



PRIME MINISTRO

Office of the
Prime-Minister

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Excellency,

I have the honor to transmit to Your Excellency, under provided for in Article 97.1(c) of the Constitution, for consideration and approval of the National Parliament, the draft Law of the State Budget of the Democratic Republic of Timor-Leste for the year 2013, and its annexes, adopted at the extraordinary meeting of the Council of Ministers of 10 December 2012.

I take this opportunity to send the documents required under the Petroleum Fund Law, to justify the need to transfer funds from the Petroleum Fund above the Estimated Sustainable Income, as well as the budget support books.

The Report of the Auditor to certify the estimated sustainable income reduction Estimate will be sent as soon as possible.

Accept, Your Excellency, the assurances of my highest consideration and esteem.

Dili, 18 December 2012

/ S /

Kay Rala Xanana Gusmão

Prime Minister

**His Excellency
President of the National Parliament
Dr. Vicente Guterres
Dili**

ANNEXES:

Justification Letter Survey Above the Estimated Sustainable Income

Book 1 "Budget Overview"

Book 2 "Annual Action Plans"

Book 3 "Districts"

Book 4 "Budget Headings"

Book 5 "Development Partners"

Book 6 "Special Funds"

Government Palace
Avenue of President Nicolau Lobato
Dili, Timor-Leste

Subject: Justification for transfer over the Estimated Sustainable Income Petroleum Fund

Excellency,

Law no. 12/2011, the “first amendment to Law no. 9/2005 of 3 August, the Petroleum Fund Law” declares in Article 9, that whenever the need arises to undertake a Fund transfer that exceeds the Estimated Sustainable Income, the government must send to the National Parliament a detailed justification explaining the national interest of this proceeding.

Along with the submission, for consideration and approval of the National Parliament, of the Draft Law on the 2013 State Budget, we present to Your Excellency this justification to comply with this legal requirement.

This year we celebrated ten years of our Independence. Timor-Leste has, during this decade, taken the first steps of nation-building, building the foundations of the country that we had longed for so many years.

We have been able in recent years to establish a sound policy and institutional architecture and achieve social stability, factors that enabled us, together, to begin to invest in some key areas to improve the living conditions of the Timorese and bring Timor-Leste to the regional and international economic stage.

It was not an easy route. Like any historical process of state-building, we lived with setbacks and serious crises that had to learn to solve together. We exited from an adverse context, then ranked as one of the 20 poorest countries in the world. We inherited a scenario in which a large majority of Timorese were living in poverty and it was urgent to create policies aimed at the most vulnerable.

It was quite recently that we had to resolve the internal conflict that ravaged the country and that was causing deep wounds in the Timorese social fabric. We watched over 100,000 IDPs, a third of the armed forces abandoned their barracks, a PNTL uncontrolled and without command, armed civilians abandoned to their fate and a group of armed rebels on the loose, leading to greater insecurity and existing instability - this was the image of a young country, classified by the international community as a ‘failed state’ and without future prospects.

Fortunately, we went through these last three years, in close collaboration with all the organs of sovereignty, to overcome these challenges, and Timor-Leste currently lives in an environment of security, optimism and confidence in the future, which is the result of national stability and security acquired as the outcome of the first steps for the social and economic development.

Our commitment to ensuring a climate of peace and security has not been in vain, because Timor-Leste is now promising development. With consistent investment in basic infrastructure and mechanisms for ensuring social justice, we have succeeded in improving the human development indicators. Our invalids, the elderly, widows now have direct support of the state that allows them to live a more dignified life. Our National Liberation Combatant Heroes have also been benefiting from subsidies and supports, as repayment by the Timorese State for the sacrifice they made on behalf of our nation.

We took the mandate we received from the people to erect in recent years the essential pillars of a stable state, which required a deep and abiding commitment in the key areas of Justice, Security, Defense. The great achievement of this period has been the consolidation of peace and national stability. We have an important path, but much remains to be done. Of course here we have drawn important lessons that have made us more resilient to face the future that awaits us.

Timor-Leste this year is in a different, special environment. Ten years of Independence, we have seen two significant moments of our experience as a sovereign nation: on the one hand, we lived in 2012 another election cycle that reinforced the strength of our democracy and on the other, we see the demobilization of the United Nations Mission that confirms that we are ready to take the lead in mapping our destination.

We do not enter this step lightly. To the contrary, we move with firmness and responsibility to ensure that we have been developing a heavy reflection of what we expect for the future. The plan is outlined: the Strategic Development Plan 2011-2030 brings a constructive phased and sustainable view, the steps that

Timor-Leste has to take to achieve short, medium and long term position of well-being that gives confidence to all Timorese in this common project we are building today.

More than ever, we know who we are and what country we want to be. In ten years we have gotten to know each other better, identify the challenges that lie ahead and test ways to overcome us. It was not a smooth path, but it was a necessary road for us to emerge as a nation more united, more peaceful and stable.

This year we conducted an evaluation of our fragility within the international initiative of the g7+. This assessment allowed us to look inward again, to recognize that there is a clearer way to define and construct where we want to go in upcoming years, towards a solid future. We accepted with pride and a sense of responsibility, being at the forefront of these initiatives we join other developing countries to reflect on the ways in which we want our future.

We know that we cannot even marginalize the priorities we once had in hand: our achievements, though fundamental, are only the first of a long process of national construction. This does not happen from one moment to the next and that's why we define a Strategic Development Plan that coordinates actions in the short and medium term with a view to the long term future. We want to combine the priorities that we have had so far - combating poverty and supporting the most vulnerable, the reform of public finance management, the strengthening of our professionals and our institutions, the consolidation of peace and stability - with a new focus on economic development.

With the first realization of our achievements, we now have before us the opportunity to give this country the push definitely needed to advance in the curve of economic growth.

For future generations, it is up to us not waste this window of opportunity and use the resources that we have in a balanced, responsible, but ambitious form, so we can then move forward with the project we set ourselves: to build a capable country. In this context, the Fifth Constitutional Government, with very clear priorities for the country, will invest in four key fronts:

- Capital
- Development of infrastructure
- Economic Development
- Institutional Framework

It is in this scenario that the government drew together their top priorities in terms of investments. The year 2013 begins a new mandate and our proposals for this year provide proper coordination with precisely what we want to achieve a term of five years, and even more in the long term according suggesting the Strategic Development Plan.

It is no coincidence that the two major funds - the Infrastructure Fund and Human Capital Development Fund (HCDF) - continue this year their goal to prioritize, from the perspective of impact across our society. These two pillars are ultimately essential for a project of balanced and sustainable economic development.

So, in this first year in office, we will see a significant increase in the number of scholarships offered by HCDF. We will provide training to 2,500 young people and we will ensure that access to the training of our young people will be the same, both in the capital and in the Districts, with the recognition of 20 new vocational training centers per year.

In terms of infrastructure, investment will be most oriented to direct improvement of living conditions of Timorese, with the elevation of the level of the roads to international standards to ensure road safety, with the start of the installation of water systems in 25,000 rural households, or the continuation of the project MDG Suco that will build 55,000 homes in villages across the country.

The provision of basic services in education and health continues to be a priority in 2013. Let's continue this year the construction of health centers to ensure that all sucos have access to essential care, with special attention to those who are in remote areas. We will also begin to considerably improve the services of the National Hospital, with the expansion of care throughout the term. In education, will be initiated to build 250 new pre-schools and a model school for the General Secondary Education for each District. This year, the Fifth Constitutional Government also wants to prepare the establishment of five technical

vocational schools in Districts and 4 Polytechnics.

But the infrastructure must also respond to the needs of the economy and this now requires, for example, better conditions for the development of the oil industry. A big bet on the South Coast with a set of infrastructure in the area of the refinery and petrochemical industries, as well as transport to serve this sector is underway, ensuring that the potential of this priority of our economy will not be untapped.

We now know that economic diversification is imperative not to become dependent on one resource or price fluctuations in the international system. In this sense, the decisive commitment to traditional economic sectors such as agriculture or fisheries, will be parallel to the other thrust areas in which Timor-Leste can be extremely competitive, particularly tourism. If on one hand the Government wants to significantly increase rice production and export of high quality domestic goods like coffee, and also ensure that the natural beauty and culture of Timor-Leste become exclusive products that attracts local and international tourists. Let's start the construction of six cultural centers and a regional museum and cultural center in Dili to ensure that this sector will generate employment for Timorese throughout the territory.

In addition to the currently crucial role of the Government is to contribute to large investments in these key areas, it is also a priority to strengthen the private sector in the short term to take on a greater role in the development of Timor-Leste. The inclusion of a State Secretariat for Support and Promotion of the Private Sector in Organic V Constitutional Government is clear evidence of this bet.

In this context, the Government Program foresees the establishment of seven Public Private Partnerships in infrastructure projects. It is proposed to facilitate the establishment of new businesses with the creation of business incubators and creating a "one stop shop" that will simplify the registration of same, considerably reducing the number of days for the formation of new companies. It will also provide support to small and micro enterprises, cooperatives and industrial and commercial groups to enhance job creation and stimulate diverse productive sectors.

Finally, we know that for this project the country needs to have strong institutions that excel for the accuracy, transparency and responsibility. Transparency remains indeed to be a top priority across the entire apparatus of government. With regard to the particular sector that we refer here, the management of the Petroleum Fund, Timor-Leste continues to excel in the position of complying with the Extractive Industries Transparency Initiative.

In addition to strengthening the instruments of accountability, the Fifth Constitutional Government will also strengthen mechanisms for monitoring and evaluating their own projects, to ensure that the dividends offered by our valuable natural resources translate into engines of economic growth. It was for this reason that, in V Constitutional Government, was established the State Secretariat for Institutional Strengthening, which will implement a performance audit and inspection successively of all ministerial lines, thus promoting the operational training of staff.

Together with the Ministry of Finance, which will continue to provide assistance in training in the areas of procurement, contract management, legal and administrative procedures, the State Secretariat for Institutional Strengthening's mission is to continue to monitor good practice to achieve greater efficiency and effectiveness within the ministry or in his relationship with others and especially with Finance.

Also the increase in the state income tax reform that we will start in 2013 aims to achieve with the first objective of reducing the fiscal burden on the Petroleum Fund. In a period of a term it is expected that this reform will thus increase domestic revenues of the State from \$134.1 million in 2012 to \$218.5 in 2017.

Excellency,

The challenges before us are complex and the response to them can be integrated. Investing today in economic diversification is also a way to fight poverty tomorrow. Training our young people is to ensure that in the near future they will be able to drive their own destiny. The steps we take today are designed so that a short-term life of the Timorese is more dignified, but also for medium and long term in Timor-Leste can achieve a state of political, social, cultural, economic well-being dreamed that when we wanted this nation to be. For all these reasons I believe it is justified at this time a withdrawal from the Petroleum Fund

that exceeds the Estimated Sustainable Income, it may be possible to continue this project in hand to build Timor-Leste for our children who will tomorrow be the men and women of this country.

Finally, along with the “Report of the estimate of the amount by which this will reduce the ESI in future budget years, under transfer from the Petroleum Fund of an amount greater than the Estimated Sustainable Income”, thus fulfilling the legal requirement of Article 9(b) of the Petroleum Fund Law. With regard to point c) of the same article, “Report of the Independent Auditor certifying the estimated reduction in estimated sustainable income” will be sent as soon as possible, pending certification of the independent auditor.

Accept Your Excellency my highest consideration and esteem.

Dili, 18 December 2012

/ S /

Kay Rala Xanana Gusmão
Prime Minister

**His Excellency
President of the National Parliament
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