República Democrática de Timor-Leste

State Budget 2018

Budget Overview

Book 1

Book 1 – Budget Overview

Preface

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

In accordance with this provision and to promote the transparency of the public finances, the Ministry of Finance is publishing the final version of the documents relating to the 2018 State Budget, following the approval of the Council of Minister .

The documentation for the 2018 State Budget consists of the Budget Law, plus various supporting budget books:

Book 1	**: Budget Overview**
Book 2	: Annual Action Plan
Book 3A	: Infrastructure Fund
Book 3B	: Municipalities
Book 3C	: RAEOA & ZEESM
Book 4a and 4b	: Budget Line Items
Book 5	: Development Partners
Book 6	: Special Fund - FDCH

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

Budget documentation is available on the website of the Ministry of the Finance, www.mof.gov.tl. Inquiries relating to this publication should be directed to the General Directorate of State Finance on email jgama@mof.gov.tl telp.+67077852000, syaquim@mof.gov.tl – telp.+67077305809 and spmartins@mof.gov.tl – telp.+67077879183.

I consider that this document will increase awareness and understanding of the Government's finances and help people to become good citizens and heroes to our nation by providing them with relevant information on the 2018 State Budget.

GABINETE DA VICE MINISTRA
MINISTERIU FINANSAS

Sara Lobo Brites
Vice-Minister and Acting of Minister of Finance

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2.1.1: Government Policy

The Government of Timor-Leste's policies as guided by Strategic Development Plan are laid out in the Annual State Budget, with the long-term objective to become an upper middle income country by 2030. Achieving this goal, the Government is investing in infrastructure and key economic sectors including tourism, health, education and agriculture. Detail on the Government's program is laid out in part 2.2. Budget Book 1 for 2018 summarizes the plans on pursuing these policies for the current fiscal year.

Table 2.1.1.1: Combined Sources Budget 2016-2022, $ million

	2016 Actual	2017 Provisional	2018 Budget	2019	2020	2021	2022
Combined Sources Budget	**1,834.5**	**1,369.6**	**1,461.3**	**1,772.9**	**1,480.8**	**1,309.1**	**1,303.8**
Government Expenditures by Fund	**1,629.9**	**1,192.9**	**1,279.6**	**1,633.9**	**1,365.3**	**1,256.7**	**1,303.8**
CFTL (excl. loans)	1,570.6	1,138.9	**1,194.1**	1,522.1	1,299.4	1,216.4	1,266.2
HCDF	28.7	23.9	**23.9**	24.8	25.8	26.8	27.9
Borrowing/Loans (disbursements)	30.6	30.1	**61.6**	87.0	40.0	13.5	9.7
Development Partner Commitments	**204.6**	**176.7**	**181.7**	**139.0**	**115.5**	**52.4**	**-**

Sources: National Directorate of Budget and Development Partnership Management Unit, Ministry of Finance, 2018

2.1.2: Economic Growth

Becoming an upper middle income country by 2030 requires strong, high-quality non-oil economic growth. Public investment seen from 2007 to 2016 through the frontloading fiscal policy has driven growth in the non-oil economy, averaging at 6.9% per year. This was aimed at providing necessary foundations for long-term sustainable private sector led development. The real non-oil GDP growth was strong in 2016 at 5.3%, up from 4.0% in 2015. In particular, household consumption increased by 6.0% suggesting that living standards are continuing to increase in Timor-Leste. There were challenges during 2017 that have continued into 2018, and these have affected the growth forecasts. However, with the return to a normal budget situation, the growth of previous years is expected to return.

2.1.3: Expenditure

Total expenditure in the 2018 budget is $1,279.6 million (excluding donor funded activities). This is lower than the allocation for the 2017 State Budget predominantly due to a sizeable reduction in the allocation for Public Transfers. The new Government is also using the 2018 State Budget as a means to pay off various outstanding financial commitments generated in previous years before the government took office. This is critical for the Government in its efforts to strengthen public financial management in Timor-Leste.

Due to the delayed submission of the 2018 State Budget, all government spending in 2018 thus far has occured under the application of the Duo-Decimal regime for the 2017 State Budget. The 2018 State Budget presents allocations for the entirety of 2018, including what has already been spent since the start of the year.

The Government is focussed on continuing to develop key infrastructure throughout Timor-Leste, in order to stimulate growth and reduce poverty. With the successful implementation of the electricity project, focus is now shifting towards investment in roads, ports, airports and bridges. As a result, expenditures, particularly on key sectors and priority infrastructure projects, will increase in 2019. However as some SDP priority projects will begin to near completion, expenditure and excess withdrawals are expected to fall. Over the long-term expenditure will fall further whilst domestic revenue will continue to increase, allowing excess withdrawals to fall.

Table 2.1.3.1: Fiscal Table with Memorandum Items, $ million

	2014 Act.	2015 Act.	2016 Act.	2017 Prov.	2018 Budget	2019	2020	2021	2022
Total Expenditure by Appropriation Category (incl. loans)	**1,343.3**	**1,336.7**	**1,629.9**	**1,192.9**	**1,279.6**	**1,633.9**	**1,365.3**	**1,256.7**	**1,303.8**
Total Expenditure by Appropriation Category (excl. loans)	**1,327.5**	**1,312.5**	**1,599.3**	**1,162.8**	**1,218.0**	**1,546.9**	**1,325.3**	**1,243.2**	**1,294.1**
Recurrent	918.3	1,029.6	1,027.7	931.3	883.9	919.3	956.0	994.3	1,034.0
Salary and Wages	162.5	173.4	178.6	197.2	200.3	208.3	216.7	225.3	234.3
Goods and Services (inc. HCDF)	464.2	423.8	378.1	328.4	421.7	438.5	456.1	474.3	493.3
Public Transfers	291.7	432.5	471.1	405.8	261.9	272.4	283.3	294.6	306.4
Capital	424.9	307.1	602.2	261.5	395.7	714.6	409.2	262.5	269.8
Minor Capital	53.6	33.9	20.8	13.1	3.7	3.8	4.0	4.1	4.3
Capital and Development (including loans)	371.4	273.1	581.4	248.4	392.0	710.8	405.3	258.3	265.5
Revenue	**799.7**	**808.3**	**744.1**	**671.2**	**739.2**	**737.4**	**727.4**	**724.0**	**723.4**
Domestic Revenue	167.4	169.8	199.3	189.6	188.8	198.3	208.5	219.0	230.0

	2014 Act.	2015 Act.	2016 Act.	2017 Prov.	2018 Budget	2019	2020	2021	2022
Estimted Sustainable Income (ESI)	632.3	638.5	544.8	481.6	550.4	539.1	518.9	505.0	493.4
Fiscal Balance	**(543.6)**	**(528.4)**	**(885.8)**	**(521.7)**	**(540.4)**	**(896.5)**	**(637.9)**	**(532.7)**	**(580.5)**
Financing	**543.0**	**528.2**	**885.8**	**521.7**	**540.4**	**896.5**	**637.9**	**532.7**	**580.5**
Excess Withdrawals from the PF	99.7	640.0	700.0	597.1	434.4	809.5	597.9	519.2	570.8
Use of Cash Balance	427.6	(136.0)	155.1	(105.6)	44.4	-	-	-	-
Borrowing/Loans (disbursements)	15.8	24.2	30.6	30.1	61.6	87.0	40.0	13.5	9.7

Sources: National Directorate of Budget, National Directorate of Economic Policy, Petroleum Fund Administration Unit and Major Projects Secretariat, Ministry of Finance, 2018

2.1.4: Domestic Revenue

Domestic revenues in 2017 have fallen below domestic revenues in 2016. This trend reflects the poor performance of GDP growth, which negatively affected tax receipts, the main component of non-oil revenue. In 2018, domestic revenues are expected to be roughly constant to their 2017 level. This trend is likely due to the weak macroeconomic performance and political environment, which has slowed down efforts in fiscal reform. Positive trends in domestic revenues are expected in the medium term thanks to a combination of improvements in administration, fiscal reform and stronger economic performance (see Table 2.6.1.1).

The Estimated Sustainable Income (ESI) is the sustainable amount of petroleum revenue which can be withdrawn from the Petroleum Fund each year. Since spending only up to non-oil revenue and the ESI allows to maintain fiscal sustainability, the treatment of ESI has changed with this budget to be considered a component of total revenue. The ESI for 2018 is calculated at $550.4 million.

2.1.5: Financing

The ESI-adjusted balance is equal to revenue minus expenditure (see Table 2.7.1.1.). The Government uses excess withdrawals from the Petroleum Fund (PF), loans and the cash balance to finance the ESI-adjusted deficit in 2018.

The total amount budgeted to be withdrawn from the PF in 2018 is $984.8 million, with excess withdrawals of $434.4 million. The Government considers that excess withdrawals are necessary in the medium term to finance priority capital expenditures.

Loans are becoming an increasingly important tool for financing in the Government of Timor-Leste. The current loans contracted by the Government of Timor-Leste are used to finance key infrastructure projects and have relatively low rates of interest and significant grace periods. Total loan financing for 2018 is $61.6 million.

In 2018, the Treasury account for all government entities is expected to run a positive cash balance of $44.4 million. Hence, cash balance will be included in finance expenditures in the 2018 State Budget.

2.2: Government Program 2018-2023

The executive, during its mandate, will continue to transform Timor-Leste, from a low-income country to a medium high income country: a country in which the population lives in safety, and is healthy, educated and prosperous.

The Government is set to implement the 2030 Agenda for Sustainable Development of the United Nations, incorporating both the Strategic Development Plan and the Sustainable Development Goals (SDGs). This Global agenda is composed of 17 SDGs, aimed at solving the needs of people, emphasizing that no one should be left behind, guaranteeing a better future not only for Timorese but also for the whole world at large.

Investments in **social capital** aim to build a healthy and educated society, to meet the social needs of the people and to produce a workforce that accompanies the development of the country. Investments in **infrastructure** aim to contribute to an emerging, interconnected and sustainable economy. We have a complete plan of infrastructure for the construction of **ports, airport, roads, drinking water and basic sanitation** across the country, to be implemented with a new dynamic in the next five years. Investment in **economic development** will enable Timor-Leste to be a prosperous, modern, and diversified economy. Reforms to **government administration and good governance** will enhance the ability of government to deliver to citizens

2.2.1: Development of Social Capital

Timor-Leste's economic development is a national goal that depends heavily on the empowerment, health, and qualification of its workforce. Investing in human capital is therefore a key strategy to enable sustainable development while creating conditions for greater inclusion, well-being and dignity in Timorese society.

A culturally democratic and developed society is also one that leaves no one behind, investing in the most fragile and vulnerable groups, and where the fundamental role of women, young and old, for sustainable development is recognized.

The Government's program includes, amongst other measures:

Education. The Government will improve the quality of education and vocational training, ensuring equal access of all Timorese to all areas of education through reform the management and administration of the education system. This will include improving schooling; modernizing and ensuring greater relevance of continuing vocational training efforts; developing national human resources through multiannual programs; strengthening the National Education Commission (CNE); and consolidating the Tetum language.

Health. The Government will continue to implement the National Health Policy and the National Strategic Plan for the Health Sector 2011-2030 (PENSS 2011-2030), maintaining the vision of having a “healthy Timor-Leste”.

Youth. The Government will create opportunities that enable young people to realize their potential through implementing the National Youth Policy and the National Youth Development Council.

Sport. The Government will promote and encourage the practice of sports activities through the implementation of Strategic Sports Plan.

Information and Communication Technologies. The Government will continue to implement the Information and Communication Technologies Policy. As well as providing training and a new legal framework, the government will create the necessary infrastructures for widespread Internet access throughout the country. Within government, a strategy will be implemented for the administrative modernization and development of Electronic Government, providing training in Information and Communication Technologies for all leaders, administrators, directors, and public officials.

Housing. To provide decent housing for our citizens, the Government will review the 2007 National Housing Policy and develop a National Housing Program, and create and implement a program to support the rehabilitation and construction of housing.

2.2.2: Infrastructure

Infrastructure is crucial to economic and social development, and the scale and costs associated with the implementation of an infrastructure network are a huge challenge to sustain productivity, job creation and private sector development at the national level.

For this reason, **planning, budgeting, monitoring and evaluation** are an essential part of this strategy. Thus, in the short term, the Government proposes to carry out a **detailed survey of all infrastructure and current projects**. The infrastructure plan will be subject to reassessment, correction, and restructuring, combating the asymmetries and filling the many gaps that are still existing in terms of basic infrastructure in the country.

One of the main priorities of the Government in relation to the infrastructure sector, is to demand **greater professionalism** on the part of human resources and contractors in this sector, implementing institutional reform that includes better planning, monitoring, inspection and supervision of projects and works in progress. In order to build a productive and modern economy it is necessary to continue to invest considerably in large-scale infrastructures. It is also necessary to guarantee quality construction and delivery of the **most**

benefit for the least cost, to **project future maintenance costs**, and to do this while assessing the available resources and **future sustainability**.

It is intended, with this infrastructure plan, to combat extreme poverty in the country. This will be achieved through facilitating access to health and education, improving water, sanitation, and electricity infrastructure, and access to the internet. It will create conditions for private investment and economic growth, through the provision of better transport, communications and energy supply. By facilitating mobility and access to work, and also through the opportunities arising from economic growth and increased private investment in the country, it will raise employment opportunities.

2.2.3: Development of the Economy

Although much progress has been made in this area, Timor-Leste must continue to invest in strategic planning for a **modern and diversified economy**. Much-needed economic diversification will be achieved through empowering the productive sectors around three essential industries - agriculture, tourism, and oil - through the study and use of existing natural resources, taking advantage of the added value of geographical location and population profile.

Job creation and the promotion of entrepreneurship are integral in the pursuit of economic development, and the Government must create the conditions to ensure these are available to the young. To this end, the Government will introduce legal and political mechanisms to stimulate creativity, innovation and diversification of the national economy.

The Government of Timor-Leste will develop a **National Planning Framework**, with a view to the implementation of Development Centers in the various regions of the country, which defines the characteristics of each region and the growth potential of each sector and sub-sector, according to the resources places available for the implementation of actions and strategies for sustainable growth and equitable development throughout the country.

2.2.4: Government Policy and Adminsitration

The government intends to create a working environment for all, particularly young people and the well-being of the entire population. **Macroeconomic policy** will focus above all on economic development with high, inclusive and sustainable growth, diversification of the economy through the development of productive sectors, the promotion of private sector investment, strengthening fiscal sustainability and developing the financial industry.

The Government will work with the Central Bank of Timor-Leste (BCTL) to promote the development of the **financial industry** by creating a favorable environment, facilitating the commercial activities of the banking sector, insurance institutions, microcredit institutions and the financial market in Timor-Leste. The Government will establish a Timor-Leste Development Bank (BDTL), with the aim of facilitating access to long-term financing with affordable interest rates. Finally, the Government, through the Ministry of Finance, will work with the Central Bank of Timor-Leste (BCTL) to conduct in-depth studies and analyzes on the advantages and disadvantages of using the dollar currency or using its own currency.

The government will continue to improve and strengthen **public finance management** with transparency, accountability, efficiency and sustainability as one of its major programs. The promotion of public finance management for the better will be done through a Public Finance Management Reform, including the continued implementation of program budgeting. Tax will be targeted to reach 18% of GDP by 2023, including through the introduction of a VAT law. The Procurement law will be reviewed and updated. Further, there will be efforts in strengthening management and expanding the implementation of Public-Private Partnerships, establishing good policy and management of public debt (loans), maintaining a good and prudent management of the Petroleum Fund, and also to make sound management of the public funds, including the Social Security Fund. Finally, a dedicated institution will be established to coordinate with the relevant public institutions, and to manage all state assets, furniture and real estate.

2.2.5: Good Governance and Combating Corruption

Good governance is a professional, competent and efficient public sector, which are essential conditions for the provision of public services and for the implementation of the policies and actions set forth in the Strategic Development Plan and in the Government Program. Increasing confidence in governance necessarily implies raising the performance of the public sector, since it is the primary driver of national economic growth at first.

Conducting audits and establishing effective mechanisms to ensure the transparency of public institutions and independent accountability of their actions are the main guarantor of good governance. Good governance, in turn, helps prevent corruption at all levels of society.

As such, the Government will promote the principles of transparency, accountability, integrity, and leadership through risk management mechanisms, accountability based on results, complaints systems and, fundamentally, adequate use of public funds.

To promote good governance and fight against corruption, the Government will, amongst other measures:

Anti-corruption Organizations

- Strengthen the inspection bodies, in particular the Office of the Inspector General of the State, in order to increase and improve inspections and audits of public entities;
- Invest in capacity building of the Anti-Corruption Commission and the Civil Service Commission, and strengthen cooperation with the Court of Auditors.
- Develop and implement a Code of Conduct for Members of the Government (PED);

- Adopt modern information technology in the civil service to support Government cohesion and eGovernment initiatives (PED 2020);
- Carry out anti-corruption campaigns in public administration, in schools and with the general public;
- Promote complaints and public awareness systems, promoting complaint forms and implementation of questionnaires to the public;
- Develop a database on public and private institutions involved in corruption for effective monitoring;

Legal affairs

- Continue to implement a legislative policy aimed at the quality of legislation, its simplicity, systematization and accessibility;
- Improve access and knowledge to national legislation by improving the publication and continuous distribution of collections organized by sectors, as well as their bilingual availability and their online dissemination;

Government operations

- Strengthen institutions responsible for the production of national statistics to better inform decision-making;
- Improve internal communication within the Government;
- Strengthen the implementation of the Program Budget Roadmap for Timor-Leste, which should link the plan to the budget in all government agencies;
- Strengthen planning, monitoring and evaluation capacities in all government agencies;
- Review the Life Pension Law, so that this scheme is integrated into the Social Security Contribution Scheme, relative to the pensions of the new members of the Sovereignty Organs.

2.3: Economic Overview

2.3.1: International Economy

2.3.1.1: International Growth

Global growth is strengthening, projected by the IMF to be 3.9 percent in both 2018 and 2019. The increase in growth is driven by strong growth in emerging Asia and Europe and a modest upswing in commodity markets for emerging and developing economies.

Growth in advanced economies is projected at 2.5 percent in 2018, higher than in 2017 at 2.3 percent. The increase in growth in 2018 is driven by predominantly by expansionary fiscal policy in the US and the gradual cyclical recovery in Europe from the crises of 2008-2009 and 2011-12. For the emerging and developing economies, growth is forecast to increase strongly at 4.9 percent in 2018 to 5.1 percent in 2019 as a result of improvements in the commodity export market, and a strong emerging Asia, led by a projected increase in India's growth alongside China's gradual moderation.

China's economic growth is strengthening in 2017 at 6.9 percent and is projected to decrease to 6.6 percent in 2018 and 6.4 percent in 2019. The decline in growth seen in 2018 is due higher debt level and the fiscal adjustment towards a lower growth path.

The strong global growth, especially in Asia, provides a solid foundation for Timorese exporters and economic development.

Table 2.3.1.1.1 Real Economic Growth 2017-2019 (%)

Country	**Actual**	**Forecast**	
	2017	2018	2019
World	3.8%	3.9%	3.9%
Advanced Economies	2.3%	2.5%	2.2%
Emerging and Developing Economies	4.8%	4.9%	5.1%
Emerging and Developing Asia	6.5%	6.5%	6.6%
China	6.9%	6.6%	6.4%
Euro area	2.3%	2.4%	2.0%
Timor Leste (non-oil) *	-5.3% **	0.6%	4.5%

*Sources: IMF World Economic Outlook April 2018, unless * Ministry of Finance 2018. ** Projection*

2.3.1.2: Trends in International Prices

According to the IMF, global inflation is projected to remain stable at 3.5 percent in 2018. Inflation in advanced economies is projected at 2.0 percent in 2018 and decline to 1.9 percent in 2019. For the advanced economies inflation is below central bank targets, but is expected to pick up in the near term. For the emerging and developing economies the inflation is projected to remain stable in 2018 and 2019 at 4.6 percent and 4.3 percent respectively. Low inflation in Timor Leste in this context will tend to help improve competitiveness.

Table 2.3.1.2.1: Global and Regional Inflation Rates (%)

Country	Actual		Forecast	
	2016	2017	2018	2019
World	2.8%	3.0%	3.5%	3.4%
Advanced Economies	0.8%	1.7%	2.0%	1.9%
Emerging and Developing Economies	4.3%	4.0%	4.6%	4.3%
Emerging and Developing Asia	**2.8%**	**2.4%**	**3.3%**	**3.3%**
Timor-Leste	-1.3%	0.6%	1.8%	2.7%

Sources: IMF World Economic Outlook April 2018

Oil prices

Oil prices are important to Timor-Leste both for consumers, through consumer prices, and as an oil exporting country. The international price of Brent oil has witnessed dramatic declines since June 2014 from highs of $111.9 per barrel to lows of $32.2 per barrel in January 2016. The decline in oil prices was driven by the increased global supply during a period of low global demand. However, for the period following this, the oil market began to recover reaching an average of $73.15 per barrel in May 2018. While remaining weak, this recovery has been driven by more robust global demand, rising geopolitical tensions and both agreed and unplanned restrictions on oil supply (see figure 2.3.1.2.2).

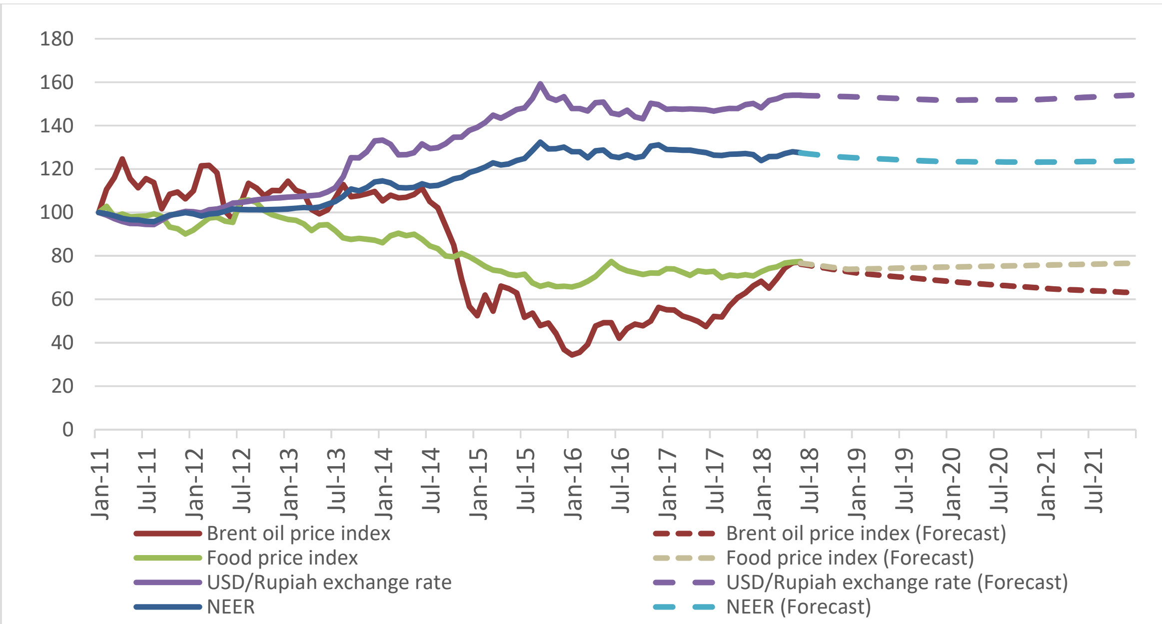
Agricultural Commodity Prices

A significant portion of the food consumed in Timor-Leste is imported and thus changes in international food prices can have a significant impact on both the rate of inflation and standard of living. According to the World Bank commodities Prices Forecast, the international food prices started to increase from early 2016 and continued to the early 2018 reaching a high of 85.83, from the low of 79.86 witnessed in 2015. The increasing cost of energy and weather variability, including concerns about la Niña, could push the food prices higher for the remainder of the year. The World Bank is forecasting that food prices will continue to rise marginally throughout the rest of 2018 and 2019, however the food prices expected to decline again in the future years due to potentially better supply condition for some commodities (see figure 2.3.1.2.2). This will benefit poorer households in Timor-Leste.

Foreign Exchange Rates

The general appreciation of the US dollar against a weighted basket of currencies of Timor-Leste's trading partners (the nominal effective exchange rate, NEER) began in early 2014 and continued into December 2016. Between May 2017 and May 2018 the US dollar depreciated by only 0.2% against the weighted basket of Timor-Leste's major trading partners' currencies. The overall appreciation in the last few years has reduced the price of imports, placing downward pressure on domestic inflation, benefiting Timorese consumers. However, this appreciation makes Timorese non-oil exports more expensive in international markets constraining the development of the country's exports sector. For the future, there is expected the have a slightly declining trend in the coming years (see graph 2.3.1.1.1), this depreciation will help the Timorese export market be well-placed in the international market.

2.3.1.1.1: Commodity Price and Exchange Rate Indices



Source: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance, 2018

2.3.2: Domestic Economy

2.3.2.1: Timor-Leste's Recent Economic Performance

In 2016, total (oil and non-oil) real GDP in Timor-Leste increased by 0.8% to $3,130 million (in 2015 prices). National Accounts data exist up to 2016, which is the latest year of GDP data available without forecasting. The increase in total GDP in 2016 is attributed to the rise in the non-oil sector (5.3%), which offset declines in the oil sector (see Table 2.3.2.1.1), as the volume of oil extracted decreased across the year (-4%).

Given the relatively small level of employment in the oil sector, total GDP is not the best measure of economic performance for Timor-Leste. Instead, it is more useful to monitor economic performance using non-oil GDP together with a wide variety of other indicators relating to the non-oil economy. This approach provides a more accurate indication of the real impact of changes in the economy on the people of Timor-Leste.

Table 2.3.2.1.1: Real GDP by Sector, Timor-Leste 2016

	GDP, $ millions	Percent of Whole
Whole Economy	**3,130**	**100%**
Petroleum Sector	1,436	46%
Non-petroleum Sector	1,694	54%

Source: Statistics Directorate, Ministry of Finance 2018

2.3.2.2: Non-Oil Economy

Up to 2016, Timor-Leste experienced high non-oil GDP growth, averaging 6.9% per year over 2007-2016. These strong growth rates have been driven by increases in government expenditure associated with the government's economic strategy to ensure that Timor-Leste has the necessary infrastructure to allow the private sector to flourish in the long-run. The Government's economic strategy uses loan financing and excess withdrawals[1] from the Petroleum Fund to finance high quality investment in infrastructure and human capital development. As outlined in Timor-Leste's Strategic Development Plan, the Government's high return investments will provide the necessary foundations for long-term sustainable private sector led development. These investments are stimulating economic growth, leading to higher domestic revenues and more sustainable government finances, which will allow withdrawals to return to levels consistent with the ESI. The frontloading policy has already allowed the Government to significantly upgrade road and electricity coverage throughout Timor-Leste, which has helped to improve both living standards and the business environment.

Table 2.3.2.2.1 shows that trend non-oil GDP maintained a strong growth performance in 2016 at 5.3%, building on 4.0% growth in 2014. The economic growth witnessed in 2016 is the result of a combination of strong growth household consumption, increases in exports, and increases in Government expenditure, associated with the frontloading policy. Aided by the low inflationary environment, household consumption increased by 6% suggesting that living standards are continuing to increase in Timor-Leste. It is projected that non-oil GDP fell in 2017. Forecasts for 2017 and after are discussed in section 2.3.3.

Table 2.3.2.2.1: Real GDP 2009 - 2016, $ millions

	2009	2010	2011	2012	2013	2014	2015	2016
Non-Oil Sector ($m)	1,176	1,276	1,374	1,450	1,486	1,547	1,609	1,694
Non-Oil Sector Growth	9.9%	8.5%	7.7%	5.5%	2.5%	4.1%	4.0%	5.3%

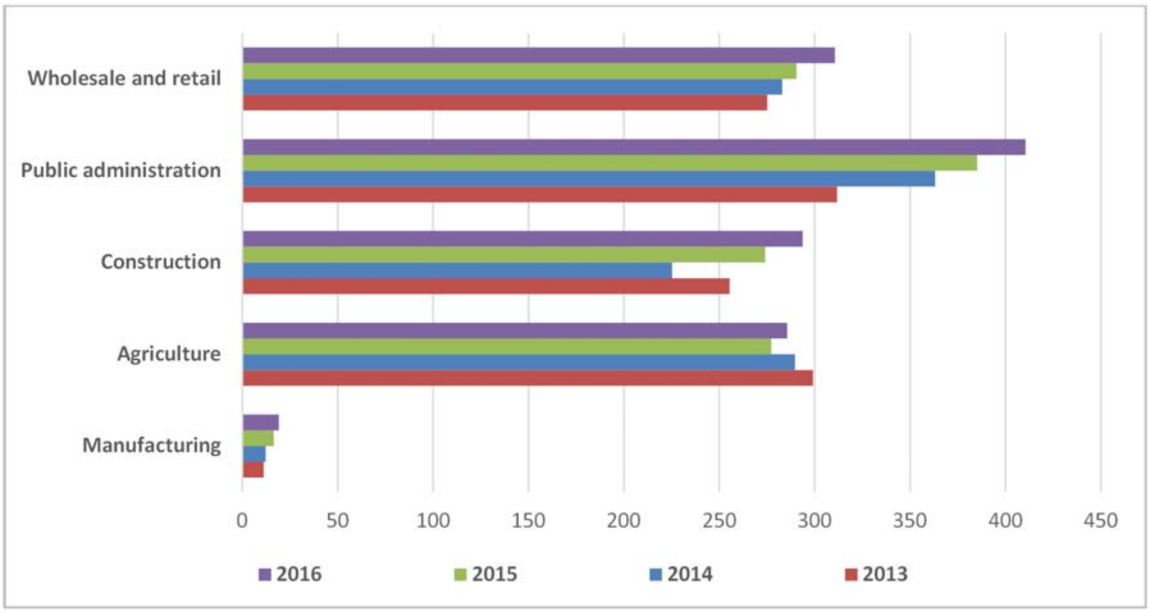
Source: Statistics Directorate, Ministry of Finance 2018

[1]Withdrawals from the Petroleum Fund in excess of the ESI.

Sectoral Performance

The performance across the major sectors of the Timorese economy has been strong in 2016. Manufacturing has continued its increasing trend, rising by 16.4%. High growth levels were witnessed in the construction sector (7.2%) and the area of public administration (6.6%), both highly correlated with the increase in government expenditure linked to the investment strategy. Output in the agriculture sector increased by 3% in 2016 but remains flat-lined overall in recent years. Finally, the wholesale and retail trade sector increased by 7% in 2016.

Figure 2.3.2.2.2: Real Non-Oil GDP by Industry 2013–2016, $ million



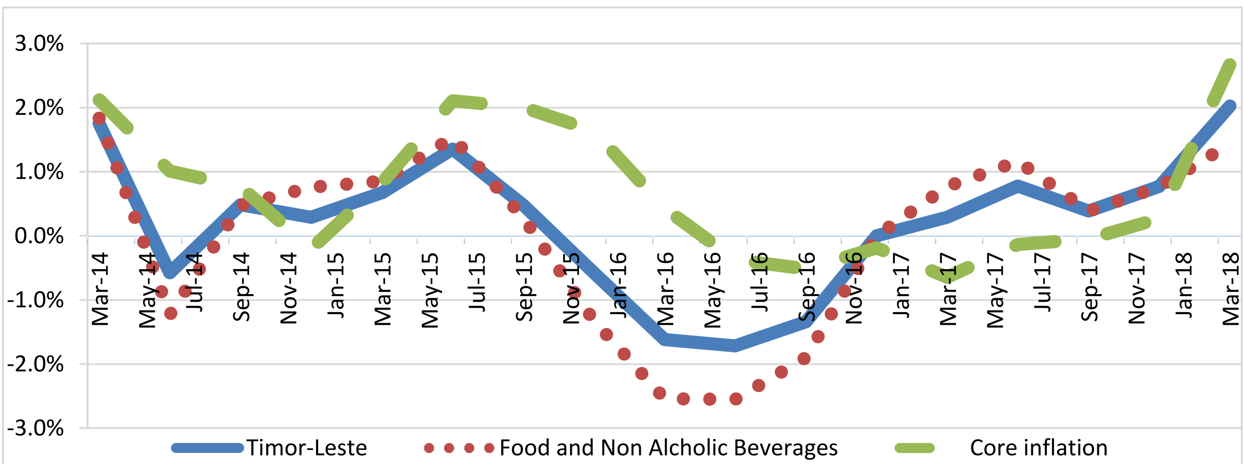
Source: Statistics Directorate, Ministry of Finance 2018

Inflation

Inflation in Timor-Leste has been low for a number of years, following a period of high and volatile price increases in 2011-13. This low or negative inflation is consistent with the Government's poverty reduction strategy, providing Timorese consumers and business with greater purchasing power. In 2015 inflation averaged 0.6%, though in 2016 Timor-Leste entered deflation with an average rate of -1.3%. This fluctuation is primarily due to factors such as oil and food prices that dropped earlier in 2016. By the end of 2016 December Timor-Leste began to come out of deflation and into small, stable inflation. Recently this has started to increase, and in March 2018, year-on-year (YoY) inflation in Timor-Leste was 2.0%. This rate is below the 4%-6% target range set out in the Government's Strategic Development Plan.

Timor-Leste still enjoys a low level of inflation. As detailed in Section 2.3.1.2, a continued strong dollar and low international oil and food prices are the main reasons for Timor-Leste low inflation rate, though these have been increasing recently. Due to the significant weight of food and non-alcoholic beverages in the CPI basket and the high proportion of food imported into Timor-Leste every year, international food prices remain one of the key drivers of the overall CPI rate, and the MPF will continue to monitor price levels. The Food and Agricultural Organization's (FAO) food price index rose by +0.8% year on year in March, following a period of decline in early 2018. This may place some upwards pressure on inflation in Timor-Leste. Domestic food prices rose +1.4% in March, on the back of previous world food price rises in the later part of 2017. These increases in domestic food prices remain muted and it is expected that the current world food markets will provide a moderate but positive impact on domestic food prices in the near future. A one-off 17% increase in education costs will affect annual inflation in Timor-Leste throughout 2018, and has exerted upward pressure from the start of 2018.

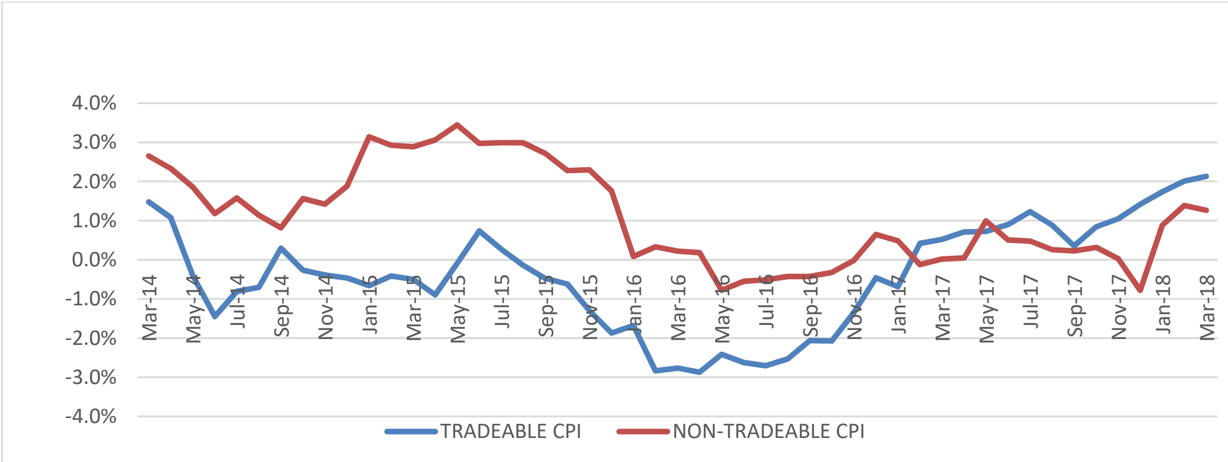
Figure 2.3.2.2.3: Change in Consumer Price Index Timor-Leste 2014-2018 (%)



Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2018

Inflation in Timor-Leste can be split into tradeable activity and non-tradeable activity, with data available from March 2013. The tradeable sector had year on year inflation of 2.1% in March 2018 compared to 1.3% in the non-tradeable sector, highlighting imports and world commodity prices as an important driver of inflation.

Figure 2.3.2.2.4: Tradeable and Non-tradeable Consumer Price Index 2014-2018 (%)



Sources: National Directorate of Economic Policy and Statistics Directorate, Ministry of Finance 2018

2.3.2.3: Employment

According to the Business Activity Index (BAS) there are 58,200 people in Timor-Leste who have been formally employed in 2016. This represents a 5.1% decrease in employment since December 2015.

Table 2.3.2.3.1 shows the construction sector is the largest single contributor to this decrease of this employment, and formal construction jobs decreased by -7% between 2015 and 2016. There was growth in Manufacturing (+10%) and Finance & Insurance (+17%).

Within the public sector, the number of Public and Civil Servants remains flat-lined with 34,307 in 2015, 34,594 in 2016, and 34,194 in 2017.

Table 2.3.2.3.1: The contribution of sectors to employment growth in 2015-2016

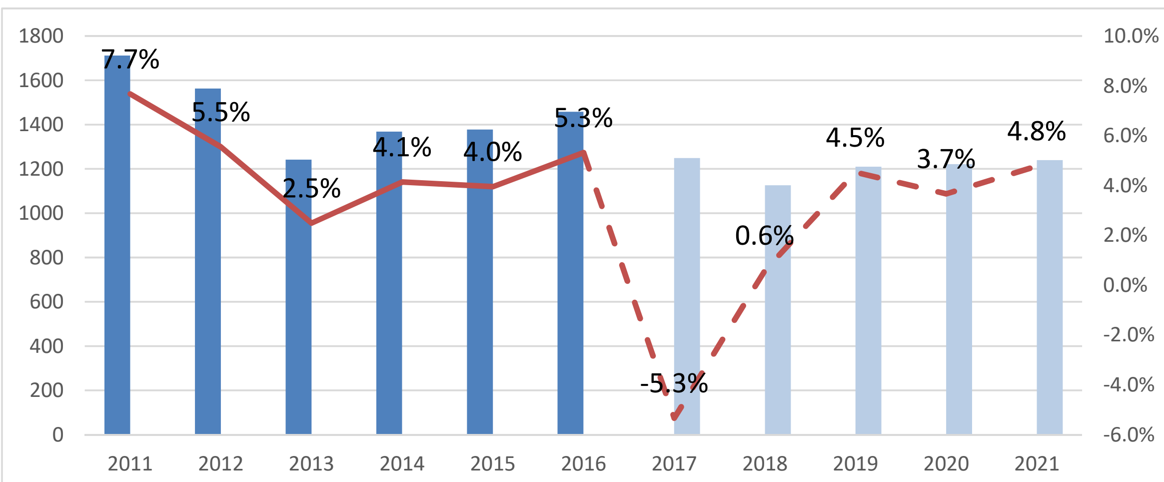
Sectors	No. of employees in 2015	No. of employees in 2016	2016 Share in %	Growth in employees
Manufacturing	2,900	3,200	5	10%
Construction	20,000	18,600	32	-7%
Retail and Wholesale Trade	17,400	17,100	29	-2%
Transportation and Storage	1,000	900	2	-10%
Accommodation and Food Services	5,100	5,000	9	-2%
Information and Communication	1,400	1,200	2	-14%
Financial and Insurance	600	700	1	17%
Other industries	12,900	11,500	20	-11%
Total	**61,300**	**58,200**	**100**	**-5%**

Source: Business Activity Survey 2016

2.3.3: Short to Medium-Term Prospects (2017-2021)

The Ministry of Finance is forecasting non-oil GDP growth to be -5.3% for 2017, turning positive in 2018, before trend growth picks up to 4% to 5%[2] in the medium term (see Figure 2.3.3.1). An uncertain economic environment affected economic performance in 2017 and is providing downside risks to 2018. Factors contributing to low 2017 growth included political uncertainty, low government expenditure and a poor coffee harvest. However, this downturn is not expected to have hit living standards, with household consumption broadly maintained. The government is implementing policies, including with this budget, to return to growth and enable increased household consumption. Growth is expected to become positive once again from the later part of 2018, as large Government financed projects enter higher-spending phases and government expenditure returns to normal following the duodecimal regime. Over time the infrastructure assets resulting from public investment as well as legal reform will create an environment conducive to strong growth in the private sector.

Figure 2.3.3.1 Executed Government Expenditure ($m, LHS) and real non-oil GDP growth (RHS)



Sources: Source: Timor-Leste National Accounts 2000-2016, General Directorate of Statistics, Ministry of Finance, 2018, and Economic Forecasts, National Directorate of Economic Policy, Ministry of Finance, 2018

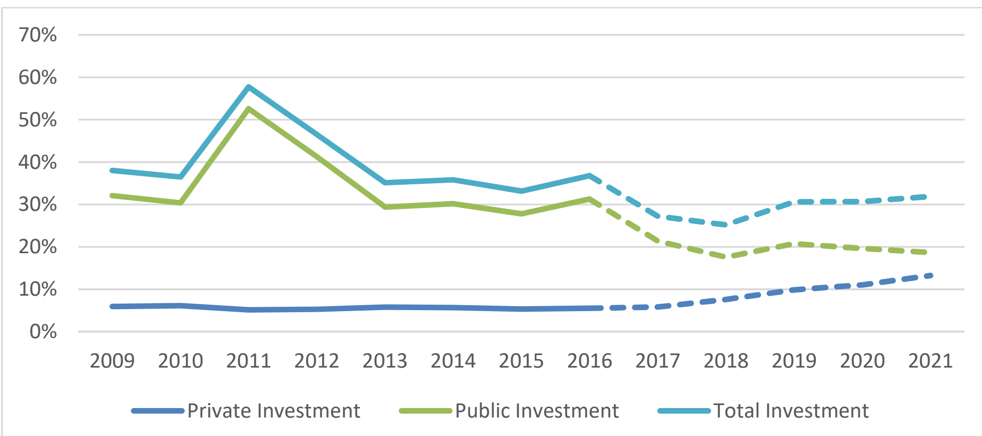
Investment has continued in key infrastructure within Timor Leste in 2017. The electrification programme works towards completing the provision of electricity in the country, by finishing the remaining power distribution lines, substations, and infrastructure for continued

[2] The real GDP growth forecasts are based on 2015 prices. The National Accounts were rebased to 2015 prices in 2017 to ensure the data reflects a more current snapshot of the economy, improving the coverage of economic activities included in the GDP compilation framework. Rebasing is a normal statistical procedure undertaken by countries' national statistical offices. This means, however, that the forecasts and the growth figures will not be directly comparable to previous outturn rates or forecasts.

operation and maintenance. Roads and bridges continue to be built or improved, providing better and lower cost transportation within the country and enabling the private sector to develop. Recently completed investments such as the Heineken brewery are now providing high quality manufacturing jobs. Over the medium-term, large-scale private sector investments will result in a significant increase in private sector investment across the forecast period. 2018 will see construction on the Tibar Bay Port, and the expansion of existing commercial and retail properties throughout the country. Such investments are consistent with the Government's economic strategy, alongside continued investments in human capital and education, to attract investors and consequently creating jobs domestically.

The medium-term outlook for Timorese consumers is also positive with consumption set to grow steadily, boosted by a low inflationary environment. Looking forward across the medium-term, this environment is likely to continue given regional growth rates, the world commodity price outlook and exchange rate projections (see Figure 2.3.1.2.2).

Figure 2.3.3.2: Investment as a % of non-oil GDP, 2009-2021



Sources: Timor-Leste National Accounts 2000-2016, General Directorate of Statistics, Ministry of Finance, 2018, and Economic Forecasts, National Directorate of Economic Policy, Ministry of Finance, 2018

2.4: Monitoring Socioeconomic Indicators

2.4.1: Sustainable Development Goals (SDG)

Introduction

In 2012, the UN Secretary General established the High Level Panel of Eminent Persons, consisting of 27 members, with Timor-Leste represented by the Chair of g7+. This panel established the first draft of the SGDs.

The table below shows the 17 goals of SGDs that have been approved in the UN general assembly and call upon countries to implement.

Table 2.4.1.1: The 17 Sustainable Development Goals

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10	Reduce inequality within and among communities
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalize the global partnership for sustainable development

Progress

The following table shows Timor-Leste's achievement of Sustainable Development Goals (SDG) based on the most recent Demographic and Health Survey conducted in 2016 and published in 2018. The DHS Survey os the most recentevidence for trends in SDGs. The majority of the SDGs indicators that are comparable with 2016 survey figure will be presented in the table, and indicators that are not are left blank.

In general, there is an improvement in **SDG 2** particularly in the areas of stunting and malnutrition among children, which decrease, respectively from 58 to 45.6 percent and 44.7 to 29.5 percent. However, wasting among children under 5 years of age increases from 19 to 24 percent and overweight among children under 5 years of age has an additional increase of 0.5 percent from 5 percent.

There's a significant improvement in **SDG 3** indicators, particularly in the area of child births attended by skilled health personnel, which increased from 29.9 to 56.7 percent. Similarly, other indicators such as Under-five mortality rate and Neonatal mortality rate also decrease, respectively from 64 to 41 per 1000 and 30 to 19 per 1000.

Despite the significant improvement in SDG 3, there's a slight increase in percentage of sexual, and psychological violence in **SDG 5.** Sexual violence increases from 2.9 to 4.8 percent and psychological violence increased by 0.6 from 8.3 percent. However, physical violence decreased by 0.4 percentage points.

In **SDG 6**, the proportion of the population using safely managed drinking water services increased from 64 to 79.8 percent, and the proportion of the population using safely managed sanitation services, including a handwashing facility with soap and water increased by 10.8 pp from 43 percent.

In **SDG 7**, there's a dramatic increase in the proportion of population with access to electricity from 38.9 to 76.5 percent.

In **SDG 16**, the proportion of children under 5 years of age whose births have been registered with a civil authority increases from 55.2 to 60.4 percent.

Table 2.4.1.2: Summary Achievements of the SDG based on Demographic and Health Survey

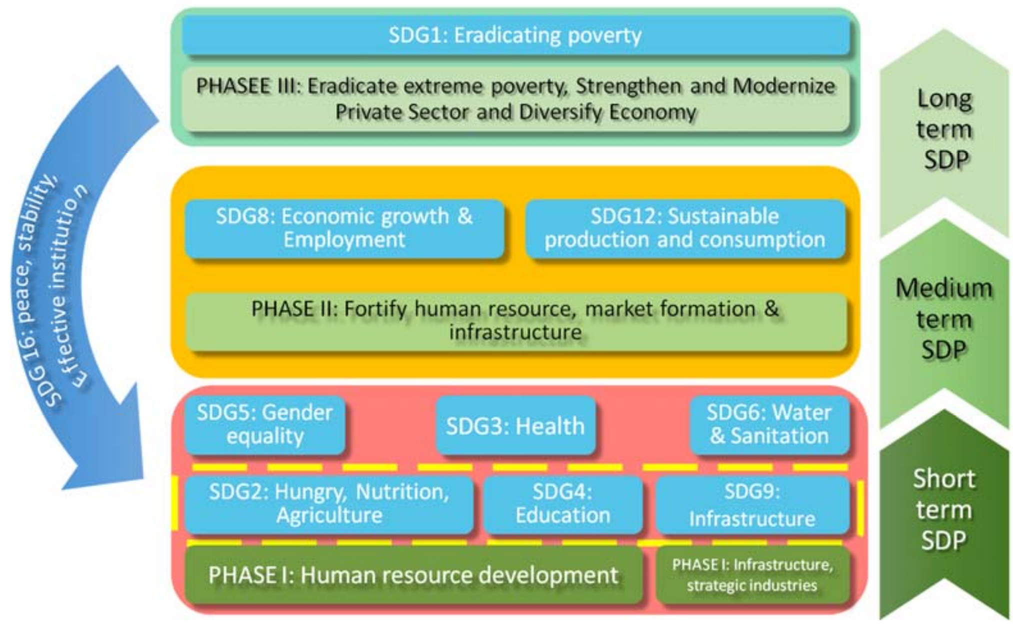
Goal	Indicator	Percentage	
		2010	**2016**
2	Prevalence of stunting among children under 5 years of age	58	45.6
	Prevalence of malnutrition among children under 5 years of age	44.7	29.5
	a. Prevalence of wasting among children under 5 years of age	19	24
	b. Prevalence of overweight among children under 5 years of age	5	5.5
3	Proportion of births attended by skilled health personnel	29.9	56.7
	Under-five mortality rate (per 1,000)	64	41
	Neonatal mortality rate (per 1,000)	30	19
	Proportion of women of reproductive age (aged 15-49 years) who have their need for family planning satisfied with modern methods	-	46.6
	Adolescent birth rates per 1,000 women - Women aged 15-19 years	-	42
	Age-standardized prevalence of current tobacco use among persons aged 15 years and older	-	28.4
	Proportion of the target population covered by all vaccines included in their national program	-	45.2
5	Proportion of ever-partnered women and girls aged 15 years and older subjected to physical, sexual or psychological violence by a current or former intimate partner in the previous 12 months	-	30.7
	a. Physical violence	33.5	33.1
	b. Sexual violence	2.9	4.8
	c. Psychological violence	8.3	8.9
	Proportion of women aged 20-24 years who were married or in a union before age 15 and before age 18	-	-
	a. before age 15	-	2.6
	b. before age 18	-	14.9
	Proportion of women aged 15-49 years who make their own informed decisions regarding sexual relations, contraceptive use and reproductive health care	-	35.9
	Proportion of individuals who own a mobile telephone	-	71.4
6	Proportion of the population using safely managed drinking water services	64	79.8
	Proportion of population using safely managed sanitation services, including a handwashing facility with soap and water	43	53.8
7	Proportion of population with access to electricity	38.9	76.5
	Proportion of population with primary reliance on clean fuels and technology	-	9
8	Proportion of adults (15 years and older) with an account at a bank or other financial institution or with a mobile-money-service provider	-	13.4
16	Proportion of children under 5 years of age whose births have been registered with a civil authority	55.2	60.4
17	Proportion of individuals using the Internet	-	26.8

Source: Demographic and Health Survey of Timor-Leste Report 2016, and Demographic and Health Survey of Timor-Leste Report 2011

2.4.2: Alignment to the Strategic Development Plan (SDP)

The SDGs working group will work to align the Strategic Development Plan and the SDGs, as summarized in the following diagram:

Figure 2.4.2.1: SDP and SDG Alignment



The red block shows the alignment of the SDP Phase 1 goals of developing human resources, strategic industries and infrastructure with the SDG goals on eradicating hunger, developing quality educations and infrastructure, ensuring a healthy population, gender equality and clean water and sanitation for all.

The yellow block shows the alignment of the SDP Phase 2 goals of further strengthening human resources, infrastructure and forming markets with the SDG goals of economic growth and employment, and sustainable consumption and production.

Finally, the third turquoise block shows the alignment of the SDP Phase 3 goal of ending extreme poverty, strengthening the private sector and diversifying the economy with the SDG goal of ending poverty.

2.5: Expenditure and Development Partners' Commitments

The 2018 combined sources of the State Budget totals $1,461.3 million. This is composed of $1,279.6 million in Government expenditures (including $61.6 million in loan-financed projects) and $181.7 million from development partners.

The total 2018 State Budget is slightly lower than that allocated for 2017. This is predominantly due to a sizeable reduction in Public Transfers driven by a significantly lower allocation to the Special Administrative Region of Oecusse Ambeno (ARAEOA) and the Oecusse Ambeno and Atauro Special Zones for Social Market Economy (ZEESM) as compared to 2017.

Due to the delayed submission of the 2018 State Budget, all government spending in 2018 thus far has occured under the application of the Duo-Decimal regime for the 2017 State Budget. The 2018 State Budget presents allocations for the entirety of 2018, including what has already been spent since the start of the year. In order to clearly show the period under the Duo-Decimal regime, some tables are included to break down the year into three periods. The first shows expenditure in 2018 up to June, based on actual expenditure data. The second shows forecasted spend in July and August, still under the Duo-Decimal regime. The third period shows the remaining part of the year, which reflects how much it is possible to spend under the allocations of the 2018 State Budget, which are expected to cover the period from September to December.

Upon taking office, the VIII Constitutional Government has been confronted with various outstanding financial commitments for which it is required to pay. These expenses relate to historic activities and situations that occurred under previous governments, and the new Government believes it is crucial to pay such obligations and arrears through the 2018 State Budget in order to promote strong financial management and allow for proper planning and budgeting going forward.

2.5.1: Changes to Structure of Government

The VIII Constitutional Government has undergone various structural changes to better align itself with its priorities and achieve the goals of its program. This section explains the key changes to the structure of government. The structural changes made by the VIII Constitutional Government are described in relation to the VI Constitutional Government, since the budget proposals of the VII Constitutional Government were not approved, and all payments and budget allocations are currently still under the structure of the VI Government.

- The **Ministry of Legislative Reform and Parliamentary Affairs** has been created, in order to oversee the Government's various institutional and legal reforms. The **Secretariat of State for Social Communication** has moved under this new ministry, as has the Commission for Legislative Reform and the Justice Sector, which was previously under the Minister of State for the Presidency of the Council of Ministers.

- The **Ministry of Higher Education, Science and Culture** has been created to further improve the quality of higher education in Timor-Leste. As well as assuming those programs relating to higher education from the Ministry of Education, this new ministry also contains the **Secretariat of State for Art and Culture**, with relevant programs taken from the Ministry of Tourism, Art & Culture.

- The **Secretariat of State for Youth and Sport** has moved under the Ministry of Education to form the **Ministry of Education, Youth and Sport**. All higher education, science and technology programs have been moved out of the Ministry of Education to the Ministry of Higher Education, Science and Culture.

- The Secretariat of State of the Council of Ministers and Secretariat of State for Parliamentary Affairs have been dissolved, with their key programs moving under the **Minister of State for the Presidency of the Council of Ministers**.

- The Minister of State Coordinating Economic Affairs has become the **Minister of Coordination for Economic Affairs**. This office now oversees three Secretariats of State: the **Secretariat of State for Vocational Training and Employment Policy**; the **Secretariat of State for the Development of the Cooperative Sector**; and the **Secretariat of State for the Environment**, with the latter two made up of programs moved out of the Ministry of Commerce, Industry and the Environment.

- The **Ministry of Tourism, Commerce and Industry** has been formed out of the remaining programs from the Ministry of Commerce, Industry and the Environment and the Tourism programs from the Ministry of Tourism, Art and Culture.

- All programs relating to veterans have been moved out of the Ministry of Social Solidarity to form the new **Ministry for Liberation Fighters' Affairs** and, within this, the **Secretariat of State for Liberation Fighters' Affairs**.

- The Minister of State Coordinating Social Affairs has been dissolved, with all programs relating to support for children moving under the the Ministry of Social Solidarity, which has become the **Ministry of Social Solidarity and Inclusion**.

- The Ministry of Public Works, Transport and Telecommunication has been split into the **Ministry of Public Works** and the **Ministry of Transport and Communication**.

- The Secretariat of State for the Support and Socio-Economic Promotion of Women has become the **Secretariat of State for the Promotion of Female Entrepreneurship**, and will now report directly to the Prime Minister.

- The **Secretariat of State for Civil Protection** has been created, and will sit within the Ministry of Interior.

- The Secretariat of State for Institutional Strengthening and Minister of State Coordinating Administration and Justice Affairs have been dissolved in order to increase spending efficiency across government. The cost-saving from the dissolution will be used to support the Government's program and priorities.

2.5.2: Expenditure by Fund

Government expenditure is spread across the Consolidated Fund of Timor-Leste (CFTL), the Human Capital Development Fund (HCDF) and loans. Since 2016, the Infrastructure Fund is an autonomous agency under the CFTL. Compared to the allocations for the 2017 State Budget, all allocations for 2018 have decreased: HCDF by 12.3%, loan disbursements by 39.5%, and the CFTL by 5.1%.

Table 2.5.2.1: Expenditure by Fund, ($m)

	2016 Actual	2017 Provisional	2018 Budget	2019	2020	2021	2022
Combined Sources Budget	1,834.5	1,369.6	**1,461.3**	1,772.9	1,480.8	1,309.1	1,303.8
Government Expenditures by Fund	1,629.9	1,192.9	**1,279.6**	1,633.9	1,365.3	1,256.7	1,303.8
CFTL (excl. loans)	1,570.6	1,138.9	**1,194.1**	1,522.1	1,299.4	1,216.4	1,266.2
HCDF	28.7	23.9	**23.9**	24.8	25.8	26.8	27.9
Borrowing/Loans (disbursements)	30.6	30.1	**61.6**	87.0	40.0	13.5	9.7
Development Partner Commitments	204.6	176.7	**181.7**	139.0	115.5	52.4	-

Sources: National Directorate of Budget and Development Partners Management Unit, Ministry of Finance, 2018

2.5.3: CFET / 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 HCDF. Within it, recurrent and capital expenditures are spread across five appropriation categories as laid out in table 2.5.3.1. Table 2.5.3.2 shows the effective budgets for the final four months of 2018, after spending that has already occurred until now is considered.

Total allocations in the CFTL will decrease by 5.1% in 2018 compared to the 2017 State Budget. This is driven by a significant decrease in the allocation for Public Transfers, which has fallen by 37.8% compared to the allocation for 2017.

Due to low expenditure under the Duo-Decimal regime, the Goods and Services allocations for many ministries and agencies have also decreased. However, the budget for the category as a whole has increased by 8.1% compared to the 2017 allocation, driven by the funding requirements for payments of various outstanding obligations and commitments. Further details of these one-off payments are given in section 2.5.3.7.

The allocation for Capital and Development has increased by 33.7% in 2018 compared to the 2017 State Budget, as the Government ensures that key infrastructure projects are able to develop at a good rate, in line with its program and priorities.

Table 2.5.3.1: Breakdown of CFTL expenditure, ($m)

	2016 Actual	2017 Provisional	2018 Budget	2019	2020	2021	2022
Total CFTL Expenditure	**1,570.6**	**1,138.9**	**1,194.1**	**1,522.1**	**1,299.4**	**1,216.4**	**1,266.2**
Recurrent	**999.0**	**907.5**	**860.0**	**894.4**	**930.2**	**967.4**	**1,006.1**
Salary and Wages	178.6	197.2	**200.3**	208.3	216.7	225.3	234.3
Goods and Services	349.4	304.5	**397.8**	413.7	430.3	447.5	465.4
Public Transfers	471.1	405.8	**261.9**	272.4	283.3	294.6	306.4
Capital	**571.6**	**231.4**	**334.1**	**627.6**	**369.2**	**249.0**	**260.1**
Minor Capital	20.8	13.1	**3.7**	3.8	4.0	4.1	4.3
Capital and Development	550.7	218.3	**330.4**	623.8	365.3	244.8	255.8
Infrastructure Fund (Autonomous, excl. loans)	-	200.8	**323.6**	616.7	357.9	237.1	247.8

Source: National Directorate of Budget, Ministry of Finance, 2018

Table 2.5.3.2: CFTL expenditure during 2018, ($m)

	2018 Budget	2018 DOT Actual Jan - Jun	2018 DOT Forecast Jul - Aug	2018 Effective Budget Sep - Dec
Total CFTL Expenditure	**1,194.1**	**397.3**	**99.2**	**697.6**
Recurrent	**860.0**	**296.2**	**81.5**	**482.3**
Salary and Wages	200.3	89.1	29.7	**81.5**
Goods and Services	397.8	119.4	29.9	**248.5**
Public Transfers	261.9	87.7	21.9	**152.3**
Capital	**334.1**	**101.1**	**17.8**	**215.3**
Minor Capital	3.7	0.0	0.0	**3.7**
Capital and Development	330.4	101.1	17.8	**211.6**
Infrastructure Fund (Autonomous, excl. loans)	323.6	98.3	17.8	**207.5**

Source: National Directorate of Budget, Ministry of Finance, 2018

2.5.3.1: Salaries and Wages

The allocation for Salaries and Wages has decreased by 4.5% in the 2018 State Budget compared to the allocation for 2017. This is driven by the fact that many ministries and agencies overbudgeted for this category in 2017, in the expectation that additional staff would be recruited throughout the year. For various reasons, this new hiring did not materialise. As such, budgets have been adjusted to more accurately reflect the current needs and commitments to existing public servants in 2018.

2.5.3.2: Goods and Services

The CFTL Goods and Services budget for 2018 is set to increase by 8.1% compared to the allocation in the 2017 State Budget, making it the largest category in recurrent expenditures at $397.8 million. However, it is important to note that a significant proportion of the 2018 Goods and Services budget ($79.8 million) is allocated for the payment of outstanding obligations and commitments for goods and services provided in previous years, but which have not yet been paid in full. More details of this are given in section 2.5.3.7.

Due to low execution rates during the application of the Duo-Decimal regime in 2018, as well as the fact that ministries will only have four months in which to spend new budget allocations, most ministries and agencies have experienced reductions in their 2018 Goods and Services budgets as compared to 2017. However, it should be noted that these allocations have been made due to the exceptional circumstances of 2018 and the application of the Duo-Decimal regime for the majority of the year, and therefore are not necessarily representative of the size of Goods and Services allocations for institutions in future years.

Measures

The main measures for Goods and Services are:

- $82.1 million to the Ministry of Public Works towards fuel and maintenance of electricity generators in Hera and Betano. Providing electricity throughout the whole country is key to generating growth and development across the country.
- $22.4 million is allocated to the Whole of Government for the contingency fund. These funds are available in case any ministry falls into financial difficulties because of unexpected circumstances that require an urgent resolution.
- $18.1 million to the Whole of Government for legal services. These are funds that enable the state to defend itself in various legal cases.
- $18 million to the Whole of Government to support the national elections in 2018. The recent elections have been important to Timor-Leste in allowing it to further establish itself as a country with strong democratic principles and processes.
- $14.4 million is allocated to the Municipalities for the School Feeding program, subsidies for schools, and operational costs and services for administrative authorities.

- $10.3 million to SAMES for medication to help improve the quality of health services provided throughout the country.
- $4.8 million to the Ministry of Public Works for a clean water and sanitation programme in rural and urban areas.
- $4.6 million to the Whole of Government for the Counterpart Fund.
- $4.6 million to the Ministry of Justice for its Ita nia Rai program and the cadastral survey. These are key programs for improving land rights in Timor-Leste, which are a key factor for personal security as well as for promoting economic growth.
- $2.5 million to the Whole of Government for the payment of quotas to international institutions.
- $2 million to the Whole of Government to support the Fiscal Reform, Performance Management Reform, and Budget Performance Reform. These reforms are crucial for strengthening Public Financial Management across government.
- $1.1 million to the Ministry of Foreign Affairs and Cooperation to cover new costs for providing goods and services across various embassies and consulates.
- $0.5 million to the Ministry of Health to buy food for patients. These expenditures will help improve the quality of health services provided in the country.
- $0.3 million to the Administration of Ports of Timor-Leste for fuel for the Berlin Nakroma to ensure the operation of the ferry and continued access to Oecusse and Atauro for the population of Timor-Leste.
- $0.1 million to the Ministry of Education for printing materials for schools.

2.5.3.3: Public Transfers

Public Transfers comprise all of the money the Government spends on public grants and consigned payments. The allocation for this category will fall significantly in 2018 to $261.9 million, a reduction of 37.8% compared to the 2017 State Budget. This decrease is driven by a reduced allocation for the Special Administrative Region of Oecusse Ambeno (ARAEOA) and the Oecusse Ambeno and Atauro Special Zones for Social Market Economy (ZEESM), as they are still using unspent funds from previous years for ongoing infrastructure projects, and do not require any additional financing for capital in 2018. Their 2018 allocation will cover all recurrent expenditures for the region this year.

Measures

The main measures for Public Transfers include:

- $99 million to the Ministry of Veterans' Affairs to provide pensions and broader support to veterans. This program provides support to some of the most vulnerable and deserving people in Timor-Leste
- $48.1 million to the Ministry of Social Solidarity and Inclusion towards social programs, including the old age and disability pension schemes, Bolsa de Mãe, and support to victims of natural disasters. These programs look after vulnerable and deserving groups and contribute to reducing poverty.
- $28 million to the Special Administrative Region of Oecusse Ambeno (ARAEOA) and the Oecusse Ambeno and Atauro Special Zones for Social Market Economy (ZEESM).
- $13.7 million to the Whole of Government for the provision of pensions for permanent civil servants under the contributory regime.
- $12.4 million to the Ministry of Health for treatments abroad, primary healthcare and the subsidy for Cuban Doctors in Timor-Leste. These investments are important to further improving the quality of health services for the population.
- $12.1 million to the Ministry of Petroleum and Mineral Resources to support the National Petroleum Authority and Minerals (ANPM), TIMOR GAP and the Institute of Petroleum and Geology (IPG). This money is required to ensure Timor-Leste maximizes the benefits from its natural resources.
- $7.5 million to the Municipalities to support urban cleaning activities, school feeding programs and school grants, and to contribute to rural development and inclusive growth.
- $6.5 million to the Whole of Government to support the activities of the Church in Timor-Leste, in line with the plans and policies of the Government.
- $6.0 million to the National Electoral Commission. This expenditure will provide subsidies to political parties, which continue to develop and strengthen the democratic process in Timor-Leste.
- $5.4 million to the Whole of Government to provide a lifetime pension for former leaders and members of sovereign bodies due to their dedication and services to the country.
- $5.0 million to the Whole of Government in order to capitalize the Central Bank of Timor-Leste (BCTL). This capitalization will continue to assist the development of the financial sector in the country.

- $4.5 million to the Whole of Government to cover loan repayments.
- $3.5 million to the Office of the Prime Minister to provide support for NGOs and various activities of the Church.
- $2.4 million to the Ministry of Education, Youth and Sport, to provide support for various sporting events and youth activities throughout the year.
- $2 million to the Whole of Government as contributions for international financial support to support humanitarian causes abroad.
- $1.1 million to the Whole of Government 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.

2.5.3.4: Minor Capital

Minor Capital includes expenditures on vehicles, furniture and other movable assets. The 2018 budget for this category reflects a 69.7% reduction as compared to the 2017 State Budget. During the application of the Duo-Decimal regime, all spending on Minor Capital was frozen, and this significantly lower allocation reflects the fact that all expenditure under this category will only take place for the final four months of the year, once the 2018 State Budget has passed.

Expenditure under the Minor Capital category is used for the purchase of capital equipment such as furnirture and electronic equipment, as well as machines that last for several years and do not need to be repurchased in the near future.

Measures

The main measures for Minor Capital include:

- $1.3 million to the Ministry of State for the Presidency of the Council of Ministers and for new entities created by the VIII Constitutional Government. This will cover the costs of IT equipment, furniture and other necessary initial costs for supporting the new structure of government.
- $0.7 million to the Ministry of Finance to purchase hardware and equipment to update and improve the IFMIS system.
- $0.5 million to the Ministry of Planning and Strategic Investment for various costs including furniture for a house for veterans, and equipment for a dormitory at Hera Polytechnic.
- $0.3 million to the Ministry of Public Works to purchase a new electricity transformer.

2.5.3.5: Capital and Development

The 2018 allocation for Capital and Development has increased by 33.7% compared to the allocation for 2017. This is driven by an increase of 45.4% in the allocation for the Infrastructure Fund, in line with the financial requirements of ongoing projects. As shown in Table 2.5.3.5.1, Capital and Development allocations under the CFTL are broken down into $323.6 million for the Infrastructure Fund, $3.1 million for the Integrated Municipal Development Planning (PDIM), and $3.7 million for other Capital and Development projects across line ministries.

Table 2.5.3.5.1: Capital and Development Expenditures, ($m)

	2016 Actual	2017 Provisional	2018 Budget	2019	2020	2021	2022
Total Capital and Development	**550.7**	**218.3**	**330.4**	**623.8**	**365.3**	**244.8**	**255.8**
Infrastructure Fund (Autonomous, excl. loans)	519.0	200.8	323.6	616.7	357.9	237.1	247.8
District Development Programs	19.5	12.6	3.1	3.2	3.4	3.5	3.6
Ministries / Agencies	12.3	4.9	3.7	3.9	4.0	4.2	4.4

Sources: National Directorate of Budget, Ministry of Finance; National Development Agency and Major Projects Secretariat, Ministry of Planning and Strategic Investment, 2018. For 2016-2017, PDIM figures include MPIE's ministerial capital spend.

2.5.3.6: Additional Costs for New Structure of Government

Through its new structure, the VIII Constitutional Government has streamlined ministries and agencies to reduce costs and improve efficiency. Hence, the costs for most of the new ministries, secretariats of state, and other new divisions are offset by efficiency savings from streamlining. The allocations for divisions created by the new structure are detailed in table 2.5.3.6.1 below, and will cover spending for the final four months of the year.

Table 2.5.3.6.1: Additional Costs for New Structure, ($'000s)

New Division ($,000)	SW	GS	PT	MC	CD	Total Budget
Total	**526**	**996**	**0**	**330**	**0**	**1,852**
Office of the Minister of Legislative Reform and Parliamentary Affairs	139	581	0	50	0	**770**
Office of the Vice Minister of Justice	48	50	0	0	0	**98**
Office of the 2nd Vice Minister - Ministry of Health	90	75	0	50	0	**215**
Office of the Minister for Veterans' Affairs	61	50	0	50	0	**161**
Office for the Secretariat of State for Veterans' Affairs	46	50	0	50	0	**146**
Office for the Secretariat of State for Civil Protection - Ministry of Interior	46	90	0	30	0	**166**
Office for the Secretariat of State for the Development of the Cooperative Sector - Ministry of Coordination for Economic Affairs	50	50	0	50	0	**150**
Office for the Secretariat of State for the Environment - Ministry of Coordination for Economic Affairs	46	50	0	50	0	**146**

Source: National Directorate of Budget, Ministry of Finance, 2018

2.5.3.7: Arrears and Contractual Obligations

The VIII Constitutional Government has decided to resolve a numbers of debts and contractual obligations that have accumulated in recent years, but are as yet unpaid. The payment of these outstanding commitments will enable more accurate planning and budgeting in the future, and will ensure that all new spending is done from a clear and stable foundation. The total cost of such payments in the 2018 State Budget is equal to $87 million, with a breakdown of these costs for each ministry shown in Table 2.5.3.7.1. These payments include:

- $64.5 million to the Whole of Government to repay overpaid tax receipts relating to extraction from the Kitan oil field in previous years.
- $6.9 million to the Ministry of Education, Youth and Sport to finance the retroactive payment of salary increases for teachers across 7 municipalities who received promotions between 2013 and 2017.
- $5.8 million to the Whole of Government to enable the payoff of the unpaid Quick Release balance to the Customs Authority.
- $4.5 million to the Whole of Government fund to contribute to some of the unpaid bills for Timor Telecom for telecommunication services provided across government in previous years.
- $2.2 million to the Ministry of Public Works to pay for outstanding electricity debts owed to EDTL.
- $1.5 million to the National University of Timor-Leste to pay for various outstanding debts accumulated between 2016 and 2017.
- $0.8 million to the National Police of Timor-Leste to cover outstanding debts relating to boat maintenance, CCTV and telecommunications.
- $0.5 million to FALINTIL – Defense Force of Timor-Leste to pay for various outstanding subsidies and additional costs associated with recent elections.
- $0.3 million allocated to the Ministry of State Administration to cover the remainder of the unpaid costs of the 2016 Suco elections.

Table 2.5.3.7.1: Arrears and Contractual Obligations, ($m)

	Appropriation Category	Additional Budget Allocation for outstanding commitments
Total obligations		**87.0**
Whole of Government	GS	74.8
Ministry of Education, Youth and Sport	SW	6.9
Ministry of Public Works	GS	2.2
National University of Timor-Leste	GS + KM	1.5
National Police of Timor-Leste (PNTL)	GS	0.8
FALINTIL - Defense Force of Timor-Leste	GS	0.5
Ministry of State Administration	GS	0.3

Source: National Directorate of Budget, Ministry of Finance, 2018

2.5.4: Infrastructure Fund

According to the Strategic Development Plan, a central pillar for the long-term development of Timor-Leste is the building and maintenance of core, productive infrastructure in order to create employment and promote sustainable economic growth. The Infrastructure Fund was established in 2011, with the role of financing and overseeing key infrastructure projects (over $1 million) in accordance with the Government's priorities and vision. Since 2011, a total of $3.87 billion has been approved and allocated to the IF to finance 22 programs, and includes Public Private Partnerships (PPPs) and external loans. Since 2016, the Infrastructure Fund has operated as an autonomous agency.

The VIII Constitutional Government has set the infrastructure development priorities in the area of basic physical infrastructure on both social and economic grounds. This includes programs such as roads, bridges, water and sanitation, and the provision of a sustainable energy supply. Many projects relating to these areas have already been started in previous years. As well as further progress in these areas, other important infrastructure that will be required to support the modernization and growth of the Timor-Leste economy includes digital infrastructure, transport and logistics infrastructure for trade, as well as the creation of a broader framework for supporting industrial development. Most of the projects in the 2018 State Budget are not new, but instead reflect the ongoing financial demands for programs that have already been planned and approved in previous years.

The total budget for the Infrastructure Fund (excluding loans) in 2018 is $323.6 million across 21 programs. In line with the ongoing needs of programs and the Government's priorities, the largest portions of the 2018 Infrastructure Fund budget are allocated to the roads program (39.8%), the Tasi Mane Development Program (31.1%), and the electricity program (5%).

Table 2.5.4.1: Infrastructure Fund Projections, ($m)

	2017 Provisional	2018 Budget	2019	2020	2021	2022
Total Infrastructure (including loans)	**230.9**	**385.2**	**703.7**	**397.9**	**250.6**	**257.5**
Total Infrastructure (excluding loans)	**200.8**	**323.6**	**616.7**	**357.9**	**237.1**	**247.8**
Agriculture	2.8	3.8	3.4	6.1	5.1	1.5
Water and Sanitation	0.2	0.6	15.9	0.3	0.0	0.0
Urban and Rural Development	5.0	5.4	9.5	3.3	1.0	1.0
Public Buildings	1.1	10.2	12.9	9.0	5.6	6.0
Education	0.2	1.7	30.2	25.0	17.1	9.1
Electricity	12.2	16.1	25.2	0.1	0.0	0.0
Informatics	1.6	8.0	5.7	2.4	0.0	0.0
Millennium Development Goals	0.8	0.0	0.0	0.0	0.0	0.0
Health	0.0	1.9	0.5	5.0	2.5	2.5
Security and Defence	0.4	4.4	4.1	3.9	0.7	0.5
Social Solidarity	0.0	0.1	1.6	0.0	0.0	0.0
Tasi Mane	67.8	100.5	108.1	196.2	185.3	221.2
Airports	17.1	10.3	9.0	1.7	0.6	0.4
Preparation of Designs and Supervision	0.7	0.8	0.1	0.0	0.0	0.0
Roads	69.3	128.8	370.5	93.7	19.1	5.5
Bridges	7.8	10.6	13.2	10.1	0.0	0.0
Ports	0.5	0.8	0.2	0.2	0.0	0.0
Tourism	0.3	0.2	0.5	0.0	0.0	0.0
Financial System and Supporting Infrastructure	6.8	4.9	1.6	0.0	0.0	0.0
Youth and Sport	1.9	1.9	0.3	0.5	0.0	0.0
Maintenance and Rehabilitation	4.6	12.5	4.1	0.6	0.0	0.0
Loans Program	30.1	61.6	87.0	40.0	13.5	9.7

Source: Major Projects Secretariat, Ministry of Planning and Strategic Investment, 2018

Table 2.5.4.2: Infrastructure Fund during 2018, ($m)

Infrastructure Data, $ millions	2018 Budget	2018 DOT Actual Jan - Jun	2018 DOT Forecast Jul - Aug	2018 Effective Budget Sep - Dec
Total Infrastructure (including loans)	**385.2**	**115.6**	**23.1**	**246.4**
Total Infrastructure (excluding loans)	**323.6**	**98.3**	**17.8**	**207.6**
Agriculture	3.8	0.3	1.1	2.4
Water and Sanitation	0.6	0.2	0.0	0.4
Urban and Rural Development	5.4	0.9	0.0	4.5
Public Buildings	10.2	1.1	0.0	9.1
Education	1.7	0.0	0.0	1.7
Electricity	16.1	7.1	0.0	9.0
Informatics	8.0	0.8	3.0	4.2
Millennium Development Goals	0.0	0.0	0.0	0.0
Health	1.9	0.2	0.0	1.6
Security and Defence	4.4	0.8	0.0	3.6
Social Solidarity	0.1	0.0	0.0	0.1
Tasi Mane	100.5	30.8	0.0	69.8
Airports	10.3	0.1	0.0	10.2
Preparation of Designs and Supervision	0.8	0.0	0.0	0.8

Infrastructure Data, $ millions	2018 Budget	2018 DOT Actual Jan - Jun	2018 DOT Forecast Jul - Aug	2018 Effective Budget Sep - Dec
Roads	128.8	45.4	10.2	73.3
Bridges	10.6	2.9	0.0	7.7
Ports	0.8	0.2	0.3	0.3
Tourism	0.2	0.0	0.0	0.2
Financial System and Supporting Infrastructure	4.9	1.9	0.2	2.9
Youth and Sport	1.9	0.3	0.3	1.4
Maintenance and Rehabilitation	12.5	5.5	2.6	4.4
Loans Program	61.6	17.4	5.4	38.9

Source: Major Projects Secretariat, Ministry of Planning and Strategic Investment, 2018

2.5.5: Expenditure by Loan Financed Projects

Expenditure on loan-financed projects in 2018 is expected to reach $61.6 million, as presented in Table 2.5.5.1. This a 39.5% reduction compared to the allocation in the 2017 State Budget, although only $30.1 million of this allocation was actually disbursed in 2017. A detailed description of these projects is presented in Section 2.7.3.

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

	2017	2018 Budget	2019	2020	2021
Loan Expenditure	30.1	61.6	87.0	40.0	13.5

Source: PPPLU Ministry of Finance and Ministry of Planning and Strategic Investment, 2018

2.5.6: Human Capital Development Fund

The purpose of the HCDF is to finance expenditures on scholarships and capacity development in line with the Strategic Developmant Plan of Timor-Leste. For the 2018 budget, the HCDF is broken down into four major programs: Vocational Training, Technical Trainings, Scholarships and Other Types of Training.

Table 2.5.6.1 summarizes the budget appropriations for HCDF by program. The total 2018 budget is $23.9 million, 12.3% lower than the allocation for the 2017 State Budget, but equal to the actual level of expenditure last year.

Table 2.5.6.1: Human Capital Development Fund by Program, ($m)

	2017 F'casted Actual	Final 2018 Budget	2018	2019	2020	2021
Total HCDF (by Program)	**23.9**	**23.9**	**24.8**	**25.8**	**26.8**	**27.9**
Vocational Training	6.3	6.1	6.4	6.6	6.9	7.2
Technical Training	1.8	2.4	2.5	2.6	2.7	2.8
Scholarships	13.0	12.5	13.0	13.6	14.1	14.7
Other Training	2.8	2.8	2.9	3.1	3.2	3.3

Source: Secretariat for Human Capital Development Fund, 2018

Table 2.5.6.2: Human Capital Development Fund in 2018, ($m)

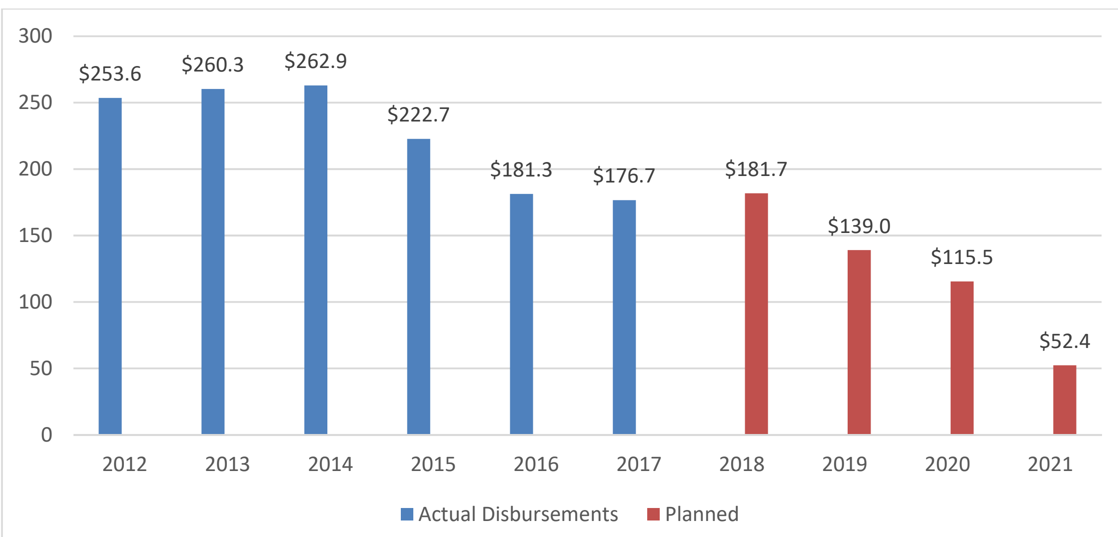
	2018 Budget	2018 DOT Actual Jan - Jun	2018 DOT Forecast Jul - Aug	2018 Effective Budget Sep - Dec
Total HCDF (by Program)	**23.9**	**4.8**	**1.2**	**17.9**
Vocational Training	6.1	0.9	0.2	**5.0**
Technical Training	2.4	0.2	0.0	**2.1**
Scholarships	12.5	2.8	0.7	**9.0**
Other Training	2.8	0.9	0.2	**1.7**

Source: Secretariat for Human Capital Development Fund, 2018

2.5.7: Development Partners' Commitments

Development Partners will contribute a total of $181.7 million to Timor-Leste in 2018. The three highest amounts of contributions are expected to originate from the Government of Australia ($61.7 million); the Government of Japan ($24.2 million), and Government of Portugal ($16.1 million). The details of these commitments can be found in Budget Book 5.

Figure 2.5.7.1: Non-lending Development Partner Disbursements to Timor- Leste ($m)

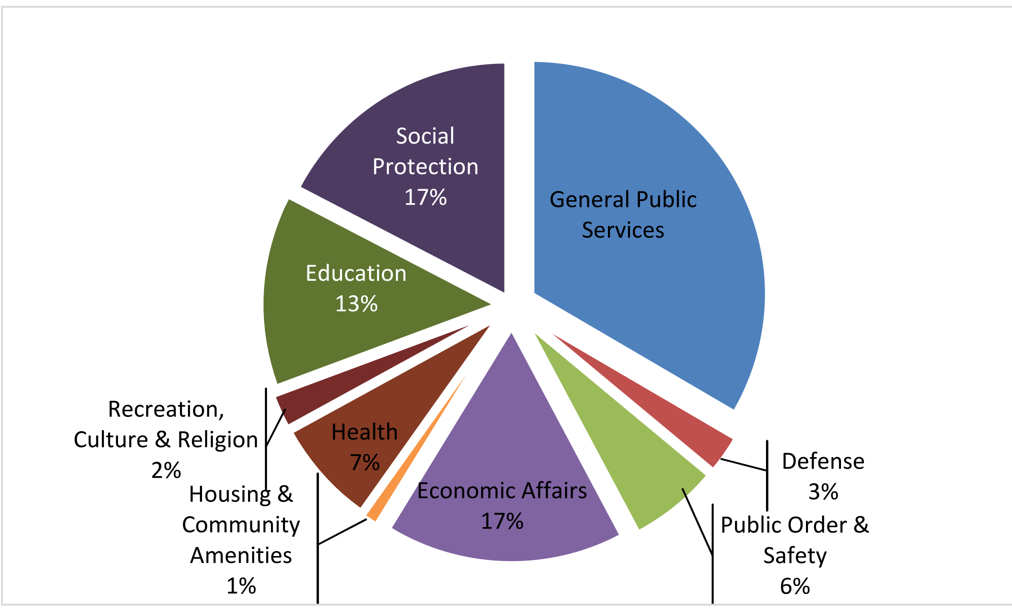


Source: 2012-2015 data was drawn from previous years' Budget Books; 2016 on was extracted from the Aid Transparency Portal on 25 July 2018

2.5.8: Classification of the 2018 Budget by Sector

The standard United Nations Statistics Division 'Functions of Government' classification[3] is adopted to examine the 2018 budget allocations by sector. For the recurrent budget, General Public Services has the largest allocation. This sector can be considered as the 'machinery of government', but also covers recurrent transfers to municipalities and the ZEESM. Economic Affairs and Social Protection are the second largest items, both at 17% of total budget. Economic Affairs includes fuel for EDTL power generation, road maintenance, tourism spending and maintenance of water and irrigation systems. Social protection reflects reflecting social welfare programs such as Bolsa da Mae, veterans' and other pensions, and the school feeding program. The third largest sector is Education, followed by Health.

Figure 2.5.8.1: Recurrent Expenditure by Sector for 2018



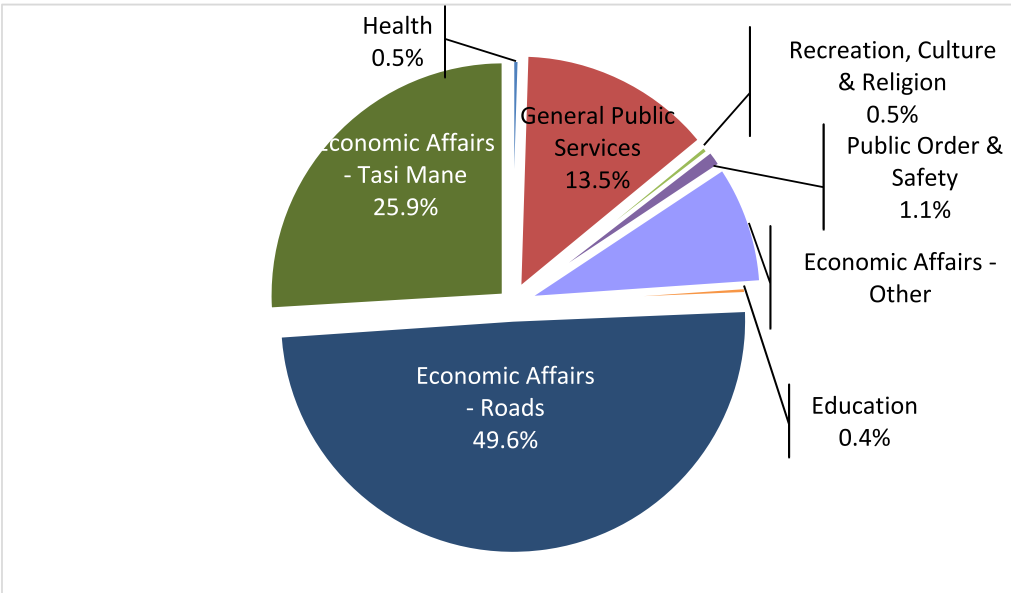
Source: Estimate based on proposed ministerial allocations, Ministry of Finance, 2018

Looking at the sectoral division of the Infrastructure Fund, which covers over 90% of capital spending for the CFTL, road projects represent its largest portion, followed by spending for the infrastructure investment in Tasi Mane and capital spending for other economic affairs. Roads are a stated priority in the Strategic Development Plan, and now that the electricity project has been largely completed, funding to the roads program is the largest single component of the budget. Most road expenditure is loan financed, and details of these projects are in Section 2.7.3. Other than roads, investment in the electricity network, Suai airport, infrastructure maintenance and other transport infrastructure are the largest projects

[3] https://unstats.un.org/unsd/classifications/

in the Economic Affairs sector, receiving a combined allocation of $49.7 million. The remaining 9% of the Infrastructure Fund budget reflects the allocations to the construction of new public buildings, development of IT infrastructure, and other capital investments. Further details are provided in Part 1 of Budget Book 6.

Figure 2.5.8.2: Infratructure Fund by Sector for 2018



Source: Estimate based on proposed IF allocations, Ministry of Planning and Strategic Investment

2.6: Revenue

2.6.1: Overview of Revenue Projections

Table 2.6.1.1 shows the forecasts for total revenues up to 2022, which are the sum of petroleum revenues and domestic revenues. The gradual trend of declining petroleum revenues is in general set to continue as production from existing fields draws to a close.

The positive performance of domestic revenues in 2016 has slowed down to $189.6m in 2017. This is a reduction of 5% compared to the 2016 actual collection and it is likely to result from the negative macroeconomic conditions and the political uncertainty that Timor-Leste faced in 2017. The reduction appears to be driven mainly by lower tax revenues, which are susceptible to GDP fluctuations and make up most of domestic revenues. The trend is projected to be stable in 2018, with an expected domestic revenue collection of $188.8m. The lack of improvement in overall domestic revenue trends reflects the protracted political stall into 2018.

The economy continues to face several challenges about how to increase domestic revenue, as have been identified by the Fiscal Reform Commission, including on basic infrastructure, management of resources and human development. Domestic revenues make up a small proportion of overall revenues and thus do not completely offset the oil price and investment return changes. This underlines the importance of focusing on domestic revenue streams going forward.

Table 2.6.1.1 Total Revenue, 2016 – 2022, ($m)

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Total Revenues	**1,070.9**	**2,223.1**	**788,7**	**1.278,9**	**1.342,1**	**1.272,4**	**930,0**
Domestic Revenues	199.3	189.6	**188,8**	198,3	208,5	219,0	230,0
Petroleum Revenues	871.6	2,033.5	599,9	1,080,6	1.133,6	1.053,4	700,0

Source: National Directorate of Economic Policy and Petroleum Fund Administration Unit, Ministry of Finance, 2018.

2.6.2: Domestic Revenues

Domestic revenues in Timor-Leste are composed of tax revenues, fees and charges, interest, revenues from autonomous agencies and ZEESM Taxes. Table 2.6.2.1 breaks down domestic revenues into these categories showing actual and forecasted amounts between 2017 and 2022. In 2018, total domestic revenues are expected to be constant with respect to the 2017 final estimated figures.

Table 2.6.2.1: Domestic Revenue 2016 – 2022, ($m)

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Total Domestic Revenue	**199.3**	**189.6**	**188.8**	**198.3**	**208.5**	**219.0**	**230.0**
Taxes	139.6	127.9	**127.6**	134.0	140.7	147.7	155.1
Fees and Charges	46.6	50.3	**50.2**	52.6	55.4	58.3	61.1
Interest	0.0	0.0	**0.5**	0.5	0.5	0.5	0.6
Autonomous Agencies	9.0	6.6	**5.6**	6.0	6.4	6.9	7.3
ZEESM (Taxes)**	4.1	4.7	**4.9**	5.2	5.4	5.7	6.0

Source: National Directorate of Economic Policy, Ministry of Finance, 2018

2.6.2.1: Tax Revenues

Tax revenues comprise the largest source of domestic revenues in Timor-Leste, totalling 67.5% of total domestic revenues in 2017. Tax projections are summarized in Table 2.6.2.1.1 and are divided into Direct taxes, Indirect taxes and Other tax revenues.

In 2017, tax revenues, excluding taxes from ZEESM, do not hold up to the 2016 levels, experiencing a fall of 8.4%, totalling $127.9m. This trend reflects the general macroeconomic and political conditions to which tax instruments are sensitive. In particular, lower government's capital spending, especially in large infrastructure projects has reduced Withholding tax receipts by over 25%. This reduction is the principal driver of the total tax revenue decline for the year.

In 2018, tax revenue collection in expected to be stable compared to 2017, reaching $127.6m. However, a sizable increase in witholding taxes is expected following the settlement of pending collection from previous years on capital projects. Additionally, the expected reduction in revenues collected by custom authorities (custom duties, excise tax and sales tax) reflects both lower imports of tobacco products following more stringent controls, and lower tax rates on domestically-produced alcoholic beverages, following the opening of the Heineken factory. From 2019, tax receipts are expected to improve, as macroeconomic growth recovers and the political situation stabilises. The trend is expected to continue through 2022, at the current growth expectation.

Table 2.6.2.1.1: Total Tax Revenue 2016 – 2022, ($m)

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Total Tax	**143.7**	**132.6**	**132.5**	**139.1**	**146.1**	**153.4**	**161.1**
Direct Taxes	**64.2**	**54.7**	**60.3**	**63.3**	**66.5**	**69.8**	**73.3**
Income Tax	17.3	19.3	20.8	21.8	22.9	24.1	25.3
Individual Income	8.2	7.3	7.3	7.6	8.0	8.4	8.8
Individual Inc Other	9.1	11.9	13.5	14.2	14.9	15.6	16.4
Corporate Tax	13.9	10.7	8.4	8.8	9.2	9.7	10.2
Withholding Tax	33.0	24.7	31.1	32.7	34.3	36.0	37.8
Indirect Taxes	**78.8**	**76.7**	**71.7**	**75.3**	**79.1**	**83.0**	**87.2**
Service Tax	2.7	2.5	3.3	3.5	3.7	3.9	4.1
Sales Tax	14.8	17.3	16.2	17.0	17.8	18.7	19.7
Excise Tax	47.2	41.5	37.6	39.4	41.4	43.5	45.6
Import Duties	14.2	15.3	14.7	15.4	16.2	17.0	17.8
Other Tax Revenue	**0.7**	**1.3**	**0.5**	**0.5**	**0.5**	**0.6**	**0.6**

Source: National Directorate of Economic Policy, Ministry of Finance, 2018

2.6.2.2: Fees and Charges

Fees and charges include a wide selection of categories from non-tax sources that contribute to domestic revenue. These comprise administrative fees, utility payments and royalty payments to the Government from natural resources other than petroleum.

Increases in fees and charges revenue in 2017 have been driven by higher electricity sales (as in 2016), mining & quarrying royalties, auctions and social game receipts. 2018 revenue projection for fees and charges is expected to be constant to the 2017 levels, with the largest contribution coming from electricity revenue, at 61% of the total revenue from fees and charges. It is estimated that the revenue from electricity will continue to increase as EDTL continue to distribute pre-paid meters and electricity coverage increases across the country.

The contribution from transport, immigration and rental of government property is expected to stable. Moreover, between 2017 and 2018 new revenue insturments have been introduced, such as parking and advertising fees in the Dili municipality. Projections for outer years are expected to continue on a positive trend, following the improvement and reinforcement of collection mechanisms in line ministries.

Table 2.6.2.2.1: Fees and Charges Projections 2016 – 2022, ($000's)

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Total Fees and Charges	**46,613.1**	**50,307.8**	**50,221.1**	**52,607.6**	**55,416.3**	**58,256.5**	**61,129.5**
Commercial License Fees	142.9	663.5	**139.3**	144.9	150.7	156.7	162.9
Postage Fees	43.5	55.6	**50.7**	61.0	66.9	72.8	78.6
Property Rentals	3,632.4	3,878.8	**2,961.1**	3,079.5	3,202.7	3,330.8	3,464.1
Water Fees	177.2	333.3	**153.2**	177.0	200.8	224.5	248.3
Vehicle Registration Fees	1,556.9	1,614.3	**1,172.6**	1,231.2	1,292.7	1,357.4	1,425.2
Vehicle Inspection Fees	589.8	756.4	**742.9**	780.0	819.0	860.0	903.0
Vehicle Inspection Imported	5.1	-	**-**	-	-	-	-
Drivers Licence Fees	348.0	397.1	**373.7**	392.4	412.0	432.7	454.3
Franchising Public Transport Fees	328.2	358.9	**296.2**	311.0	326.5	342.9	360.0
Transport Penalties	135.3	153.0	**133.8**	139.1	144.7	150.5	156.5
Other Transport Fees	40.8	48.4	**12.3**	12.9	13.6	14.2	14.9
ID and Passport	873.5	1,211.6	**1,412.5**	1,469.0	1,527.8	1,588.9	1,652.4
Visa Fees	3,580.9	3,748.2	**2,834.9**	2,948.3	3,066.2	3,188.8	3,316.4
Court Fees	207.0	247.5	**247.5**	257.4	267.7	278.4	289.5
Fines-Health professionals	-	5.6	**5.6**	5.8	6.1	6.3	6.6
Dividends, Profits, and Gains	729.9	-	**3,110.1**	3,234.5	3,363.9	3,498.5	3,638.4
Fines and Forfeits	101.1	252.3	**537.8**	563.6	586.1	609.6	634.0
Mining and Quarrying	283.7	1,026.0	**1,039.3**	1,065.1	1,090.9	1,116.7	1,142.5
RTTL FEE	54.2	-	**-**	-	-	-	-
Bid Document Receipts	82.7	56.4	**30.2**	31.4	32.7	34.0	35.4
Auctions	504.4	1,000.2	**102.0**	106.1	110.4	114.8	119.4
Productos Florestais	89.4	95.1	**65.8**	68.4	71.2	74.0	77.0
Rent of Government Property	216.2	116.5	**112.2**	116.7	121.3	126.2	131.2
Sanitation Services Fee	7.9	8.2	**10.4**	10.8	11.3	11.7	12.2
TL Internet Domain Revenue	101.3	133.4	**86.7**	90.2	93.8	97.5	101.4
Other Non-Tax Revenue	1,056.2	1,173.9	**125.8**	130.8	136.0	141.5	147.1
Social Games Receipts	1,274.6	1,428.4	**1,910.6**	1,987.0	2,066.5	2,149.2	2,235.2
Sale of Rice	1,514.5	1,050.4	**1,050.4**	650.0	650.0	650.0	650.0
Sales of Local Product	192.8	107.2	**360.0**	374.4	389.4	405.0	421.1
Parking Fee Dili	-	13.2	**18.2**	18.9	19.6	20.4	21.3
Registration of Health Profess	-	10.6	**33.1**	34.4	35.8	37.2	38.7
Polytechnic Institute of Betan	-	48.2	**48.2**	50.2	52.2	54.2	56.4
Administrative Sanctions and F	-	5.5	**5.5**	5.7	5.9	6.2	6.4

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Printing Fee-PCM	-	-	**389.2**	404.8	421.0	437.8	455.3
Electricity Fees and Charges	28,742.8	30,285.2	**30,506.0**	32,506.0	34,506.0	36,506.0	38,506.0
AM de Dili -Advertising Revenue	-	24.9	**143.3**	149.1	155.0	161.2	167.7

Source: National Directorate of Economic Policy, Ministry of Finance, 2018

2.6.2.3: Interest

Interest reflects interest payments received from cash held in Government funds. Given low interest rates, and low cash balances held by government, this is has traditionally represented small source of revenue. Interest is expected to be $15,679 in 2017, compared to $15,265 in 2016. However, the 2018 projections expect interest receipts to grow to $475,086. This significant growth reflects the recent increase in overnight repo rates in the Federal Reserve Bank of New York. The trend is expected to continue in the coming years, provided the level of deposits and the interest rate policy of the FED remain stable.

2.6.2.4: Autonomous Agencies

The number of autonomous agencies has been increasing steadily in recent years, reflecting government's desire to grant greater financial independence to institutions so to improve their efficiency. From a revenue perspective the port in Dili generates the majority of revenues for this group, as detailed in Table 2.6.2.4.1.

Table 2.6.2.4.1: Autonomous Agencies 2016 – 2022, ($000's)

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Total Autonomous Agencies	**8,297.2**	**5,833.7**	**5,629.1**	**6,032.9**	**6,441.8**	**6,855.8**	**7,275.4**
Archive and Museum Resistência Timorense	-	-	**-**	-	-	-	-
Press Council	-	-	**-**	-	-	-	-
Institute of Support for Enterprise Development	-	-	**-**	-	-	-	-
Specialized Agency for Investment	-	-	**-**	-	-	-	-
Service for Registration and Verification of Entrepreneurs	-	-	**-**	-	-	-	-
Bamboo Centre	95.8	74.9	**150.0**	156.0	162.2	168.7	175.5
Training Centre (SENAI)	-	-	**-**	-	-	-	-
Forensic Police	-	-	**-**	-	-	-	-
National Hospital Guido Valadares	258.3	249.5	**235.0**	244.4	254.2	264.4	274.9
SAMES	156.5	213.8	**327.9**	341.0	354.7	368.8	383.6
National Laboratory	-	-	**-**	-	-	-	-
Institute of Health Sciences	-	-	**-**	-	-	-	-
Investment Registration Fee	-	19.8	**45.0**	46.8	48.7	50.6	52.6
National Center for Rehabilitation	-	-	**-**	-	-	-	-
Institute for Equipment Management	197.8	483.5	**50.1**	52.1	54.2	56.3	58.6

	2016	2017 Provisional	2018 Projection	2019	2020	2021	2022
Administração de Aeroportos e Navegação Aérea de Timor-Leste*	2,386.5	-	**-**	-	-	-	-
Administration of Ports of Timor-Leste	4,419.7	3,993.8	**3,015.0**	3,305.0	3,595.0	3,885.0	4,175.0
National Authority of Communication	-	-	**-**	-	-	-	-
National Defense Institute	-	-	**-**	-	-	-	-
National University Timor Lorosae	782.6	798.3	**881.7**	917.0	953.7	991.8	1,031.5
Infrastructure Fund	-	-	**-**	-	-	-	-
Authority for Food Inspection and Economic Activity	-	-	**-**	-	-	-	-
National Agency for Evaluation and Academic Accreditation	-	-	**-**	-	-	-	-
National Logistic Centre	-	-	**-**	-	-	-	-
National Centre for Employment and Professional Training – Tibar	-	-	**-**	-	-	-	-
ZEESM**	682.2	794.2	**924.4**	970.6	1,019.2	1,070.1	1,123.6

*Source: National Directorate of Economic Policy, Ministry of Finance *Not part of Autonomous Agencies since 2017*
***ZEESM revenue includes fees and charges only, tax revenue is presented separately.*

2.6.3: Petroleum Revenues and the Petroleum Fund

The Petroleum Fund is the main source of funding for the state budget each year. Withdrawals from the Fund are guided by the ESI. The ESI represents the maximum amount that can be appropriated from the Petroleum Fund in a fiscal year so as to leave a sufficient Fund balance for an amount of the equal real value to be appropriated in all later years. The ESI is set to be 3 percent of the Petroleum Wealth, which comprises the balance of the Fund and the Net Present Value of future petroleum revenue.

The Government can withdraw an amount from the Petroleum Fund in excess of the ESI where it provides to Parliament justification why that is in the long-term interests of Timor-Leste. Government withdrawals in excess of the ESI have been justified on the grounds of economic development. Withdrawing more than the ESI, by definition, depletes the purchasing power of the Fund.

2.6.3.1: Calculating Petroleum Wealth and the ESI for 2018

Table 2.6.3.1.1 shows the estimated Petroleum Wealth and the ESI from 2016 and onwards, assuming that withdrawals from the Fund are equal to the projected withdrawals in Table 2.6.3.1.1.

Table 2.6.3.1.1: Petroleum Wealth and the Estimated Sustainable Income (ESI)

	2016*	2017*	2018 Budget	2019	2020	2021	2022
Estimated Sustainable Income (PWx3%)	**544.8**	**481.6**	550.4	**539.2**	**519.0**	**505.1**	493.4
Total Petroleum Wealth (PW)	**18,159.6**	**16,054.6**	18,345.9	**17,973.2**	**17,299.4**	**16,835.5**	**16,448.0**
Opening PF Balance			16,799.3	16,414.4	16,146.5	16,163.3	16,192.4
Net Present Value of Future Revenues			1,546.6	1,558.8	1,152.9	672.2	255.6

*Sources: Petroleum Fund Administration Unit, Ministry of Finance, 2018**ESI for 2016 & 2017 figures as estimated for in Budget 2016 and Budget 2017

The 2018 Budget estimates of Petroleum Wealth were finalized in January 2018. The estimates used the data available as at January, including the actual value of the Fund as at 1 January 2018.[4] The NPV of future oil and gas revenues reflects the assumptions set out in Table 2.6.3.1.2. Our practice is to only update the ESI calculations once a year. The full assumption set will be updated shortly as part of the 2019 Budget Book.

Petroleum Wealth for the 2018 Budget Book calculations is estimated to be $18,345.9 million. Accordingly, the 3% ESI is estimated at $550.4 million for 2018. This is about $75.3 million higher than the estimate for the 2018 ESI in last year's budget. The key assumptions behind the calculations and the differences with 2017's estimate are discussed below

[4] The independent auditor recommended using the actual balance of the Fund for the 2018 ESI calculations.

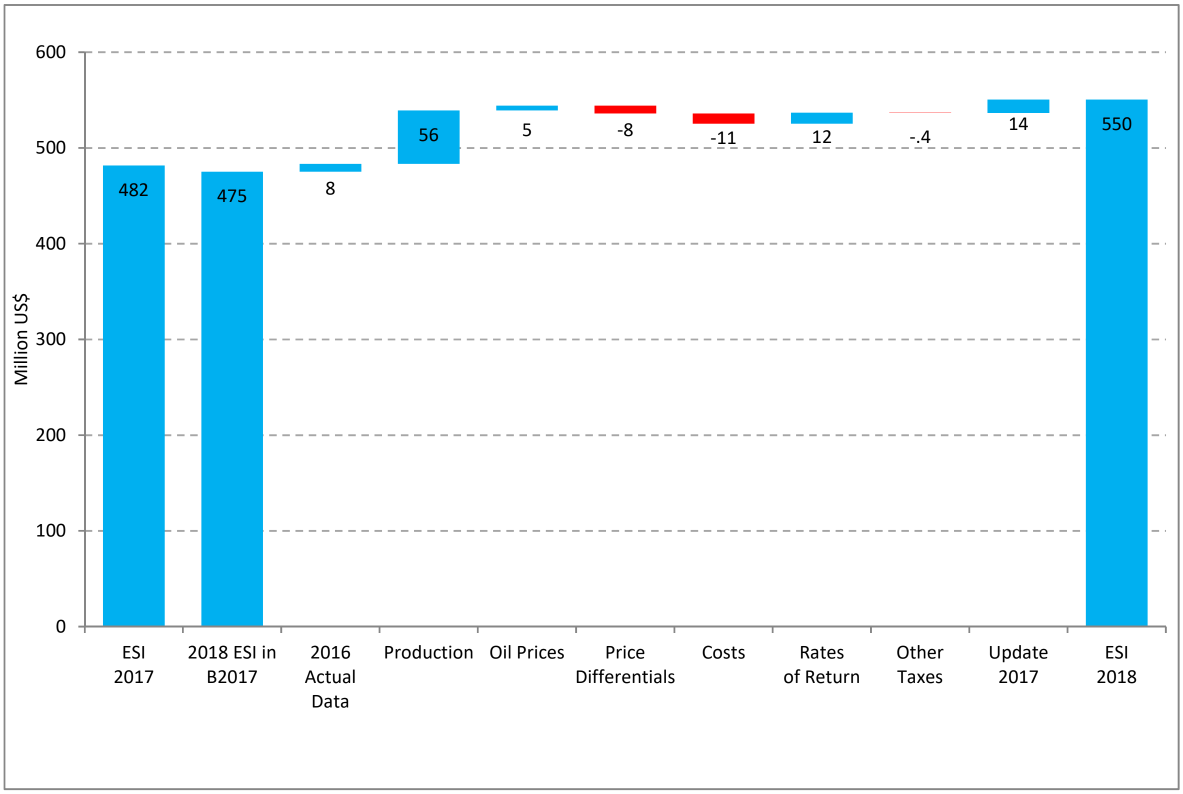
Table 2.6.3.1.2: Key assumptions behind the ESI

Asset recognition	Forecast petroleum revenues are included only for projects with approved development plans. Bayu-Undan (BU) is the only operating field since Kitan was closed in 2015.
Petroleum Reserves and Production Forecasts	Project operators provide production estimates. Base case production is now the only forecast provided by the Operator.
Oil price forecast	Brent crude oil has been shown to be the best indicator of the price of BU liquid products (condensate and LPG). ESI for Budget 2018 is prepared using the average of Energy Information Agency (EIA) low case and reference case for Brent in its Annual Energy Outlook (AEO) for 2017, released in January 2017.
Prices for specific petroleum products	BU produces condensate, Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG). Forecast assumptions for each product are derived from historical 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 Petroleum Fund 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 strategy is for 60 percent bonds and 40 percent equities.

Changes in the ESI from 2017 to 2018

Figure 2.6.3.1.3 shows the key incremental changes in the current estimate of the 2018 ESI relative to the estimate in Budget 2017. An increase in production is the main driver of the increase in the 2018 ESI, along with changes to the discount rate and differences in the realized results versus projections for both 2016 and 2017.

Figure 2.6.3.1.3: Changes in the 2018 ESI (from Budget 2017 to Budget 2018)



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2018

Actual data 2016

The current ESI estimate incorporates actual results in 2016, as opposed to the projections needed for the 2017 estimate. The Fund balance at the end of 2016 was higher than projected, because withdrawals were lower than expected ($1,244.8 vs $1,647.6m), although petroleum revenues ($223.6m vs $316.6m) and investment returns ($647.7m vs $747m) were lower than expected. These outcomes increased the 2018 ESI by $8 million.

Production

The production forecast for Bayu-Undan are higher than Budget 2017 because:

i) Only the base case scenario was available from the operator at the time the calculation was made. Estimates of the ESI in previous years used the low case scenario.

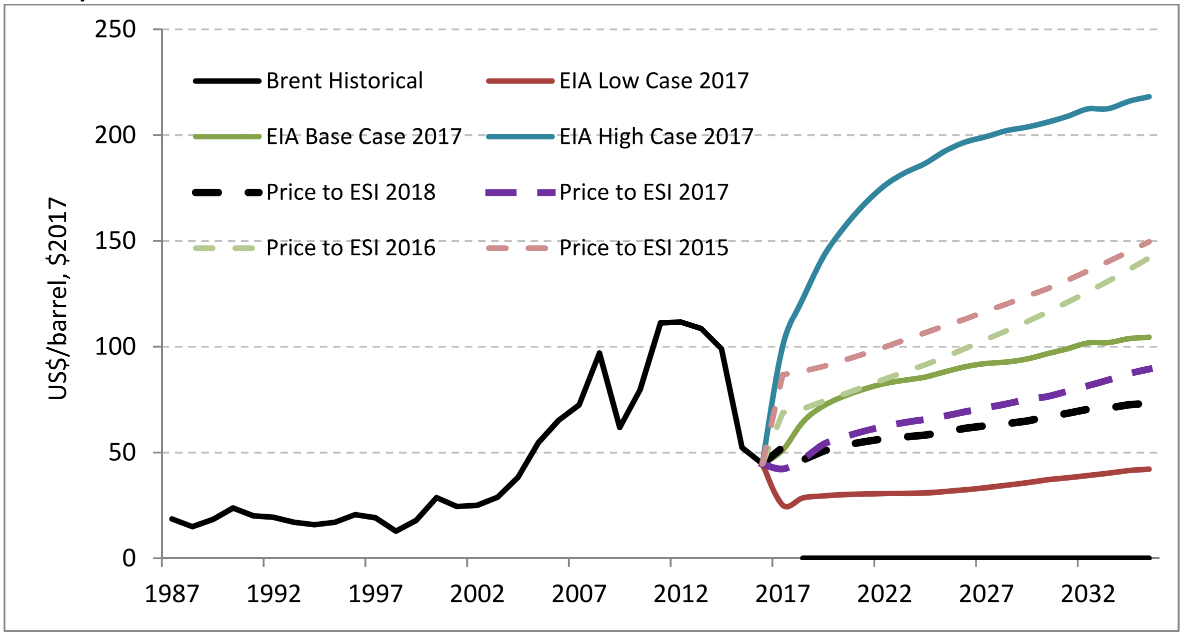
ii) Production is expected to extend another year until 2022. The current estimate also includes the Bayu Undan Infill Well (BUIW) drilling project which is expected to take place in mid-2018. This pushes the production projection higher than previous estimates.

Higher production increased the 2018 ESI by $56 million.

Oil prices

The ESI 2018 assumes a benchmark Brent oil price of $47.3 per barrel in 2018 based on the EIA's Annual Energy Outlook 2017's Low and Base case forecasts. This compares with $46.9 per barrel as estimated in the Budget 2017. From 2019 on, the oil price is assumed to be relatively lower than previously forecasted (see figure 2.6.3.1.2). Higher oil prices resulted in a US$ 5 million increase in the 2018 ESI.[5]

Figure 2.6.3.1.4: Historical Changes and Future Projections in the Brent Oil Price ($ per barrel)



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2018

Liquids price differentials (condensate and LPG)

The result of new price differentials is a decrease in the ESI of $8 million.

Production costs

Production costs from the operator are forecast to be slightly higher in this Budget than in Budget 2017. The change is primarily from the capital expenditures related to BUIW drilling projects and other operational related issues. The result of these new cost forecasts is a decrease in the ESI of $11 million.

Rates of return and discount rate

The expected long-term nominal return was revised down from last year's forecast of 5.7 percent to a nominal rate of 3.9 percent per annum. This is mostly driven by low bond yields,

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[5] The monthly Brent Crude Oil price for 2018 until July has averaged $71.1 per barrel, illustrating the conservative assumptions in the 2018 ESI. The EIA's Short-Term Energy Outlook (STEO) released in July forecasts the reference Brent price to be $73 per barrel for the second half of 2018. The average low/reference is historically about 20 to 25% lower than the reference case. By applying a discount of 25% of the $73/b and the actual average price for January-July, the estimated weighted average benchmark price for 2018 is $64.3/b. While the ESI is not formally recalculated, if we incorporated the increase in oil prices in 2018, the ESI 2018 would be revised up slightly to $558.3 million.

which act as a drag on the return forecasts for bonds. The lower discount rate results in a higher NPV of petroleum revenues, which increased the ESI by $12 million.

Other Taxes

Other taxes include wage taxes, tax collections from subcontractors and exploration drilling. These taxes are forecast for Budget 2018 based on an analysis of recent collections and taking into account exploration work commitments. The new forecast of other taxes is slightly lower compared to previous year estimate, thus it decreases ESI by $0.4 million.

Update 2017

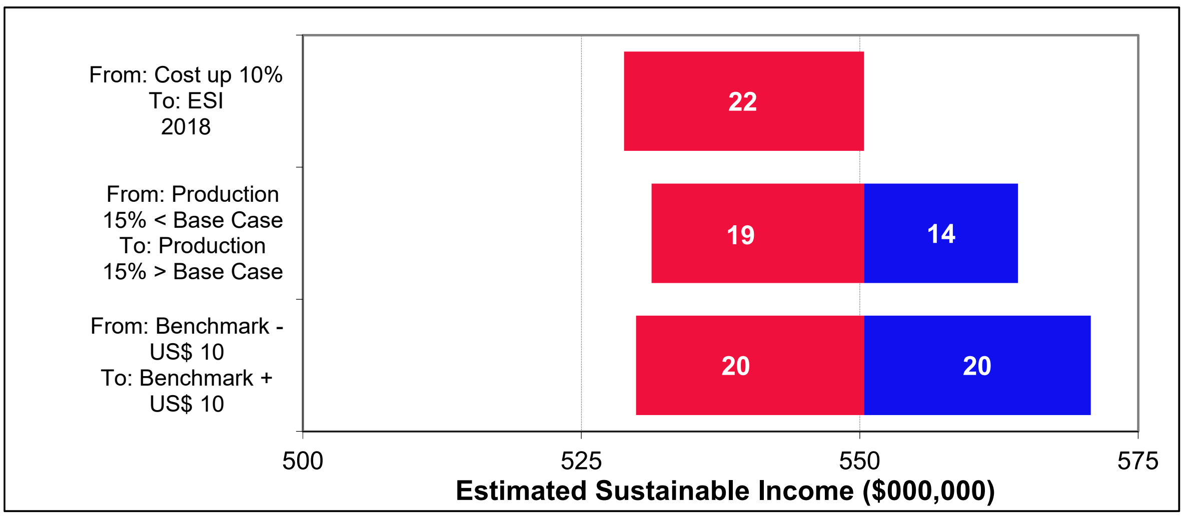
The estimate of the 2018 ESI in Budget 2017 reflected projections for the starting balance of the Fund in 2018. This includes assumptions about government withdrawals, petroleum revenue and investment income.

The ESI 2018 in this Budget was finalized in early January 2018. By incorporating the actual PF balance of $16,799.3 million, the ESI 2018 increased by $14 million.

Sensitivity Analysis

The Government's objective is to prepare an ESI that is prudent overall, as required by the Petroleum Fund Law. While the calculations are based on the best information available and advice from experts, each input is inherently subject to significant uncertainty.

Figure 2.6.3.1.5: Sensitivity Analysis – Estimated Sustainable Income ($m)



Source: Petroleum Fund Administration Unit, Ministry of Finance, 2018

The sensitivity analysis in Figure 2.6.3.1.5 starts with the 2018 ESI of $550.4 million and shows by how much the ESI would change if a different assumption for each key variable were used.

- A change in **production** by 15 percent would see the ESI fall $19 million (lower production) or increase by $14 million (higher production).

- For a $10 change in Brent **prices** compared to the forecast used in the ESI, the ESI would change by approximately $20 million (up or down).
- For a 10 percentage increase in production **costs** compared to the forecast used in the ESI, ESI would decrease by approximately $22 million.

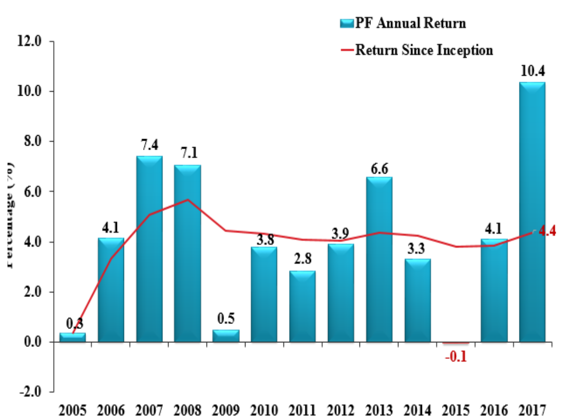
2.6.3.2: Petroleum Fund Management and Projections

The Petroleum Fund is currently invested 40% in equities and 60% in Government bonds. The investment strategy was designed to target a real return of 3%, which would offset the ESI withdrawal and preserve the Fund's purchasing power.

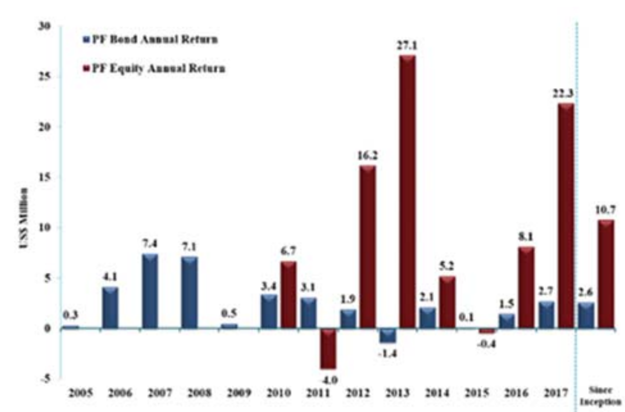
The investment in equities was progressively implemented and completed in June 2014. The Fund's return since inception to December 2017 is 4.4 per cent per annum, which is 2.5 per cent in real terms after accounting for US inflation. Equities have fulfilled their growth role. Figure 2.6.3.2.1 shows the equity portfolio has boosted the Fund's performance by returning 10.7 per cent per annum since the first investment in stocks in 2010. This compares to the bond portfolio's average annual return of 1.3 per cent over the corresponding period.[6]

Figure 2.6.3.2.1: Petroleum Fund Investment Returns

Total Fund Returns Since Inception



Bond and Equity Returns



The ESI framework is designed to preserve real wealth but is challenged when withdrawals are persistently in excess of the ESI. In addition, there is a growing consensus around the prospect of lower asset class returns over the next decade. That expectation is primarily driven by low bond yields, which act as a drag on the return forecasts for bonds. This is captured in our central estimate of a real return of 1.9 per cent over the next 10 years. It is unlikely that that the Fund's current asset allocation will provide a real return of 3 per cent.

[6] Please see the Petroleum Fund Annual Report for 2017 for more detailed discussion on the performance of the Fund.

The Investment Advisory Board (IAB) have advised that maintaining the 40 per cent equity allocation remains appropriate based on the information available. A significantly higher equity allocation would be required to target a 3 per cent real return but the additional risk does not appear suitable for Timor-Leste, at least for the time being.

Equities are required for the Fund to earn a sufficient return over the long-term. The expected return from government bonds is likely to barely offset inflation. Equities necessarily involve risk and for the investment strategy to succeed it is essential that stakeholders are committed to maintaining the equity allocation during times of market stress.

Updated projections for the Petroleum Fund

Table 2.6.3.2.2 shows an update of petroleum revenues. The revenues in 2017 amounted to $421.7 million. This was 88 percent higher compared to $223.9 million collected in 2016. As of June 2018, petroleum revenue is $251.9 million, which already exceeds the conservative projection of $143.9 million in the 2018 ESI. Oil prices were higher than estimated, averaging about $71.1 per barrel from January to July. Accounting for this and the EIA's projections in the Short Term Energy Outlook report released in July, the estimated average benchmark price for 2018 is $64.3 per barrel. This compares to the oil price of $47.3 per barrel used in the 2018 ESI calculation, which was based on the EIA's AEO 2017 report. Accounting for the higher oil price and actual revenues received, the expected total revenue for 2018 is revised up to $317.1 million.

The revenue is projected to pick up slightly in 2020 before it declines to $156.2 million in 2022.

Table 2.6.3.2.2: Petroleum Revenues 2016-2022 ($m)

	2016 Actual	2017 Actual	2018 Budget	2019	2020	2021	2022
Total Petroleum Fund Revenue	**871,6**	**2.033,8**	**599,9**	**1.080,6**	**1.133,6**	**1.053,4**	**700,0**
Petroleum Fund Investment Return	647,7	1.612,1	**282,8**	622,8	618,0	618,9	613,8
Total Petroleum Revenue	**223,9**	**421,7**	**317,1**	**457,8**	**515,7**	**434,5**	**156,2**
FTP/Royalties	75,6	177,3	**43,8**	43,0	43,3	37,1	16,6
Profit oil	51,5	56,7	**89,5**	207,9	263,4	223,1	80,5
Income Tax	38,2	65,7	**126,9**	69,1	65,9	47,9	0,0
Additional Profit Tax	30,8	91,6	**27,6**	115,1	119,9	103,7	38,7
Value Added Tax	4,6	4,.5	**7,7**	4,8	5,0	4,8	3,8
Other Payments	23,2	26,0	**21,8**	18,1	18,2	17,9	16,6

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2018

The Fund's balance is $16,927.3 million as of June 2018. This is an increase of $128.2 million from the start of the year. Investment income for the year to date is a loss of $54m. Equities have posted small gains of 0.5%, while bonds recorded losses of -0.65%. Taking into account the realized returns, the expected investment income for 2018 is revised down from the central return expectation of 3.9% used in the ESI calculation to 1.7%. This translates to an expected income of $282.8 million. There had only been $70m of withdrawals for the year until June.

The Fund balance is expected to be $984.8 million by the end of 2018 after deducting the estimated withdrawal of $16,414.4 million in 2018 adopted by Parliament.

The Fund is forecast to decline each year, falling to $15,898.4 million by the end of 2022. Petroleum revenues and investment income are not expected to offset withdrawals. Investment income is by its nature volatile. In some years, like 2017, the Fund will outperform expectations; in other years, the Fund will incur losses. The Fund is expected to continue to decline in value beyond the projection period, unless there is a significant change in fiscal policy or until significant new petroleum revenues come online.

Table 2.6.3.2.3: Estimated Petroleum Fund Savings 2016-2022 ($m)

	2016 Actual	2017 Actual	2018 Budget	2019	2020	2021	2022
Opening PF Balance	16,217.6	15,844.3	**16.799,3**	**16.414,4**	**16.146,5**	**16.163,3**	**16.192,5**
Petroleum Revenue (excluding PF Interest)	223.9	421.7	317,1	457,8	515,7	434,5	156,2
Petroleum Fund Interest, Net*	647.7	1,612.1	282,8	622,8	618,0	618,9	613,8
Total Withdrawals	1,244.8	1,078.8	**984,8**	1.348,6	1.116,8	1.024,2	1.064,1
Closing PF Balance	15,844.3	16,799.4	**16.414,4**	**16.146,5**	**16.163,3**	**16.192,5**	**15.898,4**

Source: Petroleum Fund Administration Unit, Ministry of Finance, 2018. * net of management fees and market revaluation

2.7: Financing

2.7.1: Definition of Financing

The total budgeted expenditure for 2018 is higher than the domestic revenue that will be collected over the same period. This results in a non-oil deficit (domestic revenue minus expenditure) which is financed by withdrawals from the Petroleum Fund (PF), loans and use of the cash balance. Withdrawals from the PF can be either within a sustainable amount, using the revenue of the fund, or excess withdrawals above this sustainable level (see next section). The total amount of financing is equal to the non-oil deficit, less sustainable petroleum revenue, and covers the gap between the budgeted expenditure and total (domestic and sustainable oil) revenue. Table 2.7.1.1 below shows the amount drawn from each of the financing items.

Table 2.7.1.1: Financing 2018 to 2022, ($m)

	2018	2019	2020	2021	2022
Total Financing	**540,4**	**896,4**	**637,8**	**532,6**	**580,4**
Excess Withdrawals from PF	434,4	809,4	597,8	519,1	570,7
Use of Cash Balance	44,4	0,0	0,0	0,0	0,0
Borrowing /Loans (disbursements)	61,6	87,0	40,0	13,5	9,7

Sources: National Directorate of Budget, General Directorate of Treasury, Petroleum Fund Administration Unit, 2018

2.7.2: ESI and Excess Withdrawals

There are important economic reasons for distinguishing between revenue and financing items. Domestic revenue results from taxes borne by companies and individuals in Timor-Leste from production and income made. The ESI is the sustainable level of use of petroleum revenue, to ensure the continued use of the petroleum fund for ever. Spending only up to total revenue (domestics and ESI) is a position that maintains fiscal sustainability, and is a benchmark level of spending for understanding the long run trend of government finances. The ESI can therefore be considered revenue, whereas excess withdrawals reduce the wealth of the fund and can therefore be considered like borrowing. In line with IMF advice, the government has changed the definition of revenue to include the ESI as it makes clearer what is fiscally sustainable. Previous budgets have included ESI as a financing item.

The ESI is equal to 3% of the net petroleum wealth and is $550.4 million in 2018. Further details on the ESI and petroleum wealth can be found in Section 2.6.3 of the Budget Book.

The Government plans to withdraw $434.4 million in excess of the ESI. Excess withdrawals are in line with the Government's investment policy. These excess withdrawals are being used to finance core infrastructure, which is necessary for long-term growth.

2.7.3: Loans

As established in the Strategic Development Plan 2011-2030 and in the Public Debt Law, concessional loans constitute a potential source of financing to be considered by the government for the purpose of financing strategic infrastructure projects. The rationale for drawing on concessional loans is three-fold. First, the all-in cost of concessional loans is less than the opportunity cost of withdrawing a similar amount from the Petroleum Fund. That is to say, the recourse to loans allows for net savings in terms of public expenditure. Second, loans make it possible to spread the financial cost of infrastructure projects over a period that more closely matches the economic life of the assets in question, thereby increasing intergenerational equity. And third, concessional loans from development partners are often accompanied by significant technical assistance, helping the government to strengthen the standards for the implementation of these projects.

Loan mobilisation is undertaken in accordance with the Public Debt Law (Law no. 13/2011), which establishes several key guiding criteria. In particular, it states that public debt management must be guided by principles of rigour and efficiency which include: upholding the middle- and long-run equilibrium of public finances; minimising the direct and indirect costs over the long run; ensuring the availability of financing in each budget cycle; avoiding the excessive temporal concentration of debt servicing; avoiding excessive risk; and promoting the balanced and efficient functioning of financial markets.

To ensure that these principles are upheld, the recourse to external concessional loans is rigorously planned and implemented by the government within the parameters validated on an annual basis by the National Parliament. Moreover, the sustainability of public debt is assessed on a regular basis both internally by the Ministry of Finance and externally by the International Monetary fund. On its latest Article IV consultation 2017, IMF supported greater use of concessional financing for large infrastructure projects, which would reduce reliance on withdrawals from the Petroleum Fund while contributing to fiscal sustainability.

To date, the Government has signed nine loan packages but only eight obtained the approval of the Audit Court due to legality issue associated with the agreement signed by GoTL and China EXIM Bank in December 2015 on the project for the upgrade of the drainage infrastructure in Dili. Thus, so far total amount of the eight packages in support of infrastructure projects with high social and economic returns is approximately $355m. However, because the loan funds are disbursed directly as a function of project progress, and because some of the projects are still in their early stages, actual public debt incurred as of March 2018 amounted to $ 116m.

The loan packages taken on by the government are all for the rehabilitation and upgrade of national roads:

- Road Network Upgrading Project (RNUP), Dili-Liquica and Tibar-Gleno road sections (signed by GOTL and ADB in May 2012).
- National Road No.1 Upgrading Project, Dili-Manatuto-Baucau (signed by GOTL and JICA in Mar 2012).
- Road Climate Resilience Project, Dili-Ainaro (signed by GOTL and WB in Nov 2013).
- Road Network Upgrading Sector Project (RNUSP), Manatuto-Natarbora (signed by GOTL and ADB in Nov 2013).
- Additional Financing for Road Network Upgrading Project (Tasitolu-Tibar Dual Carriageway Road Project) (signed by GoTL and ADB in June 2015).
- Additional Financing for Road Network Upgrading Sector Project (Baucau-Lautem, Maubara-Karimbala and Atabae-Mota Ain) (signed by GoTL and ADB in March 2016)
- Manatuto-Baucau Highway Road project (signed by GoTL and ADB in December 2016)
- Second Additional Financing for Road Climate Resilient Project, Laulara-Solerema Road section (signed by GoTL and ADB in July 2017)

The following paragraphs provide additional information on each of these loan-funded projects.

a. Road Network Upgrading Project (Dili-Liquica and Tibar-Gleno road sections)

This loan package was signed with the Asian Development Bank (ADB) in 2012 to finance the rehabilitation and upgrade of the Dili-Tibar-Liquiçá (28.7 km) and Tibar-Gleno (32 km) road sections. These are two important components of the inter-urban network with some of the highest traffic levels in the country. The loan package is comprised of two loans: a highly-concessional Asian Development Fund (ADF) loan in the amount of SDR 5,905,00 (approximately $9.15m) with a fixed interest rate of 1% per annum during the 8-year grace period and 1.5% thereafter; and a slightly less concessional Ordinary Capital Resources (OCR) loan for $30.85m with a variable interest rate of LIBOR+0.4%. Construction works in the Dili-Tibar-Liquiçá and the Tibar-Gleno section have been completed and currently under defect liability and Performance-Based Maintenance period.

Six-monthly repayment of the principal started in September 2017 with total amount of $518,051.62 paid as to date. Total interest and other charges paid on this loan package as of March 2018 was $ 1,451,361.10.

b. National Road No.1 Upgrading Project, Dili (Hera)-Manatuto Road Section

The 116 km segment linking Dili-Manatuto-Baucau is a very important component of the road network, which connects three of the country's main cities. A loan in support of this project was signed with the Japan International Cooperation Agency (JICA) in 2012 for an amount of approximately 5.28 Billion Yen, which at the time amounted to approximately $68.72m. However, the subsequent devaluation of the Yen and an increase in the estimated costs of the works during the design phase made it necessary to undertake the financial structuring of this project. As a consequence, a decision was made to allocate the JICA loan entirely to financing Package I, between Hera-Manatuto, while the Manatuto-Baucau section is financed by the new loan agreement signed between GoTL and ADB in December 2016. The interest rate on the JICA loan is a highly-concessional 0.7% per annum for the amount spent on civil works and 0.01% for the amount spent on consulting services. Procurement for this project has suffered considerable delays because of the need for the Government to wait for the non-objection letter from JICA in relation to the bidding documents, which was finally received in April 2015. Construction works for package I started in July 2016 with accomplishment as of March 2018 29.31%. The completion date for this project is estimated to be in April 2019.

As of March 2018, total interest and other charges paid on this loan amounted to $388,570. The repayment of the principal will begin in 2022.

c. Additional Financing Road Climate Resilience Project, Solerema-Ainaro

This loan package was signed with the World Bank in November 2013 and is comprised of two loans: a highly-concessional IDA loan in the amount of $25m with an interest rate of 1.25%, and an IBRD loan in the amount of $15m with a variable interest rate of Reference Rate+1%. This financing package supports the rehabilitation and upgrade of several sections of the north-south road that connects the capital Dili with the southern regions of Ainaro, Covalima and Manufahi. While the works in lot 3 (Solerema-Bandudatu) has been completed and currently under Defect Liability period, section 4 and 5 are still under construction and will be completed by end of 2018 (both Bandudatu-Aituto and Aituto-Ainaro). Physical Progress for these two road sections as of March is 64.89% and 50.45% respectively.

As of March 2018, interest and other charges paid on this loan package amounted to $1,168,889. The repayment of the principal will begin in March 2019.

d. Road Network Upgrading Sector Project, Manatuto-Natarbora

The second loan package entered into with ADB (in November 2013) finances the rehabilitation and upgrade of another major north-south axis, between Manatuto and Natarbora. It is comprised of a OCR component worth $40m with variable interest of LIBOR+0.5% per annum, and an ADF loan with a 2% fixed interest rate in the amount of SDR 6.672m (around $10m). As of March 2018, physical progress was 75.50% in the Manatuto-Laclubar section and 50.82% in the Laclubar-Natarbora section. While expected dates of completion is on schedule for the first section by 24 December 2018 the other section has experienced delays on its implementation and past its target completion date 28 February 2018 due to combination of issues such as site access, shortage of unskilled labor, unfavorable weather as well as lower than expected output from contractors and consultant. The request for loan extension until December 2021 would be submitted to ADB in 2019 after construction activities are completed by Dec 2018 for both packages. This is to account for new physical completion dates, 12 months defects liability period and 2 years of performance-based maintenance.

Total interest and other charges paid as of March 2018 amounted to USD 633,925. The repayment of the principal will commence in April 2019.

e. Additional Financing for Road Network Upgrading Project, Tasitolu-Tibar Dual Carriageway Road

This financing package was signed with ADB on 24 June 2015 to complement the ongoing Road Network Upgrading Project, so as to cover the construction of a four-lane road linking Tasitolu to the entrance of the future Tibar Bay Port (a total of 5.2km). The total loan amount is $11.78m and the interest rate (variable) is LIBOR+0.6% per annum. The procurement process for the contractor has been completed in the third quarter 2016. Since first quarter 2017, the winning bidder has been doing earthwork activities in the project site with physical progress as of March 2018 67.07%. The request for two years loan extension until June 2020 has been approved by ADB to cope with time discrepancy between loan closing date and construction completion schedule followed by 12 months defect liability.

Total charges paid as of March 2018 amounted to $101,614. The repayment of principal will begin in September 2019.

f. Additional Financing for Road Network Upgrading Sector Project, Baucau-Lautem, Maubara-Karimbala and Atabae-Motain

This loan package is an additional financing to the ongoing Road Network Upgrading Sector Project and is meant to support the rehabilitation and upgrade of three additional sections of the North Coast road corridor: Baucau-Lautem, Maubara-Karimbala and Atabae-Motain. Total financing in the amount of $76.22 will be provided by ADB as per the agreements signed in March 2016: one for an OCR loan worth $53m (LIBOR+0.6% interest) and the other for an ADF loan in the amount of SDR 16.754m (around $23.22m, with 2% fixed interest). Procurement is completed. Constructions will start upon release of environmental license and will be completed by February 2020.

As of March 2018, total interest and charges paid on this loan amounted to $125,146. The repayment of the principal will begin in June 2021.

g. National Road No.1 Upgrading Project, Manatuto- Baucau Road Section

As previously discussed, the loan package offered by ADB for this road section was explored as a result of funding shortfall from original JICA loan. The loan agreement was signed in December 2016. While financing scheme differs, there are no major changes in the technical specifications for both Package I (Dili-Manatuto) and II (Manatuto-Baucau). This loan has a fixed interest rate 2% per annum in the amount of SDR 35.467m (about $49.65m). Construction works already started in August 2016 with physical progress as of March 2018 37.53%. The project is expected to be completed in May 2019.

Total interest including other charges paid as of March 2018 was $32,450. The repayment of the principal will begin in March 2022.

h. Second Additional Financing for Road Climate Resilient Project, Laulara-Solerema Road section

The loan for this road segment represents second additional financing to the Road Climate Resilient Project to complete the whole stretch connecting Dili to Ainaro corridor. Signing of the loan agreement was held on 7 June 2017 in the amount of SDR 26m or approximately $35.2m. It has 2% flat rate over the loan period. The project is still at the procurement stage with implementation process expected to start in 2018. Project duration is about 2 years.

As to date, no payment has been made for interest or other charges. The repayment of the principal will begin in September 2022.

l. New Loan 2018

Each year the Government is required to submit for Parliamentary approval, in the context of the State Budget Law, a proposed borrowing limit for new loans. For this year, the Government is proposing $44 million as a ceiling to implement Baucau-Viqueque road project. The design for this project has already been prepared and is ready to proceed through procurement processes. Loan negotiation with ADB has been completed in December 2017. The total cost for this project is estimated at about $69 million of which $25 million, for Civil Works only, will be financed through IF from the Government.

The projected total loan disbursement for all loans, over the period 2018-2022, can be seen below in Table 2.7.3.1.

Table 2.7.3.1: Projected Total Loan Financing 2018-2022, ($m)

	Total	2018	2019	2020	2021	2022
Loans (disbursements)	**211.8**	61.6	87.0	40.0	13.5	9.7

Sources: PPP&Loans Unit, Ministry of Finance and Major Project Secretariat, 2018

Details about each of the loan agreements are summarized in Table 2.7.3.2 below.

Table 2.7.3.2 Loan Agreement Summary

	JICA Loan	ADB - 2857	ADB - 2858	ADB - 3021	ADB - 3020	ADB - 3181	ADB-3341	ADB-3342	ADB-3456	WB - 5303	WB-8290	WB - 6012
Parties:	The Government of the Democratic Republic of Timor-Leste and Japan International Cooperation Agency	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and Asian Development Bank	The Government of the Democratic Republic of Timor-Leste and International Development Association	The Government of the Democratic Republic of Timor-Leste and International Bank for Reconstruction and Development	The Government of the Democratic Republic of Timor-Leste and International Development Association
Agreement Date:	19-Mar-12	2-May-12	2-May-12	18-Nov-13	18-Nov-13	24-Jun-15	4-Mar-16	4-Mar-16	22-Dec-16	18-Nov-13	18-Nov-13	7-Jun-17
Amount:	Yen 5,278,000,000 (US$63,300,551) (19/03/2012 Exchange rate = USD1 = YEN83.38.)	USD 30,850,000	SDR 5,905,000	SDR 6,672,000	USD 40,000,000	USD 11,780,000	USD 53,000,000	SDR 16,574,000	USD 49,650,000	USD 25,000,000	USD 15,000,000	SDR 26,000,000
Grace Period	10 years	5 years	8 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	8 years	5 years
Repayment period:	**20 Years** (20 March 2022 – 20 March 2042)	**20 Years** (15 September 2017 – 15 March 2037)	**24 Years** (15 September 2020 – 15 March 2044)	**20 Years** (15 April 2019 - 15 October 2038)	**20 Years** (15 April 2019 - 15 October 2038)	**20 Years** (15 September 2019 - 15 March 2039)	**20 Years** (15 April 2021 - 15 October 2040)	**20 Years** (15 April 2021 - 15 October 2040)	**20 Years** (15 March 2022 and 15 Sep 2041)	**20 Years** (15 March 2019 - 15 September 2038) - Commencing 15 March 2019 to and including 15 Sept 2028 - 1.65% of principal amount - Commencing 15 March	**20 Years** (15 March 2022 - 15 September 2041) - Commencing 15 March 2022 through 15 Sept 2040 - 2.56% of principal amount -including 15 March 2041 to 2.72% of	**20 years** (Commencing 15 September 2022 - 15 March 2032 1.65% of principal amount and 15 Sep 2032- 15 Mar 2042 3.35% of principal amount)

	JICA Loan	ADB - 2857	ADB - 2858	ADB - 3021	ADB - 3020	ADB - 3181	ADB-3341	ADB-3342	ADB-3456	WB - 5303	WB-8290	WB - 6012
										2029 to and including 15 Sep 2038 - 3.35% of principal amount	principal amount	
Interest rates:	0.7% per annum payable Semi-annually on the principal withdrawn for Civil Works and 0.01% p.a. interest on consulting services (Capitalized)	**The sum of LIBOR + 0.60%** less credit of 0.20% on the loan withdrawn payable on 15 March and 15 September each year (Capitalized).	**1%** per annum during the grace period and **1.5%** per annum thereafter on the withdrawn amount.(Grace period prior to the first Principal Payment Date.) Payable on 15 March and 15 September each year (Capitalized)	2% p.a (During and after grace period) - Capitalized	LIBOR + (0.60% - 0.20%) + 0.10% p.a maturity premium (during and After Grace Period) - Capitalized	LIBOR + (0.60% - 0.10%) + 0.10% p.a maturity premium. - Capitalized	LIBOR + (0.60% - 0.10%) + 0.10% p.a maturity premium (during and After Grace Period) - Capitalized	2% p.a (During and after grace period) - Capitalized		(1.25 p.a + Basis adjustment) - **to be paid directly under State Budget**	Ref Rate + Fixed Spread (1%) - Capitalized	2% p.a
Commitment Charge	0.1% per annum payable semi-annually on total unused amount budgeted for all works and services excluding commitment charges. (Commitment charges is also lent to the borrower) - Capitalized	**0.15%** per annum on full amount of the loan (less amounts withdrawn) from **60 days after the date** of the loan agreement payable on **15 March and 15 September each year- Capitalized**	-	-	0.15% per annum on full amount of the loan (less amounts withdrawn) from 60 days after the date of the loan agreement - Capitalized	0.15% per annum on full amount of the loan (less amounts withdrawn) from 60 days after the date of the loan agreement payable on 15 March and 15 September each year - Capitalized	0.15% per annum on full amount of the loan (less amounts withdrawn) from 60 days after the date of the loan agreement - Capitalized	-	-	1/2 of 1 % p.a (Unwithdrawn Financing Balance) - **to be paid direcly under State Budget**	-	

	JICA Loan	ADB - 2857	ADB - 2858	ADB - 3021	ADB - 3020	ADB - 3181	ADB-3341	ADB-3342	ADB-3456	WB - 5303	WB-8290	WB - 6012
Service Charge	-	-	-	-	-	-	-	-	-	The greater of (3/4 of 1% p.a + basis adjustment) or 3/4 % p.a - **to be paid directy under State Budget**	-	
Front End Fee	-	-	-	-	-	-	-	-	-	-	USD 37,500 (0.25% of loan amount)	
Dates of repayment:	Semi-annually on 20 March and 20 September. Principal: Refer to Schedule 3 Loan Agreement	15 March and 15 September each year. Principal: Refer to Schedule 1 Loan Agreement	15 March and 15 September each year . Principal: Refer to Schedule 2 Loan Agreement	Interest and other charges: payable on 15 April and 15 October each year. Principal: Refer to Schedule 1 Loan Agreement	Interest and other charges: payable on 15 April and 15 October each year. Principal: Refer to Schedule 2 Loan Agreement	Interest and other charges: payable on 15 March and 15 September each year. Principal: Refer to Schedule 2 Loan Agreement	Interest and other charges: payable on 15 April and 15 October each year. Principal: Refer to Schedule 2 Loan Agreement	Interest and other charges: payable on 15 April and 15 October each year. Principal: Refer to Schedule 1 Loan Agreement	Commencing 15 Mar 2022-15 Sep 2041	Interest and other charges: payable on 15 March and 15 September each year. Principal: Refer to Schedule 3 Loan Agreement	Interest and other charges: payable on 15 March and 15 September each year. Principal: Refer to Schedule 3 Loan Agreement	Commencing Sep 15 2022 until March 15 2042
Loan closing date		30-Jun-17	30-Jun-17	30-Jun-20	30-Jun-20	30-Jun-18	30-Jun-21	30-Jun-21	30-Nov-22	31-Dec-18	31-Dec-18	31-Dec-21
Project completion date:	Jun-17	30-Dec-16	30-Dec-16	31-Dec-19	31-Dec-19	31-Dec-17	31-Dec-20	31-Dec-20	31-May-22	-	-	31-Dec-20

Source: PPP&Loans Unit, Ministry of Finance, 2018

2.7.4: Use of the Cash Balance

The closing level of cash balance in the Treasury Account for all government entities as of December 2017 was $244.4m. This high level is due to the requirements of the duo decimal budget regime that was followed in the first half of 2018. By the end of 2018, the level of cash balance in the Treasury Account is expected to return to the usual value of $200m. Given the higher opening level in January 2018, the 2018 use of cash balance is forecasted to be positive at $44.4m. Hence, cash balance will be included in finance expenditures in the 2018 State Budget. On the other hand, no use of cash balance is expected for HCDF in 2018 as its balance is expected to be stable.

Table 2.7.4.1 Use of Cash Balance in 2018

Total	**44.4**
HCDF Rollover	0.0
Drawdown of Cash Balances from the Treasury Account	44.4

Source: General Directorate of Treasury, Secretariat for the Human Capital Development Fund, 2018.

2.7.5: Public Private Partnerships

Public-Private Partnerships (PPP) are long-term relationships between the government and a private partner for the provision of infrastructure or other public services. They make it possible to access the know-how and experience of national and international firms, to improve the standards of public service provision, and to allocate risks in ways that are more efficient (for example, by the private partner taking responsibility for the timely completion of the infrastructure, subject to payment of compensation in the event of delays).

Timor-Leste began exploring PPPs as a modality for project implementation around 7 years ago, and started out by establishing a PPP Policy, PPP legislation and a dedicated PPP Unit. All of these seek to ensure that only high-quality projects, which have high social and economic returns and which are aligned with the government's strategic priorities, are considered for implementation through a PPP modality. For example, the legislation on PPPs includes a requirement that all PPP projects undergo both a pre-feasibility study and a full-fledged feasibility study prior to proceeding to the procurement phase. There are currently three projects in the PPP pipeline – in the ports, water supply and healthcare sectors.

Tibar Bay Port, the country's future main international container and cargo hub to be built about 12 km to the West of the capital, has entered the implementation stage following the signing of the concession agreement between the government as Grantor and the Timor Port SA as Concessionaire in June 2016. Over a period of 30 years, the Concessionaire will design, co-finance, build, operate and transfer back a world-class greenfield port subject to technical specifications and performance standards set by the Government. The new port will overcome the limitations of the existing Dili Port, which has very limited expansion possibilities, and give back the waterfront to the city and its inhabitants. It is expected to bring very high economic returns to the country, in addition to a positive financial return to the government by way of the royalties, navigation and dockage fees, and tax returns that the government will receive during the duration of the concession.

Currently, the project is in Financial Closing period where preliminary design has been completed and approved by the Government. A direct agreement between the Grantor, Concessionaire and Key Subcontractor for the construction has been signed. Environmental license has also been secured for the development. Construction of the port is expected to begin in the third quarter of 2018 with completion scheduled within three years.

The government was contractually required to deposit the full amount of its Viability Gap Funding (VGF/government financial contribution) in the amount of $129.45m in an Escrow Account. An Escrow Agreement was reached between GoTL, Timor Port SA and United Overseas Bank (UoB) in Singapore in November 2016 with the full amount deposited about at the end of 2016. The Escrow Agreement sets out terms and conditions for the management of the VGF for the benefit of the Concessionaire and Grantor. The VGF will be disbursed based on achievement of construction milestones.

Another project in the project cycle is Dili Water Supply PPP. This project is currently in the feasibility stage, after a pre-feasibility study was conducted and approved by the Council of Ministers. The purpose of the ongoing study is to provide information and analysis that will enable the government to decide whether and how to involve the private sector in the water supply services in the capital city of Dili. This feasibility study is currently entering its second phase, in which a small number of PPP modalities selected in the first phase (lease, reduced-risk lease and management contract) will be examined in detail from the technical, financial, economic and legal perspective. Further to this and if a PPP modality is selected for the reform, the government will launch an international tender to select the private partner.

Finally, the government is also looking for possible partnerships with the private sector in the health sector, specifically for the provision of medical diagnostic services. 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. Diagnostic service provision was identified as a domain with the potential to attract high-quality international private partners, to allow for considerable savings in terms of the government's health expenditure, and to make it possible, through more timely and accurate diagnosis, to significantly foster public health. The pre-feasibility study of a possible PPP in this domain was undertaken with the support of the International Finance Corporation (IFC) and approved by the government in 2015, and the full feasibility study is on-going and expected to be finalized at the end of 2018.

There is possibility for development of new PPP initiatives with some projects have entered the conceptual stage which precedes the formal PPP cycle. These include Tibar Bay Investment Project (an industrial park at Tibar to take advantage of synergies with the future port), a vocational education project, tourism and related infrastructure and a public housing project.

Part 3 : 2018 General State Budget Law

(Will be submitted separetly)

Part 4 : Supporting Documents

4.1: Petroleum Fund Law Article 8

4.1.1: Requirement for Transfers from the Petroleum Fund

4.1.2: Independent Reassurance Report to the Ministry of Finance

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

MINISTRY OF FINANCE

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