

Prime Minister letterhead

His Excellency

Senhor Arão Noé de Jesus da Costa Amaral

President of the National Parliament

Dili, 12 July 2018.

Excellency

I have the honor to forward to Your Excellency, under Article 115.2(a) of the Constitution of the Republic, with request for priority and urgency, for consideration by the National Parliament, the following Proposed Law, approved at the meeting of the Council of Ministers on July 11, 2018:

- Proposed Law: Extraordinary Authorization to Conduct a Transfer from the Petroleum Fund

I take this opportunity to also send the respective Explanatory Memorandum, as well as the reports referred to in Article 8(a), (b) and (c) of the Petroleum Fund Law.

Please accept, Mr President of the National Parliament, my highest consideration.

The Prime Minister

/s/

Taur Matan Ruak

Annex; the aforementioned documents and electronic support.

PROPOSED LAW No. ____ / 2018

Of or

**EXTRAORDINARY AUTHORIZATION TO CONDUCT A TRANSFER FROM THE PETROLEUM
FUND**

EXPLANATORY STATEMENT

Article 145.1 of the Constitution of the Republic provides that “the State Budget is elaborated by the Government and approved by the National Parliament.”

According to Article 30.1 of Law 13/2009 of 21 October, “the Government shall submit to the National Parliament by the 15th of October the proposed budget law for the next financial year.” The provisions of Article 30.2 of Law no. 13/2009 of 21 October, provide an exception for this requirement when the Government in office is dismissed, a new Government takes office or a new legislative term begins.

The VII Constitutional Government did not present any proposal for a budget law for the year 2018, so it became unavoidable, starting from January 1, 2018, to comply with the twelfths (duodecimal) regime by establishing temporary appropriations, in accordance with the rules set forth in article 31 of Law no. 13/2009, of 21 October.

The normative regime in force for the implementation of the supplementary duodecimal regime allows the Government to continue to carry out public expenditure, having as its source of financing the remaining balance from the budget execution in the previous fiscal year. However, this source of financing for duodecimal budget execution is not sufficient to ensure the financing of the expenditures resulting from Public Administration activity, and the Treasury is currently in a critical situation, with a balance of approximately USD \$20 million.

Payments for the month of June are in arrears in the amount of tens of millions of dollars, with unavoidable monthly payments including, mainly, salaries, veterans, medication, medical treatments amounting to \$30 million. The monthly revenue estimate, under the Domestic revenue and \$700,000 per day, which is equivalent to \$15 million during the month of July, which is manifestly insufficient even to cover unavoidable expenses, a situation that becomes even more serious in August, when the balance will be less than \$6 million.

In the current budget framework under the twelfths regime, the Treasury does not have alternative instruments to carry out treasury operations, other than through the use of disbursements from the Petroleum Fund. Transfers from the Petroleum Fund are the main

source of funding for the General State Budget and, consequently, for the national economy, which continues to be very dependent on the public expenditure that is executed annually.

In accordance with the provisions of Article 7.3 of Law no. 9/2005 of 3 August, amended by Law no. 12/2011 of 28 September, “transfers from the Petroleum Fund by the Operational Manager, in the Fiscal Year, only may take place after the publication of the budget law, or any amendments thereto, in the *Jornal da Republica* confirming the amount of the appropriation approved by Parliament for that Fiscal Year.”

The aforementioned rule does not cover situations where public expenditure is carried out in accordance with a supplementary duodecimal regime, although this regime is expressly provided for by Law no 13/2009 of 21 October. From the letter of article 31 of the Law on Budget and Financial Management, there is no clear legal support to allow a transfer from the Petroleum Fund to finance the activity of the Public Administration during the period of time in which it is necessary to observe an supplementary duodecimal regime.

The impediment of transfers from the Petroleum Fund to the General State Budget during the period of validity of the supplementary duodecimal regime will have profound negative repercussions on State activity, even in the areas of the exercise of sovereign functions, such as justice, security and defense or in the provision of minimum social protection services , such as the payment of pensions and public subsidies, in particular to former national liberation fighters, the elderly or beneficiaries of the Bolsa da Mãe program, among others.

Through this law, the possibility of carrying out a transfer is allowed, in the amount of \$140 million, from the Petroleum Fund to the single budget account before the entry into force of the law approving the General State Budget for 2018, in order to guarantee vital financial conditions for the functioning of the Public Administration for at least two months.

Based on the 2017 State Budget, the Estimated Sustainable Income (ESI) of the Petroleum Fund for the purpose of implementing the duodecimal regime is \$481.6 million, and so far \$70 million have been withdrawn, so the amount we are now proposing to disburse is still far from reaching this limit.

Approved by the Council of Ministers on July 11, 2018.

The Prime Minister

/s/

Taur Matan Ruak

The acting Minister of Finance,

/s/

Sara Lobo Brites

EIGHTH CONSTITUTIONAL GOVERNMENT

PROPOSED LAW NO. ___ / 2018

of

EXTRAORDINARY AUTHORIZATION TO CONDUCT A TRANSFER FROM THE PETROLEUM FUND

Article 145.1 of the Constitution of the Republic establishes that “the General State Budget and by the Government and approved by the National Parliament.”

In accordance with paragraph. Article 30 (1) of Law No 13/2009 of 21 October, “The Government shall submit to the National Parliament by 15 October the proposed law of the Budget for the next financial year.” The provisions of article 30.2 of Law no. 13/2009, of October 21, provides an exception to the duty to comply with this term when the Government in office is dismissed, the inauguration of a new Government takes place or a new term of the legislature begins.

The VII Constitutional Government did not present any proposal for a Budget law for the year 2018, becoming inevitably, from January 1, 2018, the fulfillment of a supplementary twelfths (duodecimal) regime through establishment of temporary appropriations in accordance with the rules laid down in Article 31 of Law No 13/2009, of October 21.

The normative regime in force for the implementation of the supplementary duodecimal regime allows the Government to continue to carry out public expenditure, having as its source of financing the remaining balance from the budget execution of the previous fiscal year. However, this source of financing for duodecimal is not sufficient to ensure the financing of the expenditure resulting from the activity of the Public Administration, the Treasury is currently in a critical situation , with a balance of approximately USD \$20 million.

The transfers made from the Petroleum Fund are the main source of funding for the State Budget, and consequently of the national economy, which continues to be very dependent on annual public expenditures.

According the provisions contained in article 7.3 of Law no. 9/2005, of 3 August, as amended by Law no. 12/2011, dated 28September, “Transfers of the Petroleum Fund by the Operational Manager in the Fiscal Year may only take place after the publication of the budget law, or any changes thereto, in the *Jornál da Repúblika*, confirming the appropriation amount approved by Parliament for the Fiscal Year.”

The rule does not mention the disappointing situations in which public expenditure is executed according to a supplementary duodecimal regime, although this regime is expressly provided for by Law no. 13/2009, of 21 October. From the letter of Article 31 of the Law on Budget and Financial Management, there is no clear legal support for making a transfer from the Petroleum Fund which could finance the activity of the Public Administration during the period of time in which it is necessary to observe a supplementary duodecimal regime.

The impediment of transfers from the Petroleum Fund to the General State Budget during the period of validity of the supplementary duodecimal regime will have profound negative

activity of the State, even in the areas of the exercise of sovereign functions, such as justice, security or defense or in the provision of minimum social protection services , such as the payment of pensions and public subsidies, in particular former national liberation combatants, the elderly or beneficiaries of the Bolsa da Mãe program, among others.

Through this law, the possibility of carrying out a transfer in the amount of \$140 million, from the Petroleum Fund to the single budget account, before the entry into force of the law approving the General State Budget for 2018, in order to guarantee financial conditions vital for the functioning of the Public Administration for at least two months.

Therefore,

The Government submits to the National Parliament, in the scope of Article 97.1(c) and Article 115.2(a) of the Constitution of the Republic, with request of priority and urgency , the following proposed law:

Article 1

Object

The present law approves the realization of an extraordinary transfer from the Petroleum Fund.

Article 2

Authorization to carry out an extraordinary transfer from the Petroleum Fund

The Operational Manager is authorized to make a transfer from the Petroleum Fund to the Single Account of the General State Budget of the, in the amount of US \$140,000,000, as of the date of entry into force of this law.

Article 3

Entry into force and take effect

This law comes into force on the day following its publication in the Journal of the Republic.

Approved by the Council of Ministers on 11 July 2018.

The prime minister

/s/

Taur Matan Ruak

Acting Minister of Finance

/s/

Sara Lobo Brites

RDTL Ministry of Finance
Office of the Vice Minister

No. 22 / VII / GVM-MF-2018-07

Dili, 12 July 2018

His Excellency,
Mr Prime Minister
Taur Matan Ruak

SUBJECT: REQUIREMENT FOR TRANSFERS FROM THE PETROLEUM FUND

Your Excellency,

This report is provided in accordance with lines a) and b) of the Petroleum Fund Law. The Estimated Sustainable Income is calculated according to the provisions outlined in Annex 1 of the Petroleum Fund Law.

Estimate of Sustainable Income for the year 2018	\$ 550.4 million
Estimate of Sustainable Income for the previous year 2017	\$ 481.6 million

The budget for 2018 includes an analysis of the methodology that is the basis for the calculations of the Estimated Sustainable Income.

In accordance with Article 8(c) of the Petroleum Fund Law, the Independent Auditor shall certify the amount of Estimated Sustainable Income. The Certification Report is attached.

With the best regards,
/s/
Sara Lobo Brites
Acting Minister and Vice-Minister

MODERATE SECURITY REPORT TO THE INDEPENDENT AUDITOR ON THE CALCULATION OF THE ESTIMATED SUSTAINABLE INCOME FOR THE MINISTRY OF FINANCE OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE

We were hired by the Ministry of Finance in accordance with Article 8(c) of the Law of the Petroleum Fund (Law no. 9/2005 of 3 August) the Democratic Republic of Timor-Leste (“the Law”) to perform a moderate security assurance by the Ministry of Finance of the calculation of the Estimated Sustainable Income (“ESI”) for the fiscal year ending on December 31, 2017, in accordance with paragraphs II and III of Annex 1 of the First Amendment of the Petroleum Fund Law (Law No. 9/2005 of 3 August, as amended by Law no. 12/2011 of 28 September) of the Democratic Republic of Timor-Leste (“Annex I”).

The Ministry of Finance’s responsibility for calculating the Estimated Sustainable Income

The Ministry of Finance is responsible for:

- The calculation of the ESI for the fiscal year ending 31 December 2017 in compliance with Annex 1 of the Law.
- Confirming the measurement or evaluation of the assumptions underlying the ESI comply with the provisions of Annex 1 (IV) and (V) of the Law and that all relevant matters are reflected in the ESI.
- Design, implement and maintain internal control procedures to ensure that the calculation of the ESI has been properly prepared in accordance with Annex I of the Law.

Independence and quality control policies of the Independent Auditor

We comply with the independence requirements and other relevant ethical requirements relating to reliability assurance work, which are based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

The audit firm applies the *ISQC Auditing Standard 1 Quality Control for Firms that perform Audits and Reviews of Financial Statements, and other warranty and viability work*, and consequently maintains a comprehensive system of quality control, including documentation of policies and procedures relating to compliance with ethical requirements, professional standards and legal and regulatory requirements that apply.

Responsibility of Independent Auditor

Our responsibility is to express an opinion on compliance by the Ministry of Finance, in all material respects, with paragraphs II and III of Annex 1 of the Law in the calculation of the ESI for the fiscal year ending December 31, 2017, based on the procedures we perform and in the audit evidence we obtained. Effecting task of moderate assurance conforms to the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by International Auditing and Assurance Standards Board. The Standard requires that the auditor plans and carries out this work to obtain moderate assurance that the Ministry of Finance complied with paragraphs II and III of

Annex 1 of the Law in calculating the ESI. Our work ensures moderate safety as defined in ISAE 3000 (Revised).

A work of reliability assurance with moderate security according to the ISAE 3000 standard (Revised) involves the execution of audit procedures to obtain audit evidence that the Ministry of Finance has complied, in all material respects, with paragraphs II and III of Annex 1 of the Law. The nature, timing and extent of the audit procedures selected depend on the judgment of the auditor, including the assessment of the risk of errors of material misstatement in the calculation. In our risk assessment we consider the internal controls relevant for calculating the ESI. A reliable assurance work moderately consisted essentially of inquiries with relevant staff, inspecting documents including the Budget and obtaining and reviewing the ESI. We are convinced that the proof of audit we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Inherent Limitations

The Ministry of Finance prepares the ESI based on assumptions according to the (IV) and (V) of Annex 1 of the Law. Some of these assumptions are based on forward-looking information provided or obtained from third parties and our work did not include verification of the correctness, completeness or validity of this third party information. Moderate security means a high degree of reliability, but not absolute. An absolute degree of reliability is achieved very rarely as a result of factors such as: the use of selective tests, the limitations inherent in internal control, the fact that most audit evidence available to Deloitte is persuasive and not conclusive, and the use of judgments in the collection and evaluation of audit evidence and in conclusion based on this audit evidence.

Limitation on use

This report was prepared solely for the use of the Ministry of Finance in accordance with our contract dated July 20, 2016, with the purpose of expressing an opinion regarding the compliance by the Ministry of Finance, in all material respects, with paragraphs II and III of Annex 1 of the Law, in calculating the Estimated Sustainable Income for the fiscal year ending on 31 December 2017. We do not assume any responsibility for any degree of confidence in this report to any person other than the Ministry of Finance or for any other purpose than not the one for which it was prepared.

Conclusion

In our view, the Ministry of Finance has complied, in all material respects, with the paragraphs II and III of Annex 1 of the Law in the calculation of Estimated Sustainable Income for the year fiscal year ending 31 December 2017. The calculation shows the amount of \$481.6 million for the Estimated Sustainable Income.

/s/

DELOITTE TOUCHE TOHMATSU
Chartered Accountants
Darwin
October 14, 2016

Limited liability as approved under the Professional Standards Legislation and the contract is dated July 20, 2016.
Member of Deloitte Touche Tohmatsu Limited

MODERATE SECURITY REPORT TO THE INDEPENDENT AUDITOR ON THE CALCULATION OF THE ESTIMATED SUSTAINABLE INCOME FOR THE MINISTRY OF PLANNING AND FINANCE OF THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE

We were hired by the Ministry of Planning and Finance in accordance with the provisions of Article 8(c) of the Petroleum Fund Law (Law 9/2005, of 3 August) of the Democratic Republic of Timor-Leste, (“the Law”) to carry out a work of guarantee of moderate security reliability to compliance by the Ministry of Planning and Finance with the calculation of the Estimated Sustainable Income (“ESI”) for the fiscal year ending on December 31, 2018, in conformance with paragraphs II and III of Annex 1 of the First Amendment to the Petroleum Fund Law (Law no. 09/2005, of 3 of August, First Amendment according to Law no. 12/201 1, of 28 September) of the Republic Democratic Republic of Timor-Leste (“Annex 1”).

The Ministry of Finance is responsible for:

- The calculation of the ESI for the fiscal year ending 31 December 2018 in compliance with Annex 1 of the Law.
- Confirming the measurement or evaluation of the assumptions underlying the ESI comply with the provisions of Annex 1 (IV) and (V) of the Law and that all relevant matters are reflected in the ESI.
- Design, implement and maintain internal control procedures to ensure that the calculation of the ESI has been properly prepared in accordance with Annex I of the Law.

Independence and quality control policies of the Independent Auditor

We comply with the independence requirements and other relevant ethical requirements relating to reliability assurance work, which are based on the fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior.

The audit firm applies the *ISQC Auditing Standard 1 Quality Control for Firms that perform Audits and Reviews of Financial Statements, and other warranty and viability work*, and consequently maintains a comprehensive system of quality control, including documentation of policies and procedures relating to compliance with ethical requirements, professional standards and legal and regulatory requirements that apply.

Responsibility of Independent Auditor

Our responsibility is to express an opinion on compliance by the Ministry of Finance, in all material respects, with paragraphs II and III of Annex 1 of the Law in the calculation of the ESI for the fiscal year ending December 31, 2018, based on the procedures we perform and in the audit evidence we obtained. Effecting task of moderate assurance conforms to the International Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by International Auditing and Assurance Standards Board. The Standard requires that the auditor plans and carries out this work to obtain moderate assurance that the Ministry of Finance complied with paragraphs II and III of Annex 1 of the Law in calculating the ESI. Our work ensures moderate safety as defined in ISAE 3000 (Revised).

A work of reliability assurance with moderate security according to the ISAE 3000 standard (Revised) involves the execution of audit procedures to obtain audit evidence that the Ministry of Finance has complied, in all material respects, with paragraphs II and III of Annex 1 of the Law. The nature, timing and extent of the audit procedures selected depend on the judgment of the auditor, including the assessment of the risk of errors of material misstatement in the calculation. In our risk assessment we consider the internal controls relevant for calculating the ESI. A reliable assurance work moderately consisted essentially of inquiries with relevant staff, inspecting documents including the Budget and obtaining and reviewing the ESI. We are convinced that the proof of audit we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Inherent Limitations

The Ministry of Finance prepares the ESI based on assumptions according to the (IV) and (V) of Annex 1 of the Law. Some of these assumptions are based on forward-looking information provided or obtained from third parties and our work did not include verification of the correctness, completeness or validity of this third party information. Moderate security means a high degree of reliability, but not absolute. An absolute degree of reliability is achieved very rarely as a result of factors such as: the use of selective tests, the limitations inherent in internal control, the fact that most audit evidence available to Deloitte is persuasive and not conclusive, and the use of judgments in the collection and evaluation of audit evidence and in conclusion based on this audit evidence.

Limitations on use

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Conclusion

In our view, the Ministry of Finance has complied, in all material respects, with the paragraphs II and III of Annex 1 of the Law in the calculation of Estimated Sustainable Income for the year fiscal year ending 31 December 2018. The calculation shows the amount of \$550.4 million for the Estimated Sustainable Income.

/s/

DELOITTE TOUCHE TOHMATSU
Chartered Accountants
Darwin
October 14, 2016

Limited liability as approved under the Professional Standards Legislation and the contract is dated July 20, 2016.
Member of Deloitte Touche Tohmatsu Limited

NATIONAL PARLIAMENT
Democratic Republic of Timor-Leste

Office of the President

Note on admissibility

Proposed Law n. 1/2018 on
EXTRAORDINARY AUTHORIZATION TO CONDUCT A TRANSFER FROM THE PETROLEUM
FUND

The proposed law n. 1/2018 on the Extraordinary Authorization for the Implementation of a Transfer from the Petroleum Fund complies with the legal requirements, and in particular of Articles 92, 96 and 98 of the Rules of Procedure of the National Parliament for admission and for referral to the competent Committee.

Following the request for urgency made by the proposing entity, in the case Government, the procedure laid down in Rule 97 of the Rules of Procedure of the Parliament, which shall forward the matter to the competent Commission within 24 hours to assess and prepare a reasoned opinion of the proposed law, proposing in this opinion the calendar for discussion in generality and specialty. Without prejudice, the draft law should, at the same time, go to the Committee for initially assessment and a report and opinion in the time which Sr. President find most convenient.

After drawing up the Committee's opinion, the Plenary will discuss the urgency of the debate and then debate the proposed law. The urgent debate will be organized by the Conference of the Representatives of the Parliamentary Benches, with the President to schedule the urgent debate and the general discussion to the same day.

Finally, it is suggested that, pursuant to Rule 101 of Parliament's Rules of Procedure, copies of the proposed law be distributed to the parliamentary benches.

Dili , July 17, 2018

/s/

The jurist,
Bruno de Lencastre