenditures (\$ million), including Auto Agencies.

	02/03	03/04	04/05	05/06	06/07	2007	2008	2009	Execution 2010	Budget 2010
Total expenditures	60.7	70.5	70.2	93.7	170.5	97.2	483.9	603.6	758.2	837.9
<i>Recurrent expenditures</i>	49.9	59.2	59.9	71.2	139.5	63.1	356.0	394.3	504.2	550.6
Wages and Salaries	20.5	23.1	24.8	26.1	33.8	17.4	50.3	87.3	93.6	99.1
Goods and Services	29.4	36.0	35.2	45.1	93.9	37.1	221.4	212.8	242.1	266.9
Transfers	0.0	0.0	0.0	0.0	11.8	8.6	84.3	94.2	168.5	184.6
<i>Capital expenditures</i>	10.9	11.3	10.3	22.5	31.0	34.1	127.9	209.3	254.0	287.3
Minor Capital	Unknown distribution				9.3	0.7	41.4	38.5	38.6	34.5
Development & Major Capital					11.7	0.7	86.5	170.8	215.4	252.8
Capital Transfers	0.5	0.4	0.0	10.9	0.0	0.0	0	0	0.0	0.0
Unallocated Capital Carryovers	5.7	7.3	8.4	8.3	10.0	32.7	--	--	--	--

Source: Timor-Leste Ministry of Finance, Treasury Department and 2009 Budget for actual values; Macroeconomic Directorate for 2010 projections.

Domestic Revenues

Overall, domestic revenues are estimated to reach \$96.2 million in 2010, up from \$91.1 million in 2009. Although this growth rate of 5.6% is significantly slower than the 30.3% achieved last year, it was to be expected that strong growth would be achieved from the lows of the crisis period. The fall in growth rates also is accounted for by reductions in rice revenues (subsidy) intended only as a temporary measure.

Government tax revenues increased by 17.2% in 2009 to \$43.7 million or up from \$37.3 million in 2008. Tax revenues will continue to increase in 2010 reaching \$50.2million (*Table 3.6*). Direct Tax revenues performed better than expected in 2009 in light of the tax reforms of 2008. But the resuming growth in 2010 will bring revenues from Direct Taxes back to the levels of 2008 (\$18.2 million). It is projected further growth in Direct Taxes in the coming years as the economy continues to expand. Indirect Tax revenues grew strongly from \$19.3 million in 2008 to \$30.3 million in 2009 despite Tax Reforms in 2008. It is estimated that Indirect Taxes will be \$32 million in 2010 and continue to grow in the years to come.

User Fees and Charges is another area that showed increased growth from 2008 to 2009. The significant increase from \$6.2 million in 2008 to \$16.5 million in 2009 is attributable to an extraordinary refund, another of which will see the item reach 19.6m in 2010 before normal growth returns from 2011 onwards.

Autonomous Agency revenues grew from \$7.9 million in 2008 to \$10.2 million in 2009. It is estimated at \$13.7 million in 2010. This is driven largely by increased revenue performance by EDTL, as their efforts to increase pay for use and higher tariffs take effect. Rice subsidies were introduced in 2008 to protect the Timorese people from spikes in international food prices. Revenues flowing from these measures increased from \$16.8 million in 2008 to \$20.4 million in

2009. It is estimated to be \$12.6 million in 2010. However, as world food prices stabilize and the need for government subsidy is reduced, revenues in this area are estimated to fall to \$10.0 million in 2011.

Table 3.6: Domestic Revenues, 2002-2010 (\$ million)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 Estimate
Total Domestic Revenues	24.8	29.9	36.8	45.2	40.9	48.9	69.7	91.1	96.2
Direct taxes	5.8	5.9	6.6	10.6	10.1	12.6	18.0	13.4	18.2
Indirect taxes	12.9	14.8	18.6	17.5	16.6	18.8	19.3	30.3	32.0
User fees and charges	1.4	3.3	4.5	4.3	3.1	4.3	6.2	16.5	19.6
Autonomous Agencies	4.6	5.8	7	7.9	6.8	6.9	7.9	10.2	13.7
Interest	0.1	0.1	0.1	4.9	4.3	6.3	1.5	0.3	0.1
Rice sales	0	0	0	0	0	0	16.8	20.4	12.6

Source: Timor-Leste Ministry of Finance, Directorate of Treasury 2002 -2009 for actual values; Macroeconomic Directorate for 2010 Estimate.

Petroleum Revenues

Timor-Leste's Petroleum Revenues, inclusive of Petroleum Fund interest, were \$1.84 billion in 2009 with oil price of \$62 per barrel and an estimated \$2.02 billion in 2010 with expected oil price per barrel to be \$76. However, lower commodity prices over the near term bring with them lower crude oil prices. Using the projections by the US Energy Information Administration (EIA) for crude oil,³ petroleum receipts will significantly exceed the 2009 Budget projections for both 2009 and 2010 because of higher production levels than the conservative production estimates required and new negotiated contracts favorable to Timor-Leste.

The Petroleum Revenues are expected to remain high in 2011 and 2012 due to relatively stable production and oil price forecasts such that petroleum revenues are estimated at \$2.29 billion and \$2.40 billion in 2011 and 2012 respectively.

The Petroleum Fund balance is expected to be \$6.62 billion by end of 2010, which is up from \$5.38 billion by end of 2009. The Petroleum Fund balance is estimated at \$7.8 billion by the end of 2011, \$9.0 billion by the end of 2012 and \$12.2 billion by end of 2015.

The Estimated Sustainable Income (ESI) is calculated at \$734 million for 2011, which is an increase of \$232 million from 2010. The main reason for the increase is a change of methodology of the ESI calculation. While Energy Information Administration's (EIA) Low Case has been used as the West Texas Intermediate (WTI) oil price forecast in the past, the average of EIA's Low and Reference Case is now used as the long term oil price forecast in the ESI

³ *Annual Energy Outlook: 2009 – Official US Government Energy Statistics*, Energy Information Administration, March 31, 2009.

calculation for 2011. The WTI oil price forecast for 2011 and 2012 is \$68 and \$71 per barrel respectively and increases to \$110 in 2024.

The Government has over the last three years gradually developed the investment strategy of the Petroleum Fund. The objective is to diversify the portfolio into a range of asset classes, regions and currencies in order to reduce risks and increase expected return. A range of foreign Government bonds and bonds issued by Supranational Organizations have been added to the portfolio since 2009 and in October 2010 the Fund commenced investing in global equities.

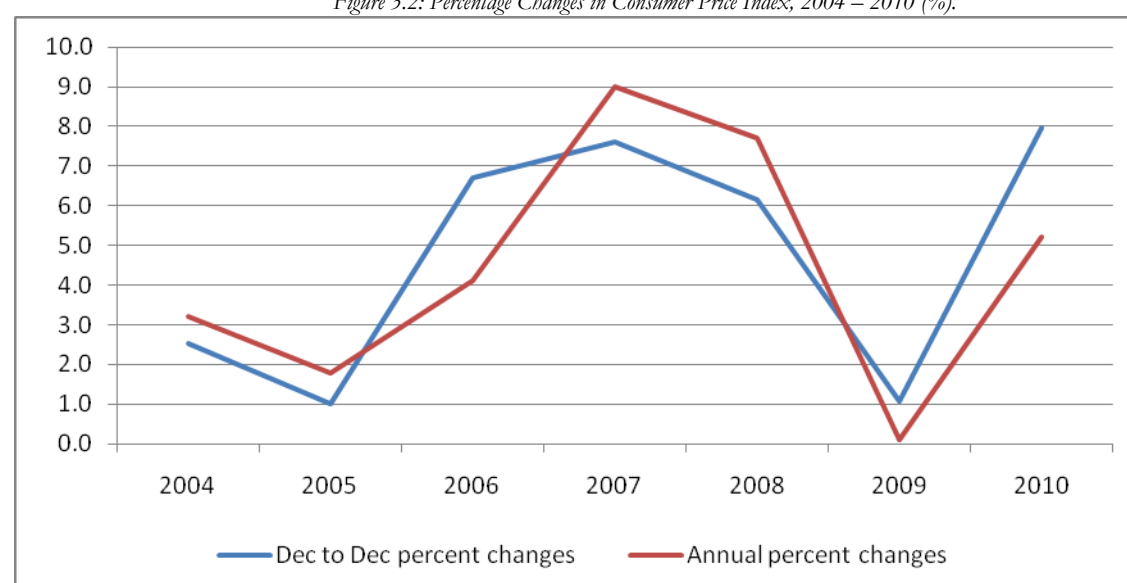
Further diversification requires changes in the Petroleum Fund Law. The investment strategy will be further developed once the amendments to the Petroleum Fund Law are approved by Parliament.

Inflation

2009 headline inflation in Timor-Leste and Dili was 1.1% and 1.7% respectively, measured as a rolling year rate (DNE, 2009). These figures represent a drop in inflation rates from 2007 and 2008, when prices rose sharply, putting pressure on consumers' purchasing power.

Figure 3.2 shows annual trends in inflation in Timor-Leste.

Figure 3.2: Percentage Changes in Consumer Price Index, 2004 – 2010 (%).



Source: National Directorate of Macroeconomics and National Directorate of Statistics, Ministry of Finance, 2011

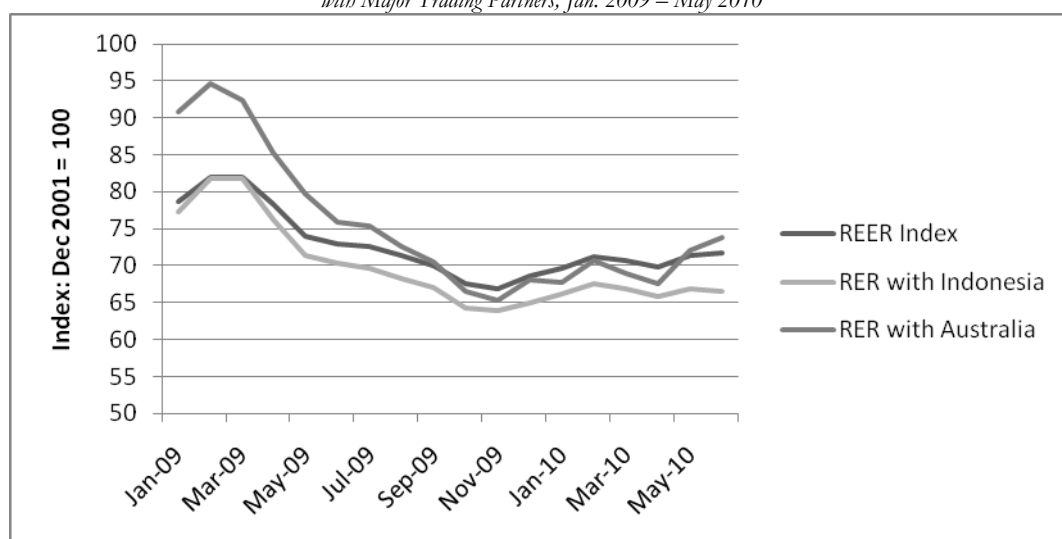
Relatively low levels of inflation in 2009 and continuing in early 2010, reflect lower inflation of all categories of goods, but primarily food, which peaked in 2007 and 2008 following the “global food price crisis”. The second and third quarters of 2009 prices actually fell; or year-on-year deflation over these two quarters were -2.8% and -1.7% respectively. By the fourth quarter of 2009 prices started to pick up and in 2010 this trend continued; 2010 inflation exceeded 2009 inflation, with headline inflation in December 2010 standing at 9.2% in Dili and 8% in

Timor-Leste (relative to December 2009). Part of this inflationary pressure, in Timor-Leste but especially Dili, comes from price rises for food, in particular cereals, following sharp international price rises for cereals (see International Economy Section). June 2010 prices for ‘cereals, roots and their products’⁴ in Dili were 14.1% higher than prices in June 2009.

The potential for high inflation remains a concern particularly in the short-term with increased public spending and rising food prices. However, public spending on core infrastructure, advancement of the business environment and improving the capacity of the port should improve the efficiency and capacity of the supply side of Timor-Leste, putting downward pressure on inflation over the medium term. Subsidized rice protected Timor-Leste from steep rises in the world price of rice in 2008. However, since the price of rice has declined sharply in international markets after its peak in mid-2008, the need for subsidies has greatly diminished. Despite signs in mid-2010 of an increased world price of rice, by the end of 2010 the Thai rice price remained close to half its peak value of 2008.

Figure 3.3 shows the evolution of the real effective exchange rate (REER) between the US Dollar and the currencies of Timor-Leste’s major trading partners. The real exchange rate between the US Dollar and the currencies of Australia and Indonesia are also displayed. Over 2009 a real depreciation was observed, meaning Timor-Leste’s exports became more competitive in foreign markets. In the first half of 2010 the REER has started to appreciate, coincidentally with rising inflation.

Figure 3.3: Real Effective Exchange Rate and Real Exchange Rate Changes with Major Trading Partners, Jan. 2009 – May 2010



Source: Bank and Payments Authority, Timor-Leste.

⁴ This category includes local rice, imported rice, cassava, wheat flour and instant noodles.

Employment

Timor-Leste has a rapidly expanding labour force together with high levels of unemployment and underemployment. The size of the labour force (15 – 64 year olds in work, or unemployed but actively seeking work) in 2010 is approximately 375,000, with an estimated 10,000 - 15,000 newcomers each year. The private sector employs less than 10% of the labour force, as does the public sector, so the vast majority have no choice but to participate in low-productivity subsistence agriculture. Unemployment is largely an urban phenomenon and can pose a threat to social stability. Spending on infrastructure projects has the potential to absorb some of this labour in the short-term through well-targeted infrastructure projects that employ relatively more labour than capital. Timor-Leste potentially has a competitive advantage in such labour-based infrastructure projects, but quality of the projects' outcomes must be ensured.

The Government of Timor-Leste has strived to create short-term jobs for unskilled labour, with an estimated 33,020 'full-time-equivalent'⁵, unskilled jobs created from public infrastructure spending in 2008 and 61,174 'full-time-equivalent' jobs generated for unskilled labourers from infrastructure spending in 2009. The infrastructure content in the 2010 Rectified Budget is larger still, leading to an estimated 64,921 unskilled full-time-equivalent jobs that could potentially have been created for unskilled labourers⁶. Secretary of State for Professional Training and Employment (SEFOPE) contributed an additional 4,363 'full-time equivalent' jobs, over 2008 and 2009, through their targeted labour-intensive infrastructure projects.

Poverty and MDGs

A household is said to be poor if per capita consumption falls below the 'basic needs' poverty line. Those living below the poverty line are therefore unable to afford 2,100 calories per day while also meeting basic non-food needs. In a 2007 survey⁷, 49.9% of the population were estimated to live below the poverty line. However, in 2010, the World Bank reported that in 2009, 41% of the population lived below the poverty line⁸. The fall of almost 9 percentage points is partly because of higher rate of real economic growth since 2007 and social transfer programs such as pensions for elderly, veterans, housing subsidy for IDPs, and cash for work programs that contributed to increase of private consumption. Low inflation rates since mid-2008 also increased private consumption levels because of increase in purchasing power.

⁵ Full-time-equivalent (FTE) jobs are based on 249 calendar days a year constituting a full-time job.

⁶ Macroeconomic Directorate, Ministry of Finance. 2010 estimate uses 2009 budget execution rate.

⁷ Timor-Leste: Poverty in a Young Nation, 2008, National Directorate of Statistics (DNE), Ministry of Finance.

⁸ World Bank methods ensure comparability between this prediction and the 2007 estimates produced by DNE. Details taken from World Bank Poverty Note, 2010.

The UN 2010 Human Development Report recently released, positions Timor-Leste at 120 out of 169 countries, which is an improvement of 14 places. From 2005 to 2010, Timor-Leste's HDI value increased from 0.428 to 0.502, an increase of 17%.

Besides consumption, preliminary analysis of the Demographic Health Survey 2009-2010 (DHS 2009-2010) compared to DHS 2003 and TL-SLS 2007 suggest improvements in living conditions in recent years. For example, 45% of children are underweight in Timor-Leste, which represents a drop from 48.6% estimated for 2007 in the TL-SLS. Further, the incidence of wasting fell from 24.5% in 2007 to 19% in 2009. Wasting occurs when children become severely underweight for their height, due to very low energy intake in the short term, which is closely linked to changes in the level of poverty⁹.

In the education sector, the net enrolment rate in primary education has increased from 65.6% in 2007 to 82.7% in 2009. Additionally, the completion rate increased from 47% in 2004 to 56.9% in 2009. This is in the context of increasing school enrolments, which rose from 65% in 2007 to 83% in 2009/2010.

Timor-Leste has surpassed the MDG target for 2015 for both under-five mortality rate and infant mortality rate based on targets set in 2004 and also the detection and cure of Tuberculosis with new target being set. In 2009, the National TB program has achieved the two key global targets for TB control namely, a New Smear Positive (NSP) case detection rate of 70% (global target 70%) and treatment success rate of 85% among NSP cases registered in previous year (global target is 85%).

In addressing the need to fast track achievement towards the MDGs, the government has created an innovative program to be launched in 2011, the MDG Sucos program. This program will provide 11,140 houses in 2,228 aldeias to the most vulnerable families together with power, water, and sanitation, enabling their participation in the development process.

⁹ World Bank Poverty Note, 2010

Medium-Term Prospects (2011-2015)

The Government of Timor-Leste is designing a 20-year Strategic Development Plan (SDP) targeting double-digit growth over the period of SDP. Timor-Leste aims to be an upper-middle income country no later than 2030, with the gap closed with today's richer neighbors, such as Indonesia, Thailand, and Malaysia. The government will strive towards this target predominantly through capital and development spending plans on critical infrastructure such as roads, electricity, housing, water and sanitation that boosts the productive capacity of the private sector. In the medium-term (2011 – 2015), besides infrastructure, public spending also will be directed to agriculture, tourism, and hydrocarbon sectors to maintain the double digit growth through 2015 and sustain it beyond that period en route to middle income country by 2030. Human resources development also is also an integral part of the medium to long-term strategy.

In addition, the government also aims to undertake aggressive policies to improve business environment so that Timor-Leste can attract foreign direct investment. In a recent international conference organized by the Ministry of Finance, participants discussed several policy choices that Timor-Leste need to explore to attract investment both domestic and international. Firstly, improve the conditions of doing business in Timor-Leste, which includes creating an investment package that allows:

- Clear, fast, and ready to go procedures to curtail the current lengthy business registration process.
- For land laws and titling processes to provide collateral.
- The rule of law.
- Timely bankruptcy procedures.
- Access to credit.
- Clear mechanism for investors to follow including a one-stop shop.

Secondly, explore ways to finance large-projects with the private sector such as Private-Public-Partnership (PPP) that can contribute to additional investment, efficiency/productivity gains, and improvement in quality of service. Project financing of large projects is another option within the PPP framework.

Thirdly, revisit Timor-Leste's tax regime and possibility of shifting to Value Added-Tax (VAT) to further attract private investment. Fourthly, invest in infrastructure such as roads, power, telecommunications, and water and sanitation, which can also be the subject of PPPs. Finally, special attention must be given to structural bottlenecks that add higher transaction costs to the economy.

If the renewed post-crisis growth in Asia is maintained and advanced economies continue their recovery, Timor-Leste could be in a good position to attract foreign investment over the medium term. This will rely on continued social and political stability in the country as well as realization of infrastructure development plans and improvements in the business environment. Policy to extend this impressive growth through private sector participation could include the following:

- Address the skills deficit through Vocational Educational Training (VET) and on-the-job training, in both the agriculture and industry and service sectors.
- Update agro-processing machinery along with improved road networks from rural farming areas to the port and border crossing with Indonesia, in order to boost export earning potential in agriculture.
- Continue efforts in reducing Customs delays and modernizing their procedures.

In short, Timor-Leste requires policies and actions to reduce the skills deficit, secure access to land, improve the business environment (through institutions that improve service delivery), develop road links (particularly important trade corridors) and increase the port capacity.

PART 4. EXPENDITURE

1. Introduction

This part covers expenditures from all funds controlled by the Government, the Consolidated Fund of Timor-Leste (CFTL) and the new Special Funds. It also covers expenditures from the Government's own source of revenues as well as development partners in the combined source budget. In addition, key expenditure objectives are outlined in this budget.

Table 4.1 provides Combined Source Budget of \$1.5 billion for 2011 with General State Budget at \$1.3 billion and \$194.8 million from Development Partners.

Table 4.1: Combined Source Budget, 2011 – 2015 (\$ million, preliminary)

Budget	2010	2011	2012	2013	2014	2015
CFTL	837.9	681.7	671.2	694.2	718.1	743.0
Infrastructure Fund	-	599.3	597.2	620.9	645.8	671.6
HCDF	-	25.0	30	35	40	45
General State Budget	837.9	1,306.0	1,298.4	1,350.1	1,403.9	1,459.6
Development Partners	256.8	194.8	112.7	75.2	32.7	0
Combined State Budget	1,094.7	1,500.8	1,411.1	1,425.3	1,436.6	1,459.6

Source: Budget Directorate, Ministry of Finance, 2010.

Table 4.2 outlines the medium term fiscal envelope.

Table 4.2: Expenditures and Fiscal Envelope, 2010 – 2015 (\$ million)

No	Description	2010	2011	2012	2013	2014	2015
1	Expenditures	837.9	1,306.0	1,298.4	1,350.1	1,403.9	1,459.6
2	Fiscal Envelope	598.2	844.4	852.4	858.7	865.5	871.4
3	1. Domestic Revenues	96.2	110.4	121.4	133.7	148.5	163.4
	2. ESI	502	734	731	725	717	708
	3. Excess withdrawal of PF	309	321	428.4	476.8	527.0	580.4

Note: Domestic Revenues, projected as of November 2010

Source: Budget and Macroeconomic directorates, Ministry of Finance, 2010.

Table 4.3 outlines the economic targets from 2011 to 2015.

Table 4.3: Economic Targets, 2011 – 2015

No	Description	2010	2011	2012	2013	2014	2015
1	Real Economic Growth (%)	9.5	11.2	11.1	10.9	11.1	11.4
2	Domestic Revenues (\$ mil)	96	110	119	134	148	163
3	Petroleum Revenues (\$ bil)	2,0	2,3	2,4	2,1	2,4	2,4
4	Pet. Fund Balance (\$ bil)	6,6	7,8	9,0	10,0	11,1	12,2
5	Inflation (rolling year, %)	8	6	4	4	4	4

Source: Budget, Macroeconomic, and Petroleum Fund directorates, Ministry of Finance, 2010.

2. Expenditure reviews

This year's Budget Review Committee, led by the Prime Minister reviewed the budget submissions based on a careful assessment of prior years budgets and redirected savings to national priorities identified in the Strategic Development Plan process.

The focus of the review was to improve quality of expenditure and reduce inefficiencies in planning and execution. The outcome of this review resulted in the creation of Special Funds targeted to improving basic infrastructure and human capital as a catalyst to attract private investment.

Budget estimates for 2011 were drawn based on the following criteria:

1. Accounting for increases due to inflation.
2. 1 to 10% normal increases of the ongoing budget, and
3. Greater weighting (between 1 to 50%) to programs of identified national priorities.

As part of the Strategic Development Plan (SDP) formulation the Prime Minister held wide ranging consultations with the People of Timor-Leste over five months visiting all 65 sub-districts. The SDP is in the stage of finalisation.

3. Major initiatives proposed for 2011

To finance the above plans, the Government will establish two Special Funds in accordance with the Budget and Financial Management Law. This is described in detail in Part 6 of this Book. The purposes of the funds are to finance large-scale (more than one million dollars), multi-year capital investments in infrastructure and human development projects respectively.

The special funds will be known as:

1. Infrastructure Fund (FI) - This fund will be used to finance wide range infrastructure projects above \$1 million.
2. Human Capital Development Fund (HCDF) - This fund will be used to finance training programs to increase skills and knowledge of Timor-Leste people.

The Government will also launch the MDG-Suco Program to target poverty reduction with provision of housing including solar energy, water, and sanitation. The program envisages the building of 5 houses in each of the 2,228 aldeias; the equivalent of 11,140 houses in 2011, or 55,700 houses over five years.

The Government will also create a National Development Agency (ADN) in 2011, with competence to evaluate, monitor, and supervise projects, validate progress reports, and undertake quality control. The ADN will report to the National Parliament through the Council of Ministers.

ADN is to be the precursor to the agency to oversee the implementation and evaluation of the SDP in the future. Meanwhile, the ADN oversees implementation of projects financed by the Infrastructure Fund, whilst the Ministries/Agencies will manage the recurrent expenditures, as well as the Minor Capital expenditures. In addition, a Procurement Commission will be established to manage the procurement process.

CFTL Expenditures

The annual budget is operated from the Consolidated Fund of Timor-Leste (CFTL) comprising five categories as indicated in Table 4.4.

Table 4.4: CFTL by Category, 2011 – 2015 (\$ million)

Budget	2010	2011	2012	2013	2014	2015
Recurrent						
Salary and Wages	99.1	116,8	121,1	125,5	130,1	134,8
Goods and Services	266.9	269,1	260,4	270,5	281,1	292,0
Public Transfers	184.6	177,5	182,9	187,2	191,5	196,1
Capital						
Minor Capital	34.5	29,3	29,6	30,7	31,9	33,3
Capital & Development	252.8	89,0	77,2	80,3	83,5	86,8
CFLT	837.9	681,7	671,2	694,2	718,1	743,0

Source: Budget Directorate, Ministry of Finance, 2010.

Salaries and Wages

Key policy decisions in Salaries and Wages include:

- Transforming temporary civil servants to permanent staff in 2011.
- Freezing new recruitment across all Ministries/Agencies except Civil Service Commission, PNTL (Police) and F-FDTL (Armed Forces) according to their needs.
- \$9 million of allowances reallocate from Goods and Services to Salary and Wages.
- \$7 million for the provision of Career Regime for teachers in Ministry of Education.

Goods and Services

The total budget for this category is \$294.1 million including \$25 million for the Human Capital Development Fund. The main expenditures in this category include (amounts are rounded):

- \$1.2 million to support F-FDTL in Material and Operational Provisions in Ministry of Defence and Security.
- \$3.4 million for F-FDTL Operational Readiness Package and maintenance of patrol boats.

- \$0.5 million for LDC – g7+ in Ministry of Finance.
- \$2.0 million to target MDG 5 (Maternal Mortality) and support of Specialist in Referral Hospitals of Baucau and Suai.
- \$1.6 million for the provision of textbooks in Ministry of Education.
- \$1.5 million for Merenda Escolar in Ministry of Education.
- \$0.15 million for National Institute of Linguistics in the National University of Timor Lorosae (UNTL).
- \$46 million for fuel including EDTL in the Ministry of Infrastructure.
- \$32 Million for professionals service and technical assistance in the areas of Petroleum, Justice, Education, Health, Management Banking and Financing, Foreign Affairs, Tourism, Conflict prevention, and quality control.
- \$1.0 million dollars for peace initiative in Sudan.

Despite new initiatives in this category the budget for 2011 is lower than 2010 as a result of the expenditure review.

Public Transfers

Public Transfers expenditures will also decrease in 2011 compared to 2010. The government aims to properly target public transfers to vulnerable groups and deliver it more efficiently.

The government will scale up payments to elderly, veterans, and scholarships. This will also include programs of conditional cash transfers and cash for work. Major initiatives in this category include:

- \$200 thousand for contribution to: Western Sahara (\$100 thousand), and Guinea-Bissau Office in New York (\$100 thousand), in Ministry of Foreign Affairs.
- \$3.5 million for capacity building in local administration.
- \$3.0 million for overseas medical treatment in Ministry of Health.
- \$1.5 million for returning of Medical students from Cuba in Ministry of Health.
- \$6 million for capital transfers in Ministry of State Administration and Territorial Planning.
- \$3.4 million for further capitalisation of IMFTL in the Ministry of Economy and Development.
- \$7.7 million for demobilizing ex-FALINTIL from 1975 – 2000 (Aileu).
- \$0.8 million for Mortuary (Restus Mortais).
- \$1.1 million for the Council of Veterans (Concelho Veteranus).

- \$14 million for the backpay Veterans
- \$1.0 million for natural disaster response in Ministry of Social Solidarity.
- \$340 thousand for the provision of funeral ceremony
- \$11 million allocated to Local Development Programs (PDD1) for retention (\$3 million) and re-budgeting (\$8 million).

Minor Capital

Minor Capital expenditures also reduced in 2011 to \$29.3 million compared to \$34.5 million in 2010. The principle expenditures in this category are:

- \$12 million for the purchase of multi-purpose vehicles for Ministry of Health, mobile banking, education monitoring, and preparation and monitoring of local and national elections, and patrol boats in Ministry of Defense and Security.
- \$0.7 million for the handover Package of UNMIT to Timor-Leste of equipments.
- \$1.1 million for equipment for the Techno-Professional Schools and laboratory in Ministry of Education.

CFTL Capital and Development

The Government continued to improve service delivery to the people by increased delivery at district, subdistrict, and suco level, by use of public transfers with specific purposes, together with accountability mechanisms. This reflects increased confidence in regional delivery mechanisms.

Table 4.5 shows Capital and Development expenditures of CFTL. The government will continue to develop successful programs, such as Local Development Programs (PDD1) and Decentralized Development Programs (PDD2). The Government is committed to improving the quality and execution of these programs. CFTL Capital and Development expenditures comprise:

- PDD1 - that will be diversified into:
 - Aldeias (with project values up to \$15,000),
 - Sucos (up to \$75,000), and
 - Sub-Districts (up to \$150,000).
- PDD2 - with projects with value from \$150,001 to \$500,000.
- Ministries/Agencies - with annual Capital and Development expenditures below \$1 million.

Table 4.5: CFTL Capital and Development, 2011 – 2015 (\$ million)

Capital and Development	2011	2012	2013	2014	2015
PDD1 - Aldeia, Suco, & Sub-District	15,5	16.2	16.8	17.5	18.2
PDD2 - District	28,8	30.0	31.2	32.4	33.7
Ministries/Agencies	44,7	31	32.2	33.6	34.9
Total	89,0	77.2	80.2	83.5	86.8

Source: Budget Directorate, Ministry of Finance, 2010.

4. Infrastructure Fund

The Infrastructure Fund covers Multi-annual and Large Projects above \$1 million, and MDG. These projects will span a timeline that may be more than one year depending on size and timeframe of implementation.

The single major expenditure item for the Infrastructure Fund is Central Electric, to establish a National electricity generation and transmission grid. The budget allocated for 2011 is at \$448.7 million which aims to provide reliable access to electricity across the country, with capacity to support industry, particularly in the northern coast from Batugade to Tutuala.

The Government will increase its investment in roads and bridges, and buildings, offices, hospital and schools. The Government continues its investment in integrated financial systems by a further \$7.7 million in developing procurement and financial monitoring software and hardware capacity.

Table 4.6: Special Funds, 2011– 2015 (\$ million)

Capital & Development	2011	2012	2013	2014	2015
Multi-Annual Projects	494,3	348	294.9	264.8	230.6
Large Projects	40,0	184	261	316	376
MDGs	65,0	65	65	65	65
Sub-Total	599,3	597	620.9	645.8	671.6
Human Capital Dev. Fund	25,0	30	35	40	45
Total	624,3	627	655.9	685.8	716.6

Source: Budget Directorate, Ministry of Finance, 2010.

Large Projects will start with Tasi Mane projects that will cost more than \$30 million, mostly for the development of the Southern Coast, including the following projects:

- Development package of Suai, which includes multi-purpose port (\$2.5 million), Supply Base (\$10 million), and Rehabilitation of Airport (\$5 million),
- Detail site survey, design, and supervision of southern cost development of Beaco (\$5.8 million), and
- Southern coast infrastructure development for pipeline route analysis (\$3.5 million), environmental studies (\$2.8 million).

5. Human Capital Development Fund

This multi-annual Special Fund of \$25 million is aimed at developing human capital by up-scaling Timorese skills through:

- Professional Training,
- Scholarships,
- Technical Training, and
- Other Training.

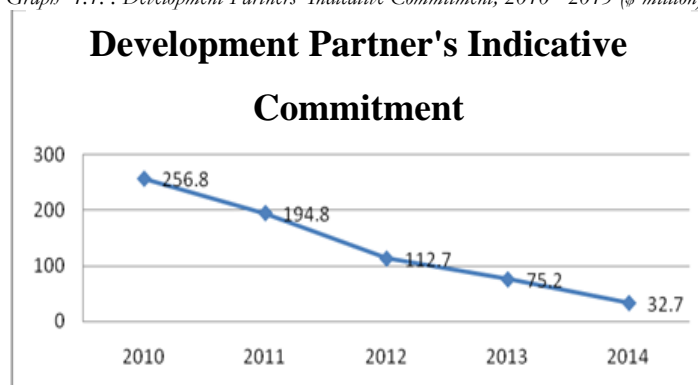
Initiatives will include:

- \$11 million for the Ministry of Education,
- \$2.5 million for the Ministry of Finance,
- \$2.5 million for Secretary of State for Natural Resources (SERN),
- \$2.6 million for Secretary of State of Professional Training and Employment (SEFOPE),
- \$2.4 million for training for health personnel for Ministry of Health,
- \$1.9 million for Ministry of Justice,
- \$1.1 million for scholarships and training in the Institute of Public Administration,
- \$548 thousand for training abroad for F-FDTL Officers in Japan, Australia, Philippines, and Malaysia, and
- \$339 thousand for Youth training.

6. Development Partners

Development Partners will provide a total of \$194.8 million to the Timor-Leste in 2011. This represents 17% of the total Combined Sources Budget of \$1.5 billion. The details of the expenditure these contributions are contained in Book 5.

Graph 4.1. : Development Partners' Indicative Commitment, 2010 - 2015 (\$ million)



Source: Aid Effectiveness Directorate, Ministry of Finance, 2010

PART 5. REVENUES

1. Introduction

Major revenues of Timor-Leste comes from oil and gas, while Domestic Revenues (taxes, user fees and charges, autonomous agencies, and others) are a small component of the total revenues (Table 5.1). Total Revenues in 2011 is estimated to be \$2.4 billion with the bulk of it (\$2.29 billion) being Petroleum Revenues and the remaining \$110.7 million Domestic Revenues. Going forward, Petroleum Revenues will continue to dominate for the next five years and beyond. Domestic Revenues show an increasing trend in collections. In 2010, the estimation is for Domestic Revenue of \$96.2 million, and in 2011 it is projected to be \$110.7 million. By 2015, Domestic Revenues are projected to reach \$163.3 million. The Government's objective is to achieve \$200 million before 2015 but this will be dependent on the introduction of significant reforms.

Table 5.1: Total Revenue Projections, 2009-2015 (\$ million)

	2009	2010	2011	2012	2013	2014	2015
	<u>Actual</u>	<u>Estimate</u>			<u>Projection</u>		
Total Revenues	1,918.7	2,112.5	2,398.7	2,520.4	2,293.9	2,609.8	2,606.7
Domestic Revenues	91.1	96.2	110.7	121.8	134.1	148.9	163.7
Petroleum Revenues	1,827.6	2,016.3	2,288.0	2,398.6	2,159.8	2,460.9	2,443.0

2. Domestic Revenues

Domestic Revenues are comprised of Taxes (Direct and Indirect), User Fees and Charges, and revenues from autonomous agencies. Additionally, revenues also come from the sale of subsidized rice, a measure introduced by government to ease the hardship caused by the spike of world food prices in 2008.

Table 5.2 shows that taxes, fees and charges, and autonomous agencies continue to increase from 2009 through 2015. These increases off-set the reduction of revenues from rice sales, which will continue to decrease as world food prices stabilize.

Table 5.2: Domestic Revenues, 2009-2015 (\$ million)

	2009	2010	2011	2012	2013	2014	2015
	<u>Actual</u>	<u>Estimate</u>			<u>Projection</u>		
Direct Taxes	13.4	18.2	22.3	26.9	31.4	35.9	40.4
Indirect Tax	30.3	32.0	42.6	44.5	46.3	50.3	54.4
Fees and Charges	16.5	19.6	16.2	17.5	19.6	21.9	24.2
Rice Sales	20.4	12.6	10.0	9.6	9.6	9.6	9.6
Interest	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Autonomous Agencies	10.2	13.7	19.2	23.1	26.9	30.9	34.9
Social Games Revenues	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Total	91.1	96.2	110.7	121.8	134.1	148.9	163.7

Source: Macroeconomic Directorate, Ministry of Finance, 2010

Taxes

Table 5.3 shows revenue projections by category and type of taxes. Direct taxes, adversely affected by the Tax Reforms of 2008, have recovered and show an upward trend.

Direct taxes are projected to be \$22.3 million in 2011. This is due to stronger prospects for economic growth and the efforts of increasing compliance and improved tax administration. The projection for Indirect Taxes is \$42.6 million in 2011, and expected to increase to \$54.4 million in 2015.

Table 5.3: Total Tax Revenue Projections, 2009-2015 (\$ million)

	2009 Actual	2010 Estimate	2011	2012	2013	2014	2015
			Projections				
Direct Taxes	13.4	18.2	22.3	26.9	31.4	35.9	40.4
Income Tax	5.1	5.5	7.1	8.8	10.5	12.2	13.9
Corporate Tax	2.0	4.5	5.7	6.9	8.1	9.3	10.5
Withholding Tax	6.3	8.2	9.5	11.2	12.8	14.4	16.0
Indirect Tax	30.3	32.0	42.6	44.5	46.3	50.3	54.4
Service tax	2.9	3.5	4.0	4.9	5.3	5.9	6.6
Sales Tax	7.3	6.1	11.4	10.7	11.2	12.2	13.1
Excise Tax	13.8	16.9	17.7	20.7	21.6	23.5	25.5
Import Duties	6.3	5.5	9.5	8.2	8.2	8.7	9.2

Source: Macroeconomic Directorate, Ministry of Finance, 2010

User Fees and Charges

Table 5.4 contains the projected income from User Fees and Charges, which are expected to take in \$16.2m in 2011. Though this is a reduction from the \$19.6m in 2010, once of receipts from the Other Non-tax Revenue item in that year means that the underlying trend is growth and this is expected to resume from 2010 and continue in the medium term.

Table 5.4: User Fees and Charges, 2009-2015 (\$ million)

	2009 Actual	2010 Estimate	2011	2012	2013	2014	2015
			Projection				
Fees and Charges	16.5	19.6	16.2	17.5	19.6	21.9	24.2
Business Registration Fees	0.2	0.4	0.7	0.9	1.1	1.3	1.5
Postage Fees	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Property Rentals	1.9	2.2	2.4	2.6	2.8	3.1	3.3
Water Fees	0.1	0.0	0.1	0.1	0.1	0.1	0.1
National University Fees	0.4	0.4	0.5	0.5	0.5	0.5	0.6
Vehicle Registration Fees	1.0	1.0	0.9	0.9	1.1	1.1	1.3
Vehicle Inspection Fees	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Drivers Licence Fees	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Other Transport Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ID and Passport	0.4	0.5	0.8	1.0	1.1	1.4	1.6
Visa Fees	1.2	1.0	1.5	1.7	1.9	2.1	2.3
Hospital and Medical Fees	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Dividends, Profits, and Gains	4.6	3.7	7.3	8.1	9.1	10.1	11.2
Mining and Quarrying	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Radio and Television Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bid Document Receipts	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Auctions	0.0	0.2	0.1	0.1	0.1	0.1	0.1
Other Non-Tax Revenue	6.4	9.9	1.1	1.2	1.4	1.6	1.7

Source: Macroeconomic Directorate, Ministry of Finance, 2010

Rice Sales and Interest

Rice subsidies were introduced to buffer the Timorese people from spikes in world food prices in 2008. The need for the government to intervene in this market has now subsided with the stabilization of world food prices. As government intervention reduces, revenues in this area are projected to fall to \$10 million in 2011, and stabilize at \$9.6 million.

Interest, being monies received on government bank account balances, represents only a small portion of Domestic Revenues. Interest receipts are projected to be \$0.1 million in 2011 and then increase modestly in the medium term.

Autonomous Agencies

Revenues from Autonomous Agencies (Equipment Management, Aviation, Port, and EDTL) have improved in recent times as shown in Table 5.5. The share of total revenues is expected to increase from 12% in 2009 to 14% for 2010. For 2011, the share of this category of revenue is projected to increase to 17%, being \$19.2 million.

The most significant revenue item is EDTL. It outperformed expectations for 2009 (\$7million) by 16%. This growth trend is likely to increase further with continued efforts to increase pay for use among electricity consumers. This will be complemented by increased tariffs. The current projection for EDTL revenues for 2011 is \$14.5 million. It is anticipated that the customer base will increase and result in additional revenue.

Aviation and Port performance has been strong relative to the 2010 Budget projections, and sustained growth in revenues is likely to continue.

Table 5.5: Revenues from Autonomous Agencies, 2009-2015 (\$ million)

	Actual	Estimate		Projection			
Institute of Equipment Management	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Aviation	0.9	1.2	1.3	1.6	1.7	2.0	2.2
Port	1.4	2.5	3.1	3.5	4.0	4.5	5.0
EDTL	7.9	10.0	14.5	17.7	21.0	24.2	27.4
SAMES	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Total	10.2	13.7	19.2	23.1	26.9	30.9	34.9

Source: Macroeconomic Directorate, Ministry of Finance, 2010

3. Petroleum Revenues

The Petroleum Revenues are expected to remain high in 2011 and 2012 due to relatively stable production and oil price forecasts during this period. This Revenue is estimated at \$2.29 billion and \$2.4 billion in 2011 and 2012 respectively. This is an increase from \$1.8 billion in 2009 and the forecast for 2010 of \$2.02 billion, mainly due to higher expected oil prices. Table 5.6 shows actual revenues in 2009, estimates of 2010 and the Petroleum Revenue forecast through 2015.

Table 5.6: Estimated Petroleum Revenues, 2009-2015 (\$ million)

	2009 Actual	2010 Estimate	2011 Budget	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Total Petroleum Revenue	1,828	2,016	2,282	2,377	2,120	2,401	2,360
Royalties	122	136	147	162	137	149	143
Profit oil	871	916	1,057	1,075	946	1,055	1,009
Income Tax	283	368	355	393	296	362	381
Additional Profit Tax	343	341	395	381	327	385	333
Value Added Tax	15	9	6	6	9	7	7
Wages Tax	10	8	8	8	8	9	9
Pipeline Payments	5	6	6	6	6	6	6
Other Payments	1	20	10				
Withholding Tax	9	12	8	9	12	9	10
Petroleum Fund Interest Received*	167	200	289	337	379	419	463

*) Actual Cash flow for 2009

Source: Petroleum Fund Directorate, Ministry of Finance, 2010

After the oil price skyrocketed in the first part of 2008, and the West Texas Intermediate (WTI) oil price peaked at \$145 per barrel in June 2008, it dropped to \$30 per barrel six months later. Since then the WTI oil price has recovered and averaged \$62 per barrel in 2009. The average oil price by end of August 2010 was \$78 per barrel, which is \$16 per barrel higher than the oil price projection used in the Budget 2010, and the average price for 2010 is estimated at \$76 per barrel. The Petroleum Revenue forecast for 2011 and 2012 is based on an oil price of \$68 and \$71 per barrel respectively. Chart 5.1 shows the historical WTI oil price and oil price forecast used in Budget 2011.

A scheduled shut down at Bayu Undan in 2010 has resulted in lower production and revenues from the field in 2010 than otherwise would have been the case. The production in 2010 is estimated at 57 million barrels of oil equivalents, which is down from 62 million barrels of oil equivalents in 2009. The production at Bayu Undan in 2011 and 2012 is expected to increase to 62 and 60 million of oil equivalents respectively, before it declines gradually until the production is expected to cease in 2024.

Development Plan for the Kitan field has been approved in 2010 and the production will commence in 2011. The total production is modest compared to the Bayu Undan field. Kitan's Low and Base Production Cases are 23 and 35 million barrels of oil respectively over the life time of the project. The total revenue stream based on the Low Production Case is equivalent to \$145 million.

Chart 5.1: Historical Changes and Future Projections in the WTI Oil Price (\$ per barrel)



Source: Petroleum Fund Directorate, Ministry of Finance, 2010

The total production from the two fields is estimated at 65 and 68 million of oil equivalents for 2011 and 2012 respectively. Table 5.7 shows the oil price, total production volumes, undiscounted and discounted Petroleum Revenues for Timor-Leste over the life time of the two projects¹⁰.

¹⁰ Includes revenue streams from Bayu Undan and Kitan fields

Table 5.7: Oil Price Assumptions, Total Production and Timor-Leste Revenue Forecasts
2002-2024

Timor-Leste Petroleum sector				
	Average WTI oil price	Production	Total Discounted Petroleum Revenues (Factor of 4%)	Total Undiscounted Petroleum Revenues
	\$/Barrel	million barrels oil equivalent	\$ million	\$ million
Total		991		30,613
Total from 1 January 11		647	17,847	22,461
to 2002				
2003				10
2004	44	17		175
2005	54	29		336
2006	65	57		612
2007	72	58		1,258
2008	103	64		2,284
2009	62	62		1,660
2010	76	57		1,816
2011	68	65	1,954	1,992
2012	71	68	1,923	2,040
2013	75	57	1,579	1,741
2014	79	61	1,727	1,981
2015	81	57	1,590	1,897
2016	85	49	1,341	1,664
2017	88	51	1,462	1,887
2018	92	45	1,308	1,755
2019	95	38	1,025	1,431
2020	98	41	1,104	1,602
2021	101	39	1,032	1,558
2022	104	32	765	1,202
2023	107	33	793	1,295
2024	110	9	215	365
2025	114	0	28	50

Source: Petroleum Fund Directorate, Ministry of Finance, 2010

Investment Return

Gross investment return for 2011, before management fee, is estimated at \$296 million. The similar investment return forecast for 2010, including both Petroleum Fund interest and change of value of the Petroleum Fund, is \$241 million. These estimates are significantly higher than the investment return in 2009 of \$34 million. The reason is that US interest rates have declined during the period, with a corresponding increase in the market value of the Fund.

So far in 2010, from January to July, the gross return has been \$188 million. The Petroleum Fund interest has been \$117 million during this period and change in value of the Fund (market revaluation) equivalent to \$71 million. Net investment return, gross return less management fee, is estimated at \$235 million for 2010, of which Petroleum Fund interest is estimated at \$200 million, change in the Fund's value estimated at \$41 million and management fee of \$6 million. The investment return forecast is included in Table 5.8.

The nominal investment return from January to July 2010 has been equivalent to 3.2% of the Petroleum Fund. The annual return for the 12 months to July 2010 was 4.2 %, while the annual return on the investments since inception of the Fund is now 4.6 %.

Table 5.8: Estimated Petroleum Fund Savings 2009-2015 (\$m)

	2009 Actual	2010 Estimate	2011 Budget	2012 Projection	2013 Projection	2014 Projection	2015 Projection
Opening Balance	4,197	5,377	6,617	7,838	9,050	9,962	11,113
Petroleum Revenue excluding PF Interest	1,660	1,816	1,992	2,040	1,741	1,981	1,897
Petroleum Fund Interest*	177	200	289	337	379	419	463
Change in Value of the Fund	-143	41	0	0	0	0	0
BPA Management fee	-3	-6	-6	-6	-6	-6	-6
Withdrawal	-512	-811	-1,055	-1,159	-1,202	-1,244	-1,288
Closing Balance	5,377	6,617	7,838	9,050	9,962	11,113	12,179

*) includes accrued interest

Petroleum Fund

The balance of the Petroleum Fund as of 31 July 2010 was \$6.45 billion. This is an increase of \$1.07 billion during the financial year. The balance is expected to increase only modestly for the rest of the year as the major part of the withdrawals in 2010 will take place in the second part of 2010. By the end of 2010, the balance of Petroleum Fund is expected to be \$6.62 billion.

The current forecast shows the total value of the Fund to be \$7.8 billion by the end of 2011, \$9.0 billion by the end of 2012 and \$12.2 billion by end of 2015. The forecasts of the future Petroleum Fund balance are shown in Table 5.8.

The Government has over the last three years gradually implemented the investment strategy of the Petroleum Fund. The objective is to diversify the portfolio into a range of asset classes, regions and currencies in order to reduce risks and increase expected return, within the limitations of the Petroleum Fund Law. The first step was taken in 2009 when the Bank for International Settlements (BIS) was appointed as the Fund's first external manager. The BIS is responsible for investing 20 per cent of the portfolio. Now the portfolio includes Government bonds issued by Australia, Japan, EU and UK as well as bonds issued by Supranational Organizations, such as the European Investment Bank and the World Bank.

In 2010, the Government appointed the External Manager, Schroeder Investment Management Ltd as the first Equity Manager and 4% of the portfolio is now allocated to global equities. With the latest allocation to equities, the flexibility in the current Petroleum Fund Law to diversify the portfolio is now fully exploited. Further diversification of the portfolio requires changes to the Petroleum Fund Law.

The fund is currently overweighted to bonds and this represents an exposure to financial risk associated with potential US interest rate increases. The Government will continue diversifying the portfolio away from US Government bonds once the amendments to the Petroleum Fund Law are approved by the National Parliament. This will include an increased exposure to equities.

Petroleum Wealth and ESI calculation

Total Petroleum Wealth, which comprises the balance of the Fund plus the net present value (NPV) of future Petroleum Revenues, is estimated to be \$24.47 billion as of 1 January 2011. The estimated Petroleum Wealth has increased by \$7.82 billion compared to the calculations provided in the Budget 2010.

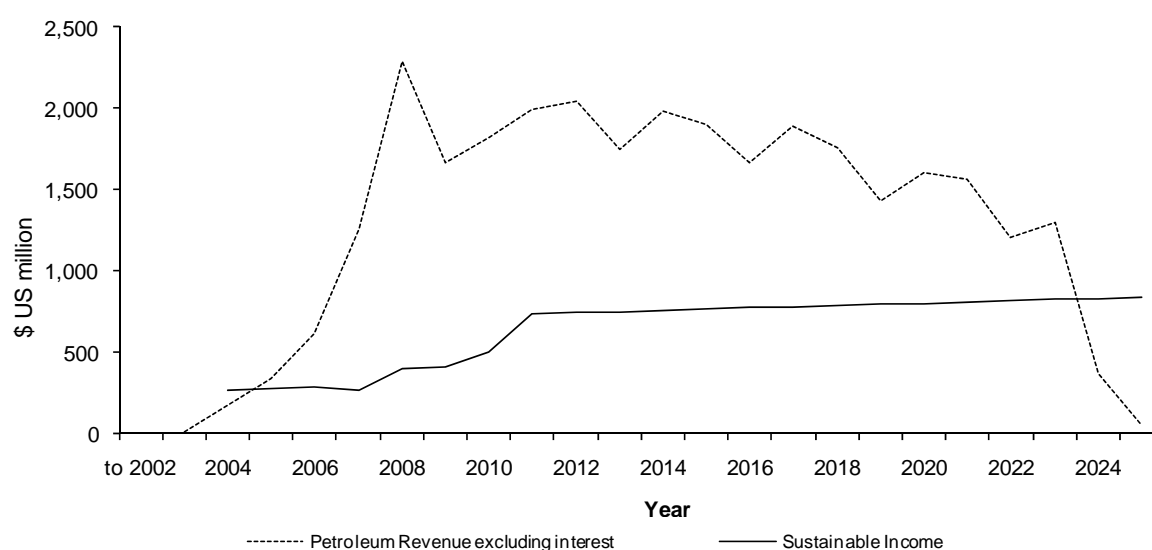
According to the Petroleum Fund Law, the Estimated Sustainable Income (ESI) shall be 3% of the Petroleum Wealth. Correspondingly, the ESI for the Financial Year 2010 is estimated at \$734 million. This is an increase of \$232 million compared to the ESI for 2010. Table 5.9 shows the ESI calculation for 2011 up to 2015 and Chart 5.2 the ESI together with the petroleum revenue forecast.

Table 5.9: ESI as of 1 January 2011 Onward Compared to Figures in Budget 2010

US\$ million	2010 Budget	2011 Budget	2012 Budget	2013 Budget	2014 Budget	2015 Budget
Petroleum Fund balance	5,272	6,617	7,838	9,050	9,962	11,113
+Net Present Value of future revenues	11,446	17,847	16,529	15,110	13,939	12,476
Total Petroleum Wealth (PW)	16,718	24,465	24,367	24,160	23,901	23,589
Estimated Sustainable Income (PWx3%)	502	734	731	725	717	708

Source: Petroleum Fund Directorate, Ministry of Finance, 2010

Figure 5.2: Timor-Leste Petroleum Revenues and ESI, 2002-2024



Source: Petroleum Fund Directorate, Ministry of Finance, 2010

Change of Methodology

The Ministry of Finance together with the IMF have reviewed the methodology used for calculating the Petroleum Wealth and ESI in 2010 prior to the ESI calculation for 2011. Although most of the methodology remains unchanged, two major changes have been made:

Oil price forecast

ESI Petroleum Revenue forecasts use West Texas Intermediate (WTI) as the benchmark oil price. For ESI calculations between 2007 and 2010, WTI has been forecasting deterministically using the Energy Information Administration (EIA) low case oil price forecast provided in its annual report, Annual Energy Outlook¹¹. EIA is an independent organization that applies a consistent and rigorous methodology, and the only such organization to provide both a low and reference case forecast for WTI oil prices.

Oil prices are inherently difficult to forecast, and there is much academic debate as to their underlying properties, including whether the market upheaval in 2008 and 2009 signals a permanent shift to a higher oil price world. The EIA low and reference case forecasts have been reviewed against current futures prices and other sources to evaluate whether these ESI cases serve as a reasonably prudent guideline for sustainable consumption of Timor-Leste's petroleum wealth. Based on this assessment, the EIA low case forecast is felt to be overly prudent and the 2011 ESI calculation will instead use the average of EIA low and reference case forecasts.

Discount rate

Previous ESI used a single observation of the US government bond yields close to the date of the ESI calculation, weighted simply according to the proportion of forecast petroleum revenues occurring against each maturity period. The further liberalisation of US monetary policy following the global financial crisis has resulted in unusually low bond yields, as reflected in a discount rate of 2.6% for 2010 ESI.

The methodology has been revised to use (1) the 10 year historic average of bond yields for each maturity date; and (2) a refined calculation of the average discount rate. This results in a discount rate of 4.0 percent for 2011 ESI.

¹¹ Annual Energy Outlook 2010: <http://www.eia.doe.gov/oiaf/aeo/index.html>

Changes in the ESI from 2010 to 2011

Several factors have affected the outcome of the ESI calculation for 2011 compared to the calculation in the previous year:

Oil prices

The forecast WTI oil price for 2010 has increased from \$62 to \$76 per barrel reflecting the average of actual oil prices to August 2010 and the EIA forecast for 2010 for the remainder of the year. For years after 2010, the move from EIA low case to the average of EIA low and reference case forecasts involves moving from long term real prices that converge to \$50 per barrel to real prices that increase by around 2 percent per year between 2012 and 2025.

Liquids price differentials

The assumed value of Bayu Undan (BU) condensate and LPG relative to WTI have been slightly revised consistent with actual average differentials since the start of the project, leading to a modest further increase in ESI.

Production

The Bayu Undan low case production forecasts provided by Conoco Philips increased for all three product types. The range of uncertainty around future production volumes has narrowed reflecting revised reservoir estimates taking into account further production history and data gathered during recent development drilling. The higher production forecast, when valued using the average of EIA low and reference case oil prices, adds \$61 million to ESI.

LNG prices

LNG contract prices until end of 2009 are now settled and these were largely reflected in 2010 ESI. Prices for 2010 to 2012 are close to being finalized and have resulted in a modest increase relative to prudent assumptions made for the 2010 ESI forecast. The forecast differential between JCC and WTI has been refined slightly consistent with historical actual average since the start of LNG shipments.

Petroleum fund withdrawals

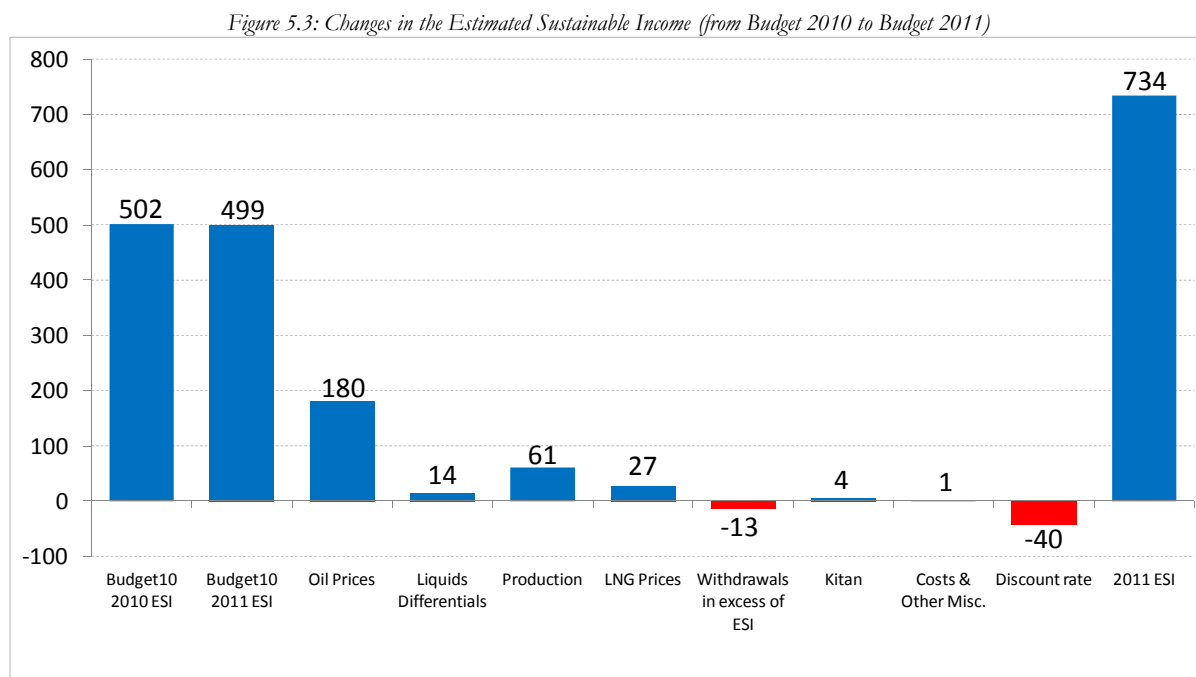
Withdrawal of \$512 million in 2009 (compared to Budget 2010 assumed withdrawal equalling ESI of \$408 million) and \$811 million now planned in 2010 (against ESI of \$502 million) reduce the projected opening Petroleum Fund balance on 1 January 2011.

Kitan

The development plan for Kitan was approved by the Autoridade Nacional de Petroleo (ANP) or National Petroleum Agency (regulator) during 2010 and forecast revenues from Kitan are therefore included in the ESI calculation. The \$4 million ESI increase reflects the Kitan low production case.

Discount rate

The discount rate has increased from 2.6% to 4.0% due to a change in methodology. A higher discount rate reduces the present value of future petroleum revenues. The magnitude of various factors affecting the ESI is illustrated in Chart 5.3.

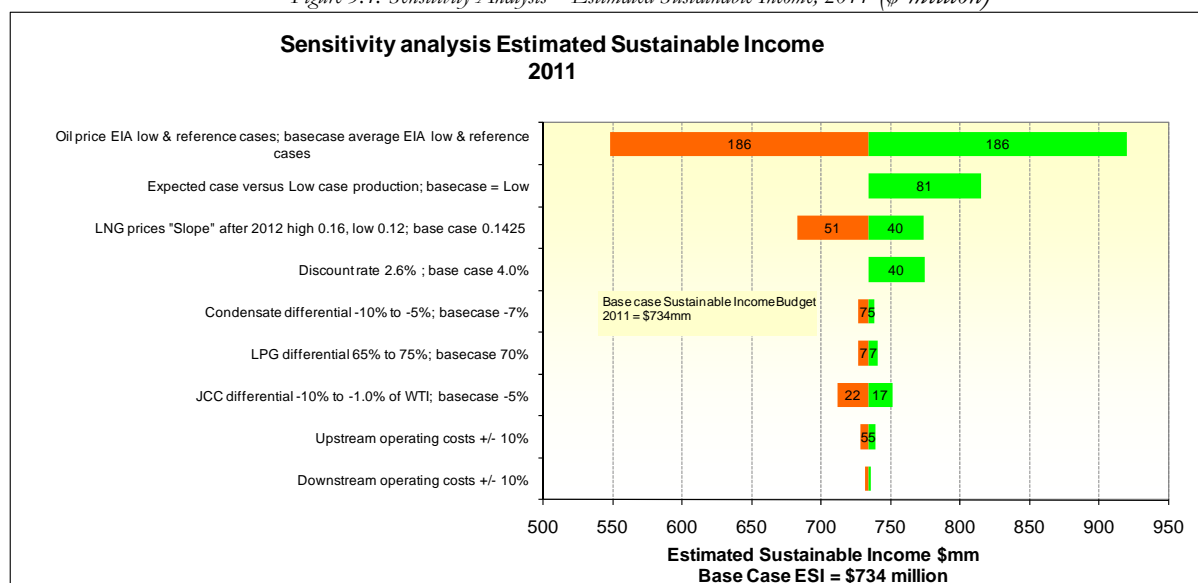


Source: Petroleum Fund Directorate, Ministry of Finance, 2010

Sensitivity analysis

There are a range of risks and uncertainties in any forecast of petroleum revenue. The most sensitive assumption is the oil price, as the forecast of petroleum revenues changes substantially for even a relatively small change in assumed oil prices. Chart 5.4 shows the sensitivity of ESI to changes in the most relevant variables.

Figure 5.4: Sensitivity Analysis – Estimated Sustainable Income, 2011 (\$ million)



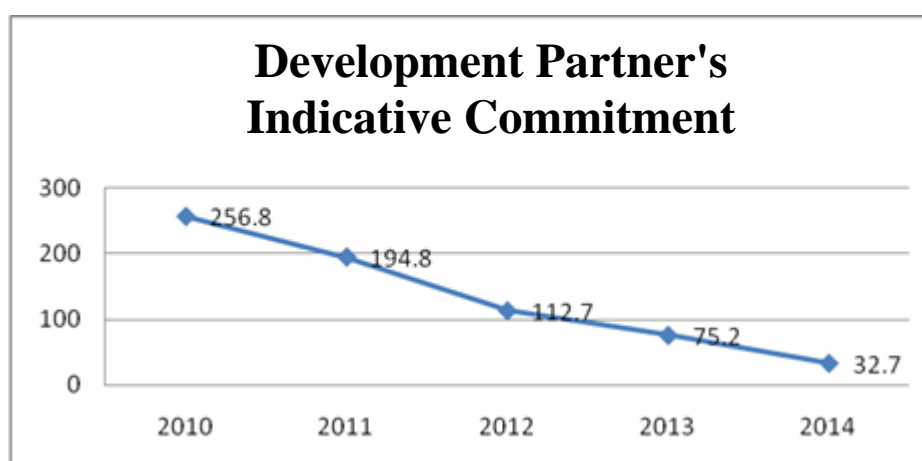
Source: Petroleum Fund Directorate, Ministry of Finance, 2010.

4. Development Partners

Timor-Leste's Development Partners will provide a total of \$194.8 million to the Timor-Leste in 2011. This represents 13% of the total Combined Sources Budget of \$1.5 billion.

Development partner funding is expected to reduce significantly from 2012 onwards. Current projections are that contributions will reduce by \$82.2 million (42.2%) between 2011 and 2012, \$47.4 million (42.0%) between 2012 and 2013, and \$42.5 million (56.5%) between 2013 and 2014. These figures reflect actual information to date and accordingly do not reflect an absence of future international support and commitment.

Graph 5.4: Development Partners' Indicative Commitment, 2010 - 2015 (\$ million)



Source: Aid Effectiveness Directorate, Ministry of Finance, 2010

PART 6. FINANCING

Timor-Leste is a developing economy with a nominal non-oil per-capita income of \$594.50. 41% of the population live below the poverty line, down from 49.9% in 2007. The number of people entering the work force continues to increase at a faster rate than employment creation in public and private sectors. The challenges of building a sustainable economy, absorbing the increased workforce participation rate, and reducing poverty, are enormous. The Timor-Leste economy is primarily driven by public investment but for long term growth and sustainability private investment is critical. The prerequisites for private investment include security and political stability, basic infrastructure, skilled labour force, attractive tax rate, land laws, rule of law, and legal framework. Public investment and regulatory reform are essential to deliver these prerequisites.

The main source of revenue for Timor-Leste is Petroleum Revenues, which is derived mainly from Bayu Undan in the Timor Sea. These revenues are deposited in the Petroleum Fund, from which withdrawals are made to finance the State Budget guided by the Estimated Sustainable Income (ESI) benchmark of 3% of the Petroleum Wealth.

Domestic Revenues and donor funding constitute a small component of the Budget revenues.

Beyond what can be spent from traditional funding sources (ESI and Domestic Revenues), additional amounts are envisaged to be required in the first five years of the SPD. The Government is, therefore, exploring other options towards funding strategic public investments. These financing options range from judicious withdrawals from the Petroleum Fund ensuring long term sustainability, access to concessional and non-concessional borrowings, and Public Private Partnerships (PPP).

Starting 2011, the Government will establish two Special Funds in accordance with section 32 of Law No. 13/2009 on Budget and Financial Management. The purposes of the funds are to finance large-scale, multi-year capital investments in infrastructure and human development. The special funds will be known as:

1. Infrastructure Fund (FI), and
2. Human Capital Development Fund (HCDF).

The creation of Special Funds is provided for in section 32 of the Budget and Financial Management Law. These funds will be financed through the budget and provide a more transparent and effective governance and reporting mechanism on the use of the money. The Government in accordance with article 115(1)(e) of the Constitution has the competency to

establish the rules and regulations for the Special Funds. Parliamentary authorisation is required pursuant to article 32 of the Budget and Financial Management Law.

The Special Funds will be governed by a board consisting of the Prime Minister and relevant line ministers. One of the benefits of the Special Funds is the centralisation of decision making, which will ensure projects are coordinated between line ministries. The board will prioritise and sequence projects, with the scope to realign projects to accommodate changes arising from factors outside its control.

A National Development Agency (ADN) will be established under the Prime Minister staffed with technical expertise to quality control project submissions to ensure specifications and costings are appropriate. The ADN will also provide supervision and monitoring of the projects including quarterly reporting to the National Parliament through the Council of Ministers.

The Minister of Finance is responsible for the management and control of the Special Funds in accordance with the Budget and Financial Management Law. The purposes of the Special Funds are included in Article 9 of the State Budget 2011.

Under articles 20 and 21 of the Budget and Financial Management Law the Government has a legal basis to borrow. The primary goal of external borrowing is to fill the deficit between desired development needs and domestically available resources over the medium and long-term. A Debt Management Unit (DMU) has been established within the Ministry of Finance to ensure efficient and effective management of public debt should it arise. The Government is assessing the benefits of borrowing as opposed to relying exclusively on the Petroleum Funds revenue.

The Government is considering the financing option of Private Public Partnerships (PPP), which will enable more infrastructure investments whilst sharing associated risks with other parties.

ANNEX 1 - Estimated Sustainable Income Calculation 2011

Introduction

According to the Petroleum Fund Law the Estimated Sustainable Income (ESI) the maximum amount that can be appropriated from the Petroleum Fund in a financial year while leaving sufficient resources to appropriate an amount of equal real value in subsequent years. This means that the ESI is a benchmark indicating the sustainable level of withdrawal from the Petroleum Fund that does not reduce the real value of Timor-Leste's total petroleum wealth in the long-term.

The Petroleum Fund Law requires that all assumptions underlying the calculation of the ESI be prudent, reflecting international best practice and be based upon internationally recognized standards. Currently approximately 2/3 of Timor-Leste's Petroleum Wealth included in the ESI calculation is still under the seabed in Timor Sea, while 1/3 is already in the Petroleum Fund. The future revenues are highly uncertain and subject to production and oil prices in the future.

Moreover, currently only one field, Bayu Undan, is in operation. The risk, however small, is that an event on the Bayu Undan field will cause a deferral of the revenue stream to the State of Timor-Leste. Such a deferral may last for months, years or even indefinitely, depending on the event. Furthermore, oil prices are very volatile, and it should not be ruled out that oil prices fall to or below the price assumptions used in the calculations of the Petroleum Fund.

Review of methodology

The Ministry of Finance (MoF) has reviewed the methodology used for the ESI calculation and has broadly re-confirmed the approach used previously with the exceptions noted below.

Asset recognition policy

The forecast of future petroleum revenues used for ESI includes projects with approved development plans and firm investment commitment from the oil company. This has been re-confirmed as an appropriate basis for ESI and revenues from Bayu Undan (BU) and the recently approved small Kitan project are included in the forecast. Because of significant uncertainty and potential for material delay no revenues are included for the Sunrise project. Though exploration continues, at this time there have been no other significant petroleum discoveries in the Joint Petroleum Development area or Timor-Leste exclusive areas.

Petroleum Reserves and Production Forecasts

The operators, ConocoPhillips and Eni, have provided three production scenarios, “high”, “expected” and “low” production, based on different assumptions of the total petroleum resources available at Bayu Undan and Kitan fields respectively.

The State Budget estimates production on the basis of the Operators’ “Low” estimate, which reflects a 90% likelihood that predicted production levels will be achieved. This is considered to be in accordance with the prudent requirements in the Petroleum Fund Law.

ConocoPhillips update production forecasts annually, taking into account new production data, including results from 2009 development drilling. There were no major revisions in underlying production plans, but as the Bayu Undan field matures, the low, base and high case production forecasts are converging, reflecting the reducing level of uncertainty. The key difference between the three production cases now lies in the estimated size of the total producible reserves, as reflected in differing cut off points and production volumes in the final years of the field.

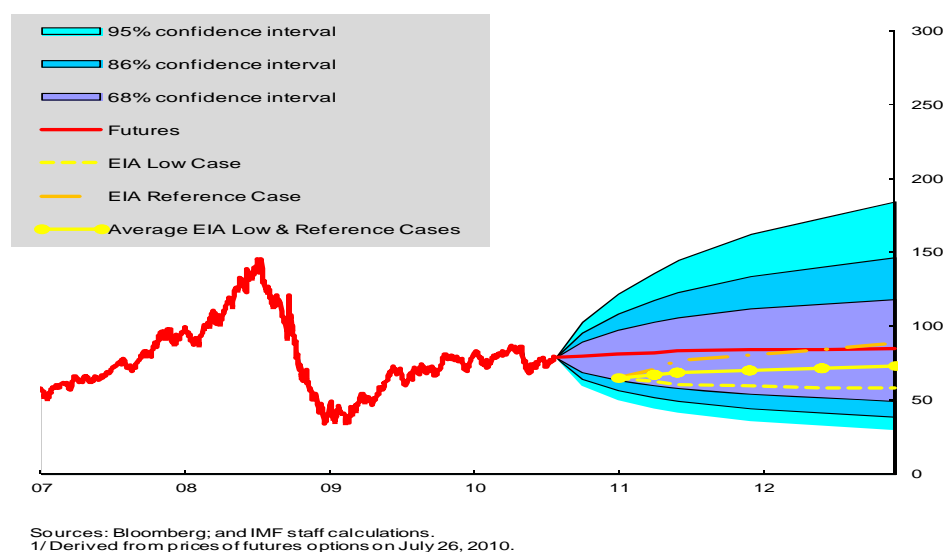
Oil prices

ESI petroleum revenue forecasts use West Texas Intermediate (WTI) as the benchmark oil price. For ESI calculations between 2007 and 2010, WTI has been forecast deterministically using the Energy Information Administration (EIA) low case oil price forecast provided in its annual report, Annual Energy Outlook¹². EIA is an independent organization that applies a consistent and rigorous methodology, and the only such organization to provide both a low and reference case forecast for WTI oil prices.

The 2011 ESI calculation uses the average of the EIA low case and reference case forecasts as the WTI oil price benchmark for the ESI calculation. The average of the two EIA cases lies well within the 68 percent confidence interval around average futures prices, and significantly below the average of futures prices, as shown in Chart A1.

¹² Annual Energy Outlook 2010: <http://www.eia.doe.gov/oiaf/aeo/index.html>

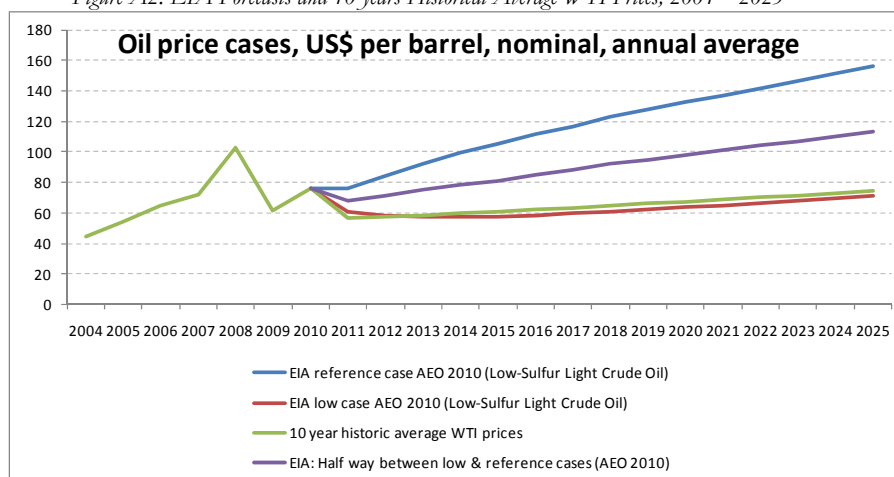
Figure A1: Comparing EIA Oil Price Forecasts to Market Futures Prices
(WTI prices, \$ per barrel)



Source: Petroleum Fund Directorate, Ministry of Finance, 2010

Moreover, the average of the EIA low case and reference case is significantly lower than the EIA's Reference Case, and the difference between the two projections increases with the time horizon. The EIA's Low, Reference and average of Low and Reference Case are shown in Chart A2 together with the historical average WTI prices.

Figure A2: EIA Forecasts and 10 years Historical Average WTI Prices, 2004 – 2025



Source: Petroleum Fund Directorate, Ministry of Finance, 2010.

There are many institutions providing oil price forecasts. Nonetheless, the EIA is the only one, as the Ministry of Finance is aware, that provides both Low and Reference Price Cases. As shown in Table A1, the oil price projection used in the ESI calculation is significantly lower than most other oil price forecasts made by other institutions.

Table A1: World Oil Price Forecasts, 2015 - 2025

<i>World Oil price forecasts, USD/barrel, real 2008 USD</i>	2015	2020	2025
INFORUM	92.5	108.0	109.7
DB	93.2	105.5	114.7
IHSGI	85.1	81.9	74.9
IEA		100.0	115.0
EVA	80.4	84.5	91.0
SEER (Business-as-usual)	79.2	74.3	69.7
SEER (Multi-Dimensional)	99.0	101.5	105.8
EIA Reference Case	94.5	108.3	115.1
EIA: Half way between low & reference	73.6	80.4	84.4
EIA Low Price Case	51.6	51.9	51.7

Source: AEO 2010, EIA

Budget 2010 forecast a WTI oil price of \$62 in 2010. For the seven months to the end of July 2010, WTI spot prices averaged \$78.1¹³. For the remaining five months of 2010, prices are assumed to average the most recent EIA forecast for WTI in 2010 of \$72.4. The weighted average 2010 price is therefore \$75.7. Oil price forecasts for 2011 and 2012 are US\$68 and US\$71 per barrel.

Discount rate

The Petroleum Fund Law stipulates that the discount rate used for calculating the present value of the future cash flow from the petroleum sector be the nominal yield on a US Government security averaged over the years, in which the Petroleum Fund receipts are expected

Previous ESI used a single observation of the US government bond yields close to the date of the ESI calculation, weighted simply according to the proportion of forecast petroleum revenues occurring against each maturity period. The unprecedented loosening of US monetary policy following the global financial crisis has resulted in unusually low bond yields, as reflected in a discount rate of 2.6% for 2010 ESI. The methodology has been revised to use (1) the 10 year historic average of bond yields for each maturity date; and (2) a refined calculation of the average discount rate. This results in a discount rate of 4.0 percent for 2011 ESI.

Other assumptions

Actual realized prices for condensate and liquefied petroleum gas (LPG) relative to WTI have been reviewed and the forecast differential set consistent with average actual percentage differentials since the start of shipments in 2004.

¹³ Source: Daily WTI spot prices from Energy Information Administration (EIA) (http://tonto.eia.doe.gov/dnav/pet/pet_pri_spt_s1_d.htm)

Liquefied Natural Gas (LNG) prices for 2010-2012 are forecast using the provisional price formula negotiated between Darwin LNG and Japanese LNG buyers. For 2013 onwards, a prudent assumption has been made for long term LNG prices relative to oil prices, taking into account advice from Poten & Partners (LNG consultants advising the ANP). The percentage differential between WTI and the JCC¹⁴ is forecast consistent with the historic actual average.

Operating and capital costs are the operator's forecast consistent with base case production. Advice from the operators is that costs would not be materially different for the low production case, therefore base case costs are used without adjustment as a prudent estimate of low case production costs.

Certification of the ESI calculation

According to the Petroleum Fund Law Art. 8 no transfer shall be made from the Petroleum Fund in the Fiscal Year unless the Government has first provided Parliament with reports:

- (a) specifying the Estimated Sustainable Income for the Fiscal Year for which the transfer is made;
- (b) specifying the Estimated Sustainable Income for the preceding Fiscal Year; and
- (c) from the Independent Auditor certifying the amount of the Estimated Sustainable Income in paragraphs (a) and (b) above.

The reports are attached as Annex 3 and 4.

¹⁴ Japanese Crude Cocktail, price index of all oil imported into Japan, reported by Japanese Ministry of Finance

ANNEX 2 - 2011 General State Budget Law



NATIONAL PARLIAMENT

National Parliament Decree no. 5/II

Approving the 2011 State General Budget of the Democratic Republic of Timor-Leste

The 2011 State General Budget covers all revenues and expenditure of the State of Timor-Leste.

Attachment I to the 2011 State General Budget Law, henceforth called SGB, sets the total estimated SGB revenue from January to December 2011 derived from all petroleum and non-petroleum sources, donor grants and non-tax revenue. The total estimated revenue from all sources is US\$2.3987 billion.

Attachment II to the State Budget Law sets all budget appropriations, including autonomous funds and services and special funds, systematized as follows:

1. \$116.834 million for Salaries and Wages;
2. \$294.151 million for Goods and Services, including \$25 million allocated to the Human Capital Development Fund;
3. \$177.456 million for Public Transfers;
4. \$29.262 million for Minor Capital;
5. \$688.315 million for Capital development, including \$599.306 million allocated to the Infrastructure Fund;

Excluding autonomous funds and services and special funds, the total budget appropriation for the SGB is \$630.402 million.

The State Treasury account includes all revenues and expenses from the self-funded autonomous bodies, namely Electricity of Timor-Leste (EDTL), Airport and Air Navigation Administration of Timor-Leste (ANATL), Port Authority of Timor-Leste (APORTIL), Equipment Management Institute (IGE) and Autonomous Medical Stores (SAMES). Revenues from those categories are included under the item for own revenues from autonomous funds and services in Attachment I. Attachment III contains the budget for proposed expenses.

The total estimated expenditure for self-funded autonomous funds and services in 2011 is \$51.311 million, including \$32.161 million transferred from the SGB in order to subsidize expenditure exceeding the estimated own revenues.

The total budget appropriation for the Infrastructure Fund is \$599.306 million.

The total budget appropriation for the Human Capital Development Fund is \$25 million.

Total estimated SGB expenditure is \$1.306 billion.

Estimated non-petroleum revenue is \$110 million.

Thus the tax deficit is \$1.196 billion, being funded by \$141 million from the Consolidated Fund for Timor-Leste and by \$1.055 billion from the Petroleum Fund.

Under section 95.3 (d) and section 145.1 of the Constitution of the Republic, the Government presents to Parliament the following, to prevail as law:

Chapter I

Definitions and approval

Article 1

Definitions

For the purposes of the present Law:

- a) **"Expense Category"** means the grouping of expenses under the five following categories: Salaries and Wages; Goods and Services; Public Transfers; Minor Capital; and Capital Development, where:

- i) **"Salaries and Wages"** means the full amount a Body may spend on Salaries and Wages for the holders of political offices and for permanent, temporary and part-time staff;
 - ii) **"Goods and Services"** means the full amount a Body may spend on the acquisition of Goods and Services;
 - iii) **"Public Transfers"** means the full amount a Body may spend on public grants and consigned payments;
 - iv) **"Minor Capital"** means the full amount a Body may spend on the acquisition of Minor Capital goods;
 - v) **"Capital Development"** means the full amount a Body may spend on Capital Development projects.
- b) **"Expenses paid by Revenues"** means expenses met by the *own revenues* charged by autonomous funds and services, provided that the amount does not exceed the full value of the revenues entered in the relevant Treasury accounts;
 - c) **"Budget Appropriation"** means the full amount inscribed in the SGB in favour of a Body towards the payment of a certain expense;
 - d) **"Body / Bodies"** is the generic term adopted by Budget to indicate the administrative public sector subjected to budget discipline and that, according to the organic classification, may be divided by such titles as: Office of the President of the Republic, Parliament, Government (Office of the Prime Minister, Presidency of the Council of Ministers, Ministries and Secretariats of State), Courts and Office of the Prosecutor General of the Republic;
 - e) **"Expenditure Items"** means the individual expenditure items within each *Expense Category*, based on the expenditure account code structure maintained by Treasury.

Article 2

Approval

The present Law approves the State General Budget for the period from 1 January to 31 December 2011, as well as:

- a) Total revenues per groupings, including own revenues from autonomous funds and services and special funds featured in Attachment I to the present diploma;
- b) Total expenses per groupings, including the amounts to be transferred from the State General Budget for autonomous funds and services in 2011, featured in Attachment II to the present diploma;
- c) Total expenses from the autonomous funds and services to be funded from their own revenues and from the State General Budget subsidy, featured in Attachment III to the present diploma;
- d) Total expenses corresponding to the appropriation for the Infrastructure Fund in 2011, featured in Attachment IV to the present diploma;
- e) Total expenses corresponding to the appropriation for the Human Capital Development Fund in 2011, featured in Attachment V to the present diploma.

Chapter II

Revenues

Article 3

Revenues

In 2011 the Government is authorized to collect taxes and other tax impositions set by law.

Chapter III

Authorization to make transfers from the Petroleum Fund

Article 4

Authorized limit for withdrawing from the SGB

1. Under article 7 of Law no. 9/2005 of 3 August, the transfer amount from the Petroleum Fund in 2011 cannot exceed \$1.055 billion, with \$734 million being transferred after complying with the provisions of article 8 and \$321 million being transferred after complying with articles 9 (a), 9 (b) and 9 (c) of Law no. 9/2005 of 3 August.

2. In financial year 2011, the Government will comply with articles 9 (a), 9 (b) and 9 (c) of Law no. 9/2005 of 3 August on the transfer of amounts proposed and approved by Parliament, in the part that exceeds the Estimated Sustainable Income, after the present law enters into force.

Chapter IV

Budget Execution

Article 5

Payment of taxes on Government imports

Treasury is authorized to establish and implement an accounting mechanism for registering and controlling revenues and expenses, corresponding to the payment of taxes on imports done by the Bodies or on their behalf.

Article 6

Appropriations for the Whole of Government

According to the criteria set for public expenses, the Government shall inscribe the following appropriations in the budget of the Ministry of Finance, to be managed by the latter:

- a) Counterpart Fund;
- b) External Audit;
- c) Contingency Reserve;
- d) Fund for Travels Abroad;
- e) International Organization Membership Fees;
- f) Retroactive Funding;
- g) Payment of pensions to former holders and former members of Sovereignty Bodies;
- h) Construction of Integrated Posts at the Border;
- i) New Body for implementing the recommendations of the CAVR.
- j) Contribution Fund for Social Institutions.

Article 7

Contingency Reserve

After hearing the Minister of Finance, the Prime Minister shall decide in relation to the transfer of resources from the Contingency Reserve to the various Bodies.

Chapter V

Autonomous funds and services

Article 8

Own Revenues

1. Estimated revenues to be collected by autonomous funds and services are indicated in Attachment I.
2. Expenses resulting from transfers from the Government to the autonomous funds, as well as the estimate of the respective estimated expenses, are indicated in Attachment II.
3. The budgets by Expense Category concerning the autonomous funds and services funded by own revenues are indicated in Attachment III.
4. The appropriation for the Infrastructure Fund is featured in Attachment IV.
5. The appropriation for the Human Capital Development Fund is featured in Attachment V.
6. Expenditure Authorization Notices in favour of autonomous funds and services from own revenues may only be authorized after the State receives the respective revenues. The said authorizations must be of an equal or lesser value.

Chapter VI

Special Funds

Article 9

Infrastructure Fund and Human Capital Development Fund

1. Under article 32 of Law no. 13/2009 of 21 October, on Budget and Financial Management, the Government hereby creates the Infrastructure Fund and the Human Capital Development Fund, in order to fund multiyear programs and projects.

2. The Infrastructure Fund is meant to support strategic plans meant for the acquisition, construction and development of:
 1. Road infrastructures, including roads, bridges, ports and airports;
 2. Power generators and power lines;
 3. Telecommunications;
 4. Infrastructures promoting flood protection;
 5. Water treatment and sanitation facilities;
 6. Logistic facilities, including storage infrastructures;
 7. Government buildings, including health and education facilities; and
 8. Other infrastructures promoting strategic development.
3. The body responsible for the operations of the Infrastructure Fund is the Administration Council, which consists of the Prime Minister, who presides over it, as well as the Minister of Infrastructure, the Minister of Finance and other Government members involved in the programs and projects to be financed by the Fund.
4. The Human Capital Development Fund is meant to support Human Resource training projects and programs, namely programs seeking to improve the training of Timorese professionals in strategic development sectors such as justice, health, education, infrastructures, agriculture, tourism, oil management and financial management, among others, which include activities and actions to be carried out in Timor-Leste and the participation of Timorese citizens in training actions abroad, including scholarships for university and post-graduation courses.
5. The body responsible for the operations of the Human Capital Development Fund is the Administration Council, which consists of the Prime Minister, who presides over it, as well as the Minister of Education, the Minister of Finance, the Minister of Justice, the Secretary of State for Natural Resources and other Government members involved in the programs and projects to be financed by the Fund.
6. Administration Councils are competent to change appropriations issued to programs, within the limits of the overall appropriation authorized by Parliament and provided that the respective purposes are kept.
7. Subjects not covered by the previous paragraphs shall be regulated by way of a Government diploma.

Chapter VII

Final Provisions

Article 10

Funding through independent donors

1. Each Body may only establish agreements with independent donors for the provision of additional or complementary resources to the funding contained in the budget allocations of the present Law, after hearing the mandatory opinion of the Minister of Finance.
2. This funding must be managed in accordance with the directives issued by the Ministry of Finance and with the donor requirements.

Article 11

Entry into force

The present Law enters into force on the day after its publication and will have effect starting on 1 January 2011.

Approved on 28 January 2011.

The Speaker of Parliament

Fernando La Sama de Araújo

Promulgated on

Let it be published,

The President of the Republic

José Manuel Ramos-Horta

**Estimated Revenues to be collected in the 2011 State General Budget for the Democratic
Republic of Timor-Leste 2011
(US\$ million)**

1.	Total Revenues	2,398.7
1.1.	Petroleum Revenues	2,288.0
1.1.1.	Taxes on petroleum profits	1057.0
1.1.2.	Timor Sea Duties Timor	147.0
1.1.3.	Income Tax	355.0
1.1.4.	Additional Profit Tax	395.0
1.1.5.	Other Taxes and Petroleum Fees	38.0
1.1.6.	Petroleum Fund Interests	296.0
1.2.	Non-Petroleum Revenues	91.5
1.2.1.	Direct Taxes	22.3
1.2.2.	Indirect Taxes	42.6
1.2.3.	Other Revenues and Fees	26.2
1.2.4.	Treasury Account Interests	0.1
1.2.5.	Lottery Revenues	0.3
1.3	Donations	0.0
1.4	Own Revenues from Autonomous Funds	19.2
1.5	Own Revenues from the Infrastructure Fund	0
1.6	Own Revenues from the Human Capital Development Fund	0

Attachment II – Budget Appropriation for 2011 (\$'000)

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Including Autonomous Agencies and Special Funds	116,834	294,151	177,456	29,262	688,315	1,306,018
Excluding Autonomous Agencies and Special Funds	114,558	222,016	177,456	28,613	87,759	630,402
Presidency of the Republic	500	5,471	-	300	-	6,271
Office of the President of the Republic	60	2,951	-	-	-	3,011
Administrative Directorate of the Presidency of the Republic	440	1,235	-	300	-	1,975
General Advisory for the Presidency of the Republic	-	1,015	-	-	-	1,015
Post-CAVR Technical Secretariat	-	270	-	-	-	270
National Parliament	3,896	7,840	-	711	-	12,447
National Parliament	3,001	1,612	-	-	-	4,613
Officer of the Speaker of Parliament	67	475	-	-	-	542
Parliamentary Benches	-	112	-	-	-	112
Secretariat of the National Parliament	828	3,984	-	694	-	5,506
Commission A	-	142	-	-	-	142
Commission B	-	147	-	-	-	147
Commission C	-	144	-	-	-	144
Commission D	-	117	-	-	-	117
Commission E	-	144	-	-	-	144
Commission F	-	137	-	-	-	137
Commission G	-	141	-	-	-	141
Commission H	-	92	-	-	-	92
Commission I	-	61	-	-	-	61
Consulting Council for the Petroleum Fund	-	413	-	17	-	430

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Women Parliamentary Group of Timor-Leste	-	119	-	-	-	119
Prime Minister and Presidency of the Council of Ministers	3,008	17,175	20,396	974	29,880	71,433
Prime Minister	950	9,651	8,800	481	28,811	48,693
Office of the Prime Minister	66	-	-	-	-	66
Secretariat of the Prime Minister	25	831	-	-	-	856
Directorate of Administration and Finance	78	1,002	-	121	-	1,201
Directorate of Human Resources	93	9	-	-	-	102
Official Residence of the Prime Minister	-	51	-	-	-	51
Office of the Director-General	16	6	-	-	-	22
Office of the Vice Prime Minister	186	726	8,800	-	-	9,712
National Development Agency (ADN)	-	3,500	-	-	28,811	32,311
National Procurement Commission (CNA)	-	2,000	-	-	-	2,000
National Intelligence Service (SNI)	179	960	-	270	-	1,409
Inspectorate Office (IG)	307	566	-	90	-	963
Office of the Secretary of State for the Council of Ministers	306	3,066	-	87	-	3,459
Office of the Secretary of State	70	689	-	3	-	762
National Directorate of Administration and Support to the Council of Ministers	91	1,029	-	1	-	1,121
National Directorate of Translation Services	51	44	-	30	-	125
Legal Support Unit	17	534	-	-	-	551
Directorate of Information Socialization	35	504	-	23	-	562
Community Radio Centre	21	56	-	30	-	107
Office of Parliamentary Matters	21	210	-	-	-	231
Office of the Secretary of State for Youth and Sports	373	467	4,338	72	971	6,221
Office of the Secretary of State	64	45	-	-	-	109

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenditure
Directorate of Administration and Finance	148	335	126	72	971	1,652
National Directorate of Youth	25	-	375	-	-	400
Directorate of Physical Education and Sports	19	40	3,382	-	-	3,441
Directorate of Development Policy	34	-	300	-	-	334
National Directorate of Arts	26	-	155	-	-	181
Office of the Director-General	9	1	-	-	-	10
Directorate of Communication	48	46	-	-	-	94
Office of the Secretary of State for Natural Resources	220	1,989	4,300	146	-	6,655
Office of the Secretary of State for	52	795	-	-	-	847
National Directorate of Administration and Finance			-		-	
	75	321		146		542
National Directorate of Natural Resource Planning				-	-	
	41	90	4,300			4,431
National Directorate of Minerals			-	-	-	
	52	783				835
Office of the Secretary of State for Energy Policy	181	537	1,963	60	-	2,741
Office of the Secretary of State			-	-	-	
	57	64				121
National Directorate of Administration and Finance			-		-	
	61	123		60		244
National Directorate of Alternative Energy Research and Policies			-	-	-	
	30	27				57
National Directorate for the Coordination of Renewable Energy Activities				-	-	
	33	30	496			559
Task Force for the Installation of Solar Panels	-			-	-	
		293	1,467			1,760

Office of the Secretary of State for Professional Training and Employment	773	687	895	81	98	2,534
Office of the Secretary of State			-		-	
	85	267		25		377
National Directorate of Administration and Finance			-			
	195	72		14	98	379
National Directorate of Professional Training			-		-	
	47	28		3		78
National Directorate of Employment				-	-	
	88	91	895			1,074
National Directorate of Labour Relations			-		-	
	91	58		6		155
National Directorate of Labour Inspectorate			-		-	
	65	47		30		142
Secretariat of Support to the National Labour Council			-		-	
	36	28		3		67
Legal Advisory Office			-	-	-	
	9	13				22
National Institute of Labour Development			-	-	-	
	9	22				31
Employment and Professional Training Fund Office			-	-	-	
	9	12				21
Attaché in South Korea			-	-	-	
	79	22				101
SENAI Training Centre			-	-	-	
	60	27				87
Office of the Secretary of State for the Promotion of Equality	205	778	100	47	-	1,130

Office of the Secretary of State			-	-	-	
	57	230				287
Office of the Director-General			-	-	-	
	26	61				87
Directorate of Administration, Logistics and Finance					-	
	68	330	100	47		545
Directorate of Gender Policy and Development			-	-	-	
	54	157				211
Ministry of Defence and Security	19,856	23,867	325	6,181	1,944	52,173
Minister of Defence and Security			-		-	
	52	1,806		3,988		5,846
Office of the Minister			-		-	
	52	1,806		3,988		5,846
Office of the Secretary of State for Defence					-	
	207	489	325	32		1,053
Office of the Secretary of State				-	-	
	49	279	325			653
National Directorate of Defence Administration and Finance			-		-	
	41	202		32		275
National Directorate of Planning and International Exchange			-	-	-	
	36	2				38
National Directorate of Procurement			-	-	-	
	39	2				41
National Directorate of Legacy			-	-	-	
	17	2				19
Office of the Director-General			-	-	-	
	25	2				27
FALINTIL – Defence Forces of Timor-Leste (Total)			-			
	5,336	13,183		1,500	1,500	21,519

FALINTIL – Defence Forces of Timor-Leste	-		-			
		11,227		1,500	1,500	14,227
F-FDTL Headquarters			-	-	-	
	5,336	1,956				7,292
Secretary of State for Security			-		-	
	2,732	2,469		551		5,752
Office of the Secretary of State for			-	-	-	
	57	84				141
Office of the Director-General			-	-	-	
	31	24				55
National Directorate of Finance			-	-	-	
	75	28				103
National Directorate of Civil Protection			-		-	
	718	519		416		1,653
National Directorate of Public Building Security			-	-	-	
	1,565	550				2,115
Inspectorate and Audit Office			-	-	-	
	48	26				74
National Directorate of Administration			-		-	
	72	553		40		665
National Directorate of Community Conflict Prevention			-	-	-	
	78	65				143
National Directorate of Procurement			-	-	-	
	52	31				83
Civil Migration Services			-		-	
	36	589		95		720
National Police of Timor-Leste (PNTL)			-			
	11,529	5,920		110	444	18,003
PNTL – National Directorate of Administration and Finance			-			
	951	1,100		110	444	2,605

PNTL – Special Police Unit			-	-	-	
	1,523	1,125				2,648
PNTL – Migration Services		-	-	-	-	
	310					310
PNTL – Border Patrol Unit			-	-	-	
	857	504				1,361
PNTL – Maritime Unit			-	-	-	
	215	296				511
PNTL – National Operational Command			-	-	-	
	982	891				1,873
PNTL – Police Training Centre			-	-	-	
	345	769				1,114
Region I			-	-	-	
	2,541	590				3,131
Region II			-	-	-	
	1,874	335				2,209
Region III			-	-	-	
	1,533	249				1,782
Special Region of Oecussi			-	-	-	
	398	61				459
Ministry of Foreign Affairs	10,514	6,034	1,200	905	-	18,653
Office of the Minister	-		-	-	-	
		25				25
Head Office of the MFA					-	
	10,514	4,281	1,200	625		16,620
Office of the Vice Minister	-		-	-	-	
		30				30
Permanent Mission in New York	-		-	-	-	
		40				40

Embassy – Lisbon	-		-	-	-	
		42				42
Embassy – Jakarta	-		-	-	-	
		46				46
Embassy – Washington	-		-	-	-	
		62				62
Embassy – Canberra	-		-		-	
		60		12		72
Embassy – Kuala Lumpur	-		-	-	-	
		33				33
Embassy – Brussels	-		-	-	-	
		40				40
Embassy – Bangkok	-		-		-	
		33		28		61
Embassy – Tokyo	-		-	-	-	
		40				40
Embassy – Beijing	-		-		-	
		36		45		81
Embassy – Maputo	-		-	-	-	
		40				40
Consulate - Sidney	-		-	-	-	
		26				26
Consulate - Denpasar	-		-	-	-	
		28				28
Consulate - Kupang	-		-		-	
		31		50		81
Land Border Demarcation	-		-	-	-	
		210				210
Embassy – Havana	-		-	-	-	
		35				35

Embassy – Manila	-		-			
		33		40		73
Embassy – Geneva	-		-		-	
		46		3		49
Official Travels	-		-	-	-	
		200				200
Embassy – Vatican	-		-	-	-	
		35				35
Embassy – Brasilia	-		-	-	-	
		41				41
Embassy – Seoul	-		-	-	-	
		30				30
Embassy – CPLP / UNESCO	-		-	-	-	
		28				28
Embassy – Pretoria	-		-	-	-	
		20				20
Embassy – Luanda	-		-	-	-	
		45				45
Consulate – Manchester	-		-		-	
		381		67		448
Embassy – Singapore	-		-		-	
		37		35		72
Ministry of Finance	2,938	7,306	-	1,707	1,900	13,851
Offices of the Minister and of the Vice Minister			-	-	-	
	177	1,044				1,221
Directorate-General of Corporative Services			-			
	223	5,169		1,707	1,900	8,999
Directorate-General of State Finance			-	-	-	
	851	254				1,105

Directorate-General of Revenues and Customs			-	-	-	
	1,158	646				1,804
Directorate-General of Review and Research			-	-	-	
	529	193				722
Whole of Government Appropriations	50	56,003	3,000	2,664	3,044	64,761
WGA – Counterpart Funds	-		-	-	-	
		2,600				2,600
WGA – External Audit	-		-	-	-	
		1,500				1,500
WGA – Retroactive Funding	-		-	-	-	
		200				200
WGA – Contingency Reserve	-		-	-	-	
		49,000				49,000
WGA – Fund for Travels Abroad	-		-	-	-	
		655				655
WGA – Membership Fees in International Institutions	-		-	-	-	
		845				845
WGA – Pensions for former Holders	-					
		1,003	2,700	123	344	4,170
Construction of Integrated Posts	-	-	-			
				2,541	2,700	5,241
New Public Body for implementing CAVR recommendations			-	-	-	
	50	200				250
Contribution Fund for Social Institutions	-	-		-	-	
			300			300
Ministry of Justice	2,513	4,789	-	667	-	7,969
Office of the Minister			-	-	-	
	66	27				93

Office of the Director-General			-		-	
	23	13		1		37
National Directorate of Administration and Finance			-		-	
	379	1,689		307		2,375
National Directorate of Legal Advisory and Legislation			-		-	
	90	78		7		175
National Directorate of Human Rights and Citizenship			-		-	
	84	119		3		206
National Directorate of Registry and Notary Services			-		-	
	412	974		194		1,580
National Directorate of Prison Services and Social Reinsertion			-		-	
	469	652		34		1,155
Legal Training Centre			-		-	
	32	216		23		271
Public Defence			-		-	
	432	241		39		712
National Directorate of Lands, Properties and Mapping Services			-		-	
	431	634		29		1,094
National Commission of Children Rights			-		-	
	23	80		8		111
Inspectorate and Audit Office			-		-	
	16	40		22		78
Office of the Vice Minister			-	-	-	
	56	26				82
Ministry of Health including Autonomous Agencies	11,063	14,982	10,345	1,758	50	38,198
Ministry of Health excluding Autonomous Agencies	10,778	14,382	10,345	1,643	-	37,148
Office of the Minister			-	-	-	
	68	95				163

Office of the Vice Minister			-	-	-	
	61	98				159
National Laboratory			-		-	
	228	543		22		793
National Hospital Guido Valadares				-	-	
	1,694	2,233	3,125			7,052
Reference Hospital of Baucau			-	-	-	
	583	1,042				1,625
Reference Hospital of Maliana			-	-	-	
	411	507				918
Reference Hospital of Maubisse			-	-	-	
	354	500				854
Reference Hospital of Oecussi			-	-	-	
	383	622				1,005
Reference Hospital of Suai			-	-	-	
	386	498				884
District Health Services of Aileu			-	-	-	
	308	242				550
District Health Services of Ainaro			-	-	-	
	313	235				548
District Health Services of Baucau			-	-	-	
	450	265				715
District Health Services of de Bobonaro			-	-	-	
	343	234				577
District Health Services of Covalima			-	-	-	
	386	281				667
District Health Services of Dili			-	-	-	
	535	323				858
District Health Services of Ermera			-	-	-	
	395	228				623

District Health Services of Lautém			-	-	-	
	390	255				645
District Health Services of Liquiçá			-	-	-	
	281	218				499
District Health Services of Manatuto			-	-	-	
	397	249				646
District Health Services of Manufahi			-	-	-	
	346	235				581
Health Science Institute			-		-	
	185	141		12		338
District Health Services of Oecussi			-	-	-	
	294	221				515
District Health Services of Viqueque			-	-	-	
	410	246				656
Office of the Director-General			-		-	
	218	400		4		622
National Directorate of Planning and Finance					-	
	170	2,292	127	139		2,728
National Directorate of Community Health					-	
	202	324	6,000	2		6,528
National Directorate of Human Resources				-	-	
	409	351	868			1,628
National Directorate of Hospital Services				-	-	
	183	780	225			1,188
National Directorate of Administration, Logistics and Procurement			-		-	
	229	651		1,450		2,330
Office of Inspectorate, Verification and Audit			-		-	
	166	73		14		253
SAMES (Self-funded Agency)			-			
	285	600		115	50	1,050

Ministry of Education and Culture	42,579	22,990	-	3,920	650	70,139
Office of the Minister			-	-	-	
	67	132				199
Office of the Vice Minister			-	-	-	
	57	97				154
Office of the Inspector-General			-	-	-	
	88	212				300
National Directorate of Finance and Logistics			-		-	
	241	2,662		1,080		3,983
National Directorate of Planning, Statistics and IT			-	-	-	
	164	137				301
National University of Timor-Leste			-		-	
	3,075	1,840		1,440		6,355
Unit of Infrastructure and Education Equipment Maintenance	-	-	-	-		
					650	650
Legal Office			-	-	-	
	2	100				102
National Directorate of Recurrent Education			-	-	-	
	196	1,304				1,500
National Institute for the Training of Teachers and Education Professionals (INFORDOPE)			-	-	-	
	420	4,432				4,852
Protocol and Media Office			-		-	
	61	282		400		743
National Directorate of School Curriculum and Evaluation			-	-	-	
	120	2,906				3,026
Regional Directorate I			-	-	-	
	422	118				540
Regional Directorate II			-	-	-	
	318	98				416

Regional Directorate III			-	-	-	
	316	101				417
Regional Directorate IV			-	-	-	
	353	105				458
Directorate of the Special Region of Oecussi			-	-	-	
	157	92				249
National Directorate of Human Resources			-	-	-	
	174	90				264
Directorate-General of Corporative Services			-	-	-	
	91	57				148
Directorate-General of School Administration, Innovation and Curricular Development			-	-	-	
	15	39				54
Directorate-General of Higher Education			-	-	-	
	29	30				59
National Directorate of Procurement	-		-	-	-	
		12				12
National Directorate of University Higher Education			-	-	-	
	115	755				870
National Directorate of Technical Higher Education	-		-	-	-	
		7				7
National Directorate of Science and Technology Development	-		-	-	-	
		20				20
National Directorate of School Social Action	-		-	-	-	
		2,812				2,812
National Directorate of Pre-School Education	-		-	-	-	
		194				194
National Directorate of Basic Education			-	-	-	
	30,331	2,797				33,128
National Directorate of General Secondary Education			-		-	
	4,278	181		500		4,959

National Directorate of Technical and Vocational Secondary Education			-		-	
	1,178	151		500		1,829
National Agency for Academic Assessment and Accreditation (ANAAA)	-		-	-	-	
		250				250
District Education Services of Dili	-		-	-	-	
		13				13
District Education Services of Baucau	-		-	-	-	
		13				13
District Education Services of Aileu	-		-	-	-	
		13				13
District Education Services of Ainaro	-		-	-	-	
		13				13
District Education Services of Bobonaro	-		-	-	-	
		13				13
District Education Services of Ermera	-		-	-	-	
		13				13
District Education Services of Lautém	-		-	-	-	
		13				13
District Education Services of Liquiçá	-		-	-	-	
		13				13
District Education Services of Manatuto	-		-	-	-	
		13				13
District Education Services of Manufahi	-		-	-	-	
		13				13
District Education Services of Covalima	-		-	-	-	
		13				13
District Education Services of Viqueque	-		-	-	-	
		13				13
National Directorate of Museums and Library			-	-	-	
	82	278				360

National Directorate of Cultural Legacy			-	-	-	
	75	64				139
National Directorate of Arts, Culture and Creative and Cultural Industries			-	-	-	
	53	287				340
Office of the Secretary of State for Culture			-	-	-	
	58	59				117
Directorate-General of Culture			-	-	-	
	43	133				176
Ministry of State Administration and Territorial Planning	2,939	4,791	19,580	2,915	16,802	47,027
Office of the Minister			-	-	-	
	67	43				110
National Printing House			-	-	-	
	58	130				188
National Archive			-	-	-	
	65	47				112
National Institute of Public Administration			-	-	-	
	152	80				232
Technical Secretariat of Electoral Administration			-	-	-	
	354	650				1,004
Office of the Secretary of State for Administrative Reform			-	-	-	
	55	86				141
National Directorate of Local Development and Territorial Planning			-	-	-	
	83	161				244
Local Development Program	-			-	-	
		120	3,500			3,620
Decentralized Development Package I	-	-		-		
			11,094		15,521	26,615
Office of the Secretary of State for the Special Region of Oecussi			-	-	-	
	71	103				174

Office of the Director-General			-	-	-	
	26	20				46
National Directorate of Administration and Finance			-			
	191	1,608		2,915	1,281	5,995
National Directorate of Local Administration			-	-	-	
	83	70				153
District Administration of Manufahi				-	-	
	66	60	318			444
District Administration of Viqueque				-	-	
	88	61	454			603
District Administration of Lautém				-	-	
	68	61	363			492
District Administration of Manatuto				-	-	
	84	61	278			423
District Administration of Covalima				-	-	
	103	61	334			498
District Administration of Ainaro				-	-	
	72	59	263			394
District Administration of Aileu				-	-	
	66	59	331			456
District Administration of Ermera				-	-	
	89	61	599			749
District Administration of Liquiçá				-	-	
	60	52	278			390
Office of the Inspector-General			-	-	-	
	25	21				46
District Administration of Dili				-	-	
	652	819	435			1,906
District Administration of Bobonaro				-	-	
	104	61	503			668

District Administration of Baucau				-	-	
	105	49	654			808
District Administration of Oecussi				-	-	
	96	59	174			329
National Directorate of Support to Suco Administrations			-	-	-	
	56	127				183
Ministry of Economy and Development	1,459	3,392	2,859	334	600	8,644
Office of the Minister			-	-	-	
	68	61				129
Office of Inspectorate and Audit			-		-	
	33	32		2		67
Institute for Supporting Business Development					-	
	299	173	158	34		664
Institute for Promoting Investment and Exports					-	
	16	342	120	19		497
Office of the Vice Minister			-	-	-	
	59	36				95
National Directorate of Research and Planning for National Development			-		-	
	58	59		8		125
Office of the Secretary of State for Environment			-	-	-	
	54	32				86
National Directorate of Environment					-	
	221	104	300	87		712
National Directorate of International Environmental Issues			-	-	-	
	44	45				89
Office of the Secretary of State for Rural Development and Cooperatives			-	-	-	
	54	23				77
National Directorate of Rural Development						
	299	96	300	1	600	1,296

National Directorate of Cooperatives				-	-	
	125	61	300			486
Office of the Director-General			-	-	-	
	33	121				154
National Directorate of Administration and Finance					-	
	79	2,185	1,681	181		4,126
Department of Procurement			-		-	
	17	22		2		41
Ministry of Social Solidarity	1,565	3,041	113,706	416	-	118,728
Office of the Minister			-	-	-	
	65	46				111
Inspectorate and Internal Audit			-	-	-	
	33	65				98
Office of the Director-General			-	-	-	
	42	33				75
National Directorate of Administration and Finance			-		-	
	424	1,148		213		1,785
Office of the Secretary of State for Former National Liberation Combatants			-	-	-	
	54	426				480
National Directorate for Former National Liberation Combatants					-	
	219	263	81,776	5		82,263
Office of the Secretary of State for Social Assistance and Natural Disasters			-	-	-	
	53	45				98
National Directorate of Social Assistance					-	
	141	440	450	50		1,081
National Directorate of Social Reinsertion					-	
	263	246	2,362	20		2,891
National Directorate of Disaster Management					-	
	111	214	1,000	34		1,359

Secretary of State for Social Security			-	-	-	
	53	35				88
National Directorate of Social Security					-	
	107	80	28,118	94		28,399
Ministry of Infrastructure including Autonomous Agencies	4,611	55,435	945	1,364	29,783	92,138
Ministry of Infrastructure Excluding Autonomous Agencies	2,620	8,901	945	830	28,583	41,879
Office of the Minister			-	-	-	
	62	40				102
Office of the Director-General			-		-	
	16	11		14		41
Communications Regulatory Authority			-		-	
	67	68		11		146
Directorate of Maritime Transport Services			-	-	-	
	54	46				100
Directorate of Meteorology and Geophysics			-	-	-	
	47	45				92
National Directorate of IT			-		-	
	103	101		20		224
National Directorate of Administration and Finance			-		-	
	96	762		4		861
National Directorate of Land Transports			-	-	-	
	276	330				606
National Directorate of Timor-Leste's Post Office			-		-	
	77	376		19		472
Civil Aviation Authority of Timor-Leste			-		-	
	36	233		369		638
Airport and Air Navigation Administration of Timor-Leste (Self-funded Agency)			-		-	
	251	271		12		534

Port Authority of Timor-Leste (Self-funded Agency)			-	-	-	
	87	163				250
Equipment Management Institute (Self-funded Agency)			-		-	
	653	613		52		1,318
Berlin – Nakroma Operations	-		-	-	-	
		1,941				1,941
Office of the Secretary of State for Power, Water and Urbanization			-		-	
	55	21		1		77
Office of the Director-General			-		-	
	4	9		1		14
Directorate-General of Corporative Services			-		-	
	60	3,040		12		3,112
National Directorate of Water Resource Management			-		-	
	20	38		5		63
National Directorate of Water and Sanitation Services						
	538	735	945	43	2,758	5,019
Electricity of Timor-Leste EDTL (Self-funded Agency)			-			
	1,000	45,488		471	1,200	48,159
EDTL Officers for Monitoring the Power Plant Project	-		-	-	-	
		7				7
Office of the Secretary of State for Public Works			-		-	
	51	20		3		74
Office of the Director-General			-		-	
	21	13		11		45
National Directorate of Administration and Finance			-		-	
	111	441		19		571
National Directorate of Buildings, Housing and Urban Planning			-		-	
	290	199		36		525
National Directorate of Research and Development			-		-	
	92	185		187		464

National Directorate of Roads, Bridges and Flood Control			-			
	488	197		76	25,825	26,586
Office of the Vice Minister of Infrastructure			-	-	-	
	57	45				102
Ministry of Tourism, Trade and Industry	916	20,400	1,600	653	1,640	25,209
Office of the Minister			-	-	-	
	67	394				461
Internal Audit Office			-	-	-	
	34	29				63
Office of the Director-General			-		-	
	60	250		22		332
National Directorate of Administration and Finance						
	75	959	250	335	1,640	3,259
National Directorate of Research and Development			-		-	
	44	121		177		342
National Directorate of Foreign Trade			-		-	
	183	217		14		414
National Directorate of Internal Trade			-		-	
	66	3,344		28		3,438
National Directorate of Industry					-	
	86	150	200	19		455
Food and Economy Inspectorate			-		-	
	73	95		25		193
Inspectorate-General of Lotteries			-		-	
	49	152		5		206
Office of the Secretary of State for Tourism			-	-	-	
	55	14				69
National Directorate of Tourism					-	
	60	554	1,150	5		1,769

Food Security Fund			-		-	
	64	14,121		23		14,208
Ministry of Agriculture and Fisheries	4,671	7,220	500	1,018	-	13,409
Office of the Minister			-	-	-	
	67	35				102
Legal Office			-	-	-	
	27	8				35
Inspectorate and Audit			-		-	
	16	14		6		36
Protocol and Media Office			-	-	-	
	18	8				26
National Directorate of Administration and Finance			-		-	
	196	590		25		811
National Directorate of Research and Extension			-		-	
	243	109		16		368
National Directorate of Quarantine and Biosecurity			-		-	
	226	98		69		393
National Directorate of Agriculture Technical Training			-		-	
	361	195		47		603
National Directorate of Policy and Planning			-		-	
	108	623		50		781
Office of the Director-General			-	-	-	
	20	15				35
Office of the Secretary of State for Agriculture and Arboriculture			-	-	-	
	57	26				83
National Directorate of Agriculture and Horticulture			-		-	
	152	2,718		299		3,169
National Directorate of Plants, Industry and Agribusiness			-		-	
	134	253		16		403

National Directorate of Forestry	201	176	-	74	-	451
National Directorate of Irrigation and Water Use Management	137	394	-	11	-	542
Office of the Secretary of State for Fisheries	57	15	-	-	-	72
National Directorate of Fisheries and Agriculture	324	536	-	233	-	1,093
Office of the Secretary of State for Livestock	55	26	-	-	-	81
National Directorate of Livestock and Veterinary Services	131	606	-	61	-	798
National Directorate of Support to Agriculture Commercial Development	113	274	500	45	-	932
Agriculture Services in the District of Aileu	117	37	-	20	-	174
Agriculture Services in the District of Ainaro	133	50	-	20	-	203
Agriculture Services in the District of Baucau	207	48	-	-	-	255
Agriculture Services in the District of Bobonaro	225	42	-	2	-	269
Agriculture Services in the District of Covalima	189	49	-	2	-	240
Agriculture Services in the District of Ermera	141	45	-	19	-	205
Agriculture Services in the District of Liquicá	125	32	-	2	-	159
Agriculture Services in the District of Lautém	165	45	-	2	-	212

Agriculture Services in the District of Manatuto	163	35	-	-	-	198
Agriculture Services in the District of Manufahi	173	31	-	-	-	204
Agriculture Services in the District of Oecussi	203	43	-	-	-	246
Agriculture Services in the District of Viqueque	187	44	-	-	-	231
Courts	590	1,767	-	249	-	2,606
Superior Council of the Judiciary	4	58	-	10	-	72
Court of Appeal	379	1,540	-	31	-	1,950
District Courts	207	169	-	208	-	584
Office of the Prosecutor-General of the Republic	699	1,349	-	1,019	2,500	5,567
Office of the Prosecutor-General of the Republic	571	1,223	-	1,019	2,500	5,313
District Prosecution of Baucau	55	52	-	-	-	107
District Prosecution of Suai	38	37	-	-	-	75
District Prosecution of Oecussi	35	37	-	-	-	72
Office of the Provedor for Human Rights and Justice	414	670	-	214	-	1,298
Office of the Provedor for Human Rights	414	670	-	214	-	1,298

Public Radio and Television Broadcasting Service of Timor-Leste	659	1,913	-	481	15	3,068
Directorate of Information	225	151	-	-	-	376
Administration and Finance	134	1,416	-	179	15	1,744
Directorate of Programming at RTTL (Public Company)	122	184	-	-	-	306
Directorate of Technical Support at RTTL (Public Company)	178	162	-	302	-	642
National Elections Commission	529	812	3,000	197	-	4,538
National Elections Commission	529	812	3,000	197	-	4,538
Anti-Corruption Commission	567	834	-	477	201	2,079
Anti-Corruption Commission	567	834	-	477	201	2,079
Civil Service Commission	298	1,070	-	138	-	1,506
Civil Service Commission	298	1,070	-	138	-	1,506

**Autonomous Funds partly funded from own revenues within the 2011 State General Budget
for the Democratic Republic of Timor-Leste 2011**

(US\$'000)

	Expense s	Own Revenues	Governme nt Subsidy
Electricity of Timor-Leste			
Salaries and Wages	1,000		
Goods and Services	45,488		
Minor Capital	471		
Capital Development	1,200		
Total	48,159	14,500	33,659
ANATL			
Salaries and Wages	251		
Goods and Services	271		
Minor Capital	12		
Capital Development	0		
Total	534	1,300	-766
APORTIL (Including Berlim-Nakrona)			
Salaries and Wages	87		
Goods and Services	163		
Minor Capital	0		
Capital Development	0		
Total	250	3,100	-2,850
IGE			
Salaries and Wages	653		
Goods and Services	613		
Minor Capital	52		
Capital Development	0		
Total	1,318	0	1,318
SAMES			
Salaries and Wages	285		
Goods and Services	600		
Minor Capital	115		
Capital Development	50		
Total	1,050	250	800
Total Self-Funded Agencies	51,311	19,150	32,161

Attachment IV – Budget Appropriations for 2011 (\$'000)
Infrastructure Fund

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Total					599,306	599,306	-	599,306
Agriculture	-	-	-	-	1,819	1,819	-	-
Irrigation	-	-	-	-	1,819	1,819	-	-
Urban and Rural Development	-	-	-	-	900	900	-	-
Public Buildings	-	-	-	-	9,900	9,900	-	-
Education	-	-	-	-	2,400	2,400	-	-
Schools	-	-	-	-	2,400	2,400	-	-
Power	-	-	-	-	448,741	448,741	-	-
IT equipment	-	-	-	-	9,400	9,400	-	-
MDG	-	-	-	-	65,000	65,000	-	-
Water and Sanitation	-	-	-	-	20,420	20,420	-	-
Housing	-	-	-	-	44,580	44,580	-	-
Health	-	-	-	-	1,670	1,670	-	-
Hospitals / Clinics	-	-	-	-	1,670	1,670	-	-
Security and Defence	-	-	-	-	3,912	3,912	-	-
Social Solidarity	-	-	-	-	1,650	1,650	-	-
Monuments	-	-	-	-	1,650	1,650	-	-

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Tasi Mane	-	-	-	-	31,100	31,100	-	-
Airports	-	-	-	-	6,500	6,500	-	-
Roads and Bridges	-	-	-	-	980	980	-	-
Oil and Gas	-	-	-	-	23,620	23,620	-	-
Transports	-	-	-	-	22,813	22,813	-	-
Airports	-	-	-	-	2,228	2,228	-	-
Roads and Bridges	-	-	-	-	15,485	15,485	-	-
Ports	-	-	-	-	5,100	5,100	-	-

Attachment V – Budget Appropriations for 2011 (\$'000)
Human Capital Development Fund

Programmes	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses	Own Revenues	Appropriations
Human Capital Development Fund	-	25,000	-	-	-	25,000	-	25,000
Professional Training	-	4,810	-	-	-	4,810	-	-
Technical Training	-	3,371	-	-	-	3,371	-	-
Scholarships	-	12,952	-	-	-	12,952	-	-
Other Types of Training	-	3,867	-	-	-	3,867	-	-

ANNEX 3 – Transfer from Petroleum Fund

Kay Rala Xanana Gusmao

Prime Minister

Democratic Republic of Timor-Leste

Dear Prime Minister,

SUBJECT: REQUIREMENT FOR TRANSFERS FROM PETROLEUM FUND

This report is provided in accordance with Article 8 (a) and (b) of the Petroleum Fund Law.

The Estimated Sustainable Income is calculated in accordance with provisions outlined in Schedule 1 of the Petroleum Fund Law.

Estimated Sustainable Income For Financial Year: 2011	Amount (USD) \$734 million
Estimated Sustainable Income For preceding Financial Year: 2010	Amount (USD) \$502 million

A review of the methodology which the ESI-calculations are based on is included as an attachment to the Budget 2011.

According to Art. 8 (c) of the Petroleum Fund Law, the Independent Auditor, shall certify the amount of the Estimated Sustainable Income. The certification report is attached.

Yours sincerely,



Emilia Pires

Minister of Finance

ANNEX 4 – Deloitte Report



Ministry of Finance
Democratic Republic of Timor-Leste
Edifício No. 5, Res-de-Cao
Palácio do Governo, Dili, Timor-Leste

Deloitte Touche Tohmatsu
A.B.N. 14 621 121 183

Level 11
24 Michel Street
Darwin NT 0820
TPO 900 4285
Darwin NT 0801 Australia

Tel: +61 (0) 8 9360 0000
Fax: +61 (0) 8 9360 2001
www.deloitte.com.au

For the attention of: Ms. Emilia Pires, Minister of Finance

Dear Minister

Report on Factual Findings relating to the estimated reduction in the Estimated Sustainable Income (Article 9)

In accordance with Amendment 106, Contract No. RDIL 83683 dated 16 September 2010 we have performed certain agreed upon-procedures solely for the purpose of providing a report to the Government of the Democratic Republic of Timor-Leste in accordance with Article 9 (c) of the Petroleum Fund Law 9/2005. Our engagement was performed in accordance with the International Standard on Related Services (ISRS) 4400 *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. This report should be read in conjunction with our contract which sets out the basis on which our work was performed.

Scope of work and statement of responsibility

At your request and agreement, we performed the procedures set out in the table below. The scope of our work was limited solely to those procedures. You are responsible for determining whether the scope of our work is sufficient for your purposes and we make no representations regarding the sufficiency of these procedures for your purposes. If we were to perform additional procedures, other matters might have come to our attention that would be reported to you.

This report should not be taken to supplant any other inquiries and procedures that may be necessary to satisfy the requirements of the recipients of the report.

The procedures we performed did not constitute a review or an audit of any kind and we have not expressed any opinion or drawn any conclusions on the procedures we have performed. We did not subject the information contained in this report or given to us by the Ministry of Finance to checking or verification procedures except to the extent expressly stated below. This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit. The procedures we performed were not designed to and are not likely to have revealed fraud or misrepresentation by the Ministry of Finance. Accordingly, we cannot accept responsibility for detecting fraud (whether by management or by external parties) or misrepresentation by the management of the Ministry of Finance.

Liability limited by a scheme approved under Australian Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

This report is provided solely for your exclusive use and solely for the purpose of satisfying the requirements Article 9 (c) of the Petroleum Fund Law 9/2005. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

Procedures and Findings

Procedures	Findings
<ol style="list-style-type: none"> Obtain the underlying calculations which support the report of Government that is to be provided to Parliament pursuant to Article 9(b); Agree the calculation methodology to the Estimated Sustainable Income calculation for the Fiscal Year Budget 2011 as previously obtained by Deloitte; Obtain the value of the proposed Government transfer being an amount in excess of the Estimated Sustainable Income calculated by the Government for purposes of the Fiscal Year Budget 2011 and agree the value to the updated underlying calculation, which incorporates the proposed Government transfer; Reperform the calculation of the estimated reduction in the Estimated Sustainable Income for the Fiscal Years commencing 1 January 2012 that results from the proposed Government transfer from the Petroleum Fund in Fiscal Year 2011; Provide a report to Government in accordance with Article 9(c) of the Petroleum Fund Law 9/2005. 	<ol style="list-style-type: none"> The underlying calculations which support the report of Government to be provided to Parliament pursuant to Article 9(b) were obtained from the Ministry of Finance on 31 January 2011. The calculation methodology was agreed to that of the Estimated Sustainable Income calculation used for the Fiscal Year Budget 2011 as previously obtained by Deloitte. A proposed Government transfer of US\$1,055 million was advised by the Ministry of Finance to Deloitte and is noted to exceed the Estimated Sustainable Income of US\$734 million as previously calculated by the Government for purposes of the Fiscal Year Budget 2011, by US\$321 million. The US\$1,055 million was incorporated into the updated underlying calculation. The calculation of the estimated reduction in the Estimated Sustainable Income for future Fiscal Years commencing 1 January 2011 was re-performed without exception. The estimated reduction in the Estimated Sustainable Income in each future year from 2012 to 2025 ranged from US\$10 million to US\$11 million over the period as set out in Appendix A. Report as set out.

Yours faithfully

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

11/2/11

Liability limited by a scheme approved under Australian Professional Standards Legislation.

Deloitte Touche Tohmatsu Limited

APPENDIX A

Projected future payments

Excess of the Estimated Sustainable Income in 2011:

Fiscal Year	Estimated Sustainable Income Withdrawals in 2011	
	\$734 million	\$1,055 million
2012	741	731
2013	748	738
2014	755	745
2015	762	752
2016	769	759
2017	776	766
2018	784	773
2019	791	781
2020	799	788
2021	806	795
2022	814	803
2023	821	810
2024	829	818
2025	837	826

Liability limited by a scheme approved under Australian Professional Standards Legislation.

Member of the new TCF in Tokyo (TFC) Ltd. Inc.

Prepared for the
Government of the Democratic Republic of Timor-Leste
by the



MINISTRY OF FINANCE

Edifício 5, 1.º Andar, Palácio do Governo, Díli, Timor-Leste

Phone - +670 3339510 Fax - +670 3312467

Website - www.mof.gov.tl