



REPÚBLICA DEMOCRÁTICA DE TIMOR-LESTE

# State Budget

# 2015

## Budget Overview

# Book 1

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## Acronyms

ADB	Asian Development Bank
ADF	Asian Development Fund
ANP	Agencia Nacional do Petroleu
CFTL	Consolidated Fund Timor-Leste
COP	Conoco Phillips
CPI	Consumer Price Index
CPLP	Comunidade dos Países de Língua Portuguesa
DHS	Demographic Health Survey
ESI	Estimated Sustainable Income
EU	European Union
FAO	Food and Agriculture Organization
FNS	Food and Nutrition Survey
GDP	Gross Domestic Product
GFS	General Financial Statistics
HCDF	Human Capital Development Fund
IAB	Investment Advisory Board
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IF	Infrastructure Fund
IFC	International Financial Corporation
IMF	International Monetary Fund
JICA	Japanese International Development Agency
KPI	Key Performance Indicators
LFS	Labour Force Survey
LPG	Liquefied Natural Gas
MDG	Millennium Development Goal
MoF	Ministry of Finance
NGO	Non-governmental Organization
OCR	Ordinary Capital Resources
PF	Petroleum Fund
PFM	Public Financial Management
PNDS	Programa Nasional Dezenvolvimentu Suku
PNTL	Polícia Nacional de Timor-Leste
PPP	Public-Private Partnership
SDR	Special Drawing Rights
SEAPRI	Secretary of State for the Promotion and Support of the Private Sector
SEPOPE	Secretary of State for Professional Training and Employment Policy
SERVE	Serviço Registro Verificação Empresarial
SISKA	Integrated Community Health Services
SDP	Timor-Leste Strategic Development Plan
TLSLS	Timor-Leste Standard of Living Survey
UNTL	Universidade Nacional Timor Lorosa'e
WB	World Bank
WTI	West Texas Intermediate

## **Part 1: Speech of the Prime Minister**

[This speech will be inserted after it has been made to the national parliament]

# Part 2: Description and Analysis of the State Budget

## 2.1: Executive Summary

### Government Policy

The SDP describes how Timor-Leste will be transformed into an upper-middle income country with an educated, healthy and secure population by 2030. The Program of the Fifth Constitutional Government outlines detailed activities and policies to achieve this vision. This 2015 State Budget appropriates expenditures to finance these activities and policies.

### Economic Growth

Strong, high quality non-petroleum GDP growth is required for Timor-Leste to become an upper-middle income country by 2030. From 2007 to 2011 the Government implemented economic policies that led to very high rates of economic growth; with non-petroleum GDP growth averaging 12.5% per annum during this period. This growth was driven by increases in Government spending and was accompanied by relatively high inflation. In 2012 non-petroleum GDP growth slowed to 7.8% and was not driven by Government expenditure. This marked the first stage in the transition to higher quality, sustainable, low inflation, private sector driven economic growth.

In 2013 the transition to higher quality economic growth continued. Non-petroleum GDP is forecast to grow strongly at 5.6%, 7.1% and 7.0% in 2013, 2014 and 2015 respectively. These rates of economic growth are high compared to many other countries. This new growth path is consistent with slower, sustainable growth in Government spending and inflation which is within or below the SDP target range of 4.0%-6.0%. Private sector investment and household consumption will drive economic growth going forward. Higher household consumption will likely contribute to a sustainable and sustained rise in living standards.

### Expenditure

The 2015 State Budget is \$1,500.0 million (excluding loans), which is just 2.1% higher than in 2014 (see table 2.1.1). The Government has stabilized expenditures in 2015 to ensure fiscal sustainability and that demand in the economy is consistent with inflation within or below the SDP target range.

The Government is continuing to implement its frontloading policy. Expenditure is forecasted to increase in 2016 mainly to finance SDP priority projects in the IF. By 2018 some SDP priority projects will be nearing completion and expenditure and excess

withdrawals will sharply fall. Over the long-term (after 2019) expenditure will further fall and domestic revenue will increase, allowing excess withdrawals to fall towards zero.

### **Domestic Revenue**

Domestic revenue is forecasted to continue to increase in 2015 and over the medium term (see table 2.1.1). The rate of growth is slightly lower than in past years, principally due to smaller revenue from rice sales. The Government is scaling back rice sales in response to the improved supply of rice. Excluding rice sales, domestic revenue is forecasted to grow at 5.6% in 2015.

### **Financing**

The non-oil deficit is equal to domestic revenue minus expenditure (see table 2.1.1). This deficit provides an approximate estimate of the amount of additional demand and money Government spending is contributing to the economy. Over the medium term the non-oil deficit is falling as a percentage of GDP. This lower contribution to demand in the economy from Government spending is consistent with lower inflation and private sector driven economic growth.

The Government is using the ESI, excess withdrawals from the PF, use of the cash balance and loans to finance the non-oil deficit in 2015.

The ESI for 2015 is calculated at \$638.5 million and can be thought of as the amount that can be withdrawn from the PF, each year, forever without the fund ever running out of money. The total amount budgeted to be withdrawn from the PF in 2015 is \$1,327.5 million; this is higher than the ESI by \$689.0 million. The Government considers that excess withdrawals are necessary in the short term to finance priority expenditures. From 2018 excess withdrawals are expected to fall towards zero as domestic revenue increases and expenditure decreases.

The Government is using the cash balance in the HCDF in 2015 to finance rolled over expenditures. This is in line with the relevant laws and international best practice in PFM. Total use of the cash balance for 2015 is \$2.1 million.

Loans are being used to finance key infrastructure projects that have high social and economic rates of return. These loans have relatively low rates of interest and significant grace periods. Total loan financing for 2015 is \$70.0 million.

**Table 2.1.1: Fiscal Table with Memorandum Items (\$m)**

	2011 Actual	2012 Actual	2013 Actual	2014 BB1	2015 Budget	2016	2017	2018	2019
<b>Total Exp. by App. Category (incl. loans)</b>	1,105.3	1,247.0	1,081.4	1,500.0	1,570.0	2,046.1	1,990.8	1,777.7	1,569.9
<b>Total Exp. by App. Category (excl. loans)</b>	1,105.3	1,247.0	1,075.1	1,469.0	1,500.0	1,851.7	1,855.3	1,617.9	1,519.9
<i>Recurrent</i>	502.3	708.8	730.9	992.5	1,029.0	1,080.8	1,122.2	1,166.4	1,211.2
Salary and Wages	111.9	130.7	141.8	176.8	184.1	191.4	199.1	207.0	215.3
Goods and Services (inc. HCDF)	246.8	358.2	392.0	480.3	504.7	535.5	555.1	576.6	597.8
Public Transfers	143.7	220.0	197.0	335.5	340.3	353.9	368.0	382.7	398.1
<i>Capital</i>	603.0	538.2	350.5	507.5	541.0	965.3	868.5	611.4	358.7
Minor Capital	33.9	46.8	40.0	52.1	36.7	38.2	39.7	41.3	42.9
Capital and Development (inc IF & loans)	569.1	491.4	310.6	455.4	504.3	927.1	828.8	570.1	315.8
<b>Domestic Revenue***</b>	105.3	142.2	151.1	166.1	170.4	182.0	193.7	205.6	217.7
<b>Non-Oil Fiscal Deficit</b>	-1,000.0	-1,104.8	-930.3	-1,333.9	-1,399.6	-1,864.1	-1,797.0	-1,572.1	-1,352.2
<b>Financing</b>	1,000.0	1,104.8	930.3	1,333.9	1,399.6	1,864.1	1,797.0	1,572.1	1,352.2
ESI	734.0	665.3	730.0	632.3	638.5	632.4	616.3	600.0	590.9
Excess Withdrawals from the PF	321.0	829.6	0.0	270.6	689.0	1,037.3	1,045.3	812.3	711.3
Use of Cash Balance	-55.0	-390.1	194.0	400.0	2.1	0.0	0.0	0.0	0.0
Borrowing/Loans	0.0	0.0	6.3	31.1	70.0	194.4	135.5	159.9	50.0
<b>Selected Economic Indicators</b>									
Nominal GDP (Non-petroleum Sector)	1,124.0	1,284.0	1,468.4	1,552.3	1,681.4	1,887.2	2,120.3	2,386.6	2,691.4
Fiscal Deficit / GDP (Non-petroleum Sector)	89.0%	86.0%	63.4%	85.9%	83.2%	98.8%	84.8%	65.9%	50.2%

Source: National Directorate for Economic Policy

## **2.2: Recent Reforms in Economic and Financial Management**

### **2.2.1: Overview**

The MoF has implemented a significant reform program over the last year. Reforms have been concentrated in the areas of economic monitoring, PFM and performance management.

### **2.2.2: Economic Monitoring**

Formulating effective public policies requires a detailed and up-to-date understanding of the economy. The MoF has started drafting quarterly inflations reviews and GFS bulletins to better understand the economy. It has also strengthened its economic forecasting model.

#### **2.2.2.1: Quarterly Inflation Reports**

The MoF drafts quarterly inflation reviews to analyse inflation. These reviews analyse trends in the monthly and yearly rates of inflation, and in the underlying categories of the CPI index such as food and transport. The likely causes of inflation, such as changes in Government spending, in exchange rates and in international commodity prices, are also analysed in these quarterly reviews.

The quarterly inflation bulletins for Q1 2014 and Q2 2014 were recently published on the MoF's website. Going forward each review will be published shortly after the relevant data becomes available.

#### **2.2.2.2: Government Financial Statistics**

GFS is an internationally recognised reporting framework for the presentation and analysis of fiscal data. The Government has recently implemented this framework and now publishes GFS fiscal bulletins every quarter. The implementation of GFS in Timor-Leste has two main benefits.

First, GFS provides an internationally recognised and consistent framework for analysing the fiscal position of the government. The GFS bulletins provide important information on how petroleum revenues and PF investments affect the overall fiscal position of the Government.

Second, GFS classifies revenue and expense in a consistent way across all countries. This allows for accurate international comparisons.



### 2.2.2.3 Economic Forecasting

The MoF recently completed new forecasts of economic growth and inflation. These forecasts were made based on an improved economic model and forecasting process. Important reforms to the modelling process included: forecasting the components of non-petroleum GDP, modelling inflation and ensuring internal consistency.

**Forecasting the components of non-petroleum GDP;** in the past non-petroleum GDP, but not its underlying components, were forecasted. This year the MoF has forecasted all the underlying components of non-petroleum GDP such as household consumption and private investment. This strengthens economic policy making as the composition of economic growth, and not just its overall level, is important.

**Forecasting inflation;** the MoF improved the methodology it uses to forecast inflation. The new methodology uses advanced statistical techniques to account for the impact on inflation of Government spending, international commodity prices and exchange rates.

**Internal Consistency;** in Timor-Leste Government spending, economic growth and inflation are all interlinked. Specifically:

- Government spending is a component of non-petroleum GDP. So all else being equal high expenditure will lead to higher economic growth.
- Inflation is partly driven by Government recurrent expenditure. Thus all else being equal high expenditure will result in higher inflation.
- High inflation may reduce long-term economic growth if it undermines competitiveness.

Overall these reforms have resulted in superior economic forecasts that have assisted the MoF in better understanding recent and likely future economic developments.

### 2.2.3: Public Financial Management

The Government spends, collects and manages money through its PFM system. This system is made up of the laws, institutions and information technology infrastructure that govern the management of the public finances. An effective and efficient PFM system is essential for constraining corruption and delivering public services.

Since 2008 the Government has implemented a broad ranging PFM reform program. Other publically available documents such as the MoF's Strategic Plan and the State Budget Book1 2013 describe this reform program in detail. This section only outlines key PFM reforms which have been implemented this year. Key reforms include:

- Upgrading the interface used by the integrated financial management information system (IFMIS) to the web based V7 financials. This new interface allows ministries to

use the IFMIS through the internet which has improved accessibility. The new interface also has a clearer, more intuitive and user-friendly lay out.

- Making the use of the procurement and contract management modules in IFMIS mandatory. This means that ministries have to record key stages of the procurement process and contracts on the IFMIS before payments are made to contractors. This constrains corruption and encourages line ministries to follow the correct processes.
- Improving tax administration by re-registering many tax payers with new unique tax identification numbers.
- Establishing a monthly meeting to discuss and resolve problems in budget execution. The meeting is chaired by the Director General of State Finance and is attended by staff from the MoF and the Directors of Finance from each line ministry. This meeting has contributed to higher and more efficient budget execution.

## **2.2.4 : Measuring Performance**

The Government has recently implemented reforms to monitor and improve performance. Key reforms include the Ten Commandments and introducing KPIs.

### **2.2.4.1: The Ten Commandments to Improve the Performance of the State**

The Government met from the 4<sup>th</sup> to the 6<sup>th</sup> of August 2014 to discuss how to identify problems and find solutions to improve the performance of the state. Based on these discussions, participants committed to ten commandments. The full list of commandments is available on the MoF website. Three key commandments are:

1. To implement one Vision, one Plan, one Action, aligned with the SDP matrix and to commit to the KPIs as a performance measure.
2. To find out and obtain the necessary information about the existing PFM system before publicly commenting on this system.
3. The national private sector commits to work together with the Government in order to ensure the quality of projects.

These commandments should contribute to more effective Government administration.

### **2.2.4.2: Key Performance Indicators**

The MoF has recently developed KPIs. These indicators measure progress towards important objectives for each directorate in the MoF.

The KPIs are formulated with reference to the overarching vision outlined in the MoF's Strategic Plan. They outline and measure the work that must be done to achieve this vision and provide a practical link between high level goals and day to day activities.

The EU and Australian Government recently showed their confidence in the KPI system for measuring performance by agreeing to provide direct budgetary support to the MoF. This support uses the Government of Timor-Leste's public financial management system and therefore conforms to new deal principles.

Overall the KPIs are an important management tool. These indicators have linked the MoF's vision to specific activities, strengthened budgeting and improved human resource management.

In conclusion, the MoF has implemented reforms to strengthen economic monitoring, public financial management and performance management. These reforms should assist the development of more effective economic policies and contribute to more efficient public spending.

## **2.3: Economic Overview**

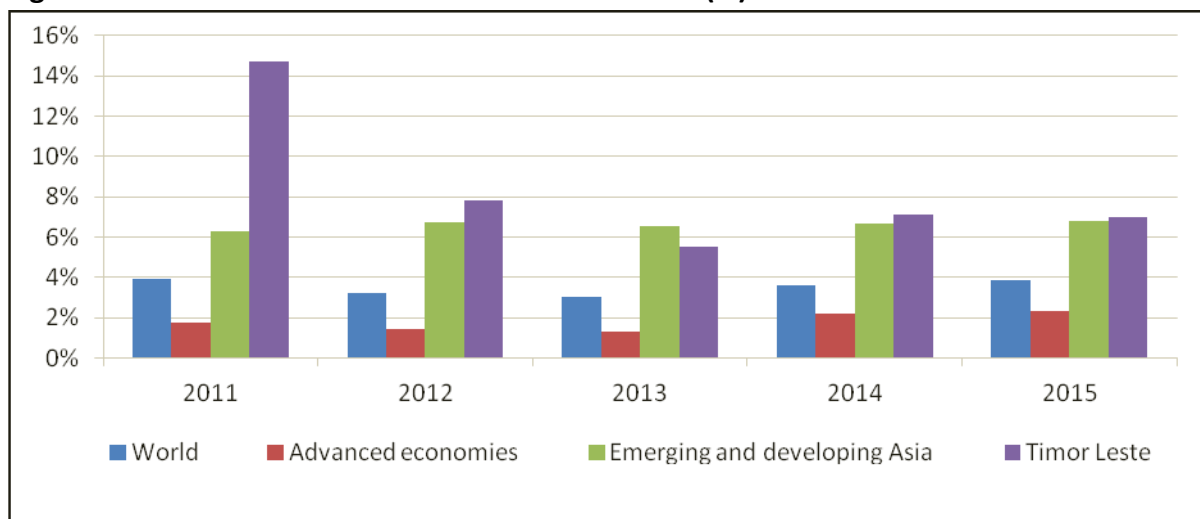
### **2.3.1: International Economy**

#### **2.3.1.1: Trends in International Growth**

The global economic growth rate slowed from 3.2% to 3.0% from 2012 to 2013. Growth in the emerging market and developing economies slowed from 5.0% in 2012 to 4.7% in 2013, while over the same period growth in the advanced economies slowed from 1.4% to 1.3%. Despite less favourable financial conditions emerging market and developing economies continue to drive global growth.

The IMF forecast that the annual global growth rate will increase to 3.6% in 2014 and then to 3.9% 2015. The improved growth in the advanced economies in 2014 and 2015, at 2.2% and 2.3% respectively, is forecast to be driven by reduced fiscal tightening and favourable monetary conditions. While the growth in the emerging market and developing economies over these years, at 4.9% and 5.3% respectively, is the result of the increased demand from the advanced economies. However, risks to the outlook remain, in particular the increased geo-political risk and the possibility that lower than expected demand in the advanced economies will impact on global growth.

**Figure 2.3.1.1.1: Real Economic Growth 2011 – 2015 (%)**



Source: IMF, World Economic Outlook Database, April 2014

Emerging and developing Asia is one of the high growth areas in the world (see figure 2.3.1.1.1) and Timor-Leste is performing particularly well within this group of economies. The increased demand for goods and services associated with the strong growth outlook in Asian markets represents an important export opportunity for Timor-Leste.

**Table 2.3.1.1.1: Real Regional Growth Rate (%)**

Country	Actual		Projection	
	2012	2013	2014	2015
ASEAN-5	6.2%	5.2%	4.9%	5.4%
Australia	3.6%	2.4%	2.6%	2.7%
China	7.7%	7.7%	7.5%	7.3%
Indonesia	6.3%	5.8%	5.4%	5.8%
Malaysia	5.6%	4.7%	5.2%	5.0%
Philippines	6.8%	7.2%	6.5%	6.5%
Singapore	1.9%	4.1%	3.6%	3.6%
Thailand	6.5%	2.9%	2.5%	3.8%
Vietnam	5.2%	5.4%	5.6%	5.7%
Timor Leste*	7.8%	5.6%**	7.1%	7.0%

Sources: Timor-Leste's National Accounts 2000-2012, National Directorate of Economic Policy (Timor-Leste) and International Monetary Fund, World Economic Outlook Database, April 2014

\*Timor-Leste's GDP refers to the non-petroleum sector only

\*\*Projection

### 2.3.1.2: Trends in International Prices

Global inflation in 2013 was 3.6%, and is expected to remain below 4.0% throughout 2014 and 2015. IMF projections show that over the 2014-2015 period the rate of price inflation in the emerging market and developing economies will decrease, while the rate of inflation will increase in the advanced economies.

## **Agricultural Commodity Prices**

Imported food represents a significant proportion of the food consumed in Timor-Leste. Thus changes in international agricultural commodity prices can have a large effect on both the rate of inflation and standard of living in Timor-Leste. The FAO index, which consists of the weighted average of five key food commodity price indices, has been relatively stable since the third quarter of 2012. International crop and meat prices are expected to decrease over the medium-term, this will reduce inflationary pressure in Timor-Leste.

Coffee is Timor-Leste's second largest export (after oil) and this sector has been identified as one with significant potential for growth. After considerable fluctuations in the price of coffee in recent years, the outlook for international coffee prices is stable.

## **Oil Price**

Compared to the large fluctuations in oil prices over the 2010-2012 period, oil prices in 2014 have been relatively stable. After increasing by 1.0% in 2012 international oil prices<sup>1</sup> decreased by 0.9% in 2013 to \$104.07 per barrel. This decrease was the result of continued supply growth in North America, and would have been more significant if not for supply disruptions in the Middle East. Projections suggest that international oil prices will remain stable in 2014, growing by 0.1%, and then fall sharply in 2015 by 6.0%, driven by increased supply from North America and slow global demand growth. Changes in international oil prices have a significant effect on the Timorese economy as they affect both the value of petroleum revenues and the cost of imported petroleum for businesses and consumers.

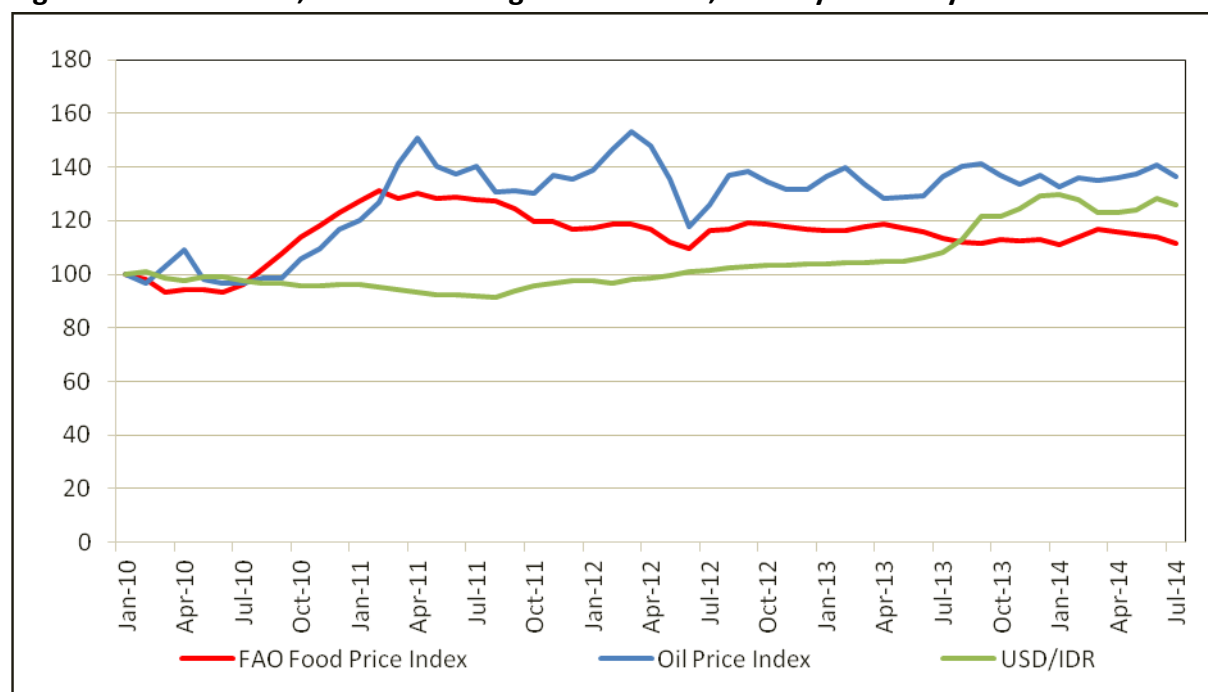
## **Exchange Rates**

Recently there has been a general appreciation of the US dollar against the currencies of Timor-Leste's major trading partners. In particular, the US dollar appreciated by 16.4% against the Indonesian rupiah, from July 2013 to July 2014, see figure 2.3.1.2.1. The appreciation of the US dollar against the currencies of Timor-Leste's major trading partners may have made Timorese exports more expensive on international markets, constraining the development of export sectors. However, consumers across the country will benefit from the lower rates of inflation associated with cheaper imports.

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<sup>1</sup> Simple average of UK Brent, Dubai Fateh and West Texas Intermediate crude oil

**Figure 2.3.1.2.1: Food, Oil and Exchange Rate Indices, January 2010-July 2014**



Source: FAO Food Price Index and IMF Primary Commodity Prices

## 2.3.2: Domestic Economy

This section first reviews economic performance from 2007 to 2012. It then discusses economic projections for 2013 to 2015.

### 2.3.2.1: Review of Economic Performance 2007-2012

#### 2.3.2.1.1 Total Gross Domestic Product

In 2012 the total GDP in Timor-Leste increased by 5.6% to \$4,889.6 million (in constant 2010 prices). The petroleum sector, which grew by 4.9% in 2012, remains the dominant sector in the Timorese economy and contributes 76.4% of total GDP. In recent years the dominance of the petroleum sector has decreased, driven by a slowdown in petroleum sector growth and exceptionally high non-petroleum GDP growth (see table 2.3.2.1.1.1 and figure 2.3.2.1.1.1). Many economies which are dominated by a single resource extraction sector have fallen victim to a “resource curse”, however, through prudent policy making Timor-Leste has been able to mitigate the risks associated with large natural resource wealth, see Focus Box 1.

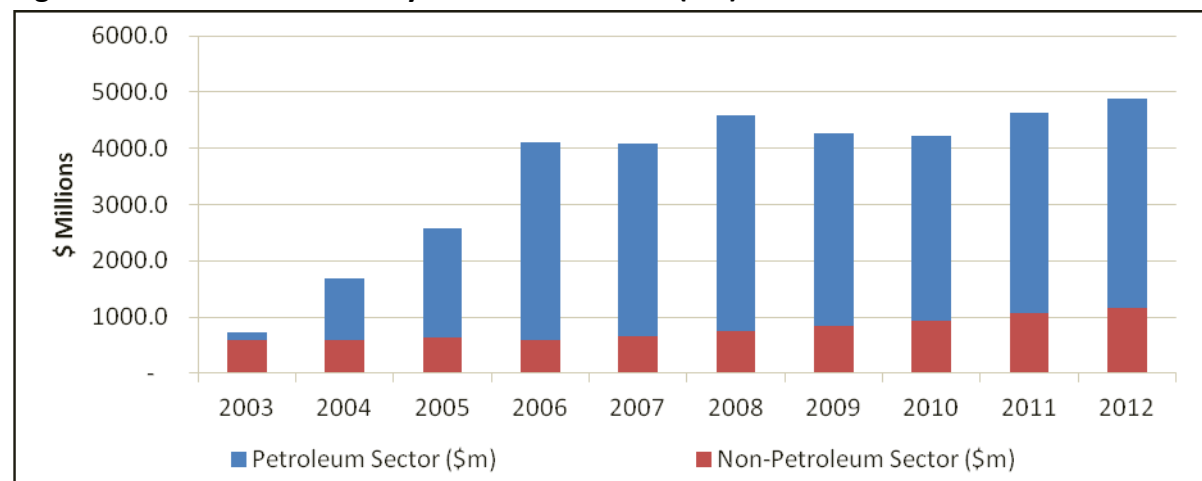
In Timor-Leste total GDP is a poor measure of economic welfare because it is very sensitive to short term changes in oil prices and production. In addition, few Timorese people work in the oil industry and therefore total GDP is not closely related to living standards. For these reasons the Government focuses on non-petroleum GDP which is more closely related to living standards in Timor-Leste than total GDP.

**Table 2.3.2.1.1.1: Real GDP and Petroleum Sector Output 2007-2012<sup>2</sup> (\$m)**

	2007	2008	2009	2010	2011	2012
Total GDP (\$m)	4,090.0	4,582.9	4,275.3	4,215.5	4,630.6	4,889.6
Growth Rate Total GDP (%)	-0.6%	12.1%	-6.7%	-1.4%	9.8%	5.6%
Petroleum Sector (\$m)	3,428.3	3,826.6	3,421.7	3,281.3	3,559.4	3,734.5
Growth Rate Petroleum Sector (%)	-2.7%	11.6%	-10.6%	-4.1%	8.5%	4.9%

Source: Timor-Leste National Account 2000-2012, General Directorate of Statistics

**Figure 2.3.2.1.1.1: Real GDP by Sector 2003-2012<sup>3</sup> (\$m)**



Source: Timor-Leste National Account 2000-2012, General Directorate of Statistics

### Focus Box 1: How Timor-Leste Avoided the Resource Curse

#### ***What is the Resource Curse?***

The resource curse is when natural resource wealth leads to conflict, macroeconomic instability and spending on white elephant (useless) projects. These in turn cause living standards to stagnate or fall.

#### ***How Timor-Leste Used Natural Resources to Increase Stability***

Political instability in Timor-Leste from 2006 to 2008 was not over access to natural resource wealth. Since 2008 Timor-Leste has enjoyed political stability and improved security even as oil production has increased. Indeed the Government has used oil revenue to finance war veterans' pensions and the PDID program that have provided a peace dividend to the population and reduced the chances of conflict.

#### ***How Timor-Leste Avoided Macroeconomic Instability***

Many countries have spent natural resource revenues soon after they have been collected. This results in the boom-bust cycle in commodity prices feeding through into volatile government expenditure, demand and inflation. Timor-Leste has avoided this type of

<sup>2</sup> Revised preliminary figures from the Timor-Leste National Accounts 2013.

<sup>3</sup> Revised preliminary figures from the Timor-Leste National Accounts 2013.

macroeconomic instability. Oil revenues are saved in the PF and do not flow directly into the State Budget. Withdrawals from the PF are based on what is considered sustainable in the long-term and not short term changes to oil revenues.

### **Spending on Priority Areas**

From 2008 to 2013 the largest amount of infrastructure spending was on electricity (\$896.2 million). This project sharply increased electricity generation, distribution and transmission. A reliable electricity supply is essential for economic growth and industrial development. Better access to electricity has benefited many people. This project cannot be regarded as a white elephant project. There has also been significant spending on education and health.

### **Increases in Living Standards since Oil Production Started**

In Timor-Leste living standards have increased since oil production started. More specifically:

- Non-petroleum GDP grew at an average rate of 11.8%, and household consumption increased by 6.7%, per annum from 2008 to 2012.
- The prevalence of underweight children decreased from 48.6% to 37.7% from 2007 to 2013.
- The primary school net enrolment rate increased from 65.6% in 2007 to 91.9% in 2013.

#### **2.3.2.1.2: The Non-petroleum Economy**

##### **Economic Growth**

The 2007-2012 period has been one of exceptionally high non-petroleum GDP growth, over these six years there have been two distinct growth periods. The first period, between 2007 and 2011 saw high growth driven by sharp increases in Government expenditure. While in 2012 the slightly lower non-petroleum GDP growth of 7.8%, was driven by factors other than Government expenditure.

**Table 2.3.2.1.2.1: Non-petroleum GDP by Sector 2007-2012<sup>4</sup> (\$m)**

	2007	2008	2009	2010	2011	2012
Non-Petroleum Sector (\$m)	661.7	756.2	853.6	934.3	1,071.2	1,155.1
Growth Rate Non-Petroleum Sector (%)	11.4%	14.3%	12.9%	9.5%	14.7%	7.8%

Source: Timor-Leste National Account 2000-2012, General Directorate of Statistics

As seen in figure 2.3.2.1.2.1, there were rapid increases in Government expenditure over the 2007-2011 period as the Government's frontloading policy was scaled up. Frontloading uses excess withdrawals from the PF in the short-term to kick-start economic growth through high quality investment in infrastructure and human capital. The Government is firmly committed to fiscal sustainability, and it has ensured that expenditure levels over the

<sup>4</sup> Revised preliminary figures from the Timor-Leste National Accounts 2013.

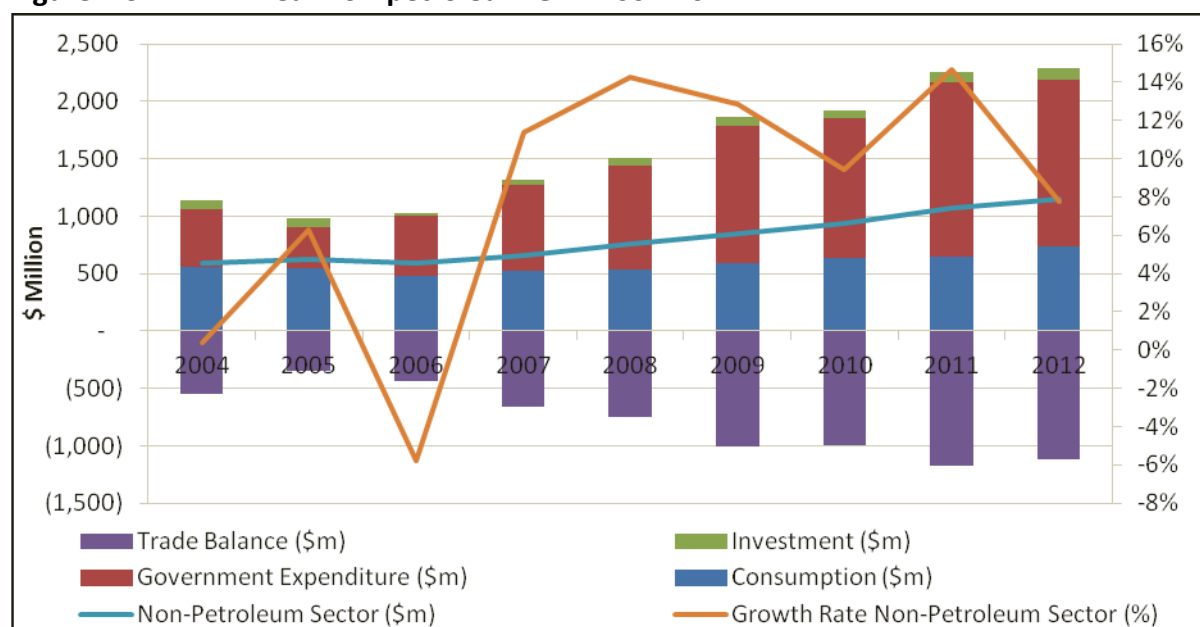


2007-2011 period and all subsequent periods have been fiscally sustainable. However, a continuation of the growth rates in Government expenditure, seen during the scaling up period, would have been unsustainable. Thus Government expenditure growth has slowed to ensure fiscal sustainability, reducing the extent to which future Government expenditure will drive growth.

There was a substantial reduction in the growth rate of Government expenditures in 2012, and in particular capital and development expenditures decreased. This fall in capital and development expenditures was partially due to improvements in the investment management process, which may simultaneously constrain and improve the quality of capital expenditure. The lower Government expenditure growth is largely responsible for the below trend growth seen in 2012.

Non-petroleum private investment grew strongly over the entire 2007-2012 period, but remains relatively low, and thus has not significantly impacted overall growth rates. Household consumption also grew strongly over the 2007-2012 period, increasing by 37.6% from \$507 million to \$698 million. It is likely that this was partially driven by the increases in Government expenditures, especially the enlargement of public transfer programs. Finally, while the overall trade balance<sup>5</sup> is significantly in surplus, Timor-Leste's non-petroleum trade deficit expanded rapidly between 2007 and 2011. However, in 2012 largely due to the fall imports, caused by the decrease in capital and development expenditure the trade deficit fell.

**Figure 2.3.2.1.2.1: Real Non-petroleum GDP 2004-2012**



Source: Timor-Leste National Account 2000-2012, General Directorate of Statistics and National Directorate of Economic Policy

<sup>5</sup> Exports of goods and services minus imports of goods and services.

Growth across the major sectors of the Timorese economy varied significantly during both the 2007-2011 and 2012 periods.

During the 2007-2011 period, driven by increases in Government expenditure, the public administration and constructions sectors boomed with average annual growth rates of 16.5% and 68.7% respectively. In contrast, the agricultural sector declined in real terms over the 2007-2011 period; this decline was heavily linked to weather conditions over the period. Finally, growth in the wholesale and retail sector Timor-Leste's fourth major non-petroleum sector, grew steadily averaging growth of 7.8% a year.

As seen in table 2.3.2.1.2.2, in 2012 the slowdown in Government salaries and wages expenditure growth led to below trend public administration sector growth of 11.0%. While the fall in Government capital expenditure led to a 6.6% fall in construction sector output. After falling in 2010 and 2011, the agricultural sector grew by 14.6% in 2012. The agricultural sector is a highly important sector as a large proportion of the country's population are dependent on agriculture through either formal employment or subsistence agriculture. The strong growth in this sector suggests that, despite the slowdown in real non-petroleum GDP growth, the living standards for a large proportion of Timor-Leste's population may have increased significantly in 2012. In 2012 the wholesale and retail sector grew by 7.3% a continuation of the grow rates seen between 2007 and 2011.

**Table 2.3.2.1.2.2: Real Non-Petroleum Sector Growth Rates 2006-2012 (%)**

	2006	2007	2008	2009	2010	2011	2012
<b>Non Petroleum GDP</b>	<b>-5.7%</b>	<b>11.4%</b>	<b>14.3%</b>	<b>12.9%</b>	<b>9.5%</b>	<b>14.7%</b>	<b>7.8%</b>
Agriculture, Forestry & Fishing	5.2%	-3.3%	0.3%	8.1%	-2.9%	-17.9%	14.6%
Construction	-44.6%	94.3%	139.8%	50.0%	6.9%	52.7%	-6.6%
Wholesale and Retail Trade	-3.2%	8.6%	13.1%	8.5%	4.4%	4.2%	7.3%
Public Administration	10.5%	13.1%	5.7%	31.7%	13.1%	19.1%	11.0%
Other Sectors	-9.9%	9.0%	6.4%	9.5%	13.1%	6.4%	6.4%

Source: Timor-Leste National Account 2000-2012, General Directorate of Statistics

## Inflation

The SDP sets a 4.0%-6.0% target inflation range. As seen in figure 2.3.2.1.2.2 inflation fluctuated significantly between 2007 and 2012 and was predominantly above the target range. The inflation witnessed in the early stages of this period can be partially attributed to supply effects associated with the civil unrest in 2006.

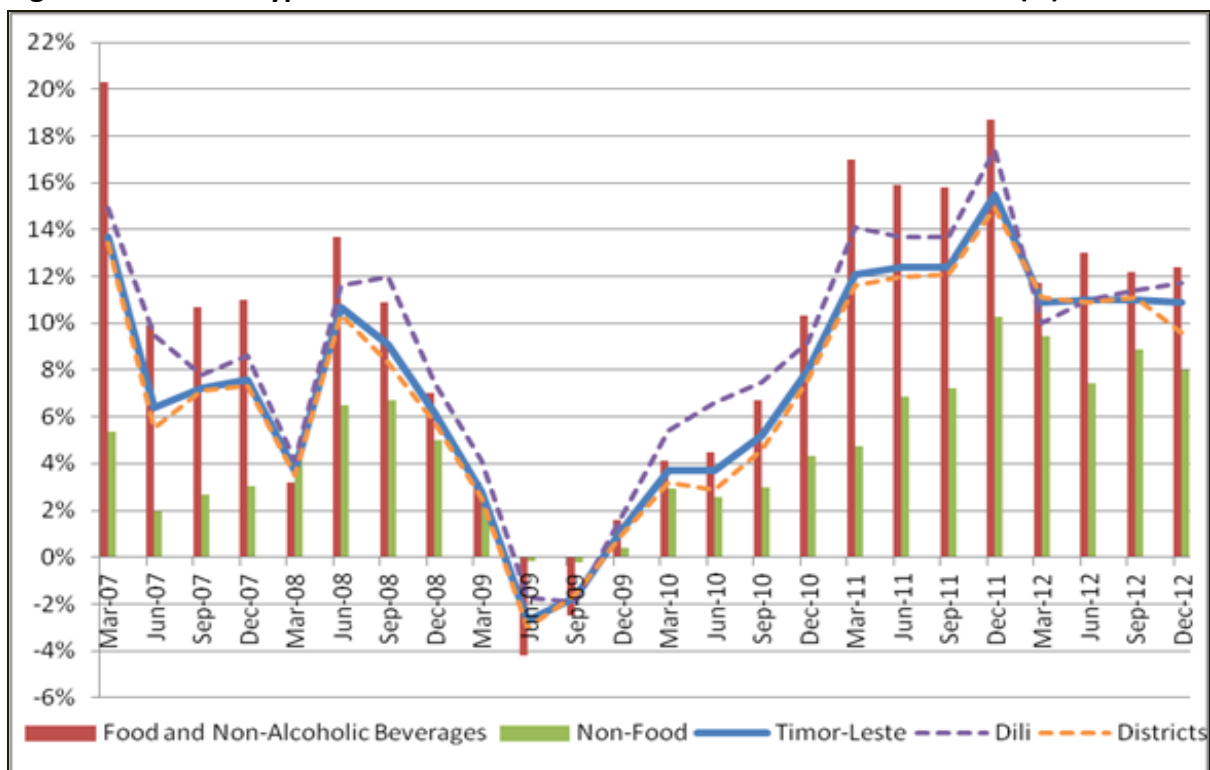
After a brief period of deflation in late 2008 and early 2009, year-on-year inflation<sup>6</sup> began to steadily increase towards a peak of 15.5% in December 2011. This sharp increase in inflation can be attributed to three main causes. Firstly, increases in international food prices may have led to increases in the price of imported food. Secondly, the USD depreciated against the currencies of Timor-Leste's major trading partners, which also probably led to an

<sup>6</sup> The change in prices over a given 12 month period.

increase in the prices of imports. Finally, the increase in recurrent Government expenditure may have increased demand in the economy, creating inflationary pressure.

Over this period the overall trend in inflation was driven by changes in food and non-alcoholic beverage prices. Prices in this category rose by 50.6% between June 2009 and December 2012. It is likely that over this period food and non-alcoholic beverage inflation put downward pressure on consumers' purchasing power. Inflation in both Dili and the districts followed the same trend over the period, though the rate of inflation was usually slightly higher in Dili.

**Figure 2.3.2.1.2.2: Types of Year-on-Year Inflation in Timor-Leste 2007-2012 (%)**



Source: Monthly CPI publication, General Directorate of Statistics

### Summary of Performance of the Domestic Economy from 2007-2012

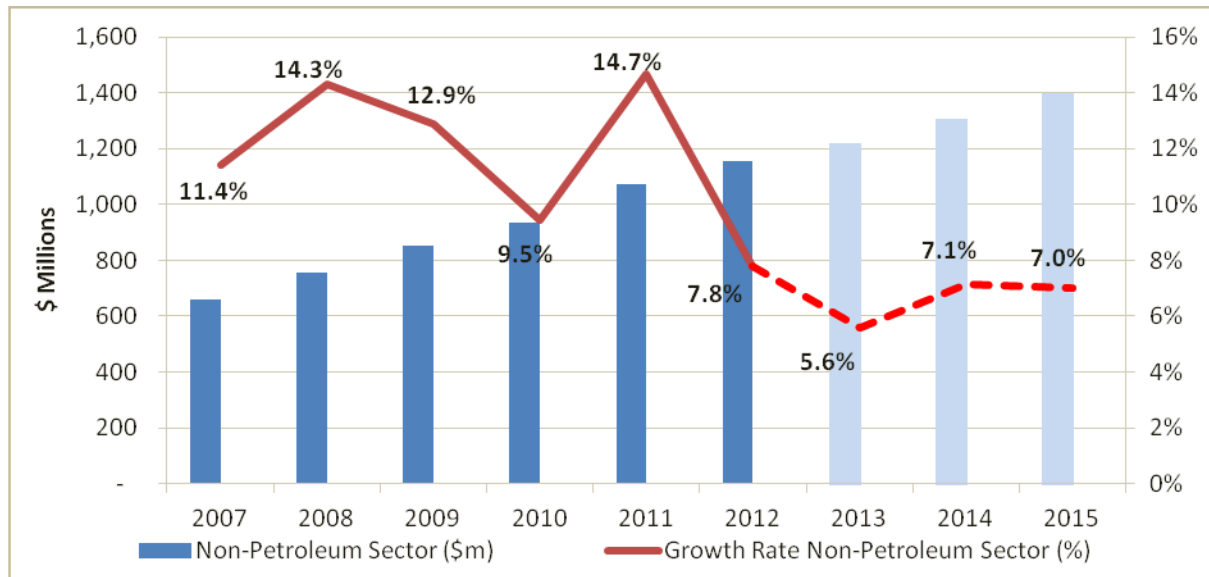
Over the 2007 to 2012 period Timor-Leste's domestic economy grew strongly. Economic growth between 2007 and 2011 was largely driven by increases in Government expenditures, while growth in 2012 was driven by factors other than Government spending, such as household consumption and exports of goods. Over the period inflation has fluctuated significantly but has largely been above the 4.0%-6.0% target range, especially in the latter half of the period when international conditions were unfavourable and Government expenditure was high. Household consumption increased over the period but not at the same rate as non-petroleum GDP growth.

## 2.3.2.2: The Medium Term Outlook 2013-2015

### Economic Growth 2013-2015

The MoF is forecasting non-petroleum GDP growth in the 5.6% to 7.1% range over the 2013-2015 period (see figure 2.3.2.2.1.). Despite being below the growth path seen between 2007 and 2011 these rates of economic growth are still high by international standards and in line with emerging and developing Asia, see table 2.3.1.1.1.

**Figure 2.3.2.2.1: Real Non-Petroleum GDP, Actual 2007-2012 and Forecast 2013-2015**



Source: National Directorate of Economic Policy, Ministry of Finance and Timor-Leste National Account 2000-2012, General Directorate of Statistics

In 2013 the non-petroleum GDP growth rate has been forecast at 5.6%. This below trend projection has been driven by low execution of Government capital expenditure which was partially the result of improvements in the investment management cycle. Imports of goods and services<sup>7</sup> which grew strongly, also contributed to the below trend growth forecast. However, the strong growth rates in private sector investment and household consumption seen in recent years are forecast to continue.

The non-petroleum GDP growth forecasts for 2014 and 2015 are 7.1% and 7.0% respectively. The 2014 growth projection is primarily driven by increases in household consumption and recurrent Government expenditure. While in 2015 the growth rate is driven by strong growth in household consumption and private sector investment. Private investment growth in 2015 is driven by firm project proposals from several multinational companies wishing to do business in Timor-Leste.

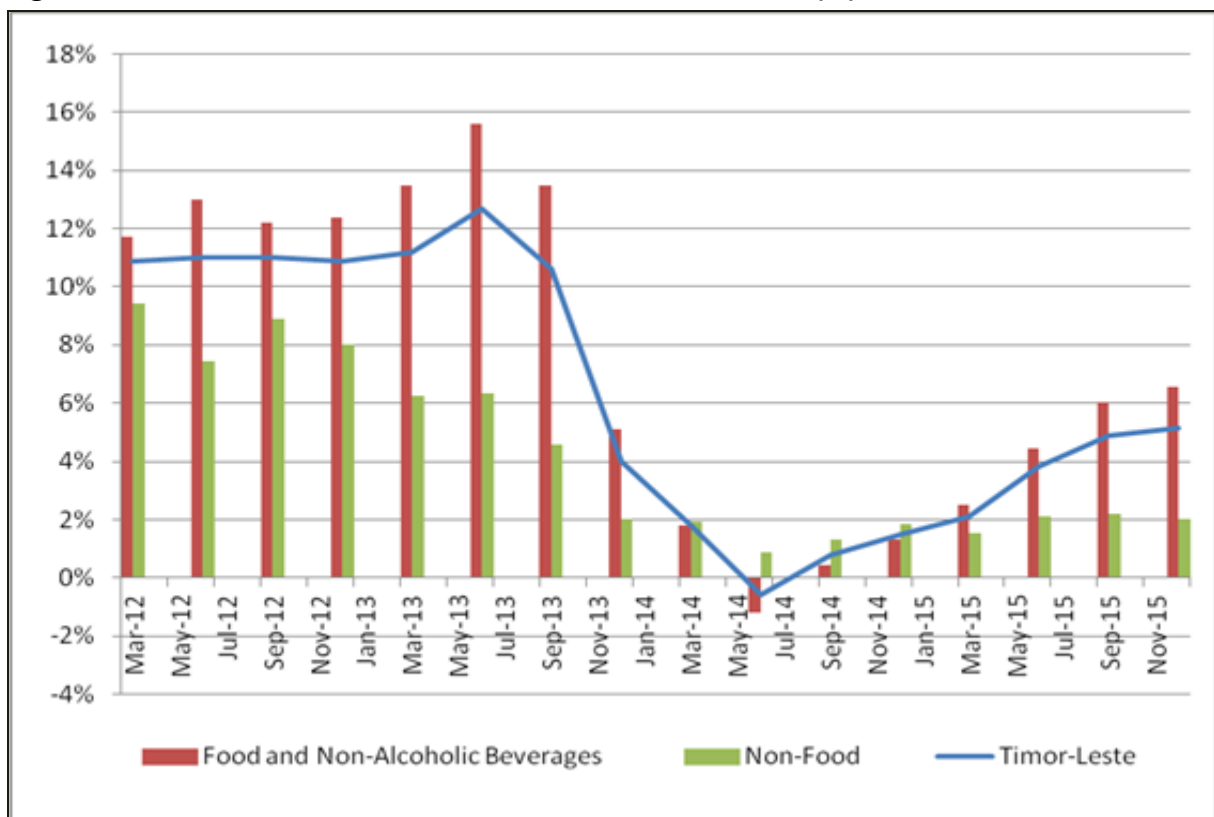
<sup>7</sup> Excluding expenditures related to the electricity project.

## Inflation 2013-2015

Year-on-year inflation in Timor-Leste in December 2013 was 4.0%. This is within the SDP's 4.0%-6.0% target range and represents a significant fall from the double digit inflation witnessed between 2010 and 2012. This downward trend has continued into 2014 and year-on-year inflation is forecast to be below the Government's target range in 2014. While the 2015 forecasts estimates that the rate of inflation will return to within the target range.

In December 2013 year-on-year food and non-alcoholic beverage, and non-food CPI were 5.1% and 2.0% respectively. Inflation in both of these categories is significantly down on the rates seen between 2011 and 2012. As during the 2007-2012 period, the rate of inflation in this period is primarily driven by food and non-alcoholic beverage inflation, with non-food price inflation remaining more stable.

**Figure 2.3.2.2: Actual and Forecast CPI Inflation 2012-2015 (%)**



Source: National Directorate of Economic Policy, Ministry of Finance and Monthly CPI Series, General Directorate of Statistics, Ministry of Finance

The lower rates of inflation during this period, as seen in figure 2.3.2.2 can be explained by a combination of international and domestic factors. Over the 2013-2014 period, the US dollar has appreciated against Timor-Leste's major trading partners, especially the Indonesian rupiah, and this is likely to have put downward pressure on the prices of imported goods. In addition, international food and oil prices have been relatively stable and this stability is forecast to continue.

Domestic factors may also have played a role in reducing the rate of inflation. The lower rates of inflation in 2013 and 2014 may be the result of the slowdown in Government expenditure in 2013 slowing domestic demand. While the forecasted increase in recurrent expenditure in 2014 is partially driving the higher inflation forecast in 2015. On the supply side it is possible that increases in the supply of domestically produced food or the removal of import capacity constraints are partially responsible for the reductions in the rate of inflation. However, supply side analysis is severely restricted by data constraints.

### **Lower but Higher Quality Growth**

Though the non-petroleum GDP growth forecast for 2013-2015 is below the 2007-2011 growth trend, it is likely to be of a higher quality for four reasons.

Firstly, there are signs that the Timorese economy has begun to transition away from short-term expenditure driven growth towards more sustainable long-term private sector driven growth. The high growth trend witnessed between 2007 and 2011 was the result of large increases in Government expenditure which occurred as the Government's frontloading policy was scaled up. Whilst over the 2013-2015 period, Government expenditure growth is projected to slow and growth in the private sector will begin to drive non-petroleum GDP growth.

Secondly, in line with strong private sector driven growth, the projections show private investment playing an increasingly important role in driving non-petroleum GDP growth. Private investment is expected to reach unprecedented levels in 2015 due to solid proposals from several multinational organisations intending to do business in Timor-Leste. This is directly in line with the Government's policy to create the necessary conditions to attract private sector investment.

Thirdly, the current low rates of inflation are forecast to continue throughout the rest of the 2013-2015 period. These rates sharply contrast with the high inflation seen during the 2007-2012 period. Lower inflation can help to increase the purchasing power of citizens' wages and reduce poverty. In addition, lower inflation will lead to lower increases in business costs. This will help to improve Timor-Leste's international competitiveness which will increase exports and investment.

Finally, household consumption is likely to continue growing strongly. The amount the average household consumes is an alternative measure of living standards than economic growth.

## 2.4: Millennium Development Goals

The MDGs consists of eight ambitious economic and social goals that the Government is committed to achieving by 2015.

### **Goal 1: Eradicate Poverty and Hunger**

The 2007 TLSLS indicated that 49.9% of Timorese people lived under the national poverty line of \$0.88 per day. The incidence of poverty, as measured by the WB in 2010, decreased to around 41.0%. This decrease was largely attributed to post-2007 economic growth. Efforts are underway to obtain a more recent estimation of poverty in Timor-Leste.

Child malnutrition has significantly fallen since independence but remains high. More specifically, the prevalence of under-weight children under five decreased from 45.8% in 2002 to 37.7% in 2013. The Government is aiming to further reduce child malnutrition by increasing agricultural production, encouraging citizens to improve their diets and providing children with nutritious meals at school.

### **Goal 2: Achieve Universal Primary Education**

There has been a marked improvement in primary school enrolment rates. More specifically, the net enrolment rate increased from 65.6% in 2007 to 91.9% in 2013.<sup>8</sup> The net enrolment rate is also now higher for girls than for boys in both primary and secondary education.

Further expanding and improving the quality of education is a priority for the Government. Key policies include improving access to and the quality of schools, reducing absenteeism, implementing the new curriculum and better preparing children for primary school through improvements to pre-primary education.

### **Goal 3: Promote Gender Equality and Empower Women**

Gender equality has improved in Timor-Leste and the percentage of seats occupied by women in Parliament now exceeds the Government's target of 35% (at 38.5%).

The Government is committed to further reforms in institutions, politics, policy making and education to improve gender equality. Key activities include but are not limited to: running an advocacy campaign to increase awareness of gender responsive laws and policies, establishing a district female congress and employing more female teachers to act as positive role models for girls.

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<sup>8</sup> Timor-Leste FNS 2013

#### **Goal 4: Reduce Child Mortality**

Timor-Leste has already achieved its goal of reducing the under-five mortality rate by two thirds. According to the DHS 2009-2010, the infant mortality rate decreased to 44.0 per 1,000 live births, below the target of 53.0 per 1,000 live births.

Going forward the Government is determined to further improve child health. Key policies will include strengthening health services and further improving rates of immunization.

#### **Goal 5: Improve Maternal Health**

Maternal mortality has fallen since independence but is still high compared to other countries in the region. There were 557 maternal deaths per 100,000 live births in 2009/2010<sup>9</sup> compared to 660 deaths per 100,000 live births in 2000.

Maternal health policy has been an area of significant progress in Timor-Leste. Policies have focused on increasing awareness about maternal health issues, strengthening human resources in the health sector, ensuring health units are properly equipped, improving the nutritional status of mothers and strengthening family planning services.

#### **Goal 6: Combat HIV/AIDS, Malaria and other Diseases**

Malaria remains one of the main public health concerns as more than 80% of the population is at high risk and a high percentage of the cases concern children. Malaria has been combated by raising knowledge and awareness of its causes, strengthening data collection, distributing bed nets and employing volunteers to detect and treat this disease.

The first case of HIV/AIDS was detected in Timor-Leste in 2003 and, since then, the number of cases has increased to 426, causing the deaths of 41 people. This implies that although the prevalence of HIV/AIDS is low in Timor-Leste it has been increasing. Key policies in this area have been public health campaigns to increase awareness of HIV/AIDS and strengthening the ability of the health system to diagnose and treat this disease.

#### **Goal 7: Ensure Environmental Sustainability**

The 2010 Census suggests that over 90.0% of the population use wood as source of energy for cooking which might be contributing to the slight loss of forest cover witnessed between 2001 and 2009, from 51% to 50%. The recent expansion of the national electricity grid may reduce demand for firewood and consequently deforestation. There are also plans to plant sandalwood, mahogany and teak which will directly contribute to reforestation.

The proportion of the population using an improved water drinking source and the proportion of the population using an improved sanitation facility have both increased in Timor-Leste since 2001. The Government has improved water and sanitation by

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<sup>9</sup> This figure is taken from the 2009/2010 DHS.



strengthening planning, constructing new facilities and building the capacity of communities to maintain these facilities. Going forward there are plans to build a total of 65,000 latrines for vulnerable households by 2017 and develop water master plans for all districts.

### **Goal 8: Develop a Global Partnership for Development**

The Government is encouraging development partners to use national systems for Overseas Development Assistance. The Australian government and EU recently showed their confidence in national systems by providing direct budgetary support

Timor-Leste has strengthened its relationship with the international community through its leading role in the g7+ and presidency of CPLP.

The Government also recognizes that in the context of a globalized economy, it is important to promote new technologies as this will be key for Timor-Leste to reach its development goals. In this area Timor-Leste has witnessed dramatic improvements with approximately half of the population now enjoying mobile phone access. There have also been similar improvements in internet access where currently approximately 25% of the population are able to get online.

## **2.5: Expenditure and Development Partners' Commitments**

The 2015 combined sources of the State Budget amounts to \$1,735.5 million. This total is composed of \$1,570.0 million in Government expenditures (including loans) and \$165.5 million from development partners.

Total Government expenditure (excluding loans) is only 2.1% higher for 2015 than 2014. The Government is stabilizing expenditures to ensure fiscal sustainability, high quality spending and improved budget execution. Lower growth in Government expenditure is also consistent with stronger economic growth driven by the private sector and low inflation.

### **2.5.1: Expenditures by Fund**

Government expenditure is spread across the CFTL, the IF, the HCDF and loans. CFTL and IF expenditures in 2015 (excluding loans) have increased by 1.1% and 7.8% respectively compared to the 2014 budget; whilst HCDF expenditures have decreased 19.7% compared to the 2014 budget figure.

IF spending has only modestly increased in 2015 as the Government has reviewed all new project proposals, only approving projects with high economic rates of return. This should increase budget execution and boost returns on investments.

HCDF activities have been reviewed and spending has been refocused to ensure value for money. CFTL expenditure growth has been constrained to ensure fiscal sustainability and improve budget execution.

Loan financed expenditures have more than doubled in comparison to the 2014 budget, reaching \$70.0 million in 2015.

**Table 2.5.1.1: Expenditure by Fund (\$m)**

	2013 Actual	2014 BB1	2015 Budget	2016	2017	2018	2019
<b>Combined Sources Budget</b>	<b>1,341.7</b>	<b>1,742.8</b>	<b>1,735.5</b>	<b>2,122.0</b>	<b>2,012.2</b>	<b>1,783.9</b>	<b>1,571.9</b>
<b>Government Expenditures by Fund</b>	<b>1,081.4</b>	<b>1,500.0</b>	<b>1,570.0</b>	<b>2,046.1</b>	<b>1,990.8</b>	<b>1,777.7</b>	<b>1,569.9</b>
CFTL	836.0	1,091.4	1,103.9	1,148.1	1,194.0	1,241.7	1,291.4
HCDF	34.5	40.0	32.1	44.0	44.0	45.0	45.0
IF (excl. loans)	204.7	337.5	364.0	659.6	617.3	331.1	183.5
Loans	6.3	31.1	70.0	194.4	135.5	159.9	50.0
<b>Development Partner Commitments</b>	<b>260.3</b>	<b>242.8</b>	<b>165.5</b>	<b>75.9</b>	<b>21.5</b>	<b>6.2</b>	<b>1.9</b>

Sources: National Directorate of the Budget and Development Partners Management Unit

## 2.5.2: CFTL Expenditures

The CFTL is the Government's central account and includes all expenditures for line ministries and autonomous agencies with the exception of the IF and HCDF. Within it, recurrent and capital expenditures are spread across five appropriation categories as laid out in table 2.5.2.1.

Expenditures in the CFTL are expected to slightly increase by 1.1% in 2015. The increases in recurrent are 4.7%, whilst capital expenditures are expected to decrease 23.0% in 2015, compared to the budget figure for 2014.

**Table 2.5.2.1: CFTL Expenditure by Fund (\$m)**

	2013 Actual	2014 BB1	2015 Budget	2016	2017	2018	2019
<b>Total CFTL Expenditure</b>	<b>836.0</b>	<b>1,091.4</b>	<b>1,103.9</b>	<b>1,148.1</b>	<b>1,194.0</b>	<b>1,241.7</b>	<b>1,291.4</b>
<b>Recurrent</b>	<b>696.4</b>	<b>952.5</b>	<b>996.9</b>	<b>1,036.8</b>	<b>1,078.2</b>	<b>1,121.4</b>	<b>1,166.2</b>
Salary and Wages	141.8	176.8	184.1	191.4	199.1	207.0	215.3
Goods and Services	357.5	440.3	472.6	491.5	511.1	531.6	552.8
Public Transfers	197.0	335.5	340.3	353.9	368.0	382.7	398.1
<b>Capital</b>	<b>139.6</b>	<b>138.9</b>	<b>107.0</b>	<b>111.3</b>	<b>115.8</b>	<b>120.4</b>	<b>125.2</b>
Minor Capital	40.0	52.1	36.7	38.2	39.7	41.3	42.9
Capital and Dev.	99.6	86.8	70.3	73.1	76.1	79.1	82.3

Source: National Directorate of the Budget

The Government has only slightly increased recurrent expenditures as any increases may be difficult to reverse in the future. For example, increasing the size of the civil service is a

difficult action to reverse in the future. This constrained growth in recurrent expenditure is necessary to ensure fiscal sustainability.

Capital expenditures in the CFTL have been reduced in 2015, mainly due to a 29.6% reduction in minor capital spending. The Government made this saving by reviewing minor capital spending and eliminating wasteful expenditures. This should increase the efficiency of public spending going forward.

### **2.5.2.1: Salaries and Wages**

Salaries and wages expenditures are expected to grow modestly by 4.1%, in 2015. The main measures for 2015 are:

- \$2.3 million to the Ministry of Education towards increasing teachers' salaries, particularly for those in remote areas. This expenditure will attract more and better teachers which will increase the quality of education across the whole country.
- \$2.0 million to the Ministry of Foreign Affairs & Cooperation towards increasing foreign living expenses for Timorese Ambassadors. This will allow them to better represent Timorese citizens and businesses in foreign countries.
- \$1.4 million to PNTL, Ministry of Health and Courts towards supporting the wages of new PNTL members in Australia and Indonesia, as well as midwives and doctors and new national auditing in the courts. This will encourage skilled workers to join key sectors such as defence, justice and health.

### **2.5.2.2: Goods and Services**

Goods and services is the largest appropriation category in CFTL and will reach \$472.6 million for 2015; 7.3% higher than was budgeted for 2014. This section first describes measures under this appropriation category and it then classifies investments.

#### **Measures**

The main measures for goods and services include:

- \$115.6 million to the Ministry of Public Works towards fuel and maintenance of the electricity generators. Providing electricity throughout the whole country has been one of the Government's greatest achievements and should underpin future economic development. Ensuring effective maintenance of generators and the regular, adequate supply of fuel is essential for ensuring a reliable supply of electricity.
- \$20.0 million in legal services. This will contribute to a better functioning public administration.

- \$17.8 million in the Ministry of Education towards for the School Feeding program in public schools and for scholarships. Providing children with sufficient and adequate nutrition will improve both their educational attainment and their health.
- \$15.3 million to the Ministry of Health to buy medicines and food for patients. These expenditures will help improve the quality of health services provided in the country.
- \$14.5 million for Ministry of Justice towards the program Ita nia Rai and the cadastral survey. These programs are important for improving land rights in Timor-Leste which will contribute to security and economic growth.
- \$8.5 million for Ministry of Commerce, Industry and Environment towards rice imports and sale of local products. This will support the local rice market, contribute to the School Feeding and Disaster Relief programs and ensure basic access to food for the population.
- \$7.5 million to the Whole of Government towards paying quotas and for the 2015 census. This survey provides important information on the population and living standards in Timor-Leste.
- \$5.5 million to the Whole of Government for the Counterpart Fund. This fund pays for the Government's contribution to projects undertaken with development partners that boost economic growth and reduce poverty.
- \$3.7 million to the Ministry of Agriculture and Fisheries towards the purchase of seeds. This will contribute to the development of agriculture and improve food security.
- \$3.0 million to the Whole of Government towards reinforcing the tax law. Improving tax revenues is a central strategy of the Government in order to diversify revenue streams. This expenditure will contribute to this goal and help the Government increase efficiency of tax administration and collection.
- \$2.0 million for Ministry of Commerce, Industry and Environment for the celebration of the 500<sup>th</sup> anniversary of Oecussi.
- \$1.8 million to the Ministry of Social Solidarity for entertainment and contributions to veterans in honour of their sacrifices in achieving independence.
- \$1.6 million to the National Electoral Commission for the Election of the Chefe de Suco program. Promoting democracy and rural development is of great importance to the Government in order to ensure growth which is inclusive and also to maintain security across the whole territory.
- \$1.5 million to the Ministry of State Administration for the election of community leaders. Strengthening the local communities will contribute both to rural development and also to security.

- \$1.5 million to the Whole of Government for the CPLP. This money will assist Timor-Leste during its presidency of the CPLP and promote dialogue and trade between Portuguese speaking countries. Timor-Leste's leading role in the CPLP will allow it to further influence the global community.
- \$1.4 million to the Ministry of Agriculture in support of agricultural groups. Promoting local production is a priority for the Government and will help ensure sustainable access to food.
- \$1.3 million to the Ministry of Transport and Communication towards fuel for the Berlin Nakroma. This expenditure will contribute to better transport, which is an important part of the Government's economic growth strategy.
- \$1.2 million for the Presidency of the Republic in order to promote and support rural communities.
- \$1.0 million for the Ministry of Justice towards biometric passports. This expenditure will make travelling abroad easier for Timorese citizens.
- \$1.0 million towards the Growth Triangle Program between Indonesia, Timor-Leste and Australia. This expense will contribute towards better relations with neighbouring countries, which will foster trade and closer regional ties.

## **Investments**

The Government considers that many expenses under CFTL goods and services are investments that contribute towards development. More specifically 43.0% of total goods and services expenditures in CFTL are classified as physical, social or human capital investments.

### ***Physical Investments***

Physical investments total \$129.1 million, 27.3% of CFTL goods and services expenditure. This includes the counterpart contribution, purchase of seeds, fuel and maintenance for the generators and fuel for the Berlin Nakroma.

### ***Social Investments***

Social investments have direct positive outcomes for the welfare of the population. These total \$73.5 million, which is 15.6% of total expenditure on goods and services. The larger measures classified as social investments are the import of rice, the School Feeding program, the cadastral survey, the community support and community leadership programs, activities for Timor's 500<sup>th</sup> year anniversary of Oecussi, food and medicines for patients, geometric passports, contributions to the veterans and the census.

## ***Human Capital Investments***

Human capital investments increase the qualifications and productivity of the workforce. Of CFTL expenditure on goods and services, \$0.8 million are considered to directly contribute to the development of human capital. These include programs for teacher training and vocational education.

### **2.5.2.3: Public Transfers**

Public transfers comprise all of the money the Government spends on public grants and consigned payments. They are the second largest category in recurrent expenditures and are set to reach \$340.3 million in 2015.

This section describes the main measures for this category and their classification into different types of investment.

#### **Measures**

The main measures for public transfers include:

- \$176.4 million to the Ministry of Social Solidarity towards social programs, including the veterans', old age and disability pension schemes and Bolsa de Mãe. These programs support vulnerable and deserving groups and contribute to reducing poverty.
- \$20.0 million to the Office of the Prime Minister towards emergency support for rehabilitating of schools and health posts across the whole territory. Improving health and education in Timor-Leste are priorities of Government.
- \$17.8 million in the Ministry of State Administration to support PNDS. This program significantly contributes to rural development.
- \$14.0 million to the Office of the Prime Minister towards supporting NGOs. The NGO sector in Timor-Leste provides a valuable service to the country and its people.
- \$11.5 million to the Ministry of Petroleum and Mineral Resources to support ANP, Timor GAP and IPG. This money is required to ensure Timor-Leste maximises the benefits from its natural resources.
- \$10.5 million to SEPFOPE for rural employment, the ceramic industry, building of five houses program, road changes and the self-employment, mobile training centre. This will contribute promoting job creation and economic growth.
- \$10.0 million to the Whole of Government towards the capitalization of the Central Bank of Timor-Leste. This will facilitate the growth of credit to the private sector and contribute to the development of the financial sector in the country.

- \$9.9 million to the Council of Ministers towards the Special Social Market Economic Zone in Oecusse.
- \$8.3 million to the Ministry of Health for treatments abroad, a new cardiovascular clinic and to support activities of public health and the SSKA. These investments are important to ensure that the quality of health services for the population continues to improve.
- \$7.3 million to the Ministry of State Administration in order to subsidize the Council for Sucos and operational costs for cleaning in Dili.
- \$6.5 million to the Secretary of State of Youth and Sports to support sport and artistic activities. Promoting culture and sports is important both for morale as well as to promote Timorese traditions.
- \$6.2 million to the Ministry of Education towards supporting universities, Salesian's educational institutions and the School Feeding Programme in private schools.
- \$6.0 million to Whole of Government towards pensions for former Prime Ministers, Presidents of the Republic, Presidents of Parliament, Government Ministers and Members of Parliament
- \$6.0 million to the National Electoral Commission to support political parties. This expenditure will contribute to the democratic process in Timor-Leste.
- \$4.8 million to Ministry of Commerce, Industry and Environment to support cooperatives, commercial groups, industrial groups and environmental protection groups.
- \$4.0 million to Whole of Government towards financial contributions.
- \$4.0 million to UNTL towards scholarships through international partner organizations. This will ensure Timorese students have access to world renowned universities.
- \$2.7 million for the Ministry of Social Solidarity to support orphans, the homeless and the handicapped. The Government is committed to supporting these and other vulnerable groups in society.
- \$2.5 million for the g7+ secretariat. The work of this secretariat ensures that the voice of fragile states is heard and acted upon by the international community.
- \$1.5 million to SEAPRI for the bamboo centre and to support the private sector in the areas of agriculture and tourism. These initiatives are important for promoting economic diversification and supporting new industries.
- \$1.5 million to the Ministry of Public Works to support the installation of solar panels in communities which do not have access to electricity. This will both contribute towards

the Government's commitment to provide electricity across the whole territory as well as promote the use of renewable energy.

- \$1.2 million to Ministry of Social Solidarity and Office of the Vice Prime Minister towards the Red Cross and the HIV/AIDS programs. These will support the provision of healthcare in Timor-Leste.
- \$1.0 million to Ministry of Tourism towards national and international events.

## **Investments**

Investments towards public transfers for 2015 add up to \$332.3 million, 97.7% of total budgeted public transfer expenditures.

### ***Physical Investments***

The Government has classified \$65.0 million of transfer spending as physical investments, which are 19.1% of public transfers expenditure. The measures classified as physical investments include those towards PNDS, rural employment, building of five houses by village, support for cooperatives and industries which protect the environment, rehabilitation of schools and health posts and support towards installing solar panels for communities.

### ***Social Investments***

The Government has classified \$238.2 million, or 70.0% of transfer spending as social investments. Measures classified under this category include funds for supporting the disabled, orphans and homeless, support for NGOs, contributions for international finance, the Special Social Market Economic Zone, the g7+ secretariat, support to health activities in SSKA and the new cardiology centre, subsidies towards treatment abroad, subsidies for the School Feeding program in private schools, subsidies for sucos, national and international events, support for sports activities and the bamboo centre.

### ***Human Capital Investments***

The Government has classified \$29.1 million, or 8.6% of transfers as human capital investments. These include measures for subsidies for universities and Salesian's institutions and scholarships with development partners. Other expenditures classified in this category include the media and journalism capacity building program, the auto employment and the mobile training program, the Uma Matenek program for children's education, the promotion of private schools and concessions for science and technology in all thirteen districts.



#### **2.4.2.4: Minor Capital**

Minor capital includes expenditures on vehicles, furniture and other equipment. The 2015 budget for this category is significantly decreasing by 29.6% from the 2014 budget as a result of the elimination of some inefficient expenditures.

This section first describes the main measures for this category and then their classification into different types of investment.

##### **Measures**

The main measures for minor capital are outlined below:

- \$12.0 million for the Ministry of Transport towards purchasing a new ferry.
- \$3.0 million in the Ministry of Public Works towards the provision of water equipment and installation of electricity across the territory. Providing adequate infrastructure is a core objective of the Government and is a cornerstone for future development.
- \$1.7 million towards fire trucks and special vehicles for Ministries of Health, Justice, State Administration, Public Works, Public Transport and Communication and the Secretary State for Security. This expenditure will contribute to safer living conditions for the population.
- \$1.2 million to the Ministry of Health towards medical equipment, including labs, x-ray machines and beds. This expenditure will help towards improving the quality of health services provided in the country.

##### **Investments**

The Government considers that \$18.8 million of the minor capital budget is a social investment. This is 51.2% of total projected expenditures for minor capital in 2015. Minor capital expenditures which are classified as social investment include the purchase of fire trucks and specialized vehicles by the Ministry of Transport and Communication, new labs for the Ministry of Health, prepayment machines for EDTL, fishing machinery and the new ferry boat.

#### **2.5.2.5: Capital and Development**

The CFTL fund includes all capital and development expenditures under \$1.0 million. From table 2.5.2.5.1, these are budgeted at \$70.3 million in 2015; a 19.0% reduction compared to the 2014 budget figure and these are broken into \$34.4 million for the PDID and \$35.9 million for other capital and development projects across line ministries.

**Table 2.5.2.5.1: PDID and Other Capital and Development Expenditures (\$m)**

	2013 Actual	2014 BB1	2015 Budget	2016	2017	2018	2019
<b>Total Capital and Development</b>	<b>99.6</b>	<b>86.8</b>	<b>70.3</b>	<b>73.1</b>	<b>76.1</b>	<b>79.1</b>	<b>82.3</b>
District Development Programs	51.4	39.4	34.4	35.8	37.2	38.7	40.2
Ministries / Agencies	48.2	47.4	35.9	37.4	38.9	40.4	42.0

Sources: National Directorate of Budget and ADN

### 2.5.3: Infrastructure Fund

The SDP outlines the Government’s policy of constructing core infrastructure to boost economic growth and development. The IF was established in 2011 to manage all large scale (above \$1.0 million), multi-year infrastructure projects. Key programs such as electricity generation and road construction have been financed through the IF.

In accordance with international best practice the IF uses a multi-year budget (see table 2.5.3.1). The unspent balance in the fund is rolled over from one year to the next. This ensures that money to pay contractors is effectively ring-fenced, it simplifies budgeting (as project’s budgets do not have to be recalculated every year) and it reduces the risk of non-payment to contractors.

The total budget for the IF in 2015 (excluding loans) is set to reach \$364.0 million (7.8% higher than in the 2014 budget) and is broken down into various programs. The largest of these for 2015 are the Oecusse development (17.2% of the total budget), the roads program (16.4% of the total budget) and the electricity program (16.0% of the total budget). These expenditures are in line with the Government’s priorities as set up in the SDP. The Oecussi Special Social Market Economic Zone is one of the six special economic zones envisioned in the SDP, which are believed to promote economic growth through increased exports and greater industrial production. Roads and electricity programs are two key investments for the development of the country, which will directly increase standards of living and stimulate business.

Projections for outer years for the IF are summarized in Table 2.5.3.2. The pattern of expenditures in the IF is consistent with the Government’s frontloading policy. Expenditure increases in 2016 as core infrastructure constructions increases. In 2017, 2018 and 2019 infrastructure spending sharply falls as the frontloading period begins to end and total expenditure starts falling to the level needed to ensure there are no excess withdrawals in the long-term.

**Table 2.5.3.1: Calculation of Infrastructure Fund Expenditure by Program (\$m)**

	2014 Budget Original	2014 F'casted Actual	Rollover 2014 to 2015	New Appropriations	2015 Budget
<b>Total Infrastructure (excluding loans)</b>	<b>337.5</b>	<b>337.5</b>	<b>0.0</b>	<b>364.0</b>	<b>364.0</b>
Agriculture and Fisheries	5.8	11.0	0.0	7.2	7.2
Water and Sanitation	6.7	3.9	0.0	5.6	5.6
Urban and Rural Development	5.5	6.2	0.0	9.6	9.6
Public Buildings	16.1	20.3	0.0	17.5	17.5
Financial Sector	50.1	21.6	0.0	19.6	19.6
Youth and Sport	1.8	1.5	0.0	2.8	2.8
Education	7.2	5.0	0.0	8.0	8.0
Electricity	56.4	76.8	0.0	58.1	58.1
Information Technology	4.2	1.5	0.0	1.4	1.4
Millennium Development Goals	15.0	8.3	0.0	11.0	11.0
Health	4.7	2.0	0.0	4.0	4.0
Security and Defense	17.0	8.3	0.0	12.5	12.5
Social Solidarity	0.8	1.2	0.0	0.0	0.0
Tasi Mane Project	26.3	7.5	0.0	37.6	37.6
Roads	49.9	66.7	0.0	59.8	59.8
Bridges	18.7	13.4	0.0	9.8	9.8
Airports	25.6	17.6	0.0	19.0	19.0
Ports	9.2	8.3	0.0	8.9	8.9
Oecussi Development	6.8	50.7	0.0	62.5	62.5
Tourism Sector	2.0	3.8	0.0	1.0	1.0
Preparation, Design and Supervision of New Projects	7.8	2.0	0.0	8.2	8.2

Source: Major Project Secretariat

**Table 2.5.3.2: Infrastructure Fund Expenditures by Program (\$m)**

	2015 Budget	2016	2017	2018	2019
<b>Total Infrastructure (excluding loans)</b>	<b>364.0</b>	<b>659.6</b>	<b>617.3</b>	<b>331.1</b>	<b>183.5</b>
Agriculture and Fisheries	7.2	15.1	12.2	8.5	2.3
Water and Sanitation	5.6	23.0	21.3	17.2	5.5
Urban and Rural Development	9.6	3.5	2.0	0.0	0.0
Public Buildings	17.5	56.8	51.1	34.7	10.3
Financial Sector	19.6	15.3	12.1	6.5	0.0
Youth and Sport	2.8	6.3	5.6	4.5	1.1
Education	8.0	42.7	47.7	25.7	11.5
Electricity	58.1	22.9	2.3	0.0	0.0
Information Technology	1.4	1.6	0.0	0.0	0.0
Millennium Development Goals	11.0	55.5	36.5	10.0	0.0
Health	4.0	5.4	2.9	0.5	0.0
Security and Defense	12.5	32.9	24.6	13.6	3.8
Social Solidarity	0.0	0.0	0.0	0.0	0.0
Tasi Mane Project	37.6	86.0	155.0	112.0	40.0
Roads	59.8	117.6	65.1	17.0	1.9
Bridges	9.8	7.0	6.9	0.7	0.0
Airports	19.0	74.6	88.2	55.2	102.5
Ports	8.9	46.4	44.7	10.8	0.0
Oecussi Development	62.5	41.1	33.4	10.9	1.2
Tourism Sector	1.0	2.5	2.2	0.0	0.0
Preparation, Design and Supervision of New Projects	8.2	3.5	3.5	3.5	3.5

Source: Major Project Secretariat

## 2.5.4: Human Capital Development Fund

The HCDF is the second of the two special funds set up by the Government in 2011. Its function is to provide support for the development of skills across the Timorese population and it is composed of four major programs: vocational training, technical training, scholarships and other training. Table 2.5.4.1 presents the overall 2015 projections for the HCDF and breaks them down by program.

**Table 2.5.4.1: Human Capital Development Fund by Program (\$m)**

	2014 Budget	Rollover 2014 to 2015	2015 Additional Appropriations	Final 2015 Budget	2016	2017	2018	2019
<b>Total HCDF (by Program)</b>	<b>40.0</b>	<b>2.1</b>	<b>30.0</b>	<b>32.1</b>	<b>44.0</b>	<b>44.0</b>	<b>45.0</b>	<b>45.0</b>
Vocational Training	10.1	0.3	9.8	10.1	15.4	15.4	15.9	15.9
Technical Training	4.5	0.1	3.7	3.8	7.3	7.3	7.7	7.7
Scholarships	22.2	1.6	14.3	15.9	17.3	17.3	17.4	17.4
Other Training	3.1	0.1	2.1	2.2	3.9	3.9	4.0	4.0

Source: Secretariat for the HCDF

The total 2015 budget for the HCDF is \$32.1 million, which is a 19.7% reduction compared to the 2014 budget. The Government has reviewed and reduced the HCDF budget to ensure the highest returns for each dollar spent. All four programs have lower budgets for 2015, with the exception of vocational training (which will remain the same as in the 2014 budget). The Government plans to conduct an impact assessment of all HCDF programs since 2011 and draft a map of human resources per district. Lower and better executed expenditures, together with detailed reviews on the progress of different programs will strongly increase the HCDF's outcomes going forward and provide greater returns towards investment in education and skills in Timor-Leste.

### 2.5.5: Expenditure on Loan Financed Projects

Expenditure on loan financed projects is presented in table 2.5.5.1, which amounts to \$70.0 million in 2015. A detailed description of these projects is presented in section 2.7.

**Table 2.5.5.1: Expenditure on Loan Financed Projects (\$m)**

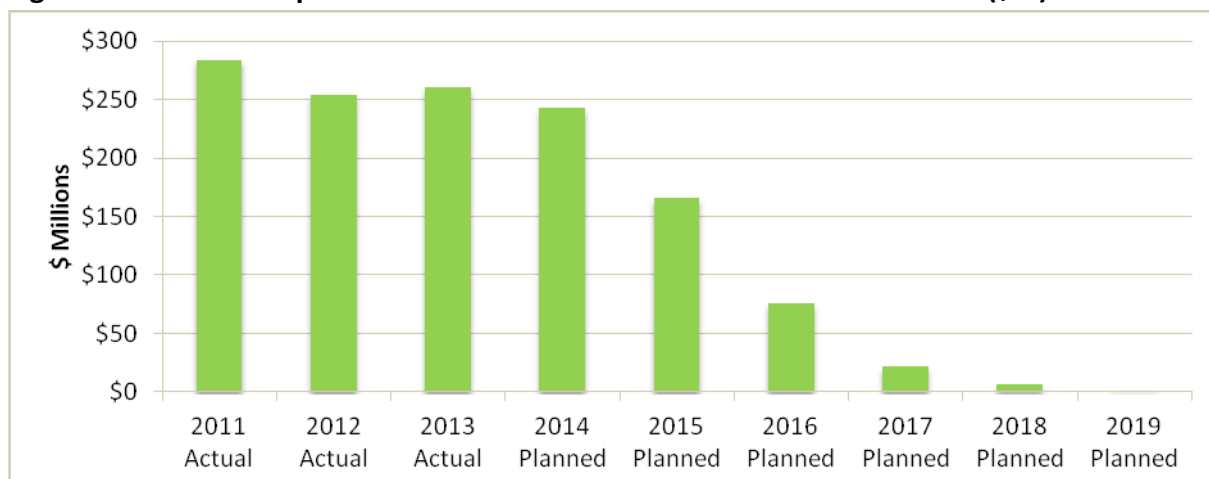
	2014 BB1	2014 F'casted Actual	Rollover 2014 to 2015	2015 Additional Appropriations	Final 2015 Budget	2016	2017	2018	2019
Loan Expenditure	31.1	25.0	6.1	64.0	70.0	194.4	135.5	159.9	50.0

Source: National Directorate of Budget

### 2.5.6: Development Partners' Commitments

Development Partners are set to contribute \$165.5 million in 2015. The details of these commitments are set out in Budget Book 5. It should be noted that these figures do not include loans.

**Figure 2.5.6.1: Development Partners' Indicative Commitment 2011-2019 (\$m)**



Sources: Development Partnership Management Unit

## 2.6: Revenues

### 2.6.1: Overview of Revenue Projections

Table 2.6.1.1 shows forecasts for total revenues up to 2019, which are the sum of domestic revenues and petroleum revenues. Total revenues are projected to fall due to declining petroleum revenues. This decline was expected as oil production from Bayu-Undan has now passed its peak production levels. Domestic revenues are forecasted to increase every year from 2015 to 2019.<sup>10</sup>

**Table 2.6.1.1: Total Revenue 2013 – 2019 (\$m)**

	2013 Actual	2014 BB1	2015 Projection	2016	2017	2018	2019
<b>Total Revenues</b>	<b>4,057.8</b>	<b>2,684.1</b>	<b>2,445.4</b>	<b>2,360.7</b>	<b>2,272.8</b>	<b>2,047.8</b>	<b>1,945.9</b>
Domestic Revenues	151.1	166.1	170.4	182.0	193.7	205.6	217.7
Petroleum Revenues	3,906.7	2,518.0	2,275.0	2,178.7	2,079.0	1,842.2	1,728.2

Sources: National Directorate of Economic Policy and the PF Administration Unit.

### 2.6.2: Domestic Revenue

#### 2.6.2.1: Overview

Government policy is to increase domestic revenue collections so that the financing of public services is less reliant on withdrawals from the PF in the future. Domestic revenue has experienced steady growth during the past few years and this is set to continue in 2015 (see table 2.6.2.1.1). More specifically, domestic revenue is forecasted to increase by 2.6%

<sup>10</sup> Petroleum Revenues include interest.

in 2015 compared to 2014.<sup>11</sup> This rise is more modest than in previous years, but this is not because of reduced domestic economic activity, lower tax rates or more inefficient tax administration. Rather it is mainly because of lower revenue from rice sales and low inflation. Excluding revenues from rice sales domestic revenue is growing by 5.6% from 2014 to 2015 which is more similar to the past increases. The reduction in revenue from rice sales is due to a deliberate policy decision by the Government to scale back the rice subsidy program due to improved rice supply in Timor-Leste. These arguments are further discussed in the following subsections which cover all components of domestic revenues; namely taxes, fees & charges, interest and autonomous agencies.

**Table 2.6.2.1.1: Domestic Revenue 2013 – 2019 (\$m)**

	2013 Actual	2014 BB1	2015 Projection	2016	2017	2018	2019
<b>Total Domestic Revenue</b>	<b>151.1</b>	<b>166.1</b>	<b>170.4</b>	<b>182.0</b>	<b>193.7</b>	<b>205.6</b>	<b>217.7</b>
Taxes	104.8	120.0	125.5	134.4	143.5	152.6	161.9
Fees and Charges	24.1	41.2	37.2	39.6	42.0	44.4	46.9
Interest	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Autonomous Agencies	22.2	4.8	7.6	7.9	8.2	8.6	8.9

Source: National Directorate of Economic Policy

## 2.6.2.2: Taxes

In Timor-Leste taxes comprised 69.3% of total domestic revenue in 2013. Taxes include direct taxes, indirect taxes and other tax revenues and their projections are summarized in Table 2.6.2.2.1.

As seen in Table 2.6.2.2.1, increases in tax collection are expected to continue, reaching \$125.5 million in 2015 (a 4.6% rise on the 2014 budget). The Government is striving to promote higher tax collection and is considering various changes in the taxation system in Timor-Leste towards this goal, including the signing of a convention with Portugal in July 2014 to improve tax administration.

Direct taxes are expected to increase by 1.1% in 2015 compared to the figure for the 2014 budget. This is mostly due to improved levels of compliance and also because of a reclassification of the categories 'Individual Income' and 'Individual Income Other' applied since 2014, in order to distinguish between civil servants and other workers more accurately. In contrast, withholding and corporate taxes are expected to decrease compared to the figures for the 2014 budget.

<sup>11</sup> Every effort has been made to make these forecasts as accurate as possible by using all available data, considering past trends and consulting with relevant entities. However due to changing patterns in economic growth, alterations in policies and the nature of forecasting, all figures presented should be approached with caution.

Indirect taxes are expected to increase in 2015 by 6.9% due to higher excise tax and import duties. The increase in revenue from these taxes is a result of the rising purchasing power of the population, imports of materials for large infrastructure projects and greater compliance.

These rises counteract expected a slight reduction in service and sales tax for 2015 compared to the 2014 budget figure. Collections of both these taxes are expected to be higher than the actual collection in 2013. This upward trend is expected to continue in the future.

However the collection of these taxes ought to also continue improving in the near future with the strengthening of the private sector and the administration mechanisms around it.

**Table 2.6.2.2.1: Total Tax Revenue 2013 – 2019 (\$m)**

	2013 Actual	2014 BB1	2015 Projection	2016	2017	2018	2019
<b>Total Tax</b>	<b>104.8</b>	<b>120.0</b>	<b>125.5</b>	<b>134.4</b>	<b>143.5</b>	<b>152.6</b>	<b>161.9</b>
<b>Direct Taxes</b>	<b>40.2</b>	<b>45.1</b>	<b>45.7</b>	<b>47.6</b>	<b>49.6</b>	<b>51.7</b>	<b>53.8</b>
Income Tax	8.8	9.4	18.3	19.2	20.0	20.9	21.9
<i>Individual Income</i>	0.9	3.7	1.2	1.4	1.6	1.7	1.9
<i>Individual Inc. Other</i>	7.9	5.7	17.1	17.8	18.5	19.2	20.0
Corporate Tax	8.9	13.5	7.8	8.1	8.5	8.8	9.2
Withholding Tax	22.5	22.2	19.5	20.3	21.1	21.9	22.8
<b>Indirect Taxes</b>	<b>64.4</b>	<b>74.6</b>	<b>79.7</b>	<b>86.6</b>	<b>93.7</b>	<b>100.7</b>	<b>107.9</b>
Service Tax	3.5	4.1	3.6	3.7	3.9	4.0	4.2
Sales Tax	14.0	17.8	15.8	16.4	17.1	17.8	18.5
Excise Tax	34.3	37.3	44.4	49.9	55.5	61.0	66.6
Import Duties	12.5	15.3	15.9	16.6	17.2	17.9	18.6
<b>Other Tax Revenue</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>

Source: National Directorate of Economic Policy

### 2.6.2.3: Fees & Charges

Fees & charges include a wide selection of categories which contribute to domestic revenue from non-tax sources. These comprise administrative fees, utility payments and endowments to the Government from natural resources other than petroleum. As shown in Table 2.6.2.3.1, most of the categories represent small amounts, which are rounded to zero in some cases.<sup>12</sup> The list is also often updated with new categories, reflecting regular changes to the revenue collection system in Timor-Leste, which are the result of improvements in administrative efficiency and new delineation of responsibilities across line ministries. Table 2.6.2.3.1 shows the projections.

<sup>12</sup> Categories presenting no revenues in Table 2.5.2.3.1 correspond to income collection of less than \$0.5 million and are thus rounded to \$0.0.



**Table 2.6.2.3.1: Fees & Charges Projections 2013 – 2019 (\$m)**

	2013 Actual	2014 BB1	2015 Projection	2016	2017	2018	2019
<b>Total Fees &amp; Charges</b>	<b>24.1</b>	<b>41.2</b>	<b>37.2</b>	<b>39.6</b>	<b>42.0</b>	<b>44.4</b>	<b>46.9</b>
Business Registration Fees	0.8	1.5	0.3	0.4	0.4	0.4	0.4
Postage Fees	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Property Rentals	2.6	3.1	3.4	3.5	3.6	3.8	3.9
Water Fees	0.1	0.0	0.2	0.2	0.2	0.2	0.2
National University Fees	0.5	0.6	0.6	0.7	0.7	0.7	0.7
Vehicle Registration Fees	1.0	1.3	1.1	1.2	1.2	1.3	1.3
Vehicle Inspection Fees	0.4	0.4	0.5	0.5	0.5	0.6	0.6
Vehicle Inspection Imported	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Drivers Licence Fees	0.4	0.2	0.4	0.5	0.5	0.5	0.5
Franchising Public Transport Fees	0.1	0.1	0.7	0.8	0.8	0.8	0.9
Transport Penalties	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Other Transport Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ID and Passport	0.9	0.9	0.9	1.0	1.0	1.1	1.1
Visa Fees	2.6	1.2	2.7	2.8	3.0	3.1	3.2
Hospital and Medical Fees	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fines - Health professionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Court Fees	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Dividends, Profits, and Gains	0.6	4.5	1.0	1.1	1.1	1.2	1.2
Fines and Forfeits	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Mining and Quarrying	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Radio and Television Fees	0.3	0.0	0.4	0.4	0.5	0.5	0.5
Bid Document Receipts	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Auctions	0.5	0.1	1.0	1.1	1.1	1.1	1.2
Embassy Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Productos Florestais	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Rental Government Property	0.1	0.1	0.2	0.2	0.2	0.2	0.2
EAIP	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Registration Fee	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sanitation Service Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social Game Receipts	0.3	0.2	1.0	1.0	1.0	1.1	1.1
Rice Sales	4.2	6.4	1.7	1.8	1.9	2.0	2.0
Sales of Local Produce/Bamboo C	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Sales of Local Products.	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Electricity Revenues	0.0	19.0	18.8	20.5	22.1	23.7	25.4
Other Non-Tax Revenues	7.9	0.5	1.0	1.0	1.1	1.1	1.2

Source: National Directorate of Economic Policy

Total fees & charges are expected to decrease by 9.7% in 2015 in comparison to the 2014 budget figure. This is mostly explained by the fall of expected revenues from rice sales, business registration fees and dividends, profits and gains.

Lower rice sales reflect both a smaller rice import program as well as a lower Government intervention in the rice market. Lower Government intervention is in itself the result of a stabilisation of rice prices and greater supply of rice in 2014 compared to previous years (which is predicted to continue for 2015).

The reduction in business registration fees for 2015 stems from changes in the administration process brought about by the One Stop Shop (SERVE). The lower dividends, profits and gains are the result of smaller profits from the telecom provider Timor Telecom since the liberalisation of the telecommunications market.

Despite an overall reduction in fees & charges, many of its categories are expected to increase for 2015. Most notably these include water fees, *productos florestais*, visa fees, franchising public transport, RTTL fees and social games and receipts. All relevant line ministries for these categories attributed the improvements to either better monitoring, new technology, administration or improved legislation. The increase in social games receipts stems from the increasing number of games and lotteries available in Timor-Leste.

#### 2.6.2.4: Interest

Interest reflects interest payments received from cash held in the CFTL, HCDF and IF (see table 2.6.2.1.1). It is expected to slightly decrease in 2015 due to smaller cash reserves in these accounts. These smaller cash reserves are due to the Government's policy of running down cash balances before withdrawing money from the PF. This policy maximises investment returns as the yield on PF assets is higher than the interest rate on cash held in the Government's accounts.

#### 2.6.2.5: Autonomous Agencies

Table 2.6.2.5.1 lays out the revenue forecasts for the four autonomous agencies which are currently operating in Timor-Leste (previously there were five, but EDTL was incorporated into the Ministry of Public Works in 2014).

**Table 2.6.2.5.1: Autonomous Agencies' Revenues 2013 – 2019 (\$m)**

	2013 Actual	2014 BB1	2015 Projection	2016	2017	2018	2019
<b>Total Autonomous Agencies</b>	<b>22.2</b>	<b>4.8</b>	<b>7.6</b>	<b>7.9</b>	<b>8.2</b>	<b>8.6</b>	<b>8.9</b>
Equipment Management	0.2	0.3	0.1	0.1	0.1	0.2	0.2
Aviation	2.2	1.4	2.1	2.2	2.2	2.3	2.4
Port	3.6	3.1	5.4	5.6	5.8	6.1	6.3
EDTL	16.2	0.0	0.0	0.0	0.0	0.0	0.0
SAMES	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: National Directorate of Economic Policy

Overall, autonomous agency revenues are expected to increase by 59.5% in 2015 compared to the 2014 budget figure. Higher port and aviation revenues are due to an increase in the flow of the people and goods in and out of the country, which is in accordance with higher levels of imports.

Revenues for these autonomous agencies are expected to further increase in coming years with increasing imports and the expansion of the Nicolau Lobato airport. Equipment Management is predicted to slowly increase across the forecast period, with improvements

in its administration and the purchase of new machinery in 2015. EDTL revenues are now recorded under other revenue streams as outlined in the previous section. Finally SAMES will continue to have a negligible revenue stream in outer years, unless there are further changes to its functions.

### 2.6.3: Petroleum Revenues and the Petroleum Fund

The petroleum revenues currently indirectly finance most of the State Budget. The PF shall contribute to a wise management of the petroleum resources for the benefit of both current and future generations.

#### 2.6.3.1: Inflows of Petroleum Revenues

The factors driving the inflow of petroleum revenues are prices, production and costs. Compared with the State Budget 2013 and 2014, the oil price in this material is on average assumed somewhat lower over the forecasting period. Costs are increasing, while there is a slight drop in production. As discussed in previous budget documents, petroleum revenues from Bayu-Undan and Kitan are likely to have peaked at \$3,559.1 million in 2012 and are now forecasted to decline, only slowly at first in 2013, then more significantly to \$1,705.0 million in 2014, see tables 2.6.3.1.1 and 2.6.3.1.2.

**Table 2.6.3.1.1: Petroleum Revenues from Bayu-Undan and Kitan 2013-2019**  
(\$m)

	2013 Actual*	2014 Estimate**	2015 Budget	2016	2017	2018	2019
<b>Total Petroleum Revenue</b>	<b>3,906.7</b>	<b>2,518.0</b>	<b>2,275.0</b>	<b>2,178.7</b>	<b>2,079.0</b>	<b>1,842.2</b>	<b>1,728.2</b>
PF Interest received	864.9	813.0	900.7	966.5	1,005.5	1,041.9	1,070.6
<b>Total Petroleum Revenue Excluding Interest</b>	<b>3,041.8</b>	<b>1,705.0</b>	<b>1,374.3</b>	<b>1,212.2</b>	<b>1,073.5</b>	<b>800.3</b>	<b>657.6</b>
BU*** FTP/Royalties	205.9	134.4	108.0	98.7	81.8	68.4	56.8
BU Profit oil	1,441.0	835.8	652.3	589.7	533.4	371.6	295.1
BU Income Tax	503.3	362.3	243.3	198.0	181.4	130.5	94.3
BU Additional Profit Tax	491.3	256.1	267.9	233.1	215.6	158.1	151.1
BU Value Added Tax	8.9	28.1	23.7	32.7	18.9	26.0	20.4
BU Wages Tax	16.2	13.7	11.3	15.4	8.7	11.7	9.1
BU Pipeline Payments	8.4	8.4	8.4	8.4	8.4	8.4	8.4
BU Other Payments	17.2	52.5	38.3	25.4	25.4	25.4	22.4
BU Withholding Tax	9.1	0.0	0.0	0.0	0.0	0.0	0.0
Kitan	340.6	13.8	21.1	10.7	0.0	0.0	0.0

Source: PF Administration Unit

\* Actual Cash flow for 2013

\*\* Estimated 2013 as of June 2014. From 2012 onwards BU Withholding Tax is included in BU Value Added Tax.

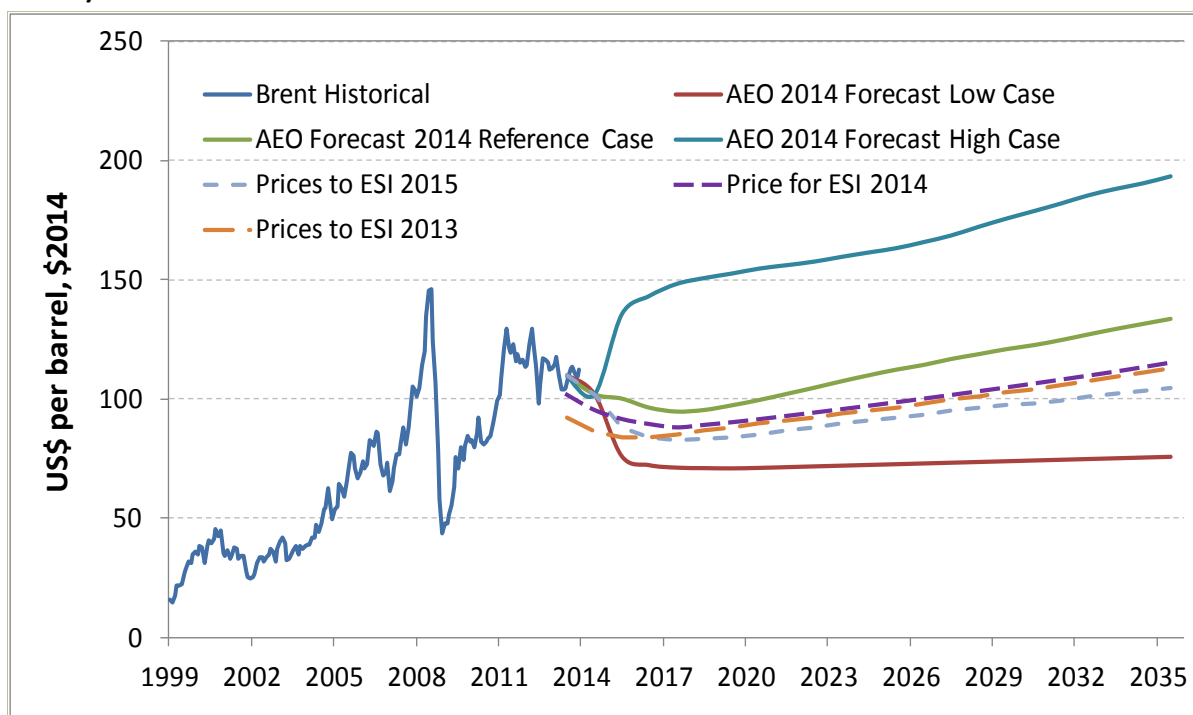
\*\*\* BU: Bayu Undan

## Petroleum prices

As for last year, the Brent crude oil benchmark is used in the petroleum wealth calculation as it has proved to be a better indicator of the price on Bayu-Undan and Kitan liquid products (condensate and LPG) than the WTI used in previous years.<sup>13</sup> Section 2.6.3.2 on the Petroleum Wealth and ESI Calculation discusses this change further.

The Petroleum revenue forecasts in the State Budget 2015 are based on a benchmark oil price of \$107.9 per barrel in 2014, compared with \$107.5 per barrel in the State Budget 2014. In the years after 2014, the oil price is now assumed somewhat lower than previously forecasted, see figure 2.6.3.1.1.

**Figure 2.6.3.1.1: Historical Changes and Future Projections in the Brent Oil Price (\$ per barrel)**



Source: PF Administration Unit

## Petroleum Production

The production forecast of liquids (condensate and LPG) for Bayu-Undan is projected to modestly decline compared with the projections in the State Budget 2014. The total petroleum production from Bayu-Undan (also including LNG) is estimated to have peaked in

<sup>13</sup> The future prices on Bayu-Undan and Kitan liquids products (condensate and LPG) are estimated based on historical relationships with a benchmark price and the benchmark's forecast. Liquefied Natural Gas (LNG) prices are forecasted using the provisional price formula negotiated between sellers and buyers. The price formula is renegotiated every three years.

2011 at \$59 million barrels of oil equivalents and is now set to decline before ceasing in 2020, see table 2.6.3.1.2. The decrease in the production outlook is caused by higher than previously expected lean gas breakthrough, pressure depletion and water production in the reservoir.

The Field Development Plan for the Kitan field was approved in 2010 and the production commenced in the 4th quarter of 2011. The total production from Kitan is modest compared to the Bayu-Undan field. The 2015 budget forecasts Kitan's Low Case to be 37.1 million barrels of oil over the life time of the project until 2016. The total revenue stream based on the Low Production Case is estimated at \$695 million, or less than 3% of Bayu-Undan.

### Costs

The estimated costs for the Bayu-Undan project are forecasted slightly higher in the State Budget 2015 than in the State Budget 2014. The change in the cost projections between the 2014 and 2015 budget figures is primarily from the capital expenditures related to the Asset Integrity Maintenance program and other operational issues.

**Table 2.6.3.1.2: Sustainable Income Calculations – Oil Price Assumptions, Production and Revenue Actual 2002-2013, forecast 2014-2020**

Timor-Leste Petroleum sector				
	Average oil price, \$/Barrel	Production, million barrels oil equivalent	Total Discounted Petroleum Revenues (Factor of 5.7%), \$ millions	Total Undiscounted Petroleum Revenues, \$ millions
<b>Total</b>		<b>768.9</b>	<b>4,716.1</b>	<b>25,331.5</b>
<b>Total from 1 January 2014</b>		<b>236.0</b>	<b>4,716.1</b>	<b>7,027.6</b>
to 2002	0.0	0.0	0.0	14.8
2003	0.0	0.0	0.0	10.2
2004	41.5	16.9	0.0	172.4
2005	56.6	29.0	0.0	333.4
2006	66.1	57.1	0.0	611.9
2007	72.3	57.7	0.0	1,258.5
2008	99.7	64.2	0.0	2,284.2
2009	62.0	61.8	0.0	1,660.2
2010	79.5	57.3	0.0	2,117.2
2011	94.9	61.7	0.0	3,240.1
2012	111.6	68.0	0.0	3,559.1
2013	108.6	59.4	0.0	3,041.8
2014	107.9	43.8	0.0	1,705.0
2015	89.6	45.3	1,338.5	1,374.3
2016	87.0	42.7	1,118.0	1,212.2

2017	86.8	34.8	937.0	1,073.6
2018	88.4	31.5	660.6	800.3
2019	90.7	26.7	513.2	657.6
2020	93.5	11.2	109.7	148.7
2021	96.6	0.0	39.1	56.0
2022	99.8	0.0	0.0	0.0
2023	103.2	0.0	0.0	0.0
2024	106.6	0.0	0.0	0.0
2025	109.9	0.0	0.0	0.0

Source: PF Administration Unit

### 2.6.3.2: Petroleum Wealth and ESI calculation

According to the PF Law, the ESI is the maximum amount that can be appropriated from the PF in a fiscal year and leave sufficient resources in the PF for an amount of the equal real value to be appropriated in all later years. The ESI is set to be 3% of the petroleum wealth. However, the Government could withdraw amounts from the PF in excess of ESI if it is explained that the expenditure is in the long-term interest of Timor-Leste and if it is approved by the National Parliament.

The Petroleum Wealth, which comprises the balance of the fund and the net present value of future petroleum revenue, is estimated to be \$21,283.3 million as of 1 January 2015. Accordingly, the ESI is estimated at \$638.5 million for 2015. This is more or less the same as the 2015 ESI as estimated in last year's budget. The key assumptions behind the calculations are listed in table 2.6.3.2.1.

**Table 2.6.3.2.1: Key assumption behind ESI**

Asset recognition	Forecast petroleum revenues are included only for projects with approved development plans. This includes Bayu-Undan and Kitan.
Petroleum Reserves and Production Forecasts	Production estimates are provided by project operators. Low case production is used, consistent with a 90% probability that actual will exceed the forecast.
Oil price forecast	ESI for Budget 2015 is prepared using the average of Energy Information Agency (EIA) low case and reference case for Brent.
Prices for specific petroleum products	Bayu-Undan produces condensate, Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG) while Kitan is producing only condensate. Forecast assumptions for each product are derived from historic differentials observed with Brent. Liquefied Natural Gas (LNG) prices are forecast using the provisional price formula negotiated between the Darwin LNG (DLNG) facility and

	Japanese LNG buyers. The price formula is renegotiated every three years.
Production costs	Central estimate of future capital and operating costs as provided by project operators.
Discount rate	Under Schedule 1 of the PF Law, the interest rate used to discount future petroleum revenue is the expected rate of return on the portfolio of financial assets held in the Fund. The Fund's investment guidelines have recently been changed to 60% bonds and 40% equities.

Source: PF Administration Unit

Table 2.6.3.2.2 shows that the estimated Petroleum Wealth and the ESI from 2014 and onwards, assuming PF withdrawals are consistent with the 2015 State Budget.

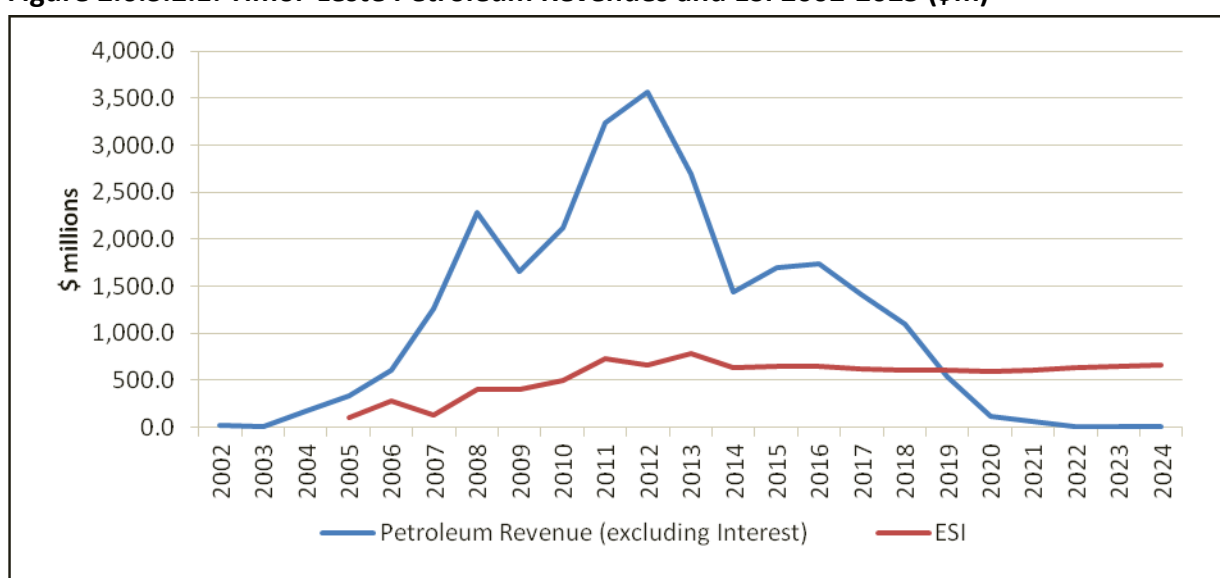
**Table 2.6.3.2.2: Petroleum Wealth and the ESI (\$m)**

	2014 BB1	2015 Budget	2016	2017	2018	2019
<b>Estimated Sustainable Income (PWx3%)</b>	<b>632.3</b>	<b>638.5</b>	<b>632.4</b>	<b>616.3</b>	<b>600.0</b>	<b>590.9</b>
<b>Total Petroleum Wealth (PW)</b>	<b>21,076.3</b>	<b>21,283.3</b>	<b>21,078.4</b>	<b>20,542.1</b>	<b>19,999.3</b>	<b>19,696.0</b>
Opening PF Balance	14,058.5	16,567.2	17,514.7	18,023.8	18,441.2	18,871.2
Net Present Value of Future Revenues	7,017.8	4,716.1	3,563.7	2,518.3	1,558.1	824.8

Source: PF Administration Unit

Figure 2.6.3.2.1 depicts the main rationale behind using the ESI as a tool in fiscal policy, i.e. smoothing the spending of temporarily high petroleum income. The extraction path of a non-renewable resource is typically bell-shaped with significant shorter-term swings. The ESI is meant to shield against this volatility and safeguard a sustainable development in public finances.

**Figure 2.6.3.2.1: Timor-Leste Petroleum Revenues and ESI 2002-2025 (\$m)**



Source: PF Administration Unit

## **Changes in the ESI from 2014 to 2015**

Figure 2.6.3.2.2 shows the key incremental changes in 2015 ESI since the Budget 2014. Main driving factors include actual outcome in 2013, oil price, petroleum production and costs.

### ***Actual data 2013***

The current ESI for 2015 incorporates the actual development in 2013, which increases the 2015 ESI by \$26 million. The change is mostly due to combination of the movement in the actual oil prices, production and costs as well as a better-than-expected investment returns from the PF in 2013 relative to the forecast.

### ***Actual 2014 withdrawals from the PF***

The 2015 ESI as estimated in Budget 2014 is based on the assumption that the Government would only withdraw the ESI from the PF in 2014. In 2014, the Parliament approved withdrawing \$902.9 million from the Fund, which is \$270.6 in excess of the ESI. This higher withdrawal for 2014 reduces the 2015 ESI by US\$ 8 million.

### ***Oil prices***

As for last year's budget, the current ESI for 2015 assumes a benchmark (Brent) oil price of \$107.9 per barrel in 2014, based on the actual development for the first half of the year and EIA's forecasts on Brent going forward.<sup>14</sup> The oil benchmark forecast used for ESI 2015 is slightly lower than the forecast used for ESI 2014, with the two forecasts eventually converging towards the end of the forecast period. The change in Brent benchmark forecast results in a \$4 million decrease in the 2015 ESI.

### ***Liquids price differentials (condensate and LPG)***

The price for Bayu-Undan condensate products is forecasted based on the historical relationship with a benchmark price. This historical relationship, the so-called price differential, is then projected forward on the back of the benchmark's forecast (as determined by EIA) to give an estimate of the future price on the products sold in the Timor Sea. The price differentials used in the calculations of the 2015 ESI give a higher price for the Bayu-Undan products in 2015 than the price differentials used in 2014 ESI gave. The result of these new price differentials is an increase in ESI of \$6 million.

### ***Liquids production***

Production in 2014 is forecasted at 7% lower in the 2015 budget than in the 2014 budget. These modest decline revisions reduce ESI for 2015 by \$21 million.

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<sup>14</sup> These forecasts are reported by the EIA and also available from Annual Energy Outlook 2013:

<http://www.eia.doe.gov/oiaf/aeo/index.html>.



The main causes for the downward revision in the production forecasts are lean gas breakthrough, low pressures and water production in the reservoir. A major shutdown is also scheduled for 2014 and is expected to contribute to lower production during the shutdown period.

**Cost**

Production costs from the two operators (COP and ENI) are forecasted slightly higher in this material than in Budget 2014. The increase in the cost forecasts reduces 2015 ESI by \$12 million.

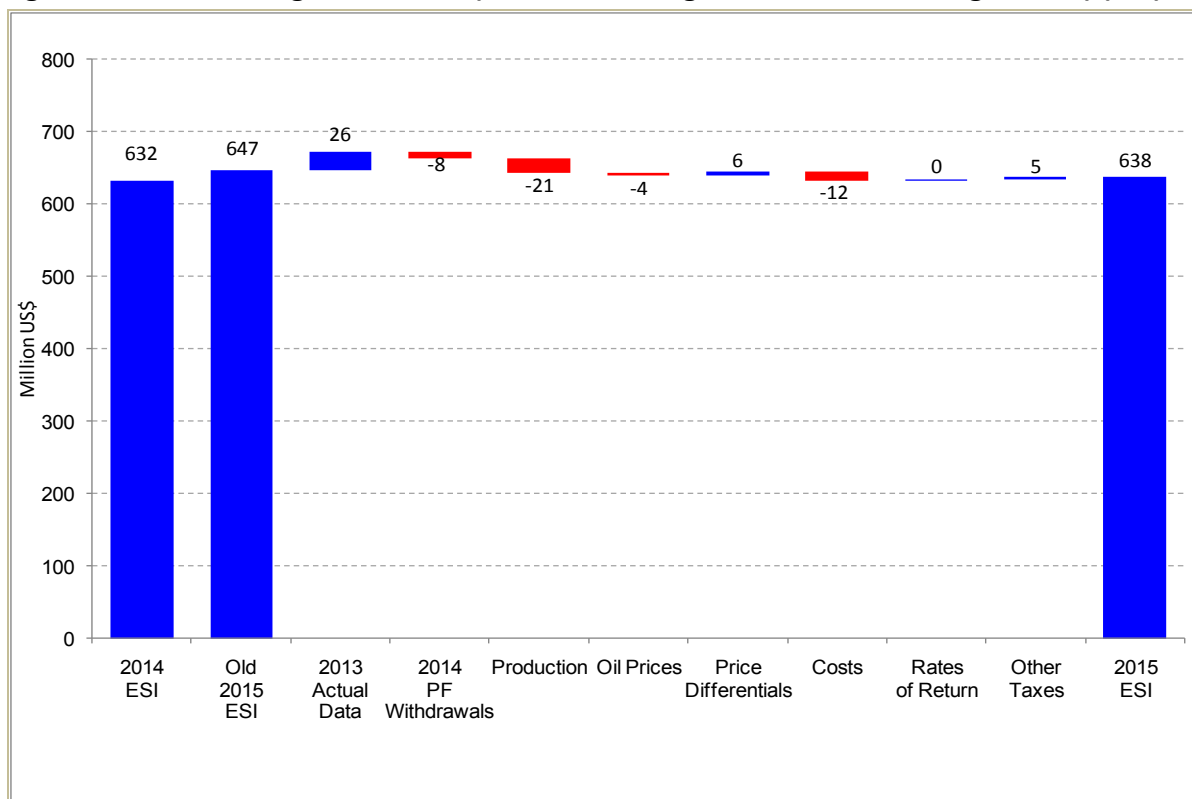
**Discount Rate**

Under the requirement of Schedule 1 of the PF Law, the discount rate used in the Net Present Value (NPV) calculation of future petroleum revenues must equal the expected rate of return of the PF portfolio. The expected long-term nominal portfolio return remains unchanged from last year’s forecast, 5.7% nominal as higher allocation to equities.

**Other Taxes**

Other taxes include wage taxes, tax collections from subcontractors and exploration drilling. These taxes are forecast for Budget 2015 based on an analysis of recent collections and taking into account exploration work commitments as advised by Autoridade Nacional do Petroléu (ANP). The change in the forecast of other taxes increases 2013 ESI by \$5 million.

**Figure 2.6.3.2.2: Changes in the ESI (from State Budget 2014 to State Budget 2015) (\$m)**



Source: PF Administration Unit

## Sensitivity analysis

The Government's objective is to prepare an ESI that is prudent overall, as required by the PF Law. Although the calculations are based on the best information available and advice from experts, each input is inherently subject to significant uncertainty. Figure 2.6.3.2.3 shows how the 2015 ESI changes when key assumptions are changed individually.

The sensitivity analysis starts with the 2015 ESI of \$638.5 million and shows by how much ESI would change if a different assumption for each key variable were used. ESI is becoming less directly affected by the petroleum sector as the petroleum wealth is being transferred from under the sea bed to the PF. This reallocation of wealth is quite rapid. In 2007, 95% of the petroleum wealth was under the ground. In 2014, less than 30% of the petroleum wealth is under ground with the remaining 70% in the fund. Based on the projections in this report, the whole petroleum wealth will have been transferred to the fund by 2022. Reallocating the petroleum wealth to a well-diversified portfolio of financial assets and restricting the withdrawals to the ESI is an important mechanism to make the Timor-Leste economy less vulnerable to changes in the oil price.

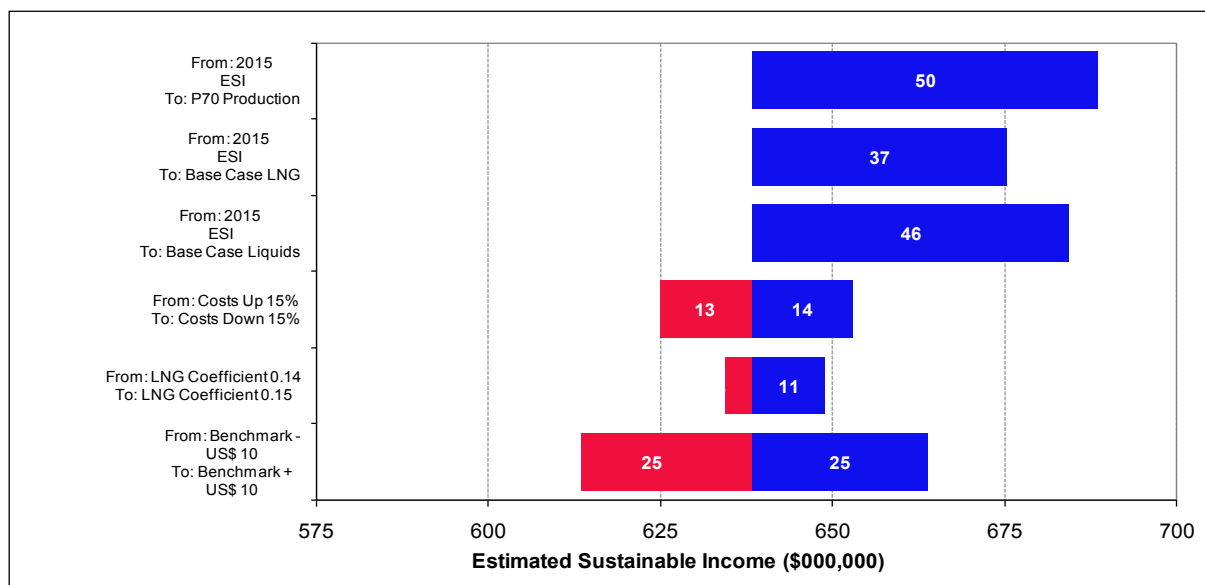
As shown in Figure 2.6.3.2.3 below, using either the Base Case LNG or the Base Case Liquids would change the ESI by approximately \$37 to \$46 million, respectively.

For each change in production costs by 15% would impact on the ESI by \$13 million to \$14 million.

The change of the LNG slope coefficient between 0.14 and 0.15 would have a modest impact to the ESI by between \$4 million to \$11 million, respectively.

In addition, for each \$10 change in Brent prices (compared to the forecast used in the ESI, which is the average of the Low and Reference Cases), ESI would change by approximately \$25 million. If the Base Case Brent prices were used, the ESI would change by \$25 million.

**Figure 2.6.3.2.3: Sensitivity Analysis – Estimated Sustainable Income (\$m)**

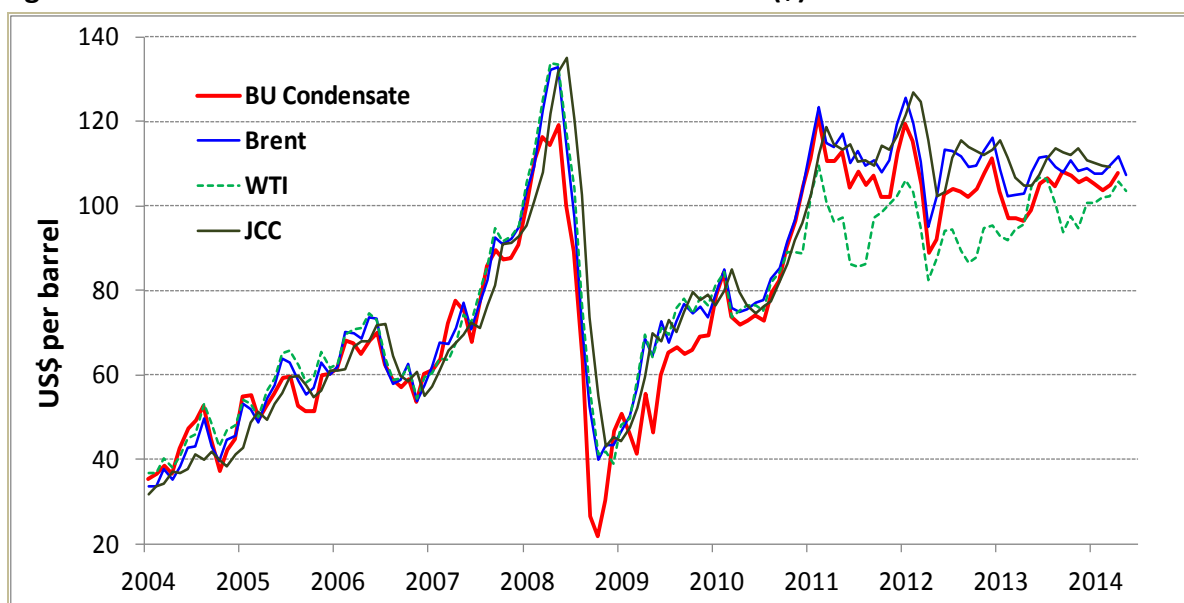


Source: PF Administration Unit

### Review of methodology

Schedule 1 of the PF law requires the ESI to be estimated using prudent assumptions reflecting international best practice and based upon recognised international standards. The MoF undertook a comprehensive review of the methodology for the ESI prepared for Budget 2011 with technical assistance from the IMF. This year there is no change in the forecast methodology. The change in oil price benchmark from WTI to Brent introduced last year has proven that Brent has a better tracking ability of the Bayu-Undan products in recent years, see figure 2.6.3.2.4.

**Figure 2.6.3.2.4: BU Condensate Price vs. World Oil Prices (\$)**



Source: PF Administration Unit

## **Production forecast**

The ESI was originally estimated based on the P90 forecasts (low forecast) of both petroleum prices and petroleum production, consistent with a 90% probability that actual will exceed the forecast. In 2011, the methodology for forecasting petroleum oil prices was changed to using the average of the low and the base (P50) forecasts as the low forecast was deemed to too conservative to be consistent with good judgment (prudent). The methodology for forecasting petroleum production is unchanged. The MoF will further analyse the production forecast methodology and report in next year's report.

### **2.6.3.3 Managing the PF**

#### **The PF Model**

The PF Law is designed to contribute to a wise management of Timor-Leste's petroleum resources for the benefit of both current and future generations. The PF is a tool that facilitates sound fiscal policy, where appropriate consideration and weight are given to the long-term interest of Timor-Leste's citizens. The PF helps policy makers to make well-informed budget decisions in an environment of fluctuating petroleum incomes that are temporarily at a high level. The decision on how much to spend and how much to save (i.e. spend later) is done in the State Budget where all the Government's priorities are weighed against each other.

The PF mechanism implies that petroleum revenues are transferred in their entirety to the fund and invested abroad in financial assets. The investment policy of the Fund aims at maximizing the risk-adjusted return. The fund's only outflow is transfers to the central government budget, pursuant to parliamentary approval. The amount that may be transferred to the budget is guided by ESI, which is defined as 3% of the petroleum wealth. The implied investment objective of the Fund is accordingly set at 3% real return, as a necessary condition to enable sustainability on the spending side in terms of maintaining the purchasing power of the petroleum wealth when spending is constrained by the ESI.

#### **Governing the PF**

Based on the "Santiago principles<sup>15</sup>", the PF governance model is one of high degree of transparency and disclosure of information. This helps build public support for wise management of petroleum revenues and reduces the risk of bad governance. Transparency ensures that information can be used to measure the authorities' performance and also

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<sup>15</sup>International Working Group's "Sovereign Wealth Funds: Generally Accepted Principles and Practices", otherwise known as the Santiago Principles. The Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.

guards against any possible misuse of powers. One of the fundamental elements of the fund's governance structure is that no one person or institution is responsible for making and implementing investment decisions because each party is formally accountable to another for their role in the decision-making process. This degree of transparency serves to encourage consensus and enable accountability, which means authorities and whoever handles public money can be held responsible for their actions.

As the Executive, the Government through the MoF is responsible for the overall management of the PF, on behalf of the people of Timor-Leste. The PF Law makes the Government accountable to Parliament through various reporting requirements. The operational management is carried out by the Central Bank, which invests the fund's capital according to guidelines established by the MoF and mandates developed by the Investment Advisory Board (IAB). The MoF is required to seek advice from the IAB before making decisions on any matter relating to the investment strategy or management of the PF.

### **PF Investment Policy**

The PF was established in 2005 with a simple investment strategy that mainly constrained investments to US Dollar denominated high rated bonds issued or guaranteed by Governments. This was deemed necessary to avoid exposure to risk and volatility while building capacity. It was also considered important to take time to build public support and to avoid turbulence in terms of market losses before the management had received a certain degree of integrity, credibility and reputation for professionalism.

The PF Law amendments in 2011, which followed a long and thorough process involving all stakeholders, allowed for up to 50% allocation to public equities, not less than 50% in fixed income, and not more than 5% in alternative instruments. The rationale for these changes was two-fold:

**Diversification**; this is the process of exposing the portfolio to a number of different asset classes (for example bonds and equities) rather than being concentrated in any one of these alone. The key to the diversification process is that different asset classes usually do not move together. Combining assets with returns that are less than perfectly correlated can therefore mitigate overall volatility.

**Enable sustainable spending**; the Government believes that a target allocation to equities of 40% over time will enable the Fund to generate 3% real return with reasonable probability. This would be a necessary condition to ensure the sustainability of public spending, which is guided by the ESI, set at 3% of petroleum wealth. The Government notes at the same time that the higher allocation to the traditionally more volatile asset class of public equities will involve more short-term fluctuations in the fund's investment returns. Having a long-term investment horizon, the Government is ready to accept this increased short-term risk to pursue its belief that equities will perform better than bonds in the long-term.

In pursuing its investment belief, the Government's first order priority has been to gradually increase the equity allocation from 5% at the end of 2011 to 40% by June 2014 aiming, among other things, to buttress any adverse effects that bad market timing would incur. As of end of 2<sup>nd</sup> quarter 2014, the fund's allocation to 40% equities was completed. The Government also has reduced the concentration to US Treasuries by allocating 10% of the fund to non-US developed market investment grade sovereign bonds.

The evolving investment allocation of the PF involves a sound and responsible process of introducing new investment mandates and external managers. Table 2.6.3.3.1 shows the PF portfolio and manager structure as of June 2014. The Government is conscious that increasing the number of asset classes and sub asset classes requires a more sophisticated monitoring framework to ensure that each manager is performing well and in accordance with their guidelines. In general, a gradual development of the governance structure and capabilities are a prerequisite for a successful development of the investment strategy.

**Table 2.6.3.3.1: PF Portfolio and Managers Structure**

Number	Managers and Mandates, as of June 2014	Weight	Market Values, \$ millions	Return since inception
<b>Total PF Portfolio</b>		<b>100.0%</b>	<b>16,634</b>	<b>4.6%</b>
<b>International Fixed Interest Portfolio (Bonds)</b>		<b>60.2%</b>	<b>10,012</b>	<b>3.2%</b>
1	Banco Central de Timor-Leste -BCTL (3-5 years US Treasury bonds)	40.1%	6,663	0.88%
2	Bank for International Settlement - BIS (5-10 years US Treasury bonds)	10.1%	1,672	1.2%
3	Interim Manager (Global Treasury Developed Market, ex US, 30% Eurozone and 10% Country capped)	10.1%	1,677	8.1%
<b>International Equity Portfolio</b>		<b>39.8%</b>	<b>6,622</b>	<b>13.5%</b>
4	Schroders Investment Management - Schroders (MSCI world)	5.3%	887	13.9%
5	State Street Global Advisors - SSgA (MSCI world)	17.9%	2,977	18.2%
6	BlackRock Investment Management (MSCI world)	16.6%	2,758	19.7%

Source: BCTL - PF Q2 2014 Report

\* Inception dates for different managers are not equivalent thus since inception returns are not directly comparable

2013 shows that global equities delivered 27% investment return, the best annual return since the global financial crisis<sup>16</sup>. Meanwhile it was the first negative annual return delivered by the fixed income (bond) portfolio of -1.4%. The fund earned a net investment return of

<sup>16</sup> See PF Annual Report for 2013 published at [www.MoF.gov.tl](http://www.MoF.gov.tl) for further discussion on PF investment performance.

6.6% in 2013, equivalent to \$864.9 million, which is nearly twice the previous annual return of 3.9%.

The performance of financial markets in 2013 provides an illustrative case in support of the Government's diversification strategy. The increased allocation to equities, which historically perform well when the bond markets are declining, provided a buffer against the negative performance of the bond portfolio. However, this favourable outcome should not be expected to continue indefinitely. The volatile nature of financial markets implies that negative outcomes will occur at some point in the future.

Having decided upon the first order priority as increasing the equity exposure and diversification of the bond portfolio, the Government is currently exploring ways to further diversify the equity portfolio to improve its risk-return profile by including other public equity approaches.

### Projected PF development

The PF balance is \$16,634 million as of June 2014. This is an increase of \$1,681 million from the start of the year. The fund's balance is expected to be \$16,567.2 million by the end of 2014 after deducting the estimated withdrawal adopted by Parliament.

The current forecast, as shown in table 2.6.3.3.2, shows the total value of the fund to be \$17,514.7 million by the end of 2015 and \$19,297.2 million by the end of 2019.

**Table 2.6.3.3.2: Estimated PF Savings 2011-2016 (\$m)**

	2013 Actual	2014 Estimate	2015 Budget	2016	2017	2018	2019
<b>Opening PF Balance</b>	<b>11,775.3</b>	<b>14,952.1</b>	<b>16,567.2</b>	<b>17,514.7</b>	<b>18,023.8</b>	<b>18,441.2</b>	<b>18,871.2</b>
Petroleum Revenue (excluding PF Interest)	3,041.8	1,705.0	1,374.3	1,212.2	1,073.5	800.3	657.6
PF Interest, Net*	864.9	813.0	900.7	966.5	1,005.5	1,041.9	1,070.6
Total Withdrawals	730.0	902.9	1,327.5	1,669.7	1,661.6	1,412.2	1,302.2
<b>Closing PF Balance</b>	<b>14,952.1</b>	<b>16,567.2</b>	<b>17,514.7</b>	<b>18,023.8</b>	<b>18,441.2</b>	<b>18,871.2</b>	<b>19,297.2</b>

Source: PF Administration Unit

\* Net of management and market revaluation

As discussed earlier, the current data shows that more than 70% of the petroleum wealth from both Bayu-Undan and Kitan is now in the form of the financial assets (the PF). This means that going forward the level of withdrawals from the fund and the return on its investment would be the main driver of the size of the PF and hence the petroleum wealth.

## 2.7: Financing

### 2.7.1: Definition of Financing

Total budgeted expenditure is higher than domestic revenue for 2015. This results in a non-oil deficit (domestic revenue minus expenditure) which is financed by withdrawals from the PF, loans and use of the cash balance. Table 2.7.1.1 shows the amount of each financing item. The total amount of financing is equal to the non-oil deficit. The 2015 State Budget is therefore clearly showing how total expenditure will be financed from either domestic revenue or financing items.

Financing items and domestic revenues have different economic impacts. Domestic revenue is collected from taxes and charges paid by companies and individuals in Timor-Leste. All else being equal, the higher domestic revenue the less money these companies and individuals have to spend and invest. Consequently Government spending paid for by domestic revenue does not significantly increase overall demand in the economy; as the increase in demand from spending is approximately equal to the decrease in demand from companies and individuals who are paying tax.

In contrast financing expenditures by withdrawing money from the PF increases the overall level of demand within the economy. Financing expenditures from loans from international organisations also increases demand in the year that loan financed spending occurs. There will, however, be a negative impact on demand in the future when the Government begins to repay the loan. An increase in demand, if not matched by an increase in ability of the economy to produce goods, can cause higher inflation.

The Government has analysed the impact of the non-oil deficit on demand, economic growth and inflation. This analysis shows that the non-oil deficit for 2015 to 2019 is consistent with the strong, high quality economic growth.

**Table 2.7.1.1: Financing (\$m)**

	2015	2016	2017	2018	2019
<b>Total Financing</b>	<b>1,399.6</b>	<b>1,864.1</b>	<b>1,797.0</b>	<b>1,572.1</b>	<b>1,352.2</b>
Estimated Sustainable Income (ESI)	638.5	632.4	616.3	600.0	590.9
Excess Withdrawals from PF	689.0	1,037.3	1,045.3	812.3	711.3
Use of Cash Balance	2.1	0.0	0.0	0.0	0.0
Borrowing /Loans	70.0	194.4	135.5	159.9	50.0

Source: National Directorate for Economic Policy



## **2.7.2: ESI and Excess Withdrawals**

The ESI is equal to 3% of the petroleum wealth and is \$638.5 million in 2015. The ESI can be thought of as the amount that can be withdrawn from the PF each year, forever without the fund ever running out of money. Section 2.6.3 of this State Budget Book describes the ESI and petroleum wealth in detail.

The Government plans to withdraw \$1,327.5 million in total from the PF in 2015. This amount is larger than the ESI by \$689.0 million (the excess withdrawal). Withdrawing excess amounts from the PF results in lower petroleum wealth and a smaller future ESI.

Table 2.7.1.1 clearly shows the Government is implementing a frontloading policy. Excess withdrawals increase in 2016 and 2017, but in 2018 and 2019 excess withdrawals fall as frontloading begins to end. Over the long-term (after 2019) it is the Government's policy to ensure that withdrawals fall back to the level of the ESI.

## **2.7.3: Loans**

The Government borrows money to finance key projects. Loans are only considered for projects in a priority sector. A detailed analysis of loan financed projects is also undertaken and the project is only approved if its benefits significantly outweigh costs. All loans signed to date have been for the construction of infrastructure as this is a Government priority and such projects have high economic rates of return.

The Government has the option of financing projects from loans or from excess withdrawals. Loans have a financial cost because they have to be repaid with interest. Withdrawals also have a cost as they result in a lower balance in the PF and a lower total return from its investments. The Government undertakes a detailed financial analysis for all projects and loan financing is only used if it is likely to cost less than withdrawing a similar amount from the PF. This financial analysis accounts for the fact that while the loan will have to be repaid future returns from the PF are uncertain.

For all loans it is important to distinguish between the loan value and the amount disbursed in a year. The loan value is the total amount of the loan. When the loan agreement is signed the creditor (e.g. ADB/WB/JICA) is committing to lend this amount to the Government. The loan disbursement is the amount disbursed in a particular year to pay the project's expenditure. Total disbursements over all years of the project cannot exceed the loan value and may be slightly less. The maximum threshold of authorised debt in article 5 of the State Budget Law refers to the total value of all loans that the Government can sign in 2015. The total value of signed loans is shown in table 2.7.3.1; while table 2.7.3.2 shows expected disbursements from loans for 2015 to 2019.

The next box defines key financial terms for loan financed projects. Each loan financed project is then briefly described.

### Key Loan Terms

#### ***Loan Value***

The total amount the creditor (for example ADB, WB or JICA) agrees to lend the Government.

#### ***Loan Disbursement***

The amount of the loan that is disbursed in a particular year to finance the project's expenditures.

#### ***Loan Denomination Currency***

The currency the creditor records the liability of the borrower in.

#### ***Special Drawing Rights (SDR)***

A currency used by the IMF and other international organisations. Its value is based on a basket of international currencies.

#### ***Grace Period***

During the grace period interest is accrued but no repayments of principal are made.

#### ***Loan Maturity***

This is the date by which the loan must be repaid in full.

#### ***Libor***

This normally refers to the 6 month USD London Inter-Bank Offered rate. This is the rate of interest banks will lend to each other at.

### **Dili – Liquiça and Tibar-Gleno road financed by ADB**

This project will rehabilitate the Dili-Liquiça and Tibar-Gleno roads. The Dili Liquiça road has some of the highest traffic levels in Timor-Leste and is part of the main route used by trucks carrying imported goods from West Timor. Its rehabilitation should reduce transport costs for these goods. The rehabilitation of the Tibar-Gleno road is important for agriculture as this route is used to carry coffee grown in Ermera to processing and packing centres on route to the port. The rehabilitation of these roads is a priority for the Government and should generate a high economic rate of return.

This road rehabilitation is being financed by the Government and ADB. Financing from the ADB is made up of a \$9.0 million ADF loan and a \$31.0 million OCR loan. The ADF loan has a grace period and maturity of 8 and 32 years respectively. The rate of interest is fixed at 1.0% per annum during the grace period and 1.5% per annum during the rest of the maturity period. This loan is denominated in SDR. The OCR loan has a grace period and maturity of 5

and 25 years respectively. The rate of interest charged is equal to the Libor +0.4% per annum.

#### **Manatuto – Natarbora financed by ADB**

This project will rehabilitate the Manatuto to Natarbora road, which is a priority for the Government. The project is expected to have a good economic rate of return and will be financed by the Government and ADB.

Financing from ADB will come from a \$10.0 million ADF loan and a \$40.0 million OCR loan. The ADF loan has 5 and 25 year grace and maturity periods respectively, a fixed rate of interest of 2.0% per annum and is denominated in SDR. The OCR loan has grace and maturity periods of 5 and 25 years respectively, has a variable rate of interest equal to the libor + 0.5% per annum and is denominated in USD.

#### **Aileu-Ainaro road financed by WB**

The Aileu to Ainaro road is being substantially rehabilitated by this project. This road is an important route for bringing agricultural produce to market and its rehabilitation is expected to significantly reduce transport costs. It also forms an important road linkage between the north coast, particularly Dili, and the Tasi Mane development area, including the recently completed power station at Betano. The rehabilitation of this road is also expected to have a high economic rate of return.

This project is financed by the Government and WB. Financing from the WB will come from \$25.0 million and \$15.0 million IDA and IBRD loans respectively. The IDA loan has grace and maturity periods of 5 and 25 years respectively, a fixed rate of interest of 2.0% per annum and is denominated in USD. The IBRD loan has 8 and 28 year grace and maturity periods respectively and is denominated in USD. The rate of interest for this loan is fixed for each disbursement at the time that disbursement is made based on the Libor at that time. Because the value of the Libor could change between now and when the final loan disbursement is received it is not possible to state the exact rate the loan will be fixed at with certainty. However, analysis by the Government shows that an average fixed rate of interest between 3.4% and 4.0% will likely be achieved.

#### **Dili – Manatutu – Bacau road financed by JICA**

This project will rehabilitate the road between Dili and Bacau. There is significant potential for trade and increased traffic on this road which is the main route between Timor-Leste's two largest cities. It will also contribute significantly to improving access to the east of the country with its potential for tourism and pastoral agriculture. The rehabilitation of this road is a Government priority and it is expected that that total economic benefits will significantly outweigh the costs.

This project is financed by the Government and a loan from JICA. The loan has a grace period of 10 years and a maturity of 30 years. The loan is denominated in Japanese Yen with a fixed rate of interest of 0.7% for construction per annum and 0.01% for consultancy services per annum.

**Table 2.7.3.1: Information on Signed Loan Agreements**

Project	Creditor	Total Project Value (\$ million)	Counterpart Contribution (\$ million)	Signed	Loan Fund/Window	Loan Amount (\$ million)	Currency	Grace Period (years)	Maturity (years)	Interest Rate	Other Fees	Interest Rate Fixed or Variable
Dili-Liquiça and Tibar-Gleno	ADB	54	14	May-12	ADF	9	SDR	8	32	1% during grace and 1.5% thereafter		Fixed
					OCR	31	USD	5	25	Libor + 0.4%	Cc: 0.15%	Variable
Manatuto - Natarbor a	ADB	123	73	Nov-12	ADF	10	SDR	5	25	2%		Fixed
					OCR	40	USD	5	25	Libor + 0.5%		Variable
Aileu - Ainaro	WB	92	52	Nov-13	IDA	25	USD	5	25	2%	Cc:0.5%(currently waived)	Fixed
					IBRD	15	USD	8	28	3.4% to 4% (likely)	Front end fee: 0.25%	Fixed at time of disbursement
Dili-Manatuto -Baucau	JICA	146	77	Mar-12	N/A	69	JPY	10	30	0.7% for construction and 0.01% for consultancy services	Cc: 0.1%p.a. and 2% p.a. on overdue amount over &above normal principal, interest & other charges	Fixed
<b>TOTAL</b>		<b>415</b>	<b>216</b>			<b>199</b>						

Sources: Debt Management Unit

The loans signed by the Government face two main financial risks. The first risk, which is only applicable to the WB IBRD and ADB OCR loans, is that the Libor increases. This would result in an increase in the rate of interest on the loan and the total amount the Government has to repay. The second risk, which is only applicable to loans denominated in a foreign currency, is that the USD loses value against that currency. This would cause repayments in USD increase. For loans denominated in SDR this risk is limited as the SDR is made up of a basket of currencies which includes the USD. Presently the USD contributes 42.0% to the SDR basket. In addition, between 2004 and 2012 there was only a 7.5% difference between the lowest and highest SDR to USD exchange rate. In practice therefore it is unlikely that the USD will significantly depreciate against the SDR in the future.

Table 2.7.3.2 outlines and discusses the financial risks associated with each loan. These risks were analysed prior to the loans being signed and the Government considers that even accounting for these risks the financing offered by these loans is less costly than withdrawing money from the PF. In addition, all loans have a much lower rate of interest than the Government would be able achieve if it borrowed money from the private sector.

**Table 2.7.3.2: Loan Financial Risk Table**

Loan	Risk	Comments
Dili-Liquiça and Tibar-Gleno ADB – ADF Manatuto-Natarbora ADB – ADF	The USD could depreciate against the SDR. This would increase total repayments in USD.	This limited risk is outweighed by the low interest rates on the loans and significant grace periods.
Dili-Manatuto-Baucau - JICA	The USD could significantly depreciate against the Japanese Yen. This would increase total repayments in USD.	This risk is outweighed by the very low interest rate on this loan and the 10 year grace period.
Dili-Liquiça and Tibar-Gleno – ADB – OCR Manatuto-Natarbora – ADB – OCR	The Libor rate increases. This would significantly increase repayments.	This risk is outweighed by the grace period and low spread on the Libor.
Solamro-Ainaro – WB – IBRD	The Libor increase before the final disbursement is made, leading to an increase in the fixed rate of interest. However, it is unlikely that the Libor would increase by enough to make the Government’s prediction of the rate being fixed at between 3.4% and 4.0% inaccurate.	This risk is outweighed by the grace period and low spread on the Libor.

Source: Debt Management Unit and National Economic Directorate for Economic Growth

The Government is also considering two additional loans which could be signed in 2014. The first is for a project to finance the construction of a drainage system to reduce seasonal floods in Dili. This project is expected to have significant economic and social benefit. The amount of this loan is likely to be approximately \$50.0 million. The loan will be denominated in USD and have a fixed rate of interest of 2.0%. The grace period and maturity are likely to be 15-20 and 5 years respectively.

The second loan is to finance the widening into four lanes and rehabilitation of the Tasitolu to Tibar road. This project is required as the new port at Tibar will result in a significant increase in traffic on this stretch of road. The loan will be from ADB's OCR fund. The loan is likely to be for \$12 million with a variable rate of interest equal to the Libor plus 0.6%, a maturity of 25 years and a grace period of 5 years. The loan will be denominated in USD.

Table 2.7.3.3 shows expected disbursements from loans for 2015 to 2019.

**Table 2.7.3.3: Total Loan Disbursement 2015 to 2019 (\$m)**

	Total	2015	2016	2017	2018	2019
Loans	524.7	70.0	194.4	135.5	159.9	50.0

Source: Debt Management Unit

In conclusion the Government has signed loans to partly fund four projects and is considering further loan financing going forward. Loans are only used to finance priority projects with high economic and social rates of return.

## 2.7.4: Use of the Cash Balance

Actual expenditure in the HCDF for 2014 is forecasted to be below that approved in the budget. This means there will be a significant cash balance in this fund to finance rolled over expenditures in 2015. The next table shows the amount of the cash balance in the CFTL, HCDF and IF that will finance expenditures in 2015.

**Table 2.7.4.1: Use of the Cash Balance in 2015 (\$m)**

<b>Total</b>	<b>2.1</b>
Infrastructure Fund Rollover excluding loans, net of deductions	0.0
HCDF Rollover	2.1
Drawdown of Cash Balances from the Treasury Account	0.0

Source: Treasury, HCDF secretariat and Major Project Secretariat

The cash balance for the CFTL at the end of 2014 is currently forecast to be relatively small at less than 3 months of expenditure. The Government considers that it is necessary to maintain this cash balance to pay for expenditures in the event that there is an unexpected fall in domestic revenues. It is also necessary to maintain a small cash balance to pay for expenditures during any future duodecimal regime. The Government does not therefore plan to use the CFTL cash balance to finance expenditures in the 2015 State Budget.

## 2.7.5: Public Private Partnerships

Public-Private Partnerships (“PPP”) are an economic relationship between a public sector authority and a private sector company whereby the private sector company provides a public interest good or service and shares the respective financial, technical and operational risks. The underlying rationale for PPPs in Timor-Leste stems from the fact that this type of business arrangement potentially allows the Government to benefit from the private sector expertise and financing, which then results in higher quality and efficiency, as well as lower risk borne by the Government. However, in the case of Timor-Leste, such projects are only undertaken if they are aligned with the Government’s development objectives and have high rates of both economic and social return.

Having completed a PPP policy and legal framework, Timor-Leste has now approved one PPP, namely the Tibar Port, and is developing feasibility studies for several other projects. The projects in the project cycle for 2015 are in the transports, energy, health, education and water sector. During 2014, six potential projects in those areas are in the PPP project cycle.

The Tibar Bay Port is a crucial infrastructure for the development of the country and a national priority. The Tibar Port project was approved by the Council of Ministers on August 2, 2013. The procurement procedure started in 2013, four bidders were pre-qualified and the procurement procedure is expected to be completed and the private partner selected during 2014. The required detailed engineering design will also be carried out and will commence in 2015. The Tibar Port is expected to meet international standards in areas such as efficiency and cargo operations.

Consequently, it is widely believed that it will alleviate congestion as well as address some of the limitations of the existing Dili Port, which has very limited expansion possibilities and is capable of berthing only small vessels. This is viewed as necessary due to the expected increase in the demand for imports given the forecasted increase in economic growth in Timor-Leste. In terms of construction, the project has three main components: the preparation of the site, the installation of the port facilities and their respective maintenance, both during and after its implementation.

The Tibar Bay Port is expected to be funded partially through the IF and partially through concessional loans from the WB, the ADB and/or other multilateral partners.

The Dili Water Supply System is another project in the PPP project cycle. The final pre-feasibility report was presented to the Council of Ministers and approved to proceed for the feasibility study. Under this arrangement, the government will pursue the rehabilitation and development of the infrastructure and assign the responsibility for operations and maintenance to the private sector for a period of 5 years. It is expected that the feasibility study will be finalized in the beginning of 2015 and proceed to procurement. Contract for the PPP is expected to be awarded in the end of 2015.



In the power sector, the Government has made a very significant investment in the last few years. Two power plants have been built in Hera and Betano and are currently producing energy, and a network of transmission lines supplying electricity to all parts of the country has been nearly completed. However, the Government is currently facing another challenge: how to manage, operate and maintain these power plants, and how to adequately transmit and distribute electricity to the Timorese people.

The Government, with support from the ADB, is undertaking an initial assessment with a view to determining whether partnerships with the private sector are possible for the purpose of bringing on board private sector expertise to perform some of those activities. This initial assessment is expected to be concluded in 2014 and, if projects are identified as viable, the feasibility studies will be developed during 2015.

The Government is also looking for possible partnerships with the private sector in the health sector. Improving health outcomes is critical to stability, economic growth and poverty reduction in Timor-Leste. Key health issues are the high rates of maternal and child death, poor nutrition, communicable diseases and chronic illness. Tackling these issues is fundamental to enable children to learn and to increase economic participation, particularly of women, and it is therefore essential for increasing household incomes and boosting economic growth.

Timor-Leste's Constitution establishes that medical care is a fundamental right for all citizens and imposes a duty on the government to promote and establish a national health system that is universal, general, free of charge and, as far as possible, decentralized and participatory.

The health system has been rebuilt since 1999, but services and health outcomes of Timorese people remain poor. Service delivery is constrained by limited capacity—insufficient knowledge, skills and experience are key issues – and poorly developed infrastructure. The Government is aware of the challenges it faces and has identified a number of areas in which it believes that PPPs may play a role in improving health services.

An initial assessment was undertaken with the support of the International IFC, one of the arms of the WB, and some possible projects were identified. An initial pilot project will be chosen and feasibility studies will be developed between 2014 and 2015.

The Government is also evaluating the feasibility of some other possible PPP projects in other sectors, like education and public buildings.

The PPP unit has been established under the MoF, and the first Timorese staff entirely dedicated to this unit was recruited in 2014, thereby increasing the unit's capacity. However, there is still some mistrust on the part of the various government stakeholders with regard to the PPP modality and the benefits that can be generated by the implementation of infrastructure projects through this scheme. As a strategy to present and

discuss the advantages and disadvantages of this modality for the development of crucial infrastructures, the PPP unit participated as speaker in two international events about PPPs in Timor-Leste during 2014 and expects to participate or organize more events in 2015.

A training program (both in-house and online) was also developed during 2014 for the PPP unit, with a view to increase the unit's capacity to deal with the complexity of PPP projects. There is an intention to organize more such trainings during 2015.

# Part 3: General State Budget Law Text



## FIFTH CONSTITUTIONAL GOVERNMENT

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### Explanatory Statement

### Legislation Proposal approving the 2015 State General Budget for the Democratic Republic of Timor-Leste

#### Introduction

Under section 97.1 (c) and section 115.2 of the Constitution of the Republic of Timor-Leste, the Government submits to Parliament the present Legislation Proposal concerning the 2015 State General Budget (SGB).

The present draft 2014 SGB covers all revenues and expenses of the State of Timor-Leste from 1 January to 31 December 2015.

#### Continuing successful programmes

As stated in its Strategic Development Programme, the Fifth Constitutional Government is committed to transforming Timor-Leste into a medium-high income country, with a healthy, educated and safe population, by 2030.

Within the scope of the policies outlined in its respective Government Programme, the Fifth Constitutional Government has been making significant improvements in terms of public finance management, economy monitoring and performance management, while continuing to implement activities enabling the development of infrastructures and investment in human capital, poverty reduction and the continuation of the atmosphere of peace and security.

The present SGB Legislation Proposal contains the estimated budget appropriations required for implementing the policies listed above.

#### Infrastructure Fund

This fund was created under Article 32 of Law no. 13/2009, of 21 October, on Budget and Financial Management, and under Article 9 of Law no. 1/2001, of 14 February, approving the 2011 SGB. It was regulated by Decree-Law no. 8/2011, of 16 March, and by Ministerial Diploma no. 9/2011, of 18 May.

This funding mechanism will continue to be used by the Government for building infrastructures in the country, such as roads, bridges, power systems and telecommunication systems, which are essential for modernizing the country and for enhancing the respective economic production capacity.

### **Human Capital Development Fund**

Under Decree-Law no. 12/2011, of 23 March, the Government regulated the Human Capital Development Fund, which had been created under Article 32 of Law no. 13/2009, of 21 October, on Budget and Financial Management, and under Article 9 of Law no. 1/2001, of 14 February, approving the 2011 SGB.

This instrument will enable the Government to continue investing in its main source of wealth: the Timorese People. Having skilled human resources is essential for any country that intends to be modern and creative in the future.

### **Petroleum Revenues**

The total Petroleum Wealth is estimated at \$2,290.1 million on 1 January 2015. According to the Petroleum Fund Law, the Estimated Sustainable Revenue (ESR) is 3% of the Petroleum Wealth. Consequently the ESR for the financial year of 2015 is \$638.5 million. The Government is proposing an excess withdrawal of \$689 million.

In order for the ESR to be truly sustainable it is necessary that the real yield rate of the Fund is 3%. As such, the Petroleum Fund Law, in the last wording set in Law no. 12/2011, of 28 September, has diversified the investment portfolio in view of the petroleum revenues, so as to enable a greater yield for our Petroleum Fund in the medium and long term.

### **Non-Petroleum Revenues**

Non-petroleum revenues are estimated at \$170.4 million in 2015, which represents an increase in relation to last year, when they were \$166.1 million.

Tax collection is estimated to increase to \$125.5 million in 2015.

The Government is aware of the importance of increasing non-petroleum revenues for funding future expenses, since petroleum revenues will drop in the future and Timor-Leste intends to gradually reduce withdrawals from the Petroleum Fund above the ESR.

### **Public Debt**

Article 20 of Law no. 13/2009 of 21 October, on Budget and Financial Management, as well as Law no. 13/2011 of 21 February, on the Public Debt Regime, enable the Government to borrow money.

As such, the Government proposes to Parliament the setting of a maximum threshold of \$260 million in terms of borrowing. According to the law, this money must be directed only to the construction of infrastructures with strategic importance for the development of Timor-Leste.

## **Public-Private Partnerships**

Decree-Law no. 42/2012 of 7 September, amended by the Decree-Law no. 2/2014 of 15 January, approves the Law Regime on Public-Private Partnerships.

The Government proposes up to \$500 million towards public-private partnership arrangements.

## **Expenditure in the 2015 State Budget**

### **Salaries and Wages**

The total amount budgeted for this category in 2015 is \$184.1 million.

The main measures in this category are:

- \$2.3 million for the Ministry of Education, in order to increase the salaries of teachers, particularly those placed in remote areas;
- \$2 million for the Ministry of Foreign Affairs and Cooperation, in order to increase daily expenses by Timorese Ambassadors abroad;
- \$1.4 million for the PNTL, the Ministry of Health and the Courts, in order to pay the wages of security attachés in Australia and Indonesia, as well as the wages of midwives and doctors, and a new national audit of the courts.

### **Goods and Services**

The total amount budgeted for this category in 2015 is \$504.7, including \$32.1 million for the Human Capital Development Fund.

The main measures in this category include:

- \$115.6 million for the Ministry of Public Works, in order to pay for fuel and the maintenance of electricity generators;
- \$14.5 million for the Ministry of Justice, concerning the Ita Nia Rai programme and the cadastral registration;
- \$17.8 million for the Ministry of Education, concerning the school meal programme in public schools and scholarships.

### **Public Transfers**

The total amount budgeted for this category in 2015 is \$340.3 million.

The main measures in this category are:

- \$176.4 million for the Ministry of Social Solidarity, concerning welfare programmes, including payments to veterans, elderly persons and disabled persons, as well as the Bolsa de Mãe programme, the non-contributory Social Security System, NGOs and social institutions.

- \$10 million for continuing the capitalization of the Central Bank of Timor-Leste;
- \$17.8 million for the Ministry of State Administration in order to support the National Programme for Suco Development (PNDS), which contributes significantly to rural development.

### **Minor Capital**

The total amount budgeted for this category in 2015 is \$36.7 million.

The main measures in this category include:

- \$12 million for the Ministry of Transportation in order to purchase a new ferry boat;
- \$3 million for the Ministry of Public Works in order to provide access to clean water and power throughout the territory;
- \$1.7 million for fire trucks and special vehicles for the Ministries of Health, Justice, State Administration, Public Works, Transport and Communication and the Secretary State of Security, increasing the security of the population.

### **Capital Development**

The Government proposes \$504.3 million for this category in 2015, including \$434 million for the Infrastructure Fund.

The main measure for this category in the Consolidated Fund for Timor-Leste is:

- Integrated District Development Planning – \$34.4 million.

The main measures in the Infrastructure Fund are

- Oecusse Development Programme - \$62,5 million;
- Road Programme – \$59.8 million.

Approved by the Council of Ministers on 13 October 2014.

**The Prime Minister,**

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**Kay Rala Xanana Gusmão**

**The Minister of Finance,**

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**Emília Pires**

**Vice Minister of Finance**

**Santina J.R.F. Viegas Cardoso**



## FIFTH CONSTITUTIONAL GOVERNMENT

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Legislation Proposal no. ....../.....

of .....

### 2015 State General Budget

The 2015 State General Budget covers all revenues and expenditure of the State of Timor-Leste in financial year 2015.

Attachment I to the 2015 State General Budget Law, henceforth called SGB, sets the total estimated State revenue from January to December 2015 derived from all sources: petroleum and non-petroleum (tax revenues, non-tax revenues and loans).

The total estimated revenue is **\$2,530.5** million.

Attachment II to the present law sets all budget appropriations, systematized as follows:

1. **\$184.051** million for Salaries and Wages;
2. **\$504.672** million for Goods and Services;
3. **\$340.255** million for Public Transfers;
4. **\$36.713** million for Minor Capital;
5. **\$504.309** million for Capital Development.

Excluding autonomous funds and services, special funds and loans, the total budget appropriation is **\$1,084.6** million.

The SGB includes all revenues and expenses from autonomous funds and services, namely the Airport and Air Navigation Administration of Timor-Leste (ANATL), the Port Authority of Timor-Leste

(APORTIL – including Berlin-Nakroma), the Equipment Management Institute (IGE) and the 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 expenses.

The total estimated expenditure for autonomous funds and services in 2015 is **\$19.3** million, including **\$11.7** million transferred from the SGB in order to subsidize expenditure exceeding the estimated own revenues.

The total budget appropriation for the Infrastructure Fund is **\$434** million including loans and **\$364** million excluding loans.

The total budget appropriation for the Human Capital Development Fund is **\$32.1** million, including **\$2.1** million as carryover from 2014, in accordance with the law.

Total estimated SGB expenditure is **\$1,570.000** million.

The maximum threshold approved for public debt in 2015 is **\$70** million.

Estimated non-petroleum revenue, including autonomous funds and services, is **\$170.4** million.

Thus the tax deficit is **\$1,399.6** million, being funded by **\$1,327.5** million from the Petroleum Fund (**\$638.5** million from the ESR and **\$689** million from excess withdrawals), **\$70** million from the use of public credit and **\$2.1** million carried over from the Human Capital Development Fund balance.

Under section 97.1 (c) and section 145.1 of the Constitution of the Republic, the Government submits the following Legislation Proposal to Parliament:

## **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:
- i) "Salaries & Wages", meaning the full amount a Body may spend on Salaries & Wages for the holders of political offices and for permanent, temporary and part-time staff;
  - ii) "Goods & Services", meaning the full amount a Body may spend on the acquisition of Goods & Services;
  - iii) "Public Transfers", meaning the full amount a Body may spend on public grants and consigned payments;



- iv) "Minor Capital", meaning the full amount a Body may spend on the acquisition of Minor Capital goods;
  - v) "Capital Development", meaning the full amount a Body may spend on Capital Development projects.
- (b) "Expenses Offset 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 in the SB 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, as well as other institutions featured in Attachment II;
  - (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 2014 to 31 December 2015, which covers:

- (a) Total revenues per groupings, including own revenues from autonomous funds and services, special funds and loans featured in Attachment I to the present diploma, which is an integral part of it;
- (b) Total expenses per groupings, including the amounts to be transferred from the State General Budget for autonomous funds and services in 2015, featured in Attachment II to the present diploma, which is an integral part of it;
- (c) Total expenses from the autonomous funds and services to be funded from their own revenues and from the State General Budget, featured in Attachment III to the present diploma, which is an integral part of it;
- (d) Total expenses corresponding to the appropriation for the Infrastructure Fund in 2015, including carryover balance and expenses funded through public debt, featured in Attachment IV to the present diploma, which is an integral part of it;
- (e) Total expenses corresponding to the appropriation for the Human Capital Development Fund in 2015, including carryover balance, featured in Attachment V to the present diploma, which is an integral part of it.

## **Chapter II Revenues**

### **Article 3 Taxes and Fees**

1. During 2015 the Government is authorized to collect taxes and other fees set by law.
2. Subject to the previous paragraph, weapons and ammunition for the PNTL and the F-FDTL will no longer pay selective excise tax in 2015, in line with article 11 and attachment II of Law no. 8/2008 of 30 June (Tax Law).

## **Chapter III Authorization to make transfers from the Petroleum Fund**

### **Article 4 Authorized limit for funding the SGB**

Under article 7 of Law no. 9/2005 of 3 August, ex vi the wording given to it by Law no. 12/2011 of 28 September (the Petroleum Fund Law), the amount to be transferred from the Petroleum Fund in 2015 may not exceed **\$1,327.5** million. Furthermore, the transfer of the **\$638.5** million may only take place after complying with the provisions of article 8 and the transfer of **\$689** million may only take place after complying with the provisions of article 9 (a), (b) and (c) of Law no. 9/2005 of 3 August.

## **Chapter IV Public Indebtedness, Public-Private Partnerships and Guarantees**

### **Article 5 Maximum Threshold of Authorized Debt**

1. In order to meet the funding needs related with the construction of strategic infrastructures for the development of the Country, the Government is authorized, under article 20 of Law no. 13/2009 of 21 October, on Budget and Financial Management, and article 3 of Law no. 13/2011 of 28 September, on the Public Debt Regime, to make use of external concessional loans up to a maximum amount of **\$260** million, with a maximum time frame of 40 years.
2. Subject to the provisions in the previous paragraph, funding from loans in 2015 may not exceed **\$70** million.

### **Article 6 Maximum Threshold Authorized for Public-Private Partnership Arrangements**

1. In 2015 the Government is authorized to sign public-private partnership arrangements up until the maximum threshold of **\$500** million.
2. For the purposes of the previous paragraph, the entity determined by law shall be responsible for administering and managing the shares of the State.

## **Chapter V**

### **Budget Execution**

#### **Article 7**

##### **Complementary budget execution rules**

1. Budget execution by the Bodies must make use of the Financial Management IT System.
2. In 2015, budget execution verification by Parliament will focus on all recurring expenses.
3. Each body is only entitled to conduct single source public procurement up to 10% of the total respective budget appropriation for 2015, subject to compliance with legal rules on admissibility.
4. The provisions of the previous number do not apply to Appropriations for the Whole of Government.
5. Parliament shall hold quarterly debates on the budget execution of each ministry, secretary of State and autonomous fund and service, with the presence of the respective members of Government and senior officers.
6. When the reserves in the Treasury Account fall below \$200 million, the Government may make withdrawals from the Petroleum Fund above the Estimated Sustainable Revenue, provided that it notifies Parliament in advance.
7. Requests for making use of the contingency reserve must be properly justified under articles 7.3 and 37 of Law no. 13/2009 of 21 October, as changed by Law no. 9/2011 of 17 August and by Law no. 3/2013 of 11 September, on Budget and Financial Management, and must contain a detailed description of the activities to be carried out.

#### **Article 8**

##### **Payment of taxes on 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 9**

##### **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 Appropriations for the Whole of Government, to be managed by the Ministry of Finance:

- (a) Counterpart Fund;
- (b) External Audit;
- (c) Contingency Reserve;
- (d) International Organization Membership Fees;
- (e) Payment of pensions to former holders and former members of Sovereignty Bodies;

- (f) Construction of Integrated Border Posts;
- (g) Contribution Fund for Social Institutions;
- (h) Provision for the g7+;
- (i) Business Registration and Verification Service;
- (j) Large Project Secretariat;
- (k) Provision for Legal Services;
- (l) Community of Portuguese Speaking Countries – CPLP;
- (m) Financial Contribution;
- (n) Provision for Statistic Research Activities;
- (o) Provision for Human Resource Diagnosis;
- (p) Debate on Tax Legislation and Macroeconomics;
- (q) Provision for the Capitalization of the Central Bank of Timor-Leste;
- (r) Provision of Funds for the House of Knowledge;
- (s) Provision for the Dialogue, Reconciliation and Peace Centre;
- (t) Provision for the Government Workshop.

## **Chapter VI**

### **Autonomous funds and services and special funds**

#### **Article 10**

##### **Own Revenues**

1. Attachment I indicates the estimated revenues to be collected by autonomous funds and services.
2. Attachment II indicates the expenses resulting from transfers from the SB to the autonomous funds and services and to the special funds, as well as the estimate of the respective expenses.
3. Attachment III indicates the budgets by expense category concerning the autonomous funds and services partly funded by own revenues.
4. Attachment IV indicates the appropriation for the Infrastructure Fund.
5. Attachment V indicates the appropriation for the Human Capital Development Fund.
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 VII**

### **Final Provisions**

#### **Article 11**

##### **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 responsible for the area 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 12**

##### **Accountability**

1. Signing contracts without budget provision entails political, financial, civil and criminal accountability, in accordance with article 46 of Law no. 13/2009 of 21 October, changed by Law no. 9/2011 of 17 August and Law no. 3/2013 of 7 August, on Budget and Financial Management.
2. For purposes of activating the financial accountability described in the previous paragraph, the holder of a political office is considered to have made an undue payment, subjected to being ordered to replace the corresponding amount, under article 44 and following of Law no. 3/2013, of 7 August, approving the Organic Structure of the Chamber of Accounts under the High Administrative, Tax and Audit Court.

#### **Article 13**

##### **Entry into force**

The present law enters into force on the day after its publication and will have effect starting on 1 January 2015.

Approved in the Council of Ministers on 13 October 2014.

**The Prime Minister,**

**Kay Rala Xanana Gusmão**

**The Minister of Finance,**

**Emília Píres**

**Vice Minister of Finance**

**Santina J.R.F. Viegas Cardoso**

## ATTACHMENT I

Estimated revenues to be collected, loans and balances of special funds in the 2015 State General Budget (US\$ million) \*

Table I - Estimated revenues

<b>1</b>	<b>Total Revenues</b>	<b>2,530.5</b>
1.1	<b>Petroleum Revenues</b>	<b>2,290.1</b>
1.1.1	Taxes on petroleum profits	652.3
1.1.2	Taxes on the Timor Sea (including Kitan)	129.1
1.1.3	Income Tax	243.3
1.1.4	Additional Profit Tax	267.9
1.1.5	Other Taxes and Petroleum Fees	81.8
1.1.6	Petroleum Fund Interests	915.8
1.2	<b>Non-Petroleum Revenues</b>	<b>162.8</b>
1.2.1	Direct Taxes	45.7
1.2.2	Indirect Taxes	79.7
1.2.3	Other Revenues and Fees	0.2
1.2.4	Payments and Fees	37.2
1.2.5	Interests from the Treasury Account	0.0
1.3	<b>Donations</b>	<b>-</b>
1.4	<b>Own Revenues from Autonomous Funds and Services</b>	<b>7.6</b>
1.5	<b>Loans</b>	<b>70.0</b>

\* Figures are rounded up

**Table II – Funding expenses**

Non-petroleum revenues, including own revenues from autonomous funds and services	170.4
Transfers from the Petroleum Fund	1,327.5
Loans	70.0
Balance of the Human Capital Development Fund	2.1
<b>Total</b>	<b>1,570.0</b>

\* Figures are rounded up

**ATTACHMENT II**

**Budget Appropriations for 2015 (US \$'000)**

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
<b>Total Expenses Including Loans</b>	<b>184,051</b>	<b>504,672</b>	<b>340,255</b>	<b>36,713</b>	<b>504,309</b>	<b>1,570,000</b>
<b>Total Expenses in the State General Budget</b>	<b>184,051</b>	<b>504,672</b>	<b>340,255</b>	<b>36,713</b>	<b>434,309</b>	<b>1,500,000</b>
<b>Excluding Autonomous Funds and Services and Special Funds and Loans</b>	<b>182,351</b>	<b>467,014</b>	<b>340,255</b>	<b>24,668</b>	<b>70,314</b>	<b>1,084,603</b>
<b>Including Autonomous Funds and Services</b>	<b>184,051</b>	<b>472,572</b>	<b>340,255</b>	<b>36,713</b>	<b>70,314</b>	<b>1,103,905</b>
<b>Total Autonomous Funds and Services</b>	<b>1,700</b>	<b>5,558</b>	<b>-</b>	<b>12,045</b>	<b>-</b>	<b>19,302</b>
<b>Total Special Funds</b>	<b>-</b>	<b>32,100</b>	<b>-</b>	<b>-</b>	<b>363,995</b>	<b>396,095</b>
<b>Special Funds – New Appropriation</b>	<b>-</b>	<b>30,000</b>	<b>-</b>	<b>-</b>	<b>363,995</b>	<b>393,995</b>
<b>Special Funds – Carryover from 2014</b>	<b>-</b>	<b>2,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,100</b>
<b>Total Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>70,000</b>	<b>70,000</b>
<b>Loan – New Appropriation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,900</b>	<b>58,900</b>
<b>Loan – Carryover from 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,100</b>	<b>11,100</b>
<b>Presidency of the Republic</b>	<b>848</b>	<b>6,670</b>	<b>-</b>	<b>1,097</b>	<b>200</b>	<b>8,815</b>
Office of the President of the Republic	-	500	-	-	-	500
Civilian House	812	4,684	-	278	200	5,974
Military House	36	879	-	790	-	1,704
Post-CAVR Technical Secretariat	-	608	-	30	-	637
<b>National Parliament</b>	<b>4,399</b>	<b>8,349</b>	<b>748</b>	<b>1,233</b>	<b>298</b>	<b>15,027</b>



	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Parliament	3,347	2,351	-	16	-	5,714
Office of the Speaker of Parliament	73	623	-	-	-	696
Parliamentary Benches	-	-	748	-	-	748
Office of the Secretary-General of Parliament	-	113	-	-	-	113
Commission A	-	272	-	-	-	272
Commission B	-	117	-	-	-	117
Commission C	-	243	-	-	-	243
Commission D	-	186	-	-	-	186
Commission E	-	225	-	-	-	225
Commission F	-	254	-	-	-	254
Commission G	-	60	-	-	-	60
Monitoring Council for the National Intelligence System of Timor-Leste (CFSNI-TL)	-	233	-	2	-	235
Petroleum Fund Consultative Council	-	370	-	74	-	444
Women's Parliamentary Group of Timor-Leste	-	125	-	-	-	125
Administration Board	979	2,437	-	201	298	3,915
Parliamentary Support Board	-	464	-	-	-	464
Technical Research and Information Board	-	163	-	-	-	163
Information and Communication Technology Division	-	113	-	940	-	1,053
<b>Prime Minister</b>	<b>842</b>	<b>12,304</b>	<b>34,000</b>	<b>5,229</b>	<b>34,391</b>	<b>86,766</b>
Office of the Prime Minister	84	-	-	-	-	84

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Secretariat of the Prime Minister	24	1,562	-	-	-	1,586
Inspectorate-General Office (IGO)	293	695	-	44	-	1,032
Directorate-General	10	21	-	-	-	31
National Directorate of Administration and Finance	104	1,047	-	69	-	1,220
National Directorate of Human Resources	54	64	-	-	-	118
Civil Society Advisory	23	306	14,000	-	-	14,329
Official Residence of the Prime Minister	-	66	-	-	-	66
National Development Agency (NDA)	-	2,430	20,000	4,586	34,391	61,407
National Procurement Commission (NPC)	-	3,668	-	101	-	3,769
National Intelligence Service (NIS)	225	1,764	-	299	-	2,288
Strategic Investment Planning Agency (SIPA)	25	682	-	130	-	837
<b>Vice Prime Minister, Coordinator of Social Affairs</b>	<b>178</b>	<b>886</b>	<b>700</b>	<b>45</b>	<b>-</b>	<b>1,809</b>
Office of the Vice Prime Minister, Coordinator of Social Affairs	178	886	700	45	-	1,809
<b>Minister of State and of the Presidency of the Council of Ministers</b>	<b>341</b>	<b>4,691</b>	<b>9,924</b>	<b>18</b>	<b>-</b>	<b>14,974</b>
Office of the Minister	77	708	-	-	-	785
National Directorate of Administration and Support to the Council of Ministers	153	1,568	-	-	-	1,721
National Directorate of Translation Services	59	226	-	-	-	285
Legal Support Unit	36	533	-	-	-	569
Ad hoc trilateral commission between Timor-Leste, Australia and Indonesia	-	1,000	-	18	-	1,018
Technical and Communication Training Centre	6	218	-	-	-	224

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Director/General	10	93	-	-	-	103
Special Zone of Social Market Economy (SZSME)	-	-	9,924	-	-	9,924
Office of the Spokesperson of Government	-	345	-	-	-	345
<b>Secretary of State for the Council of Ministers</b>	<b>151</b>	<b>900</b>	<b>-</b>	<b>2,596</b>	<b>-</b>	<b>3,647</b>
Office of the Secretary of State	65	652	-	146	-	863
National Printing House	86	248	-	2,450	-	2,784
<b>Secretary of State for Parliamentary Affairs</b>	<b>88</b>	<b>93</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>181</b>
Office of the Secretary of State	88	93	-	-	-	181
<b>Secretary of State for the Media</b>	<b>247</b>	<b>874</b>	<b>500</b>	<b>350</b>	<b>-</b>	<b>1,971</b>
Office of the Secretary of State	78	342	160	-	-	579
Directorate of Information Socialization	96	314	130	128	-	668
Community Radio Centre	61	177	210	206	-	654
National Directorate of Administration and Finance	12	41	-	16	-	70
<b>Secretary of State for Institutional Strengthening</b>	<b>114</b>	<b>931</b>	<b>500</b>	<b>42</b>	<b>-</b>	<b>1,587</b>
Office of the Secretary of State	114	931	500	42	-	1,587
<b>Secretary of State for Supporting and Promoting the Private Sector</b>	<b>592</b>	<b>2,036</b>	<b>1,513</b>	<b>128</b>	<b>-</b>	<b>4,268</b>
Office of the Secretary of State	139	915	1,019	84	-	2,157
Institute for Supporting Business Development	447	556	-	10	-	1,013
Specialized Investment Agency	6	565	494	34	-	1,098
<b>Secretary of State for the Promotion of Equality</b>	<b>375</b>	<b>1,088</b>	<b>750</b>	<b>93</b>	<b>-</b>	<b>2,306</b>

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Secretary of State	65	238	-	-	-	303
Directorate-General	51	137	-	-	-	188
National Directorate of Administration, Logistics and Finance	145	320	-	93	-	558
National Directorate of Gender Policy and Development	100	376	750	-	-	1,226
Inspector and Auditor	14	17	-	-	-	31
<b>Secretary of State for Youth and Sports</b>	<b>486</b>	<b>1,030</b>	<b>6,500</b>	<b>56</b>	<b>595</b>	<b>8,667</b>
Office of the Secretary of State	65	264	1,020	-	-	1,349
Directorate-General	10	17	-	-	-	27
National Directorate of Administration and Finance	179	621	-	56	595	1,451
National Directorate of Youth	43	10	703	-	-	756
National Directorate of Physical Education and Sports	47	22	3,717	-	-	3,786
National Directorate of Development Policy	36	16	413	-	-	465
National Directorate of Communication	48	49	305	-	-	402
National Directorate of Arts	31	9	342	-	-	382
Inspectorate and Internal Audit Office	27	22	-	-	-	49
<b>Secretary of State for Professional Training and Employment Policy</b>	<b>1,447</b>	<b>3,054</b>	<b>10,788</b>	<b>54</b>	<b>464</b>	<b>15,807</b>
Office of the Secretary of State	69	278	-	-	-	347
Inspectorate-General of Labour	189	181	-	-	-	370
Directorate-General	147	51	-	-	-	198
National Directorate of Administration and Finance	247	1,121	-	-	-	1,368

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Procurement	21	32	-	54	464	571
National Directorate of Labour Condition	34	63	-	-	-	97
National Directorate for Preventing Occupational Hazards	28	56	-	-	-	84
National Directorate of Employment and Protection against Unemployment	28	35	-	-	-	63
National Directorate of Security and Social Protection	24	33	-	-	-	57
National Directorate of Professional Training	114	71	-	-	-	185
National Directorate of Employment	101	789	10,778	-	-	11,668
National Directorate of Labour Relations	82	64	10	-	-	156
Secretariat of Support to the National Labour Council	41	29	-	-	-	70
Legal Advisory Office	8	24	-	-	-	32
National Institute of Labour Development	19	66	-	-	-	85
Employment and Professional Training Fund Office	10	21	-	-	-	31
Labour attaché in South Korea	204	73	-	-	-	277
SENAI Training Centre	81	68	-	-	-	149
<b>Ministry of Foreign Affairs and Cooperation</b>	<b>13,438</b>	<b>14,975</b>	<b>-</b>	<b>376</b>	<b>-</b>	<b>28,789</b>
Office of the Minister	41	807	-	-	-	848
Inspectorate and Audit Office	-	200	-	-	-	200
Diplomatic Institute	-	76	-	-	-	76
National Authorizing Officer-NAO	-	77	-	-	-	77
Timor-Leste International Cooperation Agency-ACITL	-	232	-	-	-	232

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Vice-Minister	33	226	-	1	-	260
Office of the Secretary of State for ASEAN Affairs	29	755	-	-	-	784
Directorate-General of ASEAN Affairs	-	135	-	-	-	135
Secretary-General	13,335	3,875	-	67	-	17,277
Dollar Devaluation	-	346	-	-	-	346
Celebration of National Holidays	-	120	-	-	-	120
Directorate-General of Protocol	-	60	-	-	-	60
Directorate-General for Asia-Pacific Bilateral Affairs	-	536	-	33	-	569
Directorate-General for America, Europe and Asia Bilateral Affairs	-	101	-	-	-	101
Directorate-General for Multilateral Affairs	-	125	-	-	-	125
Directorate-General for Consular Affairs and Timorese Communities	-	205	-	-	-	205
Permanent Mission in New York	-	430	-	-	-	430
Embassy in Lisbon	-	285	-	-	-	285
Embassy in Jakarta	-	226	-	-	-	226
Consulate in Denpasar	-	135	-	-	-	135
Consulate in Kupang	-	36	-	-	-	36
Embassy in Washington	-	460	-	-	-	460
Embassy in Canberra	-	214	-	-	-	214
Consulate in Sidney	-	86	-	-	-	86
Consulate in Darwin	-	176	-	-	-	176

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Embassy in Kuala Lumpur	-	223	-	-	-	223
Embassy in Brussels	-	328	-	1	-	329
Embassy in Bangkok	-	120	-	1	-	121
Embassy in Tokyo	-	399	-	-	-	399
Embassy in Beijing	-	229	-	-	-	229
Embassy in Maputo	-	183	-	1	-	184
Embassy in Havana	-	140	-	-	-	140
Embassy in Manila	-	132	-	-	-	132
Embassy in Geneva	-	291	-	1	-	292
Embassy in the Vatican	-	213	-	-	-	213
Embassy in Brasilia	-	187	-	67	-	254
Embassy in Seoul	-	369	-	-	-	369
Embassy in CPLP/UNESCO	-	221	-	1	-	222
Embassy in Pretoria	-	176	-	65	-	241
Embassy in Luanda	-	216	-	65	-	281
Embassy in Singapore	-	403	-	-	-	403
Embassy in Vietnam	-	156	-	-	-	156
Consular Agent in Atambua	-	47	-	-	-	47
Embassy in London	-	347	-	-	-	347
Consulate in New Zealand	-	210	-	73	-	283

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Embassy in Laos	-	105	-	-	-	105
Embassy in Myanmar	-	113	-	-	-	113
Embassy in Cambodia	-	106	-	-	-	106
Embassy in Brunei	-	137	-	-	-	137
<b>Ministry of Defence and Security</b>	<b>26,597</b>	<b>40,389</b>	-	<b>3,046</b>	<b>1,316</b>	<b>71,348</b>
<b>Ministry of Defence and Security</b>	<b>72</b>	<b>4,507</b>	-	-	-	<b>4,579</b>
Office of the Minister	72	4,507	-	-	-	4,579
<b>Secretary of State for Defence</b>	<b>1,048</b>	<b>4,826</b>	-	<b>1,404</b>	<b>654</b>	<b>7,931</b>
Office of the Secretary of State	57	548	-	-	-	605
Directorate-General	14	49	-	-	-	63
Inspectorate and Audit Office	27	52	-	-	-	79
National Directorate of Administration and Finance	32	565	-	-	-	596
National Directorate of Planning and International Exchange	832	499	-	4	-	1,335
National Directorate of Procurement	33	2,949	-	1,400	654	5,036
National Directorate of Legacy	29	111	-	-	-	140
National Directorate of Human Resources	24	54	-	-	-	78
<b>FALINTIL – Defence Forces of Timor-Leste</b>	<b>7,903</b>	<b>11,830</b>	-	<b>160</b>	-	<b>19,893</b>
FALINTIL – Defence Forces of Timor-Leste	-	10,387	-	160	-	10,547
F-FDTL Headquarters	7,903	1,443	-	-	-	9,346
<b>Secretary of State for Security</b>	<b>4,037</b>	<b>5,026</b>	-	<b>406</b>	<b>522</b>	<b>9,991</b>



	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Secretary of State	65	57	-	-	-	122
Directorate-General	66	141	-	-	-	207
Inspectorate and Audit Office	52	28	-	-	-	80
National Directorate of Administration	130	684	-	-	122	936
National Directorate of Finance	58	20	-	-	-	78
National Directorate of Civil Protection	1,226	631	-	406	400	2,664
National Directorate of Public Building Safety	1,822	2,281	-	-	-	4,103
National Directorate of Community Conflict Prevention	115	258	-	-	-	373
National Directorate of Procurement	74	35	-	-	-	109
Civil Migration Services	429	890	-	-	-	1,319
<b>National Police of Timor-Leste</b>	<b>13,393</b>	<b>13,396</b>		<b>1,034</b>	<b>140</b>	<b>27,963</b>
National Directorate of Administration and Finance	13,393	4,631	-	663	140	18,827
Special Police Unit	-	2,275	-	-	-	2,275
Border Patrol Unit	-	1,286	-	122	-	1,408
Maritime Unit	-	1,034	-	1	-	1,035
National Operational Command	-	1,101	-	157	-	1,258
Police Training Centre	-	1,240	-	91	-	1,331
Region I	-	751	-	-	-	751
Region II	-	500	-	-	-	500
Region III	-	474	-	-	-	474

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Region of Oecusse	-	104	-	-	-	104
<b>National Defence Institute</b>	<b>145</b>	<b>805</b>	-	<b>42</b>	-	<b>992</b>
National Defence Institute	145	805	-	42	-	992
<b>Ministry of Finance</b>	<b>4,063</b>	<b>13,592</b>	-	-	-	<b>17,655</b>
Offices of the Minister and Vice Minister	155	-	-	-	-	155
Directorate-General of Corporative Services	1,478	13,592	-	-	-	15,070
Directorate-General of State Finance	374	-	-	-	-	374
Directorate-General of Treasury	291	-	-	-	-	291
Directorate-General of Taxes	338	-	-	-	-	338
Directorate-General of Customs	672	-	-	-	-	672
Directorate-General of Statistics	615	-	-	-	-	615
Ministry Organic Units	142	-	-	-	-	142
<b>Whole of Government Appropriations</b>	-	<b>68,751</b>	<b>23,341</b>	<b>1,148</b>	-	<b>93,240</b>
Counterpart Fund	-	8,500	-	-	-	8,500
External Audit	-	3,000	-	-	-	3,000
Contingency Reserve	-	22,320	-	-	-	22,320
Membership Fees in International Institutions	-	3,655	-	-	-	3,655
Pensions for Former Holders of Sovereignty Bodies	-	-	5,991	-	-	5,991
Construction of Integrated Border Posts	-	1,037	-	39	-	1,076
Contribution Fund for Social Institutions	-	-	200	-	-	200

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Provision for the g7+	-	-	2,500	-	-	2,500
Business Registration and Verification Service	-	1,102	-	81	-	1,183
Large Project Secretariat	-	1,855	-	40	-	1,895
Provision for Legal Services	-	20,000	-	-	-	20,000
Community of Portuguese Speaking Countries - CPLP	-	1,500	-	-	-	1,500
Financial Contribution	-	-	4,000	-	-	4,000
Provision for Statistic Research Activities	-	4,488	-	509	-	4,997
Provision for Human Resource Diagnosis	-	400	-	-	-	400
Debate on Tax Legislation and Macroeconomics	-	200	-	-	-	200
Provision for the Capitalization of the Central Bank of Timor-Leste	-	-	10,000	-	-	10,000
Provision of Funds for the House of Knowledge	-	-	150	-	-	150
Provision for the Peace and Reconciliation Centre	-	-	500	-	-	500
Provision for the Government Workshop	-	695	-	479	-	1,174
<b>Ministry of Justice</b>	<b>4,391</b>	<b>19,844</b>	<b>450</b>	<b>256</b>	<b>1,350</b>	<b>26,291</b>
Office of the Minister	78	52	-	-	-	130
Office of the Vice-Minister	65	46	-	-	-	111
Office of the Secretary of State for Lands and Properties	63	39	-	-	-	102
Directorate-General	40	197	-	-	-	237
Inspectorate and Audit Office	69	85	-	4	-	158
National Directorate of Administration and Finance	268	15,667	-	12	-	15,946

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Legal Advisory and Legislation	97	60	-	-	-	157
National Directorate of Human Rights and Citizenship	92	92	-	47	-	231
National Directorate of Registry and Notary Services	563	1,494	-	7	150	2,214
National Directorate of Prison Services and Social Reinsertion	734	957	-	132	700	2,523
Legal Training Centre	92	85	-	-	-	177
Public Defence	673	214	-	5	500	1,392
National Directorate of Lands, Properties and Mapping Services	530	698	450	13	-	1,691
National Commission on Children Rights	30	103	-	-	-	133
Criminal Investigation Scientific Police	998	55	-	37	-	1,089
<b>Ministry of Health including Autonomous Funds and Services</b>	<b>27,914</b>	<b>28,679</b>	<b>9,972</b>	<b>1,284</b>	-	<b>67,849</b>
<b>Ministry of Health excluding Autonomous Funds and Services</b>	<b>27,687</b>	<b>28,316</b>	<b>9,972</b>	<b>1,239</b>	-	<b>67,214</b>
Office of the Minister	121	767	-	-	-	888
Office of the Vice Minister for Ethics and Service Delivery	64	139	-	-	-	203
Office of the Vice Minister for Management, Support and Resources	64	147	-	-	-	211
Office of Inspectorate, Verification and Audit	116	111	-	15	-	242
Directorate-General	128	257	-	15	-	400
National Directorate of Administration, Logistics and Procurement	1,505	1,788	4,250	15	-	7,558
National Directorate of Planning and Finance	253	935	50	132	-	1,370
National Directorate of Community Health	533	1,386	177	15	-	2,111
National Directorate of Policy, Planning and Cooperation	162	143	995	15	-	1,315

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Hospital Services	279	11,047	4,300	15	-	15,641
National Laboratory	276	265	-	15	-	556
National Hospital Guido Valadares	3,716	2,992	-	360	-	7,068
Reference Hospital of Baucau	1,189	1,126	-	186	-	2,501
Reference Hospital of Maliana	744	739	-	186	-	1,669
Reference Hospital of Maubisse	632	634	-	15	-	1,281
Reference Hospital of Oecusse	630	642	-	15	-	1,287
Reference Hospital of Suai	627	640	-	15	-	1,282
District Health Services of Aileu	1,000	264	-	15	-	1,279
District Health Services of Ainaro	904	270	-	15	-	1,189
District Health Services of Baucau	1,748	245	-	15	-	2,008
District Health Services of Bobonaro	1,240	302	-	15	-	1,557
District Health Services of Covalima	1,121	227	-	15	-	1,363
District Health Services of Dili	2,415	581	-	15	-	3,011
District Health Services of Ermera	1,237	359	-	15	-	1,611
District Health Services of Lautém	1,168	349	-	15	-	1,532
District Health Services of Liquiçá	990	213	-	15	-	1,218
District Health Services of Manatuto	1,243	402	-	15	-	1,660
District Health Services of Manufahi	1,020	300	-	15	-	1,335
Health Science Institute	250	297	-	15	-	562

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Health Services of Oecusse	824	276	-	15	-	1,114
District Health Services of Viqueque	1,424	386	-	15	-	1,825
Office of Ethics and Quality Control	65	88	200	15	-	368
SAMES (Autonomous Fund and Service)	227	363	-	45	-	635
<b>Ministry of Education</b>	<b>59,366</b>	<b>34,115</b>	<b>6,300</b>	<b>85</b>	<b>-</b>	<b>99,866</b>
Office of the Minister	75	81	-	-	-	156
Office of the Vice Minister for Basic Education	65	36	-	-	-	101
Office of the Vice Minister for Secondary Education	65	39	-	-	-	104
Office of the Vice Minister for Higher Education and Sciences	65	36	-	-	-	101
National Institute of Science and Technology	27	27	-	-	-	54
Office of the Inspector-General	124	59	-	-	-	183
Protocol and Media Office	30	27	-	-	-	57
Directorate-General of Corporative Services	64	52	-	-	-	116
Directorate-General of Higher education	31	80	-	-	-	111
National Directorate of Finance and Logistics	303	8,081	-	85	-	8,468
National Directorate of Human Resources	10,568	209	-	-	-	10,776
National Directorate of Procurement	43	144	-	-	-	187
National Directorate of University Higher Education	612	561	1,750	-	-	2,923
National Directorate of Technical Higher Education	65	141	-	-	-	206
National Directorate of Science and Technology Development	39	71	-	-	-	110

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of School Social Action	103	14,162	2,709	-	-	16,974
National Directorate of Curriculum and School Evaluation	78	2,149	-	-	-	2,227
National Directorate of Pre-School Education	1,319	70	72	-	-	1,461
National Directorate of Basic Education	34,873	593	521	-	-	35,987
National Directorate of General Secondary Education	5,007	175	151	-	-	5,333
National Directorate of Technical and Vocational Secondary Education	1,326	885	1,097	-	-	3,308
National Directorate of Recurrent Education	196	1,213	-	-	-	1,410
Regional Directorate of Oecusse	206	49	-	-	-	255
National Institute for the Training of Teachers and Education Professionals (INFORDOPE)	1,369	2,898	-	-	-	4,267
District Education Services of Dili	401	44	-	-	-	445
District Education Services of Baucau	189	56	-	-	-	245
District Education Services of Aileu	171	52	-	-	-	223
District Education Services of Ainaro	208	47	-	-	-	255
District Education Services of Bobonaro	259	59	-	-	-	318
District Education Services of Ermera	177	66	-	-	-	243
District Education Services of Lautém	169	66	-	-	-	235
District Education Services of Liquiçá	174	52	-	-	-	226
District Education Services of Manatuto	146	54	-	-	-	200
District Education Services of Manufahi	193	58	-	-	-	251

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Education Services of Covalima	224	61	-	-	-	285
District Education Services of Viqueque	170	63	-	-	-	233
National Agency for Academic Assessment and Accreditation (ANAAA)	21	129	-	-	-	150
Directorate-General of Pre-school and Basic Education	26	27	-	-	-	53
Directorate-General of General Secondary Education	21	78	-	-	-	99
National Directorate of School Libraries	34	45	-	-	-	79
National Directorate of Educational Media and Printing Centre	65	441	-	-	-	506
National Directorate of Higher Education Curriculum	66	523	-	-	-	589
Infrastructure Unit	-	360	-	-	-	360
<b>Ministry of State Administration</b>	<b>6,268</b>	<b>11,432</b>	<b>25,126</b>	<b>921</b>	-	<b>43,747</b>
Office of the Minister	77	88	-	-	-	165
Office of the Secretary of State for Administrative Decentralization	64	1,618	-	-	-	1,682
Directorate-General of Administrative Decentralization	20	31	-	-	-	51
National Directorate of Municipal Planning and Finance	43	35	-	-	-	78
Office of the Secretary of State for Local Development	64	94	-	-	-	158
Office of the Inspector-General	61	50	-	-	-	111
Directorate-General	14	72	-	-	-	86
National Directorate of Administration and Finance	78	3,883	-	921	-	4,882
National Directorate of Planning, Evaluation and External Cooperation	51	51	-	-	-	102
Procurement Unit	21	38	-	-	-	59



	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Human Resource Management	50	40	-	-	-	90
National Directorate of Protocol and Media (NDPM)	47	51	-	-	-	98
National Directorate of Logistics and IT	65	121	-	-	-	186
National Archive	132	83	-	-	-	215
Technical Secretariat of Electoral Administration	342	1,777	-	-	-	2,119
National Directorate of Local Development	77	91	-	-	-	168
Technical Secretariat for the National Suco Development Programme (STPNDS)	1,506	663	17,845	-	-	20,014
Directorate-General of Development	20	30	-	-	-	50
National Directorate of Support to Suco Administration	52	100	-	-	-	152
National Directorate of Local Administration	170	39	-	-	-	209
District Administration of Dili	777	1,186	991	-	-	2,954
District Administration of Baucau	143	112	904	-	-	1,159
District Administration of Aileu	342	99	451	-	-	892
District Administration of Ainaro	130	98	369	-	-	597
District Administration of Bobonaro	146	113	687	-	-	946
District Administration of Ermera	380	106	836	-	-	1,322
District Administration of Lautém	144	106	499	-	-	749
District Administration of Liquiçá	328	93	388	-	-	809
District Administration of Manatuto	147	111	379	-	-	637
District Administration of Manufahi	129	105	440	-	-	674

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
District Administration of Oecusse	129	99	238	-	-	466
District Administration of Covalima	182	119	464	-	-	765
District Administration of Viqueque	140	106	637	-	-	883
Municipality Installing Committee	197	25	-	-	-	222
<b>Ministry of Commerce, Industry and Environment</b>	<b>2,339</b>	<b>17,869</b>	<b>4,800</b>	<b>308</b>	-	<b>25,316</b>
Office of the Minister	77	289	-	-	-	365
Office of the Vice-Minister	65	100	-	-	-	165
Office of the Secretary of State for Commerce	63	78	-	-	-	141
Office of the Secretary of State for Industry and Cooperatives	63	78	-	-	-	141
Office of the Secretary of State for the Environment	63	149	-	-	-	212
Internal Audit Office	41	47	-	-	-	88
Legal Office	14	275	-	-	-	289
Directorate-General of Administration and Finance	528	3,817	2,630	308.00	-	7,283
Directorate-General of Trade	587	1,511	250	-	-	2,348
Directorate-General of Industry and Cooperatives	312	1,483	1,600	-	-	3,395
Directorate-General of Environment	374	980	270	-	-	1,624
Food and Economic Inspectorate	93	302	50	-	-	445
Food Security Fund	60	8,762	-	-	-	8,822
<b>Ministry of Social Solidarity</b>	<b>1,850</b>	<b>12,945</b>	<b>179,620</b>	<b>298</b>	<b>2,452</b>	<b>197,165</b>
Office of the Minister	78	149	500	-	-	727

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Office of the Vice-Minister	66	117	-	-	-	183
Office of the Secretary of State for Veteran Affairs	64	223	-	-	-	287
Office of the Secretary of State for Social Security	63	63	-	-	-	126
National Directorate of Non-Contributory Social Security Regime	96	652	34,920	-	-	35,668
National Directorate of Contributory Social Security Regime	50	462	1,002	-	-	1,514
Inspectorate and Internal Audit	40	104	-	-	-	144
Directorate-General	47	400	-	-	-	446
Social Solidarity Regional Centre of Dili	43	73	-	-	-	116
Social Solidarity Regional Centre of Baucau	106	141	-	-	-	247
Social Solidarity Regional Centre of Bobonaro	99	105	-	-	-	204
Social Solidarity Regional Centre of Ermera	76	76	-	-	-	152
Social Solidarity Regional Centre of Manatuto	44	51	-	-	-	95
Social Solidarity Regional Centre of Manufahi	69	83	-	-	-	151
Social Solidarity Regional Centre of Oecusse	77	84	-	-	-	161
National Directorate of Administration and Finance	156	808	-	298	630	1,892
National Directorate of Human Resource Management	85	1,018	-	-	-	1,103
National Directorate for Veteran Affairs	137	4,873	130,447	-	1,822	137,279
National Directorate of Social Assistance	165	1,142	860	-	-	2,166
National Directorate of Social Reinsertion	134	462	10,892	-	-	11,488
National Directorate of Disaster Management	136	1,212	1,000	-	-	2,348

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Rehabilitation Centre	21	647	-	-	-	668
<b>Ministry of Public Works including Autonomous Funds and Services</b>	<b>5,529</b>	<b>126,317</b>	<b>1,500</b>	<b>3,475</b>	<b>20,607</b>	<b>157,428</b>
<b>Ministry of Public Works excluding Autonomous Funds and Services</b>	<b>4,598</b>	<b>124,110</b>	<b>1,500</b>	<b>3,475</b>	<b>20,607</b>	<b>154,290</b>
Office of the Minister of Public Works	77	793	-	-	-	870
Office of the Secretary of State for Public Works	63	36	-	-	-	99
Office of the Secretary of State for Electricity	63	41	-	-	-	104
Office of the Secretary of State for Water, Sanitation and Urbanism	63	25	-	-	-	88
Directorate-General of Corporative Services	314	2,419	1,500	3,475	20,607	28,315
Directorate-General of Public Works	1,189	575	-	-	-	1,764
Directorate-General of Electricity	1,820	118,092	-	-	-	119,912
Directorate-General of Water, Sanitation and Urbanism	1,009	2,129	-	-	-	3,138
Equipment Management Institute (Self-funded Agency)	931	2,207	-	-	-	3,138
<b>Ministry of Transports and Communications including Autonomous Funds and Services</b>	<b>1,730</b>	<b>5,231</b>	<b>-</b>	<b>12,671</b>	<b>2,714</b>	<b>22,346</b>
<b>Ministry of Transports and Communications excluding Autonomous Funds and Services</b>	<b>1,189</b>	<b>2,243</b>	<b>-</b>	<b>671</b>	<b>2,714</b>	<b>6,817</b>
Office of the Minister	73	58	-	-	-	131
Office of the Vice-Minister of Transports and Communications	69	67	-	-	-	136
Directorate-General of Corporative Services	252	1,489	-	514	500	2,755
Directorate-General of Transports and Communications	732	603	-	157	2,214	3,706
Civil Aviation Authority of Timor-Leste (AACTL)	63	26	-	-	-	89

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Airport and Air Navigation Administration of Timor-Leste (Autonomous Fund and Service)	374	551	-	-	-	925
Port Authority of Timor-Leste (Autonomous Fund and Service)	167	2,437	-	12,000	-	14,604
<b>Ministry of Agriculture and Fisheries</b>	<b>6,504</b>	<b>14,176</b>	<b>750</b>	<b>498</b>	<b>3,749</b>	<b>25,677</b>
Office of the Minister	78	70	-	-	-	148
Office of the Vice-Minister	65	65	-	-	-	130
Office of the Secretary of State for Forests and Nature Preservation	63	60	-	-	-	123
Office of the Secretary of State for Fisheries	63	60	-	-	-	123
Directorate-General of Forestry and Fisheries	29	25	-	-	-	54
National Directorate for Nature Conservation	-	201	-	-	-	201
National Directorate for Managing Water Resources and Inspecting Fisheries	153	116	-	-	-	269
Office of the Secretary of State for Livestock	63	60	-	-	-	123
Directorate-General of Agriculture and Livestock	29	25	-	-	-	54
National Directorate of Veterinary Services	-	402	-	48	-	450
Directorate-General of Corporative Services	29	25	-	-	-	54
National Directorate of Human Resources	97	154	-	-	-	251
National Directorate of Procurement and Logistics	154	505	-	-	-	659
National Directorate of Agro-Trade	73	118	-	-	-	191
National Directorate of Administration and Finance	306	568	-	127	-	1,001
Inspection and Audit	33	25	-	-	-	58

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Legal Office	21	10	-	-	-	31
National Directorate of Special Services and Research	210	381	-	-	-	591
National Directorate of Quarantine and Biosecurity	244	176	-	-	-	420
National Directorate of Agricultural Technical Training	557	341	-	23	-	921
National Directorate of Policy and Planning	82	138	-	-	-	220
National Directorate of Agriculture and Horticulture	205	4,225	-	-	2,000	6,430
National Directorate of Plants, Industry and Coffee	126	440	-	-	-	566
Secretariat for Food Security and Sovereignty, Nutrition and Cooperation	50	1,042	-	-	-	1,092
National Directorate of Forestry and Watershed Management	257	254	-	-	-	511
National Directorate of Irrigation and Water Use Management	121	568	-	-	1,749	2,438
National Directorate of Fisheries and Aquaculture	253	586	-	300	-	1,139
National Directorate of Livestock	299	783	-	-	-	1,082
National Directorate of Support to Agriculture Commercial Development	139	1,466	750	-	-	2,355
Agriculture Services in the District of Aileu	109	61	-	-	-	170
Agriculture Services in the District of Ainaro	153	77	-	-	-	230
Agriculture Services in the District of Baucau	272	100	-	-	-	372
Agriculture Services in the District of Bobonaro	308	121	-	-	-	429
Agriculture Services in the District of Covalima	258	107	-	-	-	365
Agriculture Services in the District of Ermera	165	68	-	-	-	233
Agriculture Services in the District of Liquiçá	163	77	-	-	-	240

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
Agriculture Services in the District of Lautém	260	105	-	-	-	365
Agriculture Services in the District of Manatuto	165	99	-	-	-	264
Agriculture Services in the District of Manufahi	252	105	-	-	-	357
Agriculture Services in the District of Oecusse	263	204	-	-	-	467
Agriculture Services in the District of Viqueque	281	113	-	-	-	394
Directorate of Agriculture Services for the District of Dili	56	50	-	-	-	106
<b>Ministry of Tourism</b>	<b>860</b>	<b>4,535</b>	<b>1,000</b>	<b>9</b>	<b>768</b>	<b>7,172</b>
Office of the Minister	72	317	-	-	-	392
Inspectorate and Internal Audit Office	49	30	-	-	-	64
Office of the Secretary of State for Arts and Culture	63	93	-	-	-	156
Directorate-General of Tourism	55	86	-	-	-	141
Regional Directorate of Tourism I (District of Dili)	-	30	-	-	-	30
Regional Directorate of Tourism II (District of Baucau)	-	30	-	-	-	30
Regional Directorate of Tourism III (District of Ainaro)	-	30	-	-	-	30
Regional Directorate of Tourism IV (District of Ermera)	-	30	-	-	-	30
Directorate-General of Culture	76	137	150	-	-	363
Inspectorate-General of Lotteries	66	65	-	-	-	131
National Directorate of Museums and Libraries	49	32	-	-	-	81
National Directorate of Cultural Legacy	53	117	-	-	-	170
National Directorate of Arts, Culture and Creative Industries	40	46	-	-	-	86

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
National Directorate of Tourism Marketing	35	79	-	-	-	114
National Directorate of Tourism Planning and Development	29	97	-	-	768	894
National Directorate of Tourism Enterprises, Activities and Products	39	87	850	-	-	976
National Directorate of Museums	48	35	-	-	-	83
Academy of Cultural Creative Industries and Arts	-	346	-	-	-	346
Directorate-General of Administration and Finance	42	1,989	-	-	-	2,031
National Directorate of Human Resource Management	31	73	-	-	-	104
National Directorate of Finance Management	34	75	-	9	-	118
National Directorate of Procurement and Logistics	47	582	-	-	-	629
National Directorate of Research and Development	44	29	-	-	-	73
Dili Convention Centre (DCC)	-	100	-	-	-	100
<b>Ministry of Oil and Mineral Resources</b>	<b>253</b>	<b>2,147</b>	<b>11,500</b>	<b>9</b>	<b>-</b>	<b>13,909</b>
Office of the Minister	62	585	-	-	-	647
National Directorate of Administration and Finance	136	879	11,500	9	-	12,524
Secretariat TL- EITI	4	465	-	-	-	469
National Directorate of Minerals	51	218	-	-	-	269
<b>Courts</b>	<b>1,534</b>	<b>3,169</b>	<b>-</b>	<b>440</b>	<b>250</b>	<b>5,393</b>
Superior Council of the Judiciary	31	7	-	-	-	38
Court of Appeal	1,162	2,951	-	440	250	4,803
District Courts	341	212	-	-	-	553



	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
<b>Office of the Prosecutor-General of the Republic</b>	<b>1,423</b>	<b>1,720</b>	-	<b>136</b>	<b>460</b>	<b>3,738</b>
Office of the Prosecutor-General of the Republic	1,020	1,647	-	136	460	3,263
District Prosecution of Baucau	190	30	-	-	-	219
District Prosecution of Suai	135	26	-	-	-	161
District Prosecution of Oecusse	78	18	-	-	-	96
<b>Office of the Provedor for Human Rights and Justice</b>	<b>520</b>	<b>465</b>	-	<b>110</b>	-	<b>1,095</b>
Office of the Provedor for Human Rights and Justice	399	376	-	110	-	885
Directorates of Human Rights and Good Governance	121	89	-	-	-	210
<b>Public Radio and Television Broadcasting Service of Timor-Leste</b>	<b>734</b>	<b>1,117</b>	-	<b>267</b>	-	<b>2,117</b>
Directorate of Information	235	68	-	-	-	303
Directorate of Administration and Finance	151	922	-	60	-	1,132
Directorate of Programming	149	70	-	96	-	314
Directorate of Technical Support	200	56	-	111	-	367
<b>National Elections Commission</b>	<b>542</b>	<b>2,185</b>	<b>6,000</b>	<b>37</b>	-	<b>8,764</b>
National Elections Commission	542	2,185	6,000	37	-	8,764
<b>Anti-Corruption Commission</b>	<b>388</b>	<b>929</b>	-	<b>164</b>	-	<b>1,481</b>
Anti-Corruption Commission	388	929	-	164	-	1,481
<b>Civil Service Commission</b>	<b>1,003</b>	<b>2,148</b>	-	<b>60</b>	-	<b>3,211</b>
Civil Service Commission	684	2,064	-	60	-	2,808
National Institute of Public Administration	319	84	-	-	-	403

	Salaries and Wages	Goods and Services	Transfers	Minor Capital	Capital Development	Total Expenses
<b>National University of Timor-Leste</b>	<b>6,697</b>	<b>2,940</b>	<b>3,974</b>	<b>174</b>	<b>700</b>	<b>14,485</b>
National University of Timor-Leste	6,697	2,940	3,974	174	700	14,485

**ATTACHMENT III**

**Autonomous Funds and Services partly funded from own revenues within the State General Budget**

	Expenses	Own Revenues	SGB Appropriation
<b>ANATL</b>			
Salaries and Wages	374		
Goods and Services	551		
Public Transfers	-		
Minor Capital	-		
Capital Development	-		
<b>Total</b>	<b>925</b>	<b>2,077</b>	<b>(1,153)</b>
<b>APORTIL (Inc. Berlin Nakroma)</b>			
Salaries and Wages	167		
Goods and Services	2,437		
Public Transfers	-		
Minor Capital	12,000		
Capital Development	-		
<b>Total</b>	<b>14,604</b>	<b>5,392</b>	<b>9,212</b>
<b>IGE</b>			
Salaries and Wages	931		
Goods and Services	2,207		
Public Transfers	-		
Minor Capital	-		
Capital Development	-		
<b>Total</b>	<b>3,138</b>	<b>134</b>	<b>3,004</b>
<b>SAMES</b>			
Salaries and Wages	227		
Goods and Services	363		
Public Transfers	-		
Minor Capital	45		
Capital Development	-		
<b>Total</b>	<b>635</b>	<b>1</b>	<b>634</b>
<b>Total Autonomous Funds and Services</b>	<b>19,302</b>	<b>7,604</b>	<b>11,698</b>

**ATTACHMENT IV – Budget Appropriations for the Infrastructure Fund in 2015 (US\$'000)**

<b>Programme / Sub-programme</b>	<b>Expenses funded by carryover from 2014</b>	<b>Salaries and Wages</b>	<b>Goods and Services</b>	<b>Public Transfers</b>	<b>Minor Capital</b>	<b>Capital Development (to add in 2015)</b>	<b>Total Expenses</b>
<b>Total Including Loans</b>	<b>11,100</b>	-	-	-	-	<b>422,895</b>	<b>433,995</b>
<b>Total Excluding Loans</b>	-	-	-	-	-	<b>363,995</b>	<b>363,995</b>
<b>Total Loans</b>	<b>11,100</b>	-	-	-	-	<b>58,900</b>	<b>70,000</b>
Agriculture and Fisheries Programme	-					7,236	<b>7,236</b>
Water and Sanitation Programme	-					5,598	<b>5,598</b>
Urban and Rural Development Programme	-					9,595	<b>9,595</b>
Public Buildings Programme	-					17,463	<b>17,463</b>
Financial System and Infrastructure Supporting Programme	-					19,635	<b>19,635</b>
Youth and Sports Sector Programme	-					2,750	<b>2,750</b>
Education Sector Programme	-					7,962	<b>7,962</b>
Electricity Programme	-					58,128	<b>58,128</b>
IT Programme	-					1,400	<b>1,400</b>
Millennium Development Goals	-					11,000	<b>11,000</b>

Health Sector Programme	-	3,996	<b>3,996</b>
Defence and Security Programme	-	12,528	<b>12,528</b>
Security Sub-programme	-	8,389	<b>8,389</b>
Defence Sub-programme	-	4,139	<b>4,139</b>
Social Solidarity Programme (Monuments)	-	-	-
Tasi Mane Development Programme	-	37,581	<b>37,581</b>
Road Programme	-	59,800	<b>59,800</b>
Bridge Programme	-	9,818	<b>9,818</b>
Airport Programme	-	19,000	<b>19,000</b>
Port Programme	-	8,855	<b>8,855</b>
Oecusse Region Development Programme	-	62,461	<b>62,461</b>
Tourism Programme	-	1,000	<b>1,000</b>
Drafting of Designs and Supervision – New Projects	-	8,189	<b>8,189</b>
Programme for Loans	11,100	58,900	<b>70,000</b>

**ATTACHMENT V – Budget Appropriations for the Human Capital Development Fund in 2015 (US\$'000)**

<b>Programme / Sub-programme</b>	<b>Expenses funded by carryover from 2014</b>	<b>Salaries and Wages</b>	<b>Goods and Services (to add in 2015)</b>	<b>Public Transfers</b>	<b>Minor Capital</b>	<b>Capital Development</b>	<b>Total Expenses</b>
<b>Total</b>	<b>2,100</b>	<b>-</b>	<b>30,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,100</b>
Professional Training	300		9,819				<b>10,119</b>
Technical Training	100		3,698				<b>3,798</b>
Scholarships	1,600		14,340				<b>15,940</b>
Other Types of Training	100		2,143				<b>2,243</b>

## **Part 4: Supporting Documentation**

### **4.1: Justification for Transfer from the Petroleum Fund**

[This justification will be submitted to the national parliament separately and included in the final version of this budget book]

## **4.2: ESI Report 1: Requirement for Transfers from the Petroleum Fund for 2015 ESI**





República Democrática de Timor-Leste  
Ministério das Finanças



Gabinete da Ministerial

"Seja um bom cidadão, seja um novo herói para a nossa Nação"

No: 497 / V/GMF / 2014-10

Dili, 8 October 2014

H.E. Kay Rala Xanana Gusmao  
Prime Minister  
Democratic Republic of Timor-Leste

**SUBJECT: REQUIREMENT FOR TRANSFERS FROM PETROLEUM FUND**

Excellency,

This report is provided in accordance with Article 8 a) and b) of the Petroleum Fund Law No. 9/2005, of 3<sup>rd</sup> August as amended by Law No. 12/2011, of 28<sup>th</sup> September.

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: 2015	<b>Amount (USD)</b> \$638.5 million
Estimated Sustainable Income For preceding Financial Year: 2014	<b>Amount (USD)</b> \$632.3 million

A review of the methodology which the ESI-calculations are based on is included in the Budget 2015. According to Article 8 c) of the Petroleum Fund Law, the Independent Auditor shall certify the amount of the Estimated Sustainable Income. Please find attached the certification report.

Yours sincerely,

Emilia Pires  
Minister

On behalf of Minister of Finance

Santana J.R.F. Viegas Cardoso  
Vice Minister



Edifício 5, 1.º Andar,  
Palácio do Governo,  
Dili, Timor-Leste  
Phone - +670 5339510  
Fax - +670 5331204  
Website - [www.mof.gov.tl](http://www.mof.gov.tl)

## 4.3: ESI Report 2: Requirement for Transfers from the Petroleum Fund for medium term ESI



República Democrática de Timor-Leste  
Ministério das Finanças



Gabinete da Ministerial

*"Seja um bom cidadão, seja um novo herói para a nossa Nação"*

No: 498 / V/GMF / 2014-10

Dili, 8 October 2014

H.E. Fernando Lasama de Araujo  
Acting Prime Minister  
Democratic Republic of Timor-Leste

### SUBJECT: REQUIREMENT FOR TRANSFERS FROM PETROLEUM FUND

Excellency,

This report is provided in accordance with Article 9 b) of the Petroleum Fund Law No. 9/2005, of 3<sup>rd</sup> August as amended by Law No. 12/2011, of 28<sup>th</sup> September.

As required in Article 9 b), the table below shows the reduction of Estimated Sustainable Income for Fiscal Years commencing after 2014, as a result of the proposed transfer from the Petroleum Fund of an amount in excess of the Estimated Sustainable Income in 2014:

Fiscal Year	Estimated Sustainable Income Withdrawals in 2015	
	\$638.5 million	\$1327.5 million
2016	653.6	632.4
2017	670.0	648.3
2018	687.4	665.0
2019	705.7	682.7
2020	724.6	701.1
2021	744.0	719.9
2022	763.9	739.1
2023	784.4	759.0
2024	805.5	779.3
2025	827.1	800.2

According to Article 9 c) the Independent Auditor shall certify the estimates of reduction in the Sustainable Income. Please find attached the certification report.

All calculations have been carried out by technical experts in the Ministry of Finance and with external professional assistance.

Yours sincerely,

Emilia Pires  
Minister

On behalf of Minister of Finance

Santina J.R.F. Viegas Cardoso  
Vice Minister



Edifício 5, 1.º Andar,  
Palácio do Governo,  
Dili, Timor-Leste  
Phone - +670 3339530  
Fax - +670 3331264  
Website - [www.mof.gtr.tl](http://www.mof.gtr.tl)

## 4.4: Deloitte Report on the ESI

**Deloitte.**

Deloitte Touche Tohmatsu  
ABN 74 450 121 060

Level 11  
24 Mitchell Street  
Darwin NT 0800  
GPO Box 4296  
Darwin NT 0801 Australia

Tel: +61 (0) 8 8980 3000  
Fax: +61 (08) 8980 3001  
www.deloitte.com.au

Her Excellency Emilia Pires  
Ministry of Finance  
Democratic Republic of Timor-Leste  
Edificio No. 5, Res-do-Cao  
Palacio do Governo, Dili, Timor-Leste

10 October 2014

Dear Minister

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

In accordance with Contract RDTL 83683 and subsequent addenda 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 Law 9/2005 *Petroleum Fund Law* as amended by Law 12/2011 *First Amendment to Petroleum Fund Law*. 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 enquiries 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.

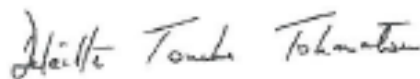
Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

This report is provided solely for your exclusive use and solely for the purpose of satisfying the requirements Article 9 (c) of Law 9/2005 *Petroleum Fund Law* as amended by Law 12/2011 *First Amendment to Petroleum Fund Law*. 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
<p>1. Obtain the underlying calculations which support the report of Government that is to be provided to Parliament pursuant to Article 9(b).</p>	<p>1. 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 3 October 2014.</p>
<p>2. Agree the calculation methodology to the Estimated Sustainable Income calculation for the Fiscal Year Budget 2014 as previously obtained by Deloitte.</p>	<p>2. The calculation methodology was agreed to that of the Estimated Sustainable Income calculation used for the Fiscal Year Budget 2015 as previously obtained by Deloitte.</p>
<p>3. 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 2014 and agree the value to the updated underlying calculation, which incorporates the proposed Government transfer.</p>	<p>3. A Government transfer of US\$1,327.5 million was advised by the Ministry of Finance to Deloitte and is noted to exceed the Estimated Sustainable Income of US\$638.5 million as previously calculated by the Government for purposes of the Fiscal Year Budget 2015, by US\$689 million. The US\$1,327.5 million was incorporated into the updated underlying calculation.</p>
<p>4. Re-perform the calculation of the estimated reduction in the Estimated Sustainable Income for the Fiscal Years commencing 1 January 2015 that results from the proposed Government transfer from the Petroleum Fund in Fiscal Year 2014.</p>	<p>4. The calculation of the estimated reduction in the Estimated Sustainable Income for future Fiscal Years commencing 1 January 2016 was re-performed without exception. The estimated reduction in the Estimated Sustainable Income in each future year from 2016 to 2025 ranged from US\$21.2 million to US\$26.9 million over the period as set out in Appendix A.</p>
<p>5. Provide a report to Government in accordance with of Law 9/2005 <i>Petroleum Fund Law</i> as amended by Law 12/2011 <i>First Amendment to Petroleum Fund Law</i>.</p>	<p>5. Report herewith.</p>

Yours faithfully



Deloitte Touche Tohmatsu

## Projected future payments

Excess of the Estimated Sustainable Income in 2015:

Fiscal Year	Estimated Sustainable Income Withdrawals in 2015	
	\$638.5 million	\$1327.5 million
2016	653.6	632.4
2017	670.0	648.3
2018	687.4	665.0
2019	705.7	682.7
2020	724.6	701.1
2021	744.0	719.9
2022	763.9	739.1
2023	784.4	759.0
2024	805.5	779.3
2025	827.1	800.2

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 3331204

Website - [www.mof.gov.tl](http://www.mof.gov.tl)